Providing the energy people need

SSE plc Annual Report 2016

Section 1
Strategic Report

1 Overview
2 Chairman's introduction

Our business and performance

4 Our business explained
6 Chief Executive's statement
8 Our Strategic Framework
10 Our performance
16 Risk management

Embedding responsibility

20 Doing the right thing
22 Responsible member of society
23 Responsible buyer
24 Responsible employer
28 Responsible operator
30 Stakeholders' questions to the Chief Executive

Financial overview and performance

32 Financial overview
40 The weather
42 Wholesale overview
50 Networks overview
56 Retail overview (including Enterprise)

Section 2
Directors' Report

66 Chairman's introduction
68 Board of Directors
70 Corporate governance
80 Nomination Committee Report
84 Audit Committee Report
90 Safety, Health and Environment Advisory Committee (SHEAC) Report
92 Remuneration Report
104 Annual Remuneration Report 2015/16
114 Other statutory information
116 Statement of Directors' responsibilities in respect of the Annual Report and the financial statements
117 SSE's financial results explained

Section 3
Financial Statements

120 Consolidated income statement
121 Consolidated statement of comprehensive income
122 Balance sheets
123 Statement of changes in equity
125 Cash flow statements
126 Notes on the financial statements
191 Accompanying information
205 Independent auditor's report
IBC Shareholder information

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

We're involved in producing, distributing and supplying electricity and gas, as well as other energy-related services, to homes and businesses in Great Britain and Ireland. SSE is the only company listed on the London Stock Exchange with such a balance of energy businesses.

We are committed to creating and sustaining long-term value for our shareholders and our customers.

Fair Tax

CDP CLIMATE DISCLOSURE LEADER 2015

We are a Living Wage Employer

FTSE4Good

sse.com/investors

Overview

Full-year dividend per share

89.4p

+1.1% compared with 2014/15

Adjusted profit before tax*

£1,513.5m

-3.3% compared with 2014/15

Adjusted earnings per share*

119.5p

-3.7% compared with 2014/15

* See full explanation of adjusted profit before tax and adjusted earnings per share on pages 117 and 118.

A commitment to our shareholders

We believe that our first responsibility to shareholders is to give them a return on their investment through the payment of dividends.

SSE has delivered a dividend increase every year since 1999. Not only that, but we rank well among continuing FTSE 100 companies for Total Shareholder Return over that period.

SSE's financial objective is to increase the dividend every year by at least Retail Price Index (RPI) inflation.

For more on SSE's dividend policy see **page 9**

SSE's strategic framework for achieving its financial objective is to deliver:

Efficient operations

Efficient operations are how SSE serves its customers to fulfil its core purpose. At the heart of SSE's business are its core operations. In 2015/16 it produced 27,776GWh of electricity output from thermal and renewable power stations; safely delivered electricity to 3.7 million homes and businesses through its distribution networks; and, supplied electricity and gas to over 8.2 million domestic and business customer accounts in GB and Ireland.

Disciplined investment

Central to SSE's strategy is disciplined investment in a balanced range of businesses across the energy sector. In 2015/16 SSE invested £1.62bn before proceeds from disposals. SSE's strategy avoids becoming over-exposed to any one part of the energy sector but pursues investment opportunities where most appropriate.

Balanced businesses

SSE has reportable segments covering Wholesale, Networks and Retail businesses (including Enterprise, which is a leading provider of integrated energy solutions for the public and private sectors). This gives SSE balance and a diversity of business activity across the energy sector.

A strategy to deliver long-term success

SSE's strategy is about how the company manages all of the issues that influence energy provision; how it fulfils its core purpose of providing the energy people need; and how it achieves its principal financial objective of increasing annually the dividend payable to shareholders by at least RPI inflation.

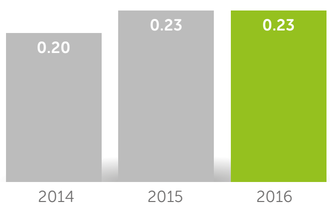
For more on SSE's strategic framework and how it measures its performance see **pages 8 to 15**

Chairman's introduction

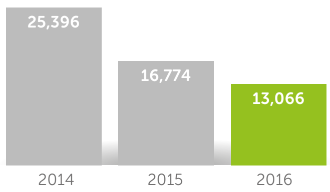
Working to fulfil SSE's core purpose

SSE's core purpose is to provide the energy people need in a reliable and sustainable way. In fulfilling this purpose, SSE requires the support of shareholders, to whom this report is addressed. It summarises SSE's performance in 2015/16 and looks ahead to 2016/17 and beyond.

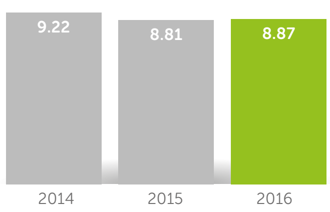
Total recordable injury rate per 100,000 hours worked



Carbon emissions (Carbon dioxide equivalent (Co_2e) 000's tonnes)



SSE's economic contribution to UK GDP in 2015/16 – £bn



In my role as SSE's Chairman I've had the privilege of seeing many aspects of the Company's operations first hand. I've met line engineers in Inverness, meter readers in Havant, apprentices in Cardiff and front line customer service teams in Dublin. I've also seen electricity transmission lines replaced, visited hydro stations and wind farms and seen innovation in action as the Company moves to the digitalisation of its customer service.

All of this has demonstrated to me the scale of SSE's operations and the responsibilities that shareholders, customers and society have entrusted in the Company to fulfil its core purpose. It has also reinforced my view of the need for SSE to maintain a clear strategic framework to stand it in good stead for the long term.

Changing operating environment

This is especially critical as I complete my first year as SSE's Chairman amidst the backdrop of an operating environment which has presented a range of challenges, some more expected than others.

The year saw the publication of the provisional remedies from the Competition and Markets Authority (CMA) into the supply and acquisition of energy, sustained falls in commodity prices affecting gas production, persistently challenging market conditions for gas-fired power stations and continued changes to the regulatory and legislative frameworks that each of SSE's businesses operate within. Each of these subjects is covered in detail in this Strategic Report.

Against this backdrop, the Board's role is to ensure that shareholder value is increased over the medium and long term, and we place customers at the heart of everything we do. We understand that change is constant and is to be expected as the societies SSE operates within seek to provide secure, affordable and clean supplies of energy for homes and businesses. Change of this scale brings risks but also opportunities.

A strategy to create long-term value

SSE is well-positioned in this changing operating environment. The company is built on strong foundations and operates with a clear strategic framework comprising a balanced range of businesses in core markets, and a commitment to efficient operations and disciplined investment. As the broadest-based energy company in the GB and Ireland markets this strategic framework ensures that SSE has a range of opportunities both to invest in new assets and develop new customer propositions.

Critically, this strategy also enables SSE to deliver its financial objective to provide shareholders with annual increases in divided payments, of at least RPI inflation. This is a long-standing financial objective which recognises that shareholders have either directly invested in SSE or, as owners of the Company, have enabled it to borrow money from debt investors to finance investment in the assets that help it to fulfil its core purpose.

SSE's business has built a platform for dividend growth. I am pleased therefore that the Board is recommending a final dividend that will take the full-year dividend for 2015/16 to 89.4 pence per share.

A company built on values and doing the right thing

In fulfilling its strategy SSE's values are as important as ever. A company's values are the bedrock of how it operates and the Board is acutely aware of the scrutiny SSE is under and the expectations that shareholders, customers and employees, as well as wider society, place upon it. For SSE companies don't just need to fulfil their core purpose or deliver their financial objective; they must do so in a responsible manner that provides the basis for continued business success and this is the starting point for any commercial decisions we take. This is acknowledged throughout SSE and is integral to the delivery of the financial objective, the strategic framework and reinforces the commitment to shareholder value.

Building a team for future business success

SSE also values the people who work for it. They are its greatest asset. Their human capital has been borrowed from society and enables it to operate and grow the business. The Company's ethos regarding its people is therefore very deliberate; SSE seeks to create sustainable jobs and invest in its employees. As well as a robust and talented leadership team in my role as Chairman I am fortunate enough to meet members of the SSE team across the UK and Ireland. It is at times humbling and always engaging to see the commitment to their work, their customers and their colleagues.

Indeed, the decision to invite BBC television cameras into SSE this year to film a documentary of its operations conforms to the bold decision-making and transparent approach to its affairs which SSE always seeks to adopt.

Delivering for investors and customers alike

In summary, 2015/16 was another solid year of efficient performance and advancement. From restoring customers' power safely and efficiently following the severe storms over the winter, through to the investment in new assets to balance the business, the completion of Beauly-Denny one of the highest and longest electricity transmission lines in the UK, and leading the energy supply industry in customer complaint handling, SSE has continued to deliver for shareholders and customers alike.

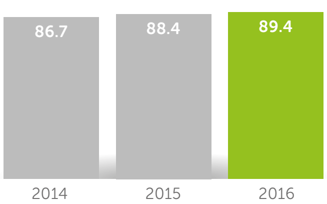
The operating environment has at times brought challenges and these will continue for the foreseeable future as the impact of the many external influences on SSE makes itself felt. Nevertheless, SSE has the strategy, values, robust management and a team of talented people required to meet those challenges, fulfil its core purpose and deliver for shareholders and customers.

Richard Gillingwater CBE
Chairman

SSE is well-positioned in this changing operating environment. The Company is built on strong foundations and operates with a clear strategic framework comprising a balanced range of businesses in core markets, and a commitment to efficient operations and disciplined investment.

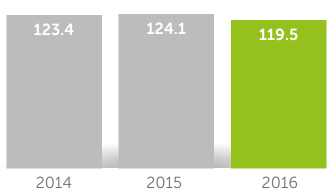
Financial highlights

Dividend per share – pence



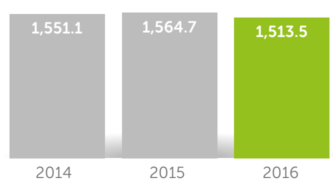
Adjusted earnings per share* – pence

119.5p -3.7%



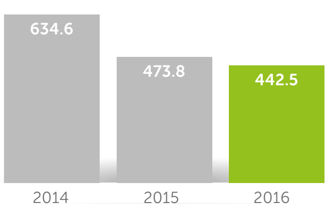
Adjusted profit before tax* – £m

£1,513.5m -3.3%



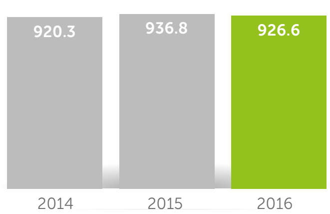
Wholesale operating profit – £m

£442.5m -6.6%



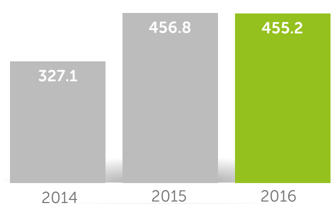
Networks operating profit – £m

£926.6m -1.1%



Retail operating profit – £m

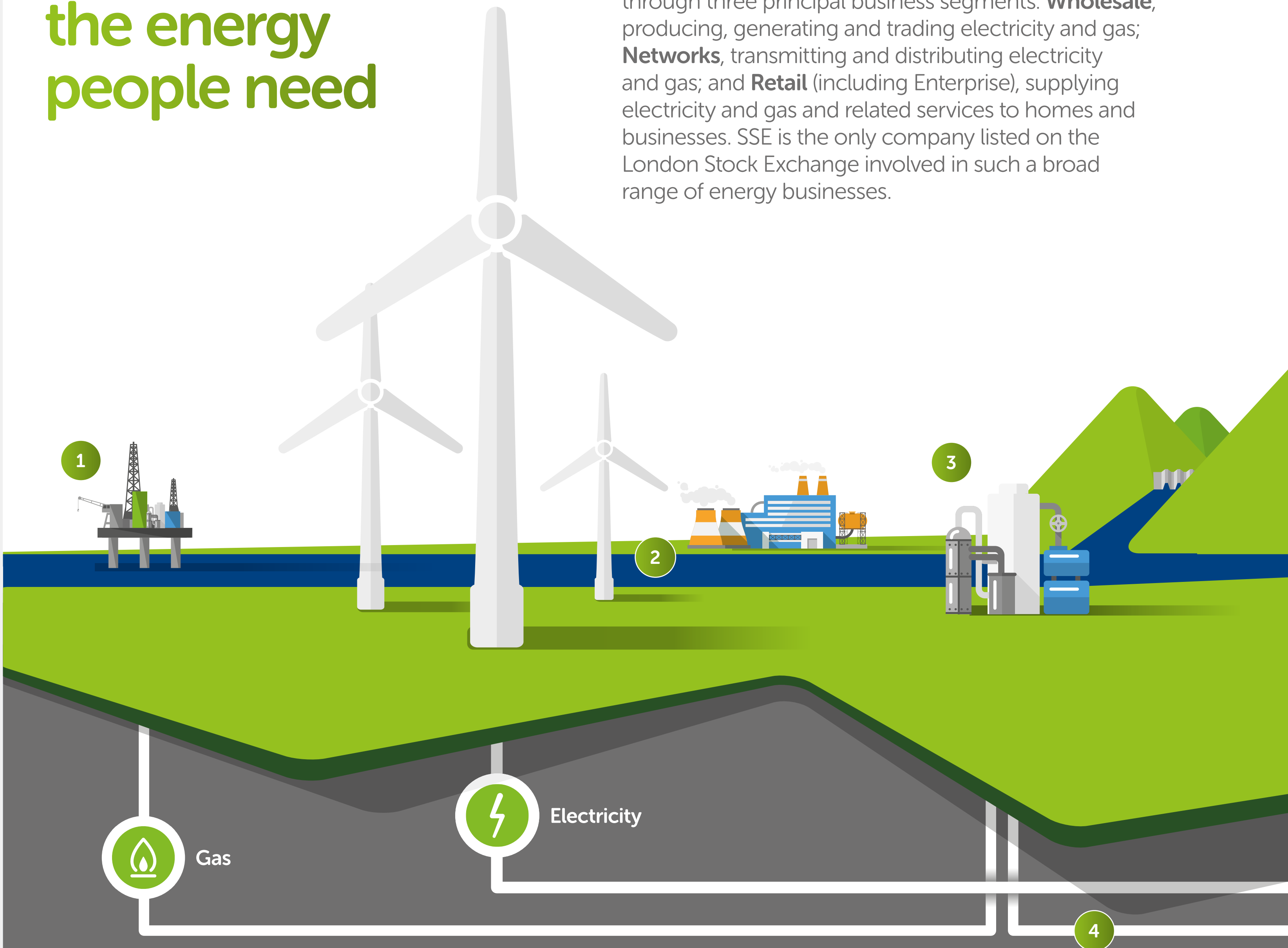
£455.2m -0.4%



Our business explained

Providing the energy people need

SSE's core purpose is to provide the energy people need in a reliable and sustainable way. It does this through three principal business segments: **Wholesale**, producing, generating and trading electricity and gas; **Networks**, transmitting and distributing electricity and gas; and **Retail** (including Enterprise), supplying electricity and gas and related services to homes and businesses. SSE is the only company listed on the London Stock Exchange involved in such a broad range of energy businesses.



1.
Gas production
Extracting natural gas from fields in the North Sea and west of Shetland for use onshore.

2.
Energy portfolio management and electricity generation
Using turbines to convert energy from gas, oil, coal, water and wind to generate electricity and managing energy contracts.

3.
Gas storage
Using caverns to store large volumes of natural gas under ground for use at a future date.

4.
Gas distribution
Using pipes to distribute gas from the transmission network to homes, work places and other premises.

Wholesale

Market-based

Wholesale 1-3

Sustainably sourcing and producing energy

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 a leading generator of electricity from renewable sources across the UK and Ireland.

For more information see **pages 42 to 49**

Networks 4-6

Safely delivering energy to homes and businesses

SSE has an ownership interest in the energy networks businesses in 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.

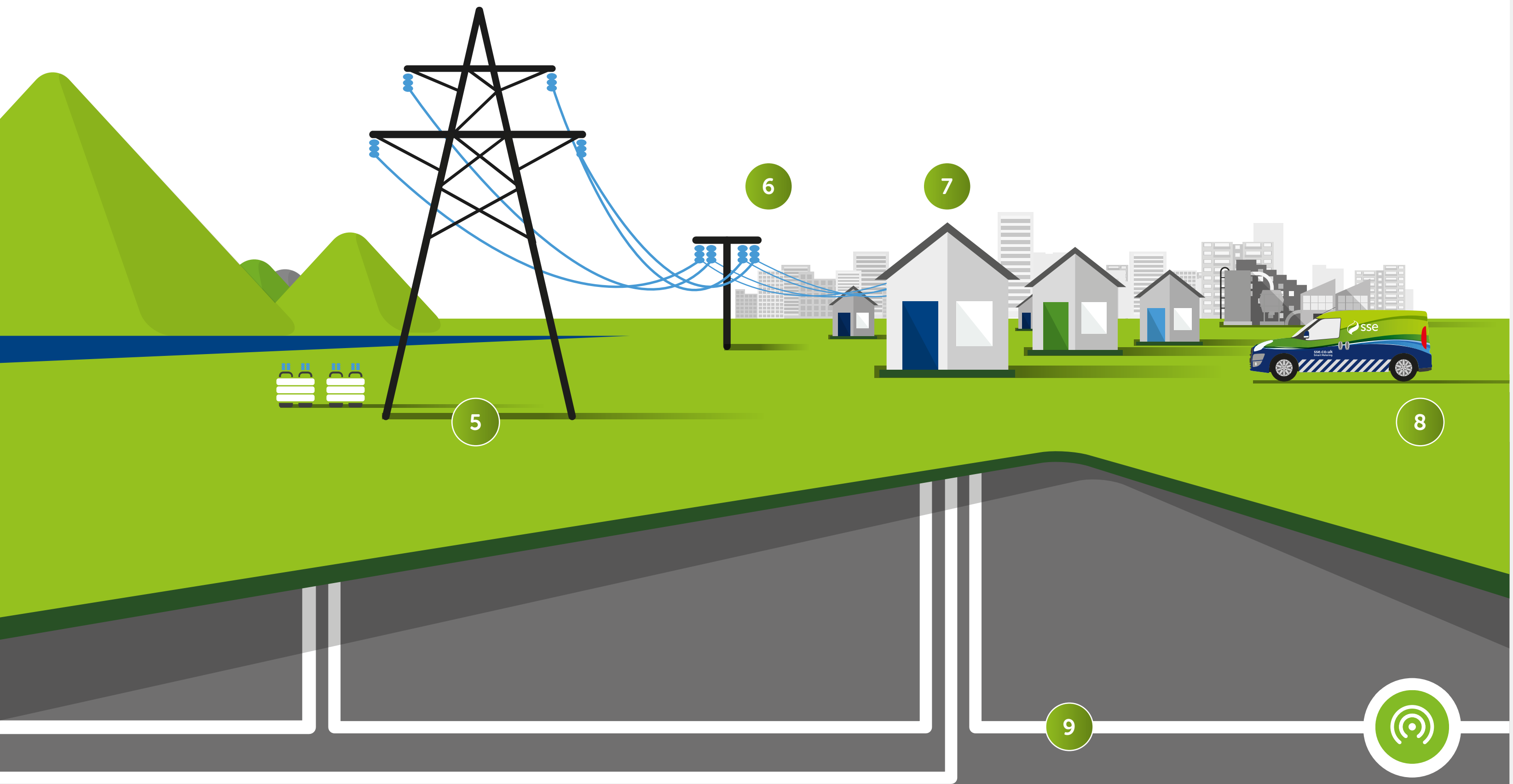
For more information see **pages 50 to 55**

Retail 7-9

Supplying energy and essential services to customers

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.

For more information see **pages 56 to 65**



5.
Electricity transmission
Using higher voltage lines and cables to transmit electricity from generating plant to the distribution network.

6.
Electricity distribution
Using lower voltage lines and cables to distribute electricity to homes, work places and other premises.

7.
Energy supply
Retailing gas and electricity to household, small business and industrial and commercial customers.

8.
Energy-related services
Providing energy-related products and services to households and small businesses.

9.
Enterprise
Bringing together key SSE services for industrial, commercial and public sector customers.

Networks	Retail
Economically-regulated	Market-based

Chief Executive's statement

Delivering a long-term strategic framework with a clear financial objective

In 2015/16 SSE again delivered what it said it would in an operating environment that presented a number of complex issues. SSE continues to operate within a long-term strategic framework based on efficient operations, disciplined investment and the maintenance of a balanced range of energy businesses. This positions the business well for future evolution and change in energy provision while also enabling it to identify opportunities for growth as the overall operating environment continues to become clearer.

Delivering the core purpose in 2016/17

SSE's strategic priorities for 2016/17 include:

- The safe and efficient management of assets;
- The delivery of high quality customer service and propositions to meet the increasingly changing needs of customers;
- The efficient and disciplined investment in new assets or the upgrading of existing assets;
- Taking further steps to increase the agility, efficiency and flexibility of the business segments;
- Constructive engagement with regulators and legislators as the operating environment evolves; and
- The delivery of a full-year dividend increase that at least keeps pace with RPI inflation.

Maintaining a clearly-defined strategic framework

SSE's core purpose is to provide the energy people need in a reliable and sustainable way. It operates under a clearly-defined strategic framework consisting of:

- **Efficient and safe core operations** to help meet customers' long-term energy needs and earn the profit that allows it to give a return to investors;
- **Disciplined investments** that are governed, developed and executed efficiently and in line with SSE's commitment to strong financial management and the dividend; and
- **The maintenance of a balanced business** so that SSE has a broad platform from which to deliver long-term value and does not become over-exposed to any one part of the energy sector.

The energy markets in GB and Ireland are undergoing technological, regulatory and demographic changes, yet SSE believes that its strategic framework provides the foundations and the flexibility to successfully navigate through a changing market. Its focus is to provide customers and shareholders with long-term value. The fundamental strength of the business is its focus on efficiency, strong financial management and the maintenance of a balanced range of businesses in the energy sector.

Operating within a clearly-defined financial framework

The financial objective of this strategic framework is to increase annually the dividend payable to shareholders by at least RPI inflation. This is because shareholders have either invested directly in SSE or, as owners of the company, have enabled it to borrow money from debt investors to finance investment that will help to meet the needs of energy customers in the UK and Ireland over the long term. In the five years since 1 April 2011, this investment totalled almost £8bn.

SSE's clearly-defined financial framework has three features:

- **Dividend:** SSE's financial objective is to deliver annual increases in the dividend of at least RPI inflation. This means it is able to look beyond short-term value and profit maximisation in any one year and maintain a disciplined, responsible and long-term approach to the management of, and investment in, its business activities.
- **Dividend cover:** SSE believes that its dividend per share should be covered by adjusted earnings per share* at a level that is sustainable over the medium term. It has updated its three-year view of the probable range of dividend cover, despite the general uncertainties that prevail in a sector like energy. As a result of its investment over the last five years, the majority of SSE's asset base and operating profit now relates to economically-regulated Networks and government-mandated renewable sources of energy. Over the three years to 2018/19,

SSE expects its dividend cover could range from around 1.2 times to around 1.4 times, based on dividend increases that at least keep pace with RPI inflation. SSE maintains a long-term target for dividend cover of above 1.4 times and closer to 1.5 times, based on dividend increases which at least keep pace with RPI inflation. In making this assessment, SSE has considered its current and projected dividend resources in the period to March 2019, the principal risks facing the business and the control measures in place to mitigate those risks.

- **Balance sheet:** As a long-term business, SSE believes that it should maintain a strong balance sheet, illustrated by its commitment to the current criteria for a single A credit rating. SSE believes that a strong balance sheet enables it to secure funding from debt investors at competitive and efficient rates and take decisions that are focused on the long term – all of which support the delivery of annual increases in the dividend of at least RPI inflation and the maintenance of an appropriate level of dividend cover.

Earning profits in a responsible way

SSE provides people with an essential service and therefore has embedded a responsible approach into its business operations, set out in detail on pages 20 to 29 of this Report. SSE's responsible approach to its business conduct helps to ensure it is able to fulfil its core purpose over the long-term. In summary, SSE seeks to maintain a responsible approach to business to help ensure it is able to fulfil its core purpose, execute its strategy and achieve its financial objectives over the long term.

Performance of the three business segments

There are three reportable segments that make up the SSE Group: Wholesale, Networks and Retail (including Enterprise). It is this balance of businesses across the energy sector that enables SSE to pursue opportunities and manage risks.

Wholesale: SSE's Wholesale business includes Generation and EPM, Gas Storage and Gas Production. In 2015/16 there was a slight rise in operating profit in EPM and Generation, as a result of a 11.5% increase in output of electricity from renewable sources. However, overall operating profit fell by 6.6% due to a 94% reduction in Gas Production profits, reflecting the very challenging market conditions, and a continuing low contribution from Gas Storage. The operating environment for Gas Production, thermal generation plant and Gas Storage remains persistently challenging due primarily to changes in commodity prices.

Networks: SSE wholly owns three electricity networks businesses and has a 50% share in the SGN gas distribution networks. These well-managed, economically-regulated energy network companies provide a relatively stable revenue flow for SSE and its future plans in both Transmission and Distribution allow opportunities for fair returns. In 2015/16 there was significant growth in Transmission operating profits, due to the delivery of a major programme of capital investment. This was offset by the expected reduction in base revenues for Electricity Distribution under the first year of the RIIO ED1 Price Control and a slight reduction in the profitability of SGN.

Retail (including Enterprise): SSE's Retail business supplies electricity and gas, and other energy-related services, to customers across the UK and Ireland. In 2015/16, Energy Supply operating profit increased by 8.2% to £398.9m reflecting growth from business energy supply, especially from the I&C sector, in which the number of customer accounts increased. This offset the decline in operating profit in household energy caused by declining customer numbers and lower energy consumption. Over the year SSE's annual profit margin per dual fuel household in GB was around 6.2%. There were lower profits in SSE's Enterprise business, as the previous financial year included the £15.3m profit from the disposal of SSE's gas pipelines business and there have been a number of revisions to the overall structure of SSE Enterprise.

Providing greater transparency in reporting

In March 2014 SSE announced that it would begin a process of business separation to provide greater transparency and clarity in its reporting. There is now a subsidiary company for energy portfolio management, SSE EPM Limited, which sits alongside the separately disclosed Energy Supply and Generation activities of the SSE Group. The presentation of the results for SSE's businesses in its Financial Statements continues to be kept under review.

This separation should increase transparency and accountability in the performance management and the regulatory and financial reporting of each business. Whilst there is a general drive within SSE to improve accountability for the individual business segments, each reportable business segment works within SSE's strategic framework and it is their combined performance that enables it to meet its financial objective.

Managing energy sector issues

As energy is an issue of societal importance political, legislative and regulatory change will continue to be an inherent feature of SSE's operating environment and is acknowledged as a principal risk. The energy sector issues SSE continues to manage include:

- **A sustained fall in commodity prices:** Commodity prices have an inherent influence on SSE's business. Whilst the fall in commodity prices over the 18 months to March 2016 has had implications across the SSE Group, the balance of the business and the long-term nature of its assets and investments, mean that it is well-placed to manage this risk. In SSE's Retail business gas tariffs were reduced by 4.1% in April 2015 and 5.3% in March 2016 as savings from a sustained fall in the wholesale price of gas were passed through to customers. In electricity the situation is more complicated due to cumulative costs associated with the long-term upgrade of the country's electricity system. In SSE's Wholesale business the reduction in wholesale prices led to lower earnings for SSE's Gas Production and electricity generation businesses which in turn contributed to the significant Wholesale asset impairments taken in the year.
- **The design of the GB Capacity Market:** Through the two Capacity Market Auctions since 2014 SSE has secured agreements to provide de-rated electricity generation capacity to help the UK Government, National Grid and Ofgem, to deliver their responsibilities for security of supply. The UK Government is planning changes to the way the auction functions which should, over time, lead to a more effective mechanism.
- **The evolution of the regulatory framework for energy networks:** During the course of the year there were notable developments in the regulatory framework for networks. The conclusion, in September 2015, of the CMA's consideration of the concurrent British Gas Trading (BGT) and Northern Powergrids (NPg) appeals on the RIIO-ED1 price control resulted in it being largely upheld, SSE welcomes Ofgem's recent decision that it would not conduct a mid-period review into SHE Transmissions' RIIO T1 price control and remains committed to delivering against its outputs while ensuring value for money for the remainder of RIIO T1.
- **The publication by the Competition and Markets Authority of its Provisional Decision on Remedies:** The CMA's announcement of their Provisional Decision on Remedies in March 2016 marked the near-culmination of a two year investigation into the supply and acquisition of energy in GB. The proposed remedies focus towards engaging customers in the energy retail market. SSE supports many of the remedies, but there are unfortunate shortcomings in the CMA's figures around the degree of consumer 'detriment' and some of the remedies proposed require consideration as to their practical and cost-effective implementation.

Furthermore, SSE provided a view on the risks posed by the forthcoming referendum on the UK's continued membership of the European Union in its Notification of Close Period Statement on 24 March 2016.

SSE believes that it has a duty to shareholders and customers to maintain a constructive approach to its engagement with political parties, regulators and governments within the jurisdictions in which it operates.

Alistair Phillips-Davies
Chief Executive

Our Strategic Framework

Creating long-term value

SSE's strategy is about how the company manages the external issues that influence energy provision; how it fulfils its core purpose of providing the energy people need; and how it achieves its principal financial objective of increasing annually the dividend payable to shareholders by at least RPI inflation.

Strategy

Our core purpose is to provide the energy people need in a reliable and sustainable way.

SSE's long-term strategy for achieving its financial objective is to deliver the efficient operation of, and investment in, a balanced range of economically-regulated and market-based businesses in energy production, storage, transmission, distribution, supply and related services with a geographic focus on the UK and Ireland.

See pages 10 and 11 for how we measure our strategic performance.

Finance

Our financial objective is to increase annually the dividend payable to shareholders by at least RPI inflation.

See pages 32 to 39 for more information.

Responsibility

SSE believes that to be successful over the long term, companies must operate responsibly. For this reason, SSE operates under a set of core values known as the SSE SET.

Efficient operations

Efficient operations are how SSE serves its customers to fulfil its core purpose. At the heart of SSE's business are its core operations. In 2015/16 it produced 27,776GWh of generation output from thermal and renewable power stations; safely delivered electricity to 3.7 million homes and businesses through its distribution networks; and supplied electricity, gas and related services to over 8.5 million customer accounts in GB and Ireland.

An operational focus for SSE means:
- a focus on the safety of its people;
- operating its assets safely and using resources effectively, efficiently and sustainably; and
- putting the current and future needs of customers at the heart of everything it does.

Disciplined investment

Central to SSE's strategy is disciplined investment in a balanced range of businesses across the energy sector. In 2015/16 SSE invested £1.62bn before proceeds and disposals. SSE's strategy avoids becoming over-exposed to any one part of the energy sector but pursues investment opportunities where most appropriate.

SSE's investments are:
- in line with its commitment to strong financial management;
- complementary to its existing portfolio of assets; and
- governed, developed and executed in an efficient and effective manner.

Balanced businesses

SSE has reportable segments covering Wholesale, Networks and Retail businesses (including Enterprise, which provides services for commercial and public sector organisations). This gives SSE a diversity of business activity across the energy sector.

SSE's balance is maintained by:
- operating and investing in a balanced range of energy assets and businesses;
- maintaining a range of opportunities to develop new assets and customer propositions; and
- developing a balanced range of future investment options.

Dividend

SSE's financial focus is not on maximising short-term profits but on delivering an annual dividend increase to shareholders, of at least RPI inflation, as shareholders' objective for investing capital into companies is to secure a return.

Dividend cover

Dividends are paid out of earnings and, over the long term, earnings should increase to support dividend growth. SSE maintains a long-term target for dividend cover of above 1.4 times and closer to 1.5 times based on dividend increases that at least keep pace with RPI inflation.

Balance sheet

SSE believes it should maintain a strong balance sheet, illustrated by its commitment to the current criteria for a single A credit rating. A strong balance sheet enables it to borrow money from debt investors at competitive rates and therefore take long-term decisions.

Safety

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

Service

We put the current and future needs of customers at the heart of everything we do.

Sustainability

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

Efficiency

We keep things simple, do the work that adds value and avoid wasting money, materials, energy or time.

Excellence

We strive to get better, smarter and more innovative and be the best in everything we do.

Teamwork

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

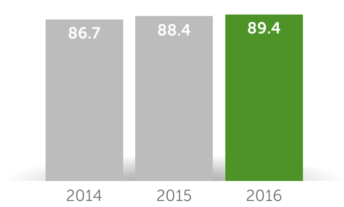
Our performance

Measuring the results of SSE's strategy

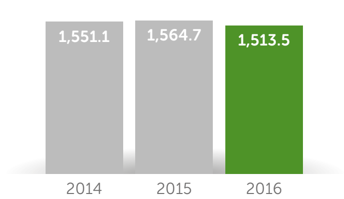
SSE's strategic, financial and responsibility frameworks are mutually dependent and reinforcing and their results are measured through a series of key indicators.

Financial Framework

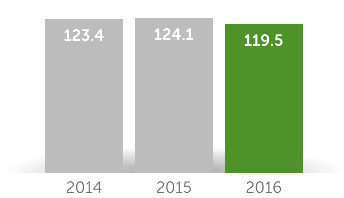
Dividend per share – pence



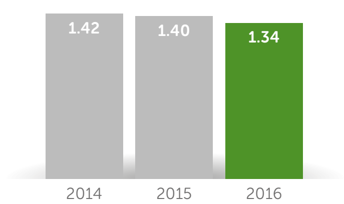
Adjusted profit before tax* – £m



Adjusted earnings per share* – pence



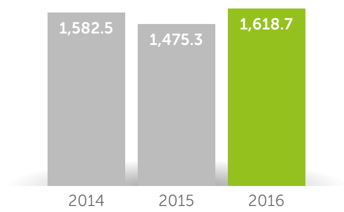
Dividend cover – times



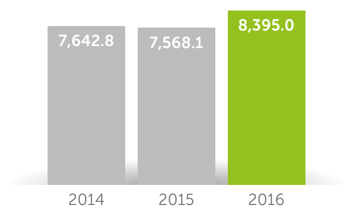
Strategic Framework

Disciplined investment

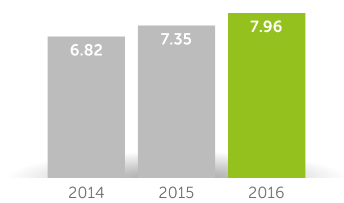
Investment and capital expenditure – £m



Net debt and hybrid capital – £m

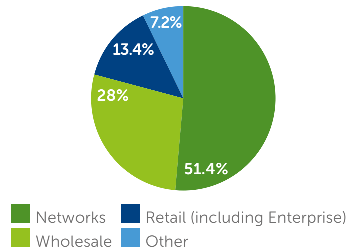


Networks Regulated Asset Value (RAV) – £bn

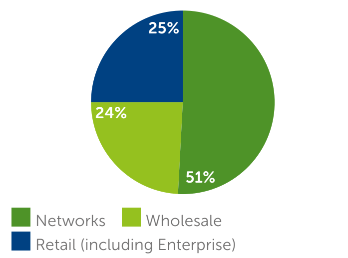


Balanced businesses

Investment and capital expenditure composition

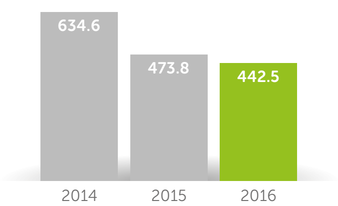


Operating profit composition

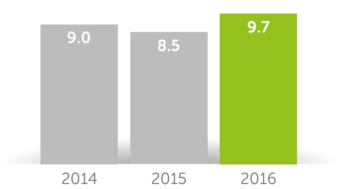


Wholesale

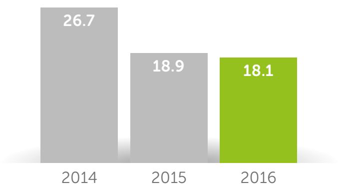
Operating profit – £m



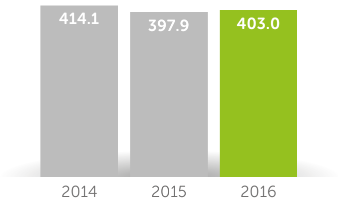
Renewable generation output – TWh



Thermal generation output – Twh

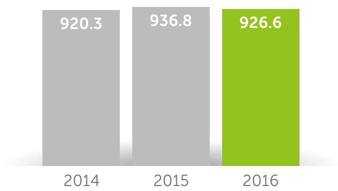


Gas production output – million therms

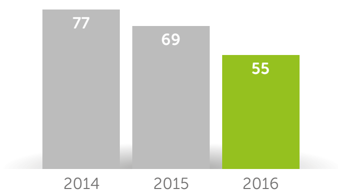


Networks

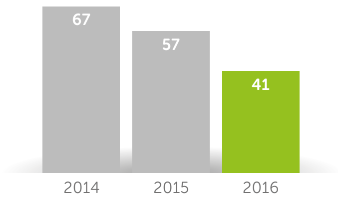
Operating profit – £m



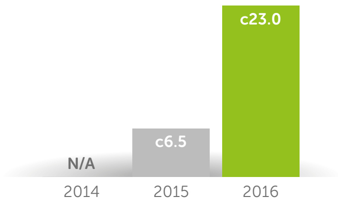
Customer minutes lost (north)



Customer minutes lost (south)

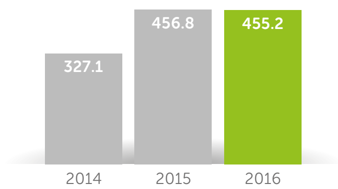


Electricity distribution estimated incentives performance – £m

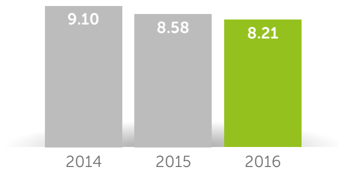


Retail

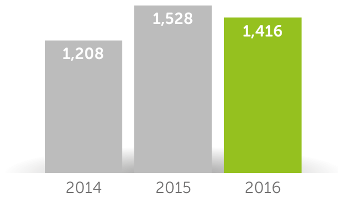
Operating profit – £m



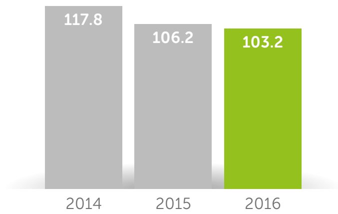
Energy customer account numbers – millions



Energy customer complaints to third parties

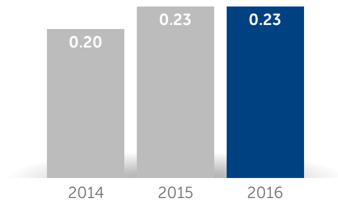


Aged debt – £m

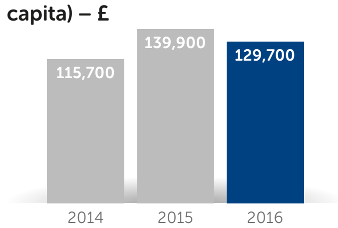


Responsibility Framework

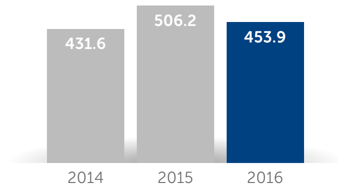
Total recordable injury rate per 100,000 hours worked



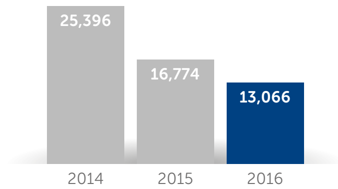
UK employee productivity (direct contribution to GDP per capita) – £



UK tax paid (profit, property, environment and employment taxes) – £m



Carbon emissions (Carbon dioxide equivalent (CO_2e) 000's tonnes)



Our performance

Delivering against SSE's strategic framework in 2015/16

Efficient operations

Leading the industry in energy customer complaint handling

In its Retail business, SSE takes a rigorous and proactive approach to customer complaint handling. Figures published by the Energy Ombudsman in February 2016 showed that only four out of 100,000 customer complaints were accepted for further investigation in the first three quarters of the year, meaning 99.969% of customer issues were resolved by SSE, in house, ensuring that customer complaints are resolved efficiently and satisfactorily.

Maintaining a flexible range of electricity generation assets

The focus on efficient operations in the Wholesale business meant that after 50 proud years of service the Ferrybridge coal-fired power station ceased operations due to its worsening economic outlook. Elsewhere, in November 2015 the 735MW Keadby gas-fired power station came out of deep mothball to return to service and make a contribution to the maintenance of the UK electricity system. SSE continues to move from a coal and gas weighted portfolio towards one comprised largely of gas and renewables.

Reducing the number and duration of power cuts

The focus of the RIIO ED1 price control has been delivering efficient operations and the best possible experience for electricity distribution customers. Over the year the Distribution networks withstood severe flooding and 12 Atlantic storms. Restoring power safely and efficiently is the priority and continued investment in automation, network reinforcement and tree cutting saw reductions in both Customer Interruptions and Customer Minutes Lost in 2015/16 compared with the previous year and to record low levels.

Disciplined investment

Adding to the value of electricity networks

The replacement Beauly-Denny electricity transmission line was energised in November 2015 providing the potential for new low-carbon generation to connect to the grid, as well as network resilience and secure supplies to consumers. There will be further investment in Transmission and the Caithness-Moray transmission reinforcement will be SHE Transmission's flagship project and its largest single capital investment to date. It is scheduled to be operational by the end of 2018.

Continued investment in renewable energy

SSE operates a renewable energy portfolio comprising onshore wind, offshore wind and conventional hydro. In 2015/16 SSE expanded its renewables portfolio with 67MW of new onshore wind commissioned and a further 548MW in construction, including the Galway Wind Park, Ireland's largest wind farm. SSE also progressed the Beatrice Offshore Wind Farm. The UK Government's decision to close the Renewables Obligation (RO) for new onshore wind projects from March 2016 has affected SSE's onshore wind development pipeline. Two notable projects – Strathy North (up to 133MW) and Stronelairg (up to 240MW) – will not progress as planned as they did not qualify for the government's grace period transition arrangements. SSE engaged constructively with the UK Government during the closure of the RO and sees continued opportunities for renewables, chiefly though potential expansion in its portfolio of offshore wind assets.

Balanced business

Working with businesses to meet their energy needs

SSE Enterprise incorporates six of SSE's businesses: Contracting, Energy Solutions, Rail, Slough Heat and Power, Telecoms and Utilities. The utilities business has ambitious plans to build on its current portfolio of district heat networks and maintain its position as one of the UK's leading heat network providers. This year SSE Enterprise Utilities delivered a low-carbon, multi-utility solution at the Riverlight regeneration development in London, providing the installation and ongoing ownership, operation and maintenance of the water, heat, gas and electricity networks. At the same time, SSE grew its market share in Business Energy Supply during 2015/16 and it continues to listen to its business customers, act on their needs and create enduring partnerships.

Securing future gas supplies at Greater Laggan

In line with its strategy for maintaining a balanced range of energy businesses, in July 2015 SSE announced the acquisition from Total UK Ltd of a 20% interest in four gas fields collectively known as the Greater Laggan Area, North West of the Shetland Islands, along with a 20% interest in the new Shetland Gas Plant. Gas production started in February 2016 from the Laggan fields which could produce up to 90,000 barrels of oil equivalent a day at peak production. Despite the current impact of lower gas prices, long-term nature of the assets will help to secure energy for customers and meet the needs of gas-fired power stations contributing to security of electricity supply.

Managing key issues affecting energy provision

To meet its core purpose of providing the energy people need, SSE has to manage key issues and changes in its operating environment in the GB and Ireland energy sectors.

The energy market is constantly changing. How markets look today differs from how it looked 10 years ago; 10 years from now it will look different again. There are several factors causing this, the principal cause has been the desire to decarbonise electricity generation, whilst providing consumers with secure and affordable energy.

In fulfilling its core purpose and delivering its strategy SSE has to understand and manage a range of issues in the energy sector that are external to its business. It does this through its risk management processes (see pages 16 to 19), acting responsibility and engaging with external stakeholders (see pages 20 to 38) and efficient operations in each of its business segments (see pages 42 to 65).

Some of the key issues affecting energy provision and, therefore, SSE's strategic focus on operations and investments are set out below.

Consumption

The affordability of energy for households and businesses depends on several factors: their income, the efficiency with which they are able to use energy and the price of the energy itself.

Improving the efficiency with which energy is used has been and remains a key objective of policy-makers. In 2015/16 consumption of gas – on a weather corrected basis – was 2.7% down for SSE's customers. At the same time, due to falling wholesale gas prices the UK Government calculates that average standard gas bills for UK domestic consumers fell by 5.1% in 2015, compared to 2014. Against this background, SSE implemented its third successive price reduction for gas customers on its standard tariff in 2016, three months prior to the end of its 27-month price freeze.

-12%

Reduction in SSE's gas prices for a typical household customer compared to 2013.

Competition

SSE's market-based Wholesale and Retail (and Enterprise) businesses are subject to significant competitive forces. For example, the number of energy suppliers in the GB Energy Supply market has increased significantly in recent years and as the market becomes more competitive and customers switch, retaining and attracting customers presents challenges. As a result, SSE's Retail business must continue to develop a range of products, services and a consumer brand, as well as continued industry leading customer service, for all of its customers. Separately, the UK government and regulator are developing new ways of introducing elements of competition into economically-regulated Networks businesses.

476,528

The number of customers who switched electricity supplier in the GB market in March 2016, the highest recorded since November 2013.

Decarbonisation

The Paris climate conference in December 2015 saw 195 countries reaffirm the global commitment to decarbonisation. Therefore, SSE continues to operate in markets with an overarching drive to decarbonise electricity generation and reduce reliance on fossil fuels. The UK Government has announced plans to phase out coal-fired power stations in the next decade and invest in cleaner sources of energy production such as renewables, gas and nuclear. For SSE this means continuing to invest in lower-carbon sources of energy such as gas and renewables, and the network infrastructure to support cleaner forms of energy.

45.5%

In 2015 calendar year low carbon electricity's share of electricity generation in the UK reached a record high (up around 8% on 2014), due to nuclear generation and higher renewables generation following increases in capacity.

Innovation

The energy sector is undergoing constant innovation and technological change illustrated by the UK National Infrastructure Commission's Smart Power report, published in March 2016. This change ranges from regulatory incentives to innovate in the energy networks to prepare for future changes such as the greater deployment of Electric Vehicles; the continued innovation in the size and the scale of offshore wind turbines; and, the deployment of smart meters to every home and business in GB. These innovations will transform the sector and each of SSE's businesses has to focus on the benefits that such innovations can bring to customers.

183,000

SSE had installed over 183,000 smart meters by 31 March 2016. It has a regulatory obligation to offer a smart meter to every customer by December 2020.

Integration

The energy markets in GB and Ireland are increasingly integrated and impacted by global developments. SSE's markets are integrated through the Internal Energy Market, comprising EU Member States and others, and capacity is increasingly physically interconnected between the GB and mainland Europe. At the same time, the price of commodities such as oil, gas and power are affected by global factors such as geopolitical developments between oil producing countries and macro-economic issues. This integration will continue and SSE has to understand and manage the impact of these changes on its business operations and consumers.

-37%

Reduction in average NBP Day Ahead gas prices in March 2016 compared with average during March 2015.

Regulation

SSE operates in countries with stable regulatory regimes or where its operations are politically mandated. The energy market is subject to high levels of interest and intervention from independent energy regulators and governments at both national and European levels. SSE works constructively to engage in public policy debates and represent the interests of its customers and shareholders. Regulatory changes have included the near conclusion of the Competition and Markets Authority investigation into the supply of energy and the development of OFGEM's regulatory regime for electricity Transmission and Distribution networks.

8 years

The duration of the Price Control settlements for the five economically regulated energy network companies that SSE has an ownership interest in.

For more on energy affordability, development and change in the market and politics, regulation and compliance see **pages 16 to 17** on Group Principal Risks and their mitigation.

Risk management
Overview

Managing risk to deliver long-term value

To help ensure that it is able to provide the energy people need and deliver value over the long term, SSE has continued to develop its Risk Management Framework, including its Principal Risks and its Risk Appetite Statement. For further detail on how SSE manages risk please see the supplementary **Group Risk Report.**

The component parts of the framework and how it interacts with the wider system of internal control are illustrated in the diagram below.

The **Group Risk Management and Internal Control Policy** is set by the Board and outlines the principles and responsibilities which underpin SSE's approach to managing risk.

The Board performs a **review of the effectiveness of the system of internal control** annually. This review is supported by a report from the Director of Group Risk, Audit and Insurance detailing the activity and operation of the system during the year. For further detail on the outcome of the review please see the Directors' Report on page 78.

A new **Principal Risk Self Assessment** process was introduced during 2015/16. Executive level Committees are now formally identified as owners of each Principal Risk and are required to assess these risks and their associated controls annually.

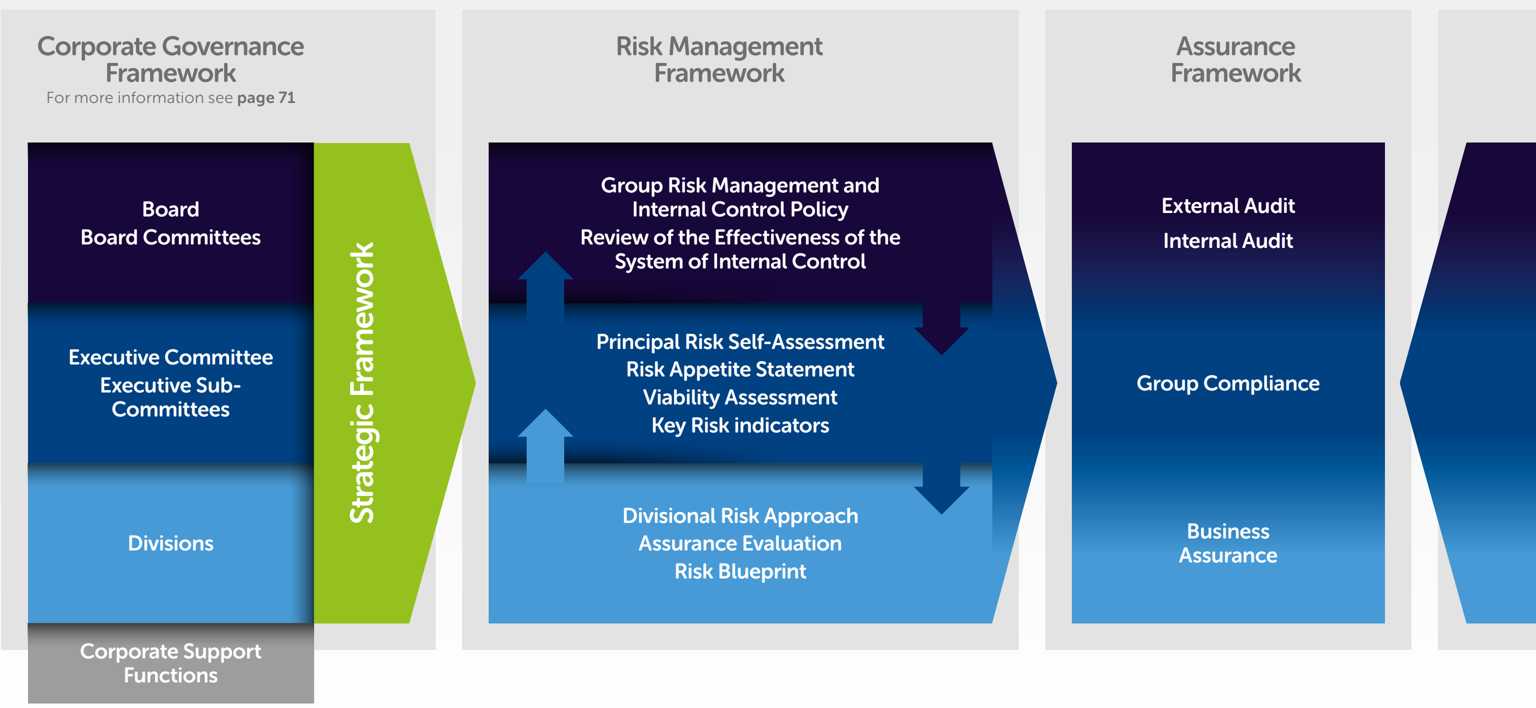
Following review, the number of Principal Risks to the Group has been reduced from 10 to 9 with Funding Shortfall and Pensions Liabilities being combined into a single risk – "Financial Liabilities". The full list of Principal Risks is on page 18.

The Board determines the nature and extent of risk that the Group is willing to take in pursuit of its strategy and this is detailed in the **Risk Appetite Statement**.

In order to support its statement of longer term viability as required by the updated UK Corporate Governance Code, the Board has for the first time performed a **Viability Assessment**. This assessment is based on stress testing the Group's financial model using scenarios relating to SSE's Principal Risks. The resulting Viability Statement can be found on page 17.

As part of the ongoing assessment of the Group's Principal Risks, **Key Risk Indicators** are reported to the Board on a regular basis. These provide high level insight into the key factors which are likely to influence SSE's exposure to those risks.

System of internal control



The Group Risk Management and Internal Control Policy requires the Managing Director of each Division to implement a **Divisional Risk Approach** to support their business in identifying, understanding and managing its key risks.

Each division carries out an annual **Assurance Evaluation** with key Group policies, with the output and any areas of required improvement reported to the Chief Executive.

The **Risk Blueprint** provides guidance on best practice in risk management and decision-making and is designed to be used by people at all levels across the organisation.

Risk Appetite Statement

No business is risk-free, and indeed the achievement of SSE's goals necessarily involves taking risk. SSE will however only accept risk where it is appropriate, well understood, can be effectively managed and offers commensurate reward.

Each of SSE's business divisions has a distinctly different risk profile. For example, the Networks business is heavily regulated and is characterised by stable, inflation linked cashflows whereas the Wholesale business is heavily exposed to energy market and commodity risk. Affordability, transformation and political risk particularly affect the Retail business, while Enterprise is exposed to the risks that come with rapid growth in a highly competitive market place.

The key elements of SSE's strategy – including the diversity of energy businesses within the SSE Group described above, as well as its financial framework – are fully reflective of its risk appetite:

- SSE seeks to avoid over-exposure to any single part of the energy sector and therefore maintains a balanced range of economically regulated and market-based energy businesses;
- production, storage, transmission, distribution, supply and related services provide a balanced portfolio of business activities whilst keeping the depth of focus on a single sector – energy; and
- Great Britain and Ireland gives SSE a geographic markets focus and a clear understanding of the risks and opportunities in those markets.

In areas where SSE is exposed to risks for which it has little or no appetite for, even though it has implemented high standards of control and mitigation, the nature of these risks mean that they cannot be eliminated completely. In determining its appetite for specific risks, the Board is guided by three key principles:

1. Risks should be consistent with SSE's strategy, financial objective and core values – safety is SSE's number one value and it has no appetite for risks brought on by unsafe actions;
2. Risks should only be accepted where appropriate reward is achievable on the basis of objective evidence; and
3. Risks should be actively controlled and monitored through the appropriate allocation of management and other resources.

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

Viability Statement

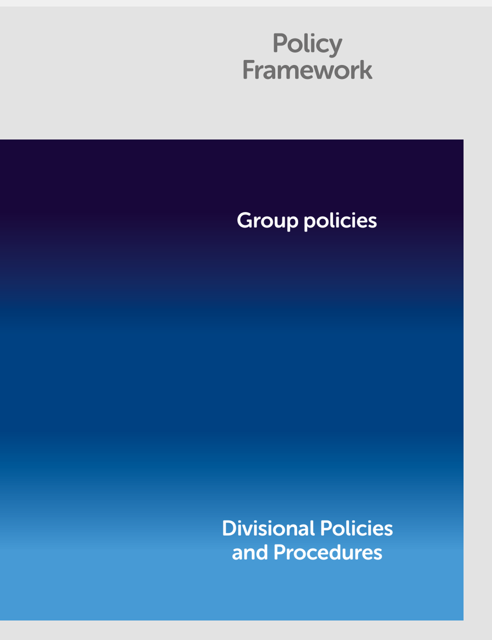
As required within provision C.2.2 of the UK Corporate Governance Code, the Board has assessed the prospects of the Company over the next 3 financial years to the period ending March 2019. The Directors have determined that as this time horizon aligns with the Group's current capital programme and is within the strategy planning period, a greater degree of confidence over the forecasting assumptions modelled can be established.

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

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

Stress tests incorporating severe but plausible scenarios relating to the Principal Risks have been assessed against the forecast cash flow of the business. The scenarios selected were those that most have the potential to affect SSE's ability to deliver its core purpose of providing the energy people need in a reliable and sustainable way.

Upon the basis of the analysis undertaken, the Directors have a reasonable expectation that the Group will be able to continue to meet its liabilities as they fall due in the period to March 2019.



The elements which comprise the Risk Framework are aligned to different levels of the Corporate Governance Framework as outlined in the diagram. Outputs from the Strategic Framework, particularly the Group's objectives and the SSESET of values, form the basis of all activity within the Risk Management Framework.

This provides a focus for the management of risk, defined as anything which can threaten the achievement of objectives or compromise SSE's values. Together with the Group Policy Framework, outputs from the Risk Framework provide the foundation for the work of the teams within the Assurance Framework in providing objective assessments of the control environment.

Risk management continued
Summary of Principal Risks

Group Principal Risks

The Board has a responsibility to identify key risks which could threaten the Company's business model, future performance, solvency or liquidity, and determine how these Principal Risks will be managed or mitigated.

During 2015/16, SSE introduced a new Principal Risk Self-Assessment process to support this responsibility, assigning ownership of each Principal Risk to the Executive Committee – or where more appropriate to one of its formal sub-committees. The owning Committee is responsible for assessing any changes in the risk and the effectiveness of the controls in place, reporting on these to the Board.

Emerging risks are also considered as part of this assessment to help identify new exposures as early as possible. While a number of risk areas were identified, after full consideration none of these was felt material enough to meet the required threshold to become a Group Principal Risk. Key elements of some were however incorporated into existing Principal Risks, with the descriptions of these being amended accordingly. For example, "Infrastructure Failure" has been revised to "Cyber and Networks Failure" to more explicitly highlight, in particular, the increasing threat of cyber attack.

After review, the Board has determined that the list below represents the current Principal Risks to SSE. Combining 'Pension Liabilities' and 'Funding Shortfall' into 'Financial Liabilities', reflecting similarities in their nature and impact, has resulted in the list reducing from 10 risks in 2014/15 to 9 in 2015/16.

Further detail on each of the Principal Risks and associated controls can be found in the supplementary Group Risk Report.

The Group Principal Risks are presented here in alphabetical order:

Commodity prices

Risk Owner – Risk and Trading Committee (RTC)

The Group is exposed to fluctuations in the physical volume and price of certain commodities, through (i) its requirement to match volumes of purchased gas and electricity with customer demand, and (ii) exposures arising due to long-term investment in generation and Exploration and Production (E&P) assets driven by the cost of fuel and other commodities required for generation, and through revenues realised from these assets.

Key Mitigations:

- SSE uses Value at Risk (VaR) measures to monitor and control exposures to commodity price and volume. Trading limits are set by the Board and managed through the Risk and Trading Committee (RTC).
- Commodity positions are assessed on a daily basis by a business risk management function that is independent of the trading team.

Cyber and networks failure

Risk Owner – Executive Committee

SSE's electricity networks are part of Great Britain's critical national infrastructure assets and as such are central to the functioning of the economy. Additionally, SSE is reliant on a number of key IT systems to support its ongoing operations.

A loss of these systems could be caused by malicious cyber attack, software or hardware issues, inadequate investment in maintenance or by poor operational performance.

Key Mitigations:

- The Information Security and Privacy Committee (ISPC) meets quarterly and works to ensure that suitable technical, process and people security controls are implemented throughout the Group to protect information, intellectual property and the systems these reside on.
- SSE is an active member of a number of security forums including the Energy Emergencies Executive Committee Cyber Security Sub Group (E3CC) and the Centre for the Protection of National Infrastructure (CPNI).

Development and change

Risk Owner – Executive Committee

SSE's strategic focus is the efficient operation of, and investment in, a balanced range of energy businesses to support annual dividend growth. SSE strives to be a leading provider of energy and related services within an industry where innovation, de-carbonisation and competition are leading to continual technological advancements and changes in customer expectations and options. To continue to achieve this, a number of strategic change programmes are under way. It is vital that SSE successfully delivers these to meet the current and future needs of customers in the most efficient way possible.

Key Mitigations:

- Five year transformation road maps have been developed by each division to ensure that SSE is investing in the capabilities and solutions that deliver the greatest benefit.
- The Transformation Governance Framework provides a consistent process and tool-set to manage change within the organisation from first principles to benefit realisation across the Group.

Energy affordability

Risk Owner – Risk and Trading Committee

SSE is involved in a broad range of energy businesses in the UK and Ireland including the production, storage, transmission, distribution and supply of electricity, gas and related services. The decisions taken in operating these contribute to the overall cost of energy to the consumer which is in turn driven by a number of factors including commodity costs, infrastructure costs and energy sector overheads. Costs can also be impacted by public policies aimed at supporting measures for the reduction of carbon emissions, while increased energy efficiency can lead to reduced consumption of energy.

Key Mitigations:

- SSE actively encourages public policy makers to ensure that non-commodity costs associated with energy provision and which make up a significant part of the average bill are allocated fairly.
- The SSE Board approves retail tariff structures recommended by the RTC. In addition, it approves all long-term generation investment decisions to ensure that a diverse portfolio of assets is maintained, limiting exposure to any one commodity.

Financial liabilities

Risk Owner – Risk and Trading Committee

SSE ensures that it has funds available at all times to meet its liabilities when these fall due, in both normal and stressed conditions. Around £1.7bn of medium to long-term borrowings will mature in the two years to March 2018.

SSE has obligations in respect of three defined benefit pension Schemes (including SGN) and currently, in aggregate, there is an actuarial deficit between the current value of the projected liabilities of these Schemes and the value of the assets that they hold.

Key Mitigations:

- The Group ensures that committed borrowings and facilities are available at all times equal to at least 105% of forecast borrowings over a rolling six month period.
- The Audit Committee formally reviews treasury exposures, performance and the adequacy of committed borrowing facilities twice a year.
- The defined benefit pension schemes each have investment advisors in place who have helped develop road-maps with the aim of the schemes becoming fully funded (i.e. no longer reliant on SSE), within fifteen years.

Human and relationship capital

Risk Owner – Executive Committee

SSE's people are its most valuable asset and it is therefore essential that the Group retains, attracts and develops diverse talent and leadership to ensure the continued success of the business.

SSE expects its people to comply with all legislation, regulation and internal policies, including the SSESET of values. The current pace of change, combined with the inherent complexity of SSE's activities, makes it increasingly important that everyone at SSE strives for continuous improvement and is able to readily question the status quo.

Key Mitigations:

- SSE looks to employ, train, develop and retain a diverse and talented workforce and provide its people with the support they need to deliver objectives in a responsible way.
- SSE's business leaders are required to undertake regular succession planning reviews. At a Group level, SSE continues to develop its approach to the management of talent, identifying the current depth across the organisation and developing strategies to enhance it.

Major projects quality

Risk Owner – Large Capital Projects Committee

SSE continues to deliver its capital investment programme with a number of major construction and IT projects nearing completion. Its single biggest construction project, the Caithness-Moray high voltage transmission link, is now underway.

The operational assets from these projects have long economic lives, typically between 15 and 30 years but often greater, and it is therefore essential that these projects are completed to the quality standards required.

Key Mitigations:

- The Large Capital Project Governance Framework Manual ensures that all material capital investment projects for the Group are governed, developed, approved and executed in a consistent and effective manner.
- The Large Capital Projects Services function employs quality and assurance teams to perform independent project reviews.

Politics, regulation and compliance

Risk Owner – Executive Committee

The markets in which SSE operates are subject to a high degree of regulatory and legislative intervention at both domestic and EU level. Legal and compliance obligations can change explicitly with the introduction of new or revised legislation, or implicitly due to evolving interpretation and legal precedent.

The potential impacts to the Group of the referendum in June 2016 on the UK's continued participation in the EU have been considered against this risk.

Key Mitigations:

- SSE has dedicated Corporate Affairs, Regulation, Legal and Compliance functions that provide advice and guidance regarding the interpretation of political, regulatory and legislative changes to its Divisions.
- The Governance and Disclosure Committee maintains oversight of key legislative, regulatory and governance issues. It meets quarterly and is responsible for ensuring that SSE's objectives are achieved lawfully, ethically and with the appropriate corporate oversight.

Safety and the environment

Risk Owner – Safety, Health and Environment Committee

Safety is SSE's first core value. By the nature of its operations, SSE faces a number of significant safety risks – in particular relating to process safety. A major incident at one of SSE's hydro, gas storage or E&P assets could have a material adverse impact on employees, contractors, members of the public, the environment and property.

Key Mitigations:

- SSE has crisis management and business continuity plans in place which are designed for the management of, and recovery from, significant safety or environmental events.
- For offshore E & P assets where SSE is not the operator, there are a number of assurance measures in place to ensure that the proven and approved operator partners maintain and adopt high standards for their safe management and operation. This includes regular engagement across all aspects of the operation, with an emphasis on safety and technical assurance audits and verification using both internal and third party resources.

Doing the right thing

Embedding responsibility into our business

In order to execute its strategy, meet its business objective and manage risk over the long term, SSE needs to ensure it operates sustainably and responsibly. As an energy provider and UK-listed company, SSE's environmental, social and economic impacts are significant and SSE believes it should demonstrate a responsible approach by actively managing those impacts in order to secure long-term commercial success.

Sustainability highlights

Cutting carbon intensity of electricity

SSE's most material environmental impact is the emission of carbon dioxide from the generation of electricity. In line with international and national agreements, the progressive decarbonisation of SSE's generation fleet is a long-term aspiration with a medium term target of having the carbon intensity of its generation by 2020, compared to 2006. In 2015/16 carbon intensity fell by nearly 16%.

2015/16 Carbon emissions – kg CO_2e/MWh

397

474 in 2014/15

For more information see **Responsible Operator pages 28 to 29**

Understanding the value of people

Understanding the value of SSE's people is a core component of SSE's strategy to develop its human capital. SSE's employability programme 'Barnardo's Works' has been a key pipeline of untapped talent since 2008, delivering quantifiable value to both SSE and the wider community. In 2015/16, SSE published research that demonstrates this value.

Return on investment

£1:£7.67

For more information see **Responsible Employer pages 24 to 26**

Contributing to the UK and Irish economies

Demonstrating that SSE's economic value goes further than financial results, SSE has quantified, for the 5th year in a row, the economic contribution its activities make to the UK and Irish Economies.

2015/16 UK Gross Value Added – £bn

£8.9bn

£8.8bn in 2014/15

2015/16 Ireland Gross Value Added – €m

€805m

€966m in 2014/15

For more information see the **Sustainability Report on www.sse.com/beingresponsible**

Earning the right to make a profit

The strategic underpinning for SSE's sustainability strategy is the understanding that SSE's core purpose, is an essential service that people and businesses need and that has in the past been provided by the public sector. Therefore a multiplicity of stakeholders have an interest in SSE's activities and the impacts it makes. In order to retain the right to be commercially successful over the long term, SSE must be open and accountable to its customers, employees, shareholders – as well as the wider society in which it operates.

Managing risk and building trust

An inadequate response to enhanced public and stakeholder scrutiny can increase the risk of change in the number or nature of compliance requirements as consequence of intensified political or regulatory intervention: a principal risk for SSE. SSE's response to this challenge is to work to improve its external impacts, by seeking to conduct its operations and conduct it business in a way that enhances value to wider society at the same time as meeting its core financial objectives. In doing so, it seeks to build trust with its customers and stakeholders, which in turn, reduces the risk of change resulting from increased political or regulatory requirements.

Materiality

SSE's most material sustainability issues are those with greatest relevance that must be addressed. The most significant impacts are assessed against the changing business environment, stakeholder feedback and emerging trends. SSE most material issues continue to be its contribution to energy security, the decarbonisation of electricity generation and working to provide more affordable energy. Beyond these energy issues SSE makes many other material impacts on the economy, society and the environment. These issues are reported in an integrated way in this annual report and is supplemented in its sister document, the Sustainability Report 2016.

Governance

Sustainability is integrated into the business governance approach. The Board is responsible for setting the strategy and sustainability policies. The Executive Committee implements the sustainability strategy and sub-committees assist in the implementation of the sustainability initiatives.

Aiming to be open and accountable

This integrated annual report outlines the most material social, economic and environmental impacts SSE makes. In order to achieve improved transparency of the challenge of making balanced, sustainable decisions, key business dilemmas are outlined in its sister document, the Sustainability Report 2016, alongside extensive additional disclosure of sustainability impacts. Furthermore, SSE has sought external assurance on its carbon and water data.

SSE's 'Responsible House'

The framework for SSE's sustainable and responsible approach to business is SSE's 'Responsible House'. The first obligation and the foundation of the house is to 'Do no harm': to keep people safe and prevent pollution. In particular, in line with its safety core value, SSE believes everything should be done safely, or not at all. From this foundation, it is possible to aim to make a positive contribution to society and the environment.

Three 'bricks' outline the way in which the core business activities across the SSE group add value as service providers, operators of existing assets and developers of new assets. Three more 'bricks' describe the way in which it adds value through core relationships with employees, suppliers and society as a whole.

SSE is a values driven organisation, and its sustainability value has provided a guide for business decisions since 2006. This value support SSE's business goals and enables it to meet its core purpose: to provide energy in a reliable and sustainable way.

A responsibility framework

SSE's 'Responsible House' provides a framework from which stakeholders can understand how its activities and relationships add value.

sse

Purpose

Providing energy in a reliable and sustainable way

Core value

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

What we aim to do

Be responsible to fulfil our core purpose, be consistent with our values and achieve our business goals.

How we do it

Responsible **Service Provider**

Doing more to provide essential services reliably and affordably.

Read the case studies on **pages 55 and 60**

Responsible **Operator**

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

See pages 28 and 29

Responsible **Developer**

Seeking to impact positively on economies, communities and the environment by investing in new energy infrastructure.

Read the case studies on **pages 48 and 54**

Responsible **Employer**

Creating sustainable employment and a great place to work.

See pages 24 to 26

Responsible **Society Member**

Sharing value by contributing to the societies in which SSE operates.

See page 22

Responsible **Buyer**

Using the power of the supply chain to bring about positive social and environmental impacts.

See page 23

Foundation

Do no harm

Responsible member of society

Sharing the value that SSE creates

SSE's purpose within the societies in which it provides the energy people need is deeply interconnected. It contributes to society by fulfilling its core purpose of providing reliable and sustainable energy but equally it relies on society to enable it to do those things. SSE therefore seeks to be a responsible member of society by respecting those connections and seeking to share value with the societies in which it operates.

Providing public services

SSE depends on society to provide strong public services to function and thrive. SSE relies on emergency services, public roads and the public health services to fulfil its core purpose of providing energy in a reliable and sustainable way.

Lending human capital

SSE's success depends on its employees and their innate abilities and learned knowledge. It depends on society to make the first investment in that human capital, through education and training.

Giving right to pay dividends

Energy was once nationalised, and so SSE depends on society for the right to pay dividends to shareholders. To attract and support investment in energy infrastructure, SSE has paid increasing dividends each year since it was formed in 1998.

Paying a fair share of tax

As part of society, SSE believes it should contribute to the cost of the services on which it depends. SSE has been an accredited Fair Tax Mark company since 2014 and paid tax to government totalling £453.9m in 2015/16.

Supporting and creating sustainable jobs

As part of society, SSE believes in supporting and creating high quality, long-term jobs for local people. In 2015/16, SSE employed 21,118 people directly and supported another 97,430 jobs across the UK and Ireland.

Investing in infrastructure

SSE helps maintain and grow the energy infrastructure society needs. In 2015/16 SSE invested £1.6m in energy assets and services, part of the £8.9bn and €805m contribution SSE made to UK and Irish economies in the same year.

Responsible buyer

Using SSE's buying power for good

SSE seeks to use the power of its supply chain to bring about positive social and environment outcomes, and by doing so, aims to bring about long-term sustainable business benefits that also contribute to the wider economy.

Encouraging responsible business practice

SSE's responsible procurement charter aims to ensure all its suppliers act ethically, sustainably and within the law by stating SSE's expectations on health and safety, bribery and corruption, employment practices, conflicts of interest and environmental impacts. By implementing this charter across SSE's 8,300+ suppliers representing over £2.7bn of procurement expenditure, progress has been made in 2015/16:

1. **Managing contractor safety performance:** Major construction projects can pose particular health and safety risks and during 2015/16 a concerted focus on safety practices by SSE's Transmission business and its contractors led to an injury free year on the major transmission projects in the north of Scotland. SSE remains focused on its enduring goal of zero incidents and continues to work closely with its contractors to improve performance across all of its business units.

2. **Living wage:** SSE continued to implement the requirement for contracted employees who work regularly on SSE's sites to receive at least the Living Wage. Every new service and works contract awarded after 1 April 2014 has included this Living Wage requirement. According to modelling undertaken by KPMG on SSE's behalf, as of 1 April 2016, it is estimated that 50% of the relevant contracts had implemented this requirement and over 400 people will have received a pay rise in 2015/16. 90% compliance is expected by 31 March 2017.

3. **Modern slavery:** SSE has taken the first steps to ensure that modern slavery and human trafficking is not present within SSE's own business and its supply chain. For the first time, SSE has produced a Modern Slavery Statement (available on sse.com) which sets out its approach and the activities that will be implemented to ensure SSE complies with the Act. SSE has also set standards that it expects its suppliers to adhere to in its responsible procurement policy; introduced clauses in its standard contract forms for new contracts to ensure suppliers are able to demonstrate compliance with the Act; and as part of a community with other utilities introduced questions in the standard prequalification process to ensure suppliers are assessing and managing the risk. The Modern Slavery statement details the next steps SSE will be taking in 2016/17 to comply with the Act.

Improving the transparency of SSE's supply chain practices

By understanding the environment and social practices of its supply chain SSE aims to reduce its non financial risks; build better relationships with suppliers and create value across its business. This approach is an increasing component to SSE's sustainability and the delivery of its business strategy.

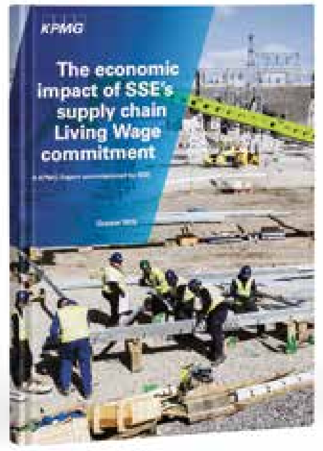
To support this objective SSE has developed a responsibility dashboard that tracks and benchmarks major suppliers' performance on several responsibility criteria including carbon emissions, compliance, employment policies and environmental impact. The aim of this is for SSE to use this information to report on sustainability practices in addition to other financial and business data and improve the transparency of non financial reporting in the supply chain in the future.

Understanding the economic impact of SSE's supply chain

Recognising the significant economic contribution SSE makes through its investments and operations, SSE has sought to quantify and publish the economic impact of specific investment projects, alongside social and environmental impacts. Working on the premise that the process of quantification encourages greater value of non financial impacts, in 2015/16, SSE has undertaken economic assessment of the following projects: Caithness-Moray Transmission project; Clyde Extension Wind Farm; and Wyndford District Heating.

Creating an environment for local supply chains to thrive

It is in SSE's interests for healthy local supply chains to be able to compete effectively within the context of a diverse and vibrant wider economy. SSE believes that a responsible business should encourage in local supply chains and businesses to ensure that communities and local areas are sustainable for the future. To support this SSE has targeted small to medium sized enterprises, amongst other efforts through its Open4Business portals in areas of significant major project activity with £22.8m of contracts or subcontracts awarded to local businesses, and £19m awarded by our Tier 1 suppliers in 2015/16.



KPMG modelling found that as a result of SSE's Living Wage commitments for contracts, over 400 people will have received a pay rise in 2015/16.

Responsible employer

Building a team for future business success

SSE's ability to fulfil its core purpose and execute its strategy depends upon the skills and talents of the people it employs. The strategic development of human capital is therefore critical to SSE's long-term success.

Performance summary

		2015/16	2014/15
Total number of employees[1]	Number	**21,118**	19,965
Retention rate[2]	%	**89**	87
Total recruitment[3]	Number	**2,763**	2,319
Employee gender (female)	%	**31**	30
Average age	Years	**40**	40
Employee engagement index[4]	%	**77**	73
Total number of training interventions[5]	Number	**63,052**	48,656
Investment in pipelines[6]	£	**12.7m**	11m
UK Productivity (GVA per capita)[7]	£	**129,670**	139,870
Productivity compared to UK average[8]	n:n	**2.4:1**	2.6:1

Notes

1 Headcount at 31 March 2016, including employees within Windtowers Ltd.
2 Excludes end of fixed term contracts and internal transfers.
3 External recruitment only.
4 Externally facilitated company-wide employee engagement survey.
5 Including targeting courses, workshops, seminars on e-learning packages.
6 Total cost of apprentice, engineering graduate and Technical Skills Trainee programmes.
7 Based on SSE's direct contribution to UK GDP and directly employed employees, analysis undertaken by PwC.
8 Based on output per capita data provided by the ONS.

Sustainable employment ethos

At the heart of SSE's human capital strategy is an ethos about the way in which the talents and abilities of people flourish. Understanding that the key driver of human capital comes from investing in talent, SSE's sustainable employment ethos seeks to give a firm foundation from which this valuable resource can be enhanced.

The core characteristics of a sustainable employment approach:

- In-house operational model preferring to directly employ the people it needs;
- The avoidance of out-sourcing roles where possible;
- The creation of sustainable employment opportunities, growing talent and developing skills from within; and
- Where workforce changes are necessary in challenging business environment, a preference against redundancy in favour of redeployment or re-training and a commitment to treating people with dignity and respect.

Knowing that all its employees deserve at least to earn a rate of pay that enables them to live a decent life, SSE continues to be an accredited Living Wage employer in the UK and in 2015/16 became one of the first Living Wage employers in the Republic of Ireland.

SSE believes this approach gives a signal to its employees that they are valued and that worthwhile, rewarding careers can be built with SSE. In return, SSE looks for its employees to be engaged, motivated and flexible; delivering for both customers and shareholders over the long term.

Responding to strategic challenges

The energy industry faces two significant employment challenges. The first is a skills shortage. Around half of the energy industry's workforce is due to leave or retire by 2023, so SSE must build new pipelines of talent. The second challenge is a stark lack of diversity in the sector: just 15% of the jobs are held by women and only 4% are from Black, Asian and Minority Ethnic communities.

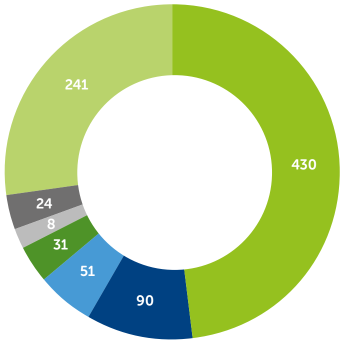
Creating a workforce for the future

In 2014/15 SSE undertook an exercise to quantify the economic value of the human capital it employs. That exercise was instructive and demonstrated that investing in growing talent from within is one of the most powerful ways to enhance this value.

Therefore SSE's first response to the looming skills shortage, in both the company itself and the energy industry as a whole, has been to create its own pipelines for growing new talent. SSE offers a range of structured development programmes designed for school leavers, apprentices, trainee engineers and graduates, which introduce hundreds of young people into SSE every year. SSE's investment in three of its main pipeline programmes – apprentices, Technical Skills Trainees and engineering graduates – grew by around 15% between 2014/15 and 2015/16, from £11m to £12.7m. SSE also spent just under an additional £1m delivering other pipeline programmes including business graduates, IT graduates, customer service apprenticeships and the Barnardo's Works programme. SSE is also investing in its links and relationships with schools to create awareness of the careers SSE can offer.

Building upon the human capital valuation carried out in 2014/15, SSE used the methodology again in 2015/16 to quantify the economic return on investment for its youth employability programme, Barnardo's Works. Since 2008, SSE has helped over 230 previously unemployed young people join Barnardo's Works and has invested around £1m to ensure its continued success after almost a decade. SSE's assessment outlines three ways this investment makes an impact: on the individual, on the company and on wider society. It was found that for every £1 invested by SSE between 2012 and 2015, the overall return was £7.67, demonstrating a compelling business case for ongoing investment. SSE has now used this methodology to measure the value of three pipeline programmes, and intends to continue using it to provide evidence for particular human capital investment priorities.

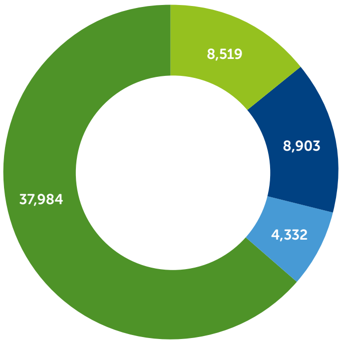
Pipelines – 875 individuals on a pipeline programme in 2015/16



- Apprentices
- Technical skills trainees
- Business graduates
- Engineering graduates
- IT graduates
- Barnardo's Works participants
- Customer service apprenticeships

Beyond the focus on pipelines of new talent, SSE continues to invest in its people through talent development, management training, technical training, customer service development and the delivery of specific issues-based knowledge and skills through electronic learning techniques. This development activity is predominately delivered internally, ensuring the programmes are bespoke and designed for SSE's particular circumstances.

Internal training – 59,738 training interventions delivered internally in 2015/16



- Technical (representing a significant increase in training for smart metering)
- Customer service
- Management
- e-learning

The training and development delivered directly by SSE is supplemented by the use of external courses and training providers. In 2015/16 the total number of training interventions (internal and external) grew by almost 30% from the previous year, from 48,656 to 63,052, and the total expenditure was £17.2m. Having invested significantly in the development of leadership skills, SSE will focus in the future on providing the right work experiences to further enhance the skills of its current and future leaders.

Further to this training activity, 1,200 managers and leaders in 2015/16 participated in leadership development training which is designed to grow the future leaders of the company from within. SSE's leadership blueprint defines the desirable characteristics of successful leaders in SSE and has been supported by extensive workshops and seminars to embed positive leadership traits throughout the organisation (see more on page 70).

In addition, SSE regards creating opportunities for people to develop their skills and experience by being given opportunities to undertake different roles across the SSE group as central to its overall commitment to creating a high-performing and engaged workforce for the future.

SSE's policies support the employment, training, promotion and career development of disabled persons, as well as supporting employees who become disabled during the course of their employment. SSE makes reasonable adjustments for disabled employees, including seeking redeployment in the event that reasonable adjustments are not possible.

Investing in diversity

It is now well recognised that diverse and inclusive organisations are more likely to be effective, innovative and commercially successful. It is therefore understood that SSE will be a more productive and sustainable company if it manages to attract and retain a workforce that is clearly diverse and inclusive in every sense.

To respond to the challenge of increasing the diversity of its workforce, SSE has begun by targeting a series of actions around gender diversity. Since 2014/15, the proportion of women within SSE's workforce has risen very slightly from 30% to 31%. While still proportionally too low, the number of women high earners (earning over £40,000 a year) in SSE has increased, from 11% in 2014/15 to 12% in 2015/16. Combined with the gender pay differential data now being reported, there is a greater imperative to take more action to target female representation across the SSE group. SSE recognises that tackling the barriers that have prevented diversity must be a long run commitment. Therefore SSE set a long-term strategy in 2015/16 focussing on the principles of "in, on and up".

In: SSE aims to attract more women into the energy industry. To do that, it is targeting more young women into its pipeline programmes, whilst rolling out training for hiring managers to challenge unconscious bias. SSE understands that barriers do not just start at the application stage, so is working more closely with education partners to inspire girls to pursue STEM (science, technology, engineering and maths) subjects. Women with STEM expertise are also being encouraged to return back into the workplace through 'returnships'. SSE is working with Equate Scotland, a gender equality organisation, and the Prospect trade union to help professional women back into work to help meet the existing skills shortage.

On: To improve retention rates of women in SSE, forums are being created to identify and implement policy changes. Flexible working continues to be a key contributor to the attraction, retention and progression of women in the workplace and so too does the offering of support at key life stages. Over the last year SSE has introduced parental mentoring whereby everybody who is planning to take maternity, paternity or adoption leave is offered a mentor to support them before, during and after the period of leave.

Up: SSE is determined to increase the number of women in the most senior positions within the company and an initial target has been set to more than double the proportion of women earning over £40,000 to 25% by 2025. Following the introduction of unconscious bias training for senior leaders in 2015/16, a new programme will be introduced in 2016/17 for the active

Responsible employer continued

sponsorship of career progression for women within SSE. A new resourcing approach for all senior appointments will demand gender diverse shortlists as well as gender balanced decision making panels.

Finally, SSE's sponsorship of the SSE Women's FA Cup and the sponsorship of the SSE Women's Golf Invitational, a golf and networking event, have been deliberately designed to complement SSE's overall business strategy to be more attractive to female employees.

Focusing on gender pay differentials

SSE welcomes the new requirement on companies to publish gender pay statistics in the UK and will meet this requirement in full according to the guidelines set by government, once they are finalised. In the meantime, SSE seeks to become an early adopter of such requirements and has calculated the gap between men and women's pay according to the draft guidance.

As of 30 April 2016 (the proposed annual cut date for calculating gender pay gaps), the overall gender pay differential within SSE was:

Difference in mean pay between male and female employees	23.4%
Difference in median pay between male and female employees	19.4%

This gap is not dissimilar to UK national averages. Early work by SSE that seeks to investigate this gap sheds a lot more light on the factors influencing the overall position. This process has been instructive and is providing SSE with a rich seam of evidence from which it can build its diversity strategy further. More detail is disclosed in the Sustainability Report 2016.

Reinforcing an ethical business culture

Human rights

In 2015/16, SSE established a new policy on Human Rights. Based on the UN Global Compact, the policy outlines the fundamental principles that guide SSE's employees, recognising that in both its direct employment and through its supply chain, human rights must be actively respected and protected. The policy also outlines SSE's commitment to meeting the provision of the UK's Modern Slavery Act.

Code of ethical business conduct

SSE's Code of business conduct provides the basis from which employees are guided in terms of the ethical business standards they are expected to meet. SSE became a subscriber to the Institute of Business Ethics in 2015/16 and, as a result of their advice and feedback, is undergoing a review of its existing Code with plans to launch an improved Code in 2016/17.

A culture of Speaking up

In 2015/16 SSE enhanced its whistleblowing procedures through the implementation of an externally hosted 'Speak Up' phone line and email service, so that employees can be confident that there will be no recriminations to the whistle-blower if wrongdoing is reported.

Engaging employees

The principal of mutual respect underpins one of SSE's core business values: teamwork. Alongside the other five values in the SSESET, teamwork has been an enduring value that guides employees in their day-to-day working lives.

Teamwork: we support and value our colleagues and enjoy working together in an open and honest way

SSE continues to undertake a regular survey of employee opinion, with the 2015/16 survey achieving an 89% response rate. The benchmark employee engagement index rose four points to 77%. The survey provides important evidence from which SSE's leadership is able to gauge the depth of overall engagement, but importantly, it highlights strengths and weaknesses on particular priority areas.

Rewarding employee contribution

The ability to grow and develop a career is the most important driver of employee retention, and with this in mind SSE has expanded the opportunity for employees to create their own personal development plans, supported by line managers with a growing set of online resources to enable self-led learning.

SSE has a comprehensive approach to performance management designed to enable individuals to fulfil their potential at the same time as contributing to SSE's business goals. Alongside assessing performance against agreed objectives, the process assesses the extent to which each individual, including the senior management team, demonstrate their support for SSE's core values of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork.

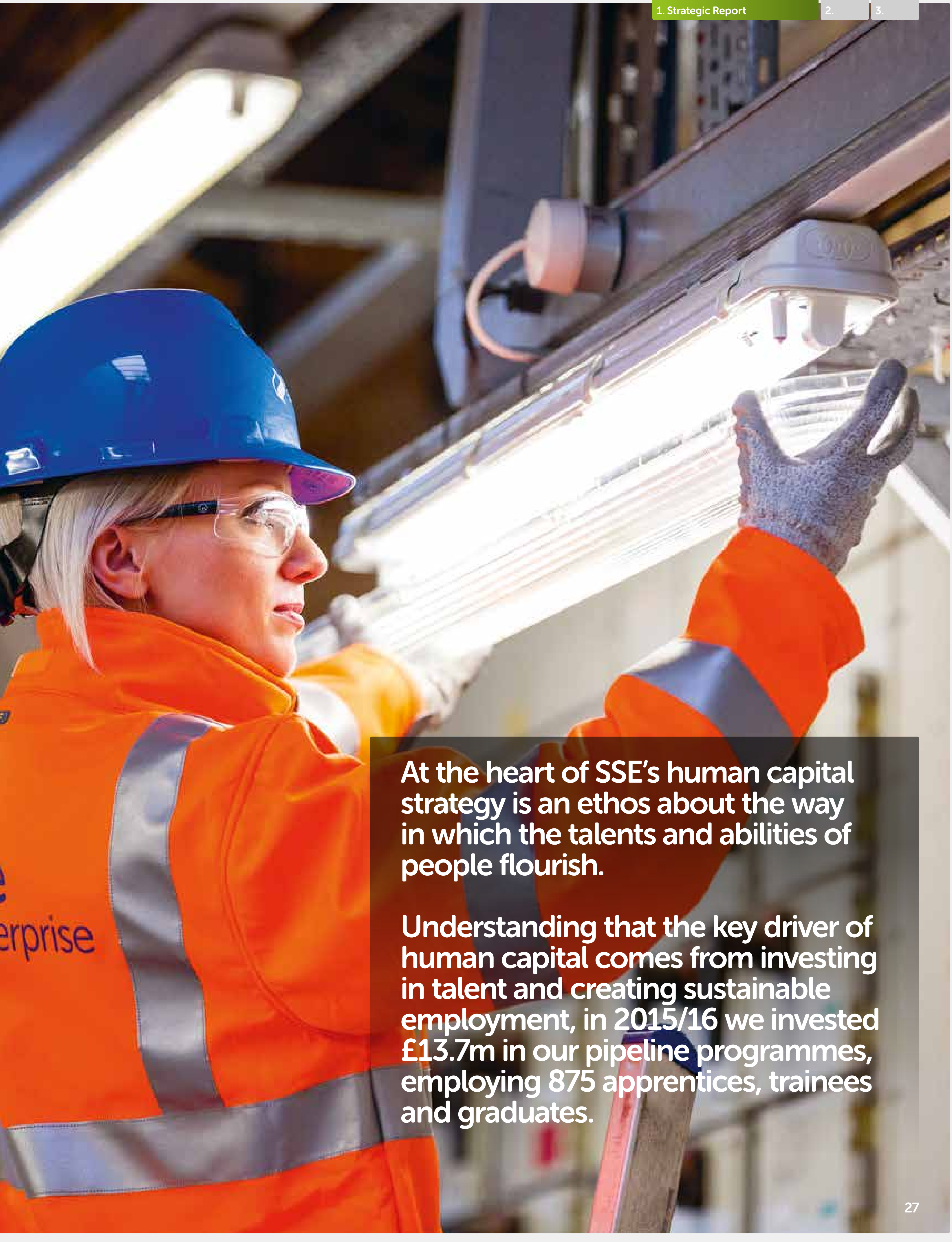
A growing focus on employee wellbeing resulted in a number of interventions designed to help employees make positive healthy choices and build mental health awareness. Training has been provided to managers and supervisors in health and wellbeing resilience and a focus on health in operational areas ensures the ongoing management of Hand Arm Vibration risks.

It is also understood that employee benefit packages make an important contribution to employee commitment and motivation. SSE recognises that different employees have different needs and therefore offers a variety of further employee benefits:

- **SSE pension schemes:** SSE has taken measures to help employees plan and save for their financial future and has proactively enrolled new employees onto its pension schemes since 2005. 97.5% of SSE's employees in 2015/16 chose to save for their future through one of SSE's pension schemes.
- **Sharing success:** SSE actively encourages it employees to own shares in the company, offering both an employee Share Incentive Plan (SIP) and a Sharesave scheme, with participation rates in 2015/16 at 64% and 41% respectively. In 2015/16 SSE reduced the free share element of the SIP in favour of a Free Share allocation to establish a more equitable offer that introduces all employees to the long-term benefits of share ownership, 79% of employees have taken up this offer so far.
- **Employee benefits:** A wider package of lifestyle benefits focus on employee well-being, including medical cover, gym membership, the opportunity to buy additional holiday leave and a free employee assistance programme is available for confidential personal advice and support.

Working with trade unions

SSE's human rights policy specifically respects the right of its employees to join a trade union. SSE recognises four trade unions and has local Joint Business Committees in place to ensure that employees are engaged and consulted within their own business areas. This structure is supported by a company Joint Negotiating and Consultative Committee (JNCC) to ensure that company wide employee issues are effectively managed. 75% of SSE's employees are covered by the negotiating arrangements under the JNCC. SSE respects the significance of employee representatives in enabling employees to engage with business strategy and their critical role in delivering its success.



At the heart of SSE's human capital strategy is an ethos about the way in which the talents and abilities of people flourish.

Understanding that the key driver of human capital comes from investing in talent and creating sustainable employment, in 2015/16 we invested £13.7m in our pipeline programmes, employing 875 apprentices, trainees and graduates.

Managing our environmental impact

SSE understands that its principal environmental impact arises from carbon emissions as a result of the production, distribution and use of energy. It recognises that providing energy in a sustainable way means it has an important part to play in helping to address the potential impact of climate change on the UK and Ireland, the markets in which it operates.

Responding to the challenge of climate change

To support the transition to a low carbon electricity system SSE has: invested over £291m in 2015/16 in renewable energy and has the largest renewable energy capacity in the UK and Ireland at 3,275MW; invested £832m in new electricity network infrastructure that has allowed the connection of new renewable generation capacity in 2015/16; and brought about a shift in SSE's electricity generation mix (increasing 12% between 2014/15 and 2015/16 for renewables whilst coal reduced by nearly 33% in the same period).

SSE continues to be committed to its core carbon target of reducing the carbon intensity of its electricity generation output by 50% by 2020, using 2006 performance as its baseline.

SSE's performance in managing climate change impacts, led CDP to award SSE an 100% disclosure rating in 2015 and include it in the global Climate Disclosure Leadership Index. SSE was also awarded a 'B' performance rating for its significant reduction in carbon emissions in 2014/15.

CO_2 emissions – tonnes (000's)

	1 April 2015 to 31 March 2016			1 April 2014 to 31 March 2015		
	CO_2	CO_2e	Total CO_2 (A)	CO_2	CO_2e	Total CO_2
Generation	**10,889**	**77**	**10,966**	12,903	97	13,000
Other Scope 1	**45**	**9**	**55**	70	9	79
Scope 1 Total	**10,935**	**86**	**11,021**	12,973	106	13,079
Distribution Network Losses	**1,079**	**–**	**1,079**	1,178	–	1,178
Other Scope 2	**60**	**–**	**60**	66	–	66
Scope 2 Total	**1,138**	**–**	**1,138**	1,244	–	1,244
Scope 3 WTT Fuel Purchased	**888**	**–**	**888**	2,407	–	2,407
Scope 3 Total	**906**	**–**	**906**	2,426	–	2,426
Total Emissions	**12,980**	**86**	**13,066**	16,643	106	16,749
Scope 2 emissions (net)	**(47)**	**–**	**(47)**	(1,163)	–	(1,163)
Net Emissions	**12,932**	**86**	**13,018**	15,480	106	15,586
Intensity Ratios						
Emissions Relative to MW output ($kg\ CO_2e$ per MWh)		**397**			474	

Notes

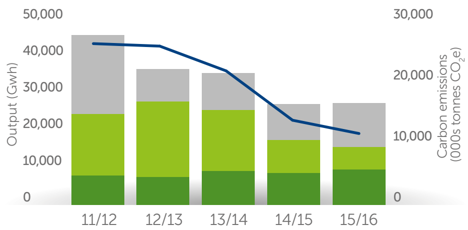
1 The figure for generation emissions adjusts the figure from SSE-owned generation (in GB and Ireland) to include energy bought in under power purchase agreements. The figure corresponds to the contracted position set out in the Annual Report.
2 Scope 1 comprises generation, operational vehicles, sulphur 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).
(A) The figures have been assured to the ISAE3000 and ISAE3410 standards by PwC. PwC's assurance statement and the criteria to which the carbon emissions are reported are detailed at www.sse.com/beingresponsible/reportinganddata.

SSE's carbon performance

In 2015/16 SSE achieved a 22% reduction in its total carbon emissions (scope 1, 2 and 3) from 2014/15. The main contributor was the significant reduction in total scope 1 carbon emissions which fell by around 16% between 2014/15 and 2015/16. The reduction in gross scope 1 emissions was largely a result of significantly lower output from SSE's coal-fired generation plant from 9,143 GWh to 6,141 GWh between 2014/15 and 2015/16 a total reduction of 33%.

Also, for the second year running SSE's renewable generation capacity 3,275MW exceeded its coal-fired generation capacity 1,995MW. SSE's renewable generation assets (including hydro pumped storage) generated 9,695 GWh of electricity in 2015/16, nearly 35% of SSE's entire generation output. This resulted in SSE's carbon intensity falling by 16% between 2014/15 and 2015/16 to 397 gCO_2e/kWh – and SSE is on track to achieve its 50% reduction in carbon intensity target by 2020 based on 2006 levels.

Generation output (GWh) and carbon scope 1 emissions (000's tonnes CO_2e)



- Gas output
- Coal output
- Renewables output
- Scope 1: Carbon emissions

Supporting progressive decarbonisation of energy

SSE supports the long-term objectives of the Paris Agreement set out by the UN Framework on Climate Change (UNFCC), to keep global average temperature changes to well below 2 degrees and potentially below 1.5 degrees of pre-industrial levels by 2100. To contribute to these agreements, SSE is committed to:

- achieving its carbon intensity target by 2020 (50% reduction compared with 2006 emissions);
- investing in low carbon energy networks that help the UK power sector to reduce carbon intensity to 100 g/kWh by 2030, as set out by the UK government's independent climate change body, The Climate Change Committee;
- recognising the external cost of carbon dioxide emissions to society and the environment by internalising the cost of carbon where practical in investment appraisals; and
- advocating market and regulatory frameworks in the UK and Ireland that are consistent with the Paris Agreement, thereby creating the conditions where continued investment in low carbon and renewable energy is economically viable for SSE.

To continue to enable this transition, SSE advocates in favour of tangible actions such as tightening the EU ETS along with setting a firm trajectory for the UK's Carbon Price Floor beyond 2020 will help to support carbon abatement in line with a 2 degree (stretching to 1.5 degree) temperature increase.

Climate adaptation

While SSE plays its part to mitigate climate change, it must also adapt its business to the impacts of rising global temperatures. SSE has identified that the material risk of climate adaptation are on SSE's transmission and distribution business where extreme weather events pose risk to the resilience of the network. As a result SSE has invested in maintenance and emergency response solutions. This includes new technology that identifies faults on lines; tree cutting along networks; resilience funds for local communities to support climate adaptation initiatives; and emergency response procedures to ensure the lights are kept on.

Using resources responsibly

Managing water use

In 2015/16, SSE judged that the significance of responsible water use has reached a point where enhanced transparency of water use is disclosed, SSE has responded to this by seeking external assurance of its water data and reporting to the CDP Water programme in 2016.

SSE uses water for four main purposes:

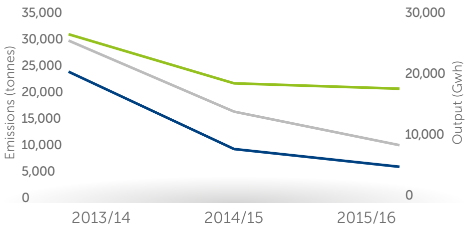
- to cool its generation plants;
- as process water for a variety of operations;
- as a source of energy in hydro generation schemes; and
- for amenities in offices and buildings.

Water abstraction, consumption and return (millions m^3)

	2013/14	2014/15	**2015/16**
Total water abstracted	27,914	27,109	**28,856**
Total water consumed	16	19	**8**
Total water abstracted & returned	27,898	27,089	**28,848**

In total, SSE's operations abstracted 28.9 billion m^3 of water for 2015/16 (27.1 billion m^3 for 2014/15). The vast majority was abstracted by SSE's hydro generation operations and is therefore returned almost immediately to the environment – only 8 million m^3, of this water was consumed in 2015/16 (19.4 million m^3 for 2014/15)[(A)].

Air emissions from SSE's thermal generation plant



- Nitrogen oxide
- Sulphur dioxide
- Total thermal output

Managing air emissions

SSE is reducing air emissions as a result of the change in its energy generation mix (reducing coal), the increased use of renewable energy and the use of operating practices and technologies that reduce or remove air pollutants. In 2015/16 SSE's thermal generation sites emitted 6,704 tonnes of sulphur dioxide and 10,685 tonnes of oxides of nitrogen. This compares to 9,977 and 16,871 tonnes in 2014/15. Emissions will be lowered further through continued investment in improvements in combustion processes and renewable energy.

Environmental management

SSE is subject to a number of environmental regulations. To help focus on the management of environmental risk, SSE has an internal classification of environment related incidents, that takes account of their scale, impact and are aligned with criteria established by Regulators in the UK and Ireland.

In 2015/16 there were no environmental prosecutions issued against SSE.

Stakeholders' questions to the Chief Executive
Alistair Phillips-Davies

Working constructively and collaboratively with our stakeholders

SSE believes that its ability to manage risks, create value and fulfil its core purpose depends on working constructively with the wide range of organisations with an interest in energy provision in the UK and Ireland. It seeks to engage constructively to understand their points of view, factor them into decision-making where it can and maintain a positive dialogue, even where views differ.

Institute of Business Ethics

The Institute of Business Ethics was established in 1986 to encourage high standards of business behaviour based on ethical values.

Philippa Foster Back CBE, Director

Q: How is SSE ensuring that its values are lived every day by all employees?
Alistair: The SSE SET of values has guided actions and decisions in SSE since 2006. For values to remain relevant they must be constantly reinforced so a new Guide to ethical business conduct will be launched in 2016. It outlines the principles of ethical business conduct that everyone in SSE is expected to meet and explains what to do if they spot something wrong. It is vital that employees of SSE know, understand and follow the rules that apply to the business, but it is the combination of values and rules that means we have the best chance of doing the right thing throughout SSE.

Pensions and Lifetime Savings Association

PLSA is the national association helping pension professionals run better pension schemes.

Luke Hildyard, Policy Lead: Stewardship and Corporate Governance

Q: SSE seems to be trying to differentiate by positioning itself as a responsible and ethical business, through initiatives such as the fair tax mark and detailed reporting of your human capital. What evidence has so far emerged of the financial benefits of this approach?
Alistair: There is an expectation that Companies go beyond compliance with the rules. We believe that acting responsibly is expected for a utility and we think it makes business sense. In the case of human capital we wanted to assess our people's true value as they are our biggest asset. We'll see more expectations on listed Companies on issues such as people, pay, tax and political advocacy and our response is to embed responsible practices into our business. We do this by signing up to industry standards, for example our voluntary membership of the UK Lobbying Register, and, where we can, lead the industry, such as being the only FTSE-listed company awarded the Fair Tax Mark.

Glasgow City Council

Glasgow City Council provides services to 600,000 customers in Scotland's largest city.

Kevin Rush, Head of Economic Development

Q: Glasgow wants to see lower carbon energy systems here in the city that can deliver affordable warmth for our residents and ensure security of supply for our businesses. What can SSE do to help deliver these objectives?

Alistair: The move to a more distributed energy system is happening and SSE is part of it. We're working closely with Glasgow – and other councils – to help them meet their energy objectives. A great example is our Enterprise businesses' award winning retrofit district heating scheme for 1,800 homes at the Wyndford Housing Estate. It's a project that provides secure lower carbon energy, tackles fuel poverty and improves residents' comfort.

National Skills Academy for Power

The National Skills Academy for Power sits at the heart of the Power Sector, driving excellence in skills and bringing together employers, skills organisations and stakeholders.

Nick Ellins, Chief Executive, National Skills Academy for Power

Q: How will SSE approach workforce renewal across its UK operations, and what do you see as the main skills challenge?

Alistair: The retiral of a large proportion of both SSE and the wider energy industry's workforce is, by far, the greatest skills challenge facing SSE. A collective response across industries is required but our first response to this challenge is through SSE's own training pipelines, focussed on apprentices, engineer training and graduates. In 2015/16 875 individuals were participating in one of these programmes within SSE. At the same time as developing these pipelines of fresh talent, SSE is working to attract greater diversity of successful applicants.

Committee on Fuel Poverty

The Committee on Fuel Poverty advises the UK Government on the effectiveness of policies aimed at reducing fuel poverty in England, and encourages greater co-ordination across the organisations working to reduce fuel poverty.

Tom Wright, Chairman

Q: What are SSE's initiatives for tackling fuel poverty and who does SSE work with in implementing these?

Alistair: Tackling fuel poverty is a critical challenge. SSE does its bit through both our Distribution and Supply businesses which have a range of initiatives. These include improving the insulation of over 35,000 UK homes last year, maintaining a Priority Service Register to provide bespoke support to vulnerable customers during power cuts and pioneering initiatives targeting those in need, such as providing emergency credit 'top-ups' to SSE Paygo customers at a Perthshire foodbank. There's always more to do and we work with a range of local and national partners to support our customers.

Ibec

Ibec represents the interests of business in Ireland.

Danny McCoy, CEO, Ibec

Q: Global leaders in the Irish services sector have cited Ireland's green energy as an important element in the economic recovery and informing investment decisions. What recommendations would you have for policy makers to maintain these levels of investment?

Alistair: Since 2008 Ireland is a major part of SSE's growth strategy. We've invested €2 billion into the Irish economy which has helped to underpin Ireland's green credentials and induced further investment across the economy. I try and stay out of politics but as an investor I believe that policymakers must do everything they can to provide stability. Ultimately this helps the confidence of investors and enables cost-efficient delivery of low carbon and secure energy.

Institution of Civil Engineers

The ICE supports civil engineers and technicians by awarding professional qualifications, ensuring they work to high standards, and helping them to develop their careers.

Mac West, Chair of the Institution of Civil Engineers Scotland

Q: 2016 is being predicted as a breakthrough year for electricity storage. What barriers remain to further deployment and what can be done to remove them?

Alistair: Storage offers a range of benefits to the UK electricity system. The challenge is that the market framework doesn't currently support investment and the regulator is considering what changes may be required to bring forward new storage deployment. Each technology is different and to get maximum benefits different types of storage, at different scales, will be required. I'm optimistic about the role of storage in a more flexible system and the benefits for the market and customers.

Carbon Disclosure Project

CDP is an independent not-for-profit organization holding the largest database of primary corporate climate change information in the world. CDP works to transform the way the world does business to prevent dangerous climate change and protect our natural resources.

Daniel Turner, Head of Disclosure

Q: How is SSE responding to the far reaching commitments made at the historic COP 21 in Paris and what is the potential for the UK energy industry to switch to majority renewables and make a significant impact in contributing to the global needs for a low carbon future?

Alistair: SSE supports the agreements reached in Paris. The outcomes are bold and industry and governments now need to collaborate to fulfill them. SSE continues to reduce its carbon emissions. We invested well over £1bn this year alone in low carbon energy and infrastructure and for 2015/16 our total carbon emissions fell from 474 kg CO_2/MWh to 397 kg CO_2e/MWh compared to 2014/15. We're committed to further investment and our target to reduce by 50% the carbon intensity of electricity generation output by 2020, based on 2006 data.

Financial overview

Delivering for investors and customers alike

SSE is committed to delivering value for customers and creating and sustaining long-term value for shareholders. Its first financial objective is to deliver annual dividend increases that at least keep pace with inflation, while ensuring that the dividend is covered by adjusted EPS at a level that is sustainable over time. An increase in the dividend per share to 89.4p demonstrates that in a challenging year SSE has delivered to shareholders what it said it would.

Key questions to Gregor Alexander, SSE Finance Director

How would you describe the performance of SSE in 2015/16?
In challenging market conditions we have delivered what we said we would and increased the full year dividend by 1.1%. We have also successfully taken forward our planned disposal of over £1bn of non-core assets to support future growth. Our performance has reaffirmed that SSE is right to maintain its consistent and long-term strategic framework against a volatile operating environment.

Given the challenging operating environment, how sure are you that SSE's divided commitment can be met in the future?
Annual increases in the dividend, so that it at least keeps pace with RPI inflation, is SSE's financial objective and its strategic framework is built towards achieving that aim. Despite the general uncertainties in a sector like energy SSE is aiming for a return to growth and adjusted earnings per share* of at least 120 pence in 2016/17 and to deliver a full-year dividend that at least keeps pace with RPI inflation in 2016/17.

What factors will affect SSE's financial performance in the next three years?
Whilst the mist has cleared in some areas, there remains regulatory uncertainties affecting all three business segments. This, alongside commodity prices and macro-economic risks means there are plenty of challenges. Nevertheless, as a result of our investment over the last five years, the majority of our asset base and profit now relates to economically-regulated Networks and government-mandated renewable sources of energy. Over the three years to 2018/19 we expect dividend cover could range from around 1.2 times to around 1.4 times, based on dividend increase that at least keep pace with RPI inflation.

Group Financial Overview

Key Financial Metrics

	March 16 £m	March 15 £m	March 14 £m
Adjusted Operating Profit*	**1,824.4**	**1,881.4**	**1,880.1**
Adjusted Net Finance Costs*	(310.9)	(316.7)	(329.0)
Adjusted Profit before Tax*	**1,513.5**	**1,564.7**	**1,551.1**
Adjusted Current Tax Charge*	(193.4)	(224.8)	(236.7)
Adjusted Profit after Tax*	1,320.1	1,339.9	1,314.4
Less: attributable to other equity holders	(124.6)	(121.3)	(122.9)
Adjusted Profit After Tax attributable to ordinary shareholders*	**1,195.5**	**1,218.6**	**1,191.5**
Adjusted EPS* – pence	**119.5**	**124.1**	**123.4**
Reported Profit after Tax**	460.6	543.1	323.1
Basic EPS – pence	**46.1**	**55.3**	**33.5**
Number of shares for basic and adjusted EPS (million)	1,000.0	981.8	965.5
Shares in issue at 31 March (m)	1,007.6	993.0	974.9

** After distributions to hybrid capital holders.

Dividend Per Share

	March 16	March 15	March 14
Interim Dividend pence	26.9	26.6	26.0
Final Dividend pence	62.5	61.8	60.7
Full Year Dividend pence	89.4	88.4	86.7
Increase %	1.1%	2.0%	3.0%
Dividend Cover times/SSE's adjusted EPS*	1.34x	1.40x	1.42x

Adjusted Operating Profit* by Segment

	March 16 £m	March 15 £m	March 14 £m
EPM and Electricity Generation*	436.3	433.3	496.1
Gas Production*	2.2	36.6	130.2
Gas Storage*	4.0	3.9	8.3
Wholesale	**442.5**	**473.8**	**634.6**
Transmission*	287.2	184.1	136.7
Distribution*	370.7	467.7	507.0
SGN * (SSE's share)	268.7	285.0	276.6
Networks	**926.6**	**936.8**	**920.3**
Energy Supply*	398.9	368.7	246.2
Energy related services*	15.4	17.7	24.1
Enterprise*	40.9	70.4	56.8
Retail	**455.2**	**456.8**	**327.1**
Corporate Unallocated*	0.1	14.0	(1.9)
Total Adjusted Operating Profit*	**1,824.4**	**1,881.4**	**1,880.1**

Tax

	March 16 £m	March 15 £m	March 14 £m
Adjusted current tax charge*	193.4	224.8	236.7
Add/(less)			
Share of JV/Associates tax	6.4	(35.6)	28.8
Deferred tax including share of JV and Associates	80.8	82.0	141.8
Tax on exceptional items/certain re-measurements	(272.5)	(200.4)	260.8
Reported tax charge/(credit)	8.1	70.8	146.5
Effective current tax rate based on adjusted profit before tax*	12.8%	14.4%	15.3%
Total UK taxes paid including taxes on profits, property taxes, environmental taxes, and employment taxes	453.9	506.2	431.6

Financial overview continued

Net finance costs

	March 16 £m	March 15 £m	March 14 £m
Adjusted net finance costs*	310.9	316.7	329.0
Add/(less):			
Movement on financing derivatives (IAS 39)	(14.3)	44.2	64.2
Share of JV/Associates interest	(126.8)	(124.2)	(137.5)
Interest on net pension liabilities (IAS 19R)	22.3	14.0	28.2
Reported net finance costs	192.1	250.7	283.9
Adjusted net finance costs*	310.9	316.7	329.0
Add/(less):			
Finance lease interest	(34.7)	(34.2)	(35.7)
Notional interest arising on discounted provisions	(15.7)	(14.0)	(9.5)
Hybrid coupon payment	124.6	121.3	122.9
Adjusted finance costs for interest cover calculation*	385.1	389.8	406.7

Profit before Tax

	March 16 £m	March 15 £m	March 14 £m
Adjusted Profit before Tax*	**1,513.5**	**1,564.7**	**1,551.1**
Movement on derivatives (IAS 39)	(14.5)	(105.3)	(212.0)
Exceptional items	(889.8)	(674.6)	(747.2)
Interest on net pension liabilities (IAS 19R)	(22.3)	(14.0)	(28.2)
Share of JV/Associates tax	6.4	(35.6)	28.8
Reported Profit before Tax	593.3	735.2	592.5

Investment and Capex summary

	March 16 Share %	March 16 £m	March 15 £m
Thermal Generation	5.6	90.8	160.6
Renewable Generation	18.0	291.8	239.0
Gas Storage	0.9	14.0	14.3
Gas Production	3.5	56.1	21.0
Total Wholesale	**28.0**	**452.7**	**434.9**
Electricity Transmission	35.4	573.4	467.2
Electricity Distribution	16.0	258.3	327.6
Total Networks	**51.4**	**831.7**	**794.8**
Energy Supply and related services	10.4	169.0	109.6
Enterprise	3.0	48.5	25.1
Total Retail	**13.4**	**217.5**	**134.7**
Other	7.2	116.8	110.9
Total investment and capital expenditure	**100.0**	**1,618.7**	**1,475.3**

Disposal programme[1]

	March 16 £m	March 15 £m	Total £m
Headline proceeds of disposal	**542.2**	**467.5**	**1,009.7**
Less: Debt reduction	(23.5)	(228.8)	(252.3)
Less: Other costs and deferrals	(5.6)	(4.9)	(10.5)
Cash proceeds of disposal	513.1	233.8	746.9

1 In period since announcement on 26 March 2014.

Debt metrics

	March 16 £m	March 15 £m	March 14 £m
Adjusted net debt and hybrid capital* (£m)	**(8,395.0)**	**(7,568.1)**	**(7,642.8)**
Average debt maturity (years)	8.9	9.9	10.7
Adjusted interest cover[1] *(excluding SGN) times	5.2	5.3	5.1
Adjusted interest cover[1] *(including SGN) times	4.7	4.8	4.6
Average interest rate (excluding JV/assoc. interest and hybrid coupon)	3.73%	4.21%	4.71%
Average interest rate[1]	3.95%	4.55%	4.92%

1 Including hybrid coupon.

Adjusted Net Debt and hybrid capital*

	March 16 £m	March 15 £m	March 14 £m
Adjusted Net Debt and hybrid capital*	**(8,395.0)**	**(7,568.1)**	**(7,642.8)**
Less: hybrid capital	2,209.7	3,371.1	2,186.8
Adjusted Net Debt*	**(6,185.3)**	**(4,197.0)**	**(5,456.0)**
Less: Outstanding Liquid Funds	(121.8)	(71.7)	(51.2)
Add: Finance Leases	(300.8)	(319.7)	(328.9)
Less: Non-recourse Clyde debt	**(200.7)**	–	–
Unadjusted Net Debt	**(6,808.6)**	**(4,588.4)**	**(5,836.1)**

SSE Principal Sources of debt funding

	March 16	March 15	March 14
Bonds	45%	38%	43%
Hybrid capital securities	25%	37%	27%
European investment bank loans	8%	8%	7%
US private placement	5%	5%	5%
Index – linked debt, long-term project finance and other loans	17%	12%	18%

Rating Agency

	Rating	Current criteria	Date of issue
Moody's	A3 Negative outlook	13% RCF/Net Debt	Feb 2016
Standard and Poor's	A- Negative outlook	20-23% FFO/Net Debt	Feb 2016

Contributing to employees' pension schemes – IAS 19 R

	March 16 £m	March 15 £m	March 14 £m
Net pension scheme liabilities recognised in the balance sheet before deferred tax IAS 19R	394.8	664.6	637.7
Employer cash contributions Scottish Hydro Electric scheme	33.7	57.6	50.4
Deficit repair contribution included above	14.8	29.5	29.5
Employer cash contributions Southern Electric scheme	68.3	92.0	82.3
Deficit repair contribution included above	44.6	58.5	56.7

SGN contribution to SSE

	March 16 £m	March 15 £m	March 14 £m
SGN Net Debt (excluding shareholder loans)	3,632	3,553	3,523
SGN net finance costs included as part of SSE net Finance costs	83.3	91.0	94.4
SGN contribution to SSE's adjusted profit before tax*	184.3	194.0	182.2

Financial overview continued

Group financial review

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

Earnings and dividends

Working to deliver dividend increases that at least keep pace with inflation

SSE has met its financial objective for an annual increase in the full-year dividend that is at least equal to RPI inflation. The Board is recommending a final dividend of 62.5p per share, to which a Scrip alternative is offered, compared with 61.8p in the previous year, an increase of 1.1 %. This will make a full-year dividend of 89.4p per share which is: an increase of 1.1 % compared with 2014/15, which is in line with RPI inflation; and covered 1.34 times by SSE's adjusted earnings per share*.

SSE believes that its strategic framework and opportunities for growth mean it can continue to deliver a full-year dividend increase that at least keeps pace with RPI inflation in 2016/17 and in the subsequent years (measured against the average annual rate of RPI inflation across each of the 12 months to March).

Focusing on adjusted earnings per share*

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

Adjusted earnings per share* has the straightforward benefit of presenting the amount of profit after tax that has been earned for each Ordinary Share. SSE's adjusted EPS measure has been calculated consistently and provides an important and meaningful measure of underlying financial performance. In adjusting for exceptional items and certain re-measurements, adjusted EPS reflects SSE's internal performance management, avoids the volatility associated with mark-to-market IAS 39 re-measurements and means that items deemed to be exceptional due to their nature and scale do not distort the presentation of SSE's underlying results.

In the year to 31 March 2016, SSE's adjusted earnings per share* was down 3.7% on the previous year to 119.5 pence but ahead of the target of at least 115 pence. This resulted in dividend cover of 1.34 times which is within the expected range of 1.2 times to 1.4 times.

SSE continues to recognise that adjusted earnings per share* is subject to significant uncertainties in 2016/17 and the years immediately following. The nature of energy provision means that financial results in any single year are always subject to well-documented uncertainties, meaning SSE generally seeks to provide a financial outlook later in the financial year. Nevertheless, SSE is aiming for a return to growth and adjusted earnings per share* of at least 120p in 2016/17.

Delivering adjusted profit before tax* in 2015/16 and 2016/17

As expected, adjusted profit before tax* fell 3.3%, from £1,564.7m to £1,513.5m in 2015/16. SSE's Wholesale, Networks and Retail (including Enterprise) segments were all profitable. Nevertheless, SSE's objective is not to maximise profit in any one year but to earn a sustainable level of profit over the medium term.

Over 2016/17 SSE's actual level of adjusted profit before tax* will be determined largely by a range of factors that apply in its market-based businesses including:

- the impact of wholesale prices for energy;
- electricity market conditions, the ability of its thermal power stations to be available and to generate electricity efficiently;
- the output of renewable energy from its hydro-electric stations and wind farms and the price achieved for the output;
- the output from its gas production assets and the price achieved for the output; and
- the actual and underlying level of customers' energy consumption.

Impact of movements on derivatives (IAS 39)

The Group enters into forward purchase contracts (for power, gas and other commodities) to meet the future demands of its Energy Supply business and to optimise the value of its Generation and other Wholesale assets. Some of these contracts are determined to be derivative financial instruments under IAS 39 and as such are required to be recorded at their fair value. The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments. The Group will recognise the underlying value of these contracts as the relevant commodity is delivered, which will predominantly be within the subsequent 12 to 18 months. Conversely, commodity contracts that are not determined to be derivative financial instruments under IAS 39 are accounted for as 'own use' contracts, the cost of which is recognised on delivery of the underlying commodity.

The adverse movement on derivatives under IAS 39 of £31.1m has arisen partly from a deterioration in the fair value of forward commodity purchase contracts. The fair value of such contracts is derived by comparing the contractual delivery price against the prevailing market forward price at the balance sheet date. The position at 31 March 2016, primarily electricity and gas, was a liability of £364.3m compared to a liability on similar contracts at 31 March 2015 of £333.2m.

Partly offsetting this is a net favourable movement on the fair valuation of interest and currency derivatives of £14.3m. This movement is primarily due to the weakening of Sterling against all major currencies during the year (impact of £20.0m) partly offset by interest rate swaps moving further out of the money by £5.7m due to fall in interest rates during the year. SSE also reports these fair value re-measurements separately as these do not represent underlying business performance during the financial year. The effect of the contracts will be recorded in adjusted profit measures when the transactions are settled.

Exceptional items

In the year to 31 March 2016, SSE recognised net exceptional charges of £889.8m before tax. The following table provides a summary of those net charges:

The Coal Generation charges reflect the May 2015 announcement that Ferrybridge would cease commercial operations at March 2016 and also reflects increased economic and regulatory uncertainty at Fiddler's Ferry. The impairments of the Group's gas-fired power generation assets at Peterhead, Marchwood and Medway reflect ongoing low 'spark' spreads and uncertainty over the enduring ability of the plants to benefit from the UK Government's Capacity Market auctions. The charges recognised for Gas Production assets relate almost entirely to the decline in wholesale gas prices and includes an element (£121.2m) related to the Greater Laggan assets, while the prospects for Gas Storage remain extremely challenging. Finally, the Group recognised gains on disposal of wind development assets of £57.6m and also recorded a £138.6m gain on the part-disposal of its Clyde wind farm directly in equity. The Retail and Corporate charges are predominantly related to the cost of restructuring the business as well as costs associated with systems and non-core activities.

Investment and Capital Expenditure

Investing efficiently in energy assets that the UK and Ireland need in 2015/16

Central to SSE's strategic framework is efficient and disciplined investment in a balanced range of economically-regulated and market-based energy businesses. This means that investment should be in line with SSE's commitment to strong financial management and consistent with the maintenance of a balanced range of assets within SSE's businesses.

In March 2014, SSE said that it expected its investment and capital expenditure would total around £5.5bn (net of disposal proceeds received and balance sheet debt reduction), or £6.5bn gross, over the four years to 2017/18. In 2015/16, SSE's investment totalled £1.62bn before proceeds and disposals across its businesses. The Wholesale businesses

Total net charges by asset class

	Property, Plant & Equipment impairments £m	Other impairments, charges and (income) £m	Total £m
Coal Generation	67.6	219.4	287.0
Gas Generation	302.5	23.9	326.4
Gas Production	125.0	36.8	161.8
Gas Storage	150.9	–	150.9
Other	–	21.3	21.3
Disposals	–	(57.6)	(57.6)
Total	**646.0**	**243.8**	**889.8**

By segment

Wholesale	646.0	222.0	868.0
Retail	–	17.8	17.8
Corporate	–	4.0	4.0
Total	**646.0**	**243.8**	**889.8**

accounted for around 30% of the total; the Networks businesses for around 50% and Retail, including Enterprise, plus Corporate for the remaining 20%. Key strategic investments in 2015/16 included:

- progressing the Caithness-Moray electricity transmission line, the largest capital project undertaken by SSE, and investing to improve service quality for customers in Electricity Distribution – this further increased the total RAV of SSE's existing Networks business, which is well placed to reach around £10bn by 2020; and
- expanding SSE's renewables portfolio with 67 MW of new onshore wind commissioned and a further 548 MW in construction, including the Galway Wind Park, Ireland's largest wind farm. These developments in government-mandated renewables reinforce SSE's position as an industry leader and are expected to take SSE's total renewable energy capacity to over 3.7GW by 2019. Including SSE 300MW Foyers pumped storage scheme, the total will be over 4GW.

In addition to the investment and capital expenditure outlined above, SSE has also purchased a 20% interest in the four gas fields and surrounding exploration acreage approximately 125km north west of the Shetland Islands, collectively known as the Greater Laggan Area, along with a 20% interest in the new Shetland Gas Plant, from Total E&P UK Limited. These long-term assets are a natural complement to SSE's existing gas production assets and provide further diversity to SSE's portfolio.

Allocating capital and investment expenditure in the period up to 2020

In March 2014 SSE set out its investment and capital expenditure programme for the four years to March 2018. It is now half way through that period and is still expecting gross investment and capital expenditure to total £6.5bn, with around £1.75bn expected in 2016/17 and around £1.65bn expected in 2017/18, although this is subject to change.

Beyond that SSE has a wide range of options to support earnings and dividend growth post-2018 and now expects total investment and capital expenditure to be in the range of £5.5-£6bn in the four years to March 2020. Around 50% of this is expected to be in economically-regulated Networks and around 20% in government-mandated renewables. At all times SSE will continue to allocate capital in a way consistent with its focus on strong financial management, operational efficiency and maintaining a balanced range of businesses.

Disposing of over £1bn of non-core assets to support future investment

As part of its long-standing strategic commitment to efficiency and disciplined investment, in 2014 SSE commenced what was called a value programme to dispose of assets which are not core to its future plans, which result in a disproportionate burden, or which could release capital for future investment.

Agreements with total disposal proceeds and debt reduction of over £1bn have so far been secured or concluded to dispose of assets such as an equity shares in the Clyde of onshore wind farm projects and other wind developments, SSE Pipelines Ltd and equity in PFI street lighting contracts. A gain on sale of £138.6m resulting from the sale of the 49.9% equity stake in Clyde windfarm (49.9% of 350MW) in the year is a clear example of the value created through this disposal programme. With a small amount still to complete, this programme has already achieved its objectives and will support future operations, investment and capital expenditure.

Financial management and balance sheet

Keeping SSE well-financed

SSE believes that maintaining a strong balance sheet, illustrated by its commitment to the current criteria for a single A credit rating – such as a funds from operations/debt ratio of 20%-23% (Standard & Poor's) and a retained cash flow/debt ratio of 13% (Moody's) – is a key financial principle. Standard & Poor's credit ratings service affirmed SSE's 'A-' long-term credit rating in February 2016 with a 'negative' outlook. This follows the decision by Moody's Investors Service, also in February 2016, to affirm its 'A3' issuer rating for SSE, also with a 'negative' outlook.

SSE has a long-standing commitment to maintaining financial discipline and diversity of funding sources and to moving quickly to select financial options that are consistent with this, including issuing new bonds and loans. In line with this, in September 2015, it successfully issued an eight-year €700m euro bond, with a coupon of 1.75% and an all-in funding cost, when converted back to sterling, of 3.19%. In addition, in March 2016, SSE completed a private placement with 19 UK and US investors of £500m with a weighted average maturity of 9.6 years and an all-in funding cost of 3.1%.

During the year SSE extended, on cheaper terms, £1.5bn of bank facilities that were due to mature in 2018 to 2020 with two, one year options that would take these facilities out to 2022. Under the Scottish Hydro Electric Transmission entity, it also secured a further £300m facility with the European Investment Bank that will be drawn during 2016/17 at which point it will convert to a 10 year term loan.

Financial overview continued

Maintaining a prudent treasury policy

SSE's treasury policy is designed to be prudent and flexible. In line with that, its operations and investments are generally financed by a combination of: cash from operations; bank borrowings and bond issuance.

As a matter of policy, a minimum of 50% of SSE's debt is subject to fixed rates of interest. Within this policy framework, SSE borrows as required on different interest bases, with financial instruments being used to achieve the desired out-turn interest rate profile. At 31 March 2016, 87.1% of SSE's borrowings were at fixed rates.

Borrowings are mainly made in Sterling and Euros to reflect the underlying currency denomination of assets and cashflows within SSE. All other foreign currency borrowings are swapped back into either Sterling or Euros.

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

SSE's policy is to hedge any material transactional foreign exchange risks through the use of forward currency purchases and/or financial instruments. Translational foreign exchange risk arises in respect of overseas investments, and hedging in respect of such exposures is determined as appropriate to the circumstances on a case-by-case basis.

Managing net debt and maintaining cash flow

SSE's adjusted net debt and hybrid capital was £8.40bn at 31 March 2016, compared with £7.57bn on the same date in 2015, £7.64bn in 2014 and £7.35bn in 2013. The £827m increase in the year results from the West of Shetland acquisition completed in October 2015 (£669m), a lower uptake of the Scrip Dividend, the impact of negative foreign exchange movements on debt balances at the year end and higher net capex in the year (after disposals). These disposals in 2015/16 included the sale of 49.9% of the equity in Clyde Windfarm (Scotland) Limited ('Clyde'). On 13 May 2016, SSE waived certain rights in relation to the construction of the 172.8MW extension to Clyde that saw the entity fully consolidated in the Group's balance sheet at March 2016. As a result, the arrangement is now deemed to be under joint control and consequently SSE has excluded £200.7m of non-recourse finance due by Clyde to the venture partners from its adjusted net debt and hybrid capital measure.

Fundamentally, the level of SSE's net debt reflects the quantum and phasing of capital expenditure and investment in projects to maintain, upgrade, build and acquire new assets in the UK and Ireland that energy customers depend on and which support annual increases in the dividend payable to shareholders.

Adjusted net debt excludes finance leases and includes outstanding liquid funds that relate to wholesale energy transactions. Hybrid capital is accounted for as equity within the Financial Statements but has been included within SSE's 'Adjusted net debt and hybrid capital' to aid comparability.

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

SSE's objective is to maintain a reasonable range of debt maturities. Its average debt maturity, excluding hybrid securities, at 31 March 2016 was 8.9 years, compared with 9.9 years at 31 March 2015.

SSE's debt structure remains strong, with around £5.9bn of medium/long-term borrowings in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans.

The balance of SSE's adjusted net debt is financed with short-term bank debt. SSE's adjusted net debt includes cash and cash equivalents totalling £360.2m. Around £700m of medium-term borrowings will mature in 2016/17.

Operating a Scrip Dividend Scheme

The Scrip Dividend Scheme, approved by SSE's shareholders most recently in 2015, gives shareholders the option to receive new fully paid Ordinary shares in the company in place of their cash dividend payments. It therefore reduces cash outflow and so supports the balance sheet.

The Scrip dividend take-up in August 2015 (relating to the final dividend for the year to 31 March 2015) and in February 2016 (relating to the interim dividend for the year to 31 March 2016) resulted in a reduction in cash dividend funding of £175.8m, with 11.8 million new ordinary shares, fully paid, being issued.

This means that the cumulative cash dividend saving or additional equity capital resulting from the introduction of SSE's Scrip Dividend Scheme now stands at £1,051m and has resulted in the issue of 77.7 million Ordinary shares. At the July 2015 AGM, shareholders voted by a 99.7% majority of votes cast, to agree an extension to the Scrip Dividend Scheme from 2015 to 2018.

Managing net finance costs

SSE believes adjusted net finance costs provide the most useful measure of performance and a reconciliation of adjusted to reported net finance costs is provided in the table headed Net Finance Costs. SSE's adjusted net finance costs in the year to 31 March 2016 were £310.9m, a reduction on £316.7m in the previous year reflecting the lower average interest rate in the period.

Coupon payments relating to hybrid capital are presented as distributions to other equity holders and are reflected within adjusted earnings per share* when paid.

Tax

SSE is one of the UK's biggest taxpayers, and in the survey published in November 2015 was ranked 13th out of the 100 Group of Companies in 2015 in terms of taxes paid. In the year to 31 March 2016, SSE paid £453.9m of taxes on profits, property taxes, environmental taxes, and employment taxes in the UK, compared with £506.2m in the previous year. Total taxes paid in 2015/16 were lower than the previous year, primarily due to:

- reduced gas production profits as a result of lower gas prices;
- capital allowances resulting from the Greater Laggan acquisition in 2015/16;
- tax relief available on costs associated with closing thermal generation plant; and
- lower Climate Change Levy liabilities through reduced coal consumption.

SSE also paid €15.2 million of taxes in the Republic of Ireland, being the only country outside of the UK in which SSE has any trading operations.

SSE considers being a responsible taxpayer a core element of being a responsible member of society. SSE seeks to pay the right amount of tax on its profits, in the right place, at the right time, and continues to be the only FTSE 100 company to have been awarded the Fair Tax Mark. While SSE has an obligation to its customers and shareholders to efficiently manage its total tax liability, it does not seek to use the tax system in a way it does not consider it was meant to operate, or use "tax havens" to reduce its tax liabilities. SSE understands it also has an obligation to the society in which it operates, and from which it benefits – for example, tax receipts are vital for the public services SSE relies upon. Therefore SSE's tax policy is to operate within both the letter and spirit of the law at all times.

For reasons already stated above, SSE's focus is on adjusted profit before tax*, and in line with that, the adjusted current tax charge on that profit is the tax measure that best reflects underlying performance. SSE's adjusted current tax rate, based on adjusted profit before tax*, is 12.8%, as compared with 14.4% in 2014/15 on the same basis.

As would be expected for a Company of SSE's size, the SSE group has a small number of tax enquiries ongoing with HMRC at any one time. In addition, under Corporate Tax Self Assessment, SSE adopts a filing position on matters in its tax returns that may be large or complex, with the position then being discussed with HMRC after the tax returns have been filed. SSE engages proactively with HMRC on such matters, but where SSE considers there to be a risk that HMRC may disagree with its view, and that additional tax may become payable as a result, a provision is made for the potential liability, which is then released once the matter has been agreed with HMRC. SSE considers this to be in line with the overall prudent approach to its tax responsibilities.

Reviewing the value of SSE's equity stake in SGN

SSE acquired a 50% equity stake in SGN Limited in 2005 for a total of £505m. In the time since then, SGN has become a leading gas distribution business demonstrating efficiency and innovation that has benefited, and continues to benefit, customers and has earned fair returns for investors. Its Regulated Asset Value reached just over £5bn at 31 March 2016.

Throughout this time, SSE has continued to invest in its wholly-owned electricity transmission and distribution businesses and their Regulated Asset Value reached a total £5.4bn at 31 March 2016, with the principal growth arising as a result of SSE's major investment in electricity transmission.

Against this background of a transformed portfolio of energy networks businesses, SSE has decided to consider options to crystallise some value for shareholders from its long-term investment in SGN and is considering the sale of up to one third of its 50% equity stake in SGN Limited. In considering whether to take forward the disposal of part of its equity in SGN, SSE will be very mindful of the need to ensure that SGN itself is in a good position build to on its track record of success in the future. Should a sale be completed, SSE would expect to use the proceeds to return value to its shareholders, or to invest to create value for shareholders should there be the right opportunity, in a way that would be determined at the time.

Conclusion

SSE's first financial objective is to deliver annual increases in the dividend that at least keep pace with RPI inflation. SSE believes that its strategic framework, opportunities for growth and effective financial management mean it can continue to deliver this in 2016/17 and beyond.

Its financial priorities for 2016/17 include:

- Delivery of an annual increase in the dividend that at least keep pace with RPI inflation;
- A return to growth and adjusted earnings per share* of at least 120p in 2016/17;
- Maintaining dividend cover in a range from around 1.2 times to around 1.4 times over the three years to 2018/19 based on dividend increases that at least keep pace with RPI inflation;
- Continued disciplined investment in a balanced range of energy related assets and delivering the projects within the established investment programme, especially in Networks and government-mandated renewables; and
- Maintaining a strong balance sheet, with a commitment to the current criteria for a single 'A' credit-rating.

Disclaimer

This financial report contains forward-looking statements about financial and operational matters. Because they relate to future events and are subject to future circumstances, these forward-looking statements are subject to risks, uncertainties and other factors. As a result, actual financial results, operational performance and other future developments could differ materially from those envisaged by the forward-looking statements.

SSE plc gives no express or implied warranty as to the impartiality, accuracy, completeness or correctness of the information, opinions or statements expressed herein. Neither SSE plc nor its affiliates assume liability of any kind for any damage or loss arising from any use of this document or its contents.

This document does not constitute an offer or invitation to underwrite, subscribe for, or otherwise acquire or dispose of any SSE shares or other securities and the information contained herein cannot be relied upon as a guide to future performance.

Definitions

These financial results for the year ending 31 March 2016 are reported under IFRS, as adopted by the EU.

In order to present the financial results and performance of the Group in a consistent and meaningful way, SSE applies a number of adjusted accounting measures throughout this financial report. These adjusted measures are used for internal management reporting purposes and are believed to present the underlying performance of the Group in the most useful manner for ordinary shareholders and other stakeholders.

As a result, this report focuses on adjusted earnings per share, adjusted profit before tax and adjusted operating profit.

Therefore, unless explicitly stated otherwise, any reference to Operating Profit, Profit before Tax and Earnings Per Share in the pages up to the Preliminary Financial Information refers to SSE's adjusted measures. This has also been indicated by the use of an*.

The definitions SSE uses can be explained as follows:

Adjusted Operating Profit* - describes operating profit before exceptional items and re-measurements arising from IAS 39 and after the removal of interest and taxation on profits from joint ventures and associates. Note that 'operating profit' is described as profit before interest and taxation.

Adjusted Profit before Tax* - describes profit before tax, before exceptional items and re-measurements arising from IAS 39, excluding interest costs on net pension scheme liabilities and after the removal of taxation on profits from joint ventures and associates.

Adjusted Earnings Per Share* - describes earnings per share based on adjusted profit after tax which excludes exceptional items and re-measurements arising from IAS 39, deferred tax and interest costs on net pension scheme liabilities.

See pages 117 and 118 for more information.

The Weather

Assessing the impact of the weather on SSE's businesses

The operational performance and financial results of SSE's principal businesses are each affected by the weather because of its impact on production of energy from renewable sources (Wholesale); its impact on electricity transmission and distribution lines (Networks); and its impact on the amount of gas and electricity used by customers (Retail).

It is the role of SSE's dedicated meteorologist to monitor and understand the weather patterns and conduct forecasts for temperature, rainfall and wind. This allows SSE to:

- Predict how forecast temperatures may affect customer's demand for energy as well as whether unexpected fluctuations in daily temperatures require a response from SSE's generation assets;
- Forecast the temperature to inform how SSE's energy portfolio managers buy power and gas in advance, thereby improving SSE's energy procurement;
- Establish short, medium and long-term wind forecasts which influences the electricity generation output from its renewable generation assets;
- Monitor and prepare for how extreme winds or excessive rainfall may affect SSE's transmission and distribution assets and its efforts to keep the lights on reliably and safely for customers; and
- Assess how rainfall patterns will impact SSE's hydro-electric generation output and storage capabilities in the north and the west of Scotland.

Therefore, the weather has a direct impact on SSE's performance against its core purpose of providing the energy people need in a reliable and sustainable way.

The UK was hit by summer flooding and 12 Atlantic storms. The saturated ground from the wet weather exacerbated the impact of the storms on SSE's networks which had to prepare for and manage the impact of the weather and focus on its number one priority: restoring power for customers. The weather caused significant damage to the Networks. Yet Customer Minutes Lost per year – a key performance indictor for the Networks business – reduced by 16mins for SEPD and 14mins for SHEPD, compared to the previous year.

Weather in 2015/16

+7%

Above the 1981-2010 average rainfall

Rainfall

Directly affects hydroelectric generation in the north and west of Scotland.

A total of 1846.3mm of rain fell in the North of Scotland during the year which is 107% of the 1981-2010 average*. There was record rainfall in January and flooding across Perthshire and other parts of the UK in July and August. As a result, SSE's hydro-electric assets saw their output increase by 10.4% on the previous year.

+0.4^{0}C

Above the 1981-2010 average temperature

Temperature

Above or below average temperatures can significantly impact total demand for energy.

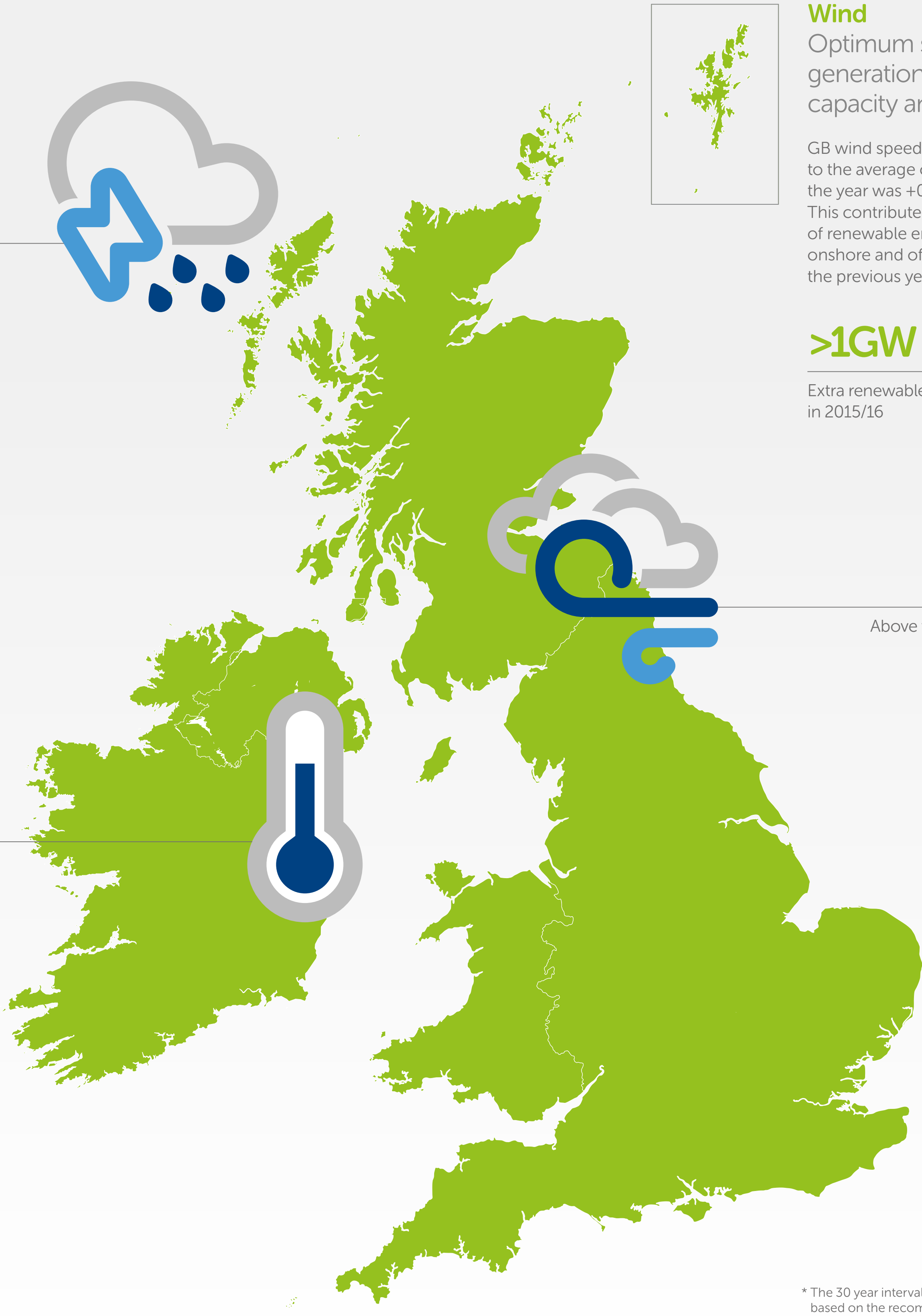
2015/16 was marginally cooler than 2014/15 and 0.4C warmer than the average over 1981-2010. Customer consumption volumes were reduced. On a weather-corrected basis, and acknowledging the impacts from improvements in household energy efficiency, consumption of gas fell by 2.7% and electricity fell by 2.1% compared to the previous year.

2.7%

Drop in gas consumption

2.1%

Drop in electricity consumption



Wind

Optimum speeds drive generation but excess can limit capacity and damage networks.

GB wind speeds in 2015/16 were very close to the average over 2000 to 2010 and overall the year was +0.4 knots windier than 2014/15. This contributed to an increase of over 1GW of renewable energy output from SSE's onshore and offshore wind farms than in the previous year.

>1GW

Extra renewable generation in 2015/16

+0.4 knots

Above the GB wind average in 2014/15

* The 30 year interval 1981 – 2010 is a common benchmark based on the recommendations of the International Meteorological Conference. A 30 year interval is sufficiently long to filter out many of the short-term fluctuations and anomalies, but sufficiently short so as to be used to reflect longer term climatic trends.

SSE Wholesale

Wholesale overview Sustainably sourcing and producing energy

SSE's Wholesale segment consists of three business areas: Energy Portfolio Management and Electricity Generation; Gas Storage; and Gas Production.

It makes a sustainable contribution to the fulfilment of SSE's core purpose and achievement of its financial goals, through excellence in the flexible provision, storage and delivery of energy and related services for customers in wholesale energy markets in Great Britain and Ireland. This is achieved through maintaining a diverse portfolio of assets, contracts and innovative energy solutions; and the ability to respond quickly and effectively to changing market conditions and opportunities.

Wholesale operating profit* – £m

442.5

-6.6%

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

Total generation capacity – MW

10,557

-10.0%

SSE's generation capacity (including its share of joint ventures) incorporates 5,330MW of gas-fired generation 3,394MW of renewable generation, and 3,009MW of coal-fired generation.

Total generation output – TWh

27.8

+0.7%

SSE's generation output covers the amount of electricity generated by the gas-fired, renewable and coal-fired power stations in which SSE has an ownership or contractual interest.

Renewable generation capacity – MW

3,275

-3.5%

Renewable generation capacity covers hydro electric schemes (conventional and pumped storage), wind farms (onshore and offshore) and dedicated biomass plant.

Renewable generation output – TWh

9.7

+12.0%

Renewable generation output covers conventional hydro electric schemes and pumped storage on and offshore, wind farms and dedicated biomass plant. Output is affected by the amount of plant in operation and by weather conditions.

Gas production (exc liquids) – million therms

403

+1.3%

Gas production is responsible for the efficient delivery of gas from the physical gas fields that SSE has a shared ownership in.


SSE
SSE
SSE

Wholesale continued

Key questions

What were the key issues for Wholesale in 2015/16?

The year was particularly challenging for Wholesale as a result of sustained weakening in commodity prices, and this can be seen in the impairments set out in our financial statements. There was also quite a lot of policy change – some parts welcome, some less so, which again emphasised the importance of maintaining a balanced range of assets.

How does the Wholesale business help SSE fulfil its strategy and financial objective?

The focus for the Wholesale business is ensuring efficient operation of our assets, investment discipline, and managing our contracts and energy portfolio management in a dynamic way that is capable of responding to market, policy and regulatory signals. By identifying our competitive advantage and discovering future value early we can strive to be the most efficient company on cost in the sector.

What is the principal challenge your business faces in the next three years?

Wholesale must continue to recognise and respond to commercial and legislative sector changes, including technological developments. The correct investment decisions will ensure that we have a diverse portfolio and capabilities setting us apart from our competitors. Wholesale must maximise the benefits from the changes that are known and be prepared to act quickly upon those which are not.

What are your key priorities for 2016/17 and beyond?

In Wholesale, our key priorities are: ensuring the safe, reliable and efficient operation of all wholly-owned assets and those in which SSE has an ownership interest; securing a stable and predictable supply of energy to meet SSE's needs; delivering SSE's investments in renewable energy and other electricity generation plant; driving business change to respond effectively to market change and regulatory developments in GB, NI, RoI and EU regulations; and securing value, where appropriate, through the risk-managed trading of energy-related commodities.

Martin Pibworth
Managing Director, Wholesale

Sustainably sourcing and producing energy

The markets in which SSE's Wholesale businesses operate continue to be impacted by a number of key long-term trends and developments, including an uncertain macroeconomic environment; shifts in commodity prices; increased government intervention; and the ongoing transition to a low carbon economy. SSE's Wholesale business therefore has to continually review its portfolio in the context of a changing market.

In line with its commitment to transparency in performance management and reporting SSE has incorporated a new subsidiary company to conduct its energy portfolio management activities, SSE EPM Limited. This company will produce separately audited accounts and, sits alongside the separately disclosed Energy Supply and Generation activities of the SSE Group. Against this background, the presentation of the results for SSE's Wholesale businesses in its Financial Statements continues to be kept under review.

Financial performance in Wholesale

During the year to 31 March 2016 total operating profit in Wholesale was £442.5m. The primary drivers relating to operating profit are as follows:

- **EPM and Electricity Generation** – an 11.5% increase in output of electricity from renewable sources, primarily due to higher average wind speeds and levels of rainfall compared to 2014/15, although this was largely offset by the impact of lower commodity prices across both Generation and EPM.
- **Gas Production** – a significantly lower average achieved price for the wholesale gas volumes produced.
- **Gas Storage** – a challenging economic environment saw a small reduction in operating profit.

The Wholesale business also incurred £868m of net exceptional charges in the year with the significant reduction in commodity prices and other economic factors impacting the carrying value of gas production, thermal generation and gas storage assets; a breakdown of which is set out in the table of Wholesale key performance indicators.

Preparing Consolidated Segmental Statements

SSE is required by Ofgem to publish a Consolidated Segmental Statement (CSS) each year setting out the revenues, costs and profits or losses of businesses in its Wholesale and Retail segments.

In line with that requirement, SSE expects to publish its CSS for 2015/16 in July 2016. The CSS for 2015/16, which will be reconciled to SSE's published financial statements and reviewed by SSE's auditors KPMG, is expected to show that within EPM and Electricity Generation, EPM and thermal generation reported operating losses and renewable generation reported an operating profit.

Energy Portfolio Management (EPM)

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

Maintaining a diverse portfolio of energy assets and contracts

The wholesale price of energy can fluctuate significantly due to a number of factors including the economy, the weather, customer demand, infrastructure availability, and world events. EPM seeks to manage the impact of these variables by maintaining a diverse and well-balanced portfolio of contracts, and trading positions, both long and short term. EPM provides a route-to-market for SSE's Generation assets and helps Energy Supply manage its commodity risk. In doing so, SSE has:

- greater ability to manage the impact from wholesale energy price volatility; and
- more scope to deliver the investment needed in Generation and Gas Production because the risks associated with large-scale and long-term investments are contained by the balanced nature of SSE's energy businesses.

In recent years, SSE has typically required around 7 million therms of gas per day to supply its gas customers and to fuel its power stations, and around 130GWh of electricity per day to supply all its electricity customers. There are three primary routes to competitively and sustainably procure the fuels and energy it needs to meet this demand:

- **assets:** including thermal and renewable power generation; and upstream gas exploration and production;
- **contracts:** long-term gas producer contracts; power purchase agreements and solid fuel contracts; and
- **trading:** where energy contracts are transparently traded on international exchanges or through 'over the counter' markets.

Managing risks associated with energy procurement across these three routes is a key requirement for EPM. In establishing the separated legal entity to manage these risks and requirements on behalf of the Group's Energy Supply, Generation and Gas Production businesses, SSE has enhanced the reporting transparency and accountability of this activity. By optimising energy procurement through a diverse portfolio, SSE aims to shelter its portfolio from the inevitable volatility that exists in global markets.

Wholesale key performance indicators

	March 16	March 15
Energy Portfolio Management (EPM) and Electricity Generation		
EPM and Generation operating profit* – £m	**436.3**	433.3
EPM and Generation capital expenditure and investment – £m	**382.6**	399.6
Generation		
Gas- and oil-fired generation capacity (GB) – MW	**3,961**	4,262
Gas- and oil-fired generation capacity (Ire) – MW	**1,292**	1,068
Coal-fired generation capacity – MW	**1,995**	3,009
Waste to Energy capacity – MW	**34**	0
Total thermal generation capacity – MW	**7,282**	8,339
Pumped storage capacity (GB) – MW	**300**	300
Conventional hydro capacity (GB) – MW	**1,150**	1,150
Onshore wind capacity (GB) – MW	**900**	1,008
Onshore wind capacity (NI) – MW	**88**	88
Onshore wind capacity (ROI) – MW	**456**	456
Offshore wind capacity (GB) – MW	**344**	355
Dedicated biomass capacity (GB) – MW	**37**	38
Total renewable generation capacity – MW	**3,275**	3,394
Total electricity generation capacity (GB and Ire) – MW	**10,557**	11,733
Renewable capacity qualifying for ROCs – MW	**c.1,800**	c.1,900
Gas- and oil-fired (inc. CHP) output (GB) – GWh	**10,160**	9,537
Gas- and oil-fired output (Ire) – GWh	**1,780**	251
Coal-fired (inc. biomass co-firing) output – GWh	**6,141**	9,143
Total thermal generation – GWh	**18,081**	18,931
Pumped storage output – GWh	**252**	190
Conventional hydro output – GWh	**4,074**	3,726
Onshore wind output GB – GWh	**2,439**	2,219
Onshore wind output NI – GWh	**235**	212
Onshore wind output ROI – GWh	**1,308**	1,055
Offshore wind output – GWh	**1,312**	1,191
Biomass output GB – GWh	**75**	63
Total renewable generation – GWh	**9,695**	8,656
Total Generation output all plant – GWh	**27,776**	27,587

Notes
1 Capacity is wholly-owned and share of joint ventures.
2 Output is electricity from power stations in which SSE has an ownership interest (output based on SSE's contractual share).
3 Capacity includes 1,180MW at Peterhead (while TEC is 400MW) and 464MW at Great Island (net increase 224MW) operational from 17 April 2015.
4 2016 capacity excludes Ferrybridge which ceased operation on 31 March 2016.
5 Wind output excludes 387GWh of constrained off generation in 2015/16 and 268GWh in 2014/15.
6 Onshore wind capacity at March16 excludes 175MW related to the Clyde disposal in March 16 – onshore wind output includes 100%.
7 Waste to Energy GWh not included above as contracted to third party.
8 Slough Heat & Power Biomass Plant's financial results are reported within SSE Enterprise.

	March 16	March 15
Gas Production		
Gas Production operating profit* – £m	**2.2**	36.6
Gas Production – m therms	**403**	398
Gas Production – mn boe	**6.55**	6.47
Liquids Production – mn boe	**0.13**	0.08
Gas Production capital investment – £m	**56.1**	21.0
Total net proven plus probable (2P) Reserves estimate – bn therms	**3.62**	1.73
Total net proven plus probable (2P) Reserves estimate – mn boe	**58.8**	28.2
Gas Storage		
Gas Storage operating profit* – £m	**4.0**	3.9
Gas Storage customer nominations met – %	**100**	100
Gas Storage capital investment – £m	**14.0**	14.3

Wholesale continued

Generation – Overview

Electricity Generation is responsible for the operation, management and maintenance of SSE's generation assets and for ensuring these assets are available when required and able to meet contractual obligations and developing future renewable and thermal projects.

Managing and developing Generation assets to meet key priorities

The Generation division's principal objective is to safely, efficiently and reliably maintain and operate a diverse generation portfolio, which includes substantial amounts of capacity for renewable energy, across the UK and Ireland. This objective is underpinned by six principles that direct the operation of, and investment in, its Generation portfolio:

- **compliance:** with all safety standards and environmental and regulatory requirements;
- **diversity:** to avoid being dependent on particular fuels or technologies;
- **capacity:** that is well-maintained to meet its requirements in the GB and Irish electricity systems;
- **availability:** to respond to system demand and market conditions;
- **flexibility:** to ensure that changes in demand for electricity and the impact of variability of generation from wind farms can be managed; and
- **sustainability:** to support progressive reduction in the CO_2 intensity of electricity generated through the cost efficient decarbonisation of its generation fleet. By moving towards a lower carbon generation mix, SSE is transitioning its Generation assets from a portfolio weighted towards gas and coal, to one weighted towards gas and renewables.

Generation – Great Britain (renewables)

Operating SSE's renewable generation capacity

Output of electricity from renewable sources increased in 2015/16, compared to the previous year (9,695 GWh compared to 8,656 GWh) despite overall renewable operating capacity remaining largely unchanged (67MW commissioned in the year). The primary driver for this differential was the weather: put simply there was more rainfall and windier conditions in 2015/16 across Great Britain than in 2014/15. Availability and performance of the renewable portfolio has also remained very high throughout the period, allowing SSE's assets to operate in these favourable conditions.

Meanwhile, judgement on the Court of Session case of SSE Generation Ltd against Hochtief Solutions AG and Hochtief (UK) Constructions Ltd in relation to the hydro-electric scheme at Glendoe is expected to be handed down in the second half of this financial year.

Developing renewable energy schemes onshore

SSE continues to operate under the policy support regime for renewable generation capacity in GB, currently delivered through the Renewables Obligation (RO) (which also applies in Northern Ireland); and the Contracts for Difference (CfD) mechanism.

The policy framework for renewable generation was subject to a number of interventions by the UK Government after it took office in May 2015. These include:

- the early closure of the RO to new onshore wind;
- a delay until late 2016 of the second CfD auction for "less established" technologies, including offshore wind;
- the clear signal that CfDs in their current form are unlikely to be generally available to new onshore wind; and
- the removal of levy-exemption certificates (LECs) for renewable electricity.

For SSE's onshore wind portfolio, clarity regarding which projects remain eligible for RO support was provided through the definition of 'grace periods'. Future development options for later onshore wind projects are being explored in light of the policy changes referenced above.

SSE has three onshore wind projects under construction which will qualify for the GB RO:

- Dunmaglass (94MW) – scheduled for completion by the end of 2016/17.
- Clyde Extension (172.8MW) – expected to be fully operational in 2017.
- Bhlaraidh (108MW) – expected to be fully operational in 2017.

SSE also has onshore wind projects in development that will not qualify for the RO:

- Stronelairg (with consent) (up to 240MW) – SSE, alongside the Scottish Government, is appealing the judicial review judgement which rejected the consent decision and will be heard in court in May 2016.
- Viking (with consent) (up to 457MW – SSE share 50%) – SSE, with its Joint Venture partner, has continued to develop this project which requires State Aid clearance from the European Commission and confirmation it will be eligible to participate in forthcoming CfD auctions.
- Strathy South (in planning) (up to 133MW) – Objections were examined fully at a Public Local Inquiry in 2015 and it is now awaiting a consent decision from Scottish Ministers.
- Gordonbush Extension (in planning) (up to 32MW) – Highland Council did not object to the application at a planning committee meeting in February 2016 and it is now awaiting a consent decision from Scottish Ministers.

Offshore wind projects in development

In the last 12 months SSE's offshore efforts and resources have been focused on the Beatrice project (588MW – SSE share 40%) planned for the outer Moray Firth. The project is progressing in accordance with the terms of the Investment Contract awarded by the UK government in 2014. The project is expected to reach financial close in May 2016. SSE's Joint Venture partners on the project are Copenhagen Infrastructure Partners (CIP) who increased their interest from 25% to 35% in February 2016 and Repsol who currently have a 25% stake. Beatrice will be project financed with non-recourse debt.

Subject to financial close, onshore construction activities will begin in 2016 with offshore construction planned for 2017. The project is expected to be fully operational by 2019. The Beatrice wind farm is expected to deliver around £700m into the UK economy via supply chain opportunities alone.

In addition to Beatrice, SSE has an interest in two further offshore wind farm developments: Seagreen (up to 3,500MW – a 50:50 partnership with Fluor Limited); and Forewind (up to 4,800MW – a four-way partnership with RWE Innogy, Statoil and Statkraft). The first phase of Seagreen (up to 1,050MW) is consented although this decision is subject to a judicial review in the Court of Session heard in 2015. Forewind has consent for four separate 1,200MW projects in the Dogger Bank Zone and the four Joint Venture partner organisations will agree the best route forward for each.

In October 2015 SSE announced that it had agreed exit terms from the Galloper project (340MW, 50:50 partnership with RWE Innogy), following RWE Innogy's announcement that it had reached financial close on the project.

The UK Government confirmed in the Budget 2016 that it intends to auction £730m of CfD contracts in this parliament for offshore wind and other less established technologies connecting in 2021-26. The first auction is expected to be later this year with £290m available. This announcement provides welcome clarity about the future for offshore wind.

Optimising the renewable development portfolio

In order to support future investment in a balanced range of energy assets SSE has, as first outlined in March 2014 recycled capital by delivering a programme of selective disposals of non-core assets and operational and in-development onshore wind projects. In March 2016 agreements were signed for the sale of 49.9% of the operational 349.6MW Clyde Wind Farm located in South Lanarkshire to Greencoat UK Wind Plc (UKW) and GMPF & LPFA Infrastructure LLP (GLIL) for a headline consideration of £355 million resulting in a gain of £138.6m. As part of its key accounting judgements, SSE concluded that at 31 March 2016 Clyde remained under its control due to certain contractual arrangements relating to the construction of the extension project. As such, this gain was recognised directly in equity. In May 2016, these arrangements were changed and consequently SSE's interest in Clyde will be that of a joint venture going forward. When the 172.8MW extension to Clyde is commissioned the equity stake jointly owned by UKW and GLIL will be diluted to 30% with SSE retaining 70% and providing long-term management services for the day to day operations of all 522.4MW.

Generation – Great Britain (thermal)

Market developments with an impact on SSE

In 2015/16 the UK Government announced a number of policies and regulatory changes affecting SSE's thermal generation portfolio. These included:

- revisions to the future functioning of the GB Capacity Market (see below);
- an announcement of the intent to close coal-fired power stations by 2025, and facilitate the development of new gas-fired power stations; and
- an announcement that it will continue to cap Carbon Price Support rates at £18/t CO_2 for 2019-20 and 2020-21 (in real terms adjusted for RPI). The Government also indicated that the future of the Carbon Price Floor beyond 2021 will be announced in its Autumn Statement later this year.

Ofgem has consistently maintained that during the period to 2018/19 it expects electricity generation capacity margins will be lower than they were in recent years due to weak market economics and the closure of older plant. The UK Government, together with National Grid (as the System Operator) and Ofgem, has decided to address this issue in two ways:

- in the longer term, through the implementation of the Capacity Market. SSE supports the UK Government's plans to incrementally improve the Capacity Market, including the planned supplementary capacity auction for winter 2017/2018; and
- in the intervening period, through the Supplemental Balancing Reserve (SBR) which will close after winter 2016/17.

The design and operation of both the Capacity Market and SBR mechanisms is set by the UK's Department of Energy and Climate Change (DECC) and National Grid. They determine how much capacity is required to ensure security of supply under each mechanism. Once this volume has been determined they procure the necessary capacity through a competitive auction/tender process.

SSE will play its part by ensuring all plant eligible to participate in both the SBR and the Capacity Market will be made available when required. It will also continue to work openly and constructively with all stakeholders on the issue of security of supply.

Operating SSE's thermal power stations

Market conditions for thermal generation continued to be challenging during 2015/16. The continued expansion of sources of renewable electricity and reducing customer demand has impacted the profitability of all thermal assets. In addition, the 18 months to March 2016 saw a significant weakening of the market prices for oil and gas. Together with the closure of older coal-fired power stations this has led to an increase in gas-fired generation output relative to coal. This has been reflected in SSE's own portfolio as well as the wider market. This trend looks set to continue and it is therefore anticipated that gas-fired power stations will play an increasingly important role in GB electricity generation in the coming years. Despite the strategic improvement, market conditions remain challenging for gas-fired electricity generation as reflected by the plant impairments of £326.4m recognised in the year.

In December 2015 the second Capacity Market auction was held in GB. A total of 3.2GW (de-rated) of SSE's 6.1GW (de-rated) pre-qualified capacity was successful in the auction, and will receive a total payment of £57m on the basis it delivers this capacity in 2019/20. The balance of the pre-qualified capacity remains eligible to participate in the 'T-1' 2019/20 capacity auction. In the summer of 2016 SSE plans to pre-qualify capacity for the next 'T-4' auction scheduled for December 2016, as well as for the additional planned auction that will procure capacity for 2017/18.

Maintaining and operating a portfolio of gas-fired power stations

SSE has an ownership interest in five gas-fired power stations that participate in the GB electricity market:

- **Medway** (700MW wholly owned) has continued to perform well in response to market requirements and contractual obligations, and it has taken on a capacity obligation for 2018/19 and 2019/20;
- **Keadby** (735MW wholly owned) returned to service in November 2015 following its removal from the market in March 2013. Keadby also has capacity obligations for 2018/19 and 2019/20;
- **Peterhead** (1,180MW wholly owned) 400MW of Peterhead's capacity returned to service in November 2015 following the completion of major upgrade work to improve the flexibility and efficiency of the station. It has also secured SBR contracts to provide support services to National Grid over the winters 2015/16 and 2016/17 and a voltage control contract for one year commencing 1 April 2016; and
- **Seabank** (1,164MW) and **Marchwood** (840MW) SSE has a 50% stake in each of these gas-fired power stations, which have both taken on capacity obligations for 2018/19 and 2019/20.

In 2015/16, the UK Government also decided that the capital budget for a Carbon Capture and Storage (CCS) competition would no longer be available and that the competition would not proceed on the planned basis. SSE had been working with Shell on a CCS project at its Peterhead power station. In response, SSE acknowledged that being in government involves taking difficult decisions, but also stated that the decision represented a significant missed opportunity for the UK.

Taking key decisions on the future of coal-fired power stations

SSE acquired two wholly-owned coal-fired power stations in 2004: Ferrybridge (Yorkshire; now closed) and Fiddler's Ferry (Cheshire, 1,995MW).

In March 2016 SSE ceased coal-fired electricity generation at Ferrybridge in line with the announcement of plans to do so in May 2015. SSE acknowledges the immense contribution of all who have worked at Ferrybridge during its proud 50 years of service. The site has now entered a period of decommissioning.

The future commercial operation at three of the four units at Fiddler's Ferry (1,455MW) was the subject of a consultation with employees and other stakeholders, announced by SSE in February 2016. In March 2016 Fiddler's Ferry successfully secured a contract to provide ancillary services to National Grid. The one-year contract, which started on 1 April 2016, covers one of the three available units at the site. It was secured following a competitive procurement process.

Following its success in securing this contract and in view of the UK Government's planned reforms to the Capacity Market, SSE also:

- confirmed that one unit at the station will provide Supplementary Balancing Reserve (SBR) services to National Grid for the winter of 2016/17. TEC (Transmission Entry Capacity) is therefore not required for this unit's capacity;
- retained TEC for the station of 1,455MW, equivalent to the capacity of three units, for 2016/17; decided to enter all or part of Fiddler's Ferry capacity into any 2017/18 Capacity Market auction; and
- recognised exceptional charges of £287.0m in relation to coal generation activities.

Wholesale continued

Developing new gas-fired generation options

SSE supports recent proposals by the UK Government to encourage investment in new gas-fired generation. SSE will continue and retain and develop options for new stations at Keadby 2 in Lincolnshire and Seabank 3 near Bristol, but will do so in a way that is fully consistent with its commitment to disciplined financial decision-making.

Investing for the future through 'multi-fuel'

SSE's generation strategy is built upon managing risk through owning a diverse range of assets and fuels from which to meet the needs of customers. Multi fuel remains an important part of that strategy.

In July 2015 Multifuel Energy Ltd (MEL) (the SSE and Wheelabrator Technologies Inc. 50:50 joint venture) fully commissioned a £300m (68MW) multi-fuel generation facility adjacent to SSE's existing Ferrybridge coal power station, known as Ferrybridge Multifuel 1 (FM1). The station has taken on a capacity obligation for 2018/19 and 2019/20. Whilst SSE reports its 34MW share of capacity, it excludes generation output at Ferrybridge multi-fuel as this is contracted to a third party. In its first full financial year of operation to March 2016 the station processed 413,000 tonnes of fuel in commercial operation and exported 385GWh of electricity, with the station running at near baseload.

In October 2015, planning consent for a second multi-fuel facility at the Ferrybridge site, Ferrybridge Multifuel 2 (FM2) was granted, and a final investment decision on it is expected to be taken later in 2016.

Generation – Ireland

Producing electricity for Ireland's Single Electricity Market

SSE is the third largest electricity generator by capacity in the all-island Single Electricity Market (SEM). It owns and operates 1,836MW of generation capacity of which 544MW is from renewable sources. This makes SSE the largest single generator of wind power in the SEM. The company also trades across the interconnectors between Ireland and GB.

SSE's new 464MW Great Island CCGT unit (grid connection capacity set at 431MW) commenced commercial operation in April 2015. Coinciding with the retirement of the old 240MW heavy fuel oil unit at the same site, the transition to gas has improved the carbon intensity of SSE's fleet and significantly decarbonises energy generation in the all-island market.

Delivering and developing new capacity for electricity generation

SSE continues to invest in renewable electricity generation in Ireland. Over the two years to March 2018, SSE will add 174MW of new Irish wind power generation capacity to its existing fleet.

In the Republic of Ireland, construction of the two-phase 174MW (SSE share 120MW) Galway Wind Park project is ongoing. Phase 1 of the project (66MW), which entered construction in February 2015, is owned and financed by SSE. Phase 2 (108MW) is a 50/50 joint venture between SSE and Coillte. Galway Wind Park is expected to be commissioned in 2017, qualifying the wind farm for the REFIT II support scheme.

In Northern Ireland, SSE is currently constructing the 35MW Tievenameenta Wind Farm in Co. Tyrone. In the same county construction is due to commence shortly on the 19MW Slieve Divena II Wind Farm. Both projects are expected to be fully operational in 2017 and meet the criteria for Northern Ireland's RO grace period.

SSE also has plans for a wind farm development at Doraville (up to 115MW), a planning application for which is currently before Northern Ireland's Department of the Environment. This project will not qualify for the RO.

Engaging in the ISEM reform process

Reform of Ireland and Northern Ireland's SEM market to comply with the EU Electricity Target Model continues, with regulators in each jurisdiction progressing the Integrated SEM (I-SEM) project. SSE remains fully involved in all stages of the ongoing design and implementation process for the new market which is due for introduction by the end of 2017.

Responsible Developer

Responsibly developing Ireland's largest onshore wind farm at Galway

Once operational in 2017, Galway Wind Park (GWP) will be the largest onshore wind farm in Ireland. It is estimated that the 169MW development will generate enough electricity to power approximately 84,000 homes. The renewable energy produced by GWP will help offset around 190,000 tonnes of CO_2 emissions from fossil fuel energy generation each year.

GWP is being delivered in two phases – Phase 1 (64MW) is owned and financed by SSE and Phase 2 (105MW) is a 50/50 joint venture between SSE and Ireland's state forestry company, Coillte. With construction of both phases now under way, the GWP team is working hard to establish a range of initiatives which optimise positive impacts for the local economy and communities from this €280m project investment.

The GWP team is committed to achieving industry best practice in social acceptance for the project. At the end of March 2016 SSE recorded that 62% of all employees, over 100 people, working on-site lived within 30km of GWP and over 50 local businesses have also provided products and services to facilitate the project.

Gas Production

Gas Production is responsible for the efficient delivery of gas from the offshore gas fields in which SSE has a shared ownership.

Producing from UK Continental Shelf assets

Total output in the year to 31 March 2016 was 403 million therms (6.55mn boe) of gas and 0.13mn boe of liquids, compared with 398 million therms of gas (6.47mn boe) and 0.08mn boe in the previous year. This slight rise in production in 2015/16 was due to the start up of the Laggan field in February 2016 although there was a natural decline in output from existing fields. The Greater Laggan Area acquisition is expected to mean SSE's average annual volumes of gas and liquids produced will be at a higher level than those it reported in previous years with a forecast average production of around 500million therms (8.1mn boe) of gas and 0.85mn boe of liquids per year in the five years to March 2021.

The decrease in operating profit, £2.2m compared to £36.6m, from Gas Production during the period was mainly as a result of the significantly lower average achieved price for wholesale gas volumes produced. The sustained decline in gas price was a significant contributor to the £161.8m of exceptional charges recognised in the year, which includes £121.2m related to Greater Laggan Area.

Delivering new opportunities in Gas Production

SSE had regularly set out its intention to seek new opportunities to increase its asset base to help meet gas demand requirements, with the UK and north-west Europe the focus for this activity due to the relatively stable tax and fiscal regime and proximity to SSE's domestic energy supply markets.

In line with this long-term strategy SSE announced in July 2015, that it had entered into an agreement with Total E&P UK Limited to acquire: a 20% interest in the four gas fields and surrounding exploration acreage approximately 125km north west of the Shetland Islands, collectively known as the Greater Laggan Area; and a 20% interest in the new Shetland Gas Plant. The acquisition was completed in October 2015. Total E&P UK Limited is the operator of, and owns a 60% stake in these assets. The remaining 20% is owned by DONG Energy.

The transaction completed with cash consideration of £669m (which reflects the value of the assets including associated UK capital allowances). SSE's share of forecast capex in the period to March 2019 is expected to be c. £190m to complete the entire development of the four primary fields (Laggan, Tormore, Edradour and Glenlivet) as well as the Shetland Gas Plant, of which £43m was spent to 31 March 2016.

The new Shetland Gas Plant is located close to Sullom Voe and will process and export produced gas and condensate from developments in the west of Shetland for onward delivery to the St Fergus Gas Terminal for gas; and via the Sullom Voe Oil Terminal for liquids. This makes it one of the most important infrastructure developments in the UK. Production started in February 2016 and it is expected to process and export gas and condensate for producers West of Shetland well into the 2030s.

Gas production started in February 2016 from the Laggan fields which have the ability to produce up to 90,000 boe a day at peak production (SSE share 20%) and will help to secure energy for SSE's customers and help meet the needs of SSE's gas-fired power stations contributing to security of electricity supply. The nearby Tormore, Edradour and Glenlivet fields are expected to start production towards the end of 2016, 2017 and 2018 respectively and should keep production at peak rates through to 2020.

In addition to helping meet SSE's gas demand requirements, the acquisition is expected to create value over the long term, despite the current impact of lower gas prices, and represents SSE's focus on maintaining a balanced range of energy businesses across its portfolio.

SSE's UK Continental Shelf upstream portfolio is predominantly gas weighted with only associated liquids and as per the independent Reserves Audit, at 31 March 2016, SSE's total economically recoverable net proven plus probable (2P) reserves, taking into account all technical and economic variables was estimated to be 3.6 billion therms (58.8 mn boe) in all of the fields in which SSE has an ownership interest.

Gas Storage

Gas Storage is responsible for the operation and maintenance of SSE's gas storage facilities, and for ensuring they are available for use by its customers.

Delivering gas storage services from Hornsea and Aldbrough

The economic environment for gas storage facilities continued to be extremely challenging during 2015/16 – as illustrated the £150.9m of exceptional charges recognised in the year. As previously announced, SSE took the difficult decision at the end of 2014/15 to mothball its older withdrawal plant at the Hornsea (Atwick) facility, which it completed for the start of the 2015/16 storage year.

Both of SSE's storage sites have continued to operate to meet the needs of their customers through 2015/16, albeit with some revision to Hornsea service provision during the last quarter:

- Hornsea (Atwick) again met 100% of customer nominations with the site 52% available through the year except in instances of planned maintenance. The site was 97% available in the six months to 30 September 2015. During the second half of the year, however, a significant extension to maintenance works at the site kept it unavailable, resulting in a drop from typical high levels for the year overall; and
- Aldbrough met 100% of customer nominations and was 82% available through the year except in instances of planned maintenance. The two caverns removed from service earlier in the year have remained out of service, with forward options regarding these caverns under review.

Alongside the requirement to continue to ensure the highest standards of asset management are maintained, SSE continues to review its gas storage business on an ongoing basis. Its overall aim is to continue to provide valuable flexibility and hedging services to its customers and hence the wider UK gas market, while managing its profitability and being as well positioned as possible to take advantage of future market developments.

Wholesale – Conclusion

Creating sustainable, long-term value from wholesale markets for investors and customers is the strategic objective of SSE's Wholesale businesses. This should be delivered through the responsible production, storage and delivery of energy and related services; a focus on meeting the needs of its customers; ongoing rigour in optimising its portfolio of existing assets and those in development, mean that SSE's activities across its Wholesale businesses continue to support SSE's core purpose and the first financial objective of annual growth in the dividend payable to shareholders.

SSE Networks

Networks overview

Safely delivering energy to homes and businesses

SSE is the only energy company in the UK to be involved in electricity transmission, electricity distribution and gas distribution. Its has an ownership interest in five economically-regulated energy network companies consisting of a 100% ownership of Scottish Hydro Electric Transmission (SHET), Scottish Hydro Electric Power Distribution (SHEPD), Southern Electric Power Distribution (SEPD) and a 50% stake in both Scotland Gas Networks and Southern Gas Networks (SGN).

SSE's interests in regulated energy networks supports the SSE Group to deliver disciplined investment, balance and operational efficiency. The RAV of SSE's five existing Networks companies is well placed to reach around £10bn by 2020.

Networks operating profit* – £m

926.6

-1.1%

SSE is involved in: electricity transmission; electricity distribution and gas distribution (through Scotia Gas Networks).

Networks Regulated Asset Value (RAV) (net) – £bn

7.96

+8.3%

The RAV is the price paid for economically-regulated energy networks when they were privatised plus allowed capital expenditure less depreciation. It is indexed to the Retail Price Index.

Customer minutes lost (north)

55

-20.3%

Excluding exceptional events, customer minutes lost is the average number of minutes that customers are without electricity supply in a year. SSE's north of Scotland network distributes electricity to around 800,000 properties.

Customer minutes lost (south)

41

-28.1%

Excluding exceptional events, customer minutes lost is the average number of minutes that customers are without electricity supply in a year. SSE's network in central southern England distributes electricity to around 2.9 million properties.

Distribution networks capital expenditure – £m

258.3

-21.2%

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

Transmission networks capital expenditure – £m

573.4

+22.7%

SSE owns and invests in the transmission network in the north of Scotland through Scottish Hydro Electric Transmission.

Networks continued

Key questions

What were the key issues for Networks in 2015/16?

With 2015/16 being the first year of the ED1 price control, the key issue for our Distribution businesses has been ensuring that we delivered on improved customer service while driving efficiencies and incentives. For SHE Transmission it has been the disciplined investment and timely completion of projects that add to the Regulated Asset Value, most notably the completion of the Beauly-Denny 400kV overhead line.

How does the Networks business help SSE fulfil its strategy and financial objective?

SSE's Networks businesses are at the core of the company's strategy both in the short and long-term as they contribute significantly to its ability to deliver annual dividend increases. Over this financial year, SHE Transmission grew its RAV by £555m to £2.2bn and the RAV is on target to be around £3bn by March 2018. By effecting change to help drive improved customer service, efficiencies, and through the greater use of innovation, SHEPD ad SEPD is earning an agreed, steady return while creating direct benefits for customers.

What is the principal challenge your business faces in the next three years?

The focus of the ED1 price control is on delivering outputs for customers. Therefore, one of the key challenges for our Distribution businesses will be providing year-on-year improvements in output delivery through increased efficiencies, customer service and innovation, while delivering value for money. The introduction of competition into onshore transmission changes the regulatory framework for our Transmission business and we are engaging constructively with Ofgem as it develops its plans.

What are your key priorities for 2016/17 and beyond?

In Networks, our key priorities include: operate safely and meet all compliance requirements; provide an excellent service to all customers who rely on our networks; deliver required outputs while maintaining tight controls over expenditure; deliver every customer connection to quoted cost, time and budget; develop and maintain effective stakeholder relationships; and progress innovations that improve network reliability, efficiency and customer service.

Colin Nicol
Managing Director, Networks

Owning, operating and investing in Networks

Through Price Controls, Ofgem sets the index-linked revenue the network companies can earn through charges levied on users to cover costs and earn a return on regulated assets. While the RIIO Price Control mechanism is complex, these economically-regulated, lower-risk businesses provide relative predictability and stability for SSE and balance its activities in the competitive Wholesale and Retail markets. They are core to SSE's strategy in the short, medium and long-term and contribute significantly to its ability to deliver annual dividend increases.

Under the RIIO price controls all network operators are incentivised to become more responsive to the needs of their customers and stakeholders and to engage effectively with them to help inform how they plan and run their businesses. SSE's Network businesses recognise that this requirement is key to ensuring it is accountable and responsive to the communities it serves.

In the second half of 2016/17, SSE's three electricity networks businesses will become collectively known as Scottish and Southern Electricity Networks following a rebranding process designed to improve customers' awareness of, and stakeholders' engagement with, the businesses.

Financial performance in Networks

During the year to 31 March 2016, total operating profit in Networks was £926.6m with the principal movements in operating profit as follows:
Transmission – The 56% increase in SHE Transmission's operating profit reflects the ongoing delivery of a major programme of capital investment including the first full year of construction of the Caithness-Moray transmission link. Operating profit is likely to decline in this new financial year due to phasing of capex and revenue as well as rates rebates and depreciation associated with the growing asset base. Since the current RIIO T1 Price Control started in April 2013, SHE Transmission's capital investment has totalled £1.39bn.
Distribution – The 20.7% decrease in electricity distribution operating profit is primarily due to the expected reduction in base revenues under the first year of the RIIO ED1 price control. The profiling of the price control settlement resulted in a significant income reduction in 2015/16. This was set out in Ofgem's Final Determination in November 2014.
SGN – SSE's share of SGN's operating profit fell by 5.7% primarily due to a decrease in Allowed Revenue in 2015/16 compared to the prior year. The drop was mainly linked to the regulatory mechanism for sharing the benefit of previously earned outperformance with customers in RIIO GD1, for which there is a two year lag.

Impact of revenue recovery

If in any year, regulated network companies' revenue is greater (over recovery) or lower (under recovery) than is allowed under the relevant Price Control, the difference is carried forward and the subsequent prices the companies may charge are adjusted. This particularly impacts Electricity Distribution and during 2014/15 there was an under recovery of approximately £38m in this business. Under the regulatory framework the £38m under recovery in 2014/15 was reflected in customer charges published in December 2015 for 2016/17. The under recovery in 2015/16 was significantly lower, at approximately £5m. There were no material under or over recovery positions in Transmission or Gas Distribution reflecting a more capacity based revenue recovery mechanism.

Electricity Transmission

Scottish Hydro Electric Transmission Plc (SHE Transmission) is responsible for maintaining and investing in the electricity transmission network in the north of Scotland.

Completing projects which add to the RAV

During 2015/16 SHE Transmission completed a number of upgrades and reinforcements to its transmission network in the north of Scotland. The projects, which were all completed on time and within their Ofgem allowances (nominal prices), are:

- the £94m reconductoring of the Beauly-Blackhillock-Kintore overhead line;
- the £68m substation and overhead line works on the Beauly-Mossford project; and
- the £210m subsea upgrade and associated onshore infrastructure on the Kintyre-Hunterston projects.

The replacement Beauly-Denny 400kV overhead line was energised in November 2015 and provides additional flexibility and electricity network resilience. As well as connecting new electricity generation to the transmission network one of the additional benefits of the new overhead line was realised during the big storms of the winter – storms Frank, Gertrude and Henry – when there was no loss of supply to generation customers. The replacement of its section of the Beauly-Denny line has required a total investment to date by SHE Transmission of around £650m and it is continuing discussions with Ofgem regarding recovery of efficiently incurred costs additional to the original allowance of the project. Total costs are now not expected to exceed £670m.

SHE Transmission's investment in these and other projects demonstrates its commitment towards supporting the transition to lower carbon forms of electricity generation. In delivering these essential infrastructure projects SHE Transmission has built on its continuing expertise in delivering increased capacity for electricity generation.

Networks key performance indicators

	March 16	March 15
Electricity Transmission		
Operating profit* – £m	**287.2**	184.1
Regulated Asset Value (RAV) – £m	**2,287**	1,732
Capital expenditure – £m	**573.4**	467.2
Connection offers provided in required period	**88**	97
Electricity Distribution		
Operating profit* – £m	**370.7**	467.7
Regulated Asset Value (RAV) – £m	**3,157**	3,159
Capital expenditure – £m	**258.3**	327.6
Electricity Distributed – TWh	**39.5**	39.6
Customer minutes lost (SHEPD) – average per customer	**55**	69
Customer minutes lost (SEPD) – average per customer	**41**	57
Customer interruptions (SHEPD) – per 100 customers	**66**	70
Customer interruptions (SEPD) – per 100 customers	**47**	60
Estimated Incentives Performance – £m	**c23**	c6.5
Scotia Gas Networks		
Operating profit* (SSE's share) – £m	**268.7**	285.0
Regulated Asset Value (SSE's share) – £m	**2,513**	2,459
Capital and replacement expenditure (SSE's share) – £m	**162.8**	169.9
Uncontrolled gas escapes attended within one hour – %	**98.5**	98.7
SGN gas mains replaced – km	**960**	1,042

The investment that SHE Transmission has made in its network has helped connect over 2GW of additional capacity and as a result has made its network more secure and resilient. With the current pipeline of development SHE Transmission is expected to increase its RAV from £2.3bn as at March 2016 to around £3bn by March 2018.

Delivering the Caithness-Moray project

With an agreed investment of £1,118m (2013/14 prices), the Caithness-Moray transmission reinforcement is SHE Transmission's flagship project and its largest single capital investment to date. The project, which will enable the connection of up to 1,200MW of additional generation capacity in the north of Scotland and the Northern Isles is progressing well and is scheduled to be operational by the end of 2018. For example, both land and subsea cable manufacture are continuing ahead of programme, with land cable production completed and delivered to site for both Caithness and Moray. The subsea cable manufacture is on course for completion by the end of 2016. Subsea activities will commence in the first quarter of 2017. First revenues were received in 2015/16 under the Strategic Wider Works mechanism.

Fulfilling responsibilities for potential island links

Developers of generation capacity on the Scottish Islands continue to await clarity from the UK Government on whether EU State Aid clearance is obtained and their projects are eligible for Contracts for Difference (CfD) in forthcoming auctions. Whilst this uncertainty remains, developers are unable to commit to final funding decisions on their projects. While it continues to engage with stakeholders, SHE Transmission is not therefore in a position to submit 'Needs Cases' to Ofgem for the island links to the Western Isles and Shetland. SHE Transmission continues to engage with Ofgem and developers and will submit Needs Cases for the island links later this year, if circumstances allow.

Adapting to policy and regulatory change

Following the publication in March 2015 of the final conclusions of its Integrated Transmission Planning and Regulation (ITPR) project, Ofgem has continued the development of the regime for extending the use of competition in onshore transmission.

While ITPR poses some potential risks, the extension of competition into onshore transmission also presents opportunities for SHE Transmission. The experience it has built up both in-house and with its supply chain means that SHE Transmission is well placed for competitive delivery when it is implemented.

Through continued engagement with Ofgem and DECC SHE Transmission aims to ensure that its development portfolio, and specifically some

Networks continued

of its more advanced projects, can be delivered as far as possible under the existing regulatory framework. It is also contributing to discussions on future arrangements that will deliver the transmission infrastructure required in a way that supports the UK Government's policy objectives, delivers value for end consumers and achieves a fair and reasonable return to investors.

Ofgem announced on 12 May 2016 that it would not conduct a mid-period review into SHE Transmission's RIIO T1 price control. SHE Transmission remains committed to delivering against its outputs while ensuring value for money for the remainder of RIIO T1.

Working with stakeholders

SHE Transmission is also engaging with stakeholders through its Visual Impact of Scottish Transmission Assets (VISTA) project which is seeking views on how to mitigate the impacts of transmission infrastructure in National Parks and National Scenic Areas. The views of stakeholders are central to understanding the impact of existing infrastructure and investigating potential options for mitigation.

Electricity Distribution

Scottish and Southern Energy Power Distribution (SSEPD) is responsible for maintaining the electricity distribution networks supplying over 3.7 million homes and businesses across central southern England and north of the Central Belt of Scotland.

Putting customers first

During 2015/16, its first year under the incentives-based RIIO ED1 price control, SSEPD has made significant steps in driving real change in its operations, processes and standards. The introduction of a change programme is ensuring that the business is able to meet the demands of the eight year price control. Its new sustainable business model, built on a combination of customer service and innovation, will bring benefits to customers while ensuring financial targets are achieved and a fair return is delivered to investors. The focus of the new price control is the delivery of efficient operations and the best possible experience for customers; and the business has prioritised its efforts on the incentives built into RIIO ED1 that are designed to encourage improvements in customer service.

The most financially significant of these are the two measures of loss of electricity supply: Customer Interruptions and Customer Minutes Lost (CIs and CMLs). In the first year of the new price control SSEPD's adoption of the 'restore first, repair second' method was a driver in bringing down its CIs and CMLs. The continued investment in automation, network reinforcement and tree cutting also delivered improvements to help secure financial incentives. SSEPD's adoption of a regionalised model across its distribution areas has assigned responsibility and decision making to local teams which has helped to improve the response to power supply disruption during extreme weather events.

SSEPD's commitment to minimising the occurrence and duration of customer interruptions saw the Customer Minutes Lost reduce to 55minutes (SHEPD) and 41minutes (SEPD) per customer and for Customer Interruptions to reduce to 66 per 100 customers (SHEPD) and 47 per 100 customers (SEPD). This is the best- ever performance for SSE's Networks business.

The first awards from SSEPD's £1.3m Resilient Communities Fund, which was established to support local communities in their preparation and response to emergencies, were made in 2015/16. The second round of nominations for funding has opened. The fund was established using money remaining from an amount agreed with Ofgem following weather-related electricity supply disruption over the Christmas period in 2013/14.

During the winter of 2015/16 SSEPD delivered its largest ever customer communications campaign, including advertising on TV, radio and digital outputs. The campaign raised awareness of its contact details in response to storms and to promote the services it provides for customers, including those who may need extra help during a power cut that are registered on its Priority Service Register.

Keeping costs down

The main focus for SSEPD during RIIO ED1 is to deliver the outputs outlined in its business plan in an efficient and sustainable manner. In order to meet these challenges the business is

Responsible Developer

Responsibly developing SHE Transmission's largest capital project

As a responsible developer SHE Transmission understands that the Caithness-Moray transmission project is not only its largest capital project to date, but also one of the most important infrastructure investments in Scotland in this decade.

It is the biggest fully Living Wage compliant project in the UK and around £600m will be contributed to the UK economy, including approximately £250m of value going directly to Scotland.

SSE has evaluated the economic impact of the investment: in March 2016 the project is employing 217 people who are local to where the new infrastructure is being built; a further £4.5m of value is also estimated to have supported hotels, B&Bs and rental properties used during the project; and, by the end of the project, over 10,000 years of employment will have been supported across the UK, including close to 5,000 in Scotland.

transforming continually to ensure that its processes, procedures and supply chain are efficient.

Improving through innovation

Innovation is a key priority at SSEPD and its projects will play a crucial role in balancing the country's future energy needs, while helping to keep the cost of energy down. SSEPD has a pipeline of innovations, at various stages of development, and is on target to achieve cost savings over the period of the price control while creating direct benefits for customers.

The innovation projects are funded through Ofgem's incentive schemes, which are designed to help Britain's electricity networks achieve energy efficiencies and become smarter. Projects have included:

- SSEPD's My Electric Avenue monitored what impact people charging their electric vehicles could have on the electricity network and tested real solutions to allow more to connect with minimal disruption. The trial will help all Distribution Network Operators (DNOs) to safeguard, maintain and develop smarter networks to cope with the increase in electric vehicle usage in the future. This project is now informing work on developing a standard solution for smart charging where networks are heavily loaded, working closely with the other DNOs.
- The findings from the Thames Valley Vision project on energy characterisation and forecasting could revolutionise the way that DNOs manage and effectively maintain the electricity networks of the future.
- Following a number of trials SSEPD has created the first "Constraint Managed Zones (CMZs)" on its network. The CMZs ensure that security of supply is met for sections of the network through the use of load variation techniques, such as Demand Side Response, Energy Storage and stand-by generators. The first deployment is deferring £9m of capital cost beyond RIIO ED1.

SSEPD actively shares the learning from these projects within the Networks business and with other networks operators in the UK and across Europe, helping to promote best practice and bring new techniques and technologies into 'business as usual' operation across Britain's electricity network.

Co-operating with an investigation

On 20 January 2015, SSE plc was notified that the Gas and Electricity Markets Authority opened an investigation into whether SSE plc had infringed Chapter II of the Competition Act 1998 and/or Article 102 Treaty on the Functioning of the European Union in respect of the provision of points of connection services in the Southern Electric Power Distribution area. The investigation is ongoing.

Engaging stakeholders in decision making

A key feature of SSEPD's first year in the price control is making sure its stakeholders have a say in its business decisions. This influence allows them to hold the DNOs to account and it has been vital to maintaining SSEPD's reputation.

This has included:

- A consultation launched in 2015/16 to give stakeholders the opportunity to nominate the undergrounding of 90km of overhead lines in Areas of Outstanding Natural Beauty, National Parks and National Scenic Areas in the north of Scotland and central southern England.
- SHEPD working with Comhairle nan Eilean Siar and other stakeholders to explore the available options around current network restrictions in the Western Isles. A steering group has been formed and it is investigating possible solutions that may accommodate the connection of additional renewable energy generation.

Stakeholder engagement will continue to play a vital role at SSEPD and is a requirement for further regulated incentives during the price control.

SGN

SGN manages the network that distributes natural and green gas to 5.9 million homes and businesses across Scotland and the south of England. In line with its equity holding, SSE receives 50% of the distributable earnings from SGN Ltd while, through a managed service agreement, continues to provide some back-office support.

Working with the Gas Distribution Price Control

SGN is focused on ensuring all its outputs under Ofgem's RIIO framework are met, incentives are maximised and innovation is delivered effectively while running an efficient, safe and reliable network.

SGN's investment programme is a key element of this and, within overall total cost allowances of over £4.6bn (at 2012/13 prices), Ofgem has allowed around £2.8bn over the current eight year price control running to 2021 to cover new capital investment and to manage the risks relating to SGN's existing assets. This investment enables SGN to:

- deliver a safe and reliable network for customers;
- minimise its impact on the environment and communicate its work to stakeholders; and
- deliver new customer-driven initiatives to help reduce fuel poverty and increase awareness of Carbon Monoxide dangers.

In terms of operational performance and safety, 98.5% of uncontrolled gas escapes reported by the public were attended within one hour of notification, exceeding Ofgem's 97% standard.

Networks – Conclusion

SSE's economically-regulated Networks businesses are key to the provision of energy in the north of Scotland and central southern England. SSE aims to put the current and future needs of customers at the heart of these businesses and, in doing so, earn a return that is value for money for customers and fair to investors. This will be its aim in 2016/17 and beyond.

Responsible Service Provider

Providing a reliable and essential service for our vulnerable customers

SSE Power Distribution (SSEPD) understands the importance of maintaining an accurate Priority Services Register so vulnerable customers receive attention in the event of power interruptions. SSEPD is required to provide these services under its regulatory duties. However, to develop and improve its services further, SSE enlisted the help of the British Standard for inclusive service provision (BSi).

BSi is the gold standard for companies seeking to respond to vulnerability. At its heart is an understanding that vulnerability is broadly defined and that a person's status can change. SSEPD made several improvements to its practises, including awareness training, developing internal standards and amending customer communications. Audits were carried out by BSi and the accreditation was achieved by November 2015.

SSE Retail (including Enterprise)

Retail overview
Supplying energy and essential services to our customers

SSE is one of the largest energy suppliers in the competitive markets in Great Britain and Ireland. At 31 March 2016 it supplied electricity and gas to 8.21m household and business accounts. It also provides other related products and services including telephone, broadband and boiler care to 0.40m household and business customers. The Retail segment includes the Enterprise business which provides energy services to meet the needs of businesses and public sector organisations in a reliable and sustainable way.

Taken together these businesses provide balance to the SSE Group and demonstrate SSE commitment to efficient operations and industry-leading customer service.

Retail operating profit* – £m

455.2

-0.4%

SSE is involved in the supply of electricity, gas and other energy related services to household customers and, through its Enterprise business, to industrial and commercial customers.

SSE Enterprise profit – £m

40.9

-41.9%

Enterprise brings together key SSE services for industrial, commercial and public sector customers.

Energy customer accounts – millions

8.21

-4.3%

SSE supplies electricity and gas to household and business customers in the energy markets in Great Britain and Ireland. It is the second largest supplier in both markets.

Debt overdue by more than six months – £m

103.2

-2.8%

SSE aims to engage as early as possible with customers who are struggling with debt through agreeing payment arrangements that lower balances from the outset and helping to spread the cost of energy over the year.

Financial assistance for vulnerable customers – £m

48.5

-5.5%

SSE provides assistance for customers who struggle to pay for their basic energy needs, including discounts on energy bills.

Meters read – millions

11.4

-12.3%

SSE is involved in supplying, installing, maintaining and reading meters in the household, commercial, industrial and generation sectors in Great Britain.

Retail (including Enterprise) continued

Key questions

What were the key issues for Retail in 2015/16?

We took important strides towards achieving our strategy: investing in our digital platforms, continuing to build scale in our non-energy businesses, ramping up our smart metering roll-out and driving operational efficiencies. The operating environment has become clearer as the CMA inquiry draws to a close. Unfortunately we've lost customers, but we're taking steps to tackle this by investing in even better customer service and new products.

How does the Retail business help SSE fulfil its strategy and financial objective?

Retail is an important part of SSE's balanced range of businesses. Ultimately, all of SSE's operations are funded by customers and it's through our Retail business that most customers interact with us; so it is about operating an efficient business and giving customers value. By staying true to our values of service and efficiency, we can keep our customers happy while also making a fair profit.

What is the principal challenge your business faces in the next three years?

The energy supply markets in Britain and Ireland are undergoing a transformation. This creates challenges and opportunities for us. There are substantial regulatory changes at the same time as considerable innovation in new products, service offerings and technologies such as installing smart meters in every home and business in GB which will help to meet changing customer expectations and preferences but which will also be a complex project to deliver.

What are your key priorities for 2016/17 and beyond?

In the Retail segment our key priorities are maintaining a clear focus on safe and compliant operations in the interests of customers and employees; moving towards a stabilisation of customer numbers through enhanced sales and retention activities, as well as through realising SSE's customer service ambition; accelerating diversification through the national expansion of Home Services and continued growth in broadband and telephone; taking the smart opportunity by optimising deployment of smart meters and developing compelling smart-enabled customer propositions; continuing to improve the customer experience and deliver operational efficiencies by further digitalising the business; and delivering continuing investment and growth in energy supply to commercial and public sector organisations.

Will Morris
Managing Director, Retail

Supplying energy and essential services across the Great Britain and Ireland markets

SSE is focused on addressing the decline in customer numbers it has experienced in recent years. In the context of the rapidly evolving competitive environment in which its Retail business operates, SSE has embarked on a transition from commodity provider towards its vision of becoming a market-leading retailer of energy and essential services, by digitalising and diversifying its business, and consistently excelling in customer service.

Financial performance in Retail and Enterprise

In 2015/16, SSE's profit margin (operating profit as a percentage of revenue) in Energy Supply was 5.2% (before tax) compared with 4.6% in 2014/15 and 2.9% in 2013/14. Energy supply profit margin has averaged 4.1% over the past five years.

During the year to 31 March 2016, total operating profit in Retail was £455.2m with the principal movements in operating profit as follows:

Energy Supply – The overall increase in operating profit was driven primarily by strong performance in Business Energy, in particular due to increasing market share in the industrial and commercial (I&C) sector. This more than offset a reduction in operating profit in domestic energy as a result of customer losses and lower consumption. This is in line with the expectations set out by SSE at its interim results that operating profit in domestic energy supply would fall in 2015/16 relative to 2014/15.

Energy Related Services – Operating profit fell as SSE continues to invest in building scale in these businesses, making a number of operational improvements to support its plans for future growth in non-energy as part of its diversification strategy. In line with that strategy, overall customer numbers in Energy-Related Services, which includes broadband and fixed-line telephone, gas boiler and electrical maintenance, repair and installation, increased to 0.40 million from 0.35 million in the year to 31 March 2016.
Enterprise – The reduction in operating profit mainly reflects strategic business disposals that took place in the previous year (including the £15.3m profit from the disposal of SSE's gas pipeline business), alongside numerous revisions to the overall structure of the SSE Enterprise business.

Preparing Consolidated Segmental Statements

SSE is required by Ofgem to publish a Consolidated Segmental Statement (CSS) each year setting out the revenues, costs and profits or losses of businesses in its Wholesale and Retail segments.

In line with that requirement, SSE expects to publish its CSS for 2015/16 in July 2016. The CSS for 2015/16, which will be reconciled to SSE's published financial statements and reviewed by SSE's auditors KPMG. It is expected to show that SSE's profit margin (before tax) from supplying electricity and gas to households in Great Britain was relatively flat at 6.2%, compared with 6% in 2014/15. SSE's CSS is also expected to highlight the increasing divergence between electricity and gas margins, primarily due to cumulative costs associated with the long-term upgrade of the country's electricity system that began around a decade ago and which is continuing in the interests of ensuring that customers benefit from a secure and lower-carbon energy system. These costs are levied more heavily against electricity.

Responding to the Competition and Markets Authority inquiry

On 10 March 2016 the Competition and Markets Authority (CMA) published its Provisional Decision on Remedies (PDR) summary, setting out for consultation its final proposed remedies as it approaches the conclusion of its two-year energy market investigation. As outlined in SSE's published response, the PDR largely reflects the position that GB energy markets are generally competitive and well-functioning, and, in particular:

- that the key elements of the wholesale markets are working well and highly competitive;
- the significant number of positive features that the CMA has identified in the domestic supply markets, including that over 30 suppliers compete vigorously on price, tariff and product innovation; and
- that market developments, and particularly smart meters, will have (and are already having) a materially positive impact on the energy sector.

However, SSE does not recognise either the CMA's assessment of profitability in the sector and associated customer detriment or the overall picture of the GB energy supply market implied by the PDR findings. SSE remains concerned that, despite some of the in-depth analysis undertaken, the PDRs still display a considerable lack of appreciation for the dynamic and evolving nature of this market.

Nevertheless, SSE supports many of the remedies proposed by the CMA, including the withdrawal of the simpler choices component of the Retail Market Review (RMR) rules; improving the framework for effective competition through a clear path towards mandatory half-hourly settlement; and improving industry governance, among others. However, SSE has concerns that prepayment meters (PPMs) are a poor proxy for vulnerable customers and the PPM price cap stands out as a potentially flawed remedy which may have a detrimental impact on competition and endanger the efficacy of the rest of the package.

While SSE strongly supports efforts to maximise customer engagement, it also has concerns over the proposed database for 'disengaged' customers.

SSE will continue to work constructively with the CMA and other appropriate stakeholders to reach a practical delivery of this substantial package, whilst recognising it is already a busy period of change in the industry, particularly against the backdrop of the smart meter roll-out.

Retail (including Enterprise) key performance indicators

	March 16	March 15
Energy Supply		
Operating Profit* – £m	**398.9**	368.7
Capital expenditure (Energy Supply and Energy Related Services) – £m	**169.0**	109.6
Electricity customer accounts (GB domestic) – m	**4.16**	4.37
Gas customer accounts (GB domestic) – m	**2.79**	2.96
Energy customers (GB business sites) – m	**0.47**	0.45
All-Island energy market customers (Ire) – m	**0.79**	0.80
Total energy customer accounts (GB, Ire) – m	**8.21**	8.58
Electricity supplied household average (GB) – kWh	**3,763**	3,842
Gas supplied household average (GB) – th	**426**	438
Household/small business aged debt (GB, Ire) – £m	**103.2**	106.2
Bad debt charge – £m	**44.0**	65.3
Customer complaints to third parties (GB)[1]	**1,416**	1,528
Energy related services		
Operating profit* – £m	**15.4**	17.7
Home Services customer accounts (GB) – m	**0.40**	0.35
Meters read – m	**11.4**	13.0
Supply customers' bills based on actual reading – %	**95.1**	96.2
Smart Meters installed	**over 180,000**	over 40,000
Enterprise		
Operating profit* – £m	**40.9**	70.4
Capital expenditure – £m	**48.5**	25.1
SSE Contracting Order Book – £m	**133**	133

1 Ombudsman: Energy Services and Citizens Advice.

Energy Supply and Energy Related Services

Treating customers fairly

Underpinning SSE's approach to the provision of both energy and energy-related services is the principle of treating customers fairly. This is central to the decisions SSE takes both at Executive Committee and Board level, as documented in its annual Treating Customers Fairly Statement, published in August each year. This means actively addressing any issues that arise relating to the quality of the service provided, as well as looking for ways to improve service quality in the future.

As a result of its approach to customers, SSE continues to be recognised by a variety of trusted third parties for the quality of its service:

- The Ombudsman for Energy Services reported in March that SSE received the fewest complaints of all ten suppliers covered, including the largest independent suppliers, with 3.09 complaints per 100,000 customers.
- SSE continues to perform strongly in the Citizens Advice Energy Supplier Performance Report, with a score 44 times better than the worst performing supplier and seven times better than the other major suppliers' average score. SSE remained top for the period June-September 2015, a position held for five years, before slipping fractionally to second place for Q4 2015. SSE is working hard to improve on this and is confident that it will remain an industry leader.
- SSE was also ranked best for customer service among the largest six energy suppliers by uSwitch, the best performing major energy supplier in the Which? customer service survey of the top 100 consumer brands, and number one energy supplier in the annual UK National Consumer Satisfaction Index (NICIS-UK).

Retail (including Enterprise) continued

Supplying energy to customers across Great Britain and Ireland

SSE appreciates that customers rely on its core products of electricity and gas to power and heat their homes in order to live safely and comfortably, and is therefore committed to keeping energy prices as low as possible. On 29 March 2016, SSE implemented its third price cut in Great Britain during the period of its unique two and a half year price freeze, reducing gas prices by a further 5.3%. SSE's household energy customers have not seen a price increase since November 2013 and SSE's new gas prices are now 12% lower for a typical household customer than they were in 2013. While electricity wholesale prices have also fallen, this has been offset by non-energy costs and in particular the cumulative impact of programmes to upgrade the country's energy infrastructure, which are levied predominantly against electricity.

In the year to 31 March 2016, SSE's energy customer accounts in Great Britain and Ireland fell from 8.58 million to 8.21 million. SSE is focused on addressing the decline in customer numbers it has experienced in recent years and is aiming to reduce significantly the rate of customer losses during the coming year. The market for energy supply in GB in particular continues to be intensely competitive, with political, regulatory and market factors all contributing to the rapid growth of new market entrants, of which 11 have come to market in the past year alone. Customers are also highly engaged: in March 2016 alone, over 475,000 customers switched supplier, with 43% switching to a smaller provider, according to Energy UK data. Increasingly, customers are switching via internet comparison sites (ICSs), which now account for around 50% of switches compared to 25% seven years ago, and are driven almost exclusively by price. Similar forces are at work in the competitive markets in Ireland.

Having made significant improvements in the past 12 months in order to compete more effectively in this environment, SSE will continue to offer market-leading deals to new and existing customers in 2016/17. However, it is, fundamentally, a business focused on the long-term and its strategy therefore centres around providing customers with additional value in order to create stronger, deeper and more sustainable customer relationships based on high-quality customer service, provision of a range of different, competitively priced products in the home and a programme of rewards. To support this strategy, SSE is also focused on building a strong brand that customers want to engage with and on delivering operational efficiencies that enable it to do more for less.

Responsible Service Provider

Putting the current and future needs of customers at the heart of everything we do

Treating customers fairly is the guiding principle of SSE's Energy Supply business. In fulfilling this principle SSE seeks to act as a responsible service provider and put the current and future needs of customers at the heart of everything it does.

Having listened to customers' views, and research by uSwitch that found that six in 10 customers don't understand their bills, SSE undertook a year-long research project aiming to simplifying energy bills to make them less cluttered and confusing. Much of the content on an energy bill is prescribed by regulations, and whilst well-meaning this can create confusion. In February 2016, SSE published a new, simplified bill (below). The new design is the result of in-depth engagement with customers and stakeholders who told SSE that: they want to find the information they need quickly and easily; bills should be no longer than two pages; and they don't want unnecessary or confusing information to be included.

The new design was devised in partnership with Which?, Citizens Advice, uSwitch, the Design Council, Age UK and the Money Advice Service. Ofgem recognises there needs to be reform in energy bills and has begun consulting suppliers and stakeholders. SSE continues to engage constructively with the regulator on the issue of simple bills.

Investing in becoming a market-leading retailer of energy and essential services

SSE firmly believes that its strategy of becoming a market-leading retailer of energy and essential services, by digitalising and diversifying its business, and consistently leading in customer service, is the right response to an increasingly competitive market, and one which will enable it to leverage its strong competencies in customer service and efficient operations.

It now has a number of key initiatives under way, including:

- a significant upgrade of its customer-facing **digital** channels and websites to simplify and improve **customer service** while also minimising its cost to serve;
- **diversifying** though the national expansion of its Home Services business, which provides boiler and electrical services to customers;
- offering market-leading deals in the broadband and fixed-line telephony market in order to build scale in this business and further **diversify** SSE's customer base, seeking to offer additional products and value to existing energy customers;
- introducing additional resources, training and telephony services to its call centres to deliver on its ambition to build differentiation through **service**; and
- optimising the smart meter roll-out and developing new in-home customer experiences linked to smart data to drive **digital** customer engagement and achieve its **service** ambition.

At the same time SSE continues to invest in its brand to ensure it not only appeals to customers but is able to offer additional value and rewards linked to its sponsorship of sports, such as the SSE Women's FA Cup, and leading entertainment venues The SSE Hydro, The SSE Arena, Wembley, and The SSE Arena, Belfast.

This investment is underpinned by SSE's ongoing efforts to streamline its operations and generate process efficiencies.

Meeting customers' need for energy

Following a colder first six months of the year relative to 2014/15, winter temperatures were again near or above average, impacting consumption volumes in the second half of the year. The average UK temperature for the 12 months to 31 March 2016 was 0.4 degrees Celsius warmer than the 30-year (1981-2010) average, though it was 0.3 degrees Celsius colder than in 2014/15.

While consumption can vary greatly year-on-year based on temperatures, on a weather-corrected basis SSE estimates that gas and electricity consumption by household customers in the 12 months to 31 March 2016 fell by 3.1% and 1.8% respectively. As well as reflecting underlying changes in SSE's customer base, this can be attributed to the ongoing impact of structural, technological and behavioural energy efficiency improvements. SSE estimates that, at today's prices, a typical customer bill is now approximately 12% lower than in 2011 as a result of reduced energy consumption, largely due to energy efficiency improvements.

SSE continues to play its role in the delivery of important energy efficiency improvements to customers' homes under the Energy Company Obligation (ECO). SSE is on course to meet its ECO targets to 31 March 2017 and, since the scheme was launched in 2013, SSE has:

- promoted the installation of 282,000 energy efficiency measures including loft, cavity and solid wall insulation and boiler replacements;
- helped improve the efficiency of over 242,000 homes across Great Britain; and
- provided over £1,000m of notional lifetime bill savings for customers.

Helping vulnerable customers

Energy is an essential service; SSE therefore takes its responsibility to vulnerable customers very seriously and helps them manage their energy costs in a number of ways.

The Warm Home Discount (WHD) scheme enables pensioners and vulnerable customers to receive help with their fuel bills in the form of a yearly £140 rebate. As part of the WHD Scheme, SSE's Priority Assistance Fund provides additional support to low income and vulnerable customers, including debt relief, free energy efficiency advice, and help with bespoke payment arrangements. In the year to 31 March 2016 around 325,000 customers received assistance from SSE worth over £48.5 million through these initiatives and partnership projects with National Energy Action (NEA), Citizens Advice and the Home Heat Helpline.

SSE also operates a free Careline priority service, dedicated to helping customers who are elderly, disabled or have special medical needs. It takes a proactive approach to monitoring the top-up behaviour of its prepayment customers to minimise the risk of 'self-disconnection'. In line with its licence condition, between the start of December and the end of February (or longer if the weather is unseasonably cold), SSE has a no-disconnection policy covering all household customers.

Further to its commitment in GB to use any future unclaimed credit balances which cannot be returned to customers to help give additional support for vulnerable customers, SSE has also now reallocated historic unclaimed credits to the value of more than £28m.

Debt levels continue to reduce, partly reflecting lower prices and falling consumption, but also due to SSE's efforts to engage constructively and understandingly with customers in arrears as early as possible, making sure support is provided and payment plans are manageable.

Rolling out smart meters to customers across Great Britain

SSE's metering business is undergoing a transformation through the smart meter roll-out; however, it still undertakes meter reading operations and meter operator work in all parts of Great Britain. SSE believes in the potential for the national roll-out of smart meters to transform the relationship between customers, their energy usage and their supplier in the coming years. It is therefore committed to delivering its roll-out in a way that is both cost-effective and customer-centric, with the primary objective of maximising the net benefits to customers.

SSE has been gradually ramping up its capacity and delivery of smart meters with a view to getting it right for customers first time to maximise engagement. As of 31 March 2016, SSE had installed more than 180,000 smart meters and installed its 200,000th meter in April 2016. 2016/17 is a pivotal year for the smart programme, with the central communications infrastructure provided by the Data Communications Company (DCC) due to be delivered to a revised timetable which will see phased introduction in August and October 2016. While there remain other constraints to be addressed, getting the DCC up and running is a critical first step towards enabling suppliers to build up to mass deployment. Any further delays to the DCC's delivery timetable must be reflected in the overall delivery timetable to avoid any negative impacts for customers.

Doing more for business energy customers

Business Energy performed strongly in 2015/16, driven by growth in the Industrial and Commercial (I&C) market and ongoing efforts to control operating costs. SSE has continued to build its offering in the commercial sector with the launch of a new renewable energy proposition 'SSE Green', a new customer website and a change in approach to service with a greater focus on the needs of customers. This has resulted in Business Energy's service team moving closer to its sales team, working with the customer to define requirements at an early stage and then providing ongoing support on a continuous basis.

Retail (including Enterprise) continued

For Business Energy's micro business customers, SSE has continued its emphasis on Treating Customers Fairly by relaunching its TCF statement and establishing a Performance team to focus on operational excellence by driving continuous improvement.

Third Party Intermediaries (TPIs) remain an important channel for Business Energy growth and SSE continues to provide ongoing support to its TPIs by providing access to its industry experts via sales channels, engagement sessions and regular industry updates.

Key to the continued success of Business Energy is a willingness to listen to customers, review processes and act on what customers are saying. At the same time, SSE remains focused on giving business customers direct access to people who will support and work in partnership with them throughout the lifetime of their contract.

Supplying energy and energy-related services to customers in Ireland

SSE Airtricity is the second-largest energy provider in Ireland and the only energy supply brand to operate in all of the competitive gas and electricity markets across the island. At 31 March 2016, SSE Airtricity supplied electricity and gas to 0.79 million household and business customer accounts in the Republic of Ireland (ROI) and Northern Ireland (NI), representing a 20% share of the total combined gas and electricity markets in which it operates.

Market conditions remain highly competitive, particularly in Northern Ireland where the regulated electricity market has seen the emergence of new domestic entrants in the last 12 months. In light of competitive pressures, SSE Airtricity continues to invest in its brand and in June 2015 announced a ten-year naming

Responsible Service Provider

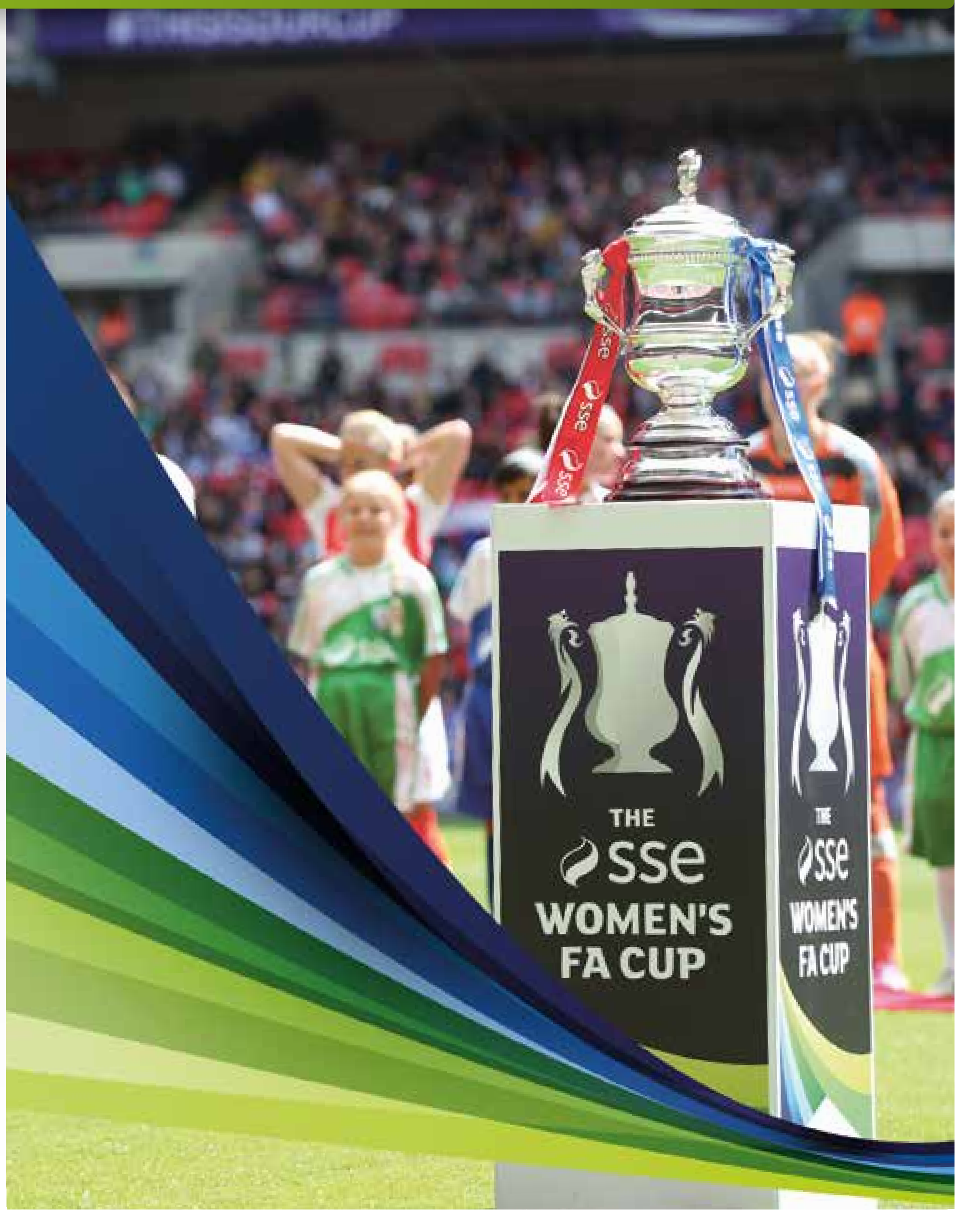
In 2015/16, SSE entered into an agreement with The Football Association to become the sponsor of The SSE Women's FA Cup. The 2016 Final took place at Wembley Stadium, and was attended by over 30,000 spectators. It was also broadcast live on BBC Television. Arsenal beat the holders Chelsea 1-0.

This sponsorship demonstrates two things about SSE that it will aim to build on in 2016/17 and beyond.

The first is a commitment to associating SSE's Retail brand with positive developments in areas such as women's sport, complementing its sponsorship of leading entertainment venues The SSE Hydro, The SSE Arena, Wembley, and The SSE Arena, Belfast.

The second is a commitment to ensure that SSE is a diverse and inclusive organisation that more closely reflects the diversity of its customers and, in line with that, puts customers at the heart of everything it does.

As a result of its sponsorship, SSE won the Empowering Women Through Sport Award (supported by Women in Sport) at the UK Sponsorship Awards 2016.



Enterprise

Key questions

What were the key issues for Enterprise in 2015/16?
This year has been about building on the progress made since Enterprise was formed in 2014 and laying the foundations to support future growth. Our particular focus has been on operational efficiency, identifying new opportunities for growth such as our rail business and Energy Performance Contracts frameworks, building enhanced sales capability and a focus on delivering value for our customers.

How does the Enterprise business help SSE fulfil its strategy and financial objective?
Enterprise is a multi-disciplined partner for businesses and public sector organisations. We have a diverse range of businesses with a broad service and product offering enabling us to identify opportunities for growth across several markets.

What is the principal challenge your business faces in the next three years?
The energy needs and expectations of businesses are becoming increasingly sophisticated, with growing requirements for effective energy management and robust energy and utility infrastructure. Responding to the changing nature of how our customers want to do business is the principal challenge facing Enterprise, but also presents significant opportunities which Enterprise is well positioned to exploit.

What are your key priorities for 2016/17 and beyond?
In Enterprise, our key priorities are: continuing development of integrated energy and utility solutions that meet the specific and evolving needs of customers; and the continued organic growth of each of the businesses within Enterprise.

Jim McPhillimy
Managing Director, Enterprise

rights deal for The SSE Arena, Belfast, adding to SSE's existing portfolio of UK-wide entertainment venues. SSE Airtricity's Energy Services business continues to expand in both the ROI and NI markets. As a 'digital-first' supplier, around 70% of all SSE Airtricity customer interactions are performed via the company's online, digital and mobile service platforms.

SSE Airtricity reduced its household electricity prices in Republic of Ireland by 2% from 11 January 2016, following an earlier 2% cut to electricity along with a 4% cut to gas prices in April 2015. In Northern Ireland, the company reduced its electricity prices by 8% in April 2015 and by a further 1.3% from 11 January 2016. In Northern Ireland's Greater Belfast natural gas supply network, where SSE Airtricity is the regulated supplier with a 73% market share, the company reduced its gas prices by 10% from 1 October 2015. This followed an earlier 7.8% cut in its regulated prices in April 2015. The setting of SSE Airtricity's regulated natural gas prices, including any changes to those prices, follows a Price Control review conducted every six months by the Northern Ireland Utility Regulator.

Enterprise
Business structure

SSE Enterprise incorporates six of SSE's businesses: Contracting, Energy Solutions, Rail, Slough Heat and Power, Telecoms and Utilities, supported by centralised sales and project delivery teams. As a multi-disciplined engineering services partner for businesses, building a sustainable infrastructure for the future, SSE Enterprise provides energy services to meet the needs of businesses and public sector organisations in a reliable and sustainable way.

With a significant self-delivery capability, SSE Enterprise:

- designs, builds, maintains and operates complex mechanical and electrical engineering infrastructure;
- provides sector-leading energy management and data analytic services to help businesses optimise their energy performance, helping to reduce costs and emissions;
- provides industry-leading telecoms connectivity and data centre services, meeting the connectivity and communication needs of businesses with bespoke solutions; and
- designs builds, maintains and operates electricity, gas, water, heat and cooling networks for commercial and residential developments.

Retail (including Enterprise) continued

SSE Enterprise was formed in 2014 under the leadership of Managing Director Jim McPhillimy, who is also a member of SSE's Executive Committee and a PDMR. Having successfully brought together the SSE Enterprise group of businesses and enhanced their overall capability, Jim will step down from the role and retire from SSE at the end of the year. A successor will be appointed in the next few months.

Setting the right priorities for SSE Enterprise

The energy needs and expectations of private sector companies and public sector organisations are becoming increasingly sophisticated, with growing requirements for effective energy management and robust energy and utility infrastructure. In addition, those customers are increasingly seeking integrated and bespoke solutions to meet their energy and utility needs.

Laying the foundations for future growth

Since the start of 2015/16, SSE Enterprise has continued to make progress in laying the foundations to deliver future growth.

- SSE Enterprise Telecoms has continued to grow its network, unbundling a further 33 BT exchanges, increasing telecoms coverage by an additional 50,000 postcodes nationwide; further expanding its network in London; and connecting a further four data centres, bringing the total number of connected data centres to 72. SSE Enterprise Telecoms sales grew 30% year on year, with a number of notable new clients including NATS, Mitsubishi UFJ Financial Group Inc. (MUFG) and Imperial College.

- SSE Enterprise Contracting and SSE Enterprise Energy Solutions have both undergone organisational restructures, with enhanced sales organisations focused on operational efficiency and delivering value for customers. SSE Enterprise Contracting has been selected by Bluepoint London, a subsidiary of the French group Bolloré, to be the installer of up to 6,000 Electric Vehicle Charging Points across London.

- SSE Enterprise Utilities has created a dedicated heat team with ambitious plans to significantly build on its current portfolio of district heat networks and maintain its position as one of the UK's leading heat network providers. In 2015/16 SSE Enterprise Utilities delivered a low-carbon, multi-utility solution at the Riverlight development in London, providing the installation and ongoing ownership, operation and maintenance of the water, heat, gas and electricity networks.

- A dedicated rail business, SSE Enterprise Rail, has been created with the primary purpose of 'Powering Britain's Railways', building on the extensive engineering experience and expertise SSE has built up in rail over the last 15 years. Since its formation, SSE Enterprise Rail has significantly expanded its capabilities in the rail sector, increasing its product portfolio of Railway Industry Supplier Qualification Scheme (RISQS) codes; the industry recognised qualification for the supply of products and services to the rail industry, from 32 to over 200.

- Slough Heat and Power has transferred from SSE's Generation division to SSE Enterprise, recognising the opportunity to broaden the offering of services that SSE Enterprise provides to Slough Heat and Power's existing and prospective customers.

- A new Energy Performance team has been created, responsible for securing, structuring and delivering Energy Performance Contracts (EPCs).

Retail (including Enterprise) – Conclusion

SSE's Energy Supply, Energy-Related Services and Enterprise businesses operate in competitive markets and are each focused on the changing energy needs of household, commercial and public sector customers. This means maintaining a clear focus on delivering the propositions and services that customers need. Put simply, the core requirement of these businesses is to put the current and future needs of customers at the heart of everything they do.

Supporting responsible transport delivery

In 2015/16 SSE significantly expanded its capability in the rail sector with the creation of a dedicated new business.

SSE Enterprise Rail has been formed with the primary purpose of 'Powering Britain's Railways' and signals the company's increasing focus in the rail sector, building on the extensive experience and expertise and wide variety of rail industry clients SSE has built up in rail over the last 15 years. As the rail industry continues to modernise, delivering responsible, sustainable transport to commuters across Great Britain, SSE Enterprise Rail aims to become the rail industry's power partner of choice, building a sustainable infrastructure for the future.

Chairman's introduction
to SSE corporate governance

The Board is committed to ensuring that the high standards of corporate governance which are embedded within the organisation are maintained, and are at the forefront of all that we do.

Dear Shareholder,

I am pleased to introduce the Directors' Report which sets out the roles and responsibilities of the Board and its Committees, along with an explanation of the work that we have carried out during the year.

Corporate governance

SSE recognises that a successful and sustainable company is founded upon strong principles of corporate governance. The Board is therefore committed to ensuring that the high standards of corporate governance which are embedded within the organisation are maintained, and are at the forefront of all that we do. It is these standards in turn, that underpin SSE's clear strategic, financial and responsibility framework, and enable decisions to be taken that create value for future years.

The UK Corporate Governance Code

This is the first year that we report against the 2014 version of The UK Corporate Governance Code (the Code), which is issued by the FRC and is available on their website. The Code adopts a 'comply or explain' model, which recognises that there are situations where a period of non-compliance may be appropriate, provided good governance can be achieved by other means and the reasons are explained to shareholders.

During the reporting period there have been no material departures from the Code which have been detrimental to the standards of governance that we instil. However, between the conclusion of the AGM on 23 July 2015 and 1 August 2015, a 9 day period of non-compliance occurred in respect of Code provisions A.4.1, C.3.1 and D.2.1. These departures, along with the planned changes to Committee membership to address the non-compliance, were disclosed at the AGM in July 2015 and occurred when succession plans were well advanced. No formal Board or Committee activity was planned to take place during this time, and a full explanation of the steps taken is provided in the Nomination Committee Report on page 82.

Our position in respect of Code provision C.3.7, whereby the external audit contract should be put out to tender at least every 10 years remains unchanged. A detailed explanation of our approach, along with the anticipated timeline for the tender of the external audit contract is set out in the Audit Committee Report on page 88.

Board changes

As was outlined in last year's Report, a number of planned membership changes have taken place at Board level during the year. Following an orderly hand-over, I became Chairman at the conclusion of our AGM on 23 July 2015 when Lord Smith of Kelvin stepped down from the role, and in line with succession plans we have welcomed two new non-Executive Directors to the Board. Crawford Gillies and Helen Mahy joined us on 1 August 2015 and 1 March 2016 respectively, with Crawford Gillies assuming the role of Senior Independent Director on appointment. Further details of both Crawford Gillies' and Helen Mahy's Committee membership are provided on page 82 of the Nomination Committee Report, and information in respect of the ongoing tailored inductions which all new Directors receive can be found on page 77.

Board diversity

The Davies Review published in 2011 set out the recommendation that all FTSE 100 Board's should aim for 25% female representation by 2015. SSE continues to be supportive of the approach set out in the Davies Review, and recognises that gender diversity plays a vital role in creating a balanced and effective Board. With the release of the five year summary of the Davies Review in October 2015, we will continue to take account of further developments in this area. I am delighted to report that following the changes outlined above, the SSE Board currently comprises 33% female representation.

Balance and effectiveness is further achieved through understanding the needs of the organisation, identifying the skills required of the Board and recruiting the best individuals for any role. This recruitment follows a rigorous and independent process, and full details of that used by SSE can be found on pages 81 and 82. The appointment of Crawford Gillies and Helen Mahy in 2015/16 has indeed contributed to the balance of the Board, as they bring a wealth of knowledge and professional experience from a broad range of work across different sectors, and I am sure this will be of great value going forward.

Board evaluation

The Board recognises the importance of the evaluation process. In line with recommended practice, we underwent an externally facilitated evaluation in November 2015 having completed an internal evaluation for the previous two years. The findings will help shape the agenda and activity of the Board going forward, and progress against the objectives set will be assessed during the planned internal evaluation later this year. The process adopted along with the key findings of the external evaluation are detailed on pages 76 and 77.

Risk

Risk management and reporting continues to be an area of focus for both the Board and Audit Committee, with SSE's approach to managing risk being defined by the Group Risk Management and Internal Control Policy which is set by the Board. In order to monitor the Risk Management Framework, the Board conducts an annual review of effectiveness which in 2015/16 resulted in a reduction in the number of Principal Risks from 10 to 9. During the period a viability assessment was also conducted to enable development of the Group Viability Statement. Further information on risk management and internal control can be found in the: Strategic Report (pages 16 to 19); Directors' Report (pages 78 and 84 to 89); and in the supplementary Group Risk Report which is published on the SSE website.

Corporate culture

At the heart of SSE's culture is our strategic, financial and responsibility framework, which is outlined on pages 8 and 9 of the Strategic Report. The framework is focussed on creating long-term value, and is designed to support responsible decision making to ensure SSE continues to deliver for shareholders and customers alike. Embedded within the framework, and our culture in turn, is the SSE SET of core values. These values underpin everything that SSE does and focus on safety, service, efficiency, sustainability, excellence and teamwork. Whilst the Board play a vital role in shaping culture and embedding these values, it is the hard work and dedication of our 21,118 people who define them.

Richard Gillingwater CBE
Chairman

In this section

68 Board of Directors
70 Corporate Governance
- 70 Leadership
- 76 Effectiveness
- 78 Accountability
- 79 Relations with shareholders

80 Nomination Committee Report
84 Audit Committee Report
90 Safety, Health and Environment Advisory Committee (SHEAC) Report
92 Remuneration Report
- 92 Chairman's Statement
- 94 At a glance
- 96 Remuneration Policy
- 104 Remuneration Report 2015/16

114 Other Statutory Information
116 Statement of Directors' Responsibilities
117 SSE's financial results explained

Board of Directors

	Richard Gillingwater CBE Chairman	Alistair Phillips-Davies Chief Executive	Gregor Alexander Finance Director	Crawford Gillies Senior Independent Director
Career	Richard's career to date includes varied experience with a wide range of organisations. For more than a decade he worked in corporate finance and investment banking, in due course becoming Chairman of European Investment Banking at CSFB. He served as Chief Executive of the Shareholder Executive for a time and latterly was Dean of Cass Business School, London. He also has extensive board experience and served as the Chairman of CDC Group and a non-Executive Director of P&O, Debenhams, Tomkins, Qinetiq Group and Kidde. In 2015 he resigned as Senior Independent Director of Hiscox Ltd and as a non-Executive Director of Wm Morrison Supermarkets plc in order to ensure he has the appropriate capacity to be Chairman of SSE plc.	Alistair's career to date comprises a variety of roles. He has over 19 years' service with the Group, having joined Southern Electric plc in 1997 and has the benefit of experiencing much change in the energy sector over that period. Prior to 1997 he worked for HSBC and National Westminster Bank in corporate finance and business development roles in London and New York. His career has provided him with extensive experience across the energy sector and he has held leadership roles in the Wholesale, Retail and Enterprise areas as well as in other commercial areas of SSE, such as Corporate Finance. In addition he has led many of the Group's most significant transactions since the merger in 1998 when SSE plc was formed. Alistair also served as Chairman of the Energy Retail Association.	Gregor's career to date has spanned all areas of finance. He has over 25 years' service with the Group, joining Scottish Hydro-Electric plc in 1990 and has the benefit of experiencing much change in the energy sector over this period. Prior to 1990, Gregor worked for Arthur Andersen where he trained and qualified as a Chartered Accountant. He was SSE's Group Treasurer and Tax Manager before being appointed as Finance Director in 2002. His role was expanded in 2012 and he now has responsibility for Finance, Risk, Audit and Insurance, Procurement and Logistics, IT, Corporate Business Services and Investor Relations. He was instrumental in SSE's investment in SGN and is currently Chairman of the SGN Board. In addition he is the sponsoring Board member for SSE's businesses in Ireland.	Crawford has over three decades of business and management experience in a variety of organisations. Initially this was with Bain & Company, a firm of international management consultants, where he was Managing Director Europe from 2001 to 2005. While at Bain he worked with major companies in the UK, Continental Europe and North America across multiple sectors. He has also held public sector posts in both England and Scotland. He was an independent member of the Department of Trade & Industry and chaired its Audit & Risk Committee. Crawford brings a wealth of experience including extensive board experience, making him an excellent appointment as SSE's Senior Independent Director.
				
Skills and competencies	Richard has significant board experience which he applies in his leading of the SSE Board. He has an excellent understanding of the policy and regulatory framework within which SSE operates as well as broad financial skills and City experience.	Alistair is a Chartered Accountant and this together with his operational experience and leadership skills means he brings significant knowledge and commerciality to the Board. His experience in the energy sector gives him a valuable insight into the challenges the industry faces.	Gregor is a Chartered Accountant and brings wide ranging financial knowledge to the Board. His detailed understanding of the different aspects of the SSE group and their operating environment is invaluable.	Crawford's long and varied career in business means he brings broad commercial and governance knowledge to the Board including particular expertise in matters of finance and risk management.
Date of appointment	Non-Executive Director since May 2007. Chairman since July 2015.	Appointed an Executive Director in January 2002. Appointed Chief Executive in July 2013.	Appointed Finance Director in October 2002.	Non-Executive Director since 1 August 2015.
Committee membership	Chairman of the Nomination Committee. Member of the Remuneration Committee.	Member of the Nomination Committee.	Member of the Nomination Committee.	Member of the Audit, Nomination and Remuneration Committees.
Key current appointments	Chairman of Henderson Group plc. Senior Independent Director of Helical Bar plc.	Director of Energy UK. Member of the Accenture Global Energy Board. Vice President of Eurelectric.	Non-Executive Director of Stagecoach Group plc. Chairman of SGN Ltd.	Chairman of Control Risks Group. Non-Executive director of Barclays plc. Senior Independent director of Standard Life plc. Member of Advisory Board of School for CEO's.

Jeremy Beeton CB
Non-Executive Director

Jeremy's career comprises over 40 years of international project management experience over large, multi-site projects. He has worked with a wide range of organisations including governments, and both private and public companies.

During his career, he held various positions at Bechtel Ltd., Haden Maclellan Holdings PLC and Cleveland Bridge Engineering UK Middle East Ltd. In due course he became Principal Vice President of Bechtel Ltd, where he had responsibility for the management and delivery of Bechtel's civil engineering projects in infrastructure and aviation.

He was the Director General of the UK Government Olympic Executive, the lead government body for coordinating the 2012 London Olympics and Paralympic Games from 2007 to 2012.

Jeremy is a Civil Engineer and brings extensive knowledge of project management and related topics including (amongst others) safety, effective teams, complex project structures and contractual negotiations.

Non-Executive Director since July 2011.

Chairman of the Safety, Health and Environment Advisory Committee.

Member of the Remuneration and Nomination Committees.

Member of the Court of Strathclyde University.

Member of the Advisory Board of PwC.

Chairman of Merseylink Ltd.

Non-Executive Director of WYG plc.

Non-Executive Director of John Laing Group plc.

Katie Bickerstaffe
Non-Executive Director

Katie's career to date has included experience in a variety of roles in customer-facing retailers and fast-changing markets.

Katie is a graduate of Unilever's management training scheme and her earlier career included roles at Dyson Ltd and PepsiCo Inc.

She later became Managing Director of Kwik Save Ltd and Group Retail Director and Group HR Director at Somerfield plc.

From 2008 to 2012, Katie further expanded and consolidated her varied business experience while serving as Director of Marketing, People and Property (Dixons). In 2012 she was promoted to the role of Chief Executive, UK and Ireland Dixons Carphone plc and also joined the Group Board.

Katie brings an understanding of customers' needs gained through her career in retail. She combines this with her experience in HR, marketing and other business areas to bring a wide-range of skills applicable to SSE's business.

Non-Executive Director since July 2011.

Chairman of the Remuneration Committee

Member of the Nomination Committee.

Chief Executive, UK and Ireland Dixons Carphone plc.

Dame Susan Bruce DBE
Non-Executive Director

Sue has had an extensive and varied career in local government.

During this time, she held a variety of roles including Chief Executive at both East Dunbartonshire Council and Aberdeen City Council before taking up the role of Chief Executive at the City of Edinburgh Council.

This provided her with substantial experience in leading sizeable organisations with large numbers of employees, significant assets and an important place in the communities they serve. Through this part of her career, she also gained experience in financial management, cost control, organisation recovery and in a range of large-scale projects.

After 40 years service she retired from local government in 2015.

Sue's extensive career in the public sector enhances the diversity of the Board. Her operational experience of leading large organisations and projects make Sue a source of knowledge on these matters for the Board.

Non-Executive Director since September 2013.

Member of the Audit, Nomination and Safety, Health and Environment Advisory Committees.

Chair of the Royal Scottish National Orchestra.

Chair of Young Scot.

Deputy Chair of The Scottish Council for Development and Industry.

Visiting Professor, The International Institute of Public Policy, University of Strathclyde.

Peter Lynas
Non-Executive Director

Peter's career to date means he has over 30 years of business experience spanning all areas of finance as well as plc board experience.

He joined GEC-Marconi in 1985 as a Financial Accountant at the manufacturing operation in Portsmouth. In 1998 he was appointed Finance Director of Marconi Electronic Systems prior to the completion of the British Aerospace/Marconi merger.

He was a Board Director of Marconi's European joint venture companies, Alenia Marconi Systems and Matra Marconi Space, and has been Chairman of the trustee Board of a major pension scheme.

He has been Group Finance Director of BAE Systems Plc since 2011.

Peter is a Fellow of the Chartered Association of Certified Accountants and brings up to date financial knowledge and experience as well as the general business knowledge gained from being an Executive Director on another plc board.

Non-Executive Director since July 2014.

Chairman of the Audit Committee.

Member of the Nomination Committee.

Group Finance Director of BAE Systems plc.

Member of the BAE Systems Inc Board in the US.

Helen Mahy CBE
Non-Executive Director

Helen's career to date includes varied experience as Company Secretary and General Counsel as well as on UK and international boards.

She was Group General Counsel and Company Secretary of Babcock International Group PLC.

From 2003 to late 2012 she was Group Company Secretary and General Counsel of National Grid plc where she gained valuable energy sector experience as well as experience in the areas of risk and compliance.

She was previously a non-Executive Director of Aga Rangemaster Group plc and of Stagecoach Group plc and a former chair of the GC100 Group.

These roles have also provided Helen with extensive commercial experience.

Helen's career, including relevant sector experience, puts her in the ideal position to understand the legal, compliance and governance issues SSE faces. She also brings a detailed knowledge of, and interest in, the areas of inclusion and diversity.

Non-Executive Director since 1 March 2016.

Member of the Audit, Nomination and Safety, Health and Environment Advisory Committees.

Chairman of The Renewables Infrastructure Group.

Non-Executive Director of Bonheur ASA.

Non-Executive Director of SVG Capital plc.

Corporate governance

Leadership

Role of the Board

SSE's core purpose is to provide the energy people need in a reliable and sustainable way. As explained in the Strategic Report, SSE achieves this through the efficient operation of, and investment in, a balanced range of energy-related businesses within three principal areas: Wholesale; Networks; and Retail (which incorporates Enterprise). Through these operations and investments, the Board is collectively responsible to SSE's shareholders for the long-term success of the Group. The Board decide the overall strategic direction, values and governance of the Group, and provide the entrepreneurial leadership within a framework which enables risk to be assessed and managed. Effective leadership is further defined within SSE through the Leadership Blueprint, which is detailed below.

Governance framework

The Board sets SSE's corporate governance framework which is detailed opposite, and through continual review ensures that it remains supportive of the individual needs of each business area and the Group at large. The governance framework recognises the highly regulated environment within which SSE operates, and facilitates effective decision-making by taking into account the different regimes that regulate the energy sector in the UK and Ireland. Embedded within the governance framework are sound systems of internal control and risk management. These are subject to regular review, and it is the responsibility of the Board to confirm that they remain robust and relevant to the risk landscape within which SSE operates.

Decision-making and oversight

The individual and collective powers and duties of the Directors are determined by a combination of legislation and the Company's Articles of Association. In addition, a formal schedule of matters is specifically reserved for consideration by the Board. This schedule is reviewed annually by the Board as part of SSE's Board Charter, and is published on the SSE website along with the Articles of Association.

Oversight of matters which are delegated by the Board is retained through a robust reporting framework central to which are effective relations with the Board Committees, Chief Executive, Finance Director and the SSE Executive Committee. Reports from the Executive Directors and the Executive Committee are provided to the Board at each Board meeting, and minutes from all Board Committee and Executive Committee meetings are included within Board meeting packs.

Board Committees

As outlined in SSE's corporate governance framework, there are four standing committees of the Board to which certain matters are delegated. Delegation to specific committees ensures that all areas receive adequate focus and may include matters for approval or review. The terms of reference of each Committee are set by the Board, reviewed regularly and are available in full on the SSE website. An overview of the responsibilities of each Committee is detailed opposite and further information can be found in the relevant Committee reports that follow. Committee membership is determined by the Board, on the recommendation of the Nomination Committee and in consultation with the relevant Committee Chairman. Prior to a recommendation being made, consideration is given to the requisite role of the Committee and the subject matter of their work, such that membership complements any technical expertise required. At meetings of the full Board, the Committee Chairman is responsible for communicating key matters requiring the consideration of the Board.

SSE's Leadership Blueprint

The Leadership Blueprint defines SSE's expectations of its leaders and the behaviours that are deemed necessary to enable the Group to succeed over the long term. The behaviours it sets out are consistent with SSE's core values and are supportive of the corporate culture of the Group. In line with SSE's 'Guide to ethical business conduct for all SSE employees', the Leadership Blueprint is centred on 'Does the right things'.

The Leadership Blueprint permeates from Board level and has been rolled out through dedicated training and information sessions to over 1,000 leaders and managers across the Group. It provides a clear and consistent framework for leadership in SSE and forms an important aspect of the culture for leaders and managers to embrace and promote within their teams.

SSE's corporate governance framework

Delegation

Report back

Board of Directors

Responsible to shareholders for the long-term success of SSE and for its overall strategic direction, values and governance.

Matters reserved exclusively for Board consideration include:

- Group strategy.
- Annual budget.
- Approval of interim and full year financial statements.
- Interim dividend payments and recommendation of final dividend.
- Significant changes in accounting policy and practice.
- The Group's corporate governance, risk management and system of internal control.
- Changes in capital structure of the Group.
- Board and Committee membership.
- Succession planning and people strategy.
- Major acquisitions, mergers, disposals and capital expenditure.
- Approval of key policies.
- Regulatory matters including price control reviews proposed by Ofgem.

Nomination Committee

Reviews and monitors the leadership needs of the Board and senior management, and supports SSE's continued ability to recruit the level and quality of expertise it needs to ensure long-term success.
See pages 80 to 83.

Audit Committee

Assists the Board in discharging its responsibilities in relation to financial reporting, internal audit, external audit, internal control and risk management.
See pages 84 to 89.

Safety, Health and Environment Advisory Committee

Advises the Board on safety, health and environment matters, including setting targets and overseeing strategy implementation to improve performance.
See pages 90 and 91.

Remuneration Committee

Reviews and monitors remuneration policy to support the long-term success of SSE and approves the detailed remuneration terms for the Executive Directors on behalf of the Board.
See pages 92 to 113.

Executive Committee

Responsible for implementing the strategy, values and governance set by the Board, whilst leading the day to day running and operations of SSE.

- Safety, Health and Environment Committee
- Risk and Trading Committee
- Risk Committee Ireland
- Large Capital Projects Committee
- Capital Allocation Group
- Governance and Disclosure Committee
- Information Security and Privacy Committee

Corporate governance continued

Leadership continued

Composition of the Board

The Board comprises the Chairman, the Senior Independent Director, two Executive Directors and five non-Executive Directors. Appointment to these positions results from a combination of comprehensive succession planning, and formal and rigorous external searches. To ensure effective leadership the size, composition and performance of the Board and its Committees is regularly reviewed.

In order to fulfil its role the Board must collectively possess the correct mix of skills, knowledge and expertise, which includes amongst other matters an understanding of: the energy sector; the competitive landscape; the incumbent risks within the industry and those specific to SSE's businesses; the political and regulatory framework in which SSE operates; large capital projects; consumer markets; and finance and audit. SSE recognises that key to securing such a broad range of skills and knowledge is diversity. Non-Executive Directors are therefore recruited on merit from a variety of backgrounds, in order to build the desired skill set, and introduce difference of approach and thought to the boardroom. More information on the Board's policy on diversity and of the Board changes that occurred during 2015/16 can be found in the Nomination Committee report on pages 82 and 83. The Directors' biographies are set out in full on pages 68 and 69.

Roles and responsibilities

An overview of the roles and responsibilities of the Board members and Company Secretary are outlined below. The roles of Chairman and Chief Executive are separate and clearly defined.

The non-Executive Directors are appointed for a fixed term of three years subject to annual re-election by shareholders. This term can be renewed by mutual agreement and the current appointment letters for each of the non-Executive Directors are available for inspection on the SSE website.

The Board appoints one of the non-Executive Directors to be the Senior Independent Director (SID), who in addition to the responsibilities of non-Executive Director has specific roles as outlined below.

The Chairman meets the non-Executive Directors without the Executive Directors present throughout the year and in 2015/16 two meetings were held. These meetings provide the opportunity to discuss matters without executive input and to raise any concerns as appropriate.

Roles and responsibilities

Chairman
Richard Gillingwater

The role of the Chairman involves:

- leadership, operation and governance of the Board;
- setting the agenda for Board meetings ensuring that they operate effectively, and provide appropriate opportunity for challenge and debate to support sound decision-making;
- ensuring constructive relations exist between the Executive and non-Executive Directors;
- identifying individual Director training needs and overseeing the performance evaluation;
- meetings with shareholders, analysts and other representatives of institutional investors; and
- meeting with managers and employees at various locations throughout the Group.

Senior Independent Director
Crawford Gillies

The role of the Senior Independent Director involves:

- providing a sounding board for the Chairman;
- serving as an intermediary to other Directors when necessary; and
- being available to shareholders if they have any concerns which are unable to be resolved through the normal channels of Chairman, Chief Executive or Finance Director, or if contact through these channels is deemed inappropriate.

Non-Executive Directors
Jeremy Beeton, Katie Bickerstaffe, Sue Bruce, Peter Lynas and Helen Mahy

The role of the non-Executive Directors involves:

- scrutinising, measuring and reviewing the performance of management;
- constructively challenging and assisting in the development of strategy;
- reviewing the Group financial information, ensuring systems of internal control and risk management are appropriate and effective;
- reviewing the succession plans for the Board; and
- serving on various Committees of the Board.

Chief Executive
Alistair Phillips-Davies

The Chief Executive is responsible for:

- delivering strategy as agreed by the Board;
- leading the Executive Committee which oversee the operational and financial performance of, and issues facing the Group;
- leading and supporting each of SSEs businesses and the functions of HR, Strategy and Development and Corporate Affairs; and
- representing SSE externally to stakeholders, shareholders, customers, suppliers, regulatory and government authorities and the community.

Finance Director
Gregor Alexander

The Finance Director is responsible for:

- deputising for the Chief Executive;
- leading the finance management teams;
- leading and supporting the functions of: Procurement and Logistics; Risk, Audit and Insurance; Investor Relations and Company Secretarial; Corporate and Business Services; Assurance, Supply and Transformation; and IT; and
- representing SSE externally to stakeholders, shareholders, customers, suppliers, regulatory and government authorities and the community.

Company Secretary
Sally Fairbairn

The Company Secretary is responsible to the Board for:

- compliance with Board procedures;
- advising and keeping the Board up to date on all corporate governance developments;
- facilitating the Directors' induction programmes and assisting with professional development;
- considering Board effectiveness in conjunction with the Chairman; and
- providing advice, services and support to all Directors as and when required.

Board meetings

The Board has six scheduled Board meetings each year and attendance for 2015/16 is set out in the table below. In the event of non-attendance due to unforeseen circumstances or prior commitments which could not be rearranged, the Director will provide comments and feedback to the Chairman or Company Secretary, who then ensures that they are raised at the meeting.

In addition to full Board meetings, a Board call is held in the alternate months. This is used to update the Board on business performance, provide briefings on any current issues, and may include matters for decision or approval. Arrangements are also in place should a Board decision be required to be taken out with these times.

A business dinner with senior management and external guests is held in the evening before each Board meeting. Full Board meetings then commence the following day and are arranged to take place at different SSE locations. This facilitates engagement across all areas of the business and enhances the Board's level of understanding at an operational level. Members of the Executive Committee are also regularly invited to attend, with at least two members of the Executive Committee or senior management present on a rotating basis. The additional attendees routinely provide updates from within their business area, enabling in-depth and constructive discussion at Board level and supporting effective decision-making.

Board activity

The Board agenda setting process is built from an annual Board Planner, which was reviewed in 2015/16 by the Chairman and Company Secretary. Significant focus was given to both the matters to be considered, and the time throughout the year at which they are brought, to ensure that the Board continues to support effective decision-making.

Signature practices at every Board meeting include reports from: the CEO; the Finance Director; and the Managing Directors from the main businesses and support functions in relation to safety, compliance, performance, developments and key strategic initiatives. Some of the specific matters considered by the Board during the year in relation to SSE's strategic priorities of efficient operations, disciplined investment and balanced businesses are outlined on page 74.

The reporting year 2015/16 was another busy period for the Board, in what has continued to be particularly challenging market conditions. Some difficult discussions took place during the year, including those surrounding the Company's thermal generation assets – Ferrybridge and Fiddler's Ferry Power Stations. Further information of the governance surrounding the decision-making process can be found in the Fiddler's Ferry case study on page 75.

Future investment has also been an area of focus, with the acquisition of a share in the West of Shetland upstream gas assets, and the continued progress with the Caithness-Moray transmission line. The Board has continued to oversee the Company's approach in respect of 'Treating Customers Fairly', and throughout the year individual members of the Board participated in a number of related forums. In July 2015 the Board approved SSE's Treating Customers Fairly Statement which is published on the SSE website.

A significant amount of time has also been spent engaging with the business outside of the Board meeting schedule, and further details of the specific activities which have taken place are detailed on page 74.

Board attendance

Members	Position	On the Board since	Attended/ scheduled
Richard Gillingwater	Chairman	2007	6/6
Gregor Alexander	Executive Director	2002	6/6
Jeremy Beeton	Independent NED	2011	6/6
Katie Bickerstaffe	Independent NED	2011	6/6
Sue Bruce	Independent NED	2013	6/6
Crawford Gillies[1]	Senior Independent Director	2015	4/4
Peter Lynas	Independent NED	2014	6/6
Helen Mahy[2]	Independent NED	2016	1/1
Alistair Phillips-Davies	Executive Director	2002	6/6
Lord Smith of Kelvin[3]	Former Chairman	2005	2/2

1 Crawford Gillies joined the Board on 1 August 2015.
2 Helen Mahy joined the Board on 1 March 2016.
3 Lord Smith of Kelvin retired from the Board on 23 July 2015.

SSE Board Charter

During the year, the Board reviewed and realigned a number of existing governance policies and documents with the approval of the SSE Board Charter. The Board Charter supports good standards of corporate governance, through the collation and regular review of a number of key matters, including:

- the division of responsibilities between the Chairman and Chief Executive;
- the respective roles, responsibilities and authorities of the Board, its Committees and management;
- the Schedule of Reserved Matters; and
- Board level policies and practices.

The SSE Board Charter is provided to each of the Directors and is subject to a comprehensive annual review, with updates made during the year as required.

Strategy session

The annual strategy session was held in July 2015 and was attended by all Board and Executive Committee members. The session was facilitated by the Director of Strategy and Development and served as a platform for iterative strategy development, with specific initiatives and plans for implementation being agreed.

The Board was provided with an assessment of the Group's current strategic position in advance of the session, which was reviewed and debated in detail on the day. Key conclusions and agreed actions were then recorded and subsequently finalised, following any investigation as appropriate. As part of the session the Board also received an update on the CMA Energy Market investigation by the Managing Director, Corporate and Business Services and Shareholder perspectives by SSE's Corporate Broker, Credit Suisse International.

Corporate governance continued

Board activity in 2015/16

SSE is built on strong foundations and operates with a clear strategic framework comprising a balanced range of businesses in core markets, and a commitment to efficient operations and disciplined investments. Some of the matters considered by the Board in relation to these strategic priorities are set out below.

Area of focus	Matters considered by the Board included
Disciplined investment	- Investment and capital expenditure to deliver business growth resulting in progression of the Caithness-Moray electricity transmission link and expanding SSE's renewables portfolio. - Investing in becoming a market-leading retailer of energy and essential services by digitalising, diversifying and excelling in customer service.
Efficient operations	- The disposal strategy to deliver business simplification, create value and recycle capital, including the disposal of SSE Pipelines, PFI street lighting contracts and an equity share in Clyde wind farm. - Managing energy sector issues including the CMA investigation, RIIO ED1 framework, commodity prices and planned revisions to the UK Capacity Market.
Balanced businesses	- Ensuring SSE has a broad platform from which to deliver long-term value, with the purchase of a 20% share in the four gas fields in the Greater Laggan Area and a 20% share in the Shetland Gas Plant. - Managing risk through owning a diverse range of assets and fuels from which to meet the needs of customers, including the option to invest in a second multi-fuel facility at Ferrybridge.

Board engagement in 2015/16

Members of the Board regularly visit locations across the Group to meet with management and gain a greater understanding of the operations of SSE's businesses. Following any such site visits, the Director will provide feedback at the next Board meeting.

Wholesale

During the year, a number of the Directors took the opportunity to visit some of SSE's gas generation assets at Medway in the UK and Great Island in Ireland. At each visit, the Directors were given a tour of the site and met with local management to gain a better understanding of the operational challenges facing the plant.

Networks

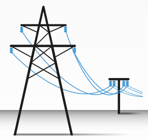
Significant milestones were reached during the year on a number of large capital projects within the Networks business, including the completion of the Beauly-Denny Transmission Line and commencement of the Caithness to Moray subsea transmission link. The full Board are due to visit sections of both these assets in 2016/17.

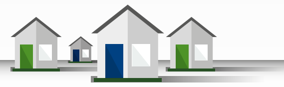
Retail

During the year, members of the Board attended a number of sessions on the digitalisation and strategic priorities of the Retail business. Briefings from senior management provided the Board with a deeper level of insight on digital customer engagement, smart meters and other growth opportunities.

Enterprise

A number of site visits took place during the year, to update members of the Board on Enterprise business initiatives, including the Energy Company Obligation scheme and Wyndford District heating scheme. An engagement session on 'Smart Cities' was also arranged covering market, technologies and solutions.





Governance case study

Market conditions for thermal generation continued to be challenging during 2015/16. The continued expansion of sources of renewable electricity and reducing customer demand has impacted upon the profitability of all thermal assets. This has affected SSE's own portfolio as well as the wider market. This trend looks set to continue and it was against this backdrop that the decisions outlined in the governance case study below were made.

January 2016 1 2 3 | February 2016 4 5 | March 2016 6 7 8

Background

The energy landscape:

- The UK Government announces it will consult on proposals to end electricity generation from coal-fired power stations by 2025, with operations substantially reduced from 2023.
- All units at Fiddler's Ferry fail to secure a capacity obligation agreement for delivery in the 2019/20 Capacity Market auction, in December 2015.
- There has been an observed change in the generation mix, seeing coal stations being displaced by cheaper lower carbon alternatives. SSE has stated its intention to progressively reduce the carbon intensity of its electricity generation.

Fiddler's Ferry:

- SSE employs 213 people at Fiddler's Ferry Power Station.
- From 1 April 2016 the station is due to have Transmission Entry Capacity (TEC) of 1,455MW (equivalent to three of Fiddler's Ferry's Units), and a contract to provide Supplemental Balancing Reserve for winter 2016/17 is in place.
- Costs are not being covered by the income the station receives from generating electricity and providing services to National Grid. The station has been loss-making over the last two financial years and cash outflow is expected to exceed cash inflow in all of the financial years through to March 2020.
- The asset is aging and its high carbon intensity poses disadvantages in relation to cost and environmental impact.

Decision-making

1. Executive Committee

The Executive Committee considered SSE's position and options for the future operation of its thermal generation assets, which included Fiddler's Ferry Power Station. The Executive Committee recommended that the issues identified, including the proposal to consult with employees be presented to the Board.

2. Board

The Board reviewed SSE's position in respect of its thermal generation assets, including the projected future losses at Fiddler's Ferry. The Board considered the potential impact of any proposal to end commercial operations, recognising that work which would continue to inform the decision-making process was currently ongoing. It was acknowledged, should an intention to close Fiddler's Ferry be announced, an extensive stakeholder engagement and employee consultation process would commence. It was agreed that a dedicated sub-Committee of the Board should be formed in order to support the Executive Committee and to facilitate the process surrounding this important decision.

3 & 4. Sub-Committee of the Board

A dedicated sub-Committee of the Board comprising both non-Executive and Executive Directors met in January and February 2016 to assess the output of ongoing internal and external engagement surrounding the future of Fiddler's Ferry. At the meeting in January, the Directors agreed to defer any decision for a further period to allow engagement to continue. At the meeting in February, the Directors reviewed the position and confirmed that the major factors which had been considered by the Board in January remained unchanged, namely the energy landscape and economic outlook for the plant. Under the terms of the authority delegated by the Board, the sub-Committee approved the decision of the intention to close three of the four units at Fiddler's Ferry from 1 April 2016.

5. Announcement of intention to close made to the market

An announcement was made on 3 February 2016. The full consultation process to enable a final decision to be made was initiated.

6. Executive Committee

An update of developments potentially impacting the intention to close Fiddler's Ferry decision was provided to the Executive Committee. The Committee discussed the option for Fiddler's Ferry to participate in an upcoming tender for the provision of Ancillary Services to National Grid, with a contract start date of 1 April 2016. A number of potential outcomes were identified and following comprehensive analysis it was agreed that the Executive Committee would recommend a bid, for consideration by the Board.

7. Board

A comprehensive bid proposal was reviewed by the Board. At this time the extensive stakeholder consultation process remained ongoing and the future operations of Fiddler's Ferry were still under review. The Board subsequently agreed that a bid should be submitted to National Grid's tender process.

The Board also received an update following the Government announcement that a further Capacity Market auction for 2017/18 was under consultation.

8. Announcement of operations continuing in 2016/17

Following a competitive procurement process, one of the three available units at Fiddler's Ferry, secured a contract to provide Ancillary Services to National Grid. An announcement confirmed this development, and detailed that commercial operations would continue at the site for 2016/17, with all or part of Fiddler's Ferry being entered into any Capacity Market auction in 2017/18.

Corporate governance continued

Executive Committee





Martin Pibworth
Managing Director, Wholesale

Colin Nicol
Managing Director, Networks

Will Morris
Managing Director, Retail

Jim McPhillimy
Managing Director, Enterprise

Sally Fairbairn
Company Secretary and Director of Investor Relations

The Executive Committee is responsible for implementing policy and strategy as agreed by the Board and for the operational management of SSE's businesses. The membership of the Executive Committee comprises: the two Executive Directors; and the Managing Directors of Wholesale, Networks, Retail and Enterprise – all of whom are persons discharging managerial responsibilities. The Company Secretary is Secretary to the Executive Committee, and the Managing Director, Corporate Affairs, is invited to attend meetings. The Executive Committee meets monthly and follows a detailed plan of business throughout the year, with meetings taking place at different SSE sites in order to increase visibility and staff engagement. The Executive Committee carried out an annual review of performance in September 2015, with the operation of the Committee being confirmed as remaining effective.

Effectiveness

Evaluation of the Board, Committees and Directors

The Board, its Committees and the individual Directors participate in an annual evaluation of performance.

Having undergone an internal review of effectiveness in 2013/14 and 2014/15, the Board underwent a comprehensive external evaluation during the year, which followed a facilitated self-assessment process as outlined opposite. The review was conducted by Sean O'Hare of Boardroom Dialogue Ltd. Neither Sean O'Hare nor Boardroom Dialogue Ltd have any other connection with the Company.

Overall the evaluation concluded that the Board were committed and working effectively together in their leadership role. Current membership was deemed to possess diversity of skill, background and gender, with open, engaged and respectful relationships existing between the Board and senior management. The strength of the corporate culture which emanates from the SSE SET of core values, was clearly visible, and the process confirmed that the Board and its Committees were functioning well.

The evaluation identified opportunities to further enhance Board engagement, strengthen exposure to complex and technical issues, improve meeting administration and increase consideration of succession planning. Details of the objectives set are detailed opposite.

Progress has been achieved against all objectives set in 2014/15, and will again be measured against those currently set during the scheduled internal evaluation in 2016/17.

During the year each Director participated in a detailed review of individual performance which was carried out by the Chairman. The process for evaluating the Chairman was managed by the Senior Independent Director, which involved a separate meeting with the non-Executive Directors and included feedback from the Executive Directors and the Company Secretary.

Independence

The Nomination Committee Report explains the process carried out during the year to verify the continuing independence of the non-Executive Directors. The Board considers that the Chairman was independent on appointment and that all non-Executive Directors are independent in line with the criteria as set out in the Code. The continuing independent and objective judgement of the non-Executive Directors was confirmed as part of the annual Board evaluation process.

Directors' conflicts of interest

During the year a review of the Directors' interests and appointments was carried out by the Company Secretary and a report was provided to the Nomination Committee for review and recommendation to the Board. The Board then considered and authorised each Director's reported actual or potential conflicts of interest at their meeting in January 2016. Each Director abstained from approval of their own position. The Board continues to monitor and review actual and potential conflicts of interest on an ongoing basis and Directors are responsible for notifying the Company Secretary if they become aware of an actual or potential conflict situation or a change in circumstances relating to an existing authorisation. Biographical details for all the Directors, including details of their external directorships are set out on pages 68 and 69.

Director induction

On joining the Board, all non-Executive Directors receive an induction tailored to their individual requirements. Crawford Gillies and Helen Mahy completed a comprehensive programme on appointment, which was facilitated by both the Chairman and Company Secretary and comprised the elements outlined in the table opposite. During the induction programme each Director also identified areas in which they requested additional meetings or further information. As a result Helen Mahy met with Group Risk and Human Resources, and a 'Digital Deep Dive' was arranged for both Helen Mahy and Crawford Gillies with the Retail Leadership Team.

Board and Committee evaluation

Step 1
A meeting was held with Boardroom Dialogue Ltd, the Chairman and Company Secretary, at which the scope and format of the evaluation process was discussed. A recommendation to proceed was agreed by the Board.

Step 2
Individual interviews were held by Boardroom Dialogue Ltd with each of the Directors, the Company Secretary, Deputy Company Secretary and members of the Executive Committee. A review of Board documentation including meeting packs and agendas from the past 12 months was also conducted.

Step 3
The findings of the evaluation process were compiled and provided to the Chairman and Company Secretary. These were then communicated to the Board via an in-depth report.

Step 4
Boardroom Dialogue Ltd attended the Board meeting in January 2016 and presented the findings of the evaluation process. The recommendations made were considered by the Board and actions identified for the coming year.

Key findings and objectives for 2016/17

Enhancing Board engagement
Monitor the agenda setting process to ensure continued linkage to strategy; review the allocation of time for site visits including the process for reporting back to the Board; and consider increasing the number of meetings of the non-Executive Directors in the Board calendar.

Improving meeting administration
Explore options for streamlining the format and volume of Board and Committee meeting packs, with continued timely dissemination of all documentation.

Engaging in Board development
Identify complex or technical business areas that would benefit from teach-ins and consider increasing the number of one-to-one meetings between the non-Executive Directors and members of the senior management team.

Considering long-term succession planning
Continue to monitor and develop succession plans at Board level and increase visibility of the talent pipeline below the Board and upper level of senior management.

Non-Executive Director induction programme

Crawford Gillies and Helen Mahy

- Briefings on strategy, financial performance, the energy sector and priorities for long-term success from the Chief Executive;
- overview on finance and the control environment, internal and external audit, risk and compliance with the Finance Director;
- sessions with each of the Managing Directors of the key business areas (including members of their leadership teams) covering structure, strategy and performance;
- comprehensive session with the Chairman on strategy and the operation of the Board and its Committees;
- a meeting with the Company Secretary and Director of Investor Relations to review the Group's governance and policies, and investor relations matters;
- overview of the political and external environment from the MD, Corporate Affairs;
- details of HR policies, overview of the Leadership Blueprint, and ongoing work from the Director of Human Resources;
- an update on regulatory and legislative matters including any significant issues facing the Group from the MD, Corporate and Business Services and the Director of Legal Services; and
- meeting with the External Auditor.

Corporate governance continued

Effectiveness continued

Chairman engagement

As part of the transition from Deputy Chairman to Chairman, Richard Gillingwater participated in a number of engagement activities during the year. These included individual meetings with a number of shareholders covering a range of topics including specific governance matters, and stakeholder meetings such as consumer forums attended by Ofgem and Which.

Training and development

Directors are encouraged to develop and refresh their knowledge and skills on an ongoing basis with developmental needs being reviewed as part of the annual Board evaluation process, and the necessary resources are made available should any Director wish additional training. The Company also operates performance coaching for the Executive Directors and for other members of senior management, which is designed to develop and enhance individual and Company performance.

In 2015/16 the non-Executive Directors participated in various technical updates and briefings, including one-to-one meetings between individual directors and members of senior management. Following any such meetings the Director will provide feedback to the next Board meeting.

Information and briefings

Keeping up to date with key business developments is essential for Directors to maintain and enhance their effectiveness, and the details of Board Activity and Board Engagement in 2015/16 provided on page 74 gives an insight into some of the activity undertaken during the year. The Board further receives regular updates on the progress and performance of investments including a detailed KPI report from senior management, and Board dinners are often accompanied by presentations on topics such as: the competitive environment; or the regulatory, political and economic landscape.

Site visits are arranged for the non-Executive Directors during the year in order to allow a greater understanding of the operation of SSE's businesses. During 2015/16 these included both visits incorporated as part of on-site Board meetings and those arranged independently of the formal meeting schedule. Details of Board engagement outside of the Boardroom are set out on page 74.

Independent professional advice

There is an agreed procedure for Directors to take independent professional advice if necessary, at the Company's expense. Any advice obtained shall be made available to the other members of the Board. This procedure was not used during the year.

Accountability

Financial and business reporting

The Board recognises its responsibility for preparing the Annual Report and Accounts and to present a fair, balanced and understandable assessment of the Group's position and prospects. This assessment also extends to interim results statements and other price sensitive public announcements, reports to regulators and information to be presented by statutory requirements.

The Directors' statement set out on page 116 recognises and confirms these responsibilities, and further details of the Fair, Balanced and Understandable Assurance Framework used by the Directors can be found on page 85. The Strategic Report on pages 1 to 65 explains the basis on which the Group generates or preserves value over the longer term, and the strategy for delivering its objectives. As such, the Annual Report is intended to provide the information necessary to enable an assessment of the Company's position and performance, business model and strategy. The responsibilities of the External Auditor, KPMG, in relation to financial reporting are set out in the Auditors' report on pages 205 to 208.

Risk management and internal control

The Group Risk Management and Internal Control Policy is underpinned by the principle that everyone in SSE has a responsibility for the management of risks. To ensure the Group's success, it is critical that material risks are understood and effectively managed, and that decisions are taken with full consideration of these.

The Board is responsible for ensuring that SSE maintains an effective risk management framework as part of a sound system of internal control. The framework applies to all business practices including the Group's financial reporting process (including the preparation of consolidated financial statements) as described on pages 84 to 89. While SSE commits to ensuring that these systems remain robust and effective, they are designed to manage rather than eliminate risk and as such can only therefore provide reasonable rather than absolute assurance.

The Risk Management Framework has been designed to:

- ensure that the Board meets its obligations under the Code;
- encourage everyone in SSE to consider and discuss risk in the course of decision making; and
- align with SSE's corporate governance framework to ensure the most appropriate levels of ownership and oversight.

Pages 16 to 19 of the Strategic Report sets out SSE's Principal Risks and the processes by which they are managed. During the year the Board has carried out a robust assessment of the Principal Risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The diagram on pages 16 and 17 of the Strategic Report illustrates SSE's wider system of internal control.

Board's review of internal control

The Board and Audit Committee have reviewed the effectiveness of the Group's risk management and system of internal control in line with the requirements of the Code for the period from 1 April 2015 to 17 May 2016 (being the last practical day prior to printing of this Annual Report) and confirm that the procedures and processes of the system of internal control, which accord with the Code and appropriate Disclosure and Transparency Rules, have been in place during that period.

This review covered all material controls, including financial, operational and compliance controls and no significant failings or weaknesses were identified. In 2015/16, Ofgem opened an investigation into whether SSE infringed Chapter II of the Competition Act 1998 and/or Article 102 Treaty on the Functioning of the European Union in respect of the particular issue of provision of Points of Connection services in the Southern Electric Power Distribution area. The investigation is ongoing.

Further details of the process undertaken to review the system of internal control can be found in the Audit Committee Report on pages 84 to 89. The risk and internal control procedures described in this report have not been extended to cover the Group's interests in joint ventures. SSE does however have representation on the Boards of its joint venture companies. In respect of its most significant undertaking, SGN, the Board receives regular updates on risk management and internal control activities and issues from its representatives on the SGN Board, and from the Chief Executive of SGN directly.

Going Concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future (12 months). The financial statements are therefore prepared on a Going Concern basis. Further details of the Group's liquidity position and Going Concern review are provided in note 34 to the financial statements.

Viability Statement

The Directors' statement of longer term viability can be found on page 17 of the Strategic Report.

Relations with shareholders

Governance and Disclosure Committee

The Governance and Disclosure Committee is a sub-Committee of the Executive Committee. The Committee monitors governance developments, advises on matters relating to external affairs and assists in developing the investor relations strategy. It is responsible for overseeing the Company's compliance with regulatory and legal requirements including those arising from SSE's listing on the London Stock Exchange, surrounding the release and control of announcements and other information of interest to shareholders and the investment community. The Governance and Disclosure Committee comprises: the Chief Executive; the Finance Director; the Company Secretary and Director of Investor Relations; the Managing Director, Corporate Affairs; the Managing Director, Corporate and Business Services; the Director of Human Resources; the Director of Risk, Audit and Insurance; and the Director of Legal Services. The Deputy Company Secretary is Secretary to the Committee. The Committee meets as required and had six meetings in the year.

Dialogue with investors

The Company continues to maintain an effective dialogue with its shareholders which is primarily delivered through a programme of meetings and calls with shareholders and analysts led by the Chief Executive and Finance Director. The Investor Relations team, managed by the Company Secretary and Director of Investor Relations, administer the day to day operations and engagement with institutional and retail investors and market analysts. In the last financial year, the Chief Executive and Finance Director have hosted over 100 meetings or calls with existing or potential investors and analysts and presented at several investor conferences.

The Chairman, Senior Independent Director and members of the Executive Committee are also available to engage with shareholders and the Chairman has attended several shareholder meetings and conferences over the last year. In preparation for his new role the Chairman offered meetings to the top 10 shareholders and met a number of them to discuss their opinions on governance and the challenges facing SSE. During the year the Chairman and the Chair of the Remuneration Committee also offered to engage with principal shareholders and shareholder representative bodies to discuss directors remuneration policy which led to a number of calls and meetings.

Feedback from shareholder meetings is gathered bi-annually through SSE's Corporate Brokers and is presented to the Board. Following changes in 2015/16, SSE's joint Corporate Broker's are currently Morgan Stanley & Co. International plc and Credit Suisse International. Investor Relations review analyst reports on a daily basis, identifying relevant opinions and issues and distributing them timeously to the Directors and other members of the senior management team, allowing them to form a view of the priorities and concerns of SSE's shareholders. During the year, SSE also commissioned an independent investor and analyst perception study to further understand the views of institutional investors and analysts.

Communication with shareholders

SSE's website contains up-to-date information for shareholders and other interested parties including share price information, announcements and news releases, investor and analyst presentations, information on shareholder services and contact details. The Company's Annual Report and other shareholder circulars are also published on the SSE website.

Shareholders have a choice in how to receive their company communications such as the Annual Report. The Company encourages shareholders to receive electronic communication, and currently around 95% of shareholders receive company communications such as the Annual Report and Notice of Annual General Meeting electronically. In order to make voting easier and reduce SSE's environmental impact, from the 2017 AGM paper proxy voting cards will only be sent to shareholders who have requested to receive a hard copy of the Annual Report. Shareholders who receive paper notification that the Annual Report is available online through the SSE website will default to online voting in 2017. Shareholders who wish to change their communication preference can do so by contacting the Company's Share Registrar, Capita Asset Services, whose contact details can be found on page 209.

Annual General Meeting

The AGM provides an opportunity for the Board to meet with shareholders and present an update on the performance, key developments and strategy of the Company. Shareholders are invited to ask questions at the AGM in order to communicate their views. The Notice of Annual General Meeting, which contains full explanations of the business to be conducted at the AGM, is set out in a separate shareholder circular. Voting is conducted by means of an electronic handset and in the event of a significant vote against any resolution, appropriate steps will be taken to understand and address any underlying shareholder concerns. Details of the 2015 AGM and forthcoming AGM can be found in the table below.

Communications with other stakeholders

The Executive Directors have a programme of events to meet with a range of external stakeholders representing the regulatory and government authorities, public sector, investment community, environmental affairs, and consumer interests. The purpose of these events is to discuss the Company's position on a range of business, policy and public interest issues, to learn more about stakeholders' views, and to hear their suggestions and address any areas of concern.

More generally, working with public policy makers is a vital area for the Company, given the high profile of energy and environment related issues and SSE does this in several ways including submission of consultation responses, meetings and dialogue with different government and non-government organisations, as well as active participation in relevant trade associations and other bodies.

In all of its engagement with stakeholders, SSE seeks to adopt a straight forward and transparent approach, seeking outcomes that bring lasting benefits to customers and support the fair remuneration of investment in the energy industry in the UK and Ireland.

The AGM

Annual General Meeting	Overview
23 July 2015 **Perth Concert Hall, Perth**	- Full Director attendance. - Lord Smith of Kelvin stepped down from the Board as Chairman. - At least 94% of votes received for the re-election of all other Directors. - Highest votes in favour: 99.99% to receive the report and accounts. - Lowest votes in favour: 91.78% to approve 14 days' notice of general meetings.
21 July 2016 **Perth Concert Hall, Perth**	- 17 Ordinary Resolutions and 3 Special Resolutions being proposed to shareholders.

Nomination Committee Report

We continually monitor the membership and composition of the Board, its Committees, and the internal talent pipeline, to ensure that they support the long-term success of SSE.

Members and meetings

Members	Independent non-Executive Director	Member since	Attended/scheduled
Richard Gillingwater (Committee Chairman)	n/a	September 2008	6/6
Gregor Alexander	No	July 2014	6/6
Jeremy Beeton	Yes	July 2014	6/6
Katie Bickerstaffe	Yes	September 2011	6/6
Sue Bruce	Yes	July 2014	6/6
Crawford Gillies[1]	Yes	August 2015	2/2
Peter Lynas	Yes	July 2014	6/6
Helen Mahy[2]	Yes	March 2016	n/a
Alistair Phillips-Davies	No	July 2013	6/6
Lord Smith of Kelvin[3]	No	March 2004	4/4

1 Crawford Gillies joined the Nomination Committee on 1 August 2015.
2 Helen Mahy joined the Nomination Committee on 1 March 2016.
3 Lord Smith of Kelvin retired from the Nomination Committee on 23 July 2015 upon stepping down from the Board.

Dear Shareholder,

It has been a particularly busy year for the Nomination Committee, with six meetings in 2015/16. During this period we have welcomed two new non-Executive Directors to our Board and I assumed the role of Company Chairman when Lord Smith of Kelvin stood down at the conclusion of our 2015 AGM.

It was outlined in last year's report that succession plans in respect of a new non-Executive Director were already well advanced. We announced in June 2015 the appointment of Crawford Gillies as Senior Independent Director with effect from 1 August 2015. It was highlighted at the AGM in July that a timing issue between the change in Chairman and the appointment of Crawford Gillies would give rise to a short period of non-compliance with certain provisions of the Code. An explanation of the steps taken to mitigate these areas of non-compliance, such that our standards of corporate governance remained unaffected, can be found in the report that follows.

Upon welcoming Crawford Gillies to the Board on 1 August 2015, he became a member of the Nomination, Audit and Remuneration Committees. Helen Mahy then joined us on 1 March 2016 as a non-Executive Director, and became a member of the Nomination, Audit, and Safety, Health and Environment Advisory Committees.

I am delighted to welcome both Crawford and Helen to SSE and following the changes outlined above, the Board now comprises the Chairman, Senior Independent Director, two Executive Directors and five non-Executive Directors.

As a Committee we fully recognise the stability that strong and balanced leadership affords. It is therefore essential that we continually monitor the membership and composition of the Board, its Committees, and the internal talent pipeline, to ensure that they support the long-term success of SSE.

Richard Gillingwater CBE
Chairman of the Nomination Committee

Activities in 2015/16

The Nomination Committee had six meetings during the year and an overview of the work carried out during the period is set out in the table below.

Action	Outcome
Succession planning	
- Handover in Chairmanship upon stepping down of Lord Smith of Kelvin. - Conduct searches for two new non-Executive Directors, with one candidate to assume the role of Senior Independent Director. - Monitor plans for succession and refreshment of the Board and senior management.	- Richard Gillingwater assumed the role of Chairman from his position as Deputy Chairman following a facilitated transition period. - Recommendations to appoint Crawford Gillies as Senior Independent Director and Helen Mahy as non-Executive Director. - An ongoing review of the succession pipeline for Board and senior management positions.
Director independence and conflicts	
- Review the independence of all non-Executive Directors. - Review of declared and potential conflicts of interests of the Directors.	- Confirmation that all non-Executive Directors remain independent in line with the Code. - Made recommendation to the Board for approval.
Committee membership	
- Review Board Committee membership and consider the 9 day period of non-compliance attributed to timing issues with changes in Board membership.	- Recommended changes to the membership of the Board Committees with the joining of two new non-Executive Directors.
Diversity	
- Monitor the diversity of the Board and recruit in line with the Board Diversity Policy.	- Board appointments were made in consideration of the requisite skills and experience required and in line with Board Policy.

Role

The Nomination Committee reviews and monitors the leadership needs of the Board and senior management, and supports SSE's continued ability to recruit the level and quality of expertise it needs to ensure long-term success. The Nomination Committee's remit, which is set out in its terms of reference, includes responsibility for:

- reviewing the structure, size and composition of the Board and its Committees and making recommendations to the Board on any desired changes;
- reviewing the succession plans for the Executive Directors and senior management;
- making recommendations to the Board on suitable candidates to fill vacancies for both non-Executive and Executive Directors;
- ensuring that the procedure for appointing new Directors is rigorous and transparent and that appointments are made on merit and against objective criteria, including independence and diversity of candidates;
- reviewing potential conflicts of interest of Directors; and
- reviewing the external commitments of the Directors and the time required to discharge their responsibilities effectively.

Composition

The membership of the Nomination Committee comprises the full Board. As such changes to membership during the year reflect the changes that were made to the Board. The table opposite details the membership and meeting attendance for the year. The Company Secretary is Secretary to the Nomination Committee.

Succession planning

The Nomination Committee has responsibility to confirm that arrangements are in place to support any changes in Board membership, and takes responsibility for the programme of planned refreshment, ensuring that the balance of skills, knowledge and experience is both maintained and appropriate.

Before a Board appointment is made, the Nomination Committee evaluates the skills, knowledge and experience of the Board to ensure that any new appointment complements existing qualities, and further identifies any areas in which representation is required. Candidates are considered from a wide range of backgrounds and appointments are made on merit, with due regard being given to the benefits of diversity on the Board, including gender. The Committee also assesses the current time commitments of candidates as appropriate.

The selection process uses the services of a professional search firm specialising in Board-level recruitment and generally involves interviews with a number of candidates. In line with Board policy the Company strives to engage only with search firms that have signed up to the Voluntary Code of Conduct for Executive Search Firms.

Nomination Committee Report continued

Succession planning continued

When the Nomination Committee deals with any matter concerning the Chairmanship of the Board, another non-Executive Director chosen by the remaining members chairs the meeting. Members of the Nomination Committee do not take part in discussions when their own performance or their continued appointment is being considered.

In the course of its work the Nomination Committee also reviews leadership and succession at senior management level taking into account the risks and opportunities facing the Company, identifying required skills and expertise as appropriate. The Company's talent management programme and Leadership Blueprint helps provide a robust process for succession and development, and career progression.

In 2015/16 the Chairman of the Board and Nomination Committee attended and presented at the SSE Leadership Conference, and participated in a facilitated question and answer session providing Board perspective on a range of matters. The Conference is attended annually by a number of senior managers and individuals who have been identified for their development potential, and therefore provides oversight of the depth of talent within the Company and creates the opportunity to engage with individuals from all levels.

Throughout the reporting year a number of individuals were also invited to attend and present at meetings of the Board and in 2015/16 this totalled 41 members of the senior management team. Although this practice primarily ensures that progress updates are received directly from each business area, it provides the Board with the opportunity to meet the next tier of management.

Board succession in 2015/16

On 23 July 2015, Richard Gillingwater assumed the role of Chairman, following on from his role as Deputy Chairman, and as successor to Lord Smith of Kelvin, who stepped down from the Board after 10 years of tenure. The detailed recruitment process for this appointment was set out in last year's Annual Report and in preparation for the role Richard Gillingwater reduced his number of external commitments including his two major non-Executive roles at Hiscox Ltd and Wm Morrisons Supermarkets plc.

At this time, significant progress had been made in a focussed search for a new non-Executive Director who could take on the role of Senior Independent Director and it was subsequently announced in June 2015 that Crawford Gillies was to be appointed from 1 August 2015. Following the successful appointment of Crawford Gillies, the Nomination Committee undertook a second recruitment process during 2015/16 to identify a further new non-Executive Director. This was an extension of earlier work with the overall desire being to further increase the resilience and diversity of the Board and resulted in the appointment of Helen Mahy from 1 March 2016.

The professional external search agency Sam Allen Associates were involved in the recruitment for both positions. Sam Allen Associates are signed up to the Voluntary Code of Conduct for Executive Search Firms, and have no other connection to SSE. The process conducted by Sam Allen Associates involved the initial identification of suitable candidates, followed by an extensive benchmarking process of persons meeting the desired criteria as agreed in advance by the Nomination Committee. A shortlist was then prepared and meetings were held with a number of Board members. Following deliberation it was agreed that Crawford Gillies and Helen Mahy's candidacies were complementary to the existing Board membership and that they were the preferred individuals for the role. A recommendation was therefore made to the Board in respect of each appointment, which was subsequently agreed.

Crawford Gillies and Helen Mahy are considered highly valuable additions to the Board as they bring a wealth of skills, and diversity of professional background. Crawford Gillies possesses extensive, in-depth business and plc board experience, including expertise in matters of finance and risk management, and Helen Mahy has relevant sector experience from her role at National Grid, a background in legal counsel, and a detailed knowledge of, and an interest in, the areas of inclusion and diversity.

Committee changes in 2015/16

Upon the announcement of Crawford Gillies' appointment from 1 August 2015 and in recognition of Richard Gillingwater commencing as Chairman on 23 July 2015, the Nomination Committee proposed a number of changes to Board Committee membership in 2015. The changes allowed the level of expertise and knowledge within each Committee to be retained, whilst ensuring that there was a fair division of responsibilities between the non-Executive Directors. In summary the changes were:

- on 23 July 2015, Richard Gillingwater became Chairman of the Nomination Committee, ceased to be a member of the Audit Committee, and stood down as Chairman of the Remuneration Committee although continue as a member;
- on 23 July 2015, Katie Bickerstaffe became Chair of the Remuneration Committee; and
- on 1 August 2015, Crawford Gillies became a member of the Nomination, Audit and Remuneration Committees.

The changes outlined above ensured that all Committees would be compliant with the Code from 1 August 2015, with a short 9 day period of non-compliance occurring between 23 July and 1 August attributed to the timing between appointments. The relevant provisions of the Code from which there was a departure were: A.4.1 in relation to the requirement for a Senior Independent Director; and C.3.1 and D.2.1 in relation to the number of independent non-Executive Directors on the Audit and Remuneration Committees respectively. There was no formal Board or Committee activity planned for during this period to ensure that standards of governance would remain unaffected, and it is confirmed that this was indeed the position.

Upon appointment on 1 March 2016 Helen Mahy joined the Nomination, Audit and Safety, Health and Environment Advisory Committees.

Committee evaluation

Details of the external evaluation of the full Board which was conducted during the period are provided on pages 76 and 77 of the Corporate Governance Report. The process included a review of all Board Committees and it was concluded that the relationship between the Board and its Committees was functioning well, with all Committees fully meeting their remit.

Independence

The continuing independence of the non-Executive Directors was considered and reviewed at the meeting of the Nomination Committee in January 2016, with each member abstaining from their own evaluation. Richard Gillingwater was considered independent on appointment as Chairman on 23 July 2015.

Diversity

The Nomination Committee reviews the diversity within the organisation as a whole, including that of senior management and the talent management pipeline. In addition in 2015/16 regular updates have been provided to the Board from Human Resources on matters including: Human Capital; Diversity and Inclusion; and Gender Pay. The Executive Committee further receives quarterly updates on the work that is being carried out in these areas. Further detail on Group wide initiatives can be found on pages 24 to 27 in the Strategic Report.

Board diversity

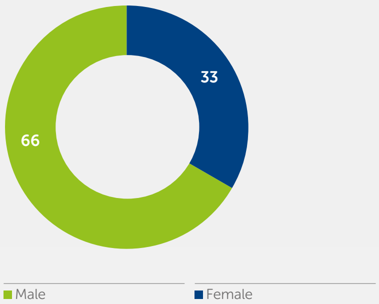
The recommendation of the Davies Review which was first commissioned in 2010 was that FTSE 100 companies should aim for a minimum of 25% female representation on Boards by 2015. The Company is committed to the approach on diversity set out in the Davies Report, and continues to monitor any future recommendations in line with the five year summary which was published in October 2015. The female representation of the SSE Board is currently above the original recommendation at 33% and an overview of the diversity represented by the SSE Board is detailed in the diagram opposite. The Nomination Committee will further monitor and consider diversity for future Board appointments whilst continuing to recruit on merit. During the year the Nomination Committee also reviewed the Board Diversity Policy as outlined below.

Board Diversity Policy

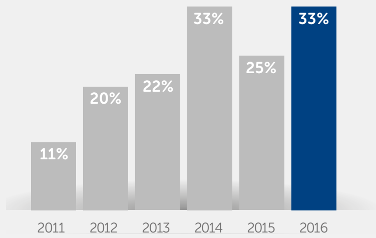
The Nomination Committee reviewed and the Board approved a revised Board Diversity Policy during the year. The purpose of the review was to ensure that the Policy reflected both existing practices and the ongoing work of the Nomination Committee and Board in this area, including during the recruitment of potential candidates for Board positions. The Policy is designed to encourage continued progress, as the Board and Nomination Committee recognise the benefits of diversity in the creation of a resilient and effective Board. Progress against Policy objectives will continue to be monitored and will be reported in due course.

Membership diversity

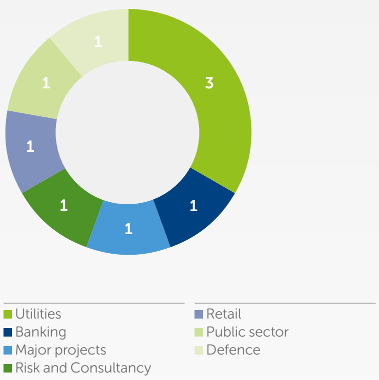
Board diversity, by gender



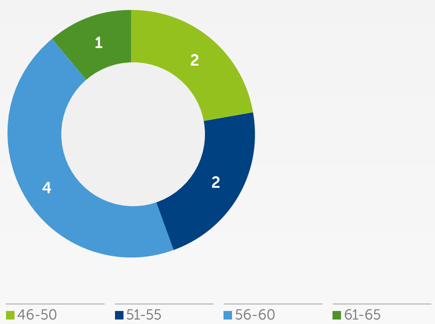
Female representation on the Board



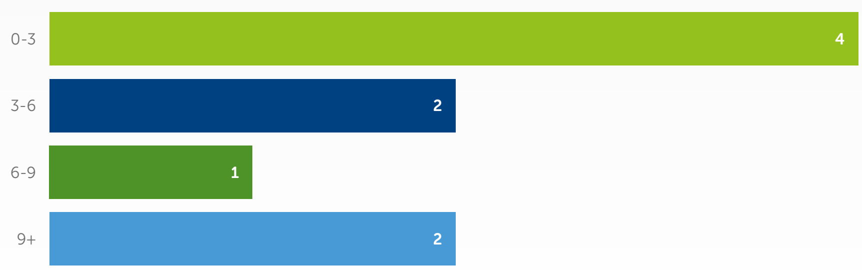
Board diversity, by sector



Board diversity, by age (years)



Board diversity, by tenure (years)



Audit Committee Report

The Audit Committee assists the Board in discharging its responsibilities in relation to financial reporting, internal audit, external audit, internal control and risk management.

Members and meetings

Members	Independent non-Executive Director	Member since	Attended/scheduled
Peter Lynas	Yes	July 2014	4/4
Sue Bruce	Yes	July 2014	4/4
Crawford Gillies[1]	Yes	August 2015	3/3
Helen Mahy[2]	Yes	March 2016	n/a
Richard Gillingwater[3]	n/a	May 2007	1/1

1 Crawford Gillies became a member of the Audit Committee on 1 August 2015.
2 Helen Mahy became a member of the Audit Committee on 1 March 2016.
3 Richard Gillingwater ceased to be a member of the Audit Committee on 23 July 2015.

Dear Shareholder,

On behalf of the Audit Committee, I'm pleased to present our report for 2015/16 which sets out the role, composition and activities of the Committee during the year.

Committee Changes

As part of the Board's succession planning strategy, the membership of the Audit Committee was refreshed during the year. Richard Gillingwater ceased to be a member when he became Chairman of the Board on 23 July 2015. I was delighted to welcome two new members to the Audit Committee with the appointment of Crawford Gillies on 1 August 2015 and Helen Mahy on 1 March 2016. Through an independent mindset and diversity of professional background including experience in finance, risk, governance, management and the energy sector, each member is able to make a valuable contribution to the deliberations of the Audit Committee.

FRC Letter

As reported in the Audit Committee Report last year, SSE received a letter from the FRC which raised a number of queries from its review of the 2014 Annual Report. Following engagement with the FRC, we have provided additional information and explanation in both the 2015 and 2016 Annual Reports. I am pleased to report that the FRC have confirmed that all matters raised have been adequately addressed, and we remain committed to developing our approach to reporting in the coming years.

External Auditor

KPMG were appointed as SSE's External Auditor in 1999. The Audit Committee oversees the process for monitoring the objectivity, independence, effectiveness and ongoing relationship with the External Auditor. Full details of how we have approached this during 2015/16 are set out in our report, which includes further details on our Non-Audit Services Policy and a timeline for the tender of the external audit contract to support our explanation of non-compliance with section C.3.7 of the Code.

Areas of focus

The report that follows explains the work of the Audit Committee during the year which has focused on five main areas: Financial Reporting and Significant Financial Judgements; Internal Audit; External Audit; Internal Control and Risk Management; and Governance. Looking forward to the next 12 months, we will continue to keep our activities under review to ensure that the work of the Audit Committee assists the Board and supports the delivery of SSE's strategy, values and governance.

Peter Lynas
Chairman of the Audit Committee

Role

The Audit Committee is authorised by the Board to:

- review the integrity of the interim and annual financial statements;
- review the appropriateness of accounting policies and practices;
- review the significant issues and judgements considered in relation to the financial statements, including how each was addressed;
- review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable;
- review and monitor the effectiveness of the Internal Audit function, including approval of the audit plan;
- review and monitor the objectivity and independence of the External Auditor, including the policy to govern the provision of non-audit services;
- review and monitor the effectiveness of the external audit process and the ongoing relationship with the External Auditor;
- review and make recommendations to the Board on: the tendering of the external audit contract; and the appointment, remuneration and terms of engagement of the External Auditor;
- review and monitor the effectiveness of the risk management and internal control framework;
- review the framework and analysis to support the long-term viability statement; and
- establish and oversee appropriate whistleblowing and fraud prevention arrangements.

Composition

Members of the Audit Committee are appointed by the Board following recommendation by the Nomination Committee. The current membership of the Audit Committee is set out in the table opposite.

The Board has confirmed that each member of the Audit Committee is independent and that the membership meets the requirements of the Code. Peter Lynas is considered by the Board to have recent and relevant financial experience as the current Group Finance Director of BAE Systems plc and a Fellow of the Chartered Association of Certified Accountants. The Deputy Company Secretary is secretary to the Audit Committee.

On joining the Audit Committee, new members receive an induction tailored to their individual requirements which provides an overview of the business, its financial dynamics, principal risks and their management, and includes a separate meeting with the External Auditor. Tailored induction programmes for Crawford Gillies and Helen Mahy were delivered during the year.

Meetings and activities in 2015/16

The Audit Committee met four times during the year, with each meeting scheduled at key times in the Group's financial reporting and audit calendar. The Audit Committee has met once since the end of the financial year. This was the first scheduled Audit Committee meeting following Helen Mahy's appointment to the Board on 1 March 2016, and all members attended.

Meetings of the Audit Committee are also routinely attended by the: Company Chairman; Chief Executive; Finance Director; Managing Director, Finance; Group Financial Controller; Director of Risk, Audit and Insurance; and the External Auditor, KPMG LLP (KPMG). Throughout the year, a number of other senior managers were invited to attend certain meetings to provide a deeper level of insight into particular items of business. This gave the Audit Committee the opportunity to meet management and discuss, debate and challenge on a range of matters.

The Chairman of the Audit Committee meets separately with the Finance Director, Director of Risk, Audit and Insurance, other senior management, and the External Auditor on a regular basis to ensure the work of the Audit Committee is focused on key and emerging issues. The Audit Committee meets with the External Auditor and management separately at least once a year in order to get feedback on the relationship and assess the effectiveness of the external audit process.

Meetings of the Audit Committee take place in advance of Board meetings. The Audit Committee Chairman provides an update to the Board after each meeting and minutes are provided to the Board and External Auditor.

Fair, Balanced and Understandable Assurance Framework

The Audit Committee reviewed and the Board approved the assurance framework used to assist the Directors discharge their requirement to state that the Annual Report and Accounts are fair, balanced and understandable. The main components of the assurance framework which were used to assist with the preparation of 2016 Annual Report and Accounts are highlighted below:

- comprehensive guidance issued to contributors, including the FRC Letter, 'Summary of key developments for 2015 annual reports', which was issued to Audit Committee Chairmen in December 2015;
- a verification process dealing with the factual content;
- comprehensive reviews undertaken independently by the Company's Director of Compliance and Director of Regulation to consider messaging and balance;
- comprehensive reviews undertaken by the Company's brokers to ensure consistency and balance;
- reporting by the External Auditor of any material inconsistencies; and
- comprehensive review by the Directors and the senior management team.

The Audit Committee and Board received confirmation from management that the assurance framework described above had been adhered to at its meeting in May 2016.

Audit Committee Report continued

Areas of focus in 2015/16

The key matters considered by the Audit Committee during the year are explained in detail below, and principally fell under the following five main areas: Financial Reporting and Significant Financial Judgements; Internal Audit; External Audit; Internal Control and Risk Management; and Governance.

Financial reporting and significant financial judgements

Financial reporting

The Audit Committee assists the Board with the effective discharge of its responsibilities for financial reporting. During the year, the Audit Committee reviewed:

- the integrity of the interim and annual financial statements and accompanying reports to shareholders;
- the appropriateness of the accounting policies and practices used;
- the clarity of the disclosures, in addition to compliance with financial reporting standards and governance reporting requirements;
- the Group's tax position, including ongoing HMRC enquires, areas of potential tax exposure and the Fair Tax Mark accreditation;
- regular reports on the status of various accounting projects including the transition to FRS 101/102 for subsidiary companies;
- areas in which significant judgements had been applied and other matters raised for discussion by the External Auditor;
- reports from the External Auditor on its audit of the full year results and its review of the half year results;
- matters which informed the Board's assessment that it was appropriate to prepare the accounts on a going concern basis;
- letters of representation issued by management to the External Auditor for the full year and half year results prior to them being signed on behalf of the Board; and
- whether the Annual Report and Accounts were fair, balanced and understandable and provided the information necessary for shareholders to assess the company's performance, business model and strategy.

In carrying out the review of these matters, the Audit Committee received reports from members of the Group Finance Team and the External Auditor setting out their views on the accounting treatments and judgements included in the Financial Statements.

Significant Financial Judgements

In preparing the financial statements, there are a number of areas requiring the exercise by management of judgement or a high degree of estimation. In the Audit Committee Report in 2015, accounting for legal and contractual claims was included as a significant financial judgement area. After discussion with management and the External Auditor, the significant areas of judgement reviewed and considered by the Audit Committee in relation to the 2016 Financial Statements, and how these were addressed are set out in the table below:

Significant financial judgements

Significant financial judgements for the year ended 31 March 2016	How the Audit Committee addressed these significant financial judgements
Carrying value of certain non-current assets: The carrying value of certain non-current assets in the Group – including power generation plants and goodwill – needs to be assessed by reference to the recoverable value (value-in-use or fair value less costs to sell) of the asset or the associated CGU (cash generating unit). An annual valuation/impairment exercise is carried out. The assumptions applied in this exercise require judgements on the economic factors associated with the assets under review (see notes 4 and 16 to the Financial Statements).	The basis and outcome of this review is described in a paper presented to the Audit Committee by management. The paper includes a description of the assumptions applied in deriving the recoverable values. The Audit Committee reviewed and challenged the assumptions and projections presented in the management paper and also considered the detailed reporting from, and findings by, the External Auditor. Following this review, the Audit Committee supported the recommendation to recognise exceptional charges of £889.8m in relation to certain assets in the financial year.
Accounting for estimated revenue: Revenue from energy sales in the Retail division includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the financial year end. This is based on estimates and assumptions in relation to the consumption and valuation of that consumption (see notes 4 and 21 to the Financial Statements).	The Audit Committee reviewed a paper prepared by management which detailed the practical process issues and assumptions applied in determining the basis of recognition of 'unbilled' debtors, with particular reference to domestic electricity and gas. The Audit Committee also considered detailed reporting from, and held discussions with, the External Auditor on this key judgement. Following this review, the Audit Committee supported this judgement.
Valuation of receivables: The recoverability of the Group's billed energy receivables in the Retail division is a key judgement area given the risk of customer insolvency or default. The level of the Group's aged debt is monitored with the Group's allowances for doubtful debt being based on assumptions derived from experience and industry knowledge (see notes 4 and 34 to the Financial Statements).	The Audit Committee considered a paper which described the assumptions impacting management judgements on doubtful debt allowances and charges, and were updated on the activities of the Group's Debts Steering Group (whose members include the Finance Director and other senior management) and the processes for receivables collection and provisioning. The Audit Committee also considered the results of the work of the External Auditor in this area. Following this review, the Audit Committee supported this judgement.
Accounting for Group pension obligations: The assumptions in relation to the cost to the Group of providing future post-retirement benefits are set after consultation with qualified actuaries and can have a significantly material impact on the financial position of the Group (see notes 4 and 32 to the Financial Statements).	The costs, assets and liabilities of the Group's defined benefit retirement schemes are regularly reviewed. Advice is taken from independent actuaries on the IAS 19R valuation of the schemes. The Audit Committee were updated on the schemes' valuation from management and also considered the reporting of the External Auditor particularly in relation to the schemes' key assumptions relative to market practice. Following this review, the Audit Committee supported this judgement.

Internal audit

The Director of Risk, Audit and Insurance has management responsibility for the Internal Audit function. In addition to the normal corporate reporting structure, he is given the right of direct access to the Audit Committee, Chief Executive, and Company Chairman. The Internal Audit function operates a risk-based methodology to review internal control and risk management processes and procedures. During the year, the Audit Committee:

- reviewed progress against the 2015/16 Internal Audit Plan, including significant findings, the adequacy of management's response and the time taken to resolve;
- received reports from Internal Audit on the assessment of the risk management framework and the internal control environment;
- considered the independence, authority and responsibilities of the Internal Audit function and approved an updated version of the Internal Audit Charter;
- assessed the expertise and resources available to the Internal Audit function; and
- approved the Internal Audit Plan for 2016/17 which comprises fixed and flexible elements in order to provide capacity to respond to changing business requirements and new and emerging risks.

The Audit Committee is responsible for reviewing and monitoring the effectiveness of the Internal Audit function. During the year, the Audit Committee considered:

- the views of the Director of Risk, Audit and Insurance on the effectiveness, resourcing and areas for future development of the Internal Audit function;
- the output of a Quality and Standards Assessment of the Internal Audit function undertaken by KPMG; and
- the results of a senior management survey obtaining feedback on the value, business acumen, trust and service provided by Internal Audit.

After taking into account all of the above matters, the Audit Committee concluded that it is fully satisfied with the effectiveness of the Internal Audit function, and supports ongoing developments to further enhance its effectiveness.

External audit

KPMG were appointed as the External Auditor in 1999 through a competitive tender process following the merger which formed SSE. At the 2015 AGM, shareholders re-appointed KPMG as the External Auditor of the Company for the year ended 31 March 2016, and authorised the Audit Committee to fix their remuneration. KPMG has acted as the External Auditor of the Group throughout the year. The External Auditor is required to rotate the lead audit partner every five years. The Audit Committee monitors this rotation, and confirms that the current lead audit partner is in the second year of his term. The current lead audit partner is based in London and is supported by an audit team based in Glasgow, Reading and Dublin.

Appointment of External Auditor

The Audit Committee is responsible for reviewing and making recommendations to the Board on the appointment, remuneration and terms of engagement of the External Auditor. In making such recommendations to the Board, the Audit Committee considered the objectivity, independence, effectiveness, and ongoing relationship with the current External Auditor as described below, in addition to the External Auditor's approach, scope, areas of focus, level of materiality and remuneration for the audit of the financial year ended 31 March 2016.

Objectivity and independence of External Auditor

The Audit Committee is responsible for reviewing and monitoring the objectivity and independence of the External Auditor. The External Auditor has provided specific assurance to the Audit Committee on the arrangements it has in place to maintain its objectivity and independence, including confirmation of compliance with APB Ethical Standards in relation to the audit engagement. In addition, the Audit Committee oversees a policy to govern the non-audit services provided by the External Auditor. Details of the policy and fees paid to the External Auditor in 2015/16 are provided below. The Audit Committee also considered reports from management which did not raise any concerns in respect of the External Auditors' objectivity and independence. After taking into account all the above matters, the Audit Committee concluded that it is fully satisfied with the objectivity and independence of the External Auditor.

Effectiveness of External Auditor and ongoing relationship

The Audit Committee is responsible for reviewing and monitoring the effectiveness of both the external audit process and the ongoing relationship with the External Auditor. During the year, the Audit Committee reviewed:

- regular reports on progress against the 2015/16 External Audit Plan, significant findings, the adequacy of management's response and the time taken to resolve;
- the competence with which the External Auditor handled and communicated the key accounting and audit judgements;

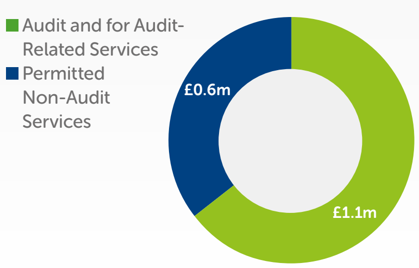
Overview of Non-Audit Services Policy

A comprehensive review of the Non-Audit Services Policy was carried out in 2015/16 in anticipation of future changes which are being introduced as part of EU Audit Reform, where the cumulative limit of non-audit services cannot exceed 70% of the statutory audit fees. The policy recognises that the external audit contract will be subject to mandatory rotation from time-to-time, and includes a safeguard to ensure that potential audit firms are not restricted in their ability to tender for the external audit contract going forward. For the purposes of approval, non-audit services were divided into 3 categories:

- Audit-Related Services, where the approval of the Finance Director is needed;
- Permitted Non-Audit Services, where approval can be obtained from the Finance Director up to £150,000 and the Audit Committee Chairman above this amount; and
- Prohibited Non-Audit Services.

The Audit Committee reviews a report at each meeting on the services being provided by the External Auditor. Fees for Audit and Audit-Related Services incurred during the year amounted to £1.1m and £0.6m for Permitted Non-Audit Services. Significant categories of engagement for Permitted Non-Audit Services awarded during the year include £0.3m for advice and data analysis services provided in relation to the Connections business within Networks and £0.2m for tax advisory services. In line with the Non-Audit Services Policy, in each case the Audit Committee was satisfied that the work was best handled by the External Auditor because of their knowledge of the Group and the skills and expertise brought to the assignment. Details of the fees paid to the External Auditor during the year are made in note 6 to the Financial Statements.

Fees paid to External Auditor



Audit Committee Report continued

External audit continued

- the effectiveness of the overall external audit process for 2015/16, including meeting with the External Auditor and management separately to identify any areas of concern;
- the quality of the External Auditor's engagement with the Audit Committee;
- the qualifications, expertise and resources of the External Auditor;
- the output from a questionnaire completed by senior management seeking views on KPMG's capability and performance in providing external audit services; and
- the output from a FRC Audit Quality Review of KPMG published in May 2015.

After taking into account all the above matters, the Audit Committee concluded that it is fully satisfied with the effectiveness of both the external audit process and the ongoing relationship with the External Auditor.

Tendering of External Audit

Whilst the Audit Committee has continued to keep under review all aspects of the relationship with the External Auditor, no formal tender of the external audit contract has been carried out since KPMG's appointment in 1999. The Audit Committee is fully aware of the audit tendering recommendations set out in the Code and the requirements of the CMA Audit Order, EU Audit Regulation and EU Audit Directive. Before making a recommendation to the Board on the timing of the external audit contract tender, the Audit Committee considered:

- the quality, stability and continuity provided by the relationship with the current External Auditor;
- the changes to auditor tendering requirements and the mandatory auditor rotation obligation, and the impact both have on the timing of a tender;
- management of the audit requirement regarding the change in accounting standards at subsidiary level; and
- the lead time required to ensure potential audit firms are not restricted in their ability to tender for the external audit contract arising from existing contracts for non-audit work.

After taking into account the matters outlined above, in addition to the arrangements for monitoring all aspects of the relationship with the External Auditor, upon the recommendation of the Audit Committee, the Board concluded that it was in the best interests of the Company not to tender the audit contract at this time. The matters highlighted in this section constitute the Company's rationale and explanation for non-compliance with section C.3.7 of the Code.

Tender timeline

The five year rotation of the current lead Audit Partner will end on completion of the audit for the financial year ending 31 March 2019. As stated in the Audit Committee Report last year, it is anticipated that a tender process will take place in 2018, in accordance with the timeline below which complies with the transitional provisions set out in The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. There are no contractual obligations with a third party which restrict the choice of External Auditor, and the future tender process will be based on a clear selection and assessment criteria. The Audit Committee will continue to keep under review the timing of the tender for the external audit contract. In light of the decision to defer tendering, resolutions to re-appoint KPMG as External Auditor of the Company for the year ending 31 March 2017, and to authorise the Audit Committee to fix their remuneration, will be proposed to shareholders at the AGM on 21 July 2016.

Internal control and risk management

Whilst the Board is responsible for the overall system of internal control and risk management, reviewing and monitoring the ongoing effectiveness of the system is covered by a number of key committees and related assurance activities across the Group. Full details of the Group's internal control and risk management framework including an overview of developments during the year for the identification and management of risk, and an explanation of the requirements under the relevant FRC guidance, are set out on pages 16 to 19 and 78.

External Audit Tender Timeline

The Audit Committee plays an important role in the internal control and risk management framework, and during the year it reviewed information drawn from a number of different sources, including reports from:

- Treasury, setting out: strategy; market developments; debt structure; maturity profiles; funding plan; liquidity; going concern; credit rating; foreign exchange; and significant risks and controls;
- Internal Audit on cyber security risks and vulnerabilities, including the development of the IT security programme;
- Energy Portfolio Management setting out: strategy; market prices and analysis; financial regulation developments; energy portfolio and counterparty credit exposures; and significant risks and controls;
- Group Risk on the framework for the identification, evaluation and monitoring of Principal Risks, including their assessment of the risk management framework and internal control environment;
- Group Risk on the framework and analysis to support the long-term viability statement made on page 17;
- Group Risk on the framework to provide assurance to the Executive Committee and Board that key policies which form part of SSE's System of Internal Control are being properly implemented within each of the Group's Divisions;
- Group Compliance with an update on the project to enhance the control environment in relation to the various legislative and regulatory obligations that govern SSE's operations;
- Internal Audit on the review of whistleblowing arrangements, and the implementation of an updated policy and external reporting channel to support the launch of the revised arrangements;
- Internal Audit highlighting investigations into allegations and incidents of fraud across the Group, and the Company's response;
- Internal Audit on the work undertaken to identify the top Group-level fraud risks, and the development of a focused audit plan; and
- the External Auditor, on its assessment of significant risks and the internal control environment in so far as is necessary to form an opinion on the true and fair view of the Financial Statements.

These reports provided the Audit Committee with invaluable insights into the risks facing the Group and the management of them, and inform the Board in its review of the effectiveness of the risk management and internal control framework.

Governance

In addition to the matters described in this report and to ensure good governance practice, the Audit Committee considered the following matters during the year.

Terms of Reference

The Audit Committee's structure and operations, including its delegated responsibilities and authority, are governed by Terms of Reference which are reviewed annually.

Annual plan of business

To support the Terms of Reference and ensure the effective operation of the Audit Committee, a detailed plan of business for each meeting throughout the year is approved annually.

Briefings

The Audit Committee receives regular briefings from management on matters such as governance and regulatory developments, treasury, energy trading and accounting policies and practices.

Review of disclosures

The Audit Committee considered and approved content to be included in the Annual Report concerning risk management, internal control and the Audit Committee Report.

Disclosure of information to Auditors

The Audit Committee oversees the governance arrangements to assist the Directors discharge their responsibilities in relation to the disclosure of information to the External Auditor and make the statement as set out on page 114.

Evaluation

During the course of the year, regular challenge and engagement with management, Internal Audit and the External Auditor, together with the timely circulation of reports and information, has enabled the Audit Committee to discharge its duties and responsibilities effectively. The external Board evaluation process which was carried out during the year confirmed that the Audit Committee continued to operate effectively. Details of the evaluation process are set out on pages 76 and 77.

Safety, Health and Environment Advisory Committee (SHEAC) Report

The SHEAC advises the Board on safety, health and environmental matters including policy, targets and strategy.

Members and meetings

Members	Independent non-Executive Director	Member since	Attended/ scheduled
Jeremy Beeton	Yes	July 2011	3/3
Sue Bruce	Yes	September 2013	3/3
Helen Mahy[1]	Yes	March 2016	1/1
Jim McPhillimy	No	November 2008	3/3
Mark Patterson	No	January 2013	3/3
Paul Smith	No	November 2008	3/3

Dear Shareholder,

On behalf of the Board, I am pleased to present this report which explains the role, composition and activities of the SHEAC during the year.

We operate in a hazardous industry with inherent risks relating to safety, health and the environment. I'm pleased to report that SSE's SHE performance in 2015/16 has continued to be strong, but we always want to do better.

Our first priority in everything that we do is to prevent harm to employees, contractors, customers and the environment. Our seven enduring goals which are set out in the report that follows help focus attention on the unique challenges facing each of the business areas. It is through these goals and a culture where colleagues look out for each other that we strive to minimise risks to ourselves, those who work for us, the public and our environment.

This year, the SHEAC visited SSE's new gas fired power station in Ireland which became operational in 2015. It provided an excellent opportunity to meet with employees and gain a deeper understanding and appreciation of the SHE related challenges affecting the Wholesale business now and over the coming years. The opportunity to spend time with employees and hold a meeting on-site was very well received by the SHEAC and will be repeated in 2016/17.

Jeremy Beeton CB
Chairman of the SHEAC

Role

The role of the SHEAC is to advise the Board on safety, health and environmental matters. It provides a leadership forum for non-Executive Directors to work with senior management and shape policy, targets and strategy to improve safety, health and environmental performance.

The SHEAC is responsible for:

- ensuring adherence to SSE's safety, health and environmental policies;
- setting Group targets and strategy for improved performance;
- monitoring Group performance against these targets;
- enhancing the awareness and the importance of safety, health and environmental management and ensuring consistent performance; and
- making recommendations to the Board where action or improvement is needed.

Composition

Members of the SHEAC are appointed by the Board following recommendation by the Nomination Committee. The membership of the SHEAC is set out in the table opposite.

Jeremy Beeton brings a depth of experience from his background in engineering and major construction projects. Sue Bruce provides valuable insights from various senior roles in the public sector. Helen Mahy joined the SHEAC on 1 March 2016 and brings a wealth of knowledge from her career in the energy industry. Jim McPhillimy, Mark Patterson and Paul Smith bring substantial operational experience to the SHEAC through their roles and responsibilities within SSE. The Chief Executive regularly attends meetings and during the year the Audit Committee Chairman attended the meeting held at the gas fired power station in Ireland. The Deputy Company Secretary is Secretary to the SHEAC.

Meetings and activities in 2015/16

The SHEAC met three times during the year and details of attendance are set out in the table opposite. Meetings are routinely held on the same day as Board meetings and the SHEAC Chairman reports to the Board after each meeting.

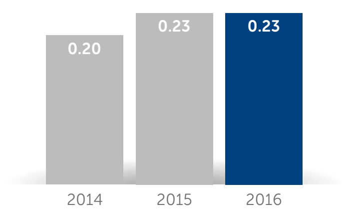
The work of the SHEAC is underpinned by the Safety Value and is designed around the Seven Enduring Goals. At each meeting, the SHEAC reviews: performance; incidents and trends; emerging risks and priorities. Examples of matters considered by the SHEAC during the year include:

- **Deep dives** into the SHE risks facing each of the main business areas.
- **Project Drive** which sets out a framework to lower the risks relating to driving.
- **Organisation** redesign to enhance the management of SHE matters throughout SSE.
- **Emerging SHE risks** arising from the next stage of the capital investment programme and the decommissioning of assets such as the Ferrybridge coal fired power station.

In addition, an important aspect of the work of the SHEAC is to gain a deep understanding of the safety, health and environmental challenges affecting SSE's businesses. During the year, members of the SHEAC visited various operational sites throughout the UK and Ireland and met front-line management teams. Members of the SHEAC routinely provide feedback at the annual SHE Conferences which are held at locations across the Group.

Further information relating to safety, health and environment performance during 2015/16 and priorities for 2016/17 is contained on pages 1 to 65.

Total recordable injury rate per 100,000 hours worked



Safety and the Seven Enduring Goals

SSE's first priority in everything it does it to prevent harm to people or places. In support of that, SSE's first core value is Safety – we believe all accidents are preventable, so we do everything safely and responsibly or not at all. Due to the diversity of operations across SSE's businesses, the Safety value is supported by Seven Enduring Goals which provides a framework for each business to focus attention on its unique safety, health and environment challenges.

1	**Safety Family**	Being our brother's keeper with everyone working to high standards.
2	**Driving**	Creating a company of lower risk drivers.
3	**Process Safety**	Managing our assets well and preventing major incidents.
4	**Contractor Safety**	Partnering with contractors to be 'best in class' on safety, keeping them as safe as SSE colleagues.
5	**Occupational Health and Well-being**	Protecting our team's health and promoting their wellbeing.
6	**Environment**	Protecting the environment and operating in a sustainable way.
7	**Crisis Management**	Staying well prepared and responding brilliantly when things go wrong.

Remuneration Report
Committee Chairman's statement

The Remuneration Committee believes it is very important that overall remuneration is strongly aligned to SSE's purpose and strategy.

Members and meetings

Members	Independent non-Executive Director	Member since	Attended/ scheduled
Katie Bickerstaffe (Committee Chairman)	Yes	July 2011	4/4
Jeremy Beeton	Yes	July 2014	4/4
Crawford Gillies[1]	Yes	August 2015	3/3
Richard Gillingwater CBE	n/a	June 2007	4/4
Lord Smith of Kelvin[2]	n/a	March 2005	1/1

1 Crawford Gillies joined the Board on 1 August 2015.
2 Lord Smith of Kelvin retired from the Board on 23 July 2015.

Dear Shareholder,

I am pleased to present the Remuneration Committee's Directors' Remuneration Report for the year to 31 March 2016.

The objective of this report is to set out in a clear and transparent way how SSE pays its Executive Directors; how this links to the Company's purpose and strategy; and how the Committee works, mindful as it is of the expectations of shareholders and other stakeholders.

Linking Executive Directors' remuneration with SSE's purpose and strategy

The Committee believes it is very important that our overall remuneration policy is strongly aligned to SSE's purpose and strategy; it aims to ensure this through the following approach:

- **Simplicity** – Our Executive Directors' pay is made up of just four elements: base salary and benefits; a pension; a performance-based annual incentive scheme (cash and shares); and a performance-based long-term incentive scheme (shares).
- **Balance** – We assess performance through a balanced range of measures to ensure we cover all aspects of our Executive Directors' performance. We also align Executive Directors' performance related salary increases with those of the other employees of SSE.
- **Customer focus** – Reflecting our commitment to customers, we include customer service measures in both the annual incentive and the long-term incentive (the performance share plan (PSP)).
- **Delivery** – Dividends and Total Shareholder Return (TSR) performance continue to feature strongly in our incentive framework to ensure Executive Directors' interests are aligned with those of our shareholders.
- **Stewardship** – Executive Directors are expected to look to the long term and are required to build and maintain a significant personal shareholding in the business; furthermore a two-year holding period extends the overall time horizon of our PSP to five years. In addition from 2016/17 onwards, we are proposing to introduce 'career deferral' whereby deferred shares are not released until 12 months after the director leaves the company.

Through this approach, we believe that SSE's remuneration policy addresses potential areas of concern for shareholders and reflects wider stakeholder interests as well.

Changes to our Policy for 2016/17

As highlighted in last year's Directors' Remuneration Report, during 2015 we undertook a wide ranging review of the remuneration arrangements for our Executive Directors to ensure these arrangements were fair and reasonable, and also relevant and aligned with our strategy. Following this review, we are proposing to make a number of changes to the structure of our remuneration package, in line with the core principles previously set out:

- **'Career deferral'** – the most significant change we are proposing to the structure of our Executive Directors' remuneration package is to introduce career deferral. This will extend the time period that deferred shares, arising from annual incentive awards, are held to until a year after an Executive Director steps down from their position. We believe this new innovative arrangement aligns the Executive Directors' interests to the long-term stewardship of the Company, including importantly, the sustainability of SSE post leaving.
- **Increase in percentage deferred** – in addition to extending the time period deferred shares are required to be held, we are proposing to increase the percentage of the annual incentive that will be deferred into shares from 25% to 33%.
- **Pensionable salary cap** – we are also proposing to decrease the emphasis on pension by capping future pensionable salary increases at RPI + 1%.

These changes are in addition to other recent structural changes including the introduction of a two-year holding period for the PSP, post vesting, and the increase in share ownership guidelines to 200% of base pay.

As part of this wide ranging review, we also looked at incentive opportunity levels taking into consideration any retention risk and the marketability of our Executive Directors, the complexity and challenges of the Executive Director role in the environment that SSE now operates in, and giving appropriate consideration to what we believe is a fair and reasonable arrangement for the breadth and depth of roles being undertaken.

Levels of variable pay were last reviewed over eight years ago, when there were four Executive Directors' and have remained unchanged since. In that time, the environment in which SSE operates has become significantly more complex and challenging, and the role of our Executive Directors has changed as a result of this.

While the issue of fair and appropriate arrangements was the principal consideration for the Committee, in my role as chair, I believed that it was important to have available relevant reference points to further inform our thinking. As such, current incentive arrangements were reviewed against relevant external benchmarks which highlighted that current incentive opportunity levels are significantly below market levels.

Given the background and context described above, the Committee feels that it is right to increase the overall incentive opportunity to levels which are more commensurate with the size and complexity of the organisation, but which would continue to position SSE conservatively against a range of relevant benchmarks. The proposed changes are as follows:

- Annual Incentive Plan *opportunity* for our Chief Executive to increase from 100% to 150% of salary and from 100% to 130% of salary for our Finance Director; and
- Performance Share Plan *opportunity* to increase from 150% to 200% of salary for our Chief Executive and 150% to 175% of salary for our Finance Director.

We have historically set stretching targets for both the annual incentive and PSP, as demonstrated by our historically conservative payouts, and targets will remain challenging and stretching going forward. Following our shareholder consultation exercise and against the context of increased incentive levels, we decided to introduce more stretching targets for the PSP. The Committee confirmed that the current approach of using a balanced range of performance measures continues to be appropriate.

We believe that the balance of the proposed changes to Executive Director packages, as well as other recent structural changes such as the two year PSP holding period, provides a conservative but more competitive remuneration structure designed to promote long-term stewardship and commitment.

We, as the Remuneration Committee of SSE, value the views of our shareholders and as part of our review we consulted with our largest shareholders, as well as the Investment Association and Institutional Shareholder Services on these proposals at the beginning of 2016. We welcomed and took on board the feedback from these meetings and we hope that you will support the proposals at our 2016 AGM, where a new Remuneration Policy will be put to shareholder vote.

Performance related pay out-turns in 2015/16

2015/16 was once again a challenging year for the energy sector and for SSE. Managing the balance between providing energy that is secure, affordable and reliable, whilst meeting regulatory and climate change obligations continues to be a focal point. Similarly, doing more for customers, providing excellent customer service and building customers' trust is an ongoing priority. Despite the challenges, SSE remains a resilient and diverse business, with a strong commitment to operational efficiency and delivering value for both customers and investors. The Committee believes that the Executive Directors have made strong progress in leading the Company through these challenges, whilst maintaining a balance between meeting short-term goals and the long-term success of the Company. In so doing, they have demonstrated judgement, resilience, and adherence to the Company's core values.

- **Base Salary**: We reviewed salary levels for Executive Directors looking at a number of factors, including individual performance and increases awarded to the wider SSE employee population. The Executive Directors will both receive a salary increase of 2.4% effective from 1 April 2016, which is in line with the average performance based salary increases for other employees in SSE.
- **Annual Incentive Plan (AIP)**: The out-turn under the Annual Incentive Plan (AIP) was determined against a set of financial, strategic and personal targets set at the beginning of the year. This resulted in an outcome of 54% of the maximum opportunity. We have set out details of SSE's performance against the AIP measures and targets on page 105.
- **Performance Share Plan (PSP)**: For PSP awards granted in 2013, which were due to vest following the end of the 2015/16 financial period, measurement of performance over the three year period resulted in no pay-out, reflecting that the targets were set in very different market conditions.

Next steps

I hope that this Report fulfils its objective of setting out in a clear and transparent way SSE's approach to Executive Directors' remuneration and the key decisions relating to it that were taken in the year. I believe that a remuneration policy based on simplicity, balance, customer focus, delivery and stewardship is the right one for a company which has the core purpose of providing the energy people need in a reliable and sustainable way.

At our AGM in 2015, we were pleased to receive overwhelming support from shareholders for our Remuneration Report, with 98% of votes cast in favour. Listed companies are now required to submit separate ordinary resolutions for approval by shareholders and at our AGM in 2016, shareholders will have the opportunity to vote on the following:

- **The Directors' Remuneration Report.** This is a required annual advisory vote relating to Directors' remuneration paid in the previous financial year, and setting out how the Directors' Remuneration Policy will be implemented in the forthcoming year.
- **The Directors' Remuneration Policy.** This was last reviewed in 2014 and although this is only required every three years, the Remuneration Committee has decided to submit a new policy for approval this year reflecting the proposed changes outlined above.
- **A new Performance Share Plan.** The existing Performance Share Plan, was approved by shareholders in 2006 and expires in 2016. The new plan reflects the proposed changes outlined.

I hope that our shareholder consultation exercise and the context in this report will provide shareholders with the information they need to continue to support our remuneration resolutions.

As always, I would welcome any feedback or comments on this Report. We will continue to endeavour to report remuneration matters with clarity and transparency and would welcome any suggestions on how we can add to those qualities in the future.

Katie Bickerstaffe
Chairman of the Remuneration Committee

Remuneration Report continued
At a Glance

SSE's performance in 2015/16

Executive Directors' remuneration is strongly linked to Company performance. The table below shows some of SSE's financial and non-financial highlights in 2015/16.

Earnings per share – 119.5p * 124.1p in 2014/15	Total Recordable Injury Rate – 0.23 per 100,000 hours worked * 0.23 in 2014/15
Adjusted profit before tax – £1,510m * £1,564.7m in 2014/15	Strong performance in the Citizens Advice Energy Supplier Performance Report
Investment and capital expenditure – £1,618.7m * £1,475.3m in 2014/15	Electricity distribution estimated incentive performance – c.£23m * c.£6.5m in 2014/15
Contribution to UK economy – £8.9bn * £8.8bn in 2014/15	77% employee engagement index * 4% increase on 2014/15

Remuneration Principles and Strategy

The Remuneration Committee believes it is important that overall remuneration policy is strongly aligned to the purpose and strategy through the following approach:

Simplicity
Executive Directors' pay is made up of just four elements – base salary and benefits, pension, an annual incentive, and a long-term incentive.

Customer focus
Customer service measures are included in both the annual incentive and PSP.

Balance
A balanced range of measures used to ensure all aspects of Executive Directors' overall performance are covered.

Delivery
Dividends and Total Shareholder Return (TSR) measures align Executive Directors' interests with shareholders.

Stewardship
Executive Directors are expected to look to the long term and build and maintain significant personal shareholdings in the business.

	Providing the energy people need in a reliable and sustainable way		
	Financial objectives	Consistent strategy	Long-term values
TSR	✓		
EPS/PBT	✓		
DPS	✓		✓
Cashflow	✓		
Customer		✓	✓
Teamwork			✓
Personal		✓	✓

Remuneration framework

In line with the principles above, Executive Directors' remuneration is made up of just four elements as set out below. Variable Remuneration is subject to performance and, in a number of aspects, continued service with SSE.

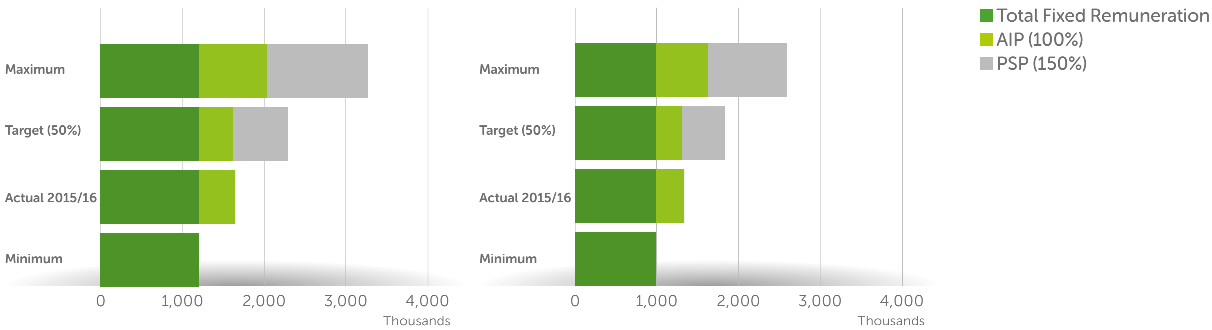
Minimum shareholding guideline equal to 200% of base salary

Fixed Remuneration	Variable Remuneration
Base Salary and Benefits Car, medical insurance and Share Incentive Plan.	**Short-term (annual)** Annual Incentive Plan (AIP) – 75% maximum cash and 25% deferred shares. Linked to individual and team performance, financial and operational measures.
Pension Final Salary.	**Long-term (three years)** Performance Share Plan (PSP) – three years plus two year holding period. Linked to relative TSR performance against the FTSE100 and MSCI European Utilities, dividend growth, adjusted annual EPS growth and customer satisfaction.

Executive Directors' Remuneration 2015/16

The chart below shows the total remuneration received for 2015/16. For comparison, the chart also indicates minimum, on target and maximum remuneration levels that could have been earned in the year.

Chief Executive – Alistair Phillips-Davies   Finance Director – Gregor Alexander



* Actual figures are based on the assumptions used for the single figure table on page 104.

Changes for 2016/17

As discussed in the Remuneration Committee Chairman's letter on pages 92 to 93, during 2015 a review of the remuneration arrangements for Executive Directors was undertaken to ensure their continued relevance and alignment with our strategy. Following this review a number of changes are proposed which are in line with SSE's core principles detailed above.

Pay element	Change	Rationale for change
Base Salary	+ 2.4%	Effective from 1 April 2016, both Directors will receive a salary increase of 2.4%. This is in line with average performance-based salary increases for the wider SSE population.
Career Deferral	From three years post award to one year after the Executive Director steps down	Extends the time period that deferred shares, arising from annual incentive awards, are held to until a year after an Executive Director steps down from their position. This supports SSE's Executive Directors' commitment to the long-term sustainability and stewardship of the Company – even after leaving.
Deferral Percentage	Increase from 25% to 33%	This supports the commitment to the long-term sustainability and stewardship of SSE and further aligns Executive Directors with the interests of shareholders.
Pensionable Salary Increases	Capped at RPI +1%	Effective from 1 April 2017, this decreases the emphasis on pension in total reward.
Annual Incentive Plan Opportunity	CEO: 100% to 150% FD: 100% to 130%	Variable incentive levels were last reviewed over eight years ago and have remained unchanged since. However over this time the scope and complexity of the roles have increased significantly.
Performance Share Plan Opportunity	CEO: 150% to 200% FD: 150% to 175%	The environment in which SSE operates has become significantly more complex and challenging, including significant additional devolution within the UK, and more complex and wide-ranging regulation. As a result, the role of Executive Directors now includes engaging effectively with policy-makers and regulators and a wide range of stakeholders, as well as balancing value to customers and shareholders, while making the long-term investment decisions designed to sustain dividends for shareholders over the longer term. As part of the wide ranging review, the Committee looked at incentive levels taking into consideration any retention risk, the complexity and challenges of the Executive Director role in the environment that SSE operates, and the role of incentives in supporting our strategy. Against the background and context above, the Committee felt that it was right to increase the overall incentive opportunity to levels which are commensurate with the size and complexity of the organisation, but which would still position SSE conservatively against a range of relevant benchmark reference points.
Performance Share Plan Targets	Maximum EPS growth target increased from RPI +8% to RPI +10% Maximum DPS growth target increased from RPI +4% to RPI +5%	In the context of the increase to overall incentives, the Committee increased the maximum targets for a number of PSP performance measures.

Remuneration Report continued
Policy

The following sets out SSE's Directors' Remuneration Policy (the "Policy"). The Policy is subject to a binding shareholder vote at SSE's AGM on 21 July 2016 and, if approved, will apply from this date.

The key changes between this Policy and the policy which was approved by shareholders at SSE's AGM on 17 July 2014 are as follows:
- A career deferral period is being introduced to the annual incentive plan, extending the time period that deferred shares are held to one year after an Executive Director steps down from their position. This supports SSE's commitment to long-term sustainability and stewardship of SSE.
- An increase to the proportion of award to be deferred is proposed in addition to the above. Previously, 25% of a Director's annual incentive award was deferred as shares for a period of three years. Under the new arrangements, 33% of the award will be deferred.
- A cap on pensionable salary is to be introduced effective from 1 April 2017. Future pensionable base pay increases will be capped at RPI +1%.
- Annual incentive and performance share plan opportunities are to increase for both Executive Directors. Variable incentive levels were last reviewed over eight years ago and have remained unchanged since. However over this time the scope and complexity of the roles have increased significantly. The new approach continues to position SSE conservatively against the market in line with SSE's pay policy. The Chief Executive's maximum AIP opportunity will increase from 100% to 150%, and maximum PSP will increase from 150% to 200%. The Finance Director's maximum AIP opportunity will increase from 100% to 130% and maximum PSP will increase from 150% to 175%.

Remuneration Policy

Base Salary	
Purpose and link to strategy	The base salary supports the retention and recruitment of Executive Directors of the calibre required to develop the Company's strategy, deliver efficient operations and investments, and engage effectively with the Company's key stakeholders. It is intended to reflect the role and its responsibilities, business and individual performance measured against SSE's strategy and core purpose of providing the energy people need in a reliable and sustainable way, and to have an awareness of competitive market pressures.
Operation	The Committee sets base salary taking into account: - the individual's skills, experience and performance; - salary levels at other FTSE100 companies and other energy businesses; - remuneration of different groups of employees and wider internal pay arrangements; and - the overall policy objective to remain below market median on a total remuneration basis for the FTSE 20-50 excluding financial services companies. Base salary is normally reviewed annually with changes effective from 1 April. It may be reviewed more frequently or at different times of the year if the Committee determines this is appropriate.
Maximum opportunity	While there is no maximum salary level, salary increases will normally be in line with the typical level of increase awarded to other employees in the Company. However, increases may be above this level in certain circumstances, including but not limited to: - where a new Executive Director has been appointed to the Board at an initially lower base salary with the intention that larger salary increases would be awarded for an initial period of time as the Executive Director gains experience; - where there has been a significant increase in the scope and responsibility of an Executive Director's role or where they have been promoted; and - where a larger increase is considered necessary to reflect significant changes in market practice.
Performance measures	The overall performance of the Executive Directors in ensuring that SSE fulfils its core purpose of providing the energy people need and, delivers its strategic focus on efficient operations and disciplined investment and achieves key financial objectives is considered by the Remuneration Committee when setting and reviewing salaries annually.

Pension	
Purpose and link to strategy	Pension planning is an important part of SSE's remuneration strategy because it is consistent with the long-term goals and horizons of the business. The pension supports the Company's ability to retain experienced Executive Directors and develop talent internally.
Operation	The current Executive Directors participate in either the Southern Electric Pension Scheme or the Scottish Hydro-Electric Pension Scheme. These schemes are funded final salary (subject to the cap on future increases in pensionable pay described below) pension schemes. Where an Executive Director is subject to the scheme-specific salary cap (which mirrors the provisions of the previous HMRC cap arrangements) the Company provides top-up unfunded arrangements ("UURBS") up to the maximum benefit outlined below. The Committee may determine that alternative pension provisions will operate for new appointments to the Board, and would also determine the value of such arrangements. When determining pension arrangements for new appointments the Committee will give regard to cost, market practice and the pension arrangements received elsewhere in the Company.
Maximum opportunity	For existing Executive Directors, the pension arrangements provide for a maximum pension of two-thirds of final salary, normally at age 60. From 1 April 2017, future pensionable pay increases will be capped at RPI + 1% (regardless of the level of any actual increases in salaries).
Performance measures	Not applicable.

Benefits	
Purpose and link to strategy	To provide a market-competitive level of benefits for Executive Directors.
Operation	Benefit policy is to provide an appropriate level of benefit taking into account market practice at similar sized companies and the level of benefits provided for other employees in the Company. Core benefits – Benefits currently include car allowance, private medical insurance and health screening. All-employee share plans – Executive Directors are eligible to participate in the Company's all-employee share plans on the same terms as UK colleagues. The Company currently operates the Share Incentive Plan and the Sharesave Scheme. Relocation policy – In the event that an Executive Director was required to re-locate to undertake their role, the Committee may provide additional reasonable benefits (either on a one-off or on-going basis) to reflect the relevant circumstances. The Committee may introduce or remove particular benefits if it is considered appropriate to do so.
Maximum opportunity	When determining the level of benefits the Committee will consider the factors outlined in the 'Operation' section. The cost will depend on the cost to the Company of providing individual items and the individual's circumstances and therefore there is no maximum benefit level.
Performance measures	Not applicable.

Remuneration Report continued
Policy

Annual incentive plan (AIP)

Purpose and link to strategy	In line with the need to achieve a suitable balance of fixed and variable remuneration the purpose of the AIP is to reward Executive Directors' performance during the year, based upon achievement of performance targets. The performance targets are linked to SSE's strategy and core purpose. Compulsory deferral into Company shares provides alignment between Executive Directors' interests and the long-term interests of shareholders. With effect from the 2016/17 performance year, this alignment will be reinforced as the deferral will take the form of an award of career shares, which are shares that cannot be disposed of until after the Executive Director has stepped down.
Operation	The Committee determines the level of incentive at its absolute discretion taking into account performance in each of the measures, the underlying performance of the business and Executive Directors' management of, and performance in, all of the business issues that arise during the year. Performance is typically assessed over a financial year. For the 2015/16 performance year, the award will be delivered 75% in cash and 25% in deferred shares. Deferred shares will normally vest three years from the award and will typically be subject to continued employment. Until vesting, the awards may accrue additional dividend shares. Dividend equivalents may be determined by the Committee on a cumulative basis and may assume reinvestment of dividends in the Company's shares. From the 2016/17 performance year, the award will normally be delivered: - 67% in cash; and - 33% in deferred shares, which will be granted as a career share award The Committee may determine that a different balance of cash and deferred shares may be awarded. For the 2016/17 annual incentive year and thereafter, deferred shares will be granted in the form of a career share award under the Deferred Scheme. Career share awards will normally vest three years from the award date (unless the Committee determines an alternative vesting period is appropriate) with accrual of dividends over that period as described above. Following vesting, the after-tax number of shares under the career share award will be held in a nominee account until the first anniversary of the cessation of the Executive Director's employment with the Company (irrespective of the circumstances of such cessation) or, if earlier, until death or the occurrence of a change of control of the Company. In the event that the Committee implements the career deferral holding period in such a way that Executives do not have beneficial ownership of the shares, dividends may accrue or be paid during the holding period following vesting. Deferred shares granted under the Deferred Scheme in respect of the 2015/16 annual incentive year will not be subject to any mandatory post-vesting holding period, except as otherwise required by the Company's shareholding policy from time to time. In certain circumstances as set out in the plan rules the Committee may at its discretion apply malus to outstanding awards under the AIP or unvested career share awards prior to the relevant vesting or payment date, and/or claw back the cash or share portion of awards under the AIP for up to three years after the cash payment date of the relevant award. The Committee may adjust and amend the terms of the career share awards in accordance with the Deferred Scheme rules.
Maximum opportunity	Maximum annual incentive opportunity is equal to 150% of base salary for the Chief Executive and 130% of base salary for the Finance Director.
Performance measures	The annual incentive is normally based on a mix of financial measures and measures related to the strategic performance of the business. A minimum of 50% of the annual incentive will be based on financial performance. The strategic performance of the business is generally determined with reference to its core purpose of providing the energy people need in a reliable and sustainable way and therefore normally includes matters such as safety, customer service in the Retail and Networks divisions and investment decision-making and execution, as well as the personal performance of the Executive Directors. The Committee determines the exact metrics each year depending on the key strategic objectives for the forthcoming year and ensures that they are appropriately stretching in the context of the business plan. In determining the final out-turn the Committee considers Executive Directors' management of, and performance in, all of the business issues that arose during the year. The Committee may review the detailed targets and weightings of measures year on year, as well as the appropriate threshold levels of vesting and performance. Around 50% of the incentive is paid if target levels of performance are delivered with the full incentive being paid for delivering stretching levels of performance. The part of the AIP that is deferred in the form of deferred shares or a career share award is not subject to any further performance conditions.

Performance share plan (PSP)	
Purpose and link to strategy	The purpose of the PSP is to reward Executive Directors, over a three year performance period and a further two year holding period, for their part in delivering the sustained success of SSE and to ensure that their interests are aligned with those of the shareholders who invest in the Company.
Operation	Shares are awarded which normally vest based on performance over a period of three years. Awards granted to Executive Directors will be subject to an additional two year post-vesting holding period during which time the Executive must retain the post-tax number of shares vesting under the award. The Committee shall determine the extent to which the performance conditions have been met. No shares shall vest unless the Committee is satisfied with the underlying financial performance of the Company. Awards do not vest until after the end of the performance period. Until vesting, PSP awards may accrue additional dividend shares. Dividend equivalents may be determined by the Committee on a cumulative basis and may assume reinvestment of dividends in the Company's shares. In certain circumstances set out in the PSP rules the Committee may at its discretion apply malus to outstanding awards prior to vesting and/or claw back vested awards for up to three years after the vesting date of the relevant award. The Committee may adjust and amend awards in accordance with the PSP rules.
Maximum opportunity	The maximum value of award that can be granted under the PSP is equal to 200% of base salary for the Chief Executive and 175% of base salary for the Finance Director.
Performance measures	The Committee determines targets each year to ensure that they are stretching and represent value creation for shareholders while remaining realistically achievable for management. Awards vest based on relative total shareholder return, financial based measures and customer satisfaction. At least 70% of the award will be based on financial and relative total shareholder return measures. The Committee may review the detailed targets and weightings of measures year on year, as well as the appropriate threshold levels of vesting and performance.

Share ownership policy	
Purpose and link to strategy	A key element of Executive Director pay policy is to align the interests of Executive Directors with those of shareholders who invest in the Company.
Operation	Shareholding is normally built up via shares vesting through the PSP, deferred shares from the AIP and all employee share schemes. Vested career shares under the Deferred Scheme (which, except in certain circumstances, must be retained for one year post-cessation of employment) may also count towards the Executive Director's shareholding.
Maximum opportunity	Executive Directors are expected to maintain a shareholding equivalent to two times base salary built up within a reasonable timescale. Consent to sell shares is not normally given (unless in exceptional circumstances) until this level of shareholding is reached.
Performance measures	Not applicable.

Chairman and non-Executive Director fees	
Purpose and link to strategy	Fees are set at a level which provides reward for undertaking the role and are sufficient to attract and retain individuals with the calibre and experience to contribute effectively at Board level.
Operation	The Committee is responsible for determining fees for the Chairman. The Board is responsible for determining fees for other non-Executive Directors. Fees are reviewed at appropriate intervals against companies of a similar size and complexity. Fees are set in a way that is consistent with the wider remuneration policy. The fee structure may be made up of: - a basic Board fee or Chairman fee; - an additional fee for any committee chairmanship or membership; and - an additional fee for further responsibilities e.g. Senior Independent Director, or periods of increased activity.

Remuneration Report continued
Policy

Chairman and non-Executive Director fees continued	
Operation continued	Non-Executive Directors do not participate in the Annual Incentive Plan, Deferred Bonus Scheme or any of the share schemes, or contribute to any group pension scheme. Non-Executive Directors do not currently receive any benefits. Benefits may, however, be provided in the future for non-Executive Directors if in the view of the Board this was considered appropriate and they may also be provided in the future for the Chairman if in the view of the Committee this was considered appropriate. Reasonable travelling and other expenses for costs incurred in the course of the non-Executive Directors undertaking their duties are reimbursed (including any tax due on the expenses). It is also expected that all non-Executive Directors should build up a minimum of 2,000 shares in the Company.
Maximum opportunity	The aggregate level of non-Executive Director fees shall not exceed the maximum limit set out in the Articles of Association.
Performance measures	While there are no direct performance measures relating to Chairman and non-Executive Director fees, the performance of the Board is subject to annual evaluation, including individual evaluation.

Committee discretion
All incentive awards are subject to the terms of the relevant plan rules under which awards are made. The Committee may adjust or amend awards in accordance with the provisions of the relevant plan rules. This includes, but is not limited to, the following discretions:
- In the event of a variation of the Company's share capital or reserves, or a demerger, special dividend, rights issue or other event, the number of shares subject to an Award and/or any performance condition attached to Awards, may be adjusted.
- The Committee may adjust PSP performance conditions for subsisting awards as it considers appropriate to take account of any factors which are relevant in the opinion of the Committee, for example to reflect modifications of accounting standards.
- In the event of a voluntary winding-up of the Company, the Committee may allow some or all of the outstanding PSP awards to vest (and be deemed exercised) on the date the resolution for the winding-up is passed.

The Committee may make minor changes to this Policy (for example for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation or corporate governance requirements or guidance) without seeking shareholder approval for that amendment.

Legacy commitments
The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretion available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out in this report where the terms of the payment were agreed (i) before 17 July 2014 (the date the Company's first shareholder approved directors' remuneration policy came into effect) (ii) before this Policy came into effect provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed or, (iii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. As well as remuneration payments and payments for loss of office under the Company's Directors' Remuneration Policy which was approved by shareholders on 17 July 2014, this includes commitments relating to the defined benefit pension arrangements which were made before 27 June 2012. "Payments" includes the Committee sanctioning awards of variable remuneration and an award over shares is "agreed" at the time the award is granted. Any payments made outside of the remuneration Policy pursuant to legacy commitments will be disclosed in full in the relevant year's Annual Report.

Directors' service contracts and non-Executive Directors' letters of appointment
Current Executive Directors have service contracts terminable by the Company immediately without notice upon breach by the individual or by the Company giving to the individual 12 months' notice or, at its discretion, payment in lieu of salary only during that notice. The payment in lieu of notice may be made in staged payments, and may either reduce or cease completely where the departing Executive Director gains new employment. The Executive Director may terminate his contract by giving the Company 12 months' notice. Contracts for new Executive Directors will be limited to 12 months' notice by both parties (or payment in lieu of notice in respect of the Company).

The non-Executive Directors have letters of appointment, and are appointed for fixed terms of three years, subject to retirement and re-appointment at AGMs.

Non-Executive Directors on termination are not entitled to any payment in lieu of notice or any compensation for loss of office.

The letters of appointment are available for shareholders to view on www.sse.com.

Loss of office policy
The Committee takes a number of factors into account when determining leaving arrangements for Executive Directors:
- The Committee must satisfy any contractual obligations provided they are consistent with the Policy or have been entered into on a date on or before 27 June 2012 in accordance with relevant legislation.
- The treatment of outstanding share awards is governed by the relevant share plan rules, as set out below.
- The Committee may determine that the Executive Director should receive outplacement support and legal advice at the expense of the Company and any payments required by statute.

The Company may at its discretion terminate any Executive Director's contract by providing notice or payment in lieu of notice (as set out above).

AIP

The Executive Director may, at the discretion of the Committee, remain eligible to receive an AIP award for the financial year in which they ceased employment. Any such AIP award will be determined by the Committee taking into account time in employment and performance. If an AIP award is received in such cases it will not be subject to deferral into deferred shares.

Deferred and career shares

If an Executive Director's employment terminates in circumstances such as death, injury, disability, ill-health (as agreed by the Committee) or other circumstances that the Committee deems appropriate, unvested deferred and career shares shall vest in full at the time of termination of employment.

If an Executive Director leaves the business in other circumstances their deferred shares and unvested career shares shall lapse. Vested career shares shall not lapse.

Vested awards in the form of career shares shall, except in the case of death or change of control, be released one year after cessation of employment, irrespective of the reason for such cessation.

Performance share plan

If an Executive Director's employment terminates in circumstances such as death, injury, disability, ill-health (as agreed by the Committee) or other circumstances that the Committee deems appropriate, PSP shares may continue to vest. The PSP shares will normally be reduced to reflect the time elapsed in the three-year performance period when the Director's employment ends and will normally remain subject to performance at the end of the performance period.

The Committee may determine, in exceptional circumstances, that PSP shares may be released at the time of cessation of employment. In this circumstance, it will determine the level of vesting taking into account the extent to which the performance conditions have been met at the time (subject to modification if the Committee considers that the performance condition would be met to a greater or lesser extent at the end of the original performance period) and the period the Executive Director has been in employment.

The Committee has the discretion to disapply time pro-rating or alter the time pro-rating fraction if it considers that the Executive Director's contribution to the business of the Company would not otherwise be properly recognised (for awards under the 2006 PSP, this discretion is limited to circumstances where the Committee determines that PSP shares shall vest for reasons other than death, disability or ill health). In this circumstance, the vesting of PSP shares would remain subject to performance until the end of the performance period.

If the Executive Director's employment ends for any other reason, unvested PSP share awards will lapse. Vested PSP shares which are subject to a mandatory holding period will not lapse as a result of cessation of employment for any reason.

Pension

Where an Executive retires through ill-health they are entitled to an unreduced pension based on service to expected retirement.

In the event of any reorganisation or redundancy, Executives who are aged 50 or more with at least five years of service will be provided with an unreduced accrued pension. If an Executive has not reached age 50 at the time of this event their pension will be paid from age 50.

From age 55 Executives are entitled to leave the Company and receive a pension, reduced for early payment, unless the Company gives consent and funds the pension being paid on an unreduced basis.

Dependent upon the circumstances surrounding the departure of the Executive Director and the financial health of the Company at the time, the Committee's policy is to give consideration to a cash commutation of the UURB pension at the time of leaving. Any cash commutation would limit SSE's liability, taking into account valuations provided by independent actuarial advisors, and would be undertaken on what was judged by the Committee to be on a cost neutral basis to SSE.

The following is information relating to the pension of Gregor Alexander as a participant in the HMRC approved Scottish Hydro-Electric Pension Scheme the terms of which also apply to the UURBS arrangement.

(i) Dependants' pensions on death are half of members' pension entitlements, together with a capital sum equal to four times pensionable pay.

On death in retirement, the Director's spouse will receive a pension equal to half of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.

(ii) Post retirement increases are expected to be in line with RPI.

The following is information relating to the pension of Alistair Phillips-Davies, as a participant in the HMRC approved Southern Electric Group of the Electricity Supply Pension Scheme, the terms of which also apply to the UURBS arrangement.

(i) Dependants' pensions on death are four-ninths of the member's pensionable pay, together with a capital sum equal to four times pensionable pay.

If death occurs after attaining the age of 55 an additional lump sum between three to five times notional pension is payable dependent upon age and length of service.

Remuneration Report continued
Policy

Loss of office policy continued

(ii) On death in retirement, the Director's spouse will receive a pension equal to two-thirds of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.

(iii) Post retirement increases are expected to be in line with RPI (guaranteed up to the level of 5% per annum and discretionary above that level).

Other arrangements

If buyout awards are made on recruitment, the treatment on leaving would be determined at the time of the award.

For all-employee share plans, such as the Sharesave Scheme and the Share Incentive Plan, leavers will be treated in accordance with the HMRC approved plan rules.

Change of control

On a change of control, Executive Directors' awards will be treated in accordance with the rules of the applicable plan(s). In summary, in the event of a change of control of the Company, performance in the PSP will be measured to that date subject to modification if the Committee considers that the performance conditions would be met to a greater or lesser extent at the end of the original performance period. Awards will normally be scaled down to reflect the period up to the change of control, but the Committee has discretion to dis-apply or alter the pro-rating fraction if it considers that participants' contribution to the creation of shareholder value during the performance period would not otherwise be properly recognised. Any outstanding unvested deferred or career shares from the AIP will vest automatically, and any vested shares subject to a holding period will be released.

Recruitment policy

The Committee would generally seek to align the remuneration package offered with its remuneration policy outlined on page 96 and would be subject to the variable pay limit outlined below.

Base salary would be set taking into account the individual's skills and experience and performance, salary levels at other FTSE 100 companies and other energy businesses, remuneration of different groups of employees, and the wider internal pay arrangements.

The Committee will determine appropriate pension provision for any new Executive Director. When determining pension arrangements for new appointments the Committee will give regard to the cost of the arrangements, market practice and the pension arrangements which operate elsewhere in the Company.

The Committee retains the flexibility to provide a higher variable remuneration opportunity for a new recruit. For example, where the value of pension offered is lower than that offered to current Executive Directors, a higher level of incentive opportunity may be required to maintain broadly comparable total remuneration positioning. More generally, it is considered appropriate for the Policy to provide some flexibility given the current conservative positioning of SSE's incentive arrangements. The over-riding objective in determining a total remuneration package for a new recruit would be to make decisions which are in the best interests of the Company, its shareholders and other stakeholders.

In this context the on-going variable incentive maxima (currently, for the Chief Executive and Finance Director respectively, 150% and 130% annual incentive and 200% and 175% PSP) may be increased. Were an increase to be made for a new recruit the Committee would consider very carefully the appropriate level, taking into account the rationale and circumstances. The maximum annual incentive level would be 150% and the maximum PSP would be 225%. (Note: These incentive maximums have not increased from the recruitment maximums approved by shareholders when the first Policy was adopted on 17 July 2014.)

The Committee may make awards on appointing an Executive Director to 'buy out' remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested. Generally buy-out awards will be made on a comparable basis to those forfeited. To facilitate these awards, the Committee may make awards under Company incentive plans and other available structures.

The committee may make awards under Company incentive plans and under the Listing Rules exemption in LR9.4.2 which allows Companies to make grants to a director to facilitate, in unusual circumstances, the recruitment or retention of that director. The use of the latter shall be limited to the granting of buy-out awards or share awards within the limits described above.

Shareholders' views

The Committee Chairman, on behalf of the Committee, consulted with SSE's largest shareholders in developing the new Policy, as well as representatives from the Investment Association and Institutional Shareholder Services. This included a number of meetings which allowed a discussion of the proposals in the context of SSE's business strategy and the environment in which it operates. The feedback received was extremely helpful in informing the Committee's decisions.

More generally, the Committee Chairman, on behalf of the Committee, periodically undertakes consultation with a number of institutional shareholders regarding a broad range of remuneration issues. The Committee finds such consultation meetings a valuable opportunity to receive feedback on the work of the Committee and the key issues that it is considering. The feedback received is extremely helpful in informing the Committee's decisions. In addition, the Committee also monitors the views of other stakeholders and broader developments in executive remuneration generally.

Remuneration engagement across the Company

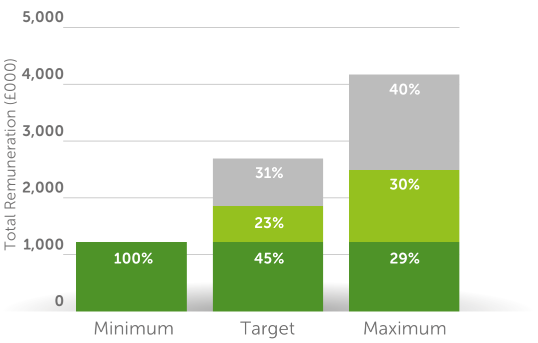
The Committee appreciates the importance of an appropriate relationship between the remuneration levels of the Executive Directors, senior executives, managers and other employees within the Company although comparison metrics are not used. Remuneration at all levels in SSE is designed to support its core remuneration principles, long-term business strategy and core purpose of providing the energy people need in a reliable and sustainable way. It is also designed to be consistent with and support the Company's core values of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. The structure of reward necessarily differs based on scope and responsibility of role, level of seniority and location.

- The senior management population also participate in annual and long-term incentive arrangements. In line with Executive Directors' arrangements, incentives for senior management have an emphasis on share awards and the performance metrics support those used at Board level.
- All employees have the opportunity to be share owners through the Share Incentive Plan and the Sharesave Plan and those participating are able to express their views in the same way as other shareholders.
- Pension planning is an important part of SSE's reward strategy for all employees because it is consistent with the long-term goals and horizons of the business, an approach it has been practising for a number of years. The terms of the funded final salary pension schemes apply equally to all members.
- As part of its Employee Engagement Survey the Company invites all employees to provide a view on the benefits and pay that it provides.

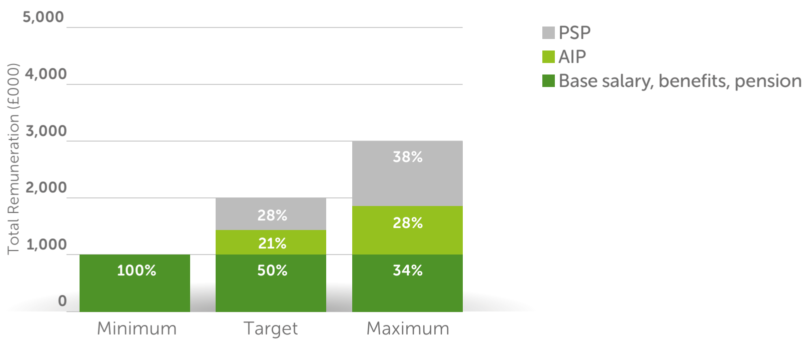
The Head of Reward also provides an annual update to all SSE-recognised trade unions, explaining the Company's position on executive remuneration. This covers many of the policy positions explained in this report. Feedback from this meeting is shared with the Remuneration Committee. The Company will continue to liaise with employee representative bodies in the future and welcomes their views and opinions on remuneration issues.

Illustration of the Remuneration Policy for 2016/17

Chief Executive – Allistair Phillips-Davies



Finance Director – Gregor Alexander



The charts above are based on the current Executive Directors' packages and show the amount of remuneration payable in three scenarios; 1) minimum performance where only base salary, benefits and pension is payable, 2) target performance and 3) maximum performance.

Underlying assumptions

Minimum performance	In this scenario only the fixed pay elements are payable i.e. base salary, benefits and pension calculated as: - Base salary effective from 1 April 2016. - Benefits represent those shown on the single figure table on page 104. - Pension is the value of accrual in a typical year (using the same valuation methodology as in the "single figure" table on page 104.				
		Base salary	Benefits	Pension	Total
	CEO	£844,104	24,430	354,298	1,222,832
	FD	£652,424	20,764	335,298	1,008,486
Target performance	This is what the Executive Director would receive in addition to the minimum performance element, if the Committee agreed that target level performance had been achieved: - AIP pays out 50% of maximum opportunity. - PSP pays out 50% of maximum opportunity.				
Maximum performance	This is what the Executive Director would receive in addition to the minimum performance element, if the Committee agreed that the maximum level performance had been achieved: - AIP pays out 150% of base salary for the CEO and 130% for the FD. - PSP pays out 200% of base salary for the CEO and 175% for the FD.				

Notes
The AIP figures are the gross value of the awards before 33% is converted into deferred career shares.
The PSP awards are shown simply as the gross face value at the date of grant and do not include any assumptions for share price growth or dividend accrual.

Annual Remuneration Report 2015/16

The following sets out SSE's Annual Remuneration Report. The report will be subject to an advisory vote at the 2016 AGM. The Annual Remuneration Report is divided into three main sections as follows:

Single figure of remuneration and supporting information	This section sets out details of Executive Directors' pay for the financial year along with supporting information on the elements of pay including details of pay and performance under SSE's incentive plans. (pages 104 to 107).
Statement of implementation for 2016/17	This section provides details of the implementation of the new policy for 2016/17 including the context for the change in policy. Details of malus and clawback provisions are also provided in this section. (pages 107 to 109).
Other remuneration disclosures	This section provides other remuneration disclosures including historical CEO pay, comparison with all-employee pay, how Executive Director pay compares to other financial dispersals, detailed share interests and share award tables and information in relation to the advice provided to the Committee. (pages 109 to 111).

Single figure of remuneration and supporting information

Single total figure of remuneration for each director for financial years ended 31 March 2015 and 2016 (audited)

	Base salary/fees £000s		Benefits[8] £000s		AIP[9] £000s		PSP[10] £000s		Pension[11] £000s		Total[12] £000s	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Executive Directors												
Alistair Phillips-Davies	**824**	805	**24**	26	**445**	515	**0**	0	**403**	965	**1,696**	2,311
Gregor Alexander	**637**	622	**21**	23	**344**	398	**0**	0	**286**	354	**1,288**	1,397
										Total	**2,984**	3,708
Non-Executive Directors												
Thomas Thune Andersen[1]		20										20
Jeremy Beeton	**71**	66									**71**	66
Katie Bickerstaffe	**69**	59									**69**	59
Sue Bruce	**60**	59									**60**	59
Crawford Gillies[2]	**47**										**47**	
Richard Gillingwater CBE[3]	**275**	83									**275**	83
Peter Lynas[4]	**75**	55									**75**	55
Helen Mahy[5]	**5**										**5**	
Lady Rice[6]		21										21
Lord Smith of Kelvin[7]	**117**	370									**117**	370
										Overall Total	**3,703**	4,441

Notes
1 Thomas Thune Andersen stepped down from the Board on 17 July 2014.
2 Crawford Gillies was appointed to the Board on 1 August 2015.
3 Richard Gillingwater CBE was appointed as Chairman on 23 July 2015.
4 Peter Lynas was appointed to the Board on 1 July 2014.
5 Helen Mahy was appointed to the Board on 1 March 2016.
6 Lady Rice stepped down from the Board on 17 July 2014.
7 Lord Smith stepped down as Chairman on 23 July 2015 but has been retained by SSE's Executive Committee for a further year to provide advice and counsel on key business issues relating to Scotland.
8 Benefits relate to company car, Share Incentive Plan company contributions and medical benefits.
9 The AIP figures above show the full value of the award before 25% was deferred in shares.
10 The PSP awards due to vest in 2015 and 2016 lapsed in full.
11 The pension value represents the cash value of pension accrued over 1 year x a multiple of 20 in line with statutory reporting requirements.
12 directors have not received any other items in the nature of remuneration other than as disclosed in the table.

Salary

The salaries shown in the table reflect a 2015/16 salary, effective from 1 April 2015 to 31 March 2016, of £824,320 for the Chief Executive and £637,133 for the Finance Director.

2015/16 AIP

The AIP award is determined by performance against three financial metrics (Adjusted PBT, DPS Growth and Cash-flow) and three areas of non-financial performance (Customer, Teamworking and Personal). The table below provides more information on the measures and the performance that was ultimately delivered.

Measure	Performance context							
	Measure	Weighting	Threshold	Target	Maximum	Outcome	% Out-turn	Total
Financial 50%	Adjusted PBT	30%	£1,487	£1,565m	£1,643	£1,513.5	16.71%	5%
	DPS Growth	10%		1.08%	3.08%	1.13%	51.25%	5%
	Cash-flow	10%	13%	13.5%	14%	13.3%	30%	3%
								13%
Customer 15%	Overall service performance for SSE's Retail customers continues to be good, in line with it's commitment to the principle of treating customers fairly. SSE continues to be recognised by a variety of trusted third parties for the quality of its service, including: the Ombudsman for Energy Services report in March 2016 that SSE received the fewest complaints of all 10 suppliers covered; the Citizens Advice Energy Supplier Performance Report, in which SSE continues to perform strongly; and in reports on the large energy suppliers conducted by uSwitch, Which? and the Institute of Customer Service. Service performance for SSE's Networks customers has also been high, with a lower number and duration of power cuts experienced by customers in 2015/16 resulting in the best-ever performance for the business.						78%	12%
Teamworking 20%	Teamwork measures performance against the 'SSESET' of core values. The Committee assesses each area before reaching an overall conclusion on the performance out-turn. - Safety – Performance was broadly in line with last year's performance with a low Accident Frequency Rate of 0.10 and Total Recordable Injury Rate of 0.23 . Overall this performance reflects the fact that SSE is achieving a good level of safety performance when compared to industry in general, and our sector in particular. - Service – As indicated above, SSE continues to provide good performance in both Energy Supply customer surveys and in the number and duration of power cuts experienced by Networks customers. - Efficiency – Significant value secured from a programme of asset disposals started in 2014, with agreements to secure proceeds and debt reduction of over £1bn. - Sustainability – During 2015/16, SSE made further significant progress towards its 2020 target of reducing the carbon intensity of the electricity it generates by 50%. In addition, SSE continued to facilitate the connection of renewable sources of electricity to the transmission system, including the completion of the Beauly-Denny replacement line and a successful start to the new Caithness-Moray link. - Excellence – SSE was one of the first FTSE100 companies, and the first energy company, to become an accredited Living Wage employer in 2013. Work began in 2015/16 to demonstrate the progress in implementing the Living Wage to contracted employees, with 50% of all relevant contracts requiring the Living Wage to be paid to contracted employees working on site. - Teamwork – The Great Place to Work survey produced a strong set of results indicating a high level of employee engagement with SSE's engagement index rising 4% on last year to 77%.						83%	17%
Personal 15%	During 2015/16, against a challenging business environment the Executive Directors delivered strong performance against individual objectives by successfully delivering a high level of customer performance, maintaining a clear focus on safety and operational performance, effective communication channels with key stakeholders, reviewing the business strategy, setting out plans for investment and growth, developing effective cost control and efficiency programmes, delivering the disposal programme to maintain a strong balance sheet, and ensuring that employees remained engaged and motivated to deliver for SSE.						80%	12%
								54%

Executive Directors were eligible to receive an AIP of up to 100% of salary in respect of 2015/16. Based on performance against these targets, the Chief Executive and the Finance Director received payment of 54% of maximum. One-quarter of the award will be payable in shares deferred for a further three years. Malus and clawback provisions will apply to the 2015/16 AIP award.

Annual Remuneration Report 2015/16 continued

2013/16 PSP

The targets attached to the 2013 PSP awards are set out in the table below. Performance was measured over the three-year period to 31 March 2016.

Measure	Performance context					
	Measure	Weighting	Threshold	Maximum	Outcome	Total
Relative TSR 50%	v FTSE100	25%	Median	Upper Quartile	< median	0
	v MSCI	25%	Median	Upper Quartile	< median	0
Financial 50%	EPS	25%	rpi + 2%	rpi + 8%	< Threshold	0
	DPS	25%	rpi + 2%	rpi + 6%	< Threshold	0
						0

Based on performance against these targets, the 2013 PSP award will lapse in full.

Benefits

Benefits are provided at an appropriate level taking into account market practice at similar sized companies and the level of benefits provided for other employees in the Company.

Core benefits include car allowance, private medical insurance and health screening.

The Executive Directors participate in the Company's all-employee share schemes on the same terms as other employees.

Pension

In common with all members of the pension schemes who joined at the same time as the Executive Directors, the following provisions relating to leaving the Company apply: for retirement through ill-health an unreduced pension based on service to expected retirement is paid; in the event of any reorganisation or redundancy an unreduced accrued pension is paid to a member who is aged 50 or above, with at least five years' service or, for a member who has not yet reached that age, it will be payable with effect from 50; and from the age of 55, a scheme member is entitled to leave the Company and receive a pension, reduced for early payment, unless the Company gives consent and funds this pension being paid on an unreduced basis.

The Executive Directors are members of either the Southern Electric Pension Scheme or the Scottish Hydro-Electric Pension Scheme and their plan membership predates their Board appointments. These are both funded final salary pension schemes and the terms of these schemes apply equally to all members. The Directors' service contracts provide for a possible maximum pension of two thirds final salary from the age of 60. In relation to Executive Directors who are subject to the scheme-specific salary cap (which mirrors the provisions of the previous HMRC cap arrangements) the Company provides top-up (unfunded) arrangements which are designed to provide an equivalent pension on retirement from the age of 60 to that which they would have earned if they had not been subject to the salary cap. There are no arrangements to compensate members for any change in their personal tax liability.

Dependent on the circumstances surrounding the departure of the Executive Director and financial health of the Company at the time, the Committee's policy is to give consideration to a cash commutation of the unfunded unapproved retirement benefit (UURB) pension at the time of leaving. Any cash commutation would limit SSE's liability, taking into account valuations provided by independent actuarial advisors, and would be undertaken on what was judged to be a cost neutral basis to SSE.

Directors' pension information

	Accrued pension as at 31 March 2016 £000s	Accrued pension as at 31 March 2015 £000s
Alistair Phillips-Davies	354	329
Gregor Alexander	335	316

Recovery provisions

The Committee believes that it is right that it should have the ability to recover pay in circumstances where that pay is later proved to have been unfairly earned. The PSP and AIP have the following recovery provisions:

	Malus	Clawback
What is it?	Ability to reduce or cancel unvested deferred AIP and PSP share awards	Ability to take back value delivered through the cash element of the AIP or vested PSP awards
Circumstances to which each provision would apply	- Material misstatement or restatement of accounts - Misconduct which results in a materially adverse financial effect - Serious reputational damage including material environmental or safety issue, or material operational or business failing - Factual error in calculating payment/vesting - Serious misconduct	- Material misstatement or restatement of accounts - Serious misconduct - Factual error in calculating payment/vesting
Plans impacted	AIP (deferred shares) and PSP	Cash AIP and PSP
Applicable time period	At any point between the grant date and vesting date (a three-year period)	At any point: - Up to three years post-payment of cash under the AIP; and - Up to three years post-vesting of PSP shares
When do new provisions apply	First applies to any deferred shares granted in 2016 and to PSP awards granted in 2015	First applies to payments in respect of the 2015/16 AIP and PSP awards granted in 2015

Personal shareholding policy

The level of SSE shares to be held by Executive Directors is 200% of base salary. Both current Executive Directors have shareholdings above this level.

Statement of implementation for 2016/17

This section provides an overview of how the Committee intends to operate the new Remuneration Policy for 2016/17, subject to shareholder approval at the 2016 AGM.

2016/17 remuneration review and shareholder consultation

During 2015 the Committee undertook a review of the remuneration arrangements for Executive Directors to ensure their continued relevance and alignment with SSE's strategy. Following this review, a number of changes are proposed which are in line with SSE's core principles of simplicity, balance, customer focus, delivery and stewardship.

The Committee values the views of shareholders. The Committee Chairman, on the behalf of the Committee, consulted with SSE's largest shareholders, as well as the Investment Association and Institutional Shareholder Services, in developing these proposals. The feedback received was extremely helpful in informing the Committee's decisions.

Link with SSE's strategy

SSE's core purpose is to provide the energy people need in a reliable and sustainable way, whilst recognising the need to reward shareholders who have either invested directly in SSE or, as owners of the Company, have enabled it to borrow money from debt investors to finance investments that will help to meet customers' energy needs over the long term.

To support this purpose incentives are aligned to a balanced range of performance measures, including measures related to the customer experience and SSE's culture and values, measures related to the return to shareholders on their investment (total shareholder return and dividends per share), and measures related to the financial stability of SSE and the ability to make future investments (cashflow and profit).

SSE's remuneration structure is also designed to support it's strategy by retaining the services of the best leaders. This means ensuring pay is at a level which is appropriate for the complexity and challenges of the role and takes into account the marketability of senior talent. In order to support SSE's strategy, pay levels are linked to stretching and relevant targets and include important safeguards such as malus and clawback.

SSE is a business which is investing for the long term. It is therefore important that the remuneration structure is aligned to the long-term sustainability and stewardship of the company. The remuneration structure therefore includes significant shareholding requirements, holding periods and the new 'career deferral' which extends the time that deferred shares are held until a year after an Executive Director steps down from their position.

Annual Remuneration Report 2015/16 continued

Base Salary	The Committee reviewed salary levels for Executive Directors, taking into account a number of factors including individual performance and the salary increases awarded to the wider SSE population. Effective from 1 April 2016, the two Executive Directors will receive a salary increase of 2.4%, which is in line with the average performance-based salary increases for the wider SSE employee population. This will move the Chief Executive's salary to £844,104 and the Finance Director's salary to £652,424.
Benefits	There are no changes proposed to the benefits framework for 2016/17.
Pension	The emphasis on pension in total reward has been decreased by introducing a limit on pensionable earnings through a cap on pensionable base pay growth of RPI + 1% from 1 April 2017.

Incentive plans – performance measures

The Committee considers that using a balanced range of performance measures is aligned to SSE's objectives.

The performance measures and weightings for the Annual Incentive Plan and the Performance Share Plan will be the same as for 2015/16 as detailed below:

Annual Incentive Plan

Performance measure	Weighting
Financial[1]	50%
Customer	15%
Team-working	20%
Personal	15%

1 Financial measures consist of Adjusted PBT (30%), Growth in DPS (10%) and Cash-flow (10%).

Performance Share Plan

Performance measure	Weighting
Relative TSR[1]	40%
EPS[2]	20%
Growth in DPS versus RPI[3]	20%
Customer service (Citizens Advice league table)	20%

1 Relative TSR is measured against two comparator groups, being the FTSE 100 and a group of European Utilities, each weighted 20%. 25% vesting for median and 100% for upper quartile.
2 25% vesting for RPI, 80% vesting for RPI +5% and 100% vesting for RPI +10%.
3 50% vesting for growth of RPI and 100% vesting for RPI +5%.

The entry level vesting percentage for DPS growth reflects the higher degree of stretch of this target. Taking into account the importance of dividend growth to shareholders, the Committee operates a principle of no vesting for below RPI growth. However, it is recognised that sustained growth at RPI would be good performance in the context of SSE's business environment and is considered to be a stretching level of performance rather than a "threshold" level of performance. As last year, the entry level vesting has therefore been set at 50% for achieving this stretch. In assessing performance against DPS the Committee must be satisfied that a reasonable level of dividend cover has been maintained.

The customer service measure is based on an independent external customer measure (Citizen's Advice League Table) and the measure compares SSE's performance with the other energy suppliers. The comparator group has been increased from the other five large energy suppliers to the new wider comparator group of 18 energy suppliers. The entry level vesting is being reduced from 50% to 25%, with threshold vesting for 9th position (above median) and maximum vesting only for 1st position out of 18.

In the context of the increase to overall incentives the Committee increased the targets for a number of the PSP measures:
- Maximum EPS growth target increased from RPI +8% to RPI +10%
- Maximum DPS growth target increased from RPI +4% to RPI +5%

Annual Incentive Plan – Career deferral and deferral percentage

From the annual incentive awarded in respect of 2016/17 onwards, the deferral period will be extended from the current three years to one year after an Executive Director steps down from their position. The deferred shares will continue to be subject to continued employment for a period of three years, but will not be delivered until one year following the end of the Executive Director's tenure. This approach, which goes beyond current best practice for deferral arrangements seen in the wider market, supports Executive Directors' commitment to the long-term sustainability and stewardship of SSE, even after leaving.

The percentage of the annual incentive plan award that is deferred will be increased from 25% to 33%, further aligning Executive Directors with the interests of shareholders and supports SSE's commitment to long-term sustainability and stewardship.

Performance Share Plan – holding period

Performance Share Plan awards will be subject to performance over three years and will have a two-year holding period following the end of the performance period.

Incentive opportunity

Variable incentive levels were last reviewed over eight years ago and have remained unchanged since. In that time, the environment in which SSE operates has become significantly more complex and challenging, including significant additional devolution within the UK, and more complex and wide-ranging regulation. As a result, the role of Executive Directors now includes engaging effectively with policy-makers and regulators and providing leadership within the sector, as well as balancing value to customers and shareholders, while making the long-term investment decisions which will sustain dividends for shareholders over the longer term.

As part of the wide ranging review, the Committee looked at incentive levels taking into consideration any retention risk and the marketability of the Executive Directors, the complexity and challenges of the Executive Director role in the environment that SSE operates, and the role of incentives in supporting strategy. While these were the principal considerations, the Committee also had available relevant benchmark reference points to inform the Committee's thinking.

Against the background and context provided above, the Committee felt that it was right to increase the overall incentive opportunity to levels which are commensurate with the size and complexity of the organisation, but which would still position SSE conservatively against a range of relevant benchmark reference points. The proposed new incentive levels are set out below:

	2016/17 AIP maximum opportunity	2016/17 PSP maximum opportunity
CEO	150% of salary (2015/16: 100%)	200% of salary (2015/16: 150%)
FD	130% of salary (2015/16: 100%)	175% of salary (2015/16: 150%)

Malus and clawback

Both Annual Incentive and Performance Share Plan awards will be subject to malus and clawback provisions, as set out in the 'Recovery Provisions' section on page 107.

Shareholding guidelines

200% of salary.

Non-Executive Director fees (audited)

The following table sets out the fee structure for non-Executive Directors, effective from 1 April 2016.

	Fee as at 1 April 2016
Chairman	£368,600
Base fee	£61,300
Additional Senior Independent Director fee	£11,300
Additional fee for being Remuneration Committee Chairman	£15,000
Additional fee for being Audit Committee Chairman	£16,000
Additional fee for being SHEAC Chairman	£11,000

Non-Executive Director fees are due to be reviewed during 2016/17, and any changes will be disclosed in next year's Directors' Remuneration Report.

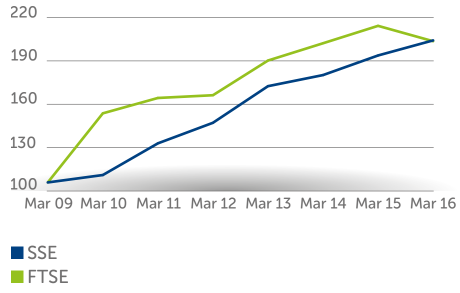
Other remuneration disclosures

Chief Executive's historical remuneration 2010-16 (audited)

Directors	Single figure of total remuneration £000s	Annual variable element award rates against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
2016 (Alistair Phillips-Davies)	1,696	54	0
2015 (Alistair Phillips-Davies)	2,311	64	0
2014 (Alistair Phillips-Davies and Ian Marchant)	2,546	63	22
2013 (Ian Marchant)	2,241	0	53
2012 (Ian Marchant)	1,214	25	0
2011 (Ian Marchant)	1,686	60	0
2010 (Ian Marchant)	1,795	59	16

Note
The single figure of total remuneration has been valued using the same approach as used in the table on page 104.
For 2014 an aggregate number has been applied by combining pro-rated values for each CEO based upon their time in the role.

SSE TSR performance: 31 March 2009 to 31 March 2016



Source: Datastream

The FTSE 100 index is used as a comparator to SSE as the Company has been a member of the FTSE 100 during the period of comparison.

Annual Remuneration Report 2015/16 continued

Chief Executive pay progression comparison (audited)

The table below shows the percentage change in the Chief Executive's base salary, benefits and AIP between 2015 and 2016 compared with the percentage change in the average of all employees:

	% change in remuneration from 2014/15 to 2015/16		
	% change in base salary	% change in benefits	% change in annual incentive
Chief Executive	2.40%	-4.54%	-13.60%
All Employees	3.17%	15.09%	-13.04%

Notes
The Chief Executive base salary is calculated on the same basis as the 'single total figure of remuneration' table on page 104.
The all-employee base salary change is based on comparing the change in the average basic salary increase at April 2015 and April 2016.
The Chief Executive change in benefits is calculated on the same basis as the single figure table on page 104.
The all-employee change in benefits is based on P11D data from 2015 and 2016. The 15.09% increase is largely due to the increase in the number of company cars which can be attributed to an increase in employees who participate in a salary sacrifice car scheme, and also new entrants to the company car scheme following acquisition.
The Chief Executive annual incentive is calculated on the same basis as the single figure table on page 104.
The all-employee change in annual incentive reflects the average out-turn for all eligible employees in 2015 and 2016.

Relative importance of the spend on pay

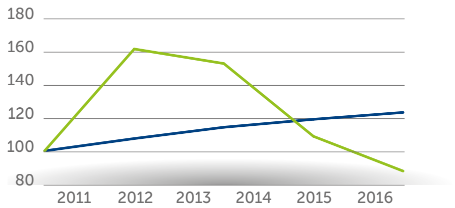
How do the earnings of the Executive Directors compare with other financial dispersals? (audited)

	2015 £m	**2016 £m**	% change in year
Executive Directors' earnings[1]	3.7	**3.0**	-23.99%
Dividends to shareholders[2]	854.1	**884.0**	3.38%
Capital and investment expenditure	1,472.8	**1,618.7**	9.01%
Total UK taxes paid (profits, property, environment and employment taxes)[3]	506.2	**453.9**	-11.52%
Staffing Costs[4]	875.6	**916.2**	4.43%

Notes
1 Calculated on the same basis as the 'single total figure of remuneration' table on page 104.
2 There were no share buy-backs in 2014/15 or 2015/6.
3 Includes Corporation Tax, Employers' National Insurance Contributions and Business Rates.
4 Staffing costs for all employees, as per note 8.1 of the accounts, excluding Executive Directors.

The table above shows that for every £1 spent on Executive Directors' earnings by SSE in 2015/16, £151 was paid in tax, £305 was spent on employee costs, £295 was made in dividend payments to shareholders and £540 was spent on capital and investment expenditure.

Executive Directors' earnings compared with dividend payments



■ Dividend payments to shareholders
■ Executive Directors' earnings

CEO earnings[1]	Average employee earnings[2]	Pay ratio
1,696,000	39,990	42.1

1 The CEO's earnings are calculated on the same basis as the single figure of remuneration table shown on page 104.
2 Average employee earnings are based on staffing costs calculated on the same basis as note 8.1 of the accounts, excluding social security costs.

Share interests and share awards

Directors' share interests (audited)

	*Shareholding requirement as a % of salary (Actual/% met)	Number of shares			Number of options		
		Share owned outright at 31 March 2016	Interests in shares, awarded without performance conditions at 31 March 2016	Interests in shares, awarded subject to performance conditions at 31 March 2016	Interests in share options, awarded without performance conditions at 31 March 2016	Interests in share options, awarded subject to performance conditions at 31 March 2016	Shares owned outright at 31 March 2015
Director							
Gregor Alexander	326% (200% – met)	139,624	15,562	179,227	2,399	–	137,017
Jeremy Beeton		4,000	–	–	–	–	4,000
Katie Bickerstaffe		5,079	–	–	–	–	2,300
Sue Bruce		2,358	–	–	–	–	1,602
Crawford Gillies		5,000	–	–	–	–	–
Richard Gillingwater		2,000	–	–	–	–	2,000
Peter Lynas		2,000	–	–	–	–	2,000
Helen Mahy		1,035	–	–	–	–	–
Alistair Phillips-Davies	267% (200% – met)	147,675	18,701	226,163	2,610	–	145,739
Former Directors/Non-Executive Directors							
Lord Smith of Kelvin							29,950

Notes
* Shareholding requirement:

Executive Directors – 200% of salary.
Non-Executive Directors – minimum 2,000 shares.
Price used to calculate shareholding requirement as % of salary as at 31/03/16 – £14.92.

Annual Remuneration Report 2015/16 continued

Directors' Long-term Incentive Plan interests (audited)

	Share plan	Date of award	Normal exercise period (or vesting date)	No. of shares under award as at 1 April 2015	Option exercise price	Additional shares awarded during the year	No. of shares lapsed during the year	No.of shares realised during the year	No. of shares under award at 31 March 2016
Gregor Alexander									
	DBP 2006[2]	22/06/12	22/06/15	2,953				2,953[4]	
	DBP 2006[2]	13/06/13	13/06/16	3,440					3,440
	DBP 2006[2]	26/06/14	26/06/17	5,992					5,992
	DBP 2006[2]	25/06/15	25/06/18			6,130[3]			6,130
	PSP[1]	22/06/12	May 2015	59,065			59,065		
	PSP[1]	13/06/13	May 2016	54,604					54,604
	PSP[1]	20/12/13	May 2016	5,367					5,367
	PSP[1]	26/06/14	May 2017	60,408					60,408
	PSP[1]	25/06/15	June 2018			58,848[3]			58,848
	Sharesave	30/06/10	01/10/2015 – 31/03/16	283	871p			283[5]	
	Sharesave	02/07/14	01/10/2019 – 31/03/20	2,213	1,247p				2,213
	Sharesave	03/07/15	01/10/20 – 31/03/21		1,288p	186[6]			186

	Share plan	Date of award	Normal exercise period (or vesting date)	No. of shares under award as at 1 April 2015	Option exercise price	Additional shares awarded during the year	No. of shares lapsed during the year	No.of shares realised during the year	No. of shares under award at 31 March 2016
Alistair Phillips-Davies									
	DBP 2006[2]	22/06/12	22/06/15	2,461				2,461[4]	
	DBP 2006[2]	13/06/13	13/06/16	3,440					3,440
	DBP 2006[2]	26/06/14	26/06/17	7,330					7,330
	DBP 2006[2]	25/06/15	25/06/18			7,931[3]			7,931
	PSP[1]	22/06/12	May 2015	59,065			59,065		
	PSP[1]	13/06/13	May 2016	54,604					54,604
	PSP[1]	20/12/13	May 2016	17,266					17,266
	PSP[1]	26/06/14	May 2017	78,155					78,155
	PSP[1]	25/06/15	May 2018			76,138[3]			76,138
	Sharesave	29/06/12	01/10/2017 – 31/03/18	1,408	1,065p				1,408
	Sharesave	02/07/14	01/10/2019 – 31/03/20	1,202	1,247p				1,202

Notes

Shares which are released under the DBP 2006 and PSP attract additional shares in respect of the notional reinvestment of dividends. In addition to the shares released under the DBP 2006, as indicated in the table above, the following shares were realised arising from such notional reinvestment of dividends:
Gregor Alexander received 539 shares and Alistair Phillips-Davies received 448 shares.

1 The performance conditions applicable to awards under the PSP since 2007 are described on page 99. The 2013 awards due to vest in May 2016 will lapse in full.
2 25% of annual bonus payable to Executive Directors and Senior Managers is satisfied as a conditional award of shares under the DBP 2006. Vesting of shares is dependent on continued service over a three year period. In view of the linkage to annual bonus, no further performance condition applies to the vesting of DBP 2006 awards.
3 The market value of a share on the date on which these awards were made was 1,612p.
4 The market value of a share on the date on which these awards were realised was 1,612p.
5 The market value of a share on the date on which these awards were exercised was 1,557p.
6 The market value of a share on the date on which these options were granted was 1,558p.

The closing market price of shares at 31 March 2016 was 1,492p and the range for the year was 1,321p to 1,696p. Awards granted during the year were granted under the DBP 2006 and the PSP. The aggregate amount of gains made by the Directors on the exercise of share options and realisation of awards during the year was £105,125.50 (2015 – £681,353.72).

DBS and PSP awards granted in 2015/16 (audited)

	Scheme	Basis of award granted	Shares awarded	Face value of award	Maximum vesting	Percentage vesting for threshold performance	Vesting period
Alistair Phillips-Davies	PSP	150% of salary	76,138	£1,236,480	100%	25%	Performance measured over 3 years to 31 March 2018
	DBS	25% of annual incentive	7,931	£128,800	100%	Deferred bonus, subject to continued employment	Award will vest on third anniversary of grant
Gregor Alexander	PSP	150% of salary	58,848	£955,700	100%	25%	Performance measured over 3 years to 31 March 2018
	DBS	25% of annual incentive	6,130	£99,552	100%	Deferred bonus, subject to continued employment	Award will vest on third anniversary of grant

Note
1 Based on a grant price of £16.24 on 25 June 2015.

External appointments (audited)
Executive Directors are able to accept a non-Executive appointment outside the Company with the consent of the Board, as such appointments can enhance Directors' experience and value to the Company. Any fees received are retained by the Director.

Gregor Alexander was a non-Executive Director with Stagecoach Group plc and received £58,508 in fees. Gregor Alexander is also Chairman of Scotia Gas Networks and receives no additional fees for this.

Payments for loss of office and payments to past directors
There were no payments for loss of office during the year. Lord Smith of Kelvin stepped down from the Board on 23/07/2015 but has been retained by SSE's Executive Committee for a further year to provide advice and counsel on key business issues relating to Scotland.

Evaluation
The external Board evaluation process which was carried out during the year confirmed the Remuneration Committee continued to operate effectively. Details of the evaluation process are set out on pages 76 and 77.

Advice to the Committee
The Chief Executive, the Director of Human Resources, and SSE's Head of Reward, advised the Committee on certain remuneration matters for the Executive Directors and senior executives although they were not present for any discussions on their own remuneration. The Director of Human Resources and SSE's Head of Reward advised on HR strategy and the application of HR policies across the wider organisation.

Deloitte LLP provided a range of information to the Committee which included market data drawn from published surveys, governance developments and their application to the Company, advice on remuneration disclosures and regulations and comparator group pay.

Deloitte LLP received fees of £103,600 in relation to their work for the Committee, calculated on a time and materials basis. Deloitte LLP is one of the founding members of, and adheres to, the Remuneration Consultants' Group Code of Conduct. They were appointed by the Committee who reviews their performance annually to determine that it is satisfied with the quality and relevance of advice being provided and that it was objective and independent. Deloitte LLP also advised the Company on tax, provided corporate finance advisory services and audited the joint venture Scotia Gas Networks Limited. Deloitte LLP and Deloitte MCS Limited together provided IT and business consulting services.

Up to 28 February 2016, Bank of America Merrill Lynch undertook analysis on comparator performance. They were appointed by the Committee for these services. They did not receive any fees relating specifically to these services. From 1 March 2016, Morgan Stanley and Co International Plc provided these services and are retained as SSE's brokers.

Freshfields LLP also provided advice on legal matters, such as share plan rules, during the year.

Shareholder voting in 2015
On 23 July 2015, shareholders approved the Remuneration Policy and the Remuneration Report for the year ended 31 March 2015. Below are the results of the resolutions:

	Votes for	Votes against	Votes cast	Withheld
Remuneration Report	98.3%	1.7%	652,779,310	6,946,512

This report was approved by the Board and signed on its behalf by:

Katie Bickerstaffe
Remuneration Committee Chairman
17 May 2016

Other statutory information

Disclosures in Strategic Report
The Strategic Report is set out on pages 1 to 65. The Board has taken advantage of Section 414C (11) of the Companies Act 2006 to include disclosures in the Strategic Report on:
- Employment of disabled people on pages 25.
- Employee involvement on pages 24 to 27.
- A summary of the principal risks facing the Company on pages 16 to 19.
- An indication of likely future development in the business of the Company see pages 1 to 65.
- Greenhouse gas emissions on pages 28 to 29.

Results and dividends
The Group profit attributable to Ordinary Shareholders for the financial year amounted to £460.6m. The Directors recommend a final dividend of 62.5p per Ordinary Share which, subject to approval at the 2016 AGM, will be payable on 23 September 2016 to shareholders on the Register of Members at close of business on 22 July 2016. With the interim dividend of 26.9p per Ordinary Share paid on 18 March 2016, this makes a total dividend of 89.4p per Ordinary Share.

Share capital
Details of the Company's issued share capital as at 31 March 2016, which includes options granted under the Group's employee share option schemes, are set out in notes 29 and 33 to the Financial Statements.

Authority to purchase shares
The Company was authorised at the 2015 AGM to purchase its own shares within certain limits. During 2015/16, SSE did not purchase any shares under this authority. The Directors will, however, seek renewal of their authority to purchase in the market the Company's own shares at the 2016 AGM. Further details are provided in the Notice of Annual General Meeting for 2016.

Accounting policies, financial instruments and risk
Details of the Group's accounting policies, together with details of financial instruments and risk, are provided in note 34 and Accompanying Information, A1.

Substantial shareholdings
As at 17 May 2016 the Company has been notified under Rule 5 of the Disclosure and Transparency Rules of the interests in its shares as shown in the table below:

Entity	Number of shares*	Percentage*	Nature of holding
The Capital Group Companies, Inc.	150,532,674	14.96%	Indirect
BlackRock, Inc.	61,237,317	6.08%	Indirect
UBS Investment Bank	52,003,155	5.17%	Indirect
Invesco Limited	45,775,918	4.69%	Indirect

* At date of disclosure by relevant entity.

Indemnification of Directors and insurance
The Directors have the benefit of the indemnity provision contained in the Company's Articles of Association. They also have been granted a qualifying third party indemnity provision which was in force throughout the financial year and remains in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and for its Directors and Officers.

Research and development
SSE's business are involved in a range of innovative projects and programmes which are designed to progressively transform the energy system. A numbers of these projects and programmes are referred to in the Strategic Report in pages 1 to 65.

Political donations
No donations were made by the Group for political purposes during the year.

Related party transactions
Related party transactions are set out in note 35 to the Financial Statements.

Post balance sheet events
Post balance sheet events are set out in note 37 to the Financial Statements.

Additional information
Where not provided elsewhere in the Directors' Report, the following provides the information required to be disclosed by Section 992 of the Companies Act 2006.

Each Ordinary Share of the Company carries one vote at general meetings of the Company.

There are no restrictions on the transfer of Ordinary Shares in the capital of the Company other than certain restrictions which may from time-to-time be imposed by law (for example, insider trading law). In accordance with the Listing Rules of the Financial Conduct Authority, certain employees are required to seek the approval of the Company to deal in its shares.

Employees who participate in the Share Incentive Plan whose shares remain in the schemes' trusts give directions to the trustees to vote on their behalf by way of a Form of Direction.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

The rules governing the appointment and replacement of Directors are set out in the Company's Articles of Association.

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

The Company is not aware of any significant agreements to which it is party that take effect, alter or terminate upon a change of control of the Company following a takeover.

Each of the Directors who held office at the date of approval of this Directors' Report confirms that, so far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware and each Director has taken all the steps that ought to have been taken in his or her duty as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

The Directors' Report set out on pages 66 to 118 has been approved by the Board of Directors in accordance with the Companies Act 2006.

Disclosures required under Listing Rule 9.8.4R

The Company is required to disclose certain information under Listing Rule 9.8.4R in the Directors' Report or advise where such relevant information is contained. The other information that may be relevant to the Directors' Report can be found in the following sections of the 2016 Annual Report and Accounts.

No.	Information required by LR9.8.4R	Relevant to the Company √/X	Annual Report section and page reference
1	**Capitalised interest** Statement of amount of interest capitalised by the Group during the financial year.	√	139 to 140
2	**Long-term incentive schemes** Details of any long-term incentive schemes.	√	92 to 113

By order of the Board

Sally Fairbairn
Company Secretary
17 May 2016

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:
- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

For and on behalf of the Board

Alistair Phillips-Davies
Chief Executive
17 May 2016

Gregor Alexander
Finance Director

SSE's financial results explained

	March 2016 £m	March 2015 £m	March 2014 £m
SSE's results on an adjusted basis:			
Adjusted operating profit	**1,824.4**	1,881.4	1,880.1
Adjusted net finance costs	**(310.9)**	(316.7)	(329.0)
Adjusted Profit before Tax (PBT)	**1,513.5**	1,564.7	1,551.1
Adjusted current tax charge	**(193.4)**	(224.8)	(236.7)
Adjusted Profit after Tax (PAT)	**1,320.1**	1,339.9	1,314.4
Hybrid coupon paid	**(124.6)**	(121.3)	(122.9)
Adjusted Profit after Tax for EPS	**1,195.5**	1,218.6	1,191.5
Weighted average number of shares for adjusted EPS	**1,000.0**	981.8	965.5
Adjusted Earnings Per Share (EPS) (pence)	**119.5**	124.1	123.4

Why do we have "adjusted" numbers for Profit Before Tax (PBT), Profit After Tax (PAT), Earnings Per Share (EPS) and Net Debt and Hybrid Capital?

SSE's financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs). SSE applies the use of a number of adjusted accounting measures throughout the Annual Report and Financial Statements in order to present the underlying performance of the Group to the users of the statements in a consistent and meaningful manner. Further detail on the basis of presentation is included in note 3 to the Financial Statements.

The adjustments made by SSE can be explained as follows:

1 Exceptional Items

Exceptional charges or credits are considered unusual by nature or scale and of such significance that separate disclosure is required for the underlying performance of the Group to be properly understood.

2 Movements on derivatives ('certain re-measurements')

The Group enters into forward contracts to buy (or sell) electricity, gas and other commodities to meet the future demand requirements of its Energy Supply business or to optimise the value of its Wholesale assets. Certain of these contracts are determined to be derivative financial instruments under IAS 39 and as such are required to be recorded at their fair value. Changes in the fair value of those commodity contracts designated as IAS 39 financial instruments are reflected in the income statement (as part of 'certain re-measurements').The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments. The Group will recognise the underlying value of these contracts as the relevant commodity is delivered, which will predominately be within the subsequent 12 to 18 months. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts. The re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category also includes income statement movement on financing derivatives such as interest rate swaps and forward currency contracts.

3 Interest on net pension liabilities – IAS 19R

The Group's interest charges relating to defined benefit pension schemes are derived from the net liabilities of the schemes as valued under IAS 19R. This will mean that the charge recognised in any given year will be dependent on the impact of actuarial assumptions such as inflation and discount rates. To avoid income statement volatility derived from this basis of measurement and reflecting the non-cash nature of these charges, the Group excludes these from its adjusted profit measures.

4 Tax and interest on JVs and Associates

The Group is required to report profit before interest and tax ('operating profit') including its share of the profit after tax of its equity-accounted joint ventures and associates. However, for internal performance management purposes and for consistency of treatment, SSE reports its adjusted operating profit before its share of the interest and tax on joint ventures and associates.

5 Deferred tax

In line with its long standing approach, SSE adjusts for deferred tax when arriving at adjusted profit after tax and its adjusted effective rate of tax.

6 Hybrid capital securities

The characteristics of hybrid capital securities mean they qualify for recognition as equity rather than debt under IFRSs. Consequently, their coupon payments are presented within dividends rather than within interest. The coupon payments are due to other equity holders and consequently are not included in SSE's EPS measures. SSE also presents its adjusted net debt measure inclusive of hybrid capital together as one balance.

7 Finance lease

SSE's loans and borrowings includes finance lease liabilities primarily in relation to its tolling contract with Marchwood Power Limited. The Group excludes these liabilities from its adjusted net debt and hybrid capital measure to better reflect the Group's funding position.

8 Outstanding liquid funds and other short-term loans

Outstanding liquid funds are SSE cash balances held by counterparties as collateral at the year end. SSE includes these as cash until they are utilised. Loans with a maturity of less than three months are also included in this adjustment.

SSE's financial results explained continued

The table below reconciles the Operating Profit, PBT, Net Debt, Tax and Net Interest reported under IFRS with the SSE Adjusted numbers.

	Reference	March 2016 £m	March 2015 £m	March 2014 £m
Operating profit				
Adjusted operating profit		**1,824.4**	1,881.4	1,880.1
Movement on derivatives		**(28.8)**	(61.1)	(147.8)
Exceptional items		**(889.8)**	(674.6)	(747.2)
Share of JVs and Associate interest and tax		**(120.4)**	(159.8)	(108.7)
Reported operating profit		**785.4**	985.9	876.4
PBT				
Adjusted Profit Before Tax (PBT)		**1,513.5**	1,564.7	1,551.1
Movement on operating and financing derivatives	1	**(14.5)**	(105.3)	(212.0)
Exceptional items	2	**(889.8)**	(674.6)	(747.2)
Interest on net pension liabilities	3	**(22.3)**	(14.0)	(28.2)
Share of JVs and Associates tax	4	**6.4**	(35.6)	28.8
Reported Profit before Tax		**593.3**	735.2	592.5
Adjusted net debt and hybrid capital				
Adjusted net debt and hybrid capital		**(8,395.0)**	(7,568.1)	(7,642.8)
Less: Hybrid capital		**2,209.7**	3,371.1	2,186.8
Adjusted net debt		**(6,185.3)**	(4,197.0)	(5,456.0)
Less: Outstanding liquid funds		**(121.8)**	(71.7)	(51.2)
Add: Finance leases		**(300.8)**	(319.7)	(328.9)
Balances due to partners in Clyde Windfarm (Scotland)		**(200.7)**	–	–
Unadjusted net debt		**(6,808.6)**	(4,588.4)	(5,836.1)
Tax				
Adjusted current tax charge		**193.4**	224.8	236.7
Tax on exception items/movements on derivatives	1 and 2	**(272.5)**	(200.4)	(260.8)
Share of JVs and Associate tax	4	**6.4**	(35.6)	28.8
Deferred tax including share of JVs and Associates	5	**80.8**	82.0	141.8
Reported tax charge		**8.1**	70.8	146.5
Interest				
Adjusted net finance costs		**310.9**	316.7	329.0
Movement on financing derivatives	1	**(14.3)**	44.2	64.2
Share of JVs and Associate interest	4	**(126.8)**	(124.2)	(137.5)
Interest on net pension liabilities	3	**22.3**	14.0	28.2
Reported net finance costs		**192.1**	250.7	283.9

Contents

120	Consolidated income statement
121	Consolidated statement of comprehensive income
122	Balance sheets
123	Statement of changes in equity
125	Cash flow statements
126	Notes on the financial statements
191	Accompanying information
205	Independent auditor's report
IBC	Shareholder information

Consolidated income statement
for the year ended 31 March 2016

	Note	2016 Before exceptional items and certain re-measurements £m	2016 Exceptional items and certain re-measurements (note 7) £m	2016 Total £m	2015 Before exceptional items and certain re-measurements £m	2015 Exceptional items and certain re-measurements (note 7) £m	2015 Total £m
Revenue	5	28,781.3	–	28,781.3	31,654.4	–	31,654.4
Cost of sales	6	(25,859.4)	(644.5)	(26,503.9)	(28,801.3)	(432.8)	(29,234.1)
Gross profit		2,921.9	(644.5)	2,277.4	2,853.1	(432.8)	2,420.3
Operating costs	6	(1,449.8)	(334.0)	(1,783.8)	(1,361.5)	(358.5)	(1,720.0)
Other operating income		29.4	57.6	87.0	47.2	74.8	122.0
Operating profit before joint ventures and associates		1,501.5	(920.9)	580.6	1,538.8	(716.5)	822.3
Joint ventures and associates:							
Share of operating profit		322.9	–	322.9	342.6	(25.9)	316.7
Share of interest		(126.8)	–	(126.8)	(124.2)	–	(124.2)
Share of movement on derivatives		–	2.3	2.3	–	6.7	6.7
Share of tax		(39.9)	46.3	6.4	(34.2)	(1.4)	(35.6)
Share of profit on joint ventures and associates	17	156.2	48.6	204.8	184.2	(20.6)	163.6
Operating profit	6	1,657.7	(872.3)	785.4	1,723.0	(737.1)	985.9
Finance income	9	101.8	–	101.8	95.9	–	95.9
Finance costs	9	(308.2)	14.3	(293.9)	(302.4)	(44.2)	(346.6)
Profit before taxation		1,451.3	(858.0)	593.3	1,516.5	(781.3)	735.2
Taxation	10	(280.6)	272.5	(8.1)	(271.2)	200.4	(70.8)
Profit for the year		1,170.7	(585.5)	585.2	1,245.3	(580.9)	664.4
Attributable to:							
Ordinary shareholders of the parent	12	1,046.1	(585.5)	460.6	1,124.0	(580.9)	543.1
Other equity holders		124.6	–	124.6	121.3	–	121.3
Basic earnings per share (pence)	12			46.1			55.3
Diluted earnings per share (pence)	12			46.0			55.2

The accompanying notes are an integral part of these financial statements.

Consolidated statement of comprehensive income
for the year ended 31 March 2016

	2016 £m	2015 £m
Profit for the year	**585.2**	664.4
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Actuarial gain/(loss) on retirement benefit schemes	**254.3**	(79.3)
Taxation on actuarial (gains)/losses on defined benefit pension schemes	**(58.9)**	16.3
	195.4	(63.0)
Share of joint ventures actuarial gains/(losses) on retirement benefit schemes	**94.8**	(2.1)
Share of joint ventures taxation of actuarial (gains)/losses on retirement benefit schemes	**(18.4)**	0.2
	76.4	(1.9)
Items that will be reclassified subsequently to profit or loss:		
Gains/(losses) on effective portion of cash flow hedges	**79.4**	(41.9)
Transferred to assets and liabilities on cash flow hedges	**4.7**	(4.5)
Taxation on cashflow hedges	**(15.1)**	8.8
	69.0	(37.6)
Share of joint ventures/associates gains/(losses) on effective portion of cash flow hedges	**4.7**	(9.4)
Share of joint ventures/associates taxation on cashflow hedges	**(0.8)**	1.9
	3.9	(7.5)
Losses on revaluation of available for sale investments, net of taxation (note 17)	**(8.4)**	(3.2)
Exchange difference on translation of foreign operations	**85.1**	(119.7)
(Losses)/gains on net investment hedge	**(40.7)**	61.7
Taxation on net investment hedge	**7.3**	(13.0)
	51.7	(71.0)
Other comprehensive gain/(loss), net of taxation	**388.0**	(184.2)
Total comprehensive income for the period	**973.2**	480.2
Attributable to:		
Ordinary shareholders of the parent	**848.6**	358.9
Other equity holders	**124.6**	121.3
	973.2	480.2

Balance sheets
as at 31 March 2016

	Note	Consolidated 2016 £m	Consolidated 2015 £m	Company 2016 £m	Company 2015 £m
Assets					
Property, plant and equipment	15	**12,525.0**	11,303.9	**–**	–
Intangible assets:					
Goodwill	14	**609.9**	598.0	**–**	–
Other intangible assets	14	**249.5**	170.4	**–**	–
Equity investments in joint ventures and associates	17	**1,045.1**	875.2	**190.0**	190.0
Loans to joint ventures and associates	17	**591.6**	559.4	**538.9**	544.4
Other investments	17	**16.7**	26.4	**6.8**	15.2
Investments in subsidiaries	18	**–**	–	**2,728.8**	2,051.2
Trade and other receivables	21	**–**	–	**4,958.9**	4,505.9
Deferred tax assets	27	**512.0**	270.2	**56.4**	87.9
Derivative financial assets	34	**537.7**	566.8	**175.6**	141.8
Retirement benefit assets	32	**–**	–	**10.0**	–
Non-current assets		**16,087.5**	14,370.3	**8,665.4**	7,536.4
Other intangible assets	14	**500.1**	433.5	**–**	–
Inventories	20	**215.4**	342.3	**–**	–
Trade and other receivables	21	**3,274.3**	4,527.0	**4,828.9**	3,944.2
Cash and cash equivalents	22	**360.2**	1,512.3	**155.9**	1,321.1
Derivative financial assets	34	**1,615.0**	1,999.9	**81.3**	46.7
Current assets held for sale	19	**134.2**	110.3	**–**	–
Current assets		**6,099.2**	8,925.3	**5,066.1**	5,312.0
Total assets		**22,186.7**	23,295.6	**13,731.5**	12,848.4
Liabilities					
Loans and other borrowings	26	**923.3**	732.8	**898.8**	700.0
Trade and other payables	23	**4,184.4**	5,277.1	**3,385.8**	2,715.0
Current tax liabilities	24	**298.2**	308.4	**21.9**	44.2
Provisions	28	**94.0**	99.5	**–**	–
Derivative financial liabilities	34	**1,783.8**	2,297.3	**39.1**	101.1
Liabilities held for sale	19	**115.0**	11.1	**–**	–
Current liabilities		**7,398.7**	8,726.2	**4,345.6**	3,560.3
Loans and other borrowings	26	**6,245.5**	5,367.9	**4,494.4**	3,719.0
Deferred tax liabilities	27	**917.5**	716.0	**–**	–
Trade and other payables	23	**452.4**	424.6	**–**	–
Provisions	28	**703.3**	382.4	**–**	–
Retirement benefit obligations	32	**394.8**	664.6	**–**	131.1
Derivative financial liabilities	34	**857.5**	933.4	**360.4**	373.9
Non-current liabilities		**9,571.0**	8,488.9	**4,854.8**	4,224.0
Total liabilities		**16,969.7**	17,215.1	**9,200.4**	7,784.3
Net assets		**5,217.0**	6,080.5	**4,531.1**	5,064.1
Equity					
Share capital	29	**503.8**	496.5	**503.8**	496.5
Share premium		**880.4**	862.7	**880.4**	862.7
Capital redemption reserve		**22.0**	22.0	**22.0**	22.0
Hedge reserve		**(2.2)**	(72.1)	**14.2**	(12.8)
Translation reserve		**(17.8)**	(69.5)	**–**	–
Retained earnings		**1,598.6**	1,469.8	**901.0**	324.6
Equity attributable to ordinary share holders of the parent		**2,984.8**	2,709.4	**2,321.4**	1,693.0
Hybrid capital	31	**2,209.7**	3,371.1	**2,209.7**	3,371.1
Total equity attributable to equity holders of the parent		**5,194.5**	6,080.5	**4,531.1**	5,064.1
Non-controlling interests		**22.5**	–	**–**	–
Total equity		**5,217.0**	6,080.5	**4,531.1**	5,064.1

These financial statements were approved by the Board of Directors on 17 May 2016 and signed on their behalf by

Gregor Alexander
Finance Director

Richard Gillingwater
Chairman

SSE plc Registered No: SC117119

Statement of changes in equity
for the year ended 31 March 2016

Consolidated statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	**Total attributable to ordinary shareholders £m**	Hybrid capital £m	**Total equity attributable to equity holders of the parent £m**	Non-controlling interests £m	**Total equity £m**
At 1 April 2015	496.5	862.7	22.0	(72.1)	(69.5)	1,469.8	**2,709.4**	3,371.1	**6,080.5**	–	**6,080.5**
Profit for the year	–	–	–	–	–	460.6	**460.6**	124.6	**585.2**	–	**585.2**
Other comprehensive income	–	–	–	69.0	51.7	187.0	**307.7**	–	**307.7**	–	**307.7**
Share of joint ventures and associates other comprehensive gain	–	–	–	3.9	–	76.4	**80.3**	–	**80.3**	–	**80.3**
Total comprehensive income for the year	–	–	–	72.9	51.7	724.0	**848.6**	124.6	**973.2**	–	**973.2**
Dividends to shareholders	–	–	–	–	–	(884.0)	**(884.0)**	–	**(884.0)**	–	**(884.0)**
Scrip dividend related share issue	5.9	(5.9)	–	–	–	175.8	**175.8**	–	**175.8**	–	**175.8**
Distributions to hybrid capital holders	–	–	–	–	–	–	**–**	(124.6)	**(124.6)**	–	**(124.6)**
Issue of shares	1.4	23.6	–	–	–	–	**25.0**	–	**25.0**	–	**25.0**
Redemption of hybrid capital	–	–	–	–	–	(8.5)	**(8.5)**	(1,161.4)	**(1,169.9)**	–	**(1,169.9)**
Credit in respect of employee share awards	–	–	–	–	–	13.5	**13.5**	–	**13.5**	–	**13.5**
Investment in own shares	–	–	–	–	–	(11.1)	**(11.1)**	–	**(11.1)**	–	**(11.1)**
Disposal of non-controlling interest in Clyde Windfarm	–	–	–	–	–	138.6	**138.6**	–	**138.6**	–	**138.6**
Non controlling interest (i)	–	–	–	(3.0)	–	(19.5)	**(22.5)**	–	**(22.5)**	22.5	**–**
At 31 March 2016	**503.8**	**880.4**	**22.0**	**(2.2)**	**(17.8)**	**1,598.6**	**2,984.8**	**2,209.7**	**5,194.5**	**22.5**	**5,217.0**

(i) This represents the non-controlling interest in Clyde Windfarm (Scotland) Limited, see note 4.2 (iv).

Consolidated statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid capital £m	Total equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
At 1 April 2014	487.4	861.5	22.0	(27.0)	1.5	1,587.3	2,932.7	2,186.8	5,119.5	–	5,119.5
Profit for the year	–	–	–	–	–	543.1	543.1	121.3	664.4	–	664.4
Other comprehensive income	–	–	–	(37.6)	(71.0)	(66.2)	(174.8)	–	(174.8)	–	(174.8)
Share of joint ventures and associates other comprehensive (loss)	–	–	–	(7.5)	–	(1.9)	(9.4)	–	(9.4)	–	(9.4)
Total comprehensive income for the year	–	–	–	(45.1)	(71.0)	475.0	358.9	121.3	480.2	–	480.2
Dividends to shareholders	–	–	–	–	–	(854.1)	(854.1)	–	(854.1)	–	(854.1)
Scrip dividend related share issue	8.6	(8.6)	–	–	–	255.6	255.6	–	255.6		255.6
Distributions to hybrid capital holders	–	–	–	–	–	–	–	(121.3)	(121.3)	–	(121.3)
Issue of shares	0.5	9.8	–	–	–	–	10.3	–	10.3	–	10.3
Issue of hybrid capital	–	–	–	–	–	–	–	1,184.3	1,184.3	–	1,184.3
Credit in respect of employee share awards	–	–	–	–	–	15.0	15.0	–	15.0	–	15.0
Investment in own shares	–	–	–	–	–	(9.0)	(9.0)	–	(9.0)	–	(9.0)
At 31 March 2015	496.5	862.7	22.0	(72.1)	(69.5)	1,469.8	2,709.4	3,371.1	6,080.5	–	6,080.5

Statement of changes in equity continued
for the year ended 31 March 2016

Company statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid capital £m	Total £m
At 1 April 2015	496.5	862.7	22.0	(12.8)	324.6	1,693.0	3,371.1	5,064.1
Profit for the year	–	–	–	–	1,182.2	1,182.2	124.6	1,306.8
Other comprehensive income	–	–	–	27.0	108.5	135.5	–	135.5
Total comprehensive income for the year	–	–	–	27.0	1,290.7	1,317.7	124.6	1,442.3
Dividends to shareholders	–	–	–	–	(884.0)	(884.0)	–	(884.0)
Scrip dividend related share issue	5.9	(5.9)	–	–	175.8	175.8	–	175.8
Distributions to hybrid capital holders	–	–	–	–	–	–	(124.6)	(124.6)
Issue of shares	1.4	23.6	–	–	–	25.0	–	25.0
Redemption of hybrid capital	–	–	–	–	(8.5)	(8.5)	(1,161.4)	(1,169.9)
Increase in investment in subsidiaries	–	–	–	–	13.5	13.5	–	13.5
Investment in own shares	–	–	–	–	(11.1)	(11.1)	–	(11.1)
At 31 March 2016	**503.8**	**880.4**	**22.0**	**14.2**	**901.0**	**2,321.4**	**2,209.7**	**4,531.1**

Company statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid capital £m	Total £m
At 1 April 2014	487.4	861.5	22.0	(1.3)	412.9	1,782.5	2,186.8	3,969.3
Profit for the year	–	–	–	–	476.4	476.4	121.3	597.7
Other comprehensive (loss)/income	–	–	–	(11.5)	27.8	16.3	–	16.3
Total comprehensive income for the year	–	–	–	(11.5)	504.2	492.7	121.3	614.0
Dividends to shareholders	–	–	–	–	(854.1)	(854.1)	–	(854.1)
Scrip dividend related share issue	8.6	(8.6)	–	–	255.6	255.6	–	255.6
Distributions to hybrid capital holders	–	–	–	–	–	–	(121.3)	(121.3)
Issue of shares	0.5	9.8	–	–	–	10.3	–	10.3
Issue of hybrid capital	–	–	–	–	–	–	1,184.3	1,184.3
Increase in investment in subsidiaries	–	–	–	–	15.0	15.0	–	15.0
Investment in own shares	–	–	–	–	(9.0)	(9.0)	–	(9.0)
At 31 March 2015	496.5	862.7	22.0	(12.8)	324.6	1,693.0	3,371.1	5,064.1

Cash flow statements
for the year ended 31 March 2016

	Note	Consolidated 2016 £m	Consolidated 2015 £m	Company 2016 £m	Company 2015 £m
Cash generated from operations before working capital movements	13	**2,112.1**	2,080.7	**3.7**	(5.3)
Decrease/(Increase) in inventories		**44.0**	(8.5)	**–**	–
Decrease/(Increase) in receivables		**1,098.5**	(243.1)	**(458.1)**	339.0
(Decrease)/Increase in payables		**(879.5)**	394.0	**(39.4)**	(499.9)
Decrease in provisions		**(55.7)**	(66.2)	**–**	–
Cash generated from/(absorbed by) operations		**2,319.4**	2,156.9	**(493.8)**	(166.2)
Dividends received from joint ventures and associates		**130.9**	110.1	**97.0**	91.8
Dividends received from subsidiaries		**–**	–	**1,042.3**	493.5
Interest received		**101.8**	95.9	**356.2**	508.5
Interest paid		**(254.1)**	(227.8)	**(184.1)**	(137.7)
Income taxes paid		**(125.5)**	(164.8)	**(148.5)**	(177.7)
Payment for consortium relief		**(13.6)**	(12.0)	**–**	–
Net cash from operating activities		**2,158.9**	1,958.3	**669.1**	612.2
Cash flows from Investing activities					
Purchase of property, plant and equipment		**(1,495.4)**	(1,345.3)	**–**	–
Purchase of other intangible assets		**(444.8)**	(241.8)	**–**	–
Deferred income received		**16.1**	2.9	**–**	–
Proceeds from disposals		**312.4**	233.8	**12.5**	117.1
Loans to joint ventures and associates	17	**(50.5)**	(33.9)	**(30.6)**	(34.2)
Purchase of businesses and subsidiaries	19	**(669.0)**	(66.0)	**–**	–
Loans and equity repaid by joint ventures	17	**18.3**	15.0	**13.4**	8.8
Investment in subsidiaries, associates and joint ventures	17	**(9.8)**	(20.0)	**(711.0)**	–
Increase in other investments	17	**(0.2)**	(0.1)	**–**	–
Net cash from investing activities		**(2,322.9)**	(1,455.4)	**(715.7)**	91.7
Cash flows from financing activities					
Proceeds from issue of share capital		**25.0**	10.3	**25.0**	10.3
Dividends paid to company's equity holders		**(708.2)**	(598.5)	**(708.2)**	(598.5)
(Redemption)/Issue of hybrid capital		**(1,161.4)**	1,184.3	**(1,161.4)**	1,184.3
Hybrid capital dividend payments		**(124.6)**	(121.3)	**(124.6)**	(121.3)
Employee share awards share purchase		**(11.1)**	(9.0)	**(11.1)**	(9.0)
New borrowings		**1,070.1**	151.1	**861.7**	–
Repayment of borrowings		**(77.7)**	(66.3)	**–**	(61.3)
Net cash from financing activities		**(987.9)**	550.6	**(1,118.6)**	404.5
Net (decrease)/increase in cash and cash equivalents		**(1,151.9)**	1,053.5	**(1,165.2)**	1,108.4
Cash and cash equivalents at the start of year	22	**1,512.1**	458.6	**1,321.1**	212.7
Net (decrease)/increase in cash and cash equivalents		**(1,151.9)**	1,053.5	**(1,165.2)**	1,108.4
Cash and cash equivalents at the end of year	22	**360.2**	1,512.1	**155.9**	1,321.1

The accompanying notes are an integral part of these financial statements.

Notes on the financial statements
for the year ended 31 March 2016

1. General Information and Basis of preparation

1.1 General information

SSE plc (the Company) is a company domiciled in Scotland. The address of the registered office is given on the back cover. The Group's operations and its principal activities are set out earlier in this Report at pages 1 to 65. The consolidated financial statements for the year ended 31 March 2016 comprise those of the Company and its subsidiaries (together referred to as the Group). The Company financial statements present information about the Company as a separate entity and not about the Group. Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement and related notes.

1.2 Basis of preparation

Statement of compliance

The financial statements were authorised for issue by the directors on 17 May 2016. The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') and its interpretations as issued by the International Accounting Standards Board ('IASB') and adopted by the European Union ('adopted IFRS').

Going concern

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The financial statements are therefore prepared on a going concern basis. Further details of the Group's liquidity position and going concern review are provided in note 34 of the Financial Statements on page 175.

Basis of measurement

The financial statements of the Group and the Company are prepared on the historical cost basis except for derivative financial instruments, available-for-sale financial assets and assets of the Group pension schemes which are stated at their fair value, and liabilities of the Group pension schemes which are measured using the projected unit credit method. The directors believe the financial statements present a true and fair view. The financial statements of the Group and Company are presented in pounds sterling. Operations and transactions conducted in currencies other than pounds sterling are included in the consolidated financial statements in accordance with the Group's foreign currencies accounting policy.

Use of estimates and judgements

The preparation of financial statements conforming with adopted IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The areas involving a higher level of judgement or estimation are summarised at page 127 and 129.

2. Summary of significant new accounting policies and reporting changes

The basis of consolidation and principal accounting policies applied in the preparation of these financial statements are set out below and in the Accompanying Information section (A1) on pages 191 to 204.

No new accounting standards have been adopted by the Group that have a material impact on the financial statements in the current year. The following issued standards have not yet been adopted by the Group:

i) IFRS 15 'Revenue from contracts with customers' is effective on 1 January 2018 (and thus to the Group from 1 April 2018), subject to European Union (EU) endorsement;
ii) IFRS 16 'Leases' is effective on 1 January 2019 (1 April 2019 to the Group), subject to EU endorsement;
iii) IFRS 9: 'Financial instruments' which will be effective on 1 January 2018 (1 April 2018 to the Group), subject to EU endorsement.

The Group has commenced initial assessment of the impact of these standards on the consolidated financial statements. However, at this stage, it is not yet practicable to quantify the impact these standards will have. The assessment of IFRS 15 will consider matters such as bundled goods and services, the allocation of transaction price to performance obligations, treatment of customer acquisition costs and contracts with variable consideration. The assessment of IFRS 16 will require, with certain exceptions, obligations associated with contracts currently designated as operating leases to be recognised on balance sheet as lease liabilities. The definition of a lease has also been modified which may impact which contracts the Group accounts for as leases.

In addition to these, there are a number of other amendments and annual improvement project recommendations that are not yet effective but which have been endorsed by the EU. These are not anticipated to have a material impact on the Group's consolidated financial statements. The amendments to IFRS 11 'Accounting for acquisitions of interests in joint operations' which were effective on 1 January 2016 clarifies that the acquisition of an interest in a joint operation will be accounted for in accordance with IFRS 3 Business Combinations. This is not expected to represent a change in Group accounting policy.

3. Basis of presentation

The Group applies the use of adjusted accounting measures throughout the Annual Report and Financial Statements. These measures enable the Directors to present the underlying performance of the Group and its segments to the users of the statements in a consistent and meaningful manner. The adjustments applied and certain terms such as 'adjusted operating profit'. 'adjusted EPS' and 'adjusted net debt and hybrid capital' are not defined under IFRS and are explained in more detail below.

(i) Adjusted measures

The Directors assess the performance of the Group and its reportable segments based on 'adjusted measures'. These measures are used for internal performance management and are believed to be appropriate for explaining underlying performance to users of the accounts. These measures are also deemed the most useful for the ordinary shareholders of the Company and for other stakeholders.

The performance of the reportable segments is reported based on adjusted profit before interest and tax ('adjusted operating profit'). This is reconciled to reported profit before interest and tax by adding back exceptional items and certain re-measurements (see note 3(ii) below) and after the removal of interest and taxation on profits from equity-accounted joint ventures and associates.

The performance of the Group is reported based on adjusted profit before tax which excludes exceptional items and certain re-measurements (see below), the net interest costs associated with defined benefit schemes and taxation on profits from equity-accounted joint ventures and associates. The interest costs removed are non-cash and are subject to variation based on additional valuations of scheme liabilities.

The Group's key performance measure is adjusted earnings per share (EPS), which is based on basic earnings per share before exceptional items and certain re-measurements (see note 3(ii) below), the net interest costs associated with defined benefit schemes and after the removal of deferred taxation. Adjusted profit after tax is presented on a basis consistent with adjusted EPS except for the exclusion of payments to holders of hybrid equity.

The financial statements also include an 'adjusted net debt and hybrid capital' measure. This presents financing information on the basis used for internal liquidity risk management. This measure excludes obligations due under finance leases, non-recourse debt associated with Clyde Windfarm (Scotland) Limited (see note 4.2(iv)) and includes cash held as collateral on commodity trading exchanges and other short-term loans. The measure represents the capital owed to investors, lenders and equity holders other than the ordinary shareholders. As with 'adjusted earnings per share', this measure is considered to be of particular relevance to the ordinary shareholders of the Group as well as other stakeholders and interested parties.

Reconciliations from reported measures to adjusted measures along with further description of the rationale for those adjustments are included in the "SSE's financial results explained" section at pages 117 and 118.

(ii) Exceptional items and certain re-measurements

Exceptional items are those charges or credits that are considered unusual by nature and scale and of such significance that separate disclosure is required for the financial statements to be properly understood. The trigger points for exceptional items will tend to be non-recurring although exceptional charges may impact the same asset class or segment over time. Market conditions that have deteriorated significantly over time will only be captured to the extent observable at the balance sheet date. Examples of items that may be considered exceptional include material asset or business impairment charges, business restructuring costs, significant gains or losses on disposal and contractual settlements following significant disputes and claims. The Directors consider that any gain or loss on disposal of greater than £30.0m would be disclosed as being exceptional by nature of its scale. Other gains or losses on disposal below this level may be considered to be exceptional by reference to specific circumstances which will be explained on a case-by-case basis.

Certain re-measurements are re-measurements arising on certain commodity, interest rate and currency contracts which are accounted for as held for trading or as fair value hedges in accordance with the Group's policy for such financial instruments. This excludes commodity contracts not treated as financial instruments under IAS 39 where held for the Group's own use requirements which are not recorded until the underlying commodity is delivered.

(iii) Other additional disclosures

As permitted by IAS 1 'Presentation of financial statements', the Group's income statement discloses additional information in respect of joint ventures and associates, exceptional items and certain re-measurements to aid understanding of the Group's financial performance and to present results clearly and consistently.

4. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The Group's key accounting judgement and estimation areas are noted with the most Significant Financial Judgement areas as specifically discussed by the Audit Committee being highlighted separately.

4.1 Significant Financial Judgements – Estimation Uncertainties

The preparation of these Financial Statements has specifically considered the following Significant Financial Judgements which are all areas of estimation uncertainty.

Notes on the financial statements continued
for the year ended 31 March 2016

4. Critical accounting judgements and key sources of estimation uncertainty continued

(i) Impairment testing and valuation of certain Non-Current Assets – Estimation Uncertainty
The Group reviews the carrying amounts of its goodwill, other intangible assets and specific property, plant and equipment assets and to determine whether any impairment of the carrying value of those assets requires to be recorded. Detail on the accounting policies applied is included in the Accompanying Information section at pages 191 to 204. In conducting its reviews, the Group makes judgements and estimates in considering the recoverable amount of the respective assets or cash-generating units (CGUs). The specific assets under review in the year ended 31 March 2016 are goodwill, thermal power generation assets, wind farm CGUs, gas storage assets and exploration and production (E&P) assets. Changes to the estimates and assumptions on factors such as regulation and legislation changes, power, gas, carbon and other commodity prices, volatility of gas prices, plant running regimes and load factors, expected 2P reserves, discount rates and other inputs could impact the assessed recoverable value of assets and CGUs and consequently impact the Group's income statement and balance sheet. Further detail of the basis and assumptions used in the impairment review conducted for the financial year, and the resulting impairment charges, is included at note 16.

(ii) Revenue recognition – estimated energy consumption – Estimation Uncertainty
Revenue from Retail energy supply activities includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. This estimation will comprise of values for billed revenue in relation to consumption from unread meters based on estimated consumption taking account of various factors including usage patterns and weather trends (disclosed as trade receivables) and for unbilled revenue (disclosed as accrued income). The volume of unbilled electricity or gas is calculated by assessing a number of factors such as externally notified aggregated volumes supplied to customers, amounts billed to customers and other adjustments. Unbilled income is calculated by applying the tariffs relevant to the customer type to the calculated volume of electricity or gas. This estimation methodology is subject to an internal corroboration process that provides support for the judgements made by management. This process requires the comparison of calculated unbilled volumes to a benchmark measure of unbilled volumes which is derived using independently verified data and by assessing historical weather-adjusted consumption patterns and actual meter data that is used in industry reconciliation processes for total consumption by supplier. This aspect of the corroboration process, which requires a comparison of the estimated supplied quantity of electricity and gas that is deemed to have been delivered to customers and the aggregate supplied quantity of electricity or gas applicable to the Group's customers that is measured by industry system operators, is a key judgement. The assessment of electricity unbilled revenue is further influenced by the impact on national settlements data or feed-in-tariff supported volumes and spill from solar PV generation. The experience of the Group is that the industry estimated supplied quantities in gas have historically been higher than actual metered supply. To take account of this, the Group applies a further judgement, being a percentage reduction to unbilled consumption volume, to the measurement of its unbilled revenue in the financial statements. It is expected that this judgement will become less critical as the industry transitions to smart meter technology. The sensitivity associated with this judgement factor is disclosed at note 21 on page 158.

(iii) Valuation of trade receivables – Estimation Uncertainty
The basis of determining the provisions for bad and doubtful debts is explained at note 34 in the section on credit risk and aged debt. While the provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to the income statement.

(iv) Retirement benefits – Estimation Uncertainty
The assumptions in relation to the cost of providing post-retirement benefits during the period are based on the Group's best estimates and are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the level of the retirement benefit obligation recorded and the cost to the Group of administering the schemes. The value of scheme assets are impacted by the asset ceiling test which (a) restricts the surplus that can be recognised to assets that can be recovered fully through refunds and (b) may increase the value of scheme liabilities where there are minimum funding liabilities in relation to agreed contributions. Further detail on the estimation basis is contained in note 32.

4.2 Other key accounting judgements
Other key accounting judgements applied in the preparation of these Financial Statements include the following:

(i) Business Combinations and acquisitions – Accounting Judgement
Business combinations and acquisitions require a fair value exercise to be undertaken to allocate the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a certain extent, on management's judgement. The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of this purchase price to the identifiable assets and liabilities with any unallocated portion being recorded as goodwill. Business combinations are disclosed in note 19.

(ii) Energy Company Obligation (ECO) costs – Accounting Judgement
The Energy Company Obligation ('ECO') legislation, in force since 1 January 2013, requires qualifying energy suppliers to meet defined targets by providing measures to improve the energy efficiency of and level of carbon emissions from UK domestic households. The targets for the Group's Energy Supply business are set based on historic customer information with delivery of the measures being required by 31 March 2017. The Group believes it is not technically obligated to provide those measures until the end of the delivery period. As a consequence and applying applicable accounting standards, the costs of ECO are recorded when measures are delivered or other qualifying expenditure has been incurred.

(iii) Treatment of disputes and claims – Accounting Judgement
The Group is exposed to the risk of litigation, regulatory judgements and contractual disputes through the course of its normal operations. The Group considers each instance separately in accordance with legal advice and will provide or disclose information as deemed appropriate. Changes in the assumptions around the likelihood of an outflow of economic resources or the estimation of any obligation would change the values recognised in the financial statements.

4. Critical accounting judgements and key sources of estimation uncertainty continued

(iv) Consolidation of interest in Clyde Windfarm (Scotland) Limited – Accounting Judgement

On 18 March 2016, the Group completed the sale of 49.9% of the equity in Clyde Windfarm (Scotland) Limited ('Clyde'). Details of this transaction are included at note 19. The Group is providing project and contract management services for and 100% of the funding for the construction of the 172.8MW extension of the wind farm. As part of this arrangement, the Group has retained a casting vote over the engineering, procurement and construction of the extension and certain rights over the construction of the extension. Under IFRS 10 Consolidated Financial Statements, the extension is considered to be a 'relevant activity' which significantly affects the future returns from Clyde and the rights retained by the Group have been concluded to confer power to control the relevant activities of Clyde to the Group. As a consequence, this entity has been fully consolidated into the Group's financial statements. This means that the gain on the transaction has been recorded in equity and the co-venturers' ownership share is represented as a non-controlling interest. On 13 May 2016, the Group agreed to waive those contractual rights which gave rise to the judgement that power to control the relevant activities existed over Clyde. All other contractual arrangements remain in place. As a consequence, the Group will prospectively account for it's interest in Clyde as that of an investment in an equity-accounted joint venture. One of the impacts of that change to consolidation basis will be to remove the equivalent to the £200.7m of non-recourse borrowings held by Clyde from the Group's consolidated balance sheet. In addition, the Group's interest in the entity is expected to remain that of an equity-accounted joint venture following completion of the extension construction project. Given this change in circumstance and on the basis the £200.7m debt item is non-recourse to the Group, this item has been excluded from the Group's 'adjusted net debt and hybrid capital' measure.

4.3 Other areas of estimation uncertainty

(i) Provisions and contingencies

The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37. Provisions are calculated based on estimations. The evaluation of the likelihood of the contingent events has required best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseeable developments, this likelihood could alter.

(ii) Decommissioning costs

The estimated cost of decommissioning at the end of the useful lives of certain property, plant and equipment assets is reviewed periodically and has been reassessed in the year to 31 March 2016. Decommissioning costs in relation to gas exploration and production assets are based on expected lives of the fields and costs of decommissioning. Provision is made for the estimated discounted cost of decommissioning at the balance sheet date. The dates for settlement of future decommissioning costs are uncertain and are currently expected to be incurred predominantly between 2017 and 2040.

(iii) Gas and liquids reserves

The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production depreciation of producing gas and liquids property, plant and equipment. This is also a significant input estimate to the associated impairment and decommissioning calculations. The impact of a change in estimated proven and probable reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If proven and probable reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

5. Segmental information

The Group's operating segments are those used internally by the Board to run the business and make strategic decisions. The Group's main businesses and operating segments are the Networks business comprising Electricity Distribution, Electricity Transmission and Gas Distribution; the Retail business comprising Energy Supply, Enterprise and Energy-related Services, and; Wholesale comprising Energy Portfolio Management and Electricity Generation, Gas Storage and Gas Production.

In March 2014, the Group announced its intention to reorganise its activities so that there are separately auditable legal entities responsible for its Energy Supply, Energy Portfolio Management (EPM) and Electricity Generation activities. This change was made to enhance the transparency of the measurement and reporting of the performance of these activities. There is now a subsidiary company, SSE EPM Limited, which is responsible for managing the Group's commodity requirements.

The establishment of this company does not change the Group's basis of inter-segmental pricing or its basis of reporting operational performance to the Board. The methodology in place promotes market reflectivity and closely aligns with the operational decision-making in the respective businesses. EPM and Electricity Generation continue to be reported to the Board as a single reportable operating segment.

Notes on the financial statements continued
for the year ended 31 March 2016

5. Segmental information continued

The types of products and services from which each reportable segment derives its revenues are:

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

As referred to in note 3, the internal measure of profit used by the Board is 'adjusted profit before interest and tax' or 'adjusted operating profit' which is arrived at before exceptional items, and certain re-measurement, the net interest costs associated with defined benefit pension schemes and after the removal of taxation and interest on profits from joint ventures and associates.

Analysis of revenue, operating profit, assets and other items by segment is provided below. All revenue and profit before taxation arise from operations within Great Britain and Ireland.

5.1 Segmental information disclosure

(i) Revenue by segment

	External revenue 2016 £m	**Intra-segment revenue (i) 2016 £m**	**Total revenue 2016 £m**	External revenue 2015 £m	Intra-segment revenue (i) 2015 £m	Total revenue 2015 £m
Networks						
Electricity Distribution	**689.0**	**243.6**	**932.6**	735.6	288.0	1,023.6
Electricity Transmission	**367.9**	**–**	**367.9**	246.7	0.2	246.9
	1,056.9	**243.6**	**1,300.5**	982.3	288.2	1,270.5
Retail						
Energy Supply	**7,548.3**	**83.2**	**7,631.5**	7,961.2	30.3	7,991.5
Enterprise	**455.1**	**96.6**	**551.7**	495.7	155.4	651.1
Energy-related Services	**118.2**	**112.9**	**231.1**	112.6	97.3	209.9
	8,121.6	**292.7**	**8,414.3**	8,569.5	283.0	8,852.5
Wholesale						
Energy Portfolio Management and Electricity Generation	**19,525.3**	**3,780.6**	**23,305.9**	22,023.7	4,015.4	26,039.1
Gas Storage	**5.7**	**214.3**	**220.0**	9.7	211.8	221.5
Gas Production	**2.2**	**144.9**	**147.1**	1.3	177.5	178.8
	19,533.2	**4,139.8**	**23,673.0**	22,034.7	4,404.7	26,439.4
Corporate unallocated	**69.6**	**258.9**	**328.5**	67.9	225.8	293.7
Total	**28,781.3**	**4,935.0**	**33,716.3**	31,654.4	5,201.7	36,856.1

(i) Significant intra-segment revenue is derived from use of system income received by the Electricity Distribution business from Energy Supply; Energy Supply provides internal heat and light power supplies to other Group companies; Enterprise provides electrical contracting services and telecoms infrastructure charges to other Group companies; Energy-related Services provides metering and other services to other Group companies; Energy Portfolio Management and Electricity Generation provides power, gas and other commodities to the Energy Supply segment; Gas Storage provide the use of Gas Storage facilities to Energy Portfolio Management; Gas Production sells gas from producing North Sea fields to the Electricity Generation and Energy Portfolio Management segments. Corporate unallocated provides corporate and infrastructure services to the operating businesses. All are provided at arm's length.

5. Segmental information continued

Revenue within Energy Portfolio Management and Electricity Generation includes revenues from generation plant output and the gross value of all wholesale commodity sales including settled physical and financial trades. These are entered into to optimise the performance of the generation plants and to manage the Group's commodity risk exposure. Purchase trades are included in cost of sales.

Revenue from the Group's investment in Scotia Gas Networks SSE share being £549.8m; (2015– £659.2m) is not recorded in the revenue line in the income statement.

Revenue by geographical location is as follows:

	2016 £m	2015 £m
UK	28,035.4	30,923.3
Ireland	745.9	731.1
	28,781.3	31,654.4

(ii) Operating profit/(loss) by segment

	2016				
	Adjusted operating profit reported to the Board £m	JV/Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Networks					
Electricity Distribution	370.7	–	370.7	–	370.7
Electricity Transmission	287.2	–	287.2	–	287.2
Gas Distribution	268.7	(142.0)	126.7	48.6	175.3
	926.6	(142.0)	784.6	48.6	833.2
Retail					
Energy Supply	398.9	–	398.9	–	398.9
Enterprise	40.9	–	40.9	–	40.9
Energy-related Services	15.4	–	15.4	(17.8)	(2.4)
	455.2	–	455.2	(17.8)	437.4
Wholesale					
Energy Portfolio Management and Electricity Generation	436.3	(24.7)	411.6	(586.4)	(174.8)
Gas Storage	4.0	–	4.0	(150.9)	(146.9)
Gas Production	2.2	–	2.2	(161.8)	(159.6)
	442.5	(24.7)	417.8	(899.1)	(481.3)
Corporate unallocated	0.1	–	0.1	(4.0)	(3.9)
Total	1,824.4	(166.7)	1,657.7	(872.3)	785.4

Notes on the financial statements continued
for the year ended 31 March 2016

5. Segmental information continued

	2015				
	Adjusted operating profit reported to the Board £m	JV/Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Networks					
Electricity Distribution	467.7	–	467.7	–	467.7
Electricity Transmission	184.1	–	184.1	–	184.1
Gas Distribution	285.0	(137.1)	147.9	5.3	153.2
	936.8	(137.1)	799.7	5.3	805.0
Retail					
Energy Supply	368.7	–	368.7	(34.2)	334.5
Enterprise	70.4	–	70.4	30.3	100.7
Energy-related Services	17.7	–	17.7	15.6	33.3
	456.8	–	456.8	11.7	468.5
Wholesale					
Energy Portfolio Management and Electricity Generation	433.3	(21.3)	412.0	(483.8)	(71.8)
Gas Storage	3.9	–	3.9	(163.9)	(160.0)
Gas Production	36.6	–	36.6	(106.0)	(69.4)
	473.8	(21.3)	452.5	(753.7)	(301.2)
Corporate unallocated	14.0	–	14.0	(0.4)	13.6
Total	1,881.4	(158.4)	1,723.0	(737.1)	985.9

(i) The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives and tax from joint ventures and associates and after adjusting for exceptional items (see note 7). The share of Scotia Gas Networks Limited interest includes loan stock interest payable to the consortium shareholders (included in Gas Distribution). The Group has accounted for its 50% share of this, £24.3m (2015 – £33.3m), as finance income (note 9).

The Group's share of operating profit from joint ventures and associates has been recognised in the Energy Portfolio Management and Electricity Generation segment other than that for Scotia Gas Networks Limited, which is recorded in Gas Distribution, and PriDE (South East Regional Prime), which is recognised in Enterprise (£0.4m before tax; 2015 – £0.7m before tax).

(iii) Capital Expenditure by segment

	Capital additions to intangible assets 2016 £m	**Capital additions to property, plant and equipment 2016 £m**	Capital additions to intangible assets 2015 £m	Capital additions to property, plant and equipment 2015 £m
Networks				
Electricity Distribution	**–**	**346.6**	–	417.4
Electricity Transmission	**–**	**573.4**	–	467.2
	–	**920.0**	–	884.6
Retail				
Energy Supply	**71.1**	**49.7**	16.9	23.7
Enterprise	**–**	**47.6**	–	19.6
Energy-related Services	**25.4**	**28.3**	27.5	20.6
	96.5	**125.6**	44.4	63.9
Wholesale				
Energy Portfolio Management and Electricity Generation	**615.7**	**311.9**	483.0	291.2
Gas Storage	**0.1**	**13.9**	0.2	14.3
Gas Production	**–**	**56.1**	–	21.0
	615.8	**381.9**	483.2	326.5
Corporate unallocated	**0.8**	**107.5**	–	94.2
Total	**713.1**	**1,535.0**	527.6	1,369.2
(Decrease)/increase in prepayments related to capital expenditure	**–**	**(37.8)**	–	28.4
Decrease/(increase) in trade payables related to capital expenditure	**–**	**(1.8)**	–	(52.3)
Less: Other non-cash additions	**(268.3)**	**–**	(285.8)	–
Net cash outflow	**444.8**	**1,495.4**	241.8	1,345.3

5. Segmental information continued

Capital additions do not include assets acquired in acquisitions or assets acquired under finance leases. Capital additions to Intangible Assets includes the cash purchase of emissions allowances and certificates (2016 – £312.1m; 2015 – £156.0m). Other non-cash additions comprise self-generated renewable obligation certificates.

No segmental analysis of assets requires to be disclosed as this information is not presented to the Board.

(iv) Items included in operating profit/(loss) by segment

	Depreciation/impairment on property, plant and equipment			Amortisation/impairment of intangible assets		
	Before exceptional charges 2016 £m	Impairment charges 2016 £m	Total 2016 £m	Before exceptional charges 2016 £m	Impairment charges 2016 £m	Total 2016 £m
Networks						
Electricity Distribution	237.9	–	237.9	–	–	–
Electricity Transmission (i)	43.7	–	43.7	–	–	–
	281.6	–	281.6	–	–	–
Retail						
Energy Supply	31.4	–	31.4	1.5	–	1.5
Enterprise	26.0	–	26.0	–	–	–
Energy-related Services	10.6		10.6	–	11.2	11.2
	68.0	–	68.0	1.5	11.2	13.7
Wholesale						
Energy Portfolio Management and Electricity Generation	206.9	370.1	577.0	–	2.2	2.2
Gas Storage	5.8	150.9	156.7	–	–	–
Gas Production	69.7	131.7	201.4	–	27.2	27.2
	282.4	652.7	935.1	–	29.4	29.4
Corporate unallocated	44.8	–	44.8	0.8	–	0.8
Total	676.8	652.7	1,329.5	2.3	40.6	42.9

(i) The depreciation policy (and related revenue recognition policy) for depreciation of capital additions to the Group's electricity transmission network arising from connections has been reassessed and is now consistent with the Group's depreciation policy for other transmission additions. The impact of this change to policy is a decrease in current year depreciation of c. £14.0m, with an equal and opposite decrease in revenue recognised.

	Depreciation/impairment on property, plant and equipment			Amortisation/impairment of intangible assets		
	Before exceptional charges 2015 £m	Impairment charges 2015 £m	Total 2015 £m	Before exceptional charges 2015 £m	Impairment charges 2015 £m	Total 2015 £m
Networks						
Electricity Distribution	236.2	–	236.2	–	–	–
Electricity Transmission	46.9	–	46.9	–	–	–
	283.1	–	283.1	–	–	–
Retail						
Energy Supply	28.4	9.2	37.6	1.0	–	1.0
Enterprise	21.3	7.7	29.0	–	–	–
Energy-related Services	7.3	–	7.3	–	–	–
	57.0	16.9	73.9	1.0	–	1.0
Wholesale						
Energy Portfolio Management and Electricity Generation	211.8	237.6	449.4	2.4	51.5	53.9
Gas Storage	11.7	162.4	174.1	–	–	–
Gas Production	55.9	61.9	117.8	–	44.1	44.1
	279.4	461.9	741.3	2.4	95.6	98.0
Corporate unallocated	37.2	–	37.2		–	
Total	656.7	478.8	1,135.5	3.4	95.6	99.0

The Group's share of Scotia Gas Networks Limited depreciation (2016 – £81.7m; 2015 – £78.0m) and amortisation (2016 – £4.8m; 2015 – £4.8m) is not included within operating costs.

Notes on the financial statements continued
for the year ended 31 March 2016

6. Other operating income and cost

Total group costs before exceptional items and certain re-measurements can be analysed thus:

	2016 £m	2015 £m
Cost of sales	**25,859.4**	28,801.3
Distribution costs	**544.4**	516.8
Administration costs	**905.4**	844.7
Operating costs	**1,449.8**	1,361.5
Total costs	**27,309.2**	30,162.8

Group operating profit is stated after charging (or crediting) the following items:

	2016 £m	2015 £m
Depreciation of property, plant and equipment (note 15)	**676.8**	656.7
Exceptional charges (note 7)	**843.1**	648.7
Research costs	**5.6**	8.3
Operating lease rentals (note 36)	**166.1**	163.2
Release of deferred income in relation to capital grants and historic customer contributions	**(17.9)**	(16.7)
(Gain) on disposal (i)	**(30.2)**	(58.8)
Amortisation of other intangible assets (note 14) (i)	**2.3**	3.4

(i) Does not include exceptional impairment charges.

Auditor's remuneration

	2016 £m	2015 £m
Audit of these financial statements	**0.3**	0.3
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**0.7**	0.7
Audit-related assurance services	**0.1**	0.1
Taxation compliance and advisory services	**0.2**	0.1
Other services fees	**0.4**	0.1
	1.4	1.0
Total remuneration paid to Auditor	**1.7**	1.3

Assurance and tax service fees incurred in the year were £0.4m (2015 – £0.1m). Audit – related assurance services include fees incurred in relation to regulatory accounts and returns required by Ofgem. Other service fees include fees for advice on regulatory matters (£0.3m), studies on the impact of industry compliance issues and accounting advisory services. A description of the work of the Audit Committee is set out on pages 84 to 89 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

Amounts paid to the Company's auditor in respect of services to the Company other than the audit of the Company's financial statements have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

7. Exceptional items and certain re-measurements

	2016 £m	2015 £m
Exceptional items		
Asset impairments and related charges	**(892.5)**	(667.5)
Provisions for restructuring and other liabilities (note 28)	**(54.9)**	(56.0)
	(947.4)	(723.5)
Net gains on disposals of businesses and other assets	**57.6**	74.8
	(889.8)	(648.7)
Impairment of Investments in joint ventures and associates (share of result)	**–**	(25.9)
	(889.8)	(674.6)
Share of effect of change in UK corporation tax on deferred tax liabilities and assets of associate and joint venture investments	**46.7**	–
Total exceptional items	**(843.1)**	(674.6)
Certain re-measurements		
Movement on operating derivatives (note 34)	**(31.1)**	(67.8)
Movement on financing derivatives (note 34)	**14.3**	(44.2)
Share of movement on derivatives in jointly controlled entities (net of tax)	**1.9**	5.3
Total certain re-measurements	**(14.9)**	(106.7)
Exceptional items and certain re-measurements before taxation	**(858.0)**	(781.3)
Taxation		
Effect of change in UK corporation tax rate on deferred tax liabilities and assets	**41.5**	15.6
Taxation on other exceptional items	**227.6**	145.6
	269.1	161.2
Taxation on certain re-measurements	**3.4**	39.2
Taxation	**272.5**	200.4
Exceptional items before certain re-measurements and after taxation	**(585.5)**	(580.9)

Exceptional items are disclosed across the following categories within the income statement:

	2016 £m	2015 £m
Cost of sales:		
Coal-fired Generation related provisions and charges	**(287.0)**	(313.5)
Gas-fired Generation related charges	**(326.4)**	(51.5)
Movement on operating derivatives (note 34)	**(31.1)**	(67.8)
	(644.5)	(432.8)
Operating costs:		
Gas Production (E&P) related charges	**(161.8)**	(106.1)
Gas Storage related charges	**(150.9)**	(163.9)
Gas-fired Generation related charges	**–**	(24.9)
Other exceptional provisions and charges	**(21.3)**	(63.6)
	(334.0)	(358.5)
Operating income:		
Net gains on disposals of businesses and other assets	**57.6**	74.8
Joint ventures and associates:		
Impairment of investments	**–**	(25.9)
Share of movement on derivatives in jointly controlled entities (net of tax)	**48.6**	5.3
	48.6	(20.6)
Operating loss	**(872.3)**	(737.1)
Finance costs		
Movement on financing derivatives (note 34)	**14.3**	(44.2)
Loss before taxation	**(858.0)**	(781.3)

Notes on the financial statements continued
for the year ended 31 March 2016

7. Exceptional items and certain re-measurements continued

7.1 Exceptional items

In the year to 31 March 2016, the Group recognised net exceptional charges of £889.8m. This consisted of asset impairment and related charges totalling £892.5m, exceptional provisions of £54.9m and net exceptional gains on disposal of £57.6m. The £138.6m gain on the part disposal of Clyde Windfarm (Scotland) Limited has been recognised directly in equity and therefore does not form part of the Income Statement and therefore total exceptional gains on disposal were £196.2m. Detail on the accounting judgements applied in relation to this transaction and the transaction itself are included at note 4.2(iv) and note 19.3.

The exceptional charges recognised can be summarised as follows:

	Property, plant and equipment (note 15) £m	Goodwill and other intangibles (note 14) £m	Inventories (note 20) £m	Other charges £m	**Total impairment related £m**	Provisions (note 28) £m	**Total charges £m**
Coal Generation (i)	67.6	–	87.9	83.2	**238.7**	48.3	**287.0**
Gas Generation (ii)	302.5	2.2	3.7	18.0	**326.4**	–	**326.4**
Gas Production (iii)	125.0	27.2	–	9.6	**161.8**	–	**161.8**
Gas Storage (iv)	150.9	–	–	–	**150.9**	–	**150.9**
Other (v)	–	11.2		3.5	**14.7**	6.6	**21.3**
	646.0	**40.6**	**91.6**	**114.3**	**892.5**	**54.9**	**947.4**

(i) Coal-fired Generation. On 20 May 2015, the Group announced that operations at Ferrybridge would cease at 31 March 2016 and consequently exceptional charges including the recognition of restructuring provisions, impairment of inventory and other costs have been recognised (£72.0m). On 30 March 2016, the Group announced that following a consultation process and success in securing a contract to provide ancillary services to National Grid for one year from 1 April 2016, operations at Fiddler's Ferry would continue and that SSE would enter 'all or part of' the capacity at Fiddler's Ferry into any 2017/18 Capacity Market auction. Nonetheless, the challenging economic and regulatory conditions facing coal-fired generation in the UK means that the long-term future of Fiddler's Ferry remains uncertain. In addition, SSE's longer-term strategic involvement in coal-fired generation and coal procurement is now under review. As a result, further exceptional charges have been recognised including impairment of the value of plant (£67.6m) and inventory (£47.9m) at Fiddler's Ferry and accelerated decommissioning costs recorded directly as a charge to the income statement and, included in other charges, irrecoverable current assets and financial losses relating to cessation of coal hedging activities (totalling £99.5m). Following these charges, the residual value of the Group's coal generation plants is nil.

(ii) Gas-fired Generation. Following the failure of Peterhead Power Station to win a capacity contract under the Capacity Market Auction for 2019/20 and the announcement, on 25 November, that the UK Government was withdrawing funding support for the proposed carbon capture and storage project at Peterhead Power Station, exceptional charges of £129.3m have been recognised in relation to the assets at the site. The economic conditions for the Group's other main Gas-fired Generation plants in Great Britain (Medway, Keadby and Marchwood) remain challenging. While the Group's long term view remains that the impact of regulatory changes will create a favourable economic environment for gas-fired generation, there has as yet been no observable recovery in 'spark spread' margins at these plants and there remains uncertainty in relation to the enduring ability of the plants to benefit from the UK Government's Capacity Market process. As a result, further impairment charges have been recognised of £197.1m, principally in respect of Marchwood and Medway plant and certain contractual prepayments. Following these charges, the residual value of the Group's GB gas generation plants under review is £226.2m.

(iii) Gas Production. Impairment of the Group's Gas Exploration and Production assets in the North Sea has been recognised predominately due to declining wholesale gas prices. The exceptional charges recognised include an element (£121.2m) related to the impairment of Greater Laggan field assets acquired at 28 October 2015 which reflects the impact of the decline in expected long term gas prices between the acquisition date and the financial year end. The other impairments relate to the impact of the fall in wholesale gas prices on the Group's other E&P assets at Sean, Lomond, Bacton and ECA (£40.6m). Following these charges, the residual value of the Group's gas production assets is £888.0m.

(iv) Gas Storage. Current and forecast demand for gas storage in Great Britain continues to be impacted by reduced short term price volatility and seasonal spreads in the wholesale gas market. These factors have had different but significant impacts on the Group's facilities at Hornsea (Atwick) and Aldbrough. As a result, exceptional charges of £150.9m have been recognised across both assets. Following these charges, the residual value of the Group's gas storage facilities is £21.2m.

(v) Other charges. Other exceptional charges have been recognised in relation to impairment of system development projects, restructuring charges and exit costs associated with the strategic exit from certain non-core activities.

Further detail on the basis of impairment review across all asset categories is included in note 16 to these financial statements.

The Group recognised £57.6m of exceptional net credits arising from disposals. On 28 May 2015, the Group recognised an exceptional gain on disposal of £39.3m in relation to the sale of three onshore wind development sites to Blue Energy. In addition, the Group also recognised a gain on its disposal of its interest in the Galloper offshore wind development of £18.3m. The latter disposal gain is considered to be exceptional due to the Group having previously impaired its investment in Galloper as part of its decision to scale back its commitment to offshore wind development. Further detail is included at note 19.

7. Exceptional items and certain re-measurements continued

In the previous financial year, the Group recognised exceptional charges arising from and related to asset impairments amounting to £667.5m and provisions of £56.0m. The exceptional charges recognised can be summarised as follows:

	Property, plant and equipment (note 15) £m	Goodwill and other intangibles (note 14) £m	Inventories (note 20) £m	Other charges £m	**Total impairment related £m**	Provisions (note 28) £m	**Total charges £m**
Coal Generation	222.7	–	41.0	45.8	**309.5**	4.0	**313.5**
Gas Generation	14.9	51.5	–	–	**66.4**	10.0	**76.4**
Gas Production	61.9	44.1	–	0.1	**106.1**	–	**106.1**
Gas Storage	162.4	–	–	–	**162.4**	1.5	**163.9**
Other	16.9	–	–	6.2	**23.1**	40.5	**63.6**
	478.8	**95.6**	**41.0**	**52.1**	**667.5**	**56.0**	**723.5**

The impairments of Coal generation plants followed the 31 July 2014 fire at Ferrybridge and the inability of both units at Ferrybridge and one unit at Fiddler's Ferry to secure agreements to provide capacity under the auction process run by DECC in December 2014. The impairments of Gas generation plants predominately related to development sites at Abernedd and Seabank. The impairments of Gas Production assets related to the impact of declining wholesale prices on the Group's Sean, ECA and Lomond fields. The charges associated with Gas Storage followed the strategic review of the Group's operations in that segment the results of which were announced on 26 March 2015. The other charges mainly relate to asset impairments, other charges in non-core businesses and provisions for certain disputes and claims. The exceptional disposal gains recorded related to the sale of seven street lighting PFI companies to Equitix (£38.0m), the Group's share of the dividend from Environmental Energy Fund's disposal of its stake in Anesco (£19.6m) and the gain on disposal of non-core retail assets (£17.2m).

As supplemental detail, the following table represents the exceptional charges recognised in the financial year to 31 March 2014 presented in similar format:

	Property, plant and equipment £m	Goodwill and other intangibles £m	Other charges £m	**Total impairment related £m**	Provisions £m	**Total charges £m**
Restructuring						
Non-core	35.2	2.0	36.0	**73.2**	58.9	**132.1**
Wind	17.0	75.9	47.6	**140.5**	–	**140.5**
Coal Generation	191.6	–	47.0	**238.6**	–	**238.6**
Gas Storage	111.4	26.3	–	**137.7**	–	**137.7**
Other	17.5	18.7	15.7	**51.9**	46.4	**98.3**
	372.7	**122.9**	**146.3**	**641.9**	**105.3**	**747.2**

The restructuring-related charges followed the announcement, on 28 March 2014, that the Group was intending to dispose of a number of non-core assets and businesses, embark upon a programme of voluntary early release for around 500 employees and scale back its commitment in relation to offshore wind developments. The impairments of the coal plants followed a period of relatively favourable operating conditions for Fiddler's Ferry and Ferrybridge but were necessary in context of the increasing impact on profitability of the Carbon Price Support (CPS) mechanism and uncertainty around future political and regulatory support for coal generation. The impairment of Gas Storage was due to the impact of market and global factors such as North American fracking and availability of LNG on the business. The 2014 financial statements noted that "there remains inherent imprecision in the valuation processes for these long-term infrastructure assets which is dependent on macro-economic factors. Management believe a balanced position has been taken regarding these factors". The other charges relate to impairments of certain Retail developments and provisions for certain disputes and claims.

7.2 Certain re-measurements

The Group enters into forward commodity purchase (and sales) contracts to meet the future demand requirements of its Energy Supply business and to optimise the value of its Generation and other Wholesale assets. Certain of these contracts are determined to be derivative financial instruments under IAS 39 and as such are required to be recorded at their fair value. Changes in the fair value of those commodity contracts designated as IAS 39 financial instruments are reflected in the income statement (as part of 'certain re-measurements').The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments. The Group will recognise the underlying value of these contracts as the relevant commodity is delivered, which will predominately be within the subsequent 12 to 18 months. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts. The re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category also includes the income statement movement on financing derivatives (and hedged items) as described in note 34.

7.3 Change in UK corporation tax rates

Finance (No.2) Act 2015 which received royal assent on 18 November 2015 enacted a Corporation tax rate of 19% (currently 20%) from 1 April 2017, and a rate of 18% from 1 April 2020. As these changes have been substantively enacted they have the effect of reducing the group's deferred tax liabilities by £27.6m including the impact of changes recognised in the statement of other comprehensive income. A further change to reduce the rate of Corporation Tax to 17% from 1 April 2020 was announced in Finance (No.2) Bill 2016, however as this change has not been substantively enacted at the balance sheet date it's effect, estimated to be £21.0m, has not been brought into account in calculating the group's deferred tax liabilities.

Notes on the financial statements continued
for the year ended 31 March 2016

7. Exceptional items and certain re-measurements continued
7.3 Change in UK corporation tax rates continued
A resolution was passed under the Provisional Collection of Taxes Act 1968 on 22 March 2016 which reduced the rate of Petroleum Revenue Tax (PRT) to 0% (from 35%) with effect from 1 January 2016. As this change has been substantively enacted at the balance sheet date it has the effect of reducing the group's deferred tax liabilities by £2.8m. Finance (No.2) Bill 2016 announced a reduction in the rate of Supplementary Charge on ring-fenced profits to 0% (previously 20%) with effect from 1 January 2016. As this change has not been enacted at the balance sheet date it has not been brought into account in calculating the group's deferred tax liabilities. It is expected to reduce the group's deferred tax liabilities by £9.0m.

Taxation
The Group has separately recognised the tax effect of the exceptional items and certain re-measurements summarised above.

8. Directors and employees
8.1 Staff costs

	Consolidated	
	2016 £m	2015 £m
Staff costs:		
Wages and salaries	**710.3**	675.0
Social security costs	**70.0**	65.8
Share-based remuneration (note 33)	**13.5**	15.0
Pension costs (note 32)	**122.4**	119.8
	916.2	875.6
Less: capitalised as property, plant and equipment	**(144.5)**	(130.7)
	771.7	744.9

8.2 Employee numbers

	Consolidated		Company	
	2016 Number	2015 Number	**2016 Number**	2015 Number
Numbers employed at 31 March	**21,118**	19,965	**2**	2

The average number of people employed by the Group (including Executive Directors) during the year was:

	Consolidated		Company	
	2016 Number	2015 Number	**2016 Number**	2015 Number
Networks				
Electricity Distribution	**2,480**	2,303	**–**	–
Electricity Transmission	**487**	422	**–**	–
	2,967	2,725	**–**	–
Retail				
Energy Supply	**5,774**	5,769	**–**	–
Enterprise	**4,698**	4,842		
Energy-related Services	**2,963**	2,782	**–**	–
	13,435	13,393	**–**	–
Wholesale				
Energy Portfolio Management and Electricity Generation	**1,796**	1,682	**–**	–
Gas Storage	**89**	97	**–**	–
Gas Production	**–**	–	–	–
	1,885	1,779	**–**	–
Corporate unallocated	**2,268**	2,118	**2**	2
Total	**20,555**	20,015	**2**	2

The costs associated with the employees of the Company, who are the Executive Directors of the Group, are borne by Group companies. No amounts are charged to the Company.

8.3 Directors' remuneration and interests
Information concerning Directors' remuneration, shareholdings, options, long-term incentive schemes and pensions is shown in the Remuneration Report on pages 92 to 113. No Director had, during or at the end of the year, any material interest in any other contract of significance in relation to the Group's business.

9. Finance income and costs

Recognised in income statement

	2016			2015		
	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Finance income:						
Interest income from short term deposits	**4.7**	**–**	**4.7**	1.1	–	1.1
Foreign exchange translation of monetary assets and liabilities	**9.0**	**–**	**9.0**	–	–	–
Other interest receivable:						
Scotia Gas Networks loan stock	**24.3**	**–**	**24.3**	33.3	–	33.3
Other joint ventures and associates (i)	**18.8**	**–**	**18.8**	14.8	–	14.8
Other receivable (i)	**45.0**	**–**	**45.0**	46.7	–	46.7
	88.1	**–**	**88.1**	94.8	–	94.8
Total finance income	**101.8**	**–**	**101.8**	95.9	–	95.9
Finance costs:						
Bank loans and overdrafts	**(27.9)**	**–**	**(27.9)**	(23.9)	–	(23.9)
Other loans and charges	**(257.1)**	**–**	**(257.1)**	(262.5)	–	(262.5)
Interest on pension scheme liabilities	**(20.4)**	**–**	**(20.4)**	(25.1)	–	(25.1)
Notional interest arising on discounted provisions	**(15.7)**	**–**	**(15.7)**	(14.0)	–	(14.0)
Foreign exchange translation of monetary assets and liabilities	**–**		**–**	(0.5)		(0.5)
Finance lease charges	**(34.7)**	**–**	**(34.7)**	(34.2)	–	(34.2)
Less: interest capitalised (ii)	**47.6**	**–**	**47.6**	57.8	–	57.8
Total finance costs	**(308.2)**	**–**	**(308.2)**	(302.4)	–	(302.4)
Changes in fair value of financing derivative assets or liabilities at fair value through profit or loss	**–**	**14.3**	**14.3**	–	(44.2)	(44.2)
Net finance costs	**(206.4)**	**14.3**	**(192.1)**	(206.5)	(44.2)	(250.7)
Presented as:						
Finance income	**101.8**	**–**	**101.8**	95.9	–	95.9
Finance costs	**(308.2)**	**14.3**	**(293.9)**	(302.4)	(44.2)	(346.6)
Net finance costs	**(206.4)**	**14.3**	**(192.1)**	(206.5)	(44.2)	(250.7)

(i) Within the preliminary statement for 31 March 2016, other joint ventures and associates was stated as £0.9m and other receivable £62.9m, these have been changed to the balances above since publication.
(ii) The capitalisation rate applied in determining the amount of borrowing costs to capitalise in the period was 4.24% (2015 – 4.49%).

Adjusted net finance costs are arrived at after the following adjustments:

	2016 £m	2015 £m
Net finance costs	**(192.1)**	(250.7)
(add)/less:		
Share of interest from joint ventures and associates:		
Scotia Gas Networks loan stock	**(24.3)**	(33.3)
Other joint ventures and associates	**(102.5)**	(90.9)
	(126.8)	(124.2)
Interest on pension scheme liabilities	**20.4**	25.1
Share of interest on net pension liabilities in joint ventures	**1.9**	(11.1)
Movement on financing derivatives (note 34)	**(14.3)**	44.2
Adjusted net finance costs	**(310.9)**	(316.7)
Notional interest arising on discounted provisions	**15.7**	14.0
Finance lease charges	**34.7**	34.2
Hybrid coupon payment (note 31)	**(124.6)**	(121.3)
Adjusted net finance costs for interest cover calculations	**(385.1)**	(389.8)

The interest on net pension liabilities for the year ended 31 March 2016 of £20.4m (2015 – £25.1m) represents the respective charges under IAS 19R.

Notes on the financial statements continued
for the year ended 31 March 2016

9. Finance income and costs continued
Recognised in other comprehensive income

	2016 £m	2015 £m
Profit/(loss) on effective portion of cash flow hedges (i)	79.4	(41.9)
Share of joint venture/associate gain/(loss) on effective portion of cash flow hedges (i)	4.7	(9.4)
	84.1	(51.3)

(i) Before deduction of tax.

10. Taxation
Analysis of charge recognised in the income statement:

	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	2016 £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	2015 £m
Current tax						
UK corporation tax	180.5	(44.2)	136.3	231.4	(25.1)	206.3
Adjustments in respect of previous years	(21.2)	–	(21.2)	(29.8)	–	(29.8)
Total current tax	159.3	(44.2)	115.1	201.6	(25.1)	176.5
Deferred tax						
Current year	74.9	(186.8)	(111.9)	52.7	(159.7)	(107.0)
Effect of change in tax rate	–	(41.5)	(41.5)	–	(15.6)	(15.6)
Adjustments in respect of previous years	46.4	–	46.4	16.9	–	16.9
Total deferred tax	121.3	(228.3)	(107.0)	69.6	(175.3)	(105.7)
Total taxation charge	280.6	(272.5)	8.1	271.2	(200.4)	70.8

In October 2014, SSE became the first FTSE 100 group to be accredited with the Fair Tax Mark. As a consequence, these financial statements include a number of areas of enhanced disclosure which have been provided in order to develop stakeholder understanding of the tax the Group pays. The table on the next page reconciles the tax which would be expected to be paid on SSE's reported profit before tax to the reported current tax charge and the reported total taxation charge along with additional commentary on the main reconciling items provided beneath the table:

10. Taxation continued

	2016 £m	2016 %	2015 £m	2015 %
Group profit before tax	**593.3**		735.2	
Less: share of results of associates and jointly controlled entities	**(204.8)**		(163.6)	
Profit before tax	**388.5**		571.6	
Tax on profit on ordinary activities at standard UK corporation tax rate of 20% (2015 – 21%)	**77.7**	**20.0**	120.0	21.0
Tax effect of:				
Capital allowances (in excess of)/less than depreciation	**(24.9)**	**(6.4)**	86.0	15.1
Increase in restructuring and settlement provisions	**9.2**	**2.4**	2.6	0.5
Non-taxable gain on sale of shares	**(11.5)**	**(3.0)**	(13.8)	(2.4)
Fair value movements on derivatives	**3.4**	**0.9**	23.6	4.1
Pension movements	**(3.1)**	**(0.8)**	(11.0)	(1.9)
Relief for capitalised interest and revenue costs	**(20.3)**	**(5.2)**	(22.3)	(3.9)
Hybrid capital coupon payments	**(24.8)**	**(6.4)**	(25.5)	(4.5)
Corporation tax relief on PRT paid	**(3.2)**	**(0.8)**	(4.5)	(0.8)
Expenses not deductible for tax purposes	**14.4**	**3.7**	7.7	1.3
Impact of higher current tax rates on E&P profits	**12.8**	**3.3**	42.1	7.4
Impact of foreign tax rates	**(3.0)**	**(0.8)**	1.4	0.2
E&P tax losses carried forward	**111.9**	**28.8**	–	–
Employee share schemes	**(2.3)**	**(0.6)**	–	–
Adjustments to tax charge in respect of previous years	**(21.2)**	**(5.5)**	(29.8)	(5.2)
Reported current tax charge and effective rate	**115.1**	**29.6**	176.5	30.9
Depreciation in excess of capital allowances	**35.3**	**9.1**	(68.5)	(12.0)
Increase in restructuring and settlement provisions	**(9.2)**	**(2.4)**	(2.6)	(0.5)
Fair value movements on derivatives	**(3.4)**	**(0.9)**	(23.6)	(4.1)
Pension movements	**3.1**	**0.8**	11.0	1.9
Relief for capitalised interest and revenue costs	**20.3**	**5.2**	22.3	3.9
Impact of higher deferred tax rates on E&P profits	**(32.6)**	**(8.4)**	(34.8)	(6.1)
Impact of foreign tax rates	**(1.7)**	**(0.4)**	(4.2)	(0.7)
Adjustments to tax charge in respect of previous years	**46.4**	**11.9**	6.5	1.1
Change in rate of UK corporation tax	**(41.5)**	**(10.7)**	(15.6)	(2.7)
Arising due to business combination	**(14.1)**	**(3.5)**	–	–
E&P tax losses carried forward	**(111.9)**	**(28.8)**	–	–
Employee share schemes	**2.3**	**0.6**	–	–
Other items	**–**	**–**	3.8	0.6
Reported deferred tax credit and effective rate	**(107.0)**	**(27.5)**	(105.7)	(18.6)
Group tax charge and effective rate	**8.1**	**2.1**	70.8	12.3

The majority of the Group's profits are earned in the UK, with the standard rate of UK corporation tax being 20% for the year to 31 March 2016 (2015 –21%). The Group's Gas Production business is taxed at a UK corporation tax rate of 30% plus a supplementary charge of 29% (combined 62%). In addition, profits from the Sean gas field were subject to petroleum revenue tax ("PRT") at 50% until 1 January 2016 which is deductible against corporation tax, giving an overall effective rate for the field of 75%. Profits earned by the Group in the Republic of Ireland are taxable at either 12.5% or 25%, depending upon the nature of the income.

Capital allowances are tax reliefs provided in law for the expenditure the Group makes on property, plant and equipment. The rates are determined by Parliament annually, and spread the tax relief due over a number of years. This contrasts with the accounting treatment for such spending, where the expenditure on property, plant and equipment is treated as an asset with the cost being depreciated over the useful life of the asset, or impaired if the value of such assets is considered to have reduced materially. Adjustments to the deferred tax charge in respect of previous years includes an uplift in the provision required in relation to the acquired Sean gas field.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Group is not the same as the profit reported in the financial statements. During both the year to 31 March 2016 and the previous year, the substantial impairments undertaken in relation to certain of the Group's property, plant and equipment, which are explained at note 7 meant that the charge to profit for the year significantly exceeded the amount of capital allowances due to the Group.

Short term temporary differences arise on items such as provisions for restructuring costs and onerous contracts, and retirement benefit obligations, because the treatment of such items is different for tax and accounting purposes. These differences usually reverse in the year following that in which they arise, as is reflected in the deferred tax charge in these financial statements. Where interest charges or other costs are capitalised in the accounts, tax relief is either given as the charges are incurred or when the costs are taken to the income statement.

Notes on the financial statements continued
for the year ended 31 March 2016

10. Taxation continued

As explained at Accompanying Information A1.11 and at note 34 to the accounts, the Group measures its operating and financing derivatives at fair value under IAS 39. Due to the financial statements of its subsidiaries being prepared under UK GAAP and following the application of the UK tax "disregard regulations", the re-measurement movements have no current tax effect impacting only the deferred tax position.

Some expenses incurred by the Group, while entirely appropriate, are not allowed as an offset against taxable income when calculating the company's tax liability for the same accounting period. Examples of such disallowable expenditure include legal expenses on investment transactions, and investment impairments.

As detailed at note 31 and explained in the Accompanying Information A1.11 (ix), the Group has issued hybrid capital securities which are treated as a component of equity. While the coupon payments relating to these securities are treated as distributions to the holders of the equity instruments, tax relief is allowed on the amount paid in the year. These tax credits are linked to the past transactions or events that support the coupon payments and consequently the tax credits are reported in the income statement.

Reconciliation of tax charge to adjusted underlying current tax

As noted at note 3 to the accounts, the Group's results are reported on an 'adjusted' basis in order to allow focus on underlying business performance. The following table explains the adjustments that are made in order to arrive at adjusted profit before tax. This is the measure utilised in calculation of the Group's 'adjusted effective rate of tax'.

	2016 £m	2015 £m
Profit before tax	**593.3**	735.2
Add/(less):		
Exceptional items and certain re-measurements	**858.0**	781.3
Share of tax from jointly controlled entities and associates before exceptional items and certain re-measurements	**39.9**	34.2
Interest on pension scheme liabilities	**20.4**	25.1
Share of interest on net pension liabilities in jointly controlled entities and associates	**1.9**	(11.1)
Adjusted profit before tax	**1,513.5**	1,564.7

The 'adjusted current tax charge' and the 'adjusted effective rate of tax', which are presented in order to best represent underlying performance by making similar adjustments to the 'adjusted profit before tax' measure, are arrived at after the following adjustments:

	2016 £m	2016 %	2015 £m	2015 %
Group tax charge and effective rate	**8.1**	**2.1**	70.8	12.3
Add: reported deferred tax credit and effective rate	**107.0**	**27.5**	105.7	18.5
Reported current tax charge and effective rate	**115.1**	**29.6**	176.5	30.8
Effect of adjusting items (see below)	**–**	**(22.0)**	–	(19.5)
Reported current tax charge on adjusted basis	**115.1**	**7.6**	176.5	11.3
add:				
Share of current tax from joint ventures and associates	**34.1**	**2.3**	23.2	1.5
Current tax on exceptional items	**44.2**	**2.9**	25.1	1.6
Adjusted current tax charge and effective rate	**193.4**	**12.8**	224.8	14.4

The adjusted current tax charge can therefore be reconciled to the adjusted profit before tax as follows:

	2016 £m	2016 %	2015 £m	2015 %
Adjusted profit before tax	**1,513.5**		1,564.7	
Tax on profit on ordinary activities at standard UK corporation tax rate	**302.7**	**20.0**	328.6	21.0
Tax effect of:				
Capital allowances in excess of depreciation	**(170.7)**	**(11.3)**	(42.1)	(2.7)
Non taxable gain on sale of shares	**1.9**	**0.1**	(6.3)	(0.4)
Increase in restructuring and settlement provisions	**2.9**	**0.2**	3.9	0.2
Pension movements	**(7.9)**	**(0.5)**	(13.9)	(0.9)
Relief for capitalised interest and revenue costs	**(9.3)**	**(0.6)**	(15.2)	(1.0)
Hybrid capital coupon payments	**(24.8)**	**(1.6)**	(25.4)	(1.6)
Corporation tax relief on PRT paid	**(3.2)**	**(0.2)**	(4.4)	(0.3)
Expenses not deductible for tax purposes	**4.5**	**0.3**	10.1	0.7
Losses carried forward, and (relief) for brought forward losses	**108.8**	**7.2**	(23.6)	(1.5)
Impact of higher current tax rates on oil and gas profits	**12.8**	**0.8**	42.1	2.7
Impact of foreign tax rates	**(3.1)**	**(0.2)**	1.4	0.1
Adjustments to tax charge in respect of previous years	**(21.2)**	**(1.4)**	(30.4)	(1.9)
Adjusted current tax charge and effective rate	**193.4**	**12.8**	224.8	14.4

10. Taxation continued

The above reconciling adjustments differ from those analysed in the Group tax charge reconciliation above because they include SSE's share of associates and joint ventures, and are based on adjusted profit before tax.

Tax charge/(credit) recognised in other comprehensive income/(loss):

	2016 £m	2015 £m
Relating to:		
Pension scheme actuarial movements	(58.9)	16.3
Cash flow and net investment hedge movements	(7.8)	(4.2)
	(66.7)	12.1

All tax recognised through other comprehensive income is deferred tax.

11. Dividends

Ordinary dividends

	Year ended 31 March 2016 total £m	Settled via scrip £m	Pence per ordinary share	Year ended 31 March 2015 total £m	Settled via scrip £m	Pence per ordinary share
Interim – year ended 31 March 2016	270.5	16.3	26.9	–	–	–
Final – year ended 31 March 2015	613.5	159.5	61.8	–	–	–
Interim – year ended 31 March 2015	–	–	–	262.6	81.6	26.6
Final – year ended 31 March 2014	–	–	–	591.5	174.0	60.7
	884.0	175.8		854.1	255.6	

The final dividend of 61.8p per ordinary share declared in the financial year ended 31 March 2015 (2014– 60.7p) was approved at the Annual General Meeting on 23 July 2015 and was paid to shareholders on 19 September 2015. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the cash dividend under the terms of the Company's scrip dividend scheme.

An interim dividend of 26.9p per ordinary share (2015 – 26.6p) was declared and paid on 18 March 2016 to those shareholders on the SSE plc share register on 22 January 2016. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the interim cash dividend under the terms of the Company's scrip dividend scheme.

The proposed final dividend of 62.5p per ordinary share (which equates to a dividend of £629.8m based on the number of issued ordinary shares at 31 March 2016 is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

12. Earnings per share

Basic earnings per share

The calculation of basic earnings per ordinary share at 31 March 2016 is based on the net profit attributable to Ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 March 2016. All earnings are from continuing operations.

Adjusted earnings per share

Adjusted earnings per share has been calculated by excluding the charge for deferred tax, interest on net pension liabilities under IAS 19R and the impact of exceptional items and certain re-measurements (note 7).

	Year ended 31 March 2016 earnings £m	Year ended 31 March 2016 earnings per share pence	Year ended 31 March 2015 earnings £m	Year ended 31 March 2015 earnings per share pence
Basic	460.6	46.1	543.1	55.3
Exceptional items and certain re-measurements (note 7)	585.5	58.5	580.9	59.2
Basic excluding exceptional items and certain re-measurements	1,046.1	104.6	1,124.0	114.5
Adjusted for:				
Interest on net pension scheme liabilities (note 9)	20.4	2.0	25.1	2.5
Share of interest on net pension scheme liabilities in joint venture (note 9)	1.9	0.2	(11.1)	(1.1)
Deferred tax	121.3	12.1	69.6	7.1
Deferred tax from share of joint ventures and associates	5.8	0.6	11.0	1.1
Adjusted	1,195.5	119.5	1,218.6	124.1
Basic	460.6	46.1	543.1	55.3
Dilutive effect of outstanding share options	–	(0.1)	–	(0.1)
Diluted	460.6	46.0	543.1	55.2

Notes on the financial statements continued
for the year ended 31 March 2016

12. Earnings per share continued

The weighted average number of shares used in each calculation is as follows:

	31 March 2016 number of shares (millions)	31 March 2015 number of shares (millions)
For basic and adjusted earnings per share	**1,000.0**	981.8
Effect of exercise of share options	**1.2**	2.1
For diluted earnings per share	**1,001.2**	983.9

13. Notes to the Group Cash Flow Statement

13.1 Reconciliation of operating profit to cash generated from operations

		Consolidated		Company	
	Note	2016 £m	2015 £m	2016 £m	2015 £m
Profit for the year		**585.2**	664.4	**1,306.8**	597.7
Add back: taxation	10	**8.1**	70.8	**22.0**	51.9
Add back: net finance costs	9	**192.1**	250.7	**(187.2)**	(333.0)
Operating profit		**785.4**	985.9	**1,141.6**	316.6
Less share of profit of joint ventures and associates		**(204.8)**	(163.6)	**–**	–
Operating profit before jointly controlled entities and associates		**580.6**	822.3	**1,141.6**	316.6
Movement on operating derivatives		**31.1**	67.8	**–**	–
Pension service charges less contributions paid		**(35.9)**	(77.5)	**(3.0)**	(23.7)
Exceptional charges		**889.8**	648.7	**56.4**	931.4
Depreciation of assets		**676.8**	656.7	**–**	–
Amortisation and impairment of intangible assets		**2.3**	3.4	**–**	–
Other fixed asset impairments		**6.7**	–	–	–
Impairment of inventories		**–**	1.4	**–**	–
Release of provisions		**(7.8)**	–	**–**	–
Release of deferred income		**(17.9)**	(16.9)	**–**	–
Charge in respect of employee share awards (before tax)		**16.5**	15.0	**–**	–
(Profit)/loss on disposal of assets and businesses – non exceptional		**(30.1)**	(40.2)	**–**	4.2
Income from investment in subsidiaries, jointly ventures and associates		**–**	–	**(1,191.3)**	(1,233.8)
Cash generated from/(absorbed by) operations before working capital movements		**2,112.1**	2,080.7	**3.7**	(5.3)

13.2 Reconciliation of net increase in cash and cash equivalents to movement in adjusted net debt and hybrid capital

		Consolidated	
	Note	2016 £m	2015 £m
(Decrease)/increase in cash and cash equivalents		**(1,151.9)**	1,053.5
Add/(less):			
Redemption/(issue) of hybrid capital		**1,161.4**	(1,184.3)
New borrowings		**(1,070.1)**	(151.1)
Repayment of borrowings		**77.7**	66.3
Non-cash movement on borrowings		**(94.8)**	269.8
Increase in cash held as collateral and other short-term loans	21	**50.1**	20.5
Balances due to partners in Clyde Windfarm (Scotland) Limited		**200.7**	–
Movement in adjusted net debt and hybrid capital		**(826.9)**	74.7

Cash held as collateral refers to amounts deposited on commodity trading exchanges and loans provided with a less than three month maturity which are reported within trade and other receivables on the face of the balance sheet.

14. Goodwill and other intangible assets

	Goodwill £m	Allowances and certificates £m	Development assets £m	Other intangibles £m	Total £m
Cost:					
At 31 March 2014	726.0	661.2	396.0	139.0	1,922.2
Additions	–	441.8	75.2	10.6	527.6
Acquired through business combination	80.0	–	–	–	80.0
Transfer to Property Plant and Equipment (note 15)	–	–	(109.6)	(15.7)	(125.3)
Disposals/utilised	–	(441.7)	(12.1)	–	(453.8)
Transfers to/from Joint Ventures (note 17)	–	–	(10.7)	–	(10.7)
Transfer to held for sale (note 19)	–	–	(19.5)	–	(19.5)
Exchange adjustments	(19.0)	(0.3)	(0.6)	(0.5)	(20.4)
At 31 March 2015	787.0	661.0	318.7	133.4	1,900.1
Additions	**–**	**580.4**	**62.3**	**70.4**	**713.1**
Acquired through business combination (note 19)	**–**	**–**	**73.2**	**–**	**73.2**
Transfer to Property Plant and Equipment (note 15)	**–**	**–**	**(45.5)**	**(10.5)**	**(56.0)**
Disposals/utilised	**–**	**(514.7)**	**(2.1)**	**–**	**(516.8)**
Transfers to held for sale (note 19)	**–**	**–**	**(27.9)**	**–**	**(27.9)**
Exchange adjustments	**11.9**	**0.9**	**1.6**	**0.5**	**14.9**
At 31 March 2016	**798.9**	**727.6**	**380.3**	**193.8**	**2,100.6**
Aggregate amortisation and impairment:					
At 31 March 2014	(140.9)	(227.5)	(133.8)	(97.0)	(599.2)
Charge for the year	–	–	–	(3.4)	(3.4)
Exceptional impairment (note 7)	(48.1)	–	(47.5)	–	(95.6)
At 31 March 2015	(189.0)	(227.5)	(181.3)	(100.4)	(698.2)
Charge for the year	**–**	**–**	**–**	**(2.3)**	**(2.3)**
Exceptional impairment (note 7)	**–**	**–**	**(29.4)**	**(11.2)**	**(40.6)**
At 31 March 2016	**(189.0)**	**(227.5)**	**(210.7)**	**(113.9)**	**(741.1)**
Carrying amount:					
At 31 March 2016	**609.9**	**500.1**	**169.6**	**79.9**	**1,359.5**
At 1 April 2015	598.0	433.5	137.4	33.0	1,201.9
At 1 April 2014	585.1	433.7	262.2	42.0	1,323.0

Notes on the financial statements continued
for the year ended 31 March 2016

14. Goodwill and other intangible assets continued

The Company does not hold intangible assets.

Intangible assets have been analysed as current and non-current as follows:

	2016 £m	2015 £m
Current	**500.1**	433.5
Non-current:		
Goodwill	**609.9**	598.0
Other	**249.5**	170.4
	1,359.5	1,201.9

(i) Goodwill

At inception, Goodwill arising from business combinations is allocated to cash-generating units (CGUs) for impairment testing purposes. Certain goodwill valuations have changed in the current year following retranslation. Commentary on the impairment testing of the related CGUs with the exception of two historic balances totalling £18.5m (see note below) is included at note 16.

A summary of the goodwill allocated to CGUs and the Group's operating segments is presented below:

Cash-generating unit	Operating Segment	2016 £m	2015 £m
Ireland wind farms	Energy Portfolio Management and Electricity Generation	**124.5**	112.6
GB wind farms	Energy Portfolio Management and Electricity Generation	**199.9**	199.9
GB Energy Supply	Energy Supply	**187.0**	187.0
Enterprise (i)	Enterprise	**90.3**	90.3
Ireland Supply (ii)	Energy Supply	**8.2**	8.2
		609.9	598.0

(i) Enterprise includes goodwill balances arising from historic acquisitions of Telecoms and Contracting businesses of £10.3m and £80.0m in relation to the acquisition of Energy Solutions Group (ESG) in the year to 31 March 2015. The amount of goodwill associated with the historic businesses is not significant in context of the aggregate carrying value of the business units or the aggregate value of goodwill held by the Group. No impairment has been recognised during the year on this balance.

(ii) The value associated with the Ireland supply goodwill represents deferred tax recognised on the difference between the fair value attributed to the Northern Ireland –based Phoenix Energy business acquired in 2012 and the book value of those assets. No impairment has been recognised during the year on this balance.

(ii) Allowances and Certificates

Allowances and Certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs). These allowances and certificates will be utilised in settlement of environmental obligations incurred by the Group's Energy Supply and Generation businesses.

(iii) Development assets

Development costs relate to the design, construction and testing of thermal and renewable generation sites and devices, including wind farms, which the Group believes will generate probable future economic benefits. Costs capitalised as development intangibles include options over land rights, planning application costs, environmental impact studies and other costs incurred in bringing wind farm and other generation and network development projects to the consented stage. These may be costs incurred directly or at a cost as part of the fair value attribution on acquisition. Development assets also include the Group's exploration and evaluation expenditure in relation to North Sea gas production wells.

At the point the development reaches the consent stage and is approved for construction, the carrying value is transferred to Property, Plant and Equipment (note 15). At the point a project is no longer expected to reach the consented stage, the carrying amount of the project is impaired.

Exceptional impairment charges of £29.4m (2015 – £47.5m) were recognised in the financial year in relation to the impairment of E&P 'prospect' developments due to the impact decline in wholesale gas prices on the Gas Production segment (£27.2m) and CCS development asset-related impairment charges recognised as part of the overall exceptional impairment of Peterhead power station (£2.2m). The exceptional charges of £47.5m in the previous year were recognised in relation to the impairment of the Abernedd thermal power generation development and other assets. Disposals with a book value of £2.1m (2015 – £12.1m) were made in the year which contributed a £nil (2015 – £1.5m) gain on sale. Further detail on the Group's disposal programme is included at note 19.3.

(iv) Other intangible assets

Included within other intangible assets are brands, customer lists, contracts, application software license fees, software development work, software upgrades and purchased PC software packages. Amortisation is over the shorter of the contract term or five years with the exception of certain application software assets, which are amortised over 10 years. Exceptional impairment charges of £11.2m (2015 – nil) were recognised in relation to software developments in Energy-related Services, a business with an adjusted operating profit of £15.2m.

15. Property, plant and equipment

Consolidated

	Power generation assets (i) £m	Gas Storage and Production assets (ii) £m	Land and buildings £m	Network assets £m	Metering assets and other equipment £m	Assets under construction £m	Total £m
Cost							
At 31 March 2014	7,593.9	968.8	261.5	8,119.7	633.7	840.1	18,417.7
Additions	9.0	1.6	–	82.8	0.3	1,275.5	1,369.2
Increase in decommissioning asset (i)	–	31.2	–	–	–	–	31.2
Transfer from Intangible Assets (note 14)	4.5	–	–	–	–	120.8	125.3
Transfer from Assets Under Construction	169.2	20.8	13.0	827.6	99.3	(1,129.9)	–
Transfer to Assets Held for Sale (note 19)	(54.2)	–	–	–	–	–	(54.2)
Disposals (iii)	–	–	(9.5)	–	–	–	(9.5)
Exchange rate adjustments	(161.3)	–	–	–	(5.2)	(44.3)	(210.8)
At 31 March 2015	7,561.1	1,022.4	265.0	9,030.1	728.1	1,062.2	19,668.9
Additions	**1.4**	**–**	**–**	**81.2**	**1.0**	**1,451.4**	**1,535.0**
Acquisitions (note 19)	**–**	**695.8**	**–**	**–**	**–**	**–**	**695.8**
Increase in decommissioning asset (i)	**161.0**	**14.0**	**–**	**–**	**–**	**–**	**175.0**
Transfer from Intangible Assets (note 14)	**–**	**12.2**	**–**	**–**	**1.3**	**42.5**	**56.0**
Transfer from Assets Under Construction	**386.8**	**51.0**	**12.1**	**821.0**	**104.9**	**(1,375.8)**	**–**
Disposals (iii)	**(24.5)**	**–**	**(5.0)**	**–**	**(4.1)**	**(3.0)**	**(36.6)**
Exchange rate adjustments	**80.1**	**(0.6)**	**2.0**	**–**	**4.3**	**39.7**	**125.5**
At 31 March 2016	**8,165.9**	**1,794.8**	**274.1**	**9,932.3**	**835.5**	**1,217.0**	**22,219.6**
Depreciation							
At 31 March 2014	3,197.4	325.2	61.4	3,341.2	407.3	–	7,332.5
Charge for the year	236.3	67.6	8.8	297.4	46.6	–	656.7
Impairment charges (notes 7, 16) (v)	222.7	224.3	14.9	–	16.9	–	478.8
Disposals (iii)	–	–	(7.3)	–	–	–	(7.3)
Exchange rate adjustments	(91.5)	(4.2)	–	–	–	–	(95.7)
At 31 March 2015	3,564.9	612.9	77.8	3,638.6	470.8	–	8,365.0
Charge for the year	**234.5**	**75.6**	**7.5**	**299.1**	**60.1**	**–**	**676.8**
Impairment charges (notes 7, 16) (v)	**312.5**	**275.8**	**–**	**–**	**–**	**64.4**	**652.7**
Disposals (iii)	**(23.4)**	**–**	**(3.2)**	**–**	**(2.1)**	**–**	**(28.7)**
Exchange rate adjustments	**24.6**	**–**	**(0.9)**	**–**	**5.1**	**–**	**28.8**
At 31 March 2016	**4,113.1**	**964.3**	**81.2**	**3,937.7**	**533.9**	**64.4**	**9,694.6**
Net book value							
At 31 March 2016	**4,052.8**	**830.5**	**192.9**	**5,994.6**	**301.6**	**1,152.6**	**12,525.0**
At 31 March 2015	3,996.2	409.5	187.2	5,391.5	257.3	1062.2	11,303.9
At 1 April 2014	4,396.5	643.6	200.1	4,778.5	226.4	840.1	11,085.2

(i) Power generation assets comprise thermal and renewable generating plant, related buildings, plant and machinery and include all hydro power generation and wind farm assets. The net book value of power generation assets includes decommissioning costs with a net book value of £161.0m (2015 – £16.8m) which includes an increase following a comprehensive review of all portfolio decommissioning liabilities (see note 28).
(ii) Gas storage and production assets include decommissioning costs with a net book value of £205.3m (2015 – £98.4m) which includes an increase of £100.0m arising from the acquisiton of the Greater Laggan assets (note 19), and an uplift in the other assets to reflect the fair value of the decommissioning provision of £23.6m.
(iii) Assets disposed includes operating wind farms and property. Details of disposals related to assets held for sale at 31 March 2015 are provided in note 19.3.
(iv) Represents the carrying value of development assets transferred from intangible assets (note 14) which have reached the consent stage and have been approved for construction.
(v) Impairment charges relate to exceptional impairments of £646.0m and non-exceptional impairments of £6.7m (these relate to gas storage and production assets). (2015 – exceptional impairments of £478.8m, non-exceptional impairments £nil).

Notes on the financial statements continued
for the year ended 31 March 2016

15. Property, plant and equipment continued
The Company does not hold any property, plant or equipment.

Included within property, plant and equipment are the following assets held under finance leases:

	Power Generation assets £m	Network assets £m	Metering assets and other equipment £m	Total £m
Cost				
At 1 April 2014	401.7	5.0	7.0	413.7
Additions	–	12.6	–	12.6
At 1 April 2015	401.7	17.6	7.0	426.3
Additions	**–**	**–**	**–**	**–**
At 31 March 2016	**401.7**	**17.6**	**7.0**	**426.3**
Depreciation				
At 31 March 2014	85.3	5.0	7.0	97.3
Charge for the year	20.1	–	–	20.1
At 31 March 2015	105.4	5.0	7.0	117.4
Charge for the year	**20.1**	**2.5**	**–**	**22.6**
Impairment (note 7)	**124.3**	**–**	**–**	**124.3**
At 31 March 2016	**249.8**	**7.5**	**7.0**	**264.3**
Net book value				
At 31 March 2016	**151.9**	**10.1**	**–**	**162.0**
At 31 March 2015	296.3	12.6	–	308.9
At 1 April 2014	316.4	–	–	316.4

16. Impairment testing
The Group reviews the carrying amounts of its PP&E, goodwill and other intangible assets and its interests in joint ventures and associates annually, or more frequently if events or changes in circumstances indicate that the recoverable amounts may be lower than their carrying amounts or where other indicators of impairment are deemed to have arisen. Further detail of the Group's accounting policies and methodologies for impairment testing are described at Accompanying Information sections 1.6(i) and 1.7.

16.1 Goodwill impairment reviews – CGUs testing
The recoverable amounts of the GB Energy Supply and Enterprise Energy Services Group CGUs are determined by reference to value-in-use (VIU) calculations. The VIU calculations use, as a starting point, pre-tax cash flow projections based on the Group's five year Corporate Model as approved by the Board. The Group's Corporate Model is based both on past experience and reflects the Group's forward view of markets, prices, risks and its strategic objectives. Commodity prices used are based on observable market data and, where this is not available, on internal estimates.

The recoverable amount of the wind farm CGUs is based on the fair value less costs to sell (FVLCS) methodology. The basis applied has been deemed appropriate as it is consistent with the way in which the economic values of the CGUs are assessed by management and how they would be by other market participants. The method applied is to determine fair value by assessing the discounted pre-tax cash flows expected to be earned by the individual wind farm projects within the respective CGUs. The two identified CGUs (Ireland wind farms and UK wind farms) share many of the same risk factors and are accordingly discounted using the same discount rates.

16.2 PP&E, other intangibles and investment impairment reviews – asset testing
The recoverable amounts of the Group's PP&E, other intangible assets and interests in joint ventures and associates are determined by reference to value-in-use (VIU) calculations with the exception of the Group's Gas Production assets, which are based on the FVLCS methodology. Both calculations use, as their starting point, pre-tax cash flow projections based on the Group's five year Corporate Model as approved by the Board. The Group's Corporate Model is based on past experience and reflects the Group's forward view of markets, prices, risks and its strategic objectives. Commodity prices used are based on observable market data and, where this is not available, on internal estimates.

16. Impairment testing continued

16.3 Impairment reviews

The key operating and valuation assumptions, specific considerations and outcome of tests for all impairment reviews are noted in the following table. Management have determined the pre-tax cash flows of each asset or CGU based on projected performance and its expectations of market changes or developments. The discount rates used are pre-tax real and reflect specific risks attributable to the relevant operating segments. The discount rates used have been benchmarked against externally published rates used by comparable quoted companies operating in the respective market sectors. The discount rates applied in both 2016 and 2015 remain consistent across all CGUs, except where noted, reflecting the group's view of cost of capital and risk. The recoverable amounts derived from the VIU or FVLCS calculations are compared to the carrying amount of each asset or CGU to determine whether an impairment charge requires to be recognised. The reviews carried out for the 2016 accounts were carried out in the fourth quarter of the year, which is consistent with previous reviews. Note that the actual outcomes may differ from the assumptions included in the assessments at the balance sheet date.

All assets and CGUs under review are in the Wholesale business with the exception of the impairment review of the goodwill associated with the Energy Services Group (ESG) which is a business in Enterprise and the goodwill held in relation to the GB Energy Supply business.

Assets/CGUs	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
Wind farm goodwill CGUs (GB and Ireland)	Period to end of life of portfolio assets	Wind farm projects have an average estimated useful life of between 20 and 25 years. The FVLCS valuation is projected by discounting the pre-tax cash flows expected to be generated by the specific wind farm assets included in both CGUs across the remaining useful lives of those assets. This includes over 40 operating assets in both Ireland and Great Britain. Cash inflows for both CGUs are based on the expected average annual generation GWh output based on technical assessment and past experience and are valued based on forward power price. Those prices are based either on observable market information during that period, which is deemed to be 3 years, or on internal estimations beyond the observable market period (Level 3 basis as defined by IFRS 14 Fair Value Measurement). The projections are also based on assumptions of the UK and Irish government's continuing support for existing qualifying wind assets through ROCs or REFIT. Cash outflows are based on planned and expected maintenance profiles and other capital or replacement costs. The cash flow projections have been discounted applying a pre-tax discount rates of between 7.5% and 9.5% based on technology and market, which is consistent with the previous year. The Ireland and GB wind CGUs include wind farms in operation and both CGUs include projects in the construction phase. No values associated with cash flows from assets in development are included in the goodwill impairment review.	The recoverable amount of both the GB and Ireland wind farm CGUs continues to exceed the carrying values of the CGU based on the impairment test. While cash flow projections are subject to inherent uncertainty, reasonably possible changes in the key assumptions applied in assessing the fair values less cost to sell would not cause a change to the conclusion reached. This view is supported by the Group's recent experience of disposal of wind assets in both GB and Ireland.

Notes on the financial statements continued
for the year ended 31 March 2016

16. Impairment testing continued

Assets/CGUs	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
GB Energy Supply	5 years	Goodwill is carried in relation to the acquisition of the SWALEC supply business and is attributed to the Group's GB retail electricity and gas supply business CGU. The main assumptions in the VIU assessment for the impairment test are derived from the Group's 5 year Corporate Model and is principally based on the net margins achieved from current and new customers based on current experience. The derivation of the net margins applied include assumptions for power and gas prices, credit losses, acquisition and retention costs, sales and marketing costs, government schemes such as ECO and other impacts of competition and regulation. The projected cash flows derived are discounted by applying a pre-tax discount rate of 7.3%, which is consistent with the previous year.	The recoverable amount of the GB Energy Supply CGU significantly exceeded the carrying values of goodwill and other non-current assets at the time of the impairment test. While cash flow projections are subject to inherent uncertainty, reasonably possible changes in the key assumptions applied in assessing the value-in-use would not cause a change to the conclusion reached.
Thermal Generation	Period to end of life of specific assets	The specific impairment reviews of thermal power generation plant and other assets at Fiddler's Ferry, Keadby, Medway, Peterhead and Marchwood as well as the residual assets at Ferrybridge have been conducted applying consistent methodology as with prior years. The VIU assessment for each plant is based on projected 'spark' or 'dark' spread margins arising from profiled power generation or from capacity market contracts and ancillary services. The cost projections are based on assumptions on employee costs, operational maintenance costs, capital expenditure, rates, insurance and other operational overheads. Cash flows have been discounted based on a discount rate of 7.3% which is consistent with previous reviews.	Due to the changes in circumstances explained in more detail at note 7, material exceptional impairment charges have been recognised across these assets including £370.1m of PP&E and £2.2m of intangible development costs (2015 – £360.3m and £41.4m, respectively). The prior year charges included the Group's Abernedd gas-fired development asset. Details on residual values are provided at note 7. Adverse changes to the key assumptions applied may imply further impairment. For example, withdrawal of capacity mechanism support for certain plants would have a significant negative impact.
Gas Storage	Period to end of life of specific assets	The VIU of the Group's gas storage facilities at Aldbrough and Atwick (Hornsea) was assessed based on internal estimations of demand for the facilities in the 5 year Corporate Model period. Cash flow projections were subject to a discount rate of 10.0% which is consistent with previous years. Estimations for demand growth in the business beyond the 5 year model period were modest. Due to lack of seasonal and short term price volatility in the wholesale gas market and based on continuing low level of contribution from the segment as whole.	Exceptional charges of £150.9m (all impairment of PP&E assets) were recognised in the current year (2015 – £162.4m). Due to the significant difficulties encountered by the business, no reasonably probable changes in the short to medium term prospects for the assets are anticipated that would change the conclusion reached. Details on residual values are provided at note 7.

16. Impairment testing continued

Assets/CGUs	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
Gas Production	Period to end of life of field assets	The FVLCS of the Gas Production assets is based on the projected gas or distillate production profiles up to the date of the expected cessation of production for SSE's interests in the Greater Laggan, Sean, ECA, Lomond and Bacton fields set against the expected selling price of the hydrocarbons produced and the impact of tax allowances. Management believes the expected cash flows derived from this assessment is the appropriate based for impairment testing for both goodwill and the underlying value of field assets. Other variables taken into consideration in this assessment include the recoverability of hydrocarbons, production costs and infrastructure cost and capital expenditure requirements. The key inputs to the assessment are the long-term price assumptions, production volumes and the discount rate. The discount rate applied to the projected cash flows was derived from a post-tax real discount rate of 8%.	The result of the review are combined exceptional impairment charges of £161.8m (2015 – £106.1m) which is predominately associated with Greater Laggan (£121.1m) and driven by the decline in wholesale gas prices observed in the period. This includes £125.0m PP&E (related to production assets) and £27.2m Intangibles (relating to development prospects). A 10% reduction to gas prices would have the impact of a further £60.0m impairment charge across the Group's asset portfolio. Details on residual values are provided at note 7.
Enterprise Energy Solutions	5 years	The Group recognised goodwill of £70.0m on acquisition of the Energy Solutions Group in 2015. The business designs, installs and optimises building management technologies which deliver efficient operating environments for its customers. The VIU of the business CGU has been based on a 10% post-tax discount rate and includes growth assumptions of 2% per annum.	No impairment has been deemed necessary in relation to this balance. While cash flow projections are subject to inherent uncertainty, reasonably possible changes in the key assumptions applied in assessing the VIU would not cause a change to the conclusion reached.

17. Investments
17.1 Associates and joint ventures

	Equity			Loans			
	SGN £m	Other JCEs and associates £m	**Equity total £m**	SGN £m	Other JCEs and associates £m	**Loans total £m**	**Total £m**
Share of net assets/cost							
At 31 March 2014	399.2	427.5	826.7	266.9	254.7	521.6	1,348.3
Additions	–	20.0	20.0	–	33.9	33.9	53.9
Repayment of shareholder loans	–	–	–	–	(15.0)	(15.0)	(15.0)
Dividends received	(75.0)	(35.1)	(110.1)	–	–	–	(110.1)
Share of profit/(loss) after tax (i)	153.3	10.3	163.6	–	–	–	163.6
Share of other reserves adjustments	(9.4)	–	(9.4)	–	–	–	(9.4)
Disposal of equity (note 19)	–	(2.9)	(2.9)	–	–	–	(2.9)
Transfer to/(from) Intangible Assets (note 14)	–	(8.2)	(8.2)	–	18.9	18.9	10.7
Exchange rate adjustments	–	(4.5)	(4.5)	–	–	–	(4.5)
At 31 March 2015	468.1	407.1	875.2	266.9	292.5	559.4	1,434.6
Additions	–	9.8	**9.8**	–	50.5	**50.5**	**60.3**
Repayment of shareholder loans	–	–	**–**	–	(18.3)	**(18.3)**	**(18.3)**
Dividends received	(80.0)	(50.9)	**(130.9)**	–	–	**–**	**(130.9)**
Share of profit/(loss) after tax	175.3	29.5	**204.8**	–	–	**–**	**204.8**
Share of other reserves adjustments	79.0	1.3	**80.3**	–	–	**–**	**80.3**
Disposal of equity (note 19)	–	(1.1)	**(1.1)**	–	–	**–**	**(1.1)**
Transfer	–	1.5	**1.5**	–	–	**–**	**1.5**
Exchange Rate adjustments	–	5.5	**5.5**	–	–	**–**	**5.5**
At 31 March 2016	642.4	402.7	**1,045.1**	266.9	324.7	**591.6**	**1,636.7**

(i) Including exceptional impairment charges of nil (2014 – £25.9) (note 7).

Notes on the financial statements continued
for the year ended 31 March 2016

17. Investments continued
Under IFRS 12 Disclosure of Interests in Other Entities, the Group has evaluated the key joint ventures and associates it holds with the purpose of disclosing any which are materially significant in order to identify the impact it has on its' financial position, performance and cash flows, whilst identifying the nature of the risks associated with these interests. A full listing of the Group's incorporated joint ventures, joint operations, associates and investments in included at Accompanying Information.

Company

	Equity			Loans			
	SGN £m	Other JCEs and associates £m	**Equity total £m**	SGN £m	Other JCEs and associates £m	**Loans total £m**	**Total £m**
Share of net assets/cost							
At 31 March 2014	190.0	–	190.0	266.9	229.4	496.3	686.3
Increase in shareholder loans	–	–	–	–	34.2	34.2	34.2
Repayment of shareholder loans	–	–	–	–	(8.8)	(8.8)	(8.8)
Transfer of loan to subsidiary	–	–	–	–	22.7	22.7	22.7
At 31 March 2015	190.0	–	190.0	266.9	277.5	544.4	734.4
Increase in shareholder loans	–	–	**–**	–	30.6	**30.6**	**30.6**
Repayment of shareholder loans	–	–	**–**	–	(13.4)	**(13.4)**	**(13.4)**
Transfer of loans to subsidiary	–	–	**–**	–	(22.7)	**(22.7)**	**(22.7)**
At 31 March 2016	190.0	–	**190.0**	266.9	272.0	**538.9**	**728.9**

17.2 Joint operations
Listed are the incorporated joint operations that have a material impact on the financial position and financial results of the Group.

Company

	Principal activity	Country of incorporation	Class of shares held	Proportion of shares held (%)	Group Interest (%)	Year end
Greater Gabbard Offshore Winds Limited	Offshore Windfarm	UK	Ordinary	50	50	31 March

The Group's interest in Greater Gabbard Offshore Winds Limited is that of a joint operation designed to provide output to the parties sharing control. The liabilities of the arrangement are principally met by the parties through the contracts for the output of the wind farm.

The Group also has an unincorporated arrangement with Statoil under which it controls and accounts for its 66.7% share of the Aldbrough gas storage facility and in respect of its North Sea Gas Production assets at Greater Laggan, Sean, ECA, Bacton and Lomond, all of which are owned by SSE E&P UK Limited.

17.3 Principal joint ventures and associates
The Directors have assessed that the investments in the following equity accounted joint ventures and associates are sufficiently material impact to warrant additional disclosure on an individual basis. Details of on the financial position and financial results of the Group:

Company	Principal activity	Country of incorporation	Class of shares held	Proportion of shares held (%)	Group Interest (%)	Year end	Consolidation basis
Scotia Gas Networks Limited	Gas Distribution	UK	Ordinary	50	50	31 March	Equity
Seabank Power Limited	Gas Power Generation	UK	Ordinary	50	50	31 December	Equity
Marchwood Power Limited	Gas Power Generation	UK	Ordinary	50	50	31 December	Equity
Multifuel Energy Limited	Multi Fuel Power Generation	UK	Ordinary	50	50	31 March	Equity
Walney (UK) Offshore Windfarms Limited	Offshore Windfarm	UK	Ordinary	25.1	25.1	31 December	Equity

These investments are held by subsidiaries of the Company with the exception of the investment in Scotia Gas Networks Limited, which is held by the Company.

17. Investments continued

Summary information for material joint ventures from unaudited financial statements is as follows:

	SGN		Seabank Power Limited		Marchwood Power Limited		Multifuel Energy Limited	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Revenue	**1,099.7**	1,318.4	**127.5**	125.6	**56.5**	70.5	**39.8**	–
Depreciation and amortisation	**(161.5)**	(164.3)	**(15.8)**	(15.5)	**(0.1)**	–	**(10.6)**	–
Other operating costs	**(400.9)**	(601.2)	**(50.2)**	(54.6)	**(40.1)**	(22.8)	**(10.5)**	–
Operating profit	**537.3**	552.9	**61.5**	55.5	**16.3**	47.7	**18.7**	–
Interest expense	**(215.1)**	(212.9)	**(0.5)**	(2.2)	**(11.5)**	(13.4)	**(15.7)**	–
Profit before tax	**322.2**	340.0	**61.0**	53.3	**4.8**	34.3	**3.0**	–
Corporation tax	**31.1**	(71.0)	**(10.2)**	(12.3)	**(2.3)**	(7.9)	**(0.6)**	–
Profit after tax	**353.3**	269.0	**50.8**	41.0	**2.5**	26.4	**2.4**	–
Total comprehensive income	**372.2**	274.6	**50.8**	41.0	**2.5**	26.4	**2.4**	–
SSE share of profit (based on % equity)	**176.7**	134.5	**25.4**	20.5	**1.3**	13.2	**1.2**	–
Non-current assets	**6,756.8**	5,979.5	**147.2**	162.9	**306.3**	314.7	**294.9**	292.4
Current assets	**396.4**	1,946.7	**88.6**	53.2	**48.0**	55.7	**22.4**	2.5
Current liabilities	**(357.9)**	(1,859.1)	**(20.2)**	(11.1)	**(45.2)**	(35.8)	**(11.8)**	(24.8)
Non-current liabilities	**(5,528.3)**	(5,140.9)	**(38.9)**	(33.4)	**(199.3)**	(204.1)	**(303.1)**	(266.1)
Net assets	**1,267.0**	926.2	**176.7**	171.6	**109.8**	130.5	**2.4**	4.0

Reconciliation of the above amounts to the investment recognised in the Consolidated Statement of Financial Position.

Group equity interest	**50%**	50%	**50%**	50%	**50%**	50%	**50%**	50%
Net assets	**1,267.0**	926.2	**176.7**	171.6	**109.8**	130.5	**2.4**	4.0
Group's share of ownership interest	**633.5**	463.1	**88.4**	85.8	**54.9**	65.2	**1.2**	2.0
Other adjustments	**8.9**	5.0	**–**	(4.9)	**–**	3.1	**–**	0.4
Carrying value of group's equity interest	**642.4**	468.1	**88.4**	80.9	**54.9**	68.3	**1.2**	2.4

Summary information for material associate from unaudited financial statements is as follows:

	Walney (UK) Offshore Winds Limited	
	2016 £m	2015 £m
Revenue	**124.3**	120.3
Profit after tax	**19.5**	18.2
Total comprehensive income	**19.5**	18.2
Non-current assets	**882.9**	1,017.1
Current assets	**19.9**	40.2
Current liabilities	**(78.1)**	(80.4)
Net assets	**824.7**	976.9
Group Interest	**25.1%**	25.1%
Net assets	**824.7**	976.9
Group's ownership interest	**207.0**	245.2
Other adjustments	**–**	9.0
Carrying value of Group's interest	**207.0**	254.2

In total details of equity relating to £993.9m (2015 – £869.5m) held in material joint ventures and associates was disclosed in relation to the group which equates to 95% (2015: 99%) of all equity held. Equity in non material joint ventures not disclosed amounted to £51.2m (2015 – £5.7m).

In addition, at 31 March 2016, the Group was owed the following loans from its principal joint ventures: Scotia Gas Networks Limited £266.9m (2015 – £266.9m), Multifuel Energy Limited £151.9m (2015 – £119.8m), Marchwood Power Limited £100.0m (2015 – £107.2m) and Seabank Power Limited £0.9m (2015 – £6.4m). This represents 88% (2015 – 89%) of the loans provided to equity-accounted joint ventures and associates.

Notes on the financial statements continued
for the year ended 31 March 2016

17. Investments continued
17.4 Other investments
Consolidated

	Faroe Petroleum £m	Other £m	Total £m
At 31 March 2014	18.0	24.3	42.3
Additions in the year	–	0.1	0.1
Disposals in the year (i)	(2.8)	(10.0)	(12.8)
Revaluation through other comprehensive income/(loss)	–	(3.2)	(3.2)
At 31 March 2015	15.2	11.2	26.4
Additions in the year	**–**	**0.2**	**0.2**
Disposals in the year (ii)	**–**	**(1.5)**	**(1.3)**
Revaluation through other comprehensive income/(loss)	**(8.4)**	**–**	**(8.4)**
At 31 March 2016	**6.8**	**9.9**	**16.7**

(i) There were no disposals in the current year. Greencoat Capital and shares in Faroe Petroleum were disposed on in the previous year for a combined cash consideration of £12.7m. (Further detail on the Group's disposal programme is included at note 19).
(ii) In the current year the investment in Sigma was reclassified from other investments to associates £1.5m.

Company

	Faroe Petroleum £m
At 31 March 2014	18.0
Disposals	(2.8)
At 31 March 2015	15.2
Revaluation through other comprehensive income/(loss)	(8.4)
At 31 March 2016	**6.8**

18. Subsidiary undertakings
Details of the Group's subsidiary undertakings are disclosed in the Accompanying Information section (A2) on page 203.

Investment in subsidiaries
Company

	Total £m
At 31 March 2015	2,051.2
Increase in existing investments (i)	727.5
Exceptional impairment (ii)	(49.9)
At 31 March 2016	**2,728.8**

(i) The increase in existing investments held by the Company relates to a capital infusion into SSE Energy Supply Limited ahead of the transfer of assets and business to the newly incorporated SSE EPM Limited company, the capitialisation of loan stocks held by the Company in Scottish and Southern Energy Power Distribution Limited and the equity shares in the Company awarded to the employees of the subsidiaries of the Group under the Group's share schemes, which are recognised as an increase in the cost of investment in those subsidiaries as directed by IFRIC 11 (2016 – £13.5m, 2015 – £15.0m).
(ii) Following impairments of gas storage and gas production assets recognised by the Group (note 7), the Company recognised an exceptional impairment in relation to its investments in the companies in which these assets are held.

Service concession arrangements
Details of the Group's service concession arrangements are disclosed in the Accompanying Information note (A2) on page 203.

19. Acquisitions, disposals and held-for-sale assets

19.1 Acquisitions

On 28 October 2015, the Group through its wholly owned subsidiary, SSE E&P UK Limited, acquired a 20% interest in the four gas fields and surrounding exploration acreage approximately 125km north west of the Shetland Islands, collectively known as the Greater Laggan Area, along with a 20% interest in the Shetland Gas Terminal, from Total E&P UK Limited. The cash consideration paid for the business of £669.0m included the Group's share of post 1 January 2015 capital expenditure on the Shetland Gas Terminal along with other completion adjustments. Those items were the differences from the consideration of £565.0m which was announced on 29 July 2015.

	Total £m
Assets acquired	
Property, plant and equipment	695.8
Intangible development assets	73.2
Decommissioning provisions	(100.0)
Net assets	**669.0**

Production commenced from the Laggan-Tormore project on the UK Atlantic Frontier on 7 February 2016. In the financial year, 21m therms of gas were extracted, 38.1k barrels of oil and 1.8k tonnes of natural gas liquids contributing £7.0m to revenue with a loss after tax of £1.8m during the period to 31 March 2016.

19.2 Held-for-sale assets and liabilities

During the year, the Group substantially completed the programme of non-core asset and business disposals that it had announced on 26 March 2014 along with a number of other separately identified assets. As the programme comes to an end, some assets and liabilities remain classified as held-for-sale on the balance sheet at 31 March 2016. The aggregated pre-tax profit contribution of the held for sale assets and businesses in the year to 31 March 2016 was £nil (2015: £1.8m).

The assets and liabilities classified as held-for-sale, and the comparative balances at 31 March 2016, are as follows:

	Retail £m	Enterprise £m	Total 2016 £m	Total 2015 £m
Property plant and equipment	–	–	–	54.2
Forestry assets	–	–	–	1.8
Other intangible	27.9	–	27.9	21.3
Non-current assets	27.9	–	27.9	77.3
Inventories	–	–	–	–
Trade and other receivables	–	106.3	106.3	33.0
Non trade debtors	–	–	–	–
Current assets	–	106.3	106.3	33.0
Total assets	27.9	106.3	134.2	110.3
Trade and other payables	–	(11.2)	(11.2)	(10.8)
Provisions	–	(5.9)	(5.9)	–
Current liabilities	–	(17.1)	(17.1)	(10.8)
Loans and borrowings	–	(97.9)	(97.9)	–
Deferred tax liabilities	–	–	–	(0.3)
Non-current liabilities	–	(97.9)	(97.9)	(0.3)
Total liabilities	–	(115.0)	(115.0)	(11.1)
Net assets	27.9	(8.7)	(19.2)	99.2

Notes on the financial statements continued
for the year ended 31 March 2016

19. Acquisitions, disposals and held-for-sale assets continued

19.3 Disposals

i) Significant disposals

On 29 October 2015, the Group agreed to sell its shareholding in Galloper Wind Farm Limited to its co-venturer RWE Innogy for cash consideration of £18.3m. The rationale for the disposal was explained in the Group's statement on offshore wind investment on 26 March 2014.
The gain on the disposal of £18.3m was recorded as an exceptional item (note 7).

On 28 May 2015, the Group also agreed to sell three onshore wind development sites (Cour, Blackcraig, Whiteside Hill, 98MW) to Blue Energy. Total consideration of these assets was £52.4m. Consequently, an exceptional gain on disposal of £39.3m was recorded (note 7).

Both disposals were of businesses classified as Held-for-sale at 31 March 2015.

On 18 March 2016, the Group sold a 49.9% stake in its wholly owned operational 349.6MW Clyde Wind Farm located in South Lanarkshire to Greencoat UK Wind Plc ("UKW") and GMPF & LPFA Infrastructure LLP ("GLIL") for a cash consideration of £399.2 million after costs. The stake held by the co-investors has been deemed to be that of a non-controlling interest in an entity under the Group's control. This key accounting judgement is explained at note 4.2. The consequence of this is that the gain recorded on disposal of £138.6m was recognised directly in equity instead of in the income statement and the non-recourse to SSE loans in the entity require to be recorded on the Group balance sheet.

The assets included in the Clyde Windfarm (Scotland) Limited transaction were not previously held-for-sale.

19. Acquisitions, disposals and held-for-sale assets continued

ii) Disposals

The following table summarises all businesses and assets disposed of during the financial year, including those not previously 'held for sale' and including other assets and investments disposed of as part of the normal course of business and which are noted in the relevant respective notes to the financial statements.

	2016			2015		
	Held for sale at March 2015 £m	Not held for sale at March 2015 £m	Total £m	Held for sale at March 2014 £m	Not held for sale at March 2014 £m	Total £m
Net assets disposed:						
Property, plant and equipment	37.5	6.8	44.3	72.2	2.2	74.4
Intangible and biological assets	11.7	–	11.7	2.5	12.1	14.6
Investments – joint venture and other	–	–	–	0.3	15.7	16.0
Trade and other receivables	1.4	–	1.4	348.7	1.7	350.4
Trade and other payables	52.3	–	52.3	(94.3)	–	(94.3)
Loans and borrowings	(23.5)	–	(23.5)	(230.2)	–	(230.2)
Net assets	79.4	6.8	86.2	99.2	31.7	130.9
Proceeds of disposal:						
Consideration including debt reduction	160.5	381.7	542.2	399.6	67.9	467.5
Deferred consideration	–	–	–	1.1	11.0	12.1
Debt reduction	(23.5)	–	(23.5)	(228.8)	–	(228.8)
Non-recourse loan	–	(200.7)	(200.7)	–	–	–
Costs of disposal	–	(5.6)	(5.6)	(3.6)	(1.3)	(4.9)
Provisions	–	–	–	(12.5)	11.0	(1.5)
Net proceeds (i)	137.0	175.4	312.4	155.8	88.6	244.4
Gain on disposal after provisions	57.6	168.6	226.2	56.6	56.9	113.5
Presentation:						
Equity	–	138.6	138.6	–	–	–
Income statement credit	57.6	30.0	87.6	56.6	56.9	113.5

	2016 £m	2015 £m
Net proceeds of disposal (i)	312.4	244.4
Deferred consideration	–	(12.1)
Provisions	–	1.5
Proceeds of disposal per cash flow statement	312.4	233.8
Cash from Clyde transaction recorded as New Borrowings	200.7	–
Total cash proceeds	513.1	233.8

The debt reduction items, £23.5m (2015 – £228.8m), are associated with the disposal of the street-lighting PFI companies.

19.4 Acquisitions and disposals in the previous year

(i) Acquisitions in the previous year

On 31 July 2014, the Group through it's wholly owned subsidiary, SSE Contracting Group Limited, acquired 100% of the share capital of the Energy Solutions Group Limited ('ESG'). The consideration for the business was £71.9m and resulted in the recognition of goodwill including related deferred tax of £80m.

(ii) Disposals in the previous year

On 11 November 2014, the Group completed the disposal of seven street lighting Private Finance Initiative ('PFI') vehicles to Equitix Infrastructure 3 Limited ("Equitix") for cash consideration of £95.2m, which reduced the Group's debt by £324.0m (being cash of £95.2m and debt reduction of £228.8m). The Group recorded a gross gain on disposal of £50.5m in relation to this transaction before recognition of associated contractual provisions of £12.5m.

On 26 November 2014, CBPE Capital acquired the shareholdings of Anesco Limited including 100% from the Environmental Energy Fund in which the Group holds a 49% stake. Accordingly, on completion a payment of £22.2m cash dividend in relation to the Group's share of the investment by the fund was received, the Group recognised a gain on disposal of £19.6m.

During the year, the group disposed of a number of other businesses for the combined cash consideration of £116.4m, and deferred consideration of £12.1m recognising a gain on disposal of £40.6m

Notes on the financial statements continued
for the year ended 31 March 2016

20. Inventories

	Consolidated 2016 £m	Consolidated 2015 £m
Fuel and consumables	**216.1**	338.0
Work in progress	**27.6**	36.9
Goods for resale	**1.6**	2.2
Less: provisions held	**(29.9)**	(34.8)
	215.4	342.3

The Group has recognised £325.7m within cost of sales in the year (2015 – £502.7m) and has also recognised £84.0m (2015 – £59.2m) relating to stock write-downs and increases in provisions held, £91.6m of these costs have been recognised as exceptional items. The Company does not hold any inventories.

21. Trade and other receivables

	Consolidated 2016 £m	Consolidated 2015 £m	Company 2016 £m	Company 2015 £m
Current assets				
Retail trade receivables	**589.5**	765.0	**–**	–
Wholesale trade receivables	**1,304.2**	2,127.7	**–**	–
Other trade receivables	**73.1**	84.8	**–**	–
Trade receivables	**1,966.8**	2,977.5	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**4,828.9**	3,944.2
Other receivables	**240.1**	184.0	**–**	–
Cash held as collateral and other short-term loans	**121.8**	71.7	**–**	–
Prepayments and accrued income:				
Unbilled energy income	**901.1**	1,127.4	**–**	–
Other prepayments and accrued income	**44.5**	166.4	**–**	–
	3,274.3	4,527.0	**4,828.9**	3,944.2
Non-current assets				
Amounts owed by subsidiary undertakings	**–**	–	**4,958.9**	4,505.9
	3,274.3	4,527.0	**9,787.8**	8,450.1

Prepayments and accrued income includes 'unbilled' energy income which represents an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. The Group also applies a percentage reduction to consumption estimates to take account of inaccuracies in the industry settlement process which have historically allocated more volume to the Group than has been recovered through subsequent billings. A 1% change in this percentage adjustment would increase or decrease the accrued income recognised by £16.0m in the current year (2015 – £17.1m).

Other receivables includes financial assets totalling £23.7m (2015 – £25.2m). Cash held as collateral and other short term loans relates to amounts deposited on commodity trading exchanges of £78.3m (2015 – £71.7m) and other short term loans of £43.5m (2015 – £nil).

Trade receivables and other financial assets are part of the Group's financial exposure to credit risk as explained in note 34.

22. Cash and cash equivalents

	Consolidated		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Bank balances	**360.2**	1,507.3	**155.9**	1,321.1
Call deposits	**–**	5.0	**–**	–
Cash and cash equivalents	**360.2**	1,512.3	**155.9**	1,321.1

Cash and cash equivalents (which are presented as a single class of assets in the face of the balance sheet) comprise cash at bank and short term highly liquid investments with a maturity of six months or less.

	Consolidated		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Cash and cash equivalents (from above)	**360.2**	1,512.3	**155.9**	1,321.1
Bank overdraft (note 26)	**–**	(0.2)	**–**	–
Cash and cash equivalents in the statement of cash flows	**360.2**	1,512.1	**155.9**	1,321.1

23. Trade and other payables

	Consolidated		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Current liabilities				
Amounts due to subsidiary undertakings	**–**	–	**3,385.8**	2,715.0
Trade payables	**1,868.3**	2,707.7	**–**	–
Other creditors	**1,001.0**	1,239.6	**–**	–
Accruals and deferred income (i)	**1,315.1**	1,329.8	**–**	–
	4,184.4	5,277.1	**3,385.8**	2,715.0
Non-current liabilities				
Accruals and deferred income (ii)	**452.4**	424.6	**–**	–
	4,636.8	5,701.7	**3,385.8**	2,715.0

(i) Current accruals and deferred income includes customer contributions of £16.3m (2015 – £16.1m) and government grants of £0.9m (2015 – £1.3m).
(ii) Non-current accruals and deferred income includes customer contributions of £175.1m (2015 – £177.5m) and government grants of £3.1m (2015 – £2.9m).

24. Current tax liabilities

	Consolidated		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Corporation tax	**298.2**	308.4	**21.9**	44.2

Notes on the financial statements continued
for the year ended 31 March 2016

25. Construction contracts

	2016 £m	2015 £m
Contracts in progress at balance sheet date:		
Amounts due from contract customers included in trade and other receivables (note 21)	**42.4**	31.0
Amounts due to contract customers included in trade and other payables (note 23)	**(18.9)**	(25.1)
Contract costs incurred plus recognised profits less recognised losses to date	**165.1**	171.9
Less: Progress billings	**(161.7)**	(164.4)
	3.4	7.5

In the year to 31 March 2016, contract revenue of £353.9m (2015 – £486.9m) was recognised.

At 31 March 2016, retentions held by customers for contract work amounted to £1.3m (2015 – £0.9m). Advances received from customers for contract work amounted to £2.1m (2015 – £1.9m).

The Company does not hold any construction contracts.

26. Loans and other borrowings

	Consolidated		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Current				
Bank overdraft	**–**	0.2	**–**	–
Other short-term loans	**898.8**	712.4	**898.8**	700.0
	898.8	712.6	**898.8**	700.0
Obligations under finance leases	**24.5**	20.2	**–**	–
	923.3	732.8	**898.8**	700.0

	2016 £m	2015 £m	2016 £m	2015 £m
Non current				
Loans	**5,969.2**	5,068.4	**4,494.4**	3,719.0
Obligations under finance leases	**276.3**	299.5	**–**	–
	6,245.5	5,367.9	**4,494.4**	3,719.0
Total loans and borrowings	**7,168.8**	6,100.7	**5,393.2**	4,419.0
Cash and cash equivalents (note 22)	**(360.2)**	(1,512.3)	**(155.9)**	(1,321.1)
Unadjusted Net Debt	**6,808.6**	4,588.4	**5,237.3**	3,097.9
Add/(less):				
Hybrid capital (note 31)	**2,209.7**	3,371.1	**2,209.7**	3,371.1
Obligations under finance leases	**(300.8)**	(319.7)	**–**	–
Cash held as collateral and other short term loans (note 21)	**(121.8)**	(71.7)	**–**	–
Balances due to partners in Clyde Windfarm (Scotland) Limited (note 4.2(iv))	**(200.7)**	–	**–**	–
Adjusted Net Debt and Hybrid Capital	**8,395.0**	7,568.1	**7,447.0**	6,469.0

26.1 Borrowing facilities

The Group has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into sterling) and as at 31 March 2016 £198.8m commercial paper was outstanding (2015 – nil). During the year the Group extended its existing £1.5bn of facilities on reduced pricing with the facilities now maturing in August 2020 (£1.3bn) and November 2020 (£0.2bn). These facilities continue to provide back up to the commercial paper programme and at 31 March 2016 they were undrawn. The Group has a further £300m facility available with the European Investment Bank which will be fully drawn in May 2016 when it will become a 10 year term loan.

26. Loans and other borrowings continued

Analysis of borrowings

Loans and borrowings

	Consolidated				Company			
	2016 Weighted average interest rate (V)	2016 Face value £m	2016 Fair value £m	2016 Carrying amount £m	2016 Weighted average interest rate (v)	2016 Face value £m	2016 Fair value £m	2016 Carrying amount £m
Current								
Bank Overdrafts (i)	–	–	–	–		–	–	–
Commercial paper and cash advances	0.9%	198.8	199.0	198.8	0.9%	198.8	199.0	198.8
Bank Loans – non amortising	1.0%	700.0	701.6	700.0	1.0%	700.0	701.6	700.0
Total current		898.8	900.6	898.8		898.8	900.6	898.8
Non-Current								
Bank loans – non amortising (iii)	2.1%	632.6	683.4	632.6	2.1%	632.6	683.4	632.6
5.00% Eurobond repayable 1 October 2018	5.0%	500.0	542.2	498.6	5.0%	500.0	542.2	498.6
US Private Placement 16 April 2017	3.2%	12.8	14.2	12.7	3.2%	12.8	14.2	12.7
US Private Placement 16 April 2019	3.7%	67.0	75.7	66.9	3.7%	67.0	75.7	66.9
2.00% 600m Eurobond repayable 17 June 2020	2.0%	474.4	498.8	471.3	2.0%	474.4	498.8	471.3
Between two and five years		1,686.8	1,814.3	1,682.1		1,686.8	1,814.3	1,682.1
Bank loans – non-amortising (iii)	2.2%	350.0	364.5	350.0	–	–	–	–
Non-recourse funding (ii)	5.8%	200.7	200.7	200.7	–	–	–	–
US Private Placement 16 April 2022	4.3%	162.7	187.8	162.3	4.3%	162.7	187.8	162.3
US Private Placement 16 April 2024	4.4%	204.1	235.8	203.6	4.4%	204.1	235.8	203.6
8.375% Eurobond repayable on 20 November 2028	8.4%	500.0	752.2	494.7	8.4%	500.0	752.2	494.7
5.50% Eurobond repayable on 19 June 2032	5.5%	350.0	441.2	350.2	–	–	–	–
4.625% Eurobond repayable on 20 February 2037	4.6%	325.0	372.9	323.8	–	–	–	–
6.25% Eurobond repayable on 27 August 2038	6.3%	350.0	465.1	346.4	6.3%	350.0	465.1	346.4
4.454% Index linked loan repayable on 27 February 2044	4.5%	121.3	201.5	119.7	–	–	–	–
1.429% Index linked bond repayable on 20 October 2056	1.9%	130.4	181.0	130.4	–	–	–	–
4.25% Eurobond repayable 14 September 2021	4.3%	300.0	331.7	297.9	4.3%	300.0	331.7	297.9
2.375% €500m Eurobond repayable 10 February 2022	2.4%	415.0	446.9	414.4	2.4%	415.0	446.9	414.4
5.875% Eurobond repayable 22 September 2022	5.9%	300.0	361.3	298.2	5.9%	300.0	361.3	298.2
1.75% €700m Eurobond repayable 8 September 2023	1.8%	514.6	533.0	513.0	1.8%	514.6	533.0	513.0
Over five years		4,223.8	5,075.6	4,205.3		2,746.4	3,313.8	2,730.5
Fair value adjustment (iv) (note 34)		–	–	81.8		–	–	81.8
Total non-Current		5,910.6	6,889.9	5,969.2		4,433.2	5,128.1	4,494.4
Total		6,809.4	7,790.5	6,868.0		5,332.1	6,028.7	5,393.2

Notes on the financial statements continued
for the year ended 31 March 2016

26. Loans and other borrowings continued
Loans and Borrowings

	Consolidated				Company			
	2015 Weighted average interest rate (v)	2015 Face value £m	2015 Fair value £m	2015 Carrying amount £m	2015 Weighted average interest rate (v)	2015 Face value £m	2015 Fair value £m	2015 Carrying amount £m
Current								
Bank Overdrafts (i)	0.50%	0.2	0.2	0.2				
Bank Loans – non amortising	1.00%	700.0	701.7	700.0	1.00%	700.0	701.7	700.0
Non-recourse funding (ii)	5.85%	12.4	12.4	12.4				
Total current		712.6	714.3	712.6		700.0	701.7	700.0
Non-Current								
Bank loans – non amortising (iii)	3.52%	126.6	177.1	126.6	3.52%	126.6	177.1	126.6
5.00% Eurobond repayable 1 October 2018	5.00%	500.0	558.6	498.1	5.00%	500.0	558.6	498.1
Non – recourse funding	6.03%	48.9	48.9	48.9	–	–	–	–
US Private Placement 16 April 2017	3.17%	12.8	13.9	12.7	3.17%	12.8	13.9	12.7
US Private Placement 16 April 2019	3.66%	67.0	73.9	66.8	3.66%	67.0	73.9	66.8
Between two and five years		755.3	872.4	753.1		706.4	823.5	704.2
Bank loans – non-amortising (iii)	1.95%	700.0	719.2	700.0	1.82%	400.0	409.7	400.0
Non-recourse funding (ii)	5.83%	78.7	78.7	78.7	–	–	–	–
US Private Placement 16 April 2022	4.31%	162.7	182.2	162.2	4.31%	162.7	182.2	162.2
US Private Placement 16 April 2024	4.44%	204.1	229.7	203.5	4.44%	204.1	229.7	203.5
8.375% Eurobond repayable on 20 November 2028	8.38%	500.0	790.2	494.3	8.38%	500.0	790.2	494.3
5.50% Eurobond repayable on 19 June 2032	5.50%	350.0	459.7	350.2	–	–	–	–
4.625% Eurobond repayable on 20 February 2037	4.63%	325.0	389.3	323.9	–	–	–	–
6.25% Eurobond repayable on 27 August 2038	6.25%	350.0	500.8	346.2	6.25%	350.0	500.8	346.2
4.454% Index linked loan repayable on 27 February 2044	4.45%	119.0	197.9	118.6	–	–	–	–
1.429% Index linked bond repayable on 20 October 2056	1.84%	129.0	170.9	129.1	–	–	–	–
2.00% €600m Eurobond repayable 17 June 2020	2.00%	433.8	460.0	429.8	2.00%	433.8	460.0	429.8
4.25% Eurobond repayable 14 September 2021	4.25%	300.0	334.9	297.4	4.25%	300.0	334.9	297.4
2.375% €500m Eurobond Repayable 10 February 2022	2.38%	415.0	457.2	414.4	2.38%	415.0	457.2	414.4
5.875% Eurobond Repayable 22 September 2022	5.88%	300.0	370.3	297.9	5.88%	300.0	370.3	297.9
Over five years		4,367.3	5,341.0	4,346.2		3,065.6	3,735.0	3,045.7
Fair value adjustment (iv) (note 34)		–	–	(30.9)		–	–	(30.9)
Total non-Current		5,122.6	6,213.4	5,068.4		3,772.0	4,558.5	3,719.0
Total		5,835.2	6,927.7	5,781.0		4,472.0	5,260.2	4,419.0

(i) Bank overdrafts are repayable on demand.
(II) Non-recourse funding in relation to Clyde Windfarm (Scotland) Limited of £200.7m has been recognised following the Group's part-disposal of its equity investment in that Company as explained at note 19.3. As explained in note 4.2(iv), the Group has subsequently waived its rights that gave rise to the treatment of its investment that as that in a controlled entity. Accordingly, this item has been excluded from the Group's Adjusted Net Debt and Hybrid Capital measure. In addition to this balance, the Group has non-recourse borrowings in the Tay Valley Lighting companies that formed under 50:50 partnership with Royal Bank Leasing Limited to provide street-lighting services and which the Group is deemed to control. As the Group is in the process of arranging disposal of its interest in these special purpose entities, those balances are shown as current liabilities held for sale.
(III) Balances include commercial paper, term loans and EIB debt and is a mixture of fixed and floating rate debt.
(IV) The fair value adjustment relates to the change in the carrying amount of the borrowings as a result of fair value hedges that are in place. The movement in the fair value adjustment is recognised in the income statement with a corresponding movement on the hedging instrument also being recognised in the income statement.
(V) The weighted average interest rates for the Group (including the effect of interest rate swaps) for the year ended 31 March 2016 was 3.73% (2015 – 4.21%).

26. Loans and other borrowings continued

(i) Finance lease liabilities

Future finance lease commitments are as follows:

	Minimum lease payments		Present Value of minimum lease payments	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Amounts payable:				
Within one year	**53.9**	52.9	**24.5**	19.9
Between one and five years	**215.2**	217.3	**110.9**	104.0
After five years	**225.8**	278.1	**165.4**	195.8
	494.9	548.3	**300.8**	319.7
Less: future finance charge	**(194.1)**	(228.6)		
Present value of lease obligations	**300.8**	319.7		

The Group has a power purchase agreement with a related party, Marchwood Power Limited, which is categorised as a finance lease. The lease is for use of Marchwood Power's main asset, an 840MW Gas powered CCGT Electricity Generating Plant. The term of the lease is 15 years with the Group having the option for a further 5 years extension at the end of this period. £19.0m (2015 – £21.8m) of contingent rents paid under the lease were included within cost of sales for the period. Contingent rent consists of £/MWh charges for availability of the plant for energy production and a £/MWh charge for actual 'nominated' energy produced.

Of the remaining finance leases held by the group, the average remaining term of the telecom leases is 6 years. No arrangements have been entered into for contingent rental payments for these leases.

The fair value of the Group's lease obligations approximates their carrying amount. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets. The Company does not have any obligations under finance leases.

27. Deferred taxation

The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated capital allowances £m	Fair value gains/ (losses) on derivatives £m	Retirement benefit obligations £m	Other (i) £m	Total £m
Consolidated					
At 31 March 2014	689.3	(117.5)	(127.5)	105.9	550.2
Acquisitions	–	–	–	13.4	13.4
(Credit)/charge to Income Statement	(71.2)	(22.4)	11.0	(23.1)	(105.7)
(Credit)/charge to equity	–	(8.8)	(16.3)	13.0	(12.1)
At 31 March 2015	618.1	(148.7)	(132.8)	109.2	445.8
Charge/(credit) to Income Statement	201.4	4.0	2.9	(315.3)	(107.0)
Charge/(credit) to equity	–	15.1	58.9	(7.3)	66.7
At 31 March 2016	819.5	(129.6)	(71.0)	(213.4)	405.5

	Fair value gains/ (losses) on derivatives £m	Retirement benefit obligations £m	Share based payments £m	Other £m	Total £m
Company					
At 31 March 2014	(37.3)	(36.5)	0.8	(27.5)	(100.5)
(Credit)/charge to Income Statement	(8.1)	3.6	–	12.1	7.6
(Credit)/charge to equity	(1.8)	6.8	–	–	5.0
At 31 March 2015	(47.2)	(26.1)	0.8	(15.4)	(87.9)
Charge/(credit) to Income Statement	5.1	(0.4)	–	(6.5)	(1.8)
Charge/(credit) to equity	5.0	28.3	–	–	33.3
At 31 March 2016	(37.1)	1.8	0.8	(21.9)	(56.4)

(i) Includes deferred tax on fair value items recognised in business combinations.

Notes on the financial statements continued
for the year ended 31 March 2016

27. Deferred taxation continued

Certain deferred tax assets and liabilities have been offset, including the asset balances analysed in the tables above. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Consolidated		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Deferred tax liabilities	**917.5**	716.0	**–**	–
Deferred tax assets	**(512.0)**	(270.2)	**(56.4)**	(87.9)
Net deferred tax liabilities/(assets)	**405.5**	445.8	**(56.4)**	(87.9)

The deferred tax assets disclosed include the deferred tax relating to the Group's pension scheme liabilities.

Temporary differences arising in connection with interests in associates and joint ventures are recorded as part of the Group's share of investment in those entities. The aggregate amount of these is a charge, excluding exceptional items and re-measurement, of £405.0m (2015 – £12.4m charge).

A deferred tax asset has not been recognised on £21.1m of trading losses (2015 – £22.7m) due to uncertainty around the availability of future profits in the companies concerned.

28. Provisions

	Decommissioning (i) £m	Contracting Provisions (ii) £m	Restructuring (iii) £m	Other (iv) £m	Total £m
Consolidated					
At 1 April 2015	317.9	45.8	19.5	98.7	481.9
Charged in the year	–	5.5	23.4	38.3	67.2
Increase in decommissioning provision (i)	206.5	–	–	–	206.5
Acquired	100.0	–	–	–	100.0
Unwind of discount	15.7	–	–	–	15.7
Released during the year	–	(4.4)	–	(3.4)	(7.8)
Disposed during the year	–	–	–	(0.8)	(0.8)
Utilised during the year	(2.9)	(22.4)	(7.0)	(33.1)	(65.4)
At 31 March 2016	**637.2**	**24.5**	**35.9**	**99.7**	**797.3**
At 31 March 2016					
Non-current	**637.2**	**17.1**	**–**	**49.0**	**703.3**
Current	**–**	**7.4**	**35.9**	**50.7**	**94.0**
	637.2	**24.5**	**35.9**	**99.7**	**797.3**
At 31 March 2015					
Non-current	317.9	21.3	–	43.2	382.4
Current	–	24.5	19.5	55.5	99.5
	317.9	45.8	19.5	98.7	481.9

(i) Provision has been made for the estimated net present cost of decommissioning the Group's Gas Production assets, Thermal and Renewable power generation as sets and Gas Storage facilities. Estimates are based on forecasted clean-up costs at the time of decommissioning discounted for the time value of money of costs. During the year the group acquired a 20% stake in four gas fields (known collectively as Greater Laggan). An increase of £206.5m was recognised in the year following a comprehensive review of the estimated timing and quantum of costs associated with the Group's portfolio in context of the continuing uncertainty over the viability and economic life of certain assets. Of this increase, £31.5m relating to the Group's Ferrybridge and Fiddler's Ferry assets as recognised as an exceptional charge in the year (note 7).

(ii) The Group holds provisions in relation to certain long-term construction contracts. This includes the Group's retained sub-contracts with the various street-lighting PFI companies subject to disposal during the current and prior year. Following the disposal programme, the Group has utilised a significant amount of these provisions in the year to 31 March 2016.

(iii) Restructuring provisions includes exceptional charges related to the closure of Ferrybridge and the Group's retail shops (note 7).

(iv) Other provisions relate to costs associated with licence condition breaches, insurance claims, contractual disputes and the employer financed retirement benefit provision for certain directors and former directors and employees, which is valued in accordance with IAS 19. The Company does not hold provisions.

29. Share capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 1 April 2015	993.0	496.5
Issue of shares (i)	14.6	7.3
At 31 March 2016	**1,007.6**	**503.8**

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

(i) Shareholders were able to elect to receive ordinary shares in place of the final dividend of 61.8p per ordinary share (in relation to year ended 31 March 2015) and the interim dividend of 26.9p (in relation to the current year) under the terms of the Company's scrip dividend scheme. This resulted in the issue of 10,600,639 and 1,172,973 new fully paid ordinary shares respectively (2015: 11,775,169 and 5,348,770). In addition, the Company issued 2.8m (2015 – 1.0m) shares during the year under the savings-related share option schemes for a consideration of £25.0m (2015 – £10.3m).

During the year, on behalf of the Company, the employee share trust purchased 0.8m shares for a total consideration of £11.1m (2015 – 0.6m shares, consideration of £9.0m). At 31 March 2016, the trust held 3.0m shares (2015 – 3.1m) which had a market value of £45.5m (2015 – £47.5m).

30. Reserves

The movement in reserves is reported in the Statement of Changes in Equity which is included as part of the primary statements (pages 123 and 124).

The capital redemption reserve comprises the value of shares redeemed or purchased by the company from distributable profits.

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

The translation reserve comprises exchange translation differences on foreign currency net investments offset by exchange translation differences on borrowings and derivatives classified as net investment hedges under IAS 39.

The profit for the year attributable to ordinary shareholders dealt with in the financial statements of the Company was £1,182.2m (2015 – £476.4m). As allowed by section 408 of the Companies Act 2006, the Company has not presented its own income statement.

31. Hybrid capital

	2016 £m	2015 £m
GBP 750m 5.453% perpetual subordinated capital securities (i)	–	744.5
EUR 500m 5.025% perpetual subordinated capital securities (i)	–	416.9
USD 700m 5.625% perpetual subordinated capital securities (ii)	**427.2**	427.2
EUR 750m 5.625% perpetual subordinated capital securities (ii)	**598.2**	598.2
GBP 750m 3.875% perpetual subordinated capital securities (iii)	**748.3**	748.3
EUR 600m 2.375% perpetual subordinated capital securities (iii)	**436.0**	436.0
	2,209.7	3,371.1

(i) 20 September 2010 £750m and €500m hybrid capital bonds

On 1 October 2015 the company redeemed the £750m and €500m hybrid capital bonds issued on 20 September 2010, the redemption was funded by the proceeds of the £750m and €600m hybrid capital bonds issued on 10 March 2015.

(ii) 18 September 2012 €750m and US$700m Hybrid Capital Bonds

Each bond has no fixed redemption date but the Company may, at its sole discretion, redeem all, but not part, of these capital securities at their principal amount. The date for the discretionary redemption of the capital issued on 18 September 2012 is 1 October 2017 and every five years thereafter.

For the €750m capital issued on 18 September 2012, coupon payments are expected to be made annually in arrears on 1 October in each year. For the US$700m capital issued on 18 September 2012, coupon payments are expected to be made bi-annually in arrears on 1 April and 1 October each year.

Notes on the financial statements continued
for the year ended 31 March 2016

31. Hybrid capital continued

(iii) 10 March 2015 £750m and €600m Hybrid Capital Bonds

On 10 March 2015, the Company issued £750m and €600m hybrid capital bonds with no fixed redemption date, but the Company may, at its sole discretion, redeem all, but not part, of the capital securities at their principal amount. The date for the first potential discretionary redemption of the £750m hybrid capital bond is 10 September 2020 and then these can occur every 5 years thereafter. The date for the first discretionary redemption of the €600m hybrid capital bond is 1 April 2021 and then these can occur every 5 years thereafter. The purpose of the outstanding issues was to strengthen SSE's capital base and fund the Group's ongoing capital investment and acquisitions.

For the £750m capital issued on 10 March 2015 the first coupon payment is expected to be made on 10 September 2016 and then annually in arrears thereafter, and for the €600m capital issued on 10 March 2015, the first coupon payment is expected to be made on 1 April 2016 and then annually in arrears thereafter.

(iv) Coupon Payments

Coupon payments of £12.5m (2015 – £11.8m) in relation to the US$ capital issued on 18 September 2012 were paid on 1 April 2015. Coupon payments of £12.4m (2015 – £12.4m) were made in relation to the same hybrid capital bond on 1 October 2015, and payments of £99.7m were made in relation to all other hybrid capital bonds on 1 October 2015 with the exception of the two new hybrid capital bonds (€600m and £750m) that were issued on 10 March 2015 whose first coupon payments will fall on 1 April 2016 and 10 September 2016 respectively.

The Company has the option to defer coupon payments on the bonds on any relevant payment date, as long as a dividend on the ordinary shares has not been declared. Deferred coupons shall be satisfied only in the following circumstances, all of which occur at the sole option of the Company:

- redemption; or
- dividend payment on ordinary shares.

Interest will accrue on any deferred coupon.

32. Retirement benefit obligations

Defined benefit schemes

The Group has two funded final salary pension schemes which provide defined benefits based on final pensionable pay. The schemes are subject to independent valuations at least every three years. The future benefit obligations are valued by actuarial methods on the basis of an appropriate assessment of the relevant parameters. The Company operates one of these schemes, being the Scottish Hydro-Electric scheme.

The Group also has an Employer Financed Retirement Benefit scheme and a Group Personal Pension Plan. The Group Personal Pension Plan operates on a Money purchase basis and has been arranged with Friends Provident. The Group matches employee contributions up to a specified limit, in most circumstances this is set at 6%. The Group may also provide additional contributions of 3% after five years and a further 3% after ten years continuous Group service.

Pension summary:

		Net actuarial (loss)/gain recognised in respect of the pension asset in the Statement of Comprehensive Income		Net pension (liability)	
	Scheme type	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Scottish Hydro Electric (Company)	Defined benefit	**191.3**	31.3	**272.7**	75.4
Southern Electric	Defined benefit	**112.5**	(113.8)	**(404.8)**	(533.5)
		303.8	(82.5)	**(132.1)**	(458.1)
IFRIC 14 movement		**(49.5)**	3.2	**(262.7)**	(206.5)
Net actuarial (loss)/gain and movement in IFRIC 14 liability		**254.3**	(79.3)	**(394.8)**	(664.6)

The Scottish Hydro Electric Pension Scheme net asset of £10.0m (2015 – £131.1m liability) is presented after an IFRIC 14 minimum funding requirement of £262.7m (2015 – £206.5).

The individual pension scheme details based on the latest formal actuarial valuations are as follows:

	Scottish Hydro Electric	Southern Electric
Latest formal actuarial valuation	31 March 2015	31 March 2013
Valuation carried out by	Hymans Robertson	Aon Hewitt
Value of assets based on valuation	£1,916.0m	£1,560.6m
Value of liabilities based on valuation	£1,964.7m	£2,109.1m
Valuation method adopted	Projected Unit	Projected Unit
Average salary increase	Inflation curve plus 1.0% pa	RPI
Average pension increase	RPI	RPI
Value of fund assets/accrued benefits	97.5%	74.1%

32. Retirement benefit obligations continued

32.1 Pension scheme assumptions

Both schemes have been updated to 31 March 2016 by qualified independent actuaries. The valuations have been prepared for the purposes of meeting the requirements of IAS 19. The major assumptions used by the actuaries in both schemes were:

	At 31 March 2016	At 31 March 2015
Rate of increase in pensionable salaries	**4.1%**	4.2%
Rate of increase in pension payments	**3.1%**	3.2%
Discount rate	**3.6%**	3.3%
Inflation rate	**3.1%**	3.2%

The assumptions relating to longevity underlying the pension liabilities at 31 March 2016 are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions, equivalent to future longevity for members in normal health at age 65, are as follows:

	At 31 March 2016 Male	At 31 March 2016 Female	At 31 March 2015 Male	At 31 March 2015 Female
Currently aged 65	**26**	**26**	26	26
Currently aged 45	**29**	**29**	29	28

The impact on the schemes liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2016		At 31 March 2015	
	Increase/ decrease in assumption	Effect on scheme liabilities	Increase/ decrease in assumption	Effect on scheme liabilities
Discount rate	**0.1%**	**+/-1.8%**	0.1%	+/- 1.8%
Longevity	**1 year**	**+/-3.1%**	1 year	+/- 3.0%

These assumptions are considered to have the most significant impact on the scheme valuations.

32.2 Valuation of combined pension schemes

	Consolidated				Company			
	Long-term rate of return expected at 31 March 2016 %	Value at 31 March 2016 £m	Long-term rate of return expected at 31 March 2015 %	Value at 31 March 2015 £m	Long-term rate of return expected at 31 March 2016 %	Value at 31 March 2016 £m	Long-term rate of return expected at 31 March 2015 %	Value at 31 March 2015 £m
Equities	**5.5**	**1,049.6**	5.6	1,060.1	**5.6**	**509.2**	5.6	500.8
Government bonds	**1.2**	**1,001.7**	2.6	1,049.6	**1.2**	**784.1**	2.6	805.7
Corporate bonds	**3.0**	**1,069.7**	3.3	1,061.3	**3.0**	**488.9**	3.3	483.9
Other investments	**1.7**	**581.9**	4.1	580.0	**3.8**	**98.7**	3.6	123.2
Total fair value of plan assets		**3,702.9**		3,751.0		**1,880.9**		1,913.6
Present value of defined benefit obligation		**(3,835.0)**		(4,209.1)		**(1,608.2)**		(1,838.2)
Pension (liability)/asset (pre IFRIC 14)		**(132.1)**		(458.1)		**272.7**		75.4
IFRIC 14 liability (i)		**(262.7)**		(206.5)		**(262.7)**		(206.5)
(Deficit)/surplus in the scheme		**(394.8)**		(664.6)		**10.0**		(131.1)
Deferred tax thereon		**71.0**		132.8		**(1.8)**		26.2
Net pension (liability)/ asset		**(323.8)**		(531.8)		**8.2**		(104.9)

(i) The IFRIC 14 liability represents the deficit repair obligations required to ensure a minimum funding level together with a restriction on the surplus that can be recognised.

Notes on the financial statements continued
for the year ended 31 March 2016

32. Retirement benefit obligations continued
32.3 Movements in the defined benefit asset obligations and assets during the year:
Group

	2016			2015		
	Assets £m	Obligations (i) £m	Total £m	Assets £m	Obligations (i) £m	Total £m
at 1 April	3,751.0	(4,209.1)	(458.1)	3,257.3	(3,693.9)	(436.6)
Included in Income Statement						
Current service cost	–	(61.8)	(61.8)	–	(55.4)	(55.4)
Past service cost	–	(4.3)	(4.3)	–	(16.7)	(16.7)
Interest income/(cost)	121.2	(134.9)	(13.7)	139.9	(156.4)	(16.5)
	121.2	(201.0)	(79.8)	139.9	(228.5)	(88.6)
Included in Other Comprehensive Income						
Actuarial (loss)/gain arising from:						
Demographic assumptions	–	48.0	48.0	–	–	–
Financial assumptions	–	277.4	277.4	–	(515.4)	(515.4)
Experience assumptions	–	101.5	101.5	–	70.4	70.4
Return on plan assets excluding interest income	(123.1)	–	(123.1)	362.5	–	362.5
	(123.1)	426.9	303.8	362.5	(445.0)	(82.5)
Other						
Contributions paid by the employer	102.0	–	102.0	149.6	–	149.6
Scheme participants contributions	0.3	(0.3)	–	0.3	(0.3)	–
Benefits Paid	(148.5)	148.5	–	(158.6)	158.6	–
	(46.2)	148.2	102.0	(8.7)	158.3	149.6
Balance at 31 March	3,702.9	(3,835.0)	(132.1)	3,751.0	(4,209.1)	(458.1)

(i) The retirement benefit obligations are stated before IFRIC 14 liabilities.

Company

	2016			2015		
	Assets £m	Obligations (i) £m	Total £m	Assets £m	Obligations (i) £m	Total £m
at 1 April	1,913.6	(1,838.2)	75.4	1,620.5	(1,602.1)	18.4
Included in Income Statement						
Current service cost	–	(30.7)	(30.7)	–	(27.0)	(27.0)
Past service cost	–	–	–	–	(6.9)	(6.9)
Interest income/(cost)	61.8	(58.8)	3.0	69.6	(67.6)	2.0
	61.8	(89.5)	(27.7)	69.6	(101.5)	(31.9)
Included in Other Comprehensive Income						
Actuarial (loss)/gain arising from:						
Demographic assumptions	–	56.3	56.3	–	–	–
Financial assumptions	–	129.0	129.0	–	(244.8)	(244.8)
Experience assumptions	–	73.9	73.9	–	49.4	49.4
Return on plan assets excluding interest income	(67.9)	–	(67.9)	226.7	–	226.7
	(67.9)	259.2	191.3	226.7	(195.4)	31.3
Other						
Contributions paid by the employer	33.7	–	33.7	57.6	–	57.6
Scheme participants contributions	–	–	–	–	–	–
Benefits Paid	(60.3)	60.3	–	(60.8)	60.8	–
	(26.6)	60.3	33.7	(3.2)	60.8	57.6
Balance at 31 March	1,880.9	(1,608.2)	272.7	1,913.6	(1,838.2)	75.4

(i) The retirement benefit obligations are stated before IFRIC 14 liabilities.

32. Retirement benefit obligations continued

32.4 Pension Scheme contributions and costs

Charges/(credits) recognised:

	Consolidated		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Current service cost (charged to operating profit)	**66.1**	72.1	**29.9**	31.9
	66.1	72.1	**29.9**	31.9
Charged/(credited) to finance costs:				
Interest from pension scheme assets	**(121.2)**	(139.9)	**(61.8)**	(69.6)
Interest on pension scheme liabilities	**134.9**	156.4	**58.8**	67.6
IFRIC 14 impact on net interest	**6.7**	8.6	**6.7**	8.6
	20.4	25.1	**3.7**	6.6

The return on Pension Scheme assets is as follows:

	Consolidated		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
(Loss)/return on Pension Scheme assets	**(6.1)**	502.4	**(1.9)**	296.3

Defined contribution scheme

The total contribution paid by the Group to defined contribution pension schemes was £56.3m (2015 – £47.7m).

Employer financed retirement benefit (EFRB) pension costs

The decrease in the year in relation EFRB was £nil (2015 – £4.2m increase). This is included in other provisions (note 28).

Staff costs analysis

The pension costs in note 8 can be analysed thus;

	2016 £m	2015 £m
Service costs	**66.1**	72.1
Defined contribution scheme payments	**56.3**	47.7
	122.4	119.8

32.5 Pension Scheme Assessment

Risks to which the Pension Schemes exposes the Group and Company

The nature of the Group's (and the Company's) defined benefit pension schemes expose the Group and Company to the risk of paying unanticipated additional contributions to the Scheme in times of adverse experience. The most financially significant risks are likely to be:

Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets under perform this yield, this will create a deficit.

Changes in bond yields

A decrease in corporate bond yields will increase the value placed on the schemes' liabilities for accounting purposes, although this will be partially offset by and increase in the value of the Scheme's bond holdings.

Inflation risk

The majority of the benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. The majority of assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy

The majority of the schemes' obligations are to provide benefits for the life of the members, so an increase in the life expectancy will result in an increase in the liabilities. The sensitivity analysis disclosed is intended to provide an indication of the impact on the value of the schemes' liabilities of the risks highlighted.

Policy for recognising gains and losses

The Group and Company recognise actuarial gains and losses immediately in the Statement of Other Comprehensive Income following the re-measurement of the net defined benefit liabilities of the schemes.

Notes on the financial statements continued
for the year ended 31 March 2016

32. Retirement benefit obligations continued

Methods and assumptions used in preparing the sensitivity analyses

The sensitivities disclosed are calculated using approximate methods taking into account the duration of the schemes' liabilities. While these have been calculated consistently with the previous financial year, the method applied may change over time with financial conditions and assumptions.

De-risking

The trustees have taken a number of steps to control the level of investment risk within the schemes over the last 12 months including reducing the schemes' exposures to higher risk assets and increasing the level of protection against adverse movements in interest rates and inflation. The trustees of both schemes continue to review the risk exposures in light of the longer term objectives of the respective schemes.

Asset-liability matching strategies used by the Scheme or the Company

An asset-liability matching strategy has been adopted for a proportion of the schemes' assets, which is designed to provide partial protection against adverse movements in interest rates and inflation. The trustees of the respective schemes review the scheme's asset allocation on an ongoing basis in light of changes in the funding position and market opportunities.

Expected contributions over the next accounting period

The group and company expects to contribute approximately £34.0m to the Scottish Hydro Electric Scheme, and £78.0m to the Southern Electric Scheme in the period ending 31 March 2017, these contributions include deficit repair contributions of £23.5m to the Southern Electric Scheme.

Maturity profile of the defined benefit obligation

The weighted average duration of the defined benefit obligation is 21 years (2015 – 22 years) for the Scottish Hydro Pension Scheme and 17 years (2015 – 17 years) for the Southern Electric Pension Scheme.

33. Employee share-based payments

33.1 Share Schemes Summary

The Group operates a number of share schemes for the benefit of its employees. Details of these schemes, all of which are equity-settled, are as follows:

(i) Savings-related share option schemes ('Sharesave')

This scheme gives employees the option to purchase shares in the Company at a discounted market price, subject to the employees remaining in employment for the term of the agreement. Employees may opt to save between £5 and £500 per month for a period of 3 and/or 5 years. At the end of these periods employees have six months to exercise their options by using the cash saved (including any bonus equivalent to interest). If the option is not exercised, the funds may be withdrawn by the employee and the option expires.

(ii) Share Incentive Plan (SIP)

This scheme allows employees the opportunity to purchase shares in the Company on a monthly basis. Employees may nominate an amount between £10 and £150 to be deducted from their gross salary. This is then used to purchase shares ('Partnership' shares) in the market each month. These shares are held in trust and become free of liability to income tax and national insurance on their fifth anniversary. These shares may be withdrawn at any point during the 5 years, but tax and national insurance would become payable on any shares withdrawn.

From 1 September 2015, in addition to the shares purchased on behalf of the employee, the Company will also match the purchase up to a maximum of 3 shares ('Matching' shares) per month. These shares are also held in trust and become free of liability to income tax and national insurance on their fifth anniversary. If an employee leaves during the first three years, or removes his/her 'partnership' shares, these 'matching' shares are forfeited. Before 1 September 2015, the Company matched shares purchased up to a maximum of 6 shares per month on the same basis as above.

In addition to the above, an annual free share allocation directly linked to Company performance was introduced in 2015, to ensure all employees benefit from SSE's financial growth. The allocation of free shares is subject to SSE reporting dividend growth of at least RPI for the reporting year and the first allocation will be made to eligible employees in June 2016.

(iii) Deferred Annual Incentive Scheme

This scheme applies to senior managers and Executive Directors. Under this scheme, 25% of all eligible employees' annual bonus is deferred into shares which only vest after three years, subject to continued service. The number of shares awarded is determined by dividing the relevant pre-tax bonus amount by the share price shortly after the announcement of the results for the financial year to which the bonus relates.

33. Employee share-based payments continued

(iv) Performance Share Plan

This scheme applies to executive directors and senior executives. Shares granted under this arrangement vest subject to the attainment of performance conditions over the relevant three year performance period as set out below:

Award made Maximum value of award as a % of base salary		02 June 2012 150	02 June 2013 150	02 June 2014 150	26 June 2015 150
Performance conditions					
Total shareholder return (i)	Full vesting	≥ 75th percentile	≥ 75th percentile	≥ 75th percentile	≥ 75th percentile
	25% vesting	median	median	≥ 50th percentile	≥ 50th percentile
Earnings per share (ii)	Full vesting	RPI + 8%	RPI + 8%	RPI + 8%	RPI + 8%
	25% vesting	RPI + 2%	RPI + 2%	RPI	RPI
Dividend per share growth (iii)	Full vesting	RPI + 6%	RPI + 6%	RPI + 4%	RPI + 4%
	50% vesting	RPI + 2%	RPI + 2%	RPI	RPI
Quality of Service (iv)	Full vesting	–	–	First place	First place
	50% vesting	–	–	Second place	Second place

These awards will vest after three years to the extent that the relevant performance conditions are met.

(i) Total Shareholder Return (TSR) target relative to other FTSE100 companies and MSCI Europe Utilities (a dedicated peer group of UK and other European utilities) Index. Pro rata vesting will take place between the 50th and 75th percentile, with no vesting if the minimum target is not met.
(ii) Under the EPS performance condition, pro rata vesting between the lower and upper level above RPI, with no vesting if the minimum EPS growth target is not achieved and full vesting if RPI +8% is achieved.
(iii) Under the Dividend per share growth performance condition, pro rata vesting between RPI and 4% above RPI, with no vesting if the minimum dividend per share growth target is not achieved.
(iv) The Quality of Service condition relates to the Company's Complaints Ranking. Full vesting will be awarded for first place in the league table, 50% vesting for second place with no vesting for below second place.

(iv) Long-term Incentive Plan (LTIP)

This scheme applies to the former Management Board and certain members of the Executive Committee. Shares granted under this arrangement vest subject to the attainment of performance conditions over the relevant performance period. The relevant performance period for this LTIP award is 1 April 2011 to 31 March 2016. The performance conditions are as set out below:

Performance conditions		
Dividend per share growth (DPS)		
2012 and 2013	Full vesting (maximum)	RPI + 5%
	40% vesting (threshold)	RPI +2%
2014 to 2016	Full vesting (maximum)	RPI +3%
	40% vesting (threshold)	RPI

Where DPS growth is between threshold and maximum above RPI, vesting will be calculated on a straight-line basis. Where DPS growth is less than RPI no vesting will occur.

33.2 Income Statement charge for all share schemes

A charge of £13.5m (2015 – £15.0m) was recognised in the Income Statement in relation to these schemes, £0.3m (2015 – £1.0m) of this was in relation to the Directors of the Company. A credit of £13.5m (2015 – £15.0m) was recognised in the statement of changes in Equity in respect of these awards.

Notes on the financial statements continued
for the year ended 31 March 2016

33. Employee share-based payments continued
33.3 Share Schemes Details
Details used in the calculation of the costs of these schemes are as follows:

(i) Savings-related share option scheme (Sharesave)
The movement in savings related share option schemes in the year were as follows:

Consolidated
As at 31 March 2016

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	**Outstanding at end of year**	Date from which exercisable	Expiry date (i)
30 June 2009	1,042	10,907	–	(4,024)	(6,883)	**–**	1 October 2014	31 March 2015
30 June 2010	871	2,319,463	–	(2,273,852)	(15,679)	**29,932**	1 October 2015	31 March 2016
29 June 2011	1,105	10,132	–	(3,995)	(6,137)	**–**	1 October 2014	31 March 2015
29 June 2011	1,105	543,177	–	(15,746)	(16,577)	**510,854**	1 October 2016	31 March 2017
29 June 2012	1,065	433,648	–	(414,451)	(8,406)	**10,791**	1 October 2015	31 March 2016
29 June 2012	1,065	489,407	–	(5,180)	(21,551)	**462,676**	1 October 2017	31 March 2018
05 July 2013	1,197	622,418	–	(13,119)	(47,907)	**561,392**	1 October 2016	31 March 2017
05 July 2013	1,197	414,522	–	(2,538)	(29,278)	**382,706**	1 October 2018	31 March 2019
02 July 2014	1,247	1,357,193	288	(14,177)	(154,855)	**1,188,449**	1 October 2017	31 March 2018
02 July 2014	1,247	1,204,234	1,202	(1,861)	(74,502)	**1,129,073**	1 October 2019	31 March 2020
03 July 2015	1,288	–	1,619,999	(433)	(129,988)	**1,489,578**	1 October 2018	31 March 2019
03 July 2015	1,288	–	1,392,805	(71)	(68,657)	**1,324,077**	1 October 2020	31 March 2021
		7,405,101	3,014,294	(2,749,447)	(580,420)	**7,089,528**		

As at 31 March 2015

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Outstanding at end of year	Date from which exercisable	Expiry date (i)
17 July 2008	1,274	15,782	–	(3,190)	(12,592)	–	1 October 2013	31 March 2014
30 June 2009	1,042	468,608	–	(453,330)	(4,371)	10,907	1 October 2014	31 March 2015
30 June 2010	871	15,279	–	(6,662)	(8,617)	–	1 October 2013	31 March 2014
30 June 2010	871	2,555,941	–	(167,744)	(68,734)	2,319,463	1 October 2015	31 March 2016
29 June 2011	1,105	306,731	–	(290,920)	(5,679)	10,132	1 October 2014	31 March 2015
29 June 2011	1,105	600,292	–	(22,328)	(34,787)	543,177	1 October 2016	31 March 2017
29 June 2012	1,065	504,339	–	(29,068)	(41,623)	433,648	1 October 2015	31 March 2016
29 June 2012	1,065	532,144	–	(9,290)	(33,697)	489,157	1 October 2017	31 March 2018
05 July 2013	1,197	710,247	–	(13,054)	(74,525)	622,668	1 October 2016	31 March 2017
05 July 2013	1,197	471,613	–	(6,263)	(50,828)	414,522	1 October 2018	31 March 2019
02 July 2014	1,247	–	1,447,558	(5,046)	(85,319)	1,357,193	1 October 2017	31 March 2018
02 July 2014	1,247	–	1,256,980	(1,731)	(51,015)	1,204,234	1 October 2019	31 March 2020
		6,180,976	2,704,538	(1,008,626)	(471,787)	7,405,101		

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,463p (2015 – 1,564p) is considered representative of the weighted average share price at the date of exercise. The weighted average share price of forfeitures is simply the option price to which the forfeit relates.

33. Employee share-based payments continued

Company

As at 31 March 2016

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	**Outstanding at end of year**	Date from which exercisable	Expiry date (i)
30 June 2010	871	283	–	(283)	**–**	1 October 2015	31 March 2016
30 June 2012	1,065	1,408	–	–	**1,408**	1 October 2017	31 March 2018
30 June 2014	1,247	3,415	–	–	**3,415**	1 October 2019	31 March 2020
30 June 2015	1,288	–	186	–	**186**	1 October 2020	31 March 2021
		5,106	186	(283)	**5,009**		

As at 31 March 2015

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Outstanding at end of year	Date from which exercisable	Expiry date (i)
30 June 2009	1,042	1,253	–	(1,253)	–	1 October 2014	31 March 2015
30 June 2010	871	283	–	–	283	1 October 2015	31 March 2016
30 June 2012	1,065	1,408	–	–	1,408	1 October 2017	31 March 2018
30 June 2014	1,247	–	3,415	–	3,415	1 October 2019	31 March 2020
		2,944	3,415	(1,253)	5,106		

No options were forfeited in the year.

(i) Options may remain exercisable beyond the published expiry date due to individuals taking advantage of the right to a payment holiday during the term of the scheme.

The fair value of these share options at the measurement date, calculated using the Black-Scholes model, and the assumptions made in that model are as follows:

	July 2009		July 2010		July 2011		July 2012		July 2013		July 2014		July 2015	
	3 Year	5 Year	3 Year	5 year	3 year	5 Year	3 year	5 Year	3 year	5 year	3 year	5 year	3 year	5 year
Fair value of option	244p	269p	231p	246p	171p	163p	182p	159p	194p	168p	146p	163p	133p	113p
Expected volatility	35%	35%	19%	19%	18%	18%	18%	18%	15%	15%	15%	15%	14%	14%
Risk free rate	2.7%	2.9%	1.4%	2.2%	1.2%	2.1%	0.4%	0.9%	0.7%	1.4%	1.2%	1.7%	0.9%	1.4%
Expected dividends	4.1%	4.2%	1.7%	2.2%	6.1%	6.1%	5.9%	5.8%	5.9%	5.9%	5.9%	5.8%	6.0%	5.9%
Term of the option	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Underlying price at grant date	1,139p	1,139p	1,089p	1,089p	1,393p	1,393p	1,391p	1,391p	1,579p	1,579p	1,595p	1,595p	1,558p	1,558p
Strike price	1,042p	1,042p	871p	871p	1,105p	1,105p	1,065p	1,065p	1,197p	1,197p	1,247p	1,247p	1,288p	1,288p

Expected price volatility was determined by calculating the historical volatility of the Group's share price over the previous 12 months.

(ii) Share Incentive Plan

Matching Shares

	Consolidated				Company			
	2016		2015		**2016**		2015	
	Shares	**Weighted average price (pence)**	Shares	Weighted average price (pence)	**Shares**	**Weighted average price (pence)**	Shares	Weighted average price (pence)
Outstanding at start of year	**2,290,105**	**1,386**	2,288,129	1,297	**708**	**1,381**	708	1,195
Granted during the year	**567,776**	**1,515**	696,371	1,556	**108**	**1,517**	144	1,556
Forfeited during the year	**(117,193)**	**1,515**	(123,650)	1,449	**–**	**–**	–	–
Exercised during the year	**(123,293)**	**1,381**	(272,940)	1,316	**–**	**–**	–	–
Transfer to pool during the year	**(315,343)**	**1,160**	(297,805)	1,137	**(144)**	**1,159**	(144)	1,136
Outstanding at end of year	**2,302,052**	**1,467**	2,290,105	1,386	**672**	**1,449**	708	1,381
Exercisable at end of year	**712,506**	**1,360**	680,599	1,241	**276**	**1,356**	276	1,234

When shares have been held for 5 years they are transferred to a pooled share account. At this point the holder has an unconditional right to the share.

Notes on the financial statements continued
for the year ended 31 March 2016

33. Employee share-based payments continued

The fair value of shares in the share incentive plan is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price and is based on the price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

(iii) Deferred Annual Incentive Scheme

Free Shares

	Consolidated				Company			
	2016		2015		2016		2015	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	372,812	1,486	330,546	1,409	25,616	1,456	32,748	1,381
Granted during the year	149,691	1,624	166,283	1,545	14,061	1,624	13,322	1,545
Forfeited during the year	(3,203)	1,353	(3,780)	1,502	–	–	–	–
Exercised during the year	(116,724)	1,418	(120,237)	1,343	(5,414)	1,383	(20,454)	1,342
Outstanding at end of year	402,576	1,561	372,812	1,486	34,263	1,567	25,616	1,456
Exercisable at end of year	–	–	5,395	1,322	–	–	–	–

The fair value of the annual incentive scheme shares is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price and is based on the price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

(iv) Performance Share Plan

	Consolidated				Company			
	2016		2015		2016		2015	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	1,684,901	1,477	1,615,415	1,408	388,534	1,479	538,068	1,347
Granted during the year	647,858	1,624	660,618	1,545	134,986	1,624	138,563	1,545
Forfeited during the year	(460,006)	1,388	(471,039)	1,350	(118,130)	1,383	–	–
Exercised during the year	(53,707)	1,383	(120,093)	1,342	–	–	(288,097)	1,342
Outstanding at end of year	1,819,046	1,559	1,684,901	1,477	405,390	1,555	388,534	1,479

Of the outstanding options at the end of the year, none were exercisable.

The fair value of the performance share plan shares is not subject to valuation using the Black-Scholes model. The fair value of shares granted in the year is equal to the closing market price on the date of grant.

(v) Long-term Incentive Plan

	2016		2015	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	204,021	1,352	246,867	1,350
Forfeit during year	–	–	(42,846)	1,342
Outstanding at end of year	204,021	1,352	204,021	1,352

No award was granted during the year.

Of the outstanding options at the end of the year, all will be exercisable. The company has no employees in the LTIP.

The fair value of the long-term incentive plan shares is not subject to valuation using the Black-Scholes model. The fair value of shares granted in the year is equal to closing market price on the date of grant.

34. Capital and financial risk management

Capital management

The Board's policy is to maintain a strong balance sheet and credit rating so as to support investor, counterparty and market confidence and to underpin future development of the business. The Group's credit ratings are also important in maintaining an efficient cost of capital and in determining collateral requirements throughout the Group. As at 31 March 2016, the Group's long-term credit rating was A- negative outlook for Standard & Poor's and A3 negative outlook for Moody's. Further detail of the capital management objectives, policies and procedures are included in the 'Financial management and balance sheet' section of the Financial Overview on pages 37 to 38 of this report.

The maintenance of a medium-term corporate model is a key control in monitoring the development of the Group's capital structure, and allows for detailed scenarios and sensitivity testing. Key ratios drawn from this analysis underpin regular updates to the Board and include the ratios used by the rating agencies in assessing the Group's credit ratings.

The Group has the option to purchase its own shares from the market; the timing of these purchases depends on market prices and economic conditions. The use of share buy-backs is the Group's benchmark for investment decisions and is utilised at times when management believe the Group's shares are undervalued. No share buy-back was made during the year.

The Group's debt requirements are principally met through issuing bonds denominated in Sterling and Euros as well as private placements and medium term bank loans including those with the European Investment Bank. In addition the Group has issued hybrid capital securities which bring together features of both debt and equity, are perpetual and subordinate to all senior creditors. The Group has £1.5bn of committed bank facilities which relate to the Group's revolving credit and bilateral facilities that can be accessed at short notice for use in managing the Group's short term funding requirements however these committed facilities remain undrawn for the majority of the time.

The Group capital comprises:

	2016 £m	2015 £m
Total borrowings (excluding finance leases)	**6,868.0**	5,781.0
Less: Cash and cash equivalents	**(360.2)**	(1,512.3)
Net debt (excluding hybrid capital)	**6,507.8**	4,268.7
Hybrid capital	**2,209.7**	3,371.1
Cash held as collateral and other short-term loans	**(121.8)**	(71.7)
Balances due to partners in Clyde Windfarm (Scotland) Limited	**(200.7)**	–
Adjusted Net Debt and Hybrid Capital	**8,395.0**	7,568.1
Equity attributable to shareholders of the parent	**2,984.8**	2,709.4
Total capital excluding finance leases	**11,379.8**	10,277.5

Under the terms of its major borrowing facilities, the Group is required to comply with the following financial covenant:
- **Interest Cover Ratio**: The Company shall procure that the ratio of Operating Profit to Net Interest Payable for any relevant period is not less than 2.5 to 1.

The following definitions apply in the calculation of these financial covenants:
- **"Operating Profit"** means, in relation to a relevant period, the profit on ordinary activities before taxation (after adding back Net Interest Payable) of the Group for that relevant period but after adjusting this amount to exclude any exceptional profits (or losses) and, for the avoidance of doubt, before taking account of any extraordinary profits (or losses) and excluding the effect of IAS 39.
- **"Net Interest Payable"** means, in respect of any relevant period, interest payable during that relevant period less interest receivable during that relevant period.

In summary, the Group's intent is to balance returns to shareholders between current returns through dividends and long-term capital investment for growth. In doing so, the Group will maintain its capital discipline and will continue to operate within the current economic environment prudently. There were no changes to the Group's capital management approach during the year.

Financial risk management

This note presents information about the fair value of the Group's financial instruments, the Group's exposure to the risks associated with those instruments, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further qualitative disclosures are included throughout these consolidated financial statements.

The Group has exposure to the following risks from its use of financial instruments:
- Credit risk.
- Liquidity risk.
- Commodity risk.
- Currency risk.
- Interest rate risk.

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Risk and Trading Committee, which reports to the Executive Committee, comprises the two Executive Directors and senior managers from the Energy Portfolio Management, Generation, Retail, Corporate and Finance functions. Its specific remit is to support the Group's risk management responsibilities by reviewing the

Notes on the financial statements continued
for the year ended 31 March 2016

34. Capital and financial risk management continued

strategic, market, credit operational and liquidity risks and exposures that arise from the Group's energy portfolio management, generation, energy supply and treasury operations. The membership and deliberations of the Risk and Trading Committee are designed to ensure strict business separation requirements are maintained.

The Group's policies for risk management are established to identify the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies, and the systems used to monitor activities, are reviewed regularly by the Risk and Trading Committee.

Exposure to the commodity, currency and interest rate risks noted arise in the normal course of the Group's business and derivative financial instruments are entered into to hedge exposure to these risks. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below.

The Company is required to disclose information on its financial instruments and has adopted policies identical to that of the Group, where applicable. Separate disclosure is provided where necessary.

Before detailing the relevant qualitative and quantitative disclosures in relation to the potential risks faced by the Group, details on the different categories of financial instrument and the carrying and fair values of each of those categories is provided below.

34.1 Categories of financial instruments and fair values of those assets and liabilities

The fair values of the primary financial assets and liabilities of the Group together with their carrying values are as follows:

	2016 Amortised cost or other (i) £m	2016 Classified as trading (ii) £m	2016 Total carrying value £m	2016 Fair value £m	2015 Amortised cost or other (i) £m	2015 Classified as trading (ii) £m	2015 Total carrying value £m	2015 Fair value £m
Financial Assets								
Current								
Trade receivables	1,966.8	–	1,966.8	1,966.8	2,977.5	–	2,977.5	2,977.5
Other receivables	23.7	–	23.7	23.7	25.2	–	25.2	25.2
Cash collateral and other short-term loans	121.8	–	121.8	121.8	71.7	–	71.7	71.7
Cash and cash equivalents	360.2	–	360.2	360.2	1,512.3	–	1,512.3	1,512.3
Derivative financial assets	–	1,615.0	1,615.0	1,615.0	–	1,999.9	1,999.9	1,999.9
	2,472.5	1,615.0	4,087.5	4,087.5	4,586.7	1,999.9	6,586.6	6,586.6
Non-current								
Unquoted equity investments	9.9	–	9.9	9.9	11.2	–	11.2	11.2
Loans to associates and jointly controlled entities	591.6	–	591.6	591.6	559.4	–	559.4	559.4
Derivative financial assets	–	537.7	537.7	537.7	–	566.8	566.8	566.8
	601.5	537.7	1,139.2	1,139.2	570.6	566.8	1,137.4	1,137.4
	3,074.0	2,152.7	5,226.7	5,226.7	5,157.3	2,566.7	7,724.0	7,724.0
Financial Liabilities								
Current								
Trade payables	(1,868.3)	–	(1,868.3)	(1,868.3)	(2,707.7)	–	(2,707.7)	(2,707.7)
Bank loans, commercial paper and overdrafts	(898.8)	–	(898.8)	(900.6)	(712.6)	–	(712.6)	(714.3)
Finance lease liabilities	(24.5)	–	(24.5)	(24.5)	(20.2)	–	(20.2)	(20.2)
Derivative financial liabilities	–	(1,783.8)	(1,783.8)	(1,783.8)	–	(2,297.3)	(2,297.3)	(2,297.3)
	(2,791.6)	(1,783.8)	(4,575.4)	(4,577.2)	(3,440.5)	(2,297.3)	(5,737.8)	(5,739.5)
Non-current								
Loans and Borrowings (iii)	(5,887.4)	(81.8)	(5,969.2)	(6,889.9)	(5,099.3)	30.9	(5,068.4)	(6,213.4)
Finance lease liabilities	(276.3)	–	(276.3)	(276.3)	(299.5)	–	(299.5)	(299.5)
Derivative financial liabilities	–	(857.5)	(857.5)	(857.5)	–	(933.4)	(933.4)	(933.4)
	(6,163.7)	(939.3)	(7,103.0)	(8,023.7)	(5,398.8)	(902.5)	(6,301.3)	(7,446.3)
	(8,955.3)	(2,723.1)	(11,678.4)	(12,600.9)	(8,839.3)	(3,199.8)	(12,039.1)	(13,185.8)
Net financial liabilities	(5,881.3)	(570.4)	(6,451.7)	(7,374.2)	(3,682.0)	(633.1)	(4,315.1)	(5,461.8)

(i) Recorded at amortised cost or loans and receivables.
(ii) IAS 39 financial instruments.
(iii) Includes non-recourse borrowings.

34. Capital and financial risk management continued

34.2 Risks from use of financial instruments

The fair values of the primary financial assets and liabilities of the Company together with their carrying values are as follows:

	2016 Amortised cost or other (i) £m	2016 Classified as trading (ii) £m	2016 Total Carrying value £m	2016 Fair value £m	2015 Amortised cost or other (i) £m	2015 Classified as trading (ii) £m	2015 Total Carrying value £m	2015 Fair value £m
Financial Assets								
Current								
Cash and cash equivalents	155.9	–	155.9	155.9	1,321.1	–	1,321.1	1,321.1
Amounts owed by subsidiary undertakings	4,828.9	–	4,828.9	4,828.9	3,944.2	–	3,944.2	3,944.2
Derivative financial assets	–	81.3	81.3	81.3	–	46.7	46.7	46.7
	4,984.8	81.3	5,066.1	5,066.1	5,256.3	46.7	5,312.0	5,312.0
Non-current								
Amounts owed by subsidiary undertakings	4,958.9	–	4,958.9	4,958.9	4,505.9	–	4,505.9	4,505.9
Loans to associates and jointly controlled entities	602.3	–	602.3	602.3	544.4	–	544.4	544.4
Derivative financial assets	–	175.6	175.6	175.6	–	141.8	141.8	141.8
	5,561.2	175.6	5,736.8	5,736.8	5,050.3	141.8	5,192.1	5,192.1
	10,546.0	256.9	10,802.9	10,802.9	10,315.6	188.5	10,504.1	10,504.1
Financial Liabilities								
Current								
Bank loans, commercial paper and overdrafts	(898.8)	–	(898.8)	(900.6)	(700.0)	–	(700.0)	(701.7)
Amounts owed to subsidiary undertakings	(3,385.8)	–	(3,385.8)	(3,385.8)	(2,715.0)	–	(2,715.0)	(2,715.0)
Derivative financial liabilities	–	(39.1)	(39.1)	(39.1)	–	(101.1)	(101.1)	(101.1)
	(4,284.6)	(39.1)	(4,323.7)	(4,325.5)	(3,415.0)	(101.1)	(3,516.1)	(3,517.8)
Non-current								
Loans and borrowings	(4,412.6)	(81.8)	(4,494.4)	(5,128.1)	(3,749.9)	30.9	(3,719.0)	(4,558.5)
Derivative financial liabilities	–	(360.4)	(360.4)	(360.4)	–	(373.9)	(373.9)	(373.9)
	(4,412.6)	(442.2)	(4,854.8)	(5,488.5)	(3,749.9)	(343.0)	(4,092.9)	(4,932.4)
	(8,697.2)	(481.3)	(9,178.5)	(9,814.0)	(7,164.9)	(444.1)	(7,609.0)	(8,450.2)
Net financial assets/(liabilities)	1,848.8	(224.4)	1,624.4	988.9	3,150.7	(255.6)	2,895.1	2,053.9

(i) Recorded at amortised cost, available for sale, or loans and receivables.
(ii) IAS 39 financial instruments.

Basis of determining fair value

Certain assets and liabilities designated and carried at amortised cost are loans and receivables. For certain current assets and liabilities their carrying value is equivalent to fair value due to short term maturity.

Assets and liabilities designated at fair value and the fair value of other financial assets and liabilities have been determined by reference to closing rate market values. This basis has been used in valuing interest rate instruments, foreign currency hedge contracts and foreign currency denominated long-term fixed rate debt. Commodity contracts fair values are based on published price quotations.

The fair values are stated at a specific date and may be different from the amounts which will actually be paid or received on settlement of the instruments. The fair value of items such as property, plant and equipment, internally generated brands or the Group's customer base are not included as these are not financial instruments.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations.

Credit risk arising from the Group's normal commercial operations is controlled by individual business units operating in accordance with Group policies and procedures. Generally, for significant contracts, individual business units enter into contracts or agreements with counterparties having investment grade credit ratings only, or where suitable collateral or other security has been provided. Counterparty credit validation is undertaken prior to contractual commitment.

Notes on the financial statements continued
for the year ended 31 March 2016

34. Capital and financial risk management continued

Credit risk management for the Group's Networks businesses is performed in accordance with industry standards as set out by the Regulator and is financially controlled by the individual business units. The Group's greatest credit risks lie with the operations of the Energy Supply business, the Wholesale procurement activities conducted by Energy Portfolio Management ('EPM') under a trust arrangement and the activities carried out by the Group's Treasury function. In all cases, specific credit risk controls that match the risk profile of those activities are applied. Exposure to credit risk in the retail supply of electricity and gas to end user customers arises from the potential of a customer defaulting on their invoiced payables. The financial strength and creditworthiness of business customers is assessed prior to commencing, and for the duration of, their contract of supply. Domestic customers' creditworthiness is reviewed from a variety of internal and external information.

Exposure to credit risk in the procurement of wholesale energy and fuel is managed by reference to agreed transaction credit limits which are determined by whether the counterparty:

- holds an investment grade credit rating; or
- can be assessed as adequately creditworthy in accordance with internal credit rules using information from other external credit agencies; or
- can provide a guarantee from an investment grade rated entity or post suitable collateral or provide other acceptable assurances in accordance with group procedures where they have failed to meet the above conditions; or
- can be allocated a non-standard credit limit approved by the Risk and Trading Committee within its authorised limits as delegated by the Group Board.

Credit support clauses or side agreements are typically included or entered into to protect the Group against counterparty failure or non-delivery. As part of its normal activities, EPM transacts significant volumes of commodity derivative products through cleared exchanges to mitigate credit risk. Such exchanges are subject to strict regulation by the UK Financial Conduct Authority (FCA) and participants in these exchanges are obliged to meet rigorous capital adequacy requirements.

Individual counterparty credit exposures are monitored by category of credit risk and are subject to approved limits. At 31 March 2016, EPM had pledged £211.4m (2015 – £235.8m) of cash collateral and letters of credit and had received £44.5m (2015 – £41.8m) of cash collateral and letters of credit principally to reduce exposures on credit risk.

Bank credit exposures, which are monitored and reported on daily, are calculated on a mark-to-market basis and adjusted for future volatility and probability of default. Any issues relating to these credit exposures are presented for discussion and review by the Risk and Trading Committee.

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to cash. These are subject to insignificant risk of change in value or credit risk.

Derivative financial instruments are entered into to cover the Group's market risks – commodity risk, interest rate risk, currency risk – and are consequently covered elsewhere in this note.

Trade receivables represent the most significant exposure to credit risk and are stated after an allowance for impairment.

Concentrations of risk
Trade receivables recorded by reported segment held at the 31 March were:

	2016 £m	2015 £m
Networks		
Electricity Distribution	**72.2**	69.4
Electricity Transmission	**0.9**	15.4
	73.1	84.8
Retail		
Energy Supply	**524.2**	595.8
Enterprise	**53.9**	145.9
Energy Related Services	**11.4**	23.3
	589.5	765.0
Wholesale		
Energy Portfolio Management and Electricity Generation	**1,291.5**	2,114.0
Gas Storage	**1.1**	1.5
Gas Production	**1.4**	0.5
	1,294.0	2,116.0
Corporate Unallocated	**10.2**	11.7
Total	**1,966.8**	2,977.5

34. Capital and financial risk management continued

The Retail segment accounts for 30.0% (2015 – 25.7%) of the Group's trade receivables. Trade receivables associated with the Group's 8.2 million electricity and gas customers are recorded in this segment. The Group also has significant receivables associated with its Wholesale activities which are generally settled within two to four weeks from invoicing. The Group's exposure to credit risk is therefore subject to diversification with no exposure to individual retail customers totalling >10% of trade receivables. The biggest customer balance, due from a wholesale customer (also a wholesale supplier), is 8% (2015 – 11%) of the total trade receivables.

The ageing of trade receivables at the reporting date was:

	2016 £m	2015 £m
Not past due	**1,690.2**	2,720.0
Past due but not individually impaired:		
0 – 30 days	**156.3**	157.0
31 – 90 days	**59.2**	52.7
Over 90 days	**208.6**	202.1
	2,114.3	3,131.8
Less: allowance for impairment	**(147.5)**	(154.3)
Net Trade receivables	**1,966.8**	2,977.5

The Group has past due debt which has not had an impairment allowance set aside to cover potential credit losses. The Group has certain procedures to pursue customers in significant arrears and believes its impairment policy in relation to such balances is appropriate. Those debts which are neither past due nor impaired are considered to be good and are expected to be recoverable.

The Group has other receivables which are financial assets totalling £23.7m (2015 – £25.2m). The Company does not have trade receivables.

The movement in the allowance for impairment of trade receivables was:

	2016 £m	2015 £m
Balance at 1 April	**154.3**	164.4
Increase in allowance for impairment	**54.3**	56.2
Impairment losses recognised	**(61.1)**	(66.3)
Balance at 31 March	**147.5**	154.3

At the end of each reporting period a review of the provision for bad and doubtful debts is performed. It is an assessment of the potential amount of trade receivables which will not be paid by customers after the balance sheet date. This amount is calculated by reference to the age, status and risk of each class of receivable.

(ii) Liquidity risk and going concern

Liquidity risk, the risk that the Group will have insufficient funds to meet its liabilities, is managed by the Group's Treasury function. The Group can be exposed to significant movements in its liquidity position due to changes in commodity prices, working capital requirements, the impact of the seasonal nature of the business and phasing of its capital investment and recycling programmes.

Treasury is responsible for managing the banking and liquidity requirements of the Group, risk management relating to interest rate and foreign exchange exposures, and for managing the credit risk relating to the banking counterparties with which it transacts. Short term liquidity is reviewed daily by Treasury, while the longer term liquidity position is reviewed on a regular basis by the Board. The department's operations are governed by policies determined by the Board and any breaches of these policies are reported to the Risk and Trading Committee and Audit Committee.

In relation to the Group's liquidity risk, the Group's policy is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

During the year, the Group's approach to managing liquidity was to seek to ensure that the Group had available committed borrowings and facilities equal to at least 105% of forecast borrowings over a rolling 6 month period.

The Group uses cash flow forecasts to monitor its ongoing borrowing requirements. Typically, the Group will fund any short term borrowing positions by issuing commercial paper or borrowing from uncommitted bank lines and will invest in money market funds when it has a cash surplus. Details of the group's borrowings are disclosed at note 26. In addition to the borrowing facilities listed at note 26, the Group has £150m of uncommitted bank lines and a £15m overdraft facility.

Notes on the financial statements continued
for the year ended 31 March 2016

34. Capital and financial risk management continued

Over the course of the financial year to 31 March 2017, the Group has £700m of term loans reaching maturity. Of these loans, £200m matures in June 2016 and £500m matures in September 2016. This refinancing requirement has been covered with the issuance of a new £501m US Private Placement and a new £300m European Investment Bank facility, both were signed ahead of the year end 31 March 2016. The proceeds of the US Private Placement will be received in 3 tranches £35m on 28 April 2016, £64m on 6 June 2016 and £402m on 6 September 2016, the average maturity is 9.6 years, with maturities between April 2023 and September 2027. An utilisation request has been submitted and accepted by the European Investment Bank to draw the £300m facility in full on 20 May 2016 as a 10 year fixed rate term loan. It is the view of the Directors that the Group's 105% funding policy will be met out its forecast borrowing requirement to September 2017.

Given the committed bank facilities of £1.5bn maintained by the Group and the current capital market conditions, the Directors have concluded that the Group has sufficient headroom to continue as a going concern. In coming to this conclusion, the Directors have also taken into account the successful issuance of £4.5bn of medium to long-term debt and hybrid capital since February 2012, and the Group's credit rating. The statement of going concern is included in the Directors' Corporate Governance report on page 70.

Treasury also manage the Group's interaction with its relationship banks (defined as those banks that support the company's financing activities through their ongoing participation in the committed lending facilities that are maintained by the Group). These are each allocated financial limits, subject to the maintenance of a minimum credit rating of investment grade or better allocated by a recognised major ratings group. In respect of short-term cash management, counterparties are subject to review and approval according to defined criteria.

As at 31 March 2016, the value of outstanding cash collateral in respect of mark-to-market related margin calls on exchange traded positions was £78.3m (2015 – £71.7m).

The contractual cash flows shown in the following tables are the contractual undiscounted cashflows under the relevant financial instruments. Where the contractual cashflows are variable based on a price, foreign exchange rate or index in the future, the contractual cashflows in the following tables have been determined with reference to the relevant price, foreign exchange rate, interest rate or index as at the balance sheet date. In determining the interest element of contractual cashflows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cashflows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the amounts in the following tables are on the assumption the holder redeems at the earliest opportunity.

34. Capital and financial risk management continued

The numbers in the following tables have been included in the Group's cashflow forecasts for the purposes of considering Liquidity Risk as noted above.

The following are the undiscounted contractual maturities of financial liabilities, including interest and excluding the impact of netting agreements:

Liquidity Risk	2016 Carrying Value £m	2016 Contractual Cash Flows £m	2016 0-12 months £m	2016 1-2 years £m	2016 2-5 years £m	2016 > 5 years £m	2015 Carrying Value £m	2015 Contractual Cash Flows £m	2015 0-12 months £m	2015 1-2 years £m	2015 2-5 years £m	2015 > 5 years £m
Financial Liabilities												
Loans and Borrowings												
Bank overdrafts	–	–	–	–	–	–	0.2	(0.2)	(0.2)	–	–	–
Commercial paper and cash advances	198.8	(198.8)	(198.8)	–	–	–	–	–	–	–	–	–
Loans – floating	1,256.0	(1,292.1)	(710.2)	(113.2)	(317.6)	(151.1)	1,150.0	(1,187.5)	(708.5)	(5.6)	(16.8)	(456.6)
Loans – fixed	991.8	(1,352.0)	(38.2)	(50.7)	(392.2)	(870.9)	822.0	(1,047.0)	(31.5)	(31.5)	(293.9)	(690.1)
Unsecured bonds – fixed	4,138.9	(6,521.2)	(183.6)	(183.6)	(1,000.8)	(5,153.2)	3,699.7	(6,379.8)	(179.2)	(179.3)	(1,013.9)	(5,007.4)
Non-recourse funding	200.7	(487.4)	(22.8)	(22.4)	(67.0)	(375.2)	140.0	(140.1)	(12.5)	(12.6)	(36.3)	(78.7)
Fair value adjustment	81.8	–	–	–	–	–	(30.9)	–	–	–	–	–
	6,868.0	(9,851.5)	(1,153.6)	(369.9)	(1,777.6)	(6,550.4)	5,781.0	(8,754.6)	(931.9)	(229.0)	(1,360.9)	(6,232.8)
Finance lease obligations	300.8	(494.9)	(53.9)	(55.2)	(160.0)	(225.8)	319.7	(548.3)	(52.9)	(53.2)	(164.1)	(278.1)
	7,168.8	(10,346.4)	(1,207.5)	(425.1)	(1,937.6)	(6,776.2)	6,100.7	(9,302.9)	(984.8)	(282.2)	(1,525.0)	(6,510.9)
Derivative Financial Liabilities												
Operating derivatives designated at fair value	2,218.3	5,667.0	4,645.5	951.4	70.1	–	2,688.3	12,245.3	9,037.1	2,659.1	543.8	5.3
Interest rate swaps used for hedging	58.4	(58.4)	(19.7)	(19.7)	(16.6)	(2.4)	105.9	(105.9)	(22.3)	(22.3)	(46.2)	(15.1)
Interest rate swaps designated at fair value	357.1	(357.1)	(20.1)	(19.9)	(54.7)	(262.4)	367.4	(367.4)	(68.5)	(18.1)	(51.3)	(229.5)
Forward exchange contracts held for hedging	7.4	(180.3)	(89.9)	(90.1)	(0.3)	–	62.0	(558.0)	(279.8)	(174.6)	(103.6)	–
Forward exchange contracts designated at fair value	0.1	(0.1)	(0.1)	–	–	–	7.1	(64.5)	(64.5)	–	–	–
	2,641.3	5,071.1	4,515.7	821.7	(1.5)	(264.8)	3,230.7	11,149.5	8,602.0	2,444.1	342.7	(239.3)
Other financial liabilities												
Trade payables	1,868.3	(1,868.3)	(1,868.3)	–	–	–	2,707.7	(2,707.7)	(2,707.7)	–	–	–
	1,868.3	(1,868.3)	(1,868.3)	–	–	–	2,707.7	(2,707.7)	(2,707.7)	–	–	–
Total	11,678.4	(7,143.6)	1,439.9	396.6	(1,939.1)	(7,041.0)	12,039.1	(861.1)	4,909.5	2,161.9	(1,182.3)	(6,750.2)
Derivative Financial Assets												
Financing derivatives	(298.7)	(512.7)	(519.6)	(69.2)	37.6	38.5	(211.7)	(61.4)	(110.7)	1.4	14.7	33.2
Operating derivatives designated at fair value	(1,854.0)	(5,146.1)	(4,082.9)	(950.6)	(112.6)	–	(2,355.0)	(9,522.0)	(7,310.3)	(1,967.5)	(244.2)	–
	(2,152.7)	(5,658.8)	(4,602.5)	(1,019.8)	(75.0)	38.5	(2,566.7)	(9,583.4)	(7,421.0)	(1,966.1)	(229.5)	33.2
Net total (i)	9,525.7	(12,802.4)	(3,162.6)	(623.2)	(2,014.1)	(7,002.5)	9,472.4	(10,444.5)	(2,511.5)	195.8	(1,411.8)	(6,717.0)

(i) The Group believes the liquidity risk associated with out-of-the-money operating derivative contracts needs to be considered in conjunction with the profile of payments or receipts arising from derivative financial assets. It should be noted that cash flows associated with future energy sales and commodity contracts which are not IAS 39 financial instruments are not included in this analysis, which is prepared in accordance with IFRS 7.

Notes on the financial statements continued
for the year ended 31 March 2016

34. Capital and financial risk management continued

The Company has the following liquidity maturity profile:

Liquidity Risk	2016 Carrying Value £m	2016 Contractual Cash Flows £m	2016 0-12 months £m	2016 1-2 years £m	2016 2-5 years £m	2016 > 5 years £m	2015 Carrying Value £m	2015 Contractual Cash Flows £m	2015 0-12 months £m	2015 1-2 years £m	2015 2-5 years £m	2015 > 5 years £m
Financial Liabilities												
Loans and Borrowings												
Commercial paper and cash advances	198.8	(198.8)	(198.8)	–	–	–	–	–	–	–	–	–
Loans – floating	1,106.0	(1,130.4)	(708.1)	(111.1)	(311.2)	–	1,000.0	(1,024.4)	(706.5)	(3.6)	(10.7)	(303.6)
Loans – fixed	672.1	(835.3)	(27.2)	(39.6)	(359.4)	(409.1)	672.0	(862.5)	(27.2)	(27.2)	(281.0)	(527.1)
Unsecured bonds – fixed	3,334.5	(4,855.0)	(147.5)	(147.5)	(892.4)	(3,667.6)	2,778.3	(4,361.2)	(137.7)	(137.7)	(888.0)	(3,197.8)
Fair value adjustment	81.8	–	–	–	–	–	(30.9)	–	–	–	–	–
	5,393.2	(7,019.5)	(1,081.6)	(298.2)	(1,563.0)	(4,076.7)	4,419.4	(6,248.1)	(871.4)	(168.5)	(1,179.7)	(4,028.5)
Derivative Financial Liabilities												
Interest rate swaps used for hedging	58.4	(58.4)	(19.7)	(19.7)	(16.6)	(2.4)	105.9	(105.9)	(22.3)	(22.3)	(46.2)	(15.1)
Interest rate swaps designated at fair value	341.1	(341.1)	(19.3)	(19.2)	(52.5)	(250.1)	352.7	(352.7)	(67.9)	(17.4)	(49.4)	(218.0)
Forward exchange contracts held for hedging	–	–	–	–	–	–	16.4	(138.1)	(71.4)	(66.7)	–	–
	399.5	(399.5)	(39.0)	(38.9)	(69.1)	(252.5)	475.0	(596.7)	(161.6)	(106.4)	(95.6)	(233.1)
Other financial liabilities												
Amounts due to subsidiary undertakings	3,385.8	(3,385.8)	(3,385.8)	–	–	–	2,715.0	(2,715.0)	(2,715.0)	–	–	–
	3,385.8	(3,385.8)	(3,385.8)	–	–	–	2,715.0	(2,715.0)	(2,715.0)	–	–	–
Total	9,178.5	(10,804.8)	(4,506.4)	(337.1)	(1,632.1)	(4,329.2)	7,609.4	(9,559.8)	(3,748.0)	(274.9)	(1,275.3)	(4,261.6)
Derivative Financial Assets												
Financing derivatives	(256.9)	(206.4)	(315.1)	(8.6)	78.8	38.5	(188.5)	(187.1)	(45.2)	(46.7)	(53.8)	(41.4)
Net total	8,921.6	(11,011.2)	(4,821.5)	(345.7)	(1,553.3)	(4,290.7)	7,420.9	(9,746.9)	(3,793.2)	(321.6)	(1,329.1)	(4,303.0)

(iii) Commodity risk

The Group's Energy Portfolio Management ('EPM') business manages the Group's exposure to energy commodity price movements and requirement for the delivery of its physical commodity needs as part of its normal course of business. The risk management activity carried out by EPM arises from the Group's requirement to source gas, electricity or other commodities such as renewable obligation certificates for Energy Supply, and to procure fuel and other commodities and provide a route-to-market for Electricity Generation.

The Group's strategy is to manage all exposures to commodity risk through volumetric limits and to measure the exposure by use of Value at Risk (VaR) models. The exposure is subject to financial limits established by the Board and managed by reference to guidance agreed by the Risk and Trading Committee. Exposures are reported to the Committee on a monthly basis and to the Board when certain trigger levels are exceeded. Within this approach, only certain of the Group's energy commodity contracts are deemed to constitute financial instruments under IAS 39. As a result, while the Group manages the commodity price risk associated with both financial and non-financial commodity contracts, it is only the fair value of IAS 39 financial instruments which represents the exposure of the Group's commodity price risk under IFRS 7. This is a consequence of the Group's accounting policy which stipulates that commodity contracts which are designated as financial instruments under IAS 39 should be accounted for on a fair value basis with changes in fair value reflected in profit or equity. Conversely, commodity contracts that are not designated as financial instruments under IAS 39 will be accounted for as 'own use' contracts. As fair value changes in own use contracts are not reflected through profit or equity, these do not represent the IFRS 7 commodity price risk. Therefore, as the overall Group VaRs associated with commodity risk will be monitored for internal risk management purposes and is outside the scope of IAS 39.

In EPM, the economic volatility that the Group is exposed to related to this risk is managed through a selection of longer and shorter term contracts for commodities such as gas, electricity, coal and carbon allowances, the arm's length arrangements with the Group's gas production business and through flexibility from the Group's fleet of generation assets including assets such as pumped storage generating plant, flexible hydro generating plant, standby oil plant and contracts with the gas storage business.

34. Capital and financial risk management continued

Short-term exposures will arise from the requirement to match volumes of procured gas and electricity with demand for gas and electricity by Energy Supply customers. In addition, exposures can arise from matching fuel and other commodity procurement with demand for these commodities arising from the Group's Generation assets. Both can vary from expectations and result in a requirement to close the contracted positions at unfavourable prices. Longer-term exposures are managed by EPM through longer term contracts (including forwards, futures contracts and other financial instruments). These, in turn, are used to reduce short-term market exposures.

As noted, certain commodity contracts are entered into primarily for own use purposes to supply to customers or to provide fuel to power stations. However, as noted, a number of these contracts do not qualify for own use treatment under IAS 39 and are subject to fair value measurement through the income statement. In addition to this, the Group enters into certain contracts to manage commodity price and volume risk. These are also subject to fair value measurement through the income statement. Finally, other physical contracts can be treated as the hedging instrument in documented cash flow hedging relationships where the hedged item is the forecast future purchase requirement to meet production or customer demand. The accounting policies associated with such items are explained in the Accompanying information section A1.

The consequential commodity risk which derives from these activities is quantified by the use of a Value at Risk (VaR) model which considers exposures in all commodities and provides an estimate of the potential change to the Group's forecast profits over a given period and to a given confidence level. The calculated financial risk is controlled through the imposition of a number of risk limits approved by the Board and monitored and managed by the Risk and Trading Committee. The Group's exposure to Commodity risk is subsequently reported to and monitored by the Risk and Trading Committee and to the Executive Committee by exception.

The Group's exposure to commodity price risk according to IFRS 7 is measured by reference to the Group's IAS 39 commodity contracts. IFRS 7 requires disclosure of a sensitivity analysis for market risks that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables impacting upon the fair value or cash flows associated with the Group's financial instruments.

Therefore, the sensitivity analysis provided discloses the effect on profit or loss and equity at the balance sheet date assuming that a reasonably possible change in the relevant commodity price had occurred, and been applied to the risk exposures in existence at that date. The reasonably possible changes in commodity prices used in the sensitivity analysis were determined based on calculated or implied volatilities where available, or historical data.

The sensitivity analysis has been calculated on the basis that the proportion of commodity contracts that are IAS 39 financial instruments remains consistent with those at that point. Excluded from this analysis are all commodity contracts that are not financial instruments under IAS 39.

	2016		2015	
	Base Price (i)	**Reasonably possible increase/ decrease in variable**	Base Price (i)	Reasonably possible increase/ decrease in variable
Commodity prices				
UK gas (p/therm)	**33**	**+/- 4**	48	+/- 7
UK power (£/MWh)	**33**	**+/- 5**	46	+/- 7
UK coal (US$/tonne)	**42**	**+/- 4**	60	+/- 4
UK emissions (€/tonne)	**5**	**+/- 1**	7	+/- 2
UK oil (US$/bbl)	**49**	**+/- 7**	67	+/- 7

(i) The base price represents the average forward market price over the duration of the active market curve used to calculate the sensitivity analysis.

The impacts of reasonably possible changes in commodity prices on profit after taxation based on the rationale described are as follows:

	2016	2015
	Impact on profit and equity (£m)	Impact on equity (£m)
Incremental profit/(loss)		
Commodity prices combined – increase	**77.6**	360.1
Commodity prices combined – decrease	**(77.6)**	(360.1)

The sensitivity analysis provided is hypothetical and is based on the Group's commodity contracts under IAS 39. This is analysis only and should be used with caution as the impacts disclosed are not necessarily indicative of the actual impacts that would be experienced. It should also be noted that these sensitivities impacts provided are indicative only and are based on calculations which do not consider all interrelationships, consequences and effects of such a change in those prices.

Notes on the financial statements continued
for the year ended 31 March 2016

34. Capital and financial risk management continued

(iv) Currency risk

The Group publishes its consolidated financial statements in Sterling but also conducts business in foreign currencies. As a result, it is subject to foreign currency exchange risk arising from exchange rate movements which will be reflected in the Group's transaction costs or in the underlying foreign currency assets of its foreign operations.

The Group's policy is to use forward contracts, swaps and options to manage its exposures to foreign exchange risk. All such exposures are transactional in nature, and relate primarily to procurement contracts, commodity purchasing and related freight requirements, commodity hedging, long-term plant servicing and maintenance agreements, and the purchase and sale of carbon emission certificates. The policy is to seek to hedge 100% of its currency requirements arising under all committed contracts excepting commodity hedge transactions, the requirements for which are significantly less predictable. The policy for these latter transactions is to assess the Group's requirements on a rolling basis and to enter into cover contracts as appropriate. The Group has foreign subsidiary operations with significant Euro-denominated net assets. The Group's policy is to hedge its net investment in its foreign operations by ensuring the net assets whose functional currency cash flows are denominated in Euros are matched by borrowings in Euros. For the acquired net assets whose functional cash flows are in Sterling, the Group will ensure Sterling denominated borrowings are in place to minimise currency risk.

Significant exposures are reported to, and discussed by, the Risk and Trading Committee on an ongoing basis and additionally form part of the bi-annual Treasury report to the Audit Committee.

At the balance sheet date, the total nominal value of outstanding forward foreign exchange contracts that the Group has committed to is:

	2016 £m	2015 £m
Forward foreign exchange contracts	**2,783.8**	1,735.4

The Group's exposure to foreign currency risk was as follows:

	2016							2015						
	¥ m	DKK m	SEK m	€ m	$ m	NOK m	CHF m	¥ m	DKK m	SEK m	€ m	$ m	NOK m	CHF m
Loans and borrowings	**15,000.0**	**–**	**–**	**2,063.3**	**850.0**	**–**	**–**	15,000.0	–	–	1,102.4	700.0	–	–
Purchase and commodity contract commitments	**–**	**982.1**	**1,105.9**	**453.9**	**377.5**	**23.9**	**34.6**	–	–	2,081.8	515.7	474.2	349.2	34.6
Gross exposure	**15,000.0**	**982.1**	**1,105.9**	**2,517.2**	**1,227.5**	**23.9**	**34.6**	15,000.0	–	2,081.8	1,618.1	1,174.2	349.2	34.6
Forward exchange/swap contracts	**15,000.0**	**982.1**	**1,105.9**	**2,029.1**	**1,239.0**	**23.9**	**34.6**	15,000.0	–	2,081.8	992.0	1,066.4	349.2	34.6
Net exposure (in currency)	**–**	**–**	**–**	**488.1**	**(11.5)**	**–**	**–**	–	–	–	626.1	107.8	–	–
Net exposure (in £m)	**–**	**–**	**–**	**386.0**	**(8.0)**	**–**	**–**	–	–	–	452.5	72.6	–	–

This represents the net exposure to foreign currencies, reported in pounds Sterling, and arising from all Group activities. All sensitivity analysis has been prepared on the basis of the relative proportions of instruments in foreign currencies being consistent as at the balance sheet date. This includes only monetary assets and liabilities denominated in a currency other than Sterling and excludes the translation of the net assets of foreign operations but not the corresponding impact of the net investment hedge.

The sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually changing. The calculations are based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the Group.

34. Capital and financial risk management continued

A 10% change in foreign currency exchange rates would have had the following impact on profit after taxation, based on the assumptions presented above:

	Equity		Income Statement	
	At 31 March 2016 £m	At 31 March 2015 £m	**At 31 March 2016 £m**	At 31 March 2015 £m
US Dollars	**–**	–	**0.7**	(6.5)
Euro	**43.2**	38.5	**(8.1)**	1.7
DKK	**–**	–	**–**	–
¥	**–**	–	**–**	–
SEK	**–**	–	**–**	–
NOK	**–**	–	**–**	–
CHF	**–**	–	**–**	–
	43.2	38.5	**(7.4)**	(4.8)

The impact of a decrease in rates would be an identical reduction in the annual charge.

(v) Interest rate risk

Interest rate risk derives from the Group's exposure to changes in the value of an asset or liability or future cash flows through changes in interest rates.

The Group's policy is to manage this risk by stipulating that a minimum of 50% of Group borrowings be subject to fixed rates of interest, either directly through the debt instruments themselves or through the use of derivative financial instruments. The floating rate borrowings are provided by banks including the European Investment Bank (EIB). Such instruments include interest rate swaps and options, forward rate agreements and, in the case of debt raised in currencies other than Sterling, cross currency swaps. These practices serve to reduce the volatility of the Group's financial performance.

Although interest rate derivatives are primarily used to hedge risk relating to current borrowings, under certain circumstances they may also be used to hedge future borrowings. Any such pre-hedging is unwound at the time of pricing the underlying debt, either through cash settlement on a net present value basis or by transacting offsetting trades. The floating rate borrowings mainly comprise cash advances from the European Investment Bank (EIB).

The impact of a change in interest rates is dependent on the specific details of the financial asset or liability in question. Changes in fixed rate financial assets and liabilities, which account for the majority of cash, loans and borrowings, are not measured at fair value through the income statement. In addition to this, changes to fixed-to-floating hedging instruments which are recorded under cash flow hedge accounting also do not impact the income statement. Changes in variable rate instruments and hedging instruments and hedged items recorded under fair value hedge accounting are recorded through the income statement. The exposure measured is therefore based on variable rate debt and instruments.

The net exposure to interest rates at the balance sheet date can be summarised thus:

	2016 Carrying amount £m	2015 Carrying amount £m
Interest bearing/earning assets and liabilities:		
– fixed	**(5,613.9)**	(4,983.4)
– floating	**(1,372.1)**	79.3
	(6,986.0)	(4,904.1)
Represented by:		
Cash and cash equivalents	**360.2**	1,512.3
Derivative financial liabilities	**(177.4)**	(284.8)
Loans and borrowings	**(6,868.0)**	(5,811.9)
Finance lease obligations	**(300.8)**	(319.7)
	(6,986.0)	(4,904.1)

Following from this, the table below represents the expected impact of a change of 100 basis points in short term interest rates at the reporting date in relation to equity and income statement. The analysis assumes that all other variables, in particular foreign currency rates, remain constant. An increase in exchange rates would be a change to either the income statement or equity. The assessment is based on a revision of the fair value assumptions included in the calculated exposures in the previous table.

All sensitivity analysis has been prepared on the basis of the proportion of fixed to floating instruments being consistent as at the balance sheet date and is stated after the effect of taxation.

Notes on the financial statements continued
for the year ended 31 March 2016

34. Capital and financial risk management continued

The sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually changing. The calculations are based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the Group.

	2016 £m	2015 £m
Income statement	**14.3**	12.3
	14.3	12.3

The impact of a decrease in rates would be an identical reduction in the annual charge. There is no impact on equity as the analysis relates to the Group's net exposure at the balance sheet date. Contracts qualifying for hedge accounting are, by definition, part of the group's covered position.

(vi) Primary statement disclosures

For financial reporting purposes, the Group has classified derivative financial instruments into two categories, operating derivatives and financing derivatives. Operating derivatives include all qualifying commodity contracts including those for electricity, gas, oil, coal and carbon. Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts. Non-hedge accounted contracts are treated as held for trading.

The net movement reflected in the income statement can be summarised thus:

	2016 £m	2015 £m
Operating Derivatives		
Total result on operating derivatives (i)	**(1,375.4)**	(1,073.5)
Less: Amounts settled (ii)	**1,344.3**	1,005.7
Movement in unrealised derivatives	**(31.1)**	(67.8)
Financing Derivatives (and hedged items)		
Total result on financing derivatives (i)	**(214.9)**	(395.5)
Less: Amounts settled (ii)	**229.2**	351.3
Movement in unrealised derivatives	**14.3**	(44.2)
Net income statement impact	**(16.8)**	(112.0)

(i) Total result on derivatives in the income statement represents the total amounts (charged) or credited to the income statement in respect of operating and financial derivatives.
(ii) Amounts settled in the year represent the result on derivatives transacted which have matured or been delivered and have been included within the total result on derivatives.

The derivative financial assets and (liabilities) are represented as follows:

	2016 £m	2015 £m
Derivative Financial Assets		
Non-current	**537.7**	566.8
Current	**1,615.0**	1,999.9
	2,152.7	2,566.7
Derivative Liabilities		
Non-current	**(857.5)**	(933.4)
Current	**(1,783.8)**	(2,297.3)
Total derivative liabilities	**(2,641.3)**	(3,230.7)
Net (liability)	**(488.6)**	(664.0)

34. Capital and financial risk management continued

Fair Value Hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from unadjusted quoted market prices for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

	Level 1 £m	Level 2 £m	Level 3 £m	**Total £m**
Financial assets				
Energy derivatives	378.7	1,475.3	–	**1,854.0**
Interest rate derivatives	–	238.1	–	**238.1**
Foreign exchange derivatives	–	60.6	–	**60.6**
Equity Investments	–	25.1	–	**25.1**
	378.7	1,799.1	–	**2,177.8**
Financial liabilities				
Energy derivatives	(436.7)	(1,781.6)	–	**(2,218.3)**
Interest rate derivatives	–	(415.5)	–	**(415.5)**
Foreign exchange derivatives	–	(7.5)	–	**(7.5)**
Loans and borrowings	–	81.8	–	**81.8**
	(436.7)	(2,122.8)	–	**(2,559.5)**

There were no significant transfers out of level 1 into level 2 and out of level 2 into level 1 during the year ended 31 March 2016.

(vii) Cash flow hedges

The Group designates contracts which qualify as hedges for accounting purposes either as cash flow hedges or fair value hedges. Cash flow hedges are contracts entered into to hedge a forecast transaction or cash flow risk generally arising from a change in interest rates or foreign currency exchange rates and which meet the effectiveness criteria prescribed by IAS 39. The Group's accounting policy on cash flow hedges is explained in the Accompanying Information section A1.

The following table indicates the contractual maturities of the expected transactions and the qualifying cash flow hedges associated:

Cash flow hedges

	2016 Carrying amount	**2016 Expected cash flows**	**2016 0-12 months**	**2016 1-2 years**	**2016 2-5 years**	**2016 > 5 years**	2015 Carrying amount	2015 Expected cash flows	2015 0-12 months	2015 1-2 years	2015 2-5 years	2015 > 5 years
Interest rate swaps:												
Assets	**0.4**	**0.4**	**–**	**0.1**	**0.1**	**0.2**	–	–	–	–	–	–
Liabilities	**(0.1)**	**(0.1)**	**–**	**–**	**–**	**(0.1)**	–	–	–	–	–	–
	0.3	**0.3**	**–**	**0.1**	**0.1**	**0.1**						
Forward exchange contracts:												
Assets	**36.5**	**(631.9)**	**(460.5)**	**(130.3)**	**(41.2)**	**–**	12.0	(139.6)	(47.2)	(45.2)	(39.0)	(8.2)
Liabilities	**(7.4)**	**(180.3)**	**(89.9)**	**(90.1)**	**(0.3)**	**–**	(62.0)	(558.0)	(279.8)	(174.6)	(103.6)	–
	29.1	**(812.2)**	**(550.4)**	**(220.4)**	**(41.5)**	**–**	(50.0)	(697.6)	(327.0)	(219.8)	(142.6)	(8.2)

(viii) Net investment hedge

The Group's net investment hedge consists of debt issued in the same currency (€) as the net investment in foreign subsidiaries with € denominated functional currencies being the Airtricity Supply business and the thermal plants and wind farms in Ireland. The hedge compares the element of the net assets whose functional cash flows are denominated in € to the matching portion of the € borrowings held by the Group. This therefore provides protection against movements in foreign exchange rates.

Gains and losses in the hedge are recognised in equity and will be transferred to the income statement on disposal of the foreign operation (2016 – £33.4m loss, 2015 – £48.7m gain). Gains and losses on the ineffective portion of the hedge are recognised immediately in the income statement (2016 – £nil, 2015 – £nil).

Notes on the financial statements continued
for the year ended 31 March 2016

35. Related party transactions

The immediate parent and ultimate controlling party of the Group is SSE plc (incorporated in Scotland). Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Trading transactions

The following transactions took place during the year between the Group and entities which are related to the Group but which are not members of the Group. Related parties are defined as those in which the Group has control, joint control or significant influence over.

	2016 Sale of goods and services £m	2016 Purchase of goods and services £m	2016 Amounts owed from £m	2016 Amounts owed to £m	2015 Sale of goods and services £m	2015 Purchase of goods and services £m	2015 Amounts owed from £m	2015 Amounts owed to £m
Joint ventures:								
Seabank Power Ltd	**13.7**	**(125.8)**	**–**	**18.2**	20.1	(115.5)	1.8	11.1
Marchwood Power Ltd	**12.7**	**(108.7)**	**0.1**	**15.5**	28.7	(114.4)	3.4	12.7
Scotia Gas Networks Ltd	**46.3**	**(155.8)**	**15.9**	**0.9**	49.0	(166.4)	7.7	0.3
Other Joint Ventures	**8.1**	**(1.2)**	**8.4**	**–**	27.6	(6.0)	3.0	–
Associates	**0.5**	**(59.7)**	**2.4**	**3.9**	0.8	(41.9)	1.9	2.5

The transactions with Seabank Power Limited and Marchwood Power Limited relate to the contracts for the provision of energy or the tolling of energy under power purchase arrangements. Scotia Gas Networks Limited has operated the gas distribution networks in Scotland and the South of England from 1 June 2005. The Group's gas supply activity incurs gas distribution charges while the Group also provides services to Scotia Gas Networks in the form of a management service agreement for corporate services, stock procurement services and the provision of the capital expenditure on the development of front office management information systems.

The amounts outstanding are trading balances, are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties. Aggregate capital loans to joint ventures and associates are shown in note 17.

Remuneration of key management personnel

The remuneration of the key management personnel of the Group (excluding amounts equivalent to pension value increases as set out in the Remuneration Report), is set out below in aggregate.

	2016 £m	2015 £m
Short-term employment benefits		
Executive Directors	**2.2**	2.8
Other Executive Committee members	**2.4**	2.5
	4.6	5.3

Key management personnel are responsible for planning, directing and controlling the operations of the Group. These activities were conducted by the Executive Committee, comprising the two Executive Directors and the Managing Directors of the Networks, Retail, Wholesale and Enterprise businesses.

In addition, the key management personnel receive share based remuneration, details of which are found at note 33. Further information about the remuneration of individual directors is provided in the audited part of the Remuneration Report. The Executive Directors are employed by the Company.

Information regarding transactions with post-retirement benefit plans is included in note 32.

36. Commitments and contingencies

36.1 Capital commitments

	2016 £m	2015 £m
Capital expenditure:		
Contracted for but not provided	**898.4**	1,059.5

Contracted for but not provided capital commitments includes the fixed contracted costs of the Group's major capital projects. In practice contractual variations may arise on the final settlement of these contractual costs.

36.2 Operating lease commitments

(i) Leases as lessee:

	2016 £m	2015 £m
Amount included in the income statement relating to the current year leasing arrangements		
Minimum lease payments – power purchase agreement	**93.1**	92.3
Other lease payments	**73.0**	70.9
	166.1	163.2

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 £m	2015 £m
Power purchase agreements		
Within one year	**78.6**	89.4
In second to fifth years inclusive	**86.8**	164.3
	165.4	253.7
Other leases		
Within one year	**76.9**	60.4
In second to fifth years inclusive	**134.9**	116.8
After five years	**244.5**	259.3
	456.3	436.5
Total		
Within one year	**155.5**	149.9
In second to fifth years inclusive	**221.7**	281.1
After five years	**244.5**	259.3
	621.7	690.3

The average power purchase agreement lease term is 4 years (2015 – 4 years).

Certain obligations under power purchase agreements with various power generating companies are not deemed to qualify as finance leases as the lease term is not judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at the inception of the agreements did not amount to substantially all of the fair value of the power stations at that time. The Company has no operating lease commitments as a lessee.

(ii) Leases as lessor:

The Group and Company have no operating lease commitments as a lessor.

Notes on the financial statements continued
for the year ended 31 March 2016

36. Commitments and contingencies continued
36.3 Guarantees, indemnities and other contingent liabilities
SSE plc has provided guarantees on behalf of subsidiary, joint venture and associated undertakings as follows:

	2016 £m	2015 £m
Bank borrowing	**352.2**	302.0
Performance of contracts	**1,357.6**	1,401.8
Purchase of gas	**10.0**	10.0

Subsidiaries have provided guarantees on behalf of the Company as follows:

	2016 £m	2015 £m
Bank borrowing	**1,971.1**	1,885.7

In the year to 31 March 2016, the Group had drawn down £105m from its Bank of America Merrill Lynch International Ltd facility. SSE Energy Supply Ltd and SSE Generation Ltd have entered into a guarantee with Bank of America Merrill Lynch International Ltd in relation to the bank facility to guarantee the obligations of SSE Plc. In relation to bank borrowings the guarantee amounts outlined above include accrued interest.

Unlimited guarantees have been provided on behalf of subsidiary undertakings in relation to eight contracts in respect of performance of work and any liabilities arising. SSE Services Plc, a wholly owned subsidiary of the Company, has provided a guarantee to Group Trustee Independent Trustees in respect of Southern Electric Group of the Electricity Supply Pension Scheme in respect of funding required by the Scheme. SSE Contracting Limited, a wholly owned subsidiary of the Company, has provided a guarantee to Tay Valley Lighting (Leeds) Ltd, Tay Valley Lighting (Newcastle & North Tyneside) Ltd and Tay Valley Lighting (Stoke on Trent) Ltd. SSE E&P (UK) Limited, a wholly owned subsidiary of the Company, has provided a guarantee to Hess Limited in respect of decommissioning liabilities. SSE E&P (UK) Limited has also provided a guarantee to Britoil Limited and Arco British Limited in respect of the acquisition of the Sean Field. SSE E&P (UK) Limited has also provided a guarantee to Perenco UK Limited in respect of a Sale and Purchase Agreement for the Minerva, Apollo and Mercury Fields. SSE Stock Limited, a wholly owned subsidiary of the Company, has provided a guarantee to ABB Limited in connection with the use of HVDC Replica Control Panels for Caithness-Moray Project.

Where the Company enters into financial guarantee contracts to guarantee indebtedness of the other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make payment under the guarantee.

37. Post Balance Sheet Events
On 13 May 2016, the Group agreed to waive certain contractual rights that gave rise to the accounting judgement that the Group had power to control the "relevant activities" of Clyde Windfarm (Scotland) Limited ('Clyde'). As a consequence, the Group will prospectively account for its interest in Clyde as that of an investment in an equity-accounted joint venture.

Accompanying information

This section explains the significant accounting policies applied in the preparation of the consolidated financial statements and provides details of the Group's principal subsidiaries, joint ventures and subsidiaries.

A1. Basis of consolidation and significant accounting policies

A1.1 Basis of consolidation

The financial statements consolidate the financial statements of the Company and its subsidiaries together with the Group's share of the results and net assets of its jointly controlled entities and associates.

Subsidiaries

Subsidiaries (including special purpose entities) are those entities controlled by the Group or the Company. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity in order to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries acquired are consolidated in the financial statements of the Group from the date that control commences until the date control ceases. Transactions with non-controlling interests that relate to their ownership interests and do not result in a loss of control are accounted for as equity transactions. All business combinations are accounted for by applying the acquisition method of accounting as defined by IFRS 3 Business Combinations.

The special purpose entities referred to relate to entities in which the Group has a 50% shareholding but whose activities the Group is deemed to control under IFRS 10 Consolidated Financial Statements

In the Company, investments in subsidiaries are carried at cost less any impairment charges.

Interests in joint arrangements and associates

Joint arrangements, as defined by IFRS 11, are those arrangements that convey to the parties 'joint control'. Joint control exists when decisions about the 'relevant activities', being the financial, operational or strategic policies of the arrangement, are made with the unanimous consent of the parties to the arrangement. The Group's investments in joint arrangements are classified as either joint operations or joint ventures depending on the investor's contractual rights and obligations. Associates are those investments over which the Group has significant influence but neither control or joint control. These are normally where the Group holds between 20% and 50% of the voting rights. The Group's joint ventures and associates are accounted for using the equity method and are disclosed at note 17 to the Financial Statements.

Under the equity method of accounting, the joint venture and associate investments are carried at cost plus the Group's share of post-acquisition results, less any impairment in value. The Group recognises its share of the results of these equity-accounted operations after tax and interest in the income statement. Where necessary to ensure consistency, the accounting policies of the associate or joint venture have been adjusted to align to the accounting policies of the Group.

The Group's interests in its joint operations are accounted for by recognising its share of the assets, liabilities, revenue and expenses of the operation. In these arrangements, the Group's share of the revenue will be eliminated as these relate to its purchased share of the output from the arrangement. Details are included at note 17.

Transactions eliminated on consolidation

Intra-Group balances and any unrealised gains and losses or income and expenses arising from Intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

A1.2 Accounting policies

Revenue recognition: energy, services and goods relating to the sale of energy

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and that the revenue can be reliably measured. Revenue comprises sales of energy, use of system income, gas production revenue, gas storage facility revenue, the value of contracted services and facilities provided and goods sold during the year in the normal course of business.

Revenue on energy sales comprises sales to retail end-user customers including an estimate of the value of electricity and gas supplied to customers between the date of the last meter reading and the year end. Revenue on energy sales also includes monies received from the electricity and gas balancing markets in the UK and other wholesale market energy sales. Unread energy sales are estimated using historical consumption patterns taking account of industry volume reconciliation processes.

Revenue from sales and optimisation trades in physical and financial energy and commodity contracts is recognised gross in the income statement.

Revenue associated with business interruption insurance claims is recognised as revenue in the income statement only when it is virtually certain that the claim will be successful.

Revenue from use of energy systems includes an estimation of the volume of electricity distributed or transmitted by customers based on independently procured electricity settlement systems data. Annual revenue is dependent on being approved by the industry regulator, Ofgem. Certain circumstances may result in the regulatory 'allowed' income being over- or under-recovered in the financial year. Any over- or under-recovery is included in the calculation of the following year's regulatory use of system revenue within agreed parameters. No adjustment is made for over- or under-recoveries in the year that they arise.

Accompanying information continued

A1. Basis of consolidation and significant accounting policies continued

Revenue from the production of natural gas, crude oil and condensates is recognised when title passes to the customer. The Group has an interest with other producers in jointly ventures and associates for the production of such products.

Revenue under these arrangements is recognised based on the entitlement method in reference to the Group's interest and the relevant production sharing terms. Where there are differences between the Group's share of production and the volume sold, an overlift or underlift is recorded (see below).

Where the Group has an ongoing obligation to provide services, revenues are recognised as the service is performed and amounts billed in advance are treated as deferred income and excluded from current revenue. For network connections activity from 1 November 2009, the revenue recognition rules of IFRIC 18 have been applied, whereby income is recognised over the course of completion of the associated capital works unless there is a future service obligation, in which case revenue is recognised over the service period. Revenue from fixed-fee service contracts is recognised over the life of the contract, in relation to the benefit received by the customer.

Gas storage facilities revenues are recognised evenly over the contract period, whilst revenues for the injection and withdrawal of gas are recognised at the point of gas flowing into or out of the storage facilities.

Sales of goods are recognised when goods are delivered and title has passed, along with the risks and rewards of ownership.

Overlift and underlift

In relation to the Group's gas production activities, it is often not practical for each participant to receive or sell its precise share of the overall production from a jointly controlled operation under the contractual offtake arrangements in any given period. These short-term imbalances between cumulative production entitlement and cumulative sales are referred to as overlift and underlift. An overlift payable, or underlift receivable, is recognised at the balance sheet date and measured at market value, with movements in the period recognised within cost of sales.

Exploration, evaluation and production assets

The Group uses the successful efforts method of accounting for exploration and evaluation expenditure associated with exploration wells or 'prospects'. This expenditure will be capitalised initially within intangible assets and will include licence acquisition costs associated with the prospects. If the prospects are subsequently determined to be successful on completion of the evaluation period, the relevant expenditure will be transferred to property, plant and equipment and depreciated on a unit of production basis. If the prospects are subsequently determined to be unsuccessful on completion of the evaluation period, the intangible asset will be expensed in the period in which that determination is made.

All field development costs, including rights and concessions related to production activities, are capitalised as property, plant and equipment. Capitalised costs relate to the acquisition and installation of production assets and facilities and includes specialist engineering, drilling and technical services costs. These property, plant and equipment assets are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on the proven and probable reserves of those fields. Changes in these estimates are dealt with prospectively.

The carrying value of exploration prospects is regularly compared on an individual field basis with the expected discounted future net revenues associated with the remaining commercial reserves. An impairment loss will be recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues. All exploration and production assets are reviewed annually for indicators of impairment.

Government grants

A government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same years in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement on a systematic basis over the useful life of the asset to match the depreciation charge.

Leases

The determination of whether an arrangement contains a lease is dependent on whether the arrangement relates to use and control of a specific asset. Leases are classified as finance leases if the arrangement transfers substantially all the risks and rewards of ownership to the lessee. All other leases are categorised as operating leases.

(i) Operating lease obligations

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Finance lease obligations

Assets held under finance leases are capitalised and held as part of property, plant and equipment. The accounting policy for such arrangements is described on page 194.

A1. Basis of consolidation and significant accounting policies continued

A1.3 Foreign currencies

The consolidated financial statements are presented in pounds sterling, which is the functional currency of the Company and the Group's presentational currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured accordingly.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Any gain or loss arising on the restatement of such items is taken to the income statement with the exception of exchange gains or losses on foreign currency borrowings that provide a hedge against a net investment in a foreign entity or exchange gains or losses incurred as part of a qualifying cash flow hedge. Exchange gains or losses on net investment hedges are taken against the consolidated translation reserve, a separate component of equity, to the extent the hedge is effective. Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated at the historic rate at the date of transaction.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into pounds sterling at the balance sheet closing rate. The results of these operations are translated at the average rate in the relevant period. Exchange differences on retranslation of the opening net assets and the results are transferred to the translation reserve and are reported in the statement of recognised income and expense. Exchange differences on foreign currency borrowings, foreign exchange contracts or foreign currency swaps used as part of a hedge against net investment in a foreign entity are transferred to the translation reserve.

Finance income and costs

Finance income comprises interest receivable on funds invested in short term deposits and the Group's interests in jointly controlled entities and associates and from interest rate derivative receipts. Finance costs comprise interest payable on borrowings and finance leases, the release of discounting on provisions, interest on net pension scheme liabilities, interest rate derivative payments and accretion of the debt component on the convertible loan less capitalised interest.

Interest on the funding attributable to major capital projects is capitalised during the years of construction and depreciated as part of the total cost over the useful life of the asset.

Interest income and costs are recognised in the income statement as they accrue, on an effective interest method. The issue costs and interest payable on bonds and all other interest payable and receivable is reflected in the income statement on the same basis.

Taxation

Taxation on the profit for the year comprises current and deferred tax. Taxation is recognised in the income statement unless it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities other than in business combinations that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset within the same tax authority and where the Company intends to either settle them on a net basis, or to realise the asset and settle the liability simultaneously. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Dividends

Dividend income is recognised on the date the Group's right to receive payments is established. Dividend liabilities are recognised on the date the Group's obligation to pay dividends is established.

A1.4 Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairments. The cost of self-constructed assets includes the cost of materials, direct labour and other directly attributable costs. All items of property, plant and equipment are accounted for under the cost model within IAS 16. The purchase price of an asset will include the fair value of the consideration paid to acquire the asset. Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment, and depreciated accordingly. An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Accompanying information continued

A1. Basis of consolidation and significant accounting policies continued

(ii) Leased assets
Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Assets held under finance leases are recognised as part of the property, plant and equipment of the Group at the fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Benefits received and receivable as an incentive to enter into an operating lease are also allocated on a straight line basis over the lease term.

(iii) Hydro civil assets
The Group is obliged under the Reservoirs Act 1975 to maintain its hydro infrastructure network, including its dams, tunnels and other hydro civil engineering structures (hydro civil assets). All items of property, plant and equipment within hydro civil assets, with the exception of land, are subject to depreciation.

In accordance with the transition provisions of IFRS 1, the Group identified the carrying value of these assets at privatisation and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, has been subject to depreciation over a useful economic life of 100 years. All subsequent maintenance expenditure is chargeable directly to the income statement.

(iv) Depreciation
Depreciation is charged to the income statement to write off cost, less residual values, on a straight line basis over their estimated useful lives with the exception of Gas and Oil Production Assets which are depreciated on the Units of Production basis. Heritable and freehold land is not depreciated. Depreciation policy, useful lives and residual values are reviewed at least annually, for all asset classes to ensure that the current method is the most appropriate. Depreciation commences following the asset commissioning period and when the asset is available for commercial operation. The estimated useful lives for assets depreciated on a straight line basis are as follows:

	Years
Hydro civil assets	100
Thermal and hydro power stations including electrical and mechanical assets	20 to 60
Operating wind farms	20 to 25
Overhead lines, underground cables and other network assets	40 to 80
Gas storage facilities	25 to 50
Other transmission and distribution buildings, plant and equipment	10 to 45
Office buildings	30 to 40
Shop & office refurbishment, fixtures, IT assets, vehicles and mobile plant	3 to 10
E+P infrastructure assets	20 to 25

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

(v) Subsequent expenditure
It is the Group policy to capitalise qualifying replacement expenditure and depreciate it over the expected useful life of the replaced asset. Replaced assets are derecognised at this point and the costs recorded as costs of disposal. Where an item of property, plant and equipment is replaced and it is not practicable to determine the carrying amount of the replaced part, the cost of the replacement adjusted for inflation will be used as an approximation of the cost of the replaced part at the time it was acquired or constructed.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the item of property, plant and equipment to which it relates.

(vi) Derecognition
An item of property, plant or equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are determined by comparing the proceeds received with the carrying amount of the asset and are included in the income statement. Any gain or loss on derecognition of the asset is included in the income statement in the period of derecognition.

A1.5 Business combinations
The acquisition of subsidiaries is accounted for under the acquisition method as defined by IFRS 3. The acquired business is measured at the date of acquisition as the aggregate of consideration transferred for the fair value of assets, liabilities and contingent liabilities. The excess of the cost of acquisition over the fair value of the acquired business is represented as goodwill. Contingent consideration will be classified as a liability and is subsequently re-measured through the income statement. No such contingent consideration is recorded on the balance sheets in these statemennts. Pre-existing relationships are recognised and, together with all acquisition-related costs, are expensed. Acquisitions costs are expensed as incurred.

A1. Basis of consolidation and significant accounting policies continued

A1.6 Intangible assets

(i) Goodwill and impairment testing

Goodwill arising on a business combination represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or joint venture at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least on an annual basis.

For the purpose of impairment testing, goodwill is allocated on initial recognition to those cash-generating units (CGUs) expected to benefit from the combination's synergies. The cash-generating units used for goodwill impairment testing purposes will represent how goodwill was attributed but may not represent reportable business segments.

Goodwill may also arise upon investments in joint ventures and associates. Such goodwill is recorded within the carrying amount of the Group's investment and any impairment loss is included within the share of result from joint ventures and associates. On disposal or closure of a previously acquired investment or business, any attributed goodwill will be included in determining the profit or loss on disposal.

(ii) Research and development

Expenditure on research activities is charged to the income statement as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products or processes, is capitalised if the product or process is considered to be technically and commercially feasible and the Group intends to complete the intangible asset for use or for sale.

(iii) Allowances and emissions

The European Emissions trading scheme (EU ETS) has been in operation since 1 January 2005. The IASB withdrew IFRIC 3 Emission Rights in June 2005 and it has not been replaced with definitive guidance or interpretation for CO_2 ("carbon") emissions trading. Carbon allowances purchased are recorded at cost within intangible assets. A liability is recognised based on the level of emissions recorded. Up to the level of allowances held, the liability is measured at the cost of purchase. When the carbon emission liability exceeds the carbon allowances held, the net liability is measured at market value selling price. Movements in the market value of the liability are recognised in operating profit. Forward carbon contracts are measured at fair value with gains or losses arising on re-measurement being recognised in the income statement.

The carbon allowance intangible asset is surrendered at the end of the compliance period to the extent requested reflecting the consumption of the economic benefit and is recorded as being utilised. As a result, no amortisation is booked but an impairment charge may be recognised should the carrying value of allowances exceed market or fair value.

Under the Renewable Obligations Certificates (ROCs) scheme, certificates obtained from own generation are awarded by a third party, Ofgem. Self-generated certificates are recorded at market value and purchased certificates are recognised at cost, both within intangible assets. The liability under the renewables obligation is recognised based on electricity supplied to customers, the percentages set by Ofgem and the prevailing market price. The intangible asset is surrendered at the end of the compliance period reflecting the consumption of economic benefit. As a result no amortisation is recorded during the period.

(iv) Development assets

Costs capitalised as development intangibles represent the costs incurred in bringing individual projects to the consented stage. These include wind farm developments, thermal generation and gas storage projects, prospective gas production assets and other developments relating to proven technologies. Costs associated with reaching the consent stage include options over land rights, planning application costs and environmental impact studies. These may be costs incurred directly or part of the fair value exercise on acquisition of a controlling interest in a project. The asset is subject to impairment testing on an annual basis until this time. At the point that the project reaches the consent stage and is approved by the Board, the carrying value of the project is transferred to property, plant and equipment as assets under construction. Once in operation, depreciation will be charged over the expected useful life of the asset. The asset is derecognised on disposal, or when no future economic benefits are expected from their use.

(v) Other intangible assets

Other intangible assets that have been acquired by the Group including brands are stated at cost less accumulated amortisation and impairment losses. Software licenses are stated at cost less accumulated amortisation. Expenditure on internally generated brands is expensed as incurred. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of these other intangible assets. The amortisation periods utilised are as follows:

	Years
Brand values	10
Developed software assets and application software licences	5-10
Customer lists	5
Contracts	Shorter of contract term or 5

The useful lives of all the intangible assets are reviewed annually and amended, as required, on a prospective basis.

Accompanying information continued

A1. Basis of consolidation and significant accounting policies continued

A1.7 Impairment review

The carrying amounts of the Group's PP&E and other intangible assets and the Group's investments in joint ventures and associates, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For PP&E assets that have previously been identified as exhibiting indications of impairment, the review of impairment will be performed annually until there is sufficient evidence to confirm that any potential impairment loss has been appropriately recognised. For goodwill and other intangible assets with an indefinite life or which are not ready for use, the test for impairment is carried out annually. In addition, financial assets measured at amortised cost are also reviewed for impairment annually.

For assets subject to impairment testing, the asset's carrying value is compared to the asset's (or cash-generating unit (CGU)'s, in the case of goodwill), recoverable amount. The recoverable amount is determined to be the higher of the fair value less costs to sell (FVLCS) and the value-in-use (VIU) of the asset or CGU. For financial assets measured at amortised cost the impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If the carrying amount of the asset or CGU exceeds its recoverable amount, an impairment charge will be recognised immediately in the income statement and, in relation to the impairment of goodwill, will not be subsequently reversed.

Value in use (VIU) calculations require the estimation of future cash flows to be derived from the respective assets (or CGUs) and the selection of an appropriate discount rate in order to calculate their present value. The fair value less costs to sell methodology used for wind farms CGUs also requires the discounting of cash flows from the projects within the respective CGUs. The VIU methodology is deemed to be the most appropriate for reviews of PP&E asset and the Group's identified goodwill-related CGUs. This methodology is based on the post-tax cash flows arising from the assets or underlying assets, for CGUs) and is consistent with the approach taken by management to evaluate the economic value of the assets or CGUs. The estimation of the timing and value of underlying projected cash flows and the selection of appropriate discount rates involves management judgement. For goodwill, the impairment charge will initially be adjusted against the goodwill allocated to the cash-generating unit. Thereafter, the remaining assets of the cash-generating unit will be written-down proportionately.

The estimation of the timing and value of underlying projected cash flows and the selection of appropriate discount rates involves management judgement. In the example of PP&E assets subject to impairment review, the VIU method will be applied to ascertain the extent of any potential impairment charge. Subsequent changes to these estimates or judgements may impact the carrying value of the assets. Impairments of PP&E assets will only reversed only if there has been a significant increase in the recoverable amount associated with the asset.

Gas production and development assets are assessed under the fair value less costs method for the respective CGUs. This is deemed more appropriate as it is based on post-tax cash flows arising from each field within the respective CGUs, which is consistent with the approach taken by management in determining the economic value of the underlying assets. This is determined by discounting the post-tax cash flows expected to be generated by the CGU, net of associated selling costs, and takes into account assumptions market participants would use in estimating fair value.

A1.8 Inventories and work in progress

Inventories are valued at the lower of cost (on a first-in, first-out basis) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of fuel stocks is based on the weighted average principle. The valuation of work in progress is based on the cost of labour, the cost of contractors, the cost of materials plus other directly attributable costs.

A1.9 Recognition of revenue and profit on construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured as the proportion of cost incurred on work performed to date compared to the estimated total contract cost, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. When it becomes probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately in the income statement.

A1.10 Employee benefit obligations

(i) Defined benefit pension schemes

The Group operates two defined benefit pension schemes, one of which is operated by the Company. Pension scheme assets are measured using bid market values. Pension scheme liabilities are measured using the projected unit credit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Any increase in the present value of liabilities within the Group's defined benefit pension schemes expected to arise from employee service in the year is charged as service costs to operating profit.

Net interest costs are based on net schemes' liabilities adjusted for minimum funding requirement and pension surplus restrictions under IFRIC 14. Actuarial gains and losses are recognised in full in the consolidated statement of comprehensive income. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet.

A1. Basis of consolidation and significant accounting policies continued

(ii) Defined contribution pension schemes

The Group also operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amounts charged represent the contributions payable to the schemes in the year and are charged directly to the income statement.

(iii) Equity and equity-related compensation benefits

The Group operates a number of employee share schemes as described in the Remuneration Report and note 31. These schemes enable Group employees to acquire shares of the Company.

The exercise prices of the sharesave scheme are set at a discount to market price at the date of the grant. The fair value of the sharesave scheme option granted is measured at the grant date by use of a Black-Scholes model. The fair value of the options granted is recognised as an expense on a straight-line basis over the period that the scheme vests. Estimates are updated for non-market conditions at each balance sheet date with any adjustment in respect of the current and prior years being recognised in the income statement. The costs associated with the other main employee schemes are recognised over the period to which they relate. The charge related to the equity shares in the Company awarded under the share schemes is treated as an increase in the cost of investment held by the Company in the subsidiary companies of the Group.

A1.11 Financial instruments

The Group uses a range of financial instruments to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price fluctuations in its normal course of business and in accordance with the Group's risk management policies. The Group's risk management policies are further explained in note 34.

(i) Interest rate and foreign exchange derivatives

Financial derivative instruments are used by the Group to hedge interest rate and currency exposures. All such derivatives are recognised at fair value and are re-measured to fair value each reporting period. Certain derivative financial instruments are designated as being held for hedging purposes. The designation of the hedge relationship is established at the inception of the hedge and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on re-measurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a 'fair value' or 'cash flow' hedge. Derivatives that are not designated as hedges are treated as if held for trading, with all fair value movements being recorded through the income statement.

A derivative classified as a 'fair value' hedge recognises gains and losses from re-measurement immediately in the income statement. Loans and borrowings are measured at cost except where they form the underlying transaction in an effective fair value hedge relationship. In such cases, the carrying value of the loan or borrowing is adjusted to reflect fair value movements with the gain or loss being reported in the income statement.

A derivative classified as a 'cash flow' hedge recognises the portion of gains or losses on the derivative which are deemed to be effective directly in equity in the hedge reserve. Any ineffective portion of the gains or losses is recognised in the consolidated income statement. When hedged cash flows result in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged cash flows affect the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At the point of discontinuation, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction affects profit or loss. On settlement, the cumulative gain or loss recognised in equity is recognised in the income statement.

(ii) Commodity derivatives

Within its regular course of business, the Group routinely enters into sale and purchase derivative contracts for commodities such as electricity, gas, coal, carbon allowances and oil. Where the contract was entered into and continues to be held for the purpose of receipt or delivery in accordance with the Group's expected sale, purchase or usage requirements, the contracts are designated as 'own use' contracts and are measured at cost. These contracts are not within the scope of IAS 39.

Derivative commodity contracts which are not designated as own use contracts are accounted for as trading derivatives and are recognised in the balance sheet at fair value. Where a hedge accounting relationship is designated and is proven to be effective, the changes in fair value will be recognised in accordance with the rules noted in part (i) to this note. There are currently no designated hedge relationships in relation to commodity contracts.

Other commodity contracts, where own use is not established and a hedge accounting relationship is not designated, are measured at fair value with gains and losses on re-measurement being recognised in the income statement in cost of sales.

(iii) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives where the characteristics of the derivatives are not closely related to those of the host contracts.

Accompanying information continued

A1. Basis of consolidation and significant accounting policies continued

(iv) Net investment hedges
Hedges of net investments in foreign operations are accounted in a manner similar to effective cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity, in the translation reserve, and any gain or loss on the ineffective portion of the hedge is recognised in the income statement. On disposal of the foreign operation, the cumulative value of any gains or losses recognised directly in equity is transferred to the income statement.

(v) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(vi) Trade receivables
Trade receivables do not carry any interest and are measured at cost less an appropriate allowance for irrecoverable receivables.

(vii) Interest-bearing loans and borrowings
All such loans and borrowings are initially recognised at fair value including transaction costs and are subsequently measured at amortised cost, except where the loan or borrowing is the hedged item in an effective fair value hedge relationship.

(viii) Share capital
Ordinary shares are accounted for as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received.

(ix) Hybrid capital
Hybrid capital comprises issued bonds that qualify for recognition as equity. Accordingly, any coupon payments are accounted for as dividends and are recognised directly in equity at the time the payment obligation arises. This is because the coupon payments are discretionary and relate to equity. Coupon payments consequently do not have any impact on the income statement. Coupon payments are recognised in the cash flow statement in the same way as dividends to ordinary shareholders. Tax credits in relation to the coupon payments are linked to the past transactions or events that support the coupon payments and consequently the tax credits are reported in the income statement.

A1.12 Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A1.13 Decommissioning costs
The estimated cost of decommissioning at the end of the useful lives of certain assets is reviewed periodically. Provision is made for the net present value of the estimated cost of decommissioning gas production facilities at the end of the producing lives of fields, and gas storage facilities, offshore wind farms and power stations at the end of the useful life of the facilities. The estimates are based on technology and prices at the balance sheet date. A corresponding decommissioning asset is recognised and is included within property, plant and equipment when the provision gives access to future economic benefits. Changes in these provisions are recognised prospectively. The unwinding of the discount on the provision is included in finance costs and the depreciation for the asset is straight-line over the expected useful life of the asset or, for gas production facilities, is amortised on the unit of production method.

A1.14 Held for sale assets and liabilities
Non-current assets are classified as held for sale if their recoverable value is likely to be recovered via a sale opposed to continued use by the group. In order to be classified as non-current assets held for sale, assets must meet all of the following conditions; sale highly probable, available for immediate sale, being actively marketed and the sale is likely to occur within one year.

Non-current assets determined as held for sale are measured at the lower of carrying value and fair value less costs to sell, no depreciation is charged in respect of these assets after classification.

A2. Related undertakings

A2.1.1. Subsidiary undertakings

Details of the subsidiary undertakings are as follows:

Company	Country of Incorporation	Registered Address (Key)	2016 Holding %	2015 Holding %	Principal Activity
Abernedd Power Company Limited	England and Wales	B	**100.0**	100.0	Dormant
Airtricity Developments (Scotland) Limited	Scotland	A	**100.0**	100.0	Dormant
Airtricity Europe Windfarm Holdings Limited	Ireland	S	**100.0**	100.0	Holding Company
Airtricity UK Windfarm Holdings Limited	Northern Ireland	P	**100.0**	100.0	Holding Company
Airtricity Windfarm Finance Limited	Ireland	S	**100.0**	100.0	Holding Company
Arklow Offshore Phase II Company Limited	Ireland	S	**100.0**	100.0	Dormant
Ashdown Control Services Limited	England and Wales	Q	**100.0**	100.0	Dormant
AtlasConnect Limited	Scotland	A	**100.0**	100.0	Dormant
Beatrice Offshore Windfarm Holdco Limited	Scotland	A	**100.0**	100.0	Holding Company
Bindoo Windfarm (ROI) Limited	Ireland	S	**100.0**	100.0	Power Generation
Brickmount Limited	Ireland	S	**100.0**	100.0	Power Generation
Building Automation Solutions Limited	England and Wales	Q	**100.0**	100.0	Dormant
CHP Supply Limited	Ireland	S	**100.0**	100.0	Dormant
Comhlacht Gaoithe Teoranta	Ireland	S	**100.0**	100.0	Renewable Development
Coomacheo Wind Farm Limited	Ireland	S	**100.0**	100.0	Power Generation
Coomatallin Windfarm (ROI) Limited	Ireland	S	**100.0**	100.0	Power Generation
Curragh Mountain Windfarm Limited	Ireland	S	**100.0**	100.0	Power Generation
Dedondo Limited	Ireland	S	**100.0**	100.0	Power Generation
Doggerbank Project 1A SSER Limited	England and Wales	B	**100.0**	100.0	Holding Company
Doggerbank Project 1B SSER Limited	England and Wales	B	**100.0**	100.0	Holding Company
Doggerbank Project 2A SSER Limited	England and Wales	B	**100.0**	100.0	Holding Company
Doggerbank Project 2B SSER Limited	England and Wales	B	**100.0**	100.0	Holding Company
Doggerbank Project 3A SSER Limited	England and Wales	B	**100.0**	100.0	Holding Company
Doggerbank Project 3B SSER Limited	England and Wales	B	**100.0**	100.0	Holding Company
Doggerbank Project 4A SSER Limited	England and Wales	B	**100.0**	100.0	Holding Company
Doggerbank Project 4B SSER Limited	England and Wales	B	**100.0**	100.0	Holding Company
Doggerbank Project 5A SSER Limited	England and Wales	B	**100.0**	100.0	Holding Company
Doggerbank Project 5B SSER Limited	England and Wales	B	**100.0**	100.0	Holding Company
Doggerbank Project 6A SSER Limited	England and Wales	B	**100.0**	100.0	Holding Company
Doggerbank Project 6B SSER Limited	England and Wales	B	**100.0**	100.0	Holding Company
Dorset Lighting Limited	England and Wales	B	**100.0**	100.0	Dormant
Dromada Windfarm (ROI) Limited	Ireland	S	**100.0**	100.0	Power Generation
Ealing Lighting Limited	England and Wales	B	**100.0**	100.0	Dormant
ESG (international) Limited	England and Wales	Q	**100.0**	100.0	Dormant
Evolve Energy Limited	England and Wales	Q	**100.0**	100.0	Dormant
Fibre Fuel Limited	England and Wales	B	**100.0**	100.0	Dormant
Fibre Power (Slough) Limited	England and Wales	B	**100.0**	100.0	Dormant
Ganderoy Limited	Ireland	S	**100.0**	100.0	Dormant
Gartnaneane Limited	Ireland	S	**100.0**	100.0	Dormant
Griffin Wind Farm (Holdings) Limited	Scotland	A	**100.0**	100.0	Holding Company
Griffin Wind Farm Limited	Scotland	A	**100.0**	100.0	Power Generation
HE Trustees Limited	Scotland	A	**100.0**	100.0	Dormant
Invercassley Windfarm (Scotland) Limited	Scotland	A	**100.0**	100.0	Renewable Development
Islay Offshore Winds Limited	Scotland	A	**100.0**	100.0	Renewable Development
Islington Lighting Limited	England and Wales	B	**100.0**	100.0	Dormant
Keadby Developments Limited	England and Wales	M	**100.0**	100.0	Dormant
Keadby Generation Limited	England and Wales	M	**100.0**	100.0	Power Generation
Keadby Wind Farm Limited	England and Wales	B	**100.0**	100.0	Power Generation
Limerick West Windfarm Limited	Ireland	S	**100.0**	100.0	Power Generation
March Winds Limited	Ireland	S	**100.0**	100.0	Power Generation
Marsh Systems Limited	England and Wales	Q	**100.0**	100.0	Dormant
Medway Power Limited	England and Wales	B	**100.0**	100.0	Power Generation
Meentycat Limited	Ireland	S	**100.0**	100.0	Power Generation
Milane Holdings Limited	Ireland	S	**100.0**	100.0	Holding Company
Mullananalt Wind Farm (ROI) Limited	Ireland	S	**100.0**	100.0	Power Generation
Neos Networks Limited	England and Wales	B	**100.0**	100.0	Telecommunications
Nobbs & Jones Limited	England and Wales	Q	**100.0**	100.0	Dormant
Platin Power Limited	Ireland	S	**100.0**	100.0	Dormant

Accompanying information continued

A2. Related undertakings continued

Company	Country of Incorporation	Registered Address (Key)	2016 Holding %	2015 Holding %	Principal Activity
Power from Waste Limited	England and Wales	B	**100.0**	100.0	Dormant
Renewable Energy Partners Limited	Northern Ireland	P	**100.0**	100.0	Renewable Development
Richfield Windfarm (ROI) Limited	Ireland	S	**100.0**	100.0	Power Generation
Scottish and Southern Energy Power Distribution Limited	Scotland	A	**100.0**	100.0	Holding Company
Scottish Hydro Electric Power Distribution plc	Scotland	A	**100.0**	100.0	Power Distribution
Scottish Hydro Electric Transmission plc	Scotland	A	**100.0**	100.0	Power Transmission
SEC Highway Lighting Dorset Limited	England and Wales	B	**100.0**	100.0	Dormant
Slieve Divena Wind Farm No 2 Limited	Northern Ireland	P	**100.0**	100.0	Renewable Development
Slough Domestic Electricity Limited	England and Wales	B	**100.0**	100.0	Power Generation
Slough Electricity Contracts Limited	England and Wales	B	**100.0**	100.0	Electricity Contracting
Slough Energy Supplies Limited	England and Wales	B	**100.0**	100.0	Dormant
Slough Heat & Power Limited	England and Wales	B	**100.0**	100.0	Power Generation
Slough Utility Services Limited	England and Wales	B	**100.0**	100.0	Dormant
South Wales Electricity Limited	England and Wales	B	**100.0**	100.0	Dormant
Southern Electric Gas Limited	England and Wales	B	**100.0**	100.0	Energy Supply
Southern Electric Group Trustee Limited	England and Wales	B	**100.0**	100.0	Dormant
Southern Electric Power Distribution plc	England and Wales	B	**100.0**	100.0	Power Distribution
Southern Electric Quest Trustee Limited	England and Wales	B	**100.0**	100.0	Dormant
SSE (Ireland) Limited	Ireland	S	**100.0**	100.0	Dormant
SSE Airtricity Limited	Ireland	S	**100.0**	100.0	Energy Supply
SSE Airtricity Energy Services (NI) Limited	Northern Ireland	P	**100.0**	100.0	Energy Supply
SSE Airtricity Energy Services Limited	Ireland	S	**100.0**	100.0	Energy Supply
SSE Airtricity Energy Supply (NI) Limited	Northern Ireland	P	**100.0**	100.0	Energy Supply
SSE Airtricity Gas (NI) Limited	Northern Ireland	P	**100.0**	100.0	Energy Supply
SSE Airtricity Gas Limited	Ireland	S	**100.0**	100.0	Energy Supply
SSE Airtricity Gas Supply (NI) Limited	Northern Ireland	P	**100.0**	100.0	Energy Supply
SSE Airtricity Utility Solutions Limited	Ireland	S	**100.0**	100.0	Utility Contracting
SSE Asia Limited	England and Wales	B	**100.0**	100.0	Dormant
SSE Beatrice Offshore Windfarm Holdings Limited	Scotland	A	**100.0**	100.0	Holding Company
SSE Calliachar Limited	Scotland	A	**100.0**	100.0	Power Generation
SSE CCS Limited	Scotland	A	**100.0**	100.0	Dormant
SSE Contracting Group Limited	England and Wales	B	**100.0**	100.0	Holding Company
SSE Contracting Limited	England and Wales	B	**100.0**	100.0	Contracting
SSE Cosec Limited	Scotland	A	**100.0**	100.0	Dormant
SSE E&P UK Limited	Scotland	A	**100.0**	100.0	Gas Production
SSE Energy Solutions Limited	Scotland	A	**100.0**	100.0	Energy Related Services
SSE Energy Supply Limited	England and Wales	B	**100.0**	100.0	Energy Supply
SSE Enterprise Limited	England and Wales	B	**100.0**	100.0	Dormant
SSE EPM Limited	England and Wales	B	**100.0**	100.0	Energy Trading
SSE Galloper Offshore Windfarm Holdings Limited	England and Wales	B	**100.0**	100.0	Holding Company
SSE Generation Ireland Limited	Ireland	S	**100.0**	100.0	Power Generation
SSE Generation Limited	England and Wales	B	**100.0**	100.0	Power Generation
SSE Green Deal Limited	Scotland	A	**100.0**	100.0	Dormant
SSE Green Deal Provider Limited	Scotland	A	**100.0**	100.0	Dormant
SSE Heat Networks Limited	Scotland	A	**100.0**	100.0	Utility Services
SSE Home Services Limited	Scotland	A	**100.0**	100.0	Energy Related Services
SSE Hornsea Limited	England and Wales	B	**100.0**	100.0	Gas Storage
SSE Insource Energy Limited	England and Wales	B	**100.0**	100.0	Dormant
SSE Insurance Limited	Isle of Man	X	**100.0**	100.0	Insurance
SSE Islay Offshore Windfarm Holdings Limited	Scotland	A	**100.0**	100.0	Holding Company
SSE Medway Operations Limited	England and Wales	B	**100.0**	100.0	Holding Company
SSE Metering Limited	Scotland	A	**100.0**	100.0	Energy Supply
SSE Micro Renewables Limited	Scotland	A	**100.0**	100.0	Energy Related Services
SSE Mineral Solutions Limited	England and Wales	B	**100.0**	100.0	Dormant
SSE Nuclear Limited	England and Wales	B	**100.0**	100.0	Dormant
SSE OWS Glasgow Limited	Scotland	A	**100.0**	100.0	Property Holding
SSE Production Services Limited	England and Wales	B	**100.0**	100.0	Dormant
SSE Renewables (Ireland) Limited	Ireland	S	**100.0**	100.0	Holding Company
SSE Renewables Developments (UK) Limited	Northern Ireland	P	**100.0**	100.0	Renewable Development
SSE Renewables Generation Ireland Limited	Ireland	S	**100.0**	100.0	Power Generation

A2. Related undertakings continued

Company	Country of Incorporation	Registered Address (Key)	2016 Holding %	2015 Holding %	Principal Activity
SSE Renewables Holdings (Europe) Limited	Ireland	S	**100.0**	100.0	Holding Company
SSE Renewables Holdings (Netherlands) B.V.	Netherlands	Z	**100.0**	100.0	Dormant
SSE Renewables Holdings (UK) Limited	Northern Ireland	P	**100.0**	100.0	Holding Company
SSE Renewables Holdings Germany GmbH	Germany	AA	**100.0**	100.0	Dormant
SSE Renewables Holdings Limited	Ireland	S	**100.0**	100.0	Holding Company
SSE Renewables Limited	Scotland	A	**100.0**	100.0	Holding Company
SSE Renewables Off Shore Limited	Ireland	S	**100.0**	100.0	Holding Company
SSE Renewables Offshore Windfarm Holdings Limited	Scotland	A	**100.0**	100.0	Holding Company
SSE Renewables Onshore Windfarm Holdings Limited	Northern Ireland	P	**100.0**	100.0	Holding Company
SSE Renewables UK Limited	Northern Ireland	P	**100.0**	100.0	Holding Company
SSE Renewables Walney (UK) Limited	England and Wales	B	**100.0**	100.0	Holding Company
SSE Retail Limited	Scotland	A	**100.0**	100.0	Energy Related Services
SSE Retail Telecoms Limited	England and Wales	B	**100.0**	100.0	Dormant
SSE Rogerstone Limited	England and Wales	B	**100.0**	100.0	Dormant
SSE Seabank Investments Limited	England and Wales	B	**100.0**	100.0	Dormant
SSE Seabank Land Investments Limited	England and Wales	B	**100.0**	100.0	Dormant
SSE Secretaries Ireland Limited	Ireland	S	**100.0**	100.0	Corporate Services
SSE Services plc	England and Wales	B	**100.0**	100.0	Corporate Services
SSE Stock Limited	Scotland	A	**100.0**	100.0	Stock Holding
SSE Telecommunications Limited	Scotland	A	**100.0**	100.0	Telecommunications
SSE Toddleburn Limited	Scotland	A	**100.0**	100.0	Power Generation
SSE Trading Limited	England and Wales	B	**100.0**	100.0	Energy Trading
SSE Trustees Limited	England and Wales	B	**100.0**	100.0	Dormant
SSE Uskmouth Acquisition Company Limited	England and Wales	B	**100.0**	100.0	Dormant
SSE Utility Services Ltd	England and Wales	B	**100.0**	100.0	Dormant
SSE Utility Solutions Limited	England and Wales	B	**100.0**	100.0	Utility Services
SSE Venture Capital Limited	Scotland	A	**100.0**	100.0	Investment Holding
SSE Viking Limited	England and Wales	B	**100.0**	100.0	Renewable Development
SSE Water Limited	England and Wales	B	**100.0**	100.0	Water Network
SSEPG (Operations) Limited	England and Wales	B	**100.0**	100.0	Dormant
Sure Partners Limited	Ireland	S	**100.0**	100.0	Dormant
SWALEC Gas Limited	England and Wales	B	**100.0**	100.0	Dormant
TESGL Limited	England and Wales	Q	**100.0**	100.0	Dormant
The Energy Solutions Group Bidco Limited	England and Wales	Q	**100.0**	100.0	Utility Services
The Energy Solutions Group Midco Limited	England and Wales	Q	**100.0**	100.0	Dormant
The Energy Solutions Group Topco Limited	England and Wales	Q	**100.0**	100.0	Holding Company
Tournafulla Windfarm (ROI) Limited	Ireland	S	**100.0**	100.0	Power Generation

A2.1.2. Partnerships

Company	Country of Incorporation	Registered Address (Key)	2016 Holding (%)	2015 Holding (%)	Principal Activity
The Glasa LLP	Scotland	A	**90.0**	90.0	Renewable Development
Viking Energy (Scottish Partnership)	Scotland	V	**50.0**	50.0	Renewable Development
Viking Energy Wind Farm LLP	Scotland	V	**50.0**	50.0	Renewable Development

Accompanying information continued

A2. Related undertakings continued
A2.1.3 Joint arrangements (incorporated)

Company	Country of Incorporation	Registered Address (Key)	2016 Holding (%)	2015 Holding (%)	Principal Activity
3SE (Barnsley, Doncaster & Rotherham) Holdings Limited	England and Wales	J	**25.0**	25.0	Holding Company
3SE (Barnsley, Doncaster & Rotherham) Limited	England and Wales	J	**25.0**	25.0	Waste Management
Aquamarine Power Limited	Scotland	I	**30.4**	30.4	Renewable Development
Baglan Pipeline Limited	England and Wales	C	**50.0**	50.0	Dormant
Beatrice Offshore Windfarm Limited	Scotland	A	**40.0**	50.0	Renewable Development
Brims Tidal Array Limited	Scotland	G	**50.0**	50.0	Dormant
Brough Head Wave Farm Limited	Scotland	K	**50.0**	50.0	Dormant
Cloosh Valley Wind Farm Designated Activity Company	Ireland	F	**50.0**	50.0	Renewable Development
Cloosh Valley Wind Farm Holdings Designated Activity Company	Ireland	F	**50.0**	50.0	Renewable Development
Clyde Windfarm (Scotland) Limited	Scotland	A	**50.1**	100.0	Power Generation
Derwent Cogeneration Limited	England and Wales	B	**49.5**	49.5	Dormant
Doggerbank Project 1 Bizco Limited	England and Wales	B	**25.0**	25.0	Holding Company
Doggerbank Project 2 Bizco Limited	England and Wales	B	**25.0**	25.0	Holding Company
Doggerbank Project 3 Bizco Limited	England and Wales	B	**25.0**	25.0	Holding Company
Doggerbank Project 4 Bizco Limited	England and Wales	B	**25.0**	25.0	Holding Company
Everwind Limited	Ireland	L	**49.0**	49.0	Dormant
Ferrybridge MFE Limited	England and Wales	B	**50.0**	50.0	Power Generation
Ferrybridge MFE2 Limited	England and Wales	B	**50.0**	50.0	Dormant
Forewind Limited	England and Wales	B	**25.0**	25.0	Dormant
Greater Gabbard Offshore Winds Limited	England and Wales	B	**50.0**	50.0	Power Generation
Green Energy Company Limited	Ireland	N	**47.5**	47.5	Dormant
Green Way Energy Limited	Ireland	N	**50.0**	50.0	Dormant
Kerry Power Limited	Ireland	O	**49.0**	49.0	Dormant
Marchwood Power Limited	England and Wales	R	**50.0**	50.0	Power Generation
Midas Energy Limited	Ireland	O	**49.0**	49.0	Power Generation
Multifuel Energy Limited	Scotland	A	**50.0**	50.0	Power Generation
PriDE (Serp) Ltd	England and Wales	H	**50.0**	50.0	Estate Maintenance and improvement
Scotia Gas Networks plc	England and Wales	U	**50.0**	50.0	Gas Distribution
Seabank Power Limited	England and Wales	T	**50.0**	50.0	Power Generation
Seagreen Wind Energy Limited	England and Wales	B	**50.0**	50.0	Renewable Development
Tay Valley Lighting (Leeds) Limited	England and Wales	W	**50.0**	50.0	Streetlighting
Tay Valley Lighting (Newcastle and North Tyneside) Limited	England and Wales	W	**50.0**	50.0	Streetlighting
Tay Valley Lighting (Stoke on Trent) Limited	England and Wales	W	**50.0**	50.0	Streetlighting
Walney (UK) Offshore Windfarms Limited	England and Wales	Y	**25.1**	25.1	Power Generation

A2.1.4 Associates

Company	Country of Incorporation	Registered Address (Key)	2016 Holding (%)	2015 Holding (%)	Principal Activity
Shetland Land Lease Limited	England and Wales	D	**20.0**	20.0	Development Company
St Clements Services Limited	England and Wales	E	**25.0**	25.0	Utilities Software

A2. Related undertakings continued
A.2.1.5 Registered address key

Registered Address	Key
Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ	A
55 Vastern Road, Reading, Berkshire RG1 8BU	B
16 Axis Way, Mallard Way, Swansea Vale, Swansea, Wales	C
18th Floor, 10 Upper Bank Street, Canary Wharf, London, E14 5BF, United Kingdom	D
4 – 6 Church Walk, Daventry, NN11 4BL, United Kingdom	E
6th Floor, South Bank House, Barrow Street, Dublin 4	F
c/o Maclay Murray & Spens LLP, 1 George Square, Glasgow G2 1AL	G
Capital Tower, 91 Waterloo Road, London, SE1 8RT	H
City Point, 65 Haymarket Terrace, Edinburgh, EH12 5HD, United Kingdom	I
Dunedin House Auckland Park, Mount Farm, Milton Keynes, Buckinghamshire, MK1 1BU, United Kingdom	J
Elder House, 24 Elder Street, Edinburgh, EH1 3DX	K
Gorthleahy, Macroom, County Cork	L
Keadby Power Station, PO Box 89, Keadby, Scunthorpe, North Lincs DN17 3AZ	M
Lissarda Business Park, Lissarda, Co Cork, Ireland	N
Lissarda Industrial Park, Lissarda, Macroom, County Cork	O
Millenium House, 17-25 Great Victoria Street, Belfast, BT2 7AQ	P
Ocean Court, Caspain Road, Atlantic Street, Altrincham, WA14 5HH	Q
Oceanic Way, Marchwood Industrial Park, Marchwood, Southampton SO40 4BD	R
Red Oak South, South County Business Park, Leopardstown, Dublin 18	S
Severn Road, Hallen, Bristol, BS2 0ZW	T
St Lawrence House, Station Approach, Horley, Surrey RH6 9HJ	U
The Gutters' Hut, North Ness Business Park, Lerwick, Shetland ZE1 0LZ	V
The Quadrangle, The Promenade, Cheltenham, Gloucestershire GL50 1PX	W
Tower House, Loch Promenade, Douglas, Isle of Man	X
Watson Farley and Williams LLP, 15 Appold Street, London, EC2A 2HB, United Kingdom	Y
WEENA 390, 3012 NJ Rotterdam, Netherlands	Z
Büro München, Elektrastrasse 6, 81925, München, Germany	AA

A2.2 Service concession arrangements
In 50:50 partnership with Royal Bank Leasing Limited, the Group established three companies to provide street lighting services to councils under the Private Finance Initiative (PFI). These services are thereafter sub-contracted to SSE Contracting Limited, a wholly owned subsidiary of the Group. The companies established are as follows:

Company	Council
Tay Valley Lighting (Stoke on Trent) Limited	Stoke-on-Trent
Tay Valley Lighting (Newcastle and North Tyneside) Limited	Newcastle and North Tyneside
Tay Valley Lighting (Leeds) Limited	Leeds City Council

Under IFRS 10, despite being 50% owned, these companies are categorised as subsidiaries and deemed to be controlled by the Group due to the Group being assessed as bearing the majority of the risks and rewards associated with the companies. The debt associated with these companies is non-recourse to the Group. The arrangements for all three companies are materially similar.

In addition to these, the Group owned 100% of the share capital of a number of entities which perform similar services under eight PFI contracts. In November 2015, the Group completed the disposal of Dorset Lighting Limited (see note 19).

(i) Characteristics of the arrangements

Description

The contracts are and were 25 year arrangements to replace ageing street-lighting stock and to subsequently maintain the new assets throughout each Councils' areas.

Significant terms

The cash flows under the PFI arrangements come from the unitary charge for these services paid by the Councils. The unitary charge can only be adjusted if performance under the contract falls below the required standards. Any significant change to the services proposed by either party is subject to a formal change procedure and agreement to such a change is required by the other party.

Accompanying information continued

A2. Related undertakings continued

Nature and extent of rights and obligations

The assets are part of the public highway and ownership of the assets remains with the Councils. The contract holding companies are licensed to replace and maintain the assets for the period of the contract. This obligation was (and is) passed down to SSE Contracting Limited or to other companies within the SSE Contracting group of companies through the operating sub-contract. Any failure to provide the services to the required standards will result in financial penalties which are taken from the unitary charge.

The companies have 25 year contracts with no extension options. Termination during this period can be initiated through a number of routes including service provider default, force majeure or the event of a risk becoming uninsurable, authority default, voluntary authority termination, or termination for a prohibited act or breach of refinancing provisions. In all cases, a formula exists for calculating compensation payments to the service provider.

Throughout the contract period there are a number of circumstances under which the companies could potentially be required to provide additional services:

A2.3 Changes in the law

If circumstances arise where by a change in legislation would mean a change in the way the services are to be provided the companies would be liable for part of the cost of this change. This liability is capped.

A3. Final survey

The Councils have the ability to deduct a percentage of the unitary charge in the last two years if an independent survey indicates the assets are unlikely to have a 5-year residual life.

Independent Auditor's Report

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of SSE plc for the year ended 31 March 2016 set out on pages 120 to 204. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

2. Overview

A summary of our approach

Audit coverage: 98% of pbt

Materiality: 5% pbt (normalised)

Significant areas: carrying value of assets, unbilled income, debtor recoverability and pensions

- Our audit covered 98 % of the Group's total profit before tax (pbt) and was completed at Perth, Reading and in Dublin

- Overall group materiality: £75m which represents 5% of profit before tax before exceptional items and certain remeasurements

- Accounting for impairment, unbilled income, debtor recoverability and pensions are the areas of most significant audit effort
- The decline in commodity prices in the year has resulted in an increased risk of impairment of assets, in particular, thermal generation, gas production and gas storage assets.
- We no longer assess litigation and claims as a significant area of audit effort.

3. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

Event driven risks

The risk	Our response	Risk vs 2015
Carrying value of certain non-current assets (fixed and intangible) and inventories which aggregate to £13.6 bn (2015 : £12.1 bn) Refer to page 84 (Audit Committee statement), notes 4.1 and A1.7 (accounting policy) and notes 7 and 14 and 15 (financial disclosures)		▲
The decline in commodity prices in the year has resulted in an increased risk of impairment of certain non-current assets, in particular, thermal generation, gas production and gas storage assets. This includes fixed assets and intangible assets (goodwill and development assets). The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows with many of the key underlying assumptions being impacted by political and economic factors in the UK and globally. Assets are reviewed, either on a stand-alone basis or as part of a wider cash-generating unit ("CGU"), for impairment using the higher of the value in use or fair value less costs to sell model. The outcome of these impairment reviews could vary significantly if different assumptions were applied in the model.	In this area our procedures included: challenging the group's calculation of value in use or fair value less costs to sell, as appropriate, and the calculation of impairment charges during the year. This included challenging key assumptions such as earnings and cashflow forecasts included in the impairment review for each CGU or asset tested on a stand-alone basis, and discount rate assumptions used by the directors. We compared the Group's key assumptions noted opposite, where possible, to externally derived data to historical analyses or to our expectations based on our industry knowledge. For example we compared the discount rate to those applied by companies operating in a similar environment to the group and we compared earnings forecasts with budgets used within the business for other purposes in assessing whether the Group's assessment was reasonable. We also assessed whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.	

Independent Auditor's Report continued

Opinions and conclusions arising from our audit continued

3. Our assessment of risks of material misstatement continued

Annually recurring risks

The risk | Our response | Risk vs 2015

Accounting for estimated revenue of £0.9 billion (2015 : £1.1 billion) included within total external group Energy Supply revenues of £7.5 billion (2015 : £8.0 billion))

Refer to page 92 (Audit Committee statement), notes 4.1 and A1.2(accounting policy) and note 21 (financial disclosures)

Certain of the Group's energy sales revenues are based on estimates of the values of electricity and gas supplied to customers between the date of the last meter reading and the year end ("estimated revenues") where no bill has been issued at the year end date.

The method of estimating such revenues is complex and judgemental and requires estimates and assumptions to:

1 estimate the volumes of energy consumed by customers. The group's estimated accrual for revenue at the year end is based on the closing unbilled volume reflected within the financial statements in the prior year, with adjustments made for gas or electricity sold to customers (as identified from the industry wide settlements system), gas or electricity billed to customers (as identified from the group's billing system) and various other adjustments; and

2 assess the value to be ascribed to that revenue given the range of tariffs. The group applies a price per unit (which is dependent on a number of factors including location of customers and type of billing arrangement) to the estimate of volume of energy to be accrued at year end to arrive at the total estimated value of energy sales between the date of the last meter reading and the year end.

For estimated revenue our procedures included performing various analytical procedures using actual data to allow us to set expectations as to the likely level of estimated revenue and comparing this with the group's estimate, obtaining explanations for significant differences. We also challenged the group's assumptions relating to volume and price used in determining the level of estimated revenue, as follows:

Volume

We agreed the core volume data underlying the calculation of the estimated volumes into purchases, sales and other systems having performed sample testing of the key controls on these systems. We compared the estimated volume determined by the Group with benchmarks that the Group had also calculated using internal and external information and analysed and sought explanations for variances from that benchmark.

Price

We challenged the assumptions of price per unit by comparing the price applied with historical and current trends and data. Further, we assessed the overall consistency of the assumptions and of the inputs to the calculation of estimated value of revenue.

We also considered the adequacy of the group's disclosures in this area.

Recoverability of retail receivables of £0.6 billion (2015 : £0.8 billion) and unbilled income (balances noted above)

Refer to page 84 (Audit Committee statement), notes 4.1 and A1.2 (accounting policy) and notes 21 and 34 (financial disclosures)

The group's billed energy revenues result in significant receivables with customers and, the risk of customer default remains high, resulting in significant judgement being applied in the group's assessment of the recoverability of these receivables.

Our procedures included: testing the group's controls over the receivables collection processes; considering the receipt of cash after the year-end; and testing the adequacy of the group's provisions against trade receivables by assessing the relevant assumptions, taking account of our own knowledge of recent collections experience in this industry and also historical data from the group's previous collections experience. We also considered the adequacy of the group's disclosures in this area.

Valuation of the group's pension obligations (the group reflects a net defined benefit pension liability of £0.4 billion (2015 : £0.7 billion))

Refer to page 84 (Audit Committee statement), notes 4.1 and A1.10 (accounting policy) and note 32 (financial disclosures)

The valuation of the group's pension obligations requires significant judgment and estimation to be applied across numerous assumptions.

The matter is considered to be a significant risk as small changes in the assumptions can have a material financial impact on the results and financial position of the Group given the size of the deficit.

In this area our procedures included challenging the key assumptions supporting the Group's retirement benefit obligations valuation, with input from our own actuarial specialists. This included a comparison of the discount and inflation rates and other assumptions used against benchmarks developed by our internal actuaries and similar assumptions used by other groups with defined benefit pension schemes.

Further, we considered the adequacy of the group's disclosures in the area of pension obligations.

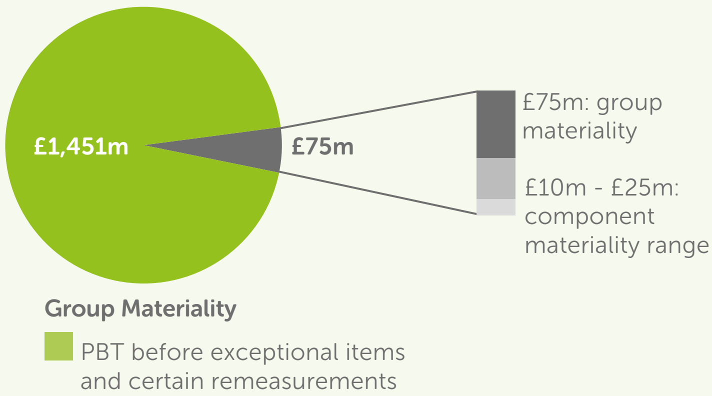
In our audit report for the year ended 31 March 2015 we included accounting for litigation and claims as one of the risks of material misstatement that had the greatest effect on our audit. We continue to perform audit procedures over this area. However, there is a trend of reducing exposure in this area and our audit strategy, allocation of resources and effort reflects that; as a result, we have not assessed this as one of the risks that had the greatest effect on our audit and, therefore, this risk is not separately identified in our report this year.

Opinions and conclusions arising from our audit continued

4. Our application of materiality and an overview of the scope of our audit

In establishing the overall audit strategy, and performing the audit, materiality for the Group financial statements as a whole was set at £75 million (2015: £110 million), determined with reference to a benchmark of group profit before taxation, normalised to exclude exceptional items and certain remeasurements (mainly movements on derivatives) as disclosed on the face of the income statement, of which it represents 5.2%, reflecting industry consensus levels (2015: 7.3%). We consider profit before tax, exceptional items and certain remeasurements to be the most appropriate benchmark as it excludes the non-recurring distorting impact of exceptional items and certain remeasurements and is a more stable year on year profit measure.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £3 million (2015: £5 million) in addition to other identified misstatements that warranted reporting on qualitative grounds.



Of the group's 224 reporting components, audits for group reporting purposes were performed at 127 components in the UK and Ireland and desktop procedures performed in relation to 7 components. These audits covered 99% of Group revenue, 98% of Group profit before tax; and 98% of Group total assets. For the remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £10 million to £25 million, having regard to the mix of size and risk profile of the Group across the components. The work on 10 of the components was performed by component auditors and the rest by the Group team. The Group team issued reporting instructions to the auditor of SGN, the group's most significant joint venture as to the significant areas to be covered during their audit.

The Group team visited the component location in Reading as part of the assessment of the audit risk and strategy. Telephone calls were also held with the partners of the component auditors and with the partner of Deloitte in respect of the audit of SGN and the majority of the others that were not physically visited. On these calls, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor and Deloitte as relevant.

Scoping of our audit

	Revenue	Profit before tax	Net assets
Analytical procedures	–	1%	–
Scoped out of our audit	1%	1%	2%
Audits for group reporting purposes	99%	98%	98%

5. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report continued

Opinions and conclusions arising from our audit continued

6. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' statement of Risk Management on pages 16 to 19, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the three years to March 2019; or
- the disclosures in note 34 of the financial statements concerning the use of the going concern basis of accounting.

7. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statements, set out on pages 78 and 18, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 70 to 79 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 116, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

William Meredith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
191 West George Street, Glasgow, G2 2LJ

17 May 2016

Shareholder enquiries

Capita Asset Services
Shareholder Solutions
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone: 0345 143 4005
Email: sse@capitaregistrars.com

Financial calendar 2016

Annual Report on sse.com/investors	21 June 2016
AGM (Perth) and Trading Statement	21 July 2016
Ex-dividend date for final dividend	28 July 2016
Record date for final dividend	29 July 2016
Final date for Scrip elections	26 August 2016
Payment date	23 September 2016
Results for six months to 30 September	9 November 2016

Website

The Company's website, www.sse.com, contains a wide range of information including a dedicated Investors section where you can find further information about shareholder services including:

- share price information;
- dividend history and trading graphs;
- the Scrip Dividend Scheme;
- telephone and internet share dealing; and
- downloadable shareholder forms.

Digital news

We use a dedicated news and views website (available at www.sse.com/newsandviews) and Twitter (www.twitter.com/sse) to keep shareholders, investors, journalists, employees and other interested parties up-to-date with news from the Company.

eCommunications programme

Sign up to our eCommunications Programme at www.sse.com/investors/ecommsprogramme and receive shareholder documentation via e-delivery.

Keep us informed

Keep us informed of changes to your email address by visiting www.sse.com/investors/ecommsprogramme and follow the instructions under 'how to register or update your email address'.

Copy reports

You can view the Annual Report 2016 by accessing the Company's website at www.sse.com.

MIX
Paper from responsible sources
FSC® C023105
FSC www.fsc.org

WORLD LAND TRUST™
www.carbonbalancedpaper.com
CBP0003700206162136

This report has been printed on Symbol Freelife Satin and Arcoprint Extra White. The papers are both elemental chlorine free and are certified according to the requirements of the Forest Stewardship Council® (FSC). The Symbol Freelife has a high content of recycled material (guaranteed minimum 25%). Both products are completely biodegradable and recyclable. Both the paper mill and the printer involved in this production are environmentally accredited with ISO 14001, as well as the paper mill holding ISO 19001 Quality Management certification. This report has also been carbon balanced.

Designed and produced by Emperor
www.emperordesign.co.uk +44 (0)131 220 7990

For further information about SSE, please contact:

SSE plc
Corporate Affairs
Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ
UK
Tel: +44 (0)1738 456000
Email: info@sse.com
Registered in Scotland No. 117119

www.sse.com

Follow the latest news from SSE
on Twitter at: www.twitter.com/sse

@SSE

STOCK CODE 008238