For a better world of energy

SSE PLC
ANNUAL REPORT 2020

ABOUT THIS REPORT

SSE plc is a UK-listed energy company and this Annual Report 2020 comprises a Strategic Report, a Directors' Report and Financial Statements for the year ended 31 March 2020. In so far as possible, it also seeks to address trends and factors that could affect the future development, performance and position of SSE's businesses.

This includes taking account of events between 31 March 2020 and 16 June 2020, the date on which the Board of Directors approved this report. That period was dominated by the coronavirus emergency and the Board recognised on 16 June that it was difficult to forecast with accuracy the full extent of the pandemic's human, social, economic and business impact.

AT A GLANCE

Sale of SSE Energy Services page 17

SSE completed the sale of its GB household energy supply business.

Progress in offshore wind page 19

SSE was successful in UK auctions for offshore wind capacity contracts.

A commitment to decarbonisation page 21

SSE adopted a new target to cut carbon intensity of electricity by 60% by 2030.

Operating profit
Adjusted APM
£1,488.4m
Reported
£963.4m

Earnings per share
Adjusted APM
83.6p
Reported
40.6p

Dividend
Recommended full-year dividend
80p

EBITDA
Adjusted APM
£2,191.4m

Economic contribution
UK
£7.7bn
Ireland
€650m

APM **Alternative Performance Measures**
SSE assesses the performance of the Group using a variety of performance measures. These measures are not all defined under IFRS and are therefore termed "non-GAAP" measures. A reconciliation from these non-GAAP measures to the nearest prepared measure in accordance with IFRS is presented on pages 164 to 169. The alternative performance measures SSE uses might not be directly comparable with similarly titled measures used by other companies.

The SSE plc Annual Report 2020 is complemented by SSE's Sustainability Report 2020 and Risk Report 2020, which can be found online at sse.com.

- online at sse.com/annualreport2020
- in other SSE publications
- within another section of this report

Non-Financial Information statement

SSE welcomes focus from regulators, shareholders and other stakeholders on its non-financial performance and recognises that the non-financial reporting requirements of the Companies Act 2006 necessitates transparent disclosure of non-financial information. SSE seeks to disclose information in an open and accessible manner. The table below signals where detailed disclosure on non-financial information can be found within SSE's Annual Report 2020, in addition to the non-financial information embedded throughout the document. Further disclosure can also be found in SSE's Sustainability Report 2020.

Reporting requirement and SSE's material areas of impact	Relevant Group Principal Risks, pages 28 to 36	Relevant Group Policies on sse.com	Policy embedding, due diligence, outcomes and key performance indicators
Environmental matters • Managing climate-related issues • Delivering net zero • Wider environmental performance	Climate Change Safety and the Environment	Group Climate Change Policy Group Environment Policy	Aligning business and social objectives, pages 74 and 75 Taking climate action, pages 82 to 85 Safety, Health and Environment Advisory Committee Report, pages 132 to 135
Employees • Health and Safety • Training and learning • Inclusion and diversity • Reward • Employee voice • Culture and ethics • Support during the coronavirus crisis	People and Culture Safety and the Environment	Group Employment Policy Group Safety and Health Policy	Aligning business and social objectives, pages 74 and 75 Committing to decent work, pages 78 to 81
Social matters • Contributing to the economy • Responsible approach to tax • Sharing value with communities • Advocating for a just transition in the green recovery	People and Culture Speed of Change Energy Affordability	Group Sustainability Policy Group Taxation Policy Group Procurement Policy	Aligning business and social objectives, pages 74 and 75 Fulfilling SSE's social contract, pages 76 and 77
Human rights, anti-corruption and anti-bribery • Reinforcing an ethical business culture • Prevention of financial crime and corruption • Approach to human rights and modern slavery	People and Culture Large Capital Projects Quality	Group Human Rights Policy Group Corruption and Financial Crime Prevention Policy Group Whistleblowing Policy	Aligning business and social objectives, pages 74 and 75 Culture and ethics, page 81

Strategic Report

Directors' Report

Financial Statements

Front Cover
Completion of Beatrice wind farm, off the Caithness coast, in May 2019 confirmed SSE's capability as a developer and operator of world-class renewables assets.

FOR A BETTER **WORLD OF ENERGY**

SSE is an energy company that operates and invests across the UK and Ireland. Its purpose is to provide energy needed today while building a better world of energy for tomorrow; its vision is to be a leading energy company in a net-zero world; and its strategy is to create value for shareholders and society in a sustainable way through the successful development, efficient operation and responsible ownership of energy infrastructure and businesses. The following Strategic Report sets this out in more detail.

Strategic Report


SNR
HI-RISE

PURPOSE-LED AND **STAKEHOLDER FOCUSED**

This Annual Report, comprising a Strategic Report, a Directors' Report and Financial Statements, is the first to be published by SSE since the UK Corporate Governance Code 2018 became applicable to it.

SSE welcomes the clear statement in the Code that "companies do not exist in isolation. Successful and sustainable businesses underpin our economy and society by providing employment and creating prosperity. To succeed in the long term, directors and the companies they lead need to build and maintain successful relationships with a wide range of stakeholders. These relationships will be successful and enduring if they are based on respect, trust and mutual benefit. Accordingly, a company's culture should promote integrity and openness, value diversity and be responsive to the views of shareholders and wider stakeholders".

The importance of the Code's statement has been demonstrated in full by the impact of coronavirus (COVID-19) on people, society, the economy and business. It is now clearer than ever that "companies do not exist in isolation" and that they need to "maintain successful relationships with a wide range of stakeholders".

The coronavirus outbreak in the UK and Ireland started late in SSE's financial year and had some impact on the Company's Financial Statements for 2019/20. It clearly dominated the first months of the new financial year. In the Strategic Report and the Directors' Report we therefore seek to address, insofar as is possible, coronavirus amongst the other trends and factors that could affect the future development, performance and position of SSE's businesses. It is difficult, however, to properly forecast with accuracy the pandemic's human, social, economic and business impact. SSE's overriding priority has been to support safe and secure supplies of electricity on which the response to coronavirus depends and in addition to that to do the right things to position SSE well for the long term.

SSE's social contract

The Code's recognition that companies exist within an interconnected society is consistent with SSE's long-held view, set out in previous Annual Reports, that it has a social contract to fulfil. We understand that SSE relies on the societies it operates within to maintain good public services and infrastructure, provide human capital and give the right to earn a reasonable profit and remunerate shareholders for their investment. In exchange, SSE must act in the public interest to: provide reliable and sustainable energy; invest in infrastructure; deliver inclusive services; contribute to a just transition to a decarbonised economy, inclusive economic growth and sustainable jobs; pay its fair share of tax; and share value with local communities.

In taking strategic, financial and operational decisions, therefore, my fellow Board members and I, the Group Executive Committee, senior managers and other employees of SSE aim to respect this social contract and so promote the success of the Company for the benefit of its members as a whole, in line with Section 172 of the Companies Act 2006. As stated in the Act, this means having regard to, amongst other things:

- The likely consequences of any decisions in the long term.
- The interests of the Company's employees.
- The need to foster the Company's business relationships with suppliers, customers and others.
- The impact of the Company's operations on the community and environment.
- The desirability of the Company maintaining a reputation for high standards of business conduct.
- The need to act fairly as between members of the Company.

Stakeholder engagement

In the early part of the coronavirus outbreak in the UK and Ireland, we were grateful to investors who encouraged the Company to focus not only for shareholders but on all stakeholders; and to maintain a focus on the long term. This comes naturally to SSE; and SSE believes it is ultimately in shareholders' best interest to do this.

In support of discharging its Section 172 duties, the Board has adopted a strategic approach to stakeholder engagement. SSE identifies six key stakeholder groups and recognises that the purpose of stakeholder engagement is to ensure that the perspectives, insights and opinions of stakeholders are understood and taken account of when key strategic, financial or operational decisions are being taken, so that those decisions:

- Are more robust and sustainable in themselves.
- Support SSE's strategic goal of creating value for shareholders and society.

The Board and Group Executive Committee believe that fostering SSE's business relationships and maintaining effective stakeholder engagement should help to ensure that SSE is a company in which people want to invest, from which people want to buy, with which people want to partner and for which people want to work. SSE's approach to stakeholder engagement is set out in more detail on page 12.

At the same time, it is simply not possible for all of SSE's decisions to result in a positive outcome for every stakeholder interest. By considering the Company's purpose, vision and values, together with its strategic priorities and recognition of the importance of its social contract, however, it should be possible for stakeholders to assess whether decisions are robust and sustainable in themselves and coherent as a whole.

Assessing effectiveness

A key objective of the Strategic Report, Directors' Report, Financial Statements and SSE's separate Sustainability and Risk Reports, is to help stakeholders assess how effectively the Board, supported by the Group Executive Committee, senior managers and other employees, promoted the success of SSE and had regard to the factors set out in Section 172 during 2019/20.

Shareholders and other stakeholders can be confident that the contents of SSE's corporate reporting reflect the frameworks for strategy, stakeholder engagement, governance, risk management and culture established and overseen by the Board.

During the year, the highest-profile decision taken by SSE was the sale of its GB household energy supply business, SSE Energy Services, to OVO Energy Limited, a transaction that was completed in January 2020. In considering its duties under Section 172, the Board was especially mindful of the interests of our stakeholders. It concluded that:

- By becoming part of OVO, an award-winning company, SSE Energy Services would have new opportunities to help transform the GB energy supply market for the benefit of customers.
- While a combination of OVO and SSE Energy Services would bring significant change for employees, OVO had recognised credentials as a good employer.
- Completing the sale would enable the SSE Group to focus even more on the core businesses of regulated electricity networks and renewable energy that will contribute most to meeting net-zero emissions targets.

In common with other businesses, the most prominent matter dealt with by SSE in the spring of 2020 was the impact of coronavirus, and in March 2020 the Board confirmed that the Group's response would have regard to the expectations of all of SSE's key stakeholder groups and be in line with its commitment to promote the success of the Company for the long term. For more on the Board's response to coronavirus see page 94.

The sale of SSE Energy Services and the response to coronavirus were among the material matters considered by the Board during 2019/20 and the first months of 2020/21. In these matters and others, the Board always sought to perform its duty under Section 172, ensuring a clear focus on the implications for SSE's defined stakeholder groups, seeking to maintain an objective and balanced view in order to achieve the optimal outcome. Examples of the work done in SSE to engage with stakeholders and contribute to the long-term success of the Company are set out from page 16.

Purpose-led governance

The requirement for Boards to have regard to the matters set out in Section 172 and the content of the UK Corporate Governance Code 2018 reflect wider consideration about the future of the corporation, also reflected in the British Academy programme of that name with which I have a close association. The programme concluded that the purpose of corporations is to produce profitable solutions to the problems of people and planet; and this is a conclusion that SSE endorses.

SSE has a strategic purpose to provide energy needed today while building a better world of energy for tomorrow. Providing energy needed today has never been more important than in the context of coronavirus, during which SSE's overriding priority has been to play its part in supporting the safe and reliable supply of electricity on which the people and organisations whose work is critical to the coronavirus response depend.

With regard to building a better world of energy for tomorrow, following the UK Parliament's legislation requiring the UK to bring all greenhouse gas emissions to net zero by 2050, SSE refined its vision, which is now to be a leading energy company in a net-zero world.

SSE's strategic focus is on supporting the transition to a net-zero world through a business model geared towards successful development, efficient operation and responsible ownership of energy assets and businesses. A key focus for the Board in 2019/20, therefore, was on long-term developments like securing opportunities for new offshore wind farms and a strong business plan for the SSEN Transmission business.

This strategic focus is reflected in four goals for 2030 that are directly aligned to four of the United Nations' Sustainable Development Goals – climate action; affordable and clean energy; industry, innovation and infrastructure; and decent work and economic growth. This illustrates the extent to which SSE places itself within the context of a greater global effort, particularly in the fight against climate change. Our progress towards the attainment of those goals is summarised on page 82.

Focus on outcomes

SSE's financial performance in 2019/20 generally represented a solid recovery from the disappointing results of the previous year. The core businesses of regulated electricity networks and renewable energy earns the bulk of the adjusted operating profit and the seeds of future success were sown with the publication of SSEN Transmission's business plan, A Network for Net Zero, for the 2023-28 RIIO-T2 regulatory Price Control period and with SSE Renewables' success in the UK's third Contracts for Difference auction for contracts to build offshore wind farms.

This significant strategic progress, allied to a solid recovery in financial results, and the opportunities emerging for SSE in the transition to net-zero emissions influenced significantly the Board's decision to recommend a final dividend of 56 pence in respect of 2020.

The Board is clear that dividend decisions should be in line with its commitment to promote the success of the Company for the long term, contributing to a green economic recovery and creating value through the transition to net zero, for the benefit of all of SSE's stakeholders. The Board believes that long-term success will be founded on sustaining dividend payments on which people depend for savings and pensions.

Looking ahead

I will step down as Chair of SSE in the course of the 2020/21 financial year, and I would like to extend my thanks to everyone involved with the Company, with which I have been proud to have been associated. Looking ahead, I have no doubt that SSE will continue to make decisions and take actions that are aligned with the requirements of Section 172, in keeping with the spirit of the UK Corporate Governance Code 2018 and consistent with the focus on purpose inherent in the British Academy's programme on the Future of the Corporation.

It is an approach that will be particularly important as SSE seeks to play its part in supporting a "green-led" economic recovery and it underpins our strategic goal of creating value for shareholders and society.

This Strategic Report has been approved by the Board in accordance with the Companies Act 2006 and SSE welcomes any feedback on the report itself or on the matters contained within it.

Richard Gillingwater CBE
Chair, SSE plc Board
16 June 2020

OUR PURPOSE AND OUR STRATEGY

SSE is a purpose-led company involved principally in the generation, transmission and distribution of electricity; and also in the supply of energy and related services to customers.

SSE's purpose is to provide energy needed today while building a better world of energy for tomorrow.

Its vision is to be a leading energy company in a net-zero world.

Its strategy is to create value for shareholders and society in a sustainable way through successful development, efficient operation and responsible ownership of energy infrastructure and businesses. The execution of this is achieved through the implementation of the strategic pillars described on these pages.

SSE has set four business goals for 2030, aligned to the United Nations' Sustainable Development Goals.

All of this is underpinned by the SSE SET of core values designed to guide decisions and actions in SSE: Safety, Service, Efficiency, Sustainability, Excellence and Teamwork.

Delivery of SSE's purpose and execution of its strategy depends on effective identification, understanding and mitigation of risk.

OUR FOUR STRATEGIC PILLARS

Focusing on the electricity core

SSE believes that a sustainable company is one that focuses successfully on core businesses; and SSE is clear that its core businesses are economically-regulated electricity networks and provision of electricity from renewable sources, complemented by provision of electricity from thermal sources. It is these electricity businesses, which have crucial roles to play in the transition to net-zero emissions, that form the core of SSE.

In a dynamic and complex operating environment, focusing on the electricity core means SSE is able to deploy effectively capabilities that are key to sustainable business success, such as operation of electricity infrastructure and businesses; development and construction of large capital electricity projects; partnering; and management of human capital.

In particular, SSE believes that the successful nurturing of the talent, skills and other attributes of people working on its behalf will create most value if focused on a core of electricity businesses.

OUR BUSINESS GOALS FOR 2030

GOAL #1

Cut our carbon intensity by 60%

Reduce the carbon intensity of electricity generated by 60% by 2030, compared to 2018 levels, to around $120gCO_2$/kWh*.

SUSTAINABLE DEVELOPMENT GOALS

13 CLIMATE ACTION

OUR VALUES

Safety
If it's not safe, we don't do it.

Service
We are a company that customers can rely on.

Efficiency
We focus on what matters.

* In March 2020, SSE increased its target to reduce the carbon intensity of electricity generated by 50% by 2030 to a 60% reduction as part of setting its science-based targets (see page 21).

Developing, operating, owning

SSE considers that a sustainable company is one in which the talent, skills and other attributes of people working on its behalf deliver defined positive outcomes for shareholders and society. For SSE that means the successful development (including construction), efficient operation and responsible ownership of principally electricity infrastructure and businesses.

This means identifying a need for new infrastructure and specific opportunities to develop it in a professional way that engages all key stakeholders. It also means creating and taking appropriate opportunities to realise value at key stages in the development process and operating assets in a productive and responsive way in line with the needs of customers, with a robust commitment to safety and through a culture of continuous improvement. Finally, it means optimising asset ownership in a way that crystallises the value of our development and delivery skills while maintaining a strong base to support future earnings.

Creating value for shareholders and society

SSE recognises that a sustainable company is one that creates value for shareholders and society. SSE aims to create value for shareholders by earning profit from the successful development, efficient operation and responsible ownership of principally electricity infrastructure and businesses. The Group's first financial objective is to remunerate shareholders for their investment through the payment of dividends.

SSE understands that it has a social contract with the societies in which it operates and is part of. It relies on society to provide public services, supporting infrastructure and human capital. It also asks society to give the right to earn a reasonable profit and remunerate shareholders for their investment. In exchange, SSE must create value for society, investing in infrastructure, delivering inclusive services, contributing to inclusive economic growth and sustainable jobs, paying its fair share of tax and sharing value with local communities.

Delivering in a sustainable way

SSE believes that a sustainable company is purpose-led; and a purpose-led company is one that offers commercial solutions to the world's problems. Climate change is generally regarded as one of the biggest global challenges of the 21st century, and SSE's purpose, vision and strategy are all in support of helping the achievement net-zero emissions of greenhouse gases by no later than 2050.

Through its Sustainable Development Goals (SDGs), the United Nations has created a blueprint for a sustainable world, and SSE has adopted four fundamental business goals for 2030 which are aligned to the UN's SDGs in relation to climate action; affordable and clean energy; industry, innovation and infrastructure; and decent work and economic growth.

This means that SSE does not have a strategy for sustainability per se, but a sustainable business strategy for creating lasting value for shareholders and society.

GOAL #2

Treble renewable energy output

Develop and build by 2030 more renewable energy to contribute renewable output of 30TWh a year.

SUSTAINABLE DEVELOPMENT GOALS — 7 AFFORDABLE AND CLEAN ENERGY

GOAL #3

Help accommodate 10m electric vehicles

Build electricity network flexibility and infrastructure that helps accommodate 10 million electric vehicles in GB by 2030.

SUSTAINABLE DEVELOPMENT GOALS — 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

GOAL #4

Champion Fair Tax and a real Living Wage

Be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.

SUSTAINABLE DEVELOPMENT GOALS — 8 DECENT WORK AND ECONOMIC GROWTH

Sustainability

We do things responsibly to add long-term value.

Excellence

We continually improve the way we do things.

Teamwork

We work together, respect each other and make a difference.

WHAT WE DO AND **WHO WE DO IT FOR**

There are many definitions of "business model" but at its simplest it should define what a company does, who it does it for and how it expects to be remunerated for doing it.

SSE's business model

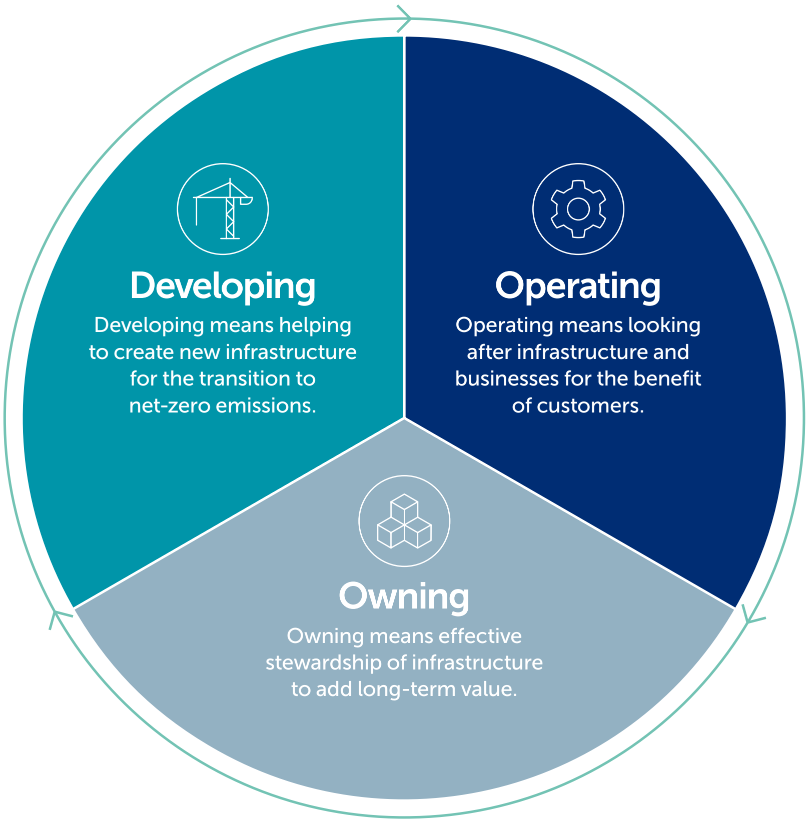
SSE's business model is founded on its purpose, vision and strategy, underpinned by the four strategic pillars of: focusing on the electricity core; successful development, efficient operation and responsible ownership; creating value for shareholders and society; and delivering in a sustainable way.

SSE fulfils its purpose, works towards its vision and executes its strategy through an evolving group of principally electricity businesses that are aligned to the core purpose of providing energy needed today while building a better world of energy for tomorrow; and, in particular, have a core or complementary role in enabling the transition to net-zero emissions and can be remunerated for it in a way that is fair to shareholders and other stakeholders alike.

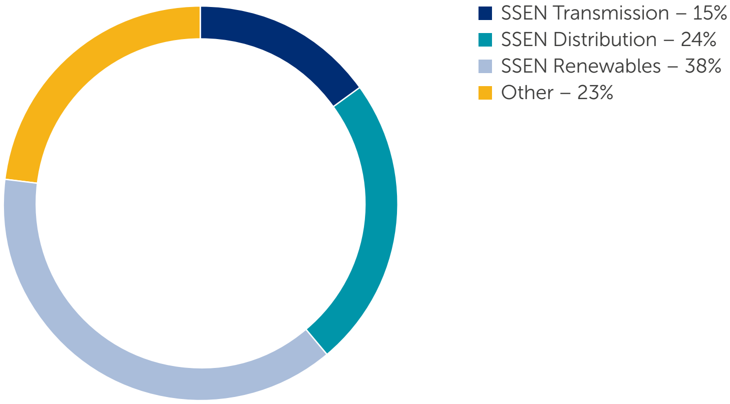
SSE's Business Units participate in a range of joint ventures, which helps to optimise the risk/reward balance associated with the development, operation and ownership of assets and maximise the ability to deliver projects from the pipeline of opportunities continually under development.

An increased investment appetite for low-carbon electricity infrastructure presents opportunities to form new financial partnerships and create value from successful development and operation of infrastructure. This fits with a strategy of developing and operating, but not always wholly owning, infrastructure.

In addition to the business units opposite, SSE is a minority investor in SGN plc, the gas distribution company that serves homes and workplaces in Scotland, Northern Ireland and the south of England; and in gas production assets in three regions of the UK Continental Shelf. Investment in these gas production assets is no longer consistent with SSE's strategy and focus on decarbonisation and they are accounted for as held for sale.



Contribution to 2019/20 operating profit



OUR CORE BUSINESSES

SSEN Transmission

What it does
Owns, operates and maintains the electricity transmission network in the north of Scotland.

Who it does it for
Electricity generators, large electricity demand customers and ultimately all electricity customers across GB.

How it supports net zero
Connecting sources of renewable electricity generation to the national grid and transporting that clean electricity to areas of demand.

How it is remunerated
Through economically-regulated returns, recovered from electricity generators and customers; and earnings from efficient delivery of large capital investments.

SSEN Distribution

What it does
Owns, operates and maintains the electricity distribution networks in the north of Scotland and central southern England.

Who it does it for
For the homes, businesses, generators and service providers that are connected to, or are seeking a connection to, its distribution networks and, ultimately, all electricity customers across GB.

How it supports net zero
Through the timely connection of local renewables and the co-ordinated delivery of network investment and flexible solutions to alleviate network constraints and allow for further electrification.

How it is remunerated
Through economically regulated returns, recovered from customers and connecting parties. Additional earnings can be made through efficient delivery of investment and targeted, performance-related incentives.

SSE Renewables

What it does
Development, construction and operation, and ownership, of assets that generate electricity from renewable sources.

Who it does it for
For electricity customers across the GB and Ireland markets, who increasingly require zero carbon sources of energy.

How it supports net zero
Develops and generates zero carbon electricity at large scale from onshore and offshore wind farms and provides clean flexible power from hydro schemes.

How it is remunerated
Through the wholesale energy market, ancillary services market, Capacity Market, power purchase agreements, and government support schemes for renewable energy.

OUR COMPLEMENTARY BUSINESSES

SSE Thermal

What it does
Generates electricity from thermal sources in a reliable and flexible way, supporting the electricity systems in GB and Ireland.

Who it does it for
For electricity suppliers, traders and other generators through the energy market; for National Grid; and ultimately all electricity customers across GB.

How it supports net zero
Produces progressively lower-carbon electricity and electricity system support to enable net-zero transition.

How it is remunerated
Through the wholesale energy market, Capacity Market and ancillary services market. Energy from waste facilities earn income from waste treatment.

SSE Business Energy (GB)

What it does
Provides a route to market for the output from SSE's renewables and thermal businesses, and provides the sustainable energy services that customers increasingly seek.

Who it does it for
For a broad and diverse range of customers, from micro businesses to large corporations and public sector organisations in the GB market.

How it supports net zero
Through supplying low carbon energy and related sustainable solutions to business customers.

How it is remunerated
Competing for customers and direct billing to them and third party intermediaries.

SSE Enterprise

What it does
Provides innovative energy and utility services solutions.

Who it does it for
Businesses and large public sector organisations.

How it supports net zero
By helping to develop a user-led energy system that is low-carbon, local, secure and affordable.

How it is remunerated
By winning bids and contracts and earning revenue from them.

Gas Storage

What it does
Owns and operates large underground caverns in which gas is stored.

Who it does it for
For gas suppliers or traders and ultimately for all energy customers across GB.

How it supports net zero
Gas storage has an important role in ensuring gas security of supply in GB, which is essential as gas remains a key complement to renewables energy.

How it is remunerated
By payments from third parties to reserve capacity in the storage facilities or through trading of gas.

SSE Airtricity

What it does
Provides energy and related services to households, businesses and public sector organisations across the island of Ireland.

Who it does it for
Serves both home and business energy customers (including public sector bodies) across the island of Ireland.

How it supports net zero
Supplies low carbon energy and supports the provision of sustainable energy solutions to home and business customers.

How it is remunerated
Competing for customers and direct billing to them; and through state-supported schemes.

Energy Portfolio Management (EPM)

What it does
Delivers value adding energy trading services for business units in SSE and external customers.

Who it does it for
Other SSE Business Units and third-party energy operators.

How it supports net zero
Provides efficient route-to-market for low-carbon electricity.

How it is remunerated
Receives fees for providing energy trading services to other parts of the Group.

CHIEF EXECUTIVE'S VIEW

DELIVERING TODAY **BUILDING FOR TOMORROW**

As Chief Executive, Alistair Phillips-Davies leads the development of strategy and its delivery as agreed by the Board. He chairs the Group Executive Committee and is the lead Executive Director for human resources and sustainability. Here he gives his assessment of where SSE stands at the start of a new decade.

Safety is always our No 1 priority...

Our approach to safety is summed up in the "licence" that we all have as employees of SSE: *If it's not safe, we don't do it*. This empowers every one of us to do the right thing when it comes to keeping ourselves and the people around us safe. We had our best year to date in terms of overall safety performance in 2019/20, meeting ambitious targets we had set ourselves on safety, wellbeing and environmental care. We're determined to maintain and reinforce an exceptionally strong safety culture in SSE, so that injury-free working is the reality for every employee of SSE every day.

We can look back on 2019/20 as a year of progress...

Financially, our results represented a solid recovery from the previous year, helped by a record year of green output from SSE Renewables. Strategically, the sale of Energy Services enabled SSE to become a company focused on successful development, efficient operation and responsible ownership of electricity infrastructure required for the transition to net zero. Operationally the establishment of SSE Renewables, and of different management structures for Transmission and Distribution and our other business units, means we get the most out of specialist knowledge and insight – and strike the right balance between empowerment and accountability.

Coronavirus overshadowed the end of the financial year...

The World Health Organisation's decision in March 2020 to declare the coronavirus outbreak a pandemic was a deeply sobering moment for us all. As a company, we made clear from the outset that our overriding priority was maintaining critical operations and supporting the safe and reliable supply of electricity on which people and organisations whose work was critical to the coronavirus outbreak depended. I'm very proud to be associated with the work of all of my colleagues who played a part in this.

It's too early to know the full impact of coronavirus...

We have a robust business model at SSE, focused on electricity networks and renewable energy, and a big part to play in the long-term economic recovery everyone will be working for, allied to the transition to net-zero emissions. But like every other company operating in the UK and Ireland, we cannot be immune from the wider economic impacts of coronavirus, and we have already seen a reduction in demand for electricity itself and for connections to the electricity system. It's our job to guide the Company through this period and ensure it's well-placed for the economic recovery when it comes.

Companies have to take the right decisions for the long term...

Coronavirus has made good, responsible decision-making more important than ever, geared to delivering sustainable value for shareholders and society. That's the SSE way, and it has guided us through the period since the outbreak of the pandemic, and in all of the financial and business decisions we have taken. Together, these decisions represent a comprehensive plan for managing the substantial, but temporary, adverse effects on the business arising from coronavirus and putting SSE in a good position to play its part in a green economic recovery across the UK and Ireland.

Climate change hasn't gone away...

Attention has rightly focused on coronavirus, but climate change – which itself poses fundamental risks to human, social and economic wellbeing – hasn't gone away. The requirement for companies like SSE to support the transition to net-zero emissions is as great as ever.

The sale of SSE Energy Services allows us to focus on net zero...

We long believed that a dedicated, focused and independent retailer would ultimately best serve customers and the wider market, and the sale to OVO was an excellent opportunity to make that happen. It has allowed SSE to become a company focused on developing, operating and owning electricity infrastructure required for the transition to net-zero emissions.

The work to refine our operating model is paying off...

People can be sceptical about organisational change, and sometimes with good reason. In the first half of 2019, we established SSE Renewables, created a discrete SSE Thermal business and put in place different management structures for SSEN Transmission, SSEN Distribution and other business units. I think we have created a working environment that gets the most out of specialist knowledge and insight and gets the balance between empowerment and accountability right. That also makes businesses more attuned to their stakeholders and better positioned to create sustainable value.

Focusing on the electricity core plays to our strengths...

Focusing on regulated electricity networks and renewable energy is enabling us to play to long-standing SSE strengths such as the successful development, efficient operation and responsible ownership of electricity networks and generating plant. It's also enabling us to develop further core capabilities such as project development, stakeholder engagement, procurement, engineering, financing and partnering.

"Like every other company operating in the UK and Ireland we cannot be immune from the wider economic impacts of coronavirus... It's our job to guide the Company through this period and ensure it's well-placed for the economic recovery when it comes..."

The UK's legislation for net zero will be seen as a pivotal moment...

We argued for the UK to adopt a target of net-zero emissions by no later than 2050 and were delighted when it was passed into law in the summer of 2019. Just as the UK's Climate Change Act in 2008 paved the way for the dramatic expansion of renewable energy in the past decade, so I believe the net-zero target will pave the way for further transformation across the energy, heat and transport sectors.

Net zero gives us a real sense of purpose...

I have no doubt that companies' ability to create lasting value is significantly greater when they have a purpose that goes beyond making money. Our involvement in the British Academy's Future of the Corporation project has confirmed this, and I totally agree with Professor Colin Mayer when he says that the purpose of business is to find profitable solutions to the problems of people and planet. In our case, that means finding commercial solutions that assist the achievement of net-zero emissions.

Net zero means the future has to be electric...

Independent forecasts show that achieving net-zero emissions means demand for electricity could increase by two or three times by 2050, driven to a significant extent by electrification of transport and heat. This represents a huge opportunity for our core electricity networks and renewables businesses, but also for our thermal energy business too. By providing reliable and flexible electricity, it helps underpin the system and smooth the transition to a net-zero world.

The world doesn't owe us a living...

Although the focus on net zero creates a huge long-term opportunity for our core businesses, it's our job to take that opportunity and create value for shareholders and society. In particular, that means working with stakeholders to secure good outcomes from the processes to determine the price controls for our transmission and distribution businesses in 2021 and 2023 respectively; and showing strong commercial acumen in the renewables sector, from identifying and securing the best sites through to realising value through disposals at optimal times.

We must never lose sight of our social contract...

We depend on the societies in which we operate for skilled people, good public services, good infrastructure like road and rail links, and the right to earn a reasonable profit and give shareholders a return on their investment. In return, we have to fulfil our part of the bargain through operating our infrastructure well, responding effectively to crises like coronavirus, investing in the transition to net zero, making a positive economic contribution, and paying fair wages and tax. It's not actually that complicated.

I want people to seek things out and change them...

The longer you serve as a chief executive, the clearer it becomes that it's people who make the difference. You can have the best strategy on paper, but it means nothing without people with the ability and the appetite to drive the organisation forward in big ways and small that cumulatively deliver for stakeholders here and now and position the Company for continuing success. Colleagues' focus and commitment during coronavirus, adapting swiftly to different ways of working, has been testament to that.

It all boils down to culture...

To retain and attract the right people, culture is key. That means having a progressive purpose, vision and strategy on the one hand and the right values, attitudes and behaviours on the other. It's all about being an inclusive, high-performing workplace. I've seen that in my colleagues' outstanding responses to the immediate emergency of coronavirus and the longer-term crisis of climate change.

There are always challenges...

Coronavirus has raised challenges that are unprecedented in the modern era but I'm confident that, with our robust business model, we will respond appropriately to those challenges and the SSE that emerges from the crisis will be financially sound. Beyond that, we have four business goals for 2030 aligned to the UN Sustainable Development Goals and showing our commitment and progress in relation to those targets will be vital over the next few years.

I'm positive about the future...

SSE is fundamentally well-placed for the future – purpose-led with an ambition to be a leading energy company in a net-zero world. But success is never a given. We have to demonstrate continually that we have the capability, commercial acumen and culture to translate that into sustainable growth and long-term value creation for shareholders and for society. We also have to show an ability to, and an appetite for, change. As I look across SSE, and around the SSE team, I am confident that that is what we have.

Alistair Phillips-Davies
Chief Executive
16 June 2020

OUR STAKEHOLDERS

WORKING FOR AND WITH **OUR STAKEHOLDERS**

Achievement of SSE's strategic goal of creating value for shareholders and society is dependent on effective engagement with its key stakeholders.

Approach to stakeholder engagement

SSE's stakeholders are people, communities and organisations with an interest or concern in its purpose, strategy, operations and actions and who may be affected by them.

SSE aims to maintain an open and transparent approach to stakeholder engagement, founded upon building respectful and constructive relationships with its key stakeholder groups, recognising that the legitimacy and sustainability of its business strategy is enhanced when it is reflective of stakeholder views and input.

Across SSE's businesses, there are therefore many examples of stakeholder engagement influencing both day-to-day and strategic decisions, with the way by which this is embedded reflective of relevant regulatory or legislative requirements.

The key strategic developments set out across pages 16 to 23 illustrate some of the significant stakeholder considerations which informed SSE's decision-making, in 2019/20. The approach described is designed to be consistent with section 172 of the Companies Act and the overall expectations set by the Board. Details of the framework through which this is governed is set out on page 101.

SSE's stakeholder relationships

SSE aims to have a two-way constructive relationship with the following six key stakeholder groups. By considering their perspectives, insights and opinions, SSE seeks to ensure outcomes of operational, investment or business decisions are more robust and sustainable.

More on SSE's stakeholders, material issues and outcomes...

Shareholders and debt providers: pages 13, 53 to 55, 75, 94 to 95
Employees: pages 13, 78 to 81, 94 to 95, 108 to 110
Energy customers: pages 14, 58 to 73, 75, 94 to 95
Government and regulators: pages 14, 24 to 27, 58 to 70, 83, 103
NGOs, communities and civil society: pages 15, 74 to 77, 85
Suppliers, contractors and partners: pages 15, 65 to 69, 76 to 77

Shareholders and debt providers
SSE has a large and diverse shareholder and debt provider base

How we engaged in 2019/20
During the year SSE undertook its regular programme of engagement which included: the financial reporting cycle comprising full-year and half-year financial results in addition to two quarterly trading statements; two UK investor roadshows each comprising face-to-face meetings with around 40 investors; one US investor roadshow comprising face-to-face meetings with around 15 investors; the AGM; and attendance at seven investor conferences.

In addition, SSE held regular meetings with investors face-to-face and by call, and responded to several letters from investor groups on topics such as remuneration and management of climate-related issues. SSE engaged in assessments by four of the main ESG ratings agencies and took part in a trial for the development of a new ESG ratings product. SSE further engaged with debt providers through the launch of its third Green Bond and a sustainability-linked Revolving Credit Facility.

Material issues raised
- Financial performance, credit rating and dividends.
- Political and regulatory risk.
- Investment and capex plans, including focus on networks and renewables.
- Environmental, social and governance (ESG) performance.

Outcomes of engagement
Shareholder views consistently inform strategic decision-making and shareholder opinion was central to SSE's decision to focus on its core businesses and to divest SSE Energy Services and SSE's Gas Production assets.

Engagement with SSE's shareholders (individuals, pension funds and institutional investors) confirms that payment of a sustainable dividend is a key priority. This is an important factor for the Board when determining SSE's strategy and resulting dividend policy and recommending each year the dividend to be paid.

Engagement with ESG investors resulted in enhanced disclosure during 2019/20, allowing SSE's non-financial performance to be better assessed. This included the publication of a climate-scenario analysis report and a 20% increase in SSE's score in a core ESG rating.

The 2019 AGM was attended by the full Board and shareholders were encouraged to attend and participate in the meeting. All resolutions put to shareholders in 2019 were passed with at least 92.51% of the votes cast in favour. The arrangements for the 2020 AGM have been designed to support continued shareholder participation and engagement, whilst ensuring the safety of individuals during the coronavirus pandemic.

Employees
SSE directly employs over 12,000 people in the UK and Ireland

How we engaged in 2019/20
SSE has ongoing, two-way channels for engaging with its employees, including structured career conversations, internal social media platforms, employee forums and structured engagement with trades unions. Over the year a diverse programme of leadership communications was undertaken to facilitate two-way engagement with employees. This included: five calls and townhall events held by the Chief Executive and members of the Group Executive Committee (GEC) to provide updates on key financial milestones and strategic matters to SSE's senior leadership team; and six all-employee question and answer sessions hosted by various members of the GEC averaging around 7,000 total employee views per session. SSE's all-employee engagement survey also allows employees to have their say and the 2019 survey achieved a sustainable engagement index score of 76%.

Material issues raised
- Opportunities for development and progression.
- Flexible, agile and family-friendly working patterns.
- Clear and simple communication of SSE's purpose, vision and strategy and decisions that are taken by Board and management.
- Inclusion and diversity.
- The opportunity to have a say and make a difference within SSE.
- Being supported to make decisions centred around doing the right thing.

Outcomes of engagement
Dynamic engagement with SSE's employees through a range of channels ensures that employees remain informed about business strategy and developments in real-time.

Corresponding feedback allows both management and the Board to ensure areas of importance highlighted by employees' perspectives are considered and reflected in future decisions and communications. The annual employee engagement survey results are reviewed at management, executive and Board level. Each business area uses the feedback to develop action plans and inform its management approach, which is communicated to employees and teams.

The non-Executive Director for Employee Engagement carries out a supporting programme of activity to ensure that there is a direct channel of communication with the Board, which is supplemented by a range of site visits and briefings.

OUR STAKEHOLDERS CONTINUED

Energy customers
SSE directly and indirectly serves customers across GB and the island of Ireland

How we engaged in 2019/20
SSE has well established customer engagement channels in each of its customer-focused businesses, ranging from dedicated panels to ensure perspectives of vulnerable customers are considered, to forums to engage with large business customers. Customer-facing businesses also maintain a wide range of indicators of performance and customer sentiment.

A significant part of SSE's engagement with government and regulators relates to the maintenance and development of reliable and sustainable energy systems for the benefit of energy customers across GB and the island of Ireland (see below). From the outbreak of coronavirus in the UK and Ireland, there has been extensive engagement with government and regulators to ensure key issues affecting energy customers as a result of the pandemic are being addressed.

Material issues raised
- Affordable and accessible energy.
- Responsiveness to need and vulnerability.
- Quality customer service.
- Using energy efficiently.
- Impact of industry change.

Outcomes of engagement
The needs of energy customers are reflected in SSE's core purpose of providing energy needed today while building a better world of energy for tomorrow, and associated strategy.

A comprehensive engagement approach taken with energy customers positively influenced SSEN Transmission's RIIO-T2 final business plan which was submitted to Ofgem in December 2019, and is helping to shape the early direction of SSEN Distribution's RIIO-ED2 business plan, to be submitted in 2021.

The Board receives direct updates from each of SSE's businesses on the influencing stakeholder factors which are driving business direction and propositions, and monitors customer performance to ensure delivery of an appropriate level of service and investment.

Government and regulators
SSE works constructively with government and regulators in the UK and Ireland

How we engaged in 2019/20
SSE has dedicated teams who work to communicate its business strategy and investment decisions, and to assist the development of regulation and policies which impact upon SSE and its customers. Over 2019/20 SSE undertook around 100 meetings with senior ministers, key politicians and regulatory officials and responded to all material government and regulator consultations. Areas of SSE's businesses also hold workshop events when setting out new business or project plans, with many being attended by representatives from regulators and government.

Material issues raised
- Cost-effective delivery of infrastructure.
- Fair treatment of energy customers.
- Security of supply and critical infrastructure.
- The RIIO-T2 and RIIO-ED2 networks price controls.
- Flexible networks and the transition to DSO.
- Economic impact of investments.
- Responsible conduct of large businesses.
- 70% renewable electricity target in Ireland.
- The UK's future relationship with the EU.

Outcomes of engagement
SSE engaged on a range of issues over the year including net-zero emissions, Brexit and security of supply; and was fully supportive of UK Government initiatives set in line with its advocacy positions such as the legislating of a national net-zero target and increasing ambitions for offshore wind.

As part of RIIO-T2, which sets out the price control from April 2021, SSEN Transmission also engaged extensively with stakeholders to co-create its ambitious business plan: A Network for Net Zero, submitted to Ofgem in December 2019. Similar engagement is under way in SSEN Distribution in preparation for its RIIO-ED2 business plan submission next year.

The Board oversees the implementation of SSE's Political Engagement Policy and corresponding advocacy priorities. It monitors engagement activity and responses to regulators to ensure that strategic, financial, investment and operating frameworks remain aligned to the external landscape.

NGOs, communities and civil society
SSE works in partnership with many third-party organisations

How we engaged in 2019/20
SSE held a number of community consultation events throughout the year to gather feedback on projects and business plans, and progressed partnerships with NGOs which deliver additional social and environmental benefits for the communities in which it operates. SSE's senior leaders supported key NGO partnerships through publicly promoting their initiatives. Since launching its 2030 Goals in March 2019, SSE has actively promoted the UN's Sustainable Development Goals to other companies and NGOs, and demonstrated the key role business has to play in the achievement of these global goals. This has included speaking at a number of external events and sitting on working groups.

Material issues raised
- Environmental protection and decarbonisation.
- Customer vulnerability and fuel poverty.
- A just and fair net-zero transition.
- Employment standards including the real Living Wage and the gender pay gap.
- How SSE shares value with local communities and wider society through its activities.
- Responsible behaviour of large businesses.

Outcomes of engagement
Throughout 2019/20 SSE continued to build on the work undertaken through some of its long-standing relationships with NGOs.

In June 2019 SSE announced its commitment to becoming one of the first five organisations to gain Living Hours accreditation in the UK, an initiative established by the Living Wage Foundation to set voluntary standards for work security. It also continued to work with Ofgem and the Fair Tax Mark to promote the principles of fair tax through the regulatory process in 2019 for the RIIO-T2 price control for Transmission.

At the end of March 2020 SSE signed the C-19 Business Pledge, established by the Rt Hon Justine Greening, which is a coalition of businesses aiming to bring about an enhanced business sector response to the coronavirus pandemic. SSE is now on its steering group and seeks, in partnership, to support a coordinated business response through the pandemic and the recovery. SSE's Chair continued his role on the Future of the Corporation Corporate Advisory Group, a research programme by the British Academy which seeks to solve the erosion of public trust in big business. This included holding a workshop with SSE employees to seek their views on the issue and feeding this back to the programme. Over 2019/20 SSE developed a series of new carbon targets which were approved by the Science Based Targets Initiative in April 2020.

Suppliers, contractors and partners
SSE has around 10,000 suppliers and contractors, and a number of joint venture partners

How we engaged in 2019/20
SSE works closely with suppliers to ensure its values on issues such as environmental protection, safety and modern slavery are upheld throughout its supply chain. During 2019/20, quarterly meetings were held with SSE's strategic suppliers through its Supplier Relationship Management (SRM) programme, helping enhance performance and strengthen relationships to deliver mutual value. To ensure high operational standards onsite training is held for contractors and quality and health and safety audits are undertaken.

The SSE Group also features an increasing number of significant Joint Ventures (JVs), both operated and non-operated. In 2019/20 SSE adopted a new Group Policy designed to help ensure that all Joint Ventures should be structured, governed and operated in a way that is consistent with the Company's goals and culture, including an appropriate commitment to stakeholder engagement.

Material issues raised
- Fair expectation in the delivery of projects.
- Management and mitigation of health and safety risks on sites.
- Deliver economic opportunities to local supply chains.
- Ensure social and environmental impacts are managed and mitigated.
- Innovation during project design and delivery to support SSE in the net-zero transition.
- Effective JV structures, governance and operations.
- Prompt payment.

Outcomes of engagement
Improved engagement with suppliers through SSE's SRM programme ensures that SSE has a relationship at all levels, from the project teams at the front line, to the Managing Directors and Chief Executive.

This type of relationship also ensures SSE is a customer of choice and facilitates value-adding conversations on subjects like innovation and future growth. A successful series of events was held to mark the opening of Beatrice offshore wind farm, bringing together the JV partners (including SSE Renewables) and other stakeholders to help position SSE Renewables for long-term success.

Major project updates are considered by the Board and are subject to SSE's Large Capital Project governance framework, which is overseen by a dedicated executive sub-Committee. During 2019/20, progress updates on SSE's offshore wind projects and thermal developments covered all aspects of partnering and the supply chain. The Audit Committee now also oversees SSE's payment performance.

STRATEGY IN ACTION

PROMOTING SSE'S **LONG-TERM SUCCESS**

From the start of 2019/20, the execution of SSE's strategy involved addressing material and high-profile business topics. In considering them and related matters, the SSE team as a whole was mindful of SSE's vision to be a leading energy company in a net-zero world and its strategic goal of creating value for shareholders and society. Alongside this, the Board's principal decision-making also considered the perspectives of SSE's key stakeholder groups and the requirement to achieve outcomes consistent with promoting and securing the long-term success of the Company.

RESHAPING THE GROUP

COMPLETING THE SALE OF SSE ENERGY SERVICES

Key development

In September 2019 SSE entered into an agreement to sell its SSE Energy Services business to OVO Energy Ltd at an enterprise value of £500m. The transaction was completed in January 2020.

Objective

Securing the best future for SSE Energy Services, taking account of stakeholder considerations, outside the SSE Group.

Strategic and stakeholder considerations

In its Annual Report 2019, SSE confirmed that while its strategic focus was on regulated energy networks and renewable energy, its commitment to securing the best future for SSE Energy Services outside the SSE Group was clear.

SSE Energy Services supplies energy and related services to household customers across Great Britain and in 2019 employed around 8,000 people.

In the summer of 2019, SSE entered into discussions with OVO to see if a transaction could be agreed that would be consistent with the strategic focus of the SSE Group on regulated energy networks and renewable energy; in the interests of SSE Energy Services' customers and employees; and in the interests of shareholders.

SSE concluded that by becoming part of OVO, SSE Energy Services would have new opportunities to help transform the GB energy supply market for the benefit of customers. It also concluded that while it would clearly bring significant change for employees, OVO had recognised credentials as being a good employer. SSE also recognised completing the sale of Energy Services would be in line with its key strategic objectives.

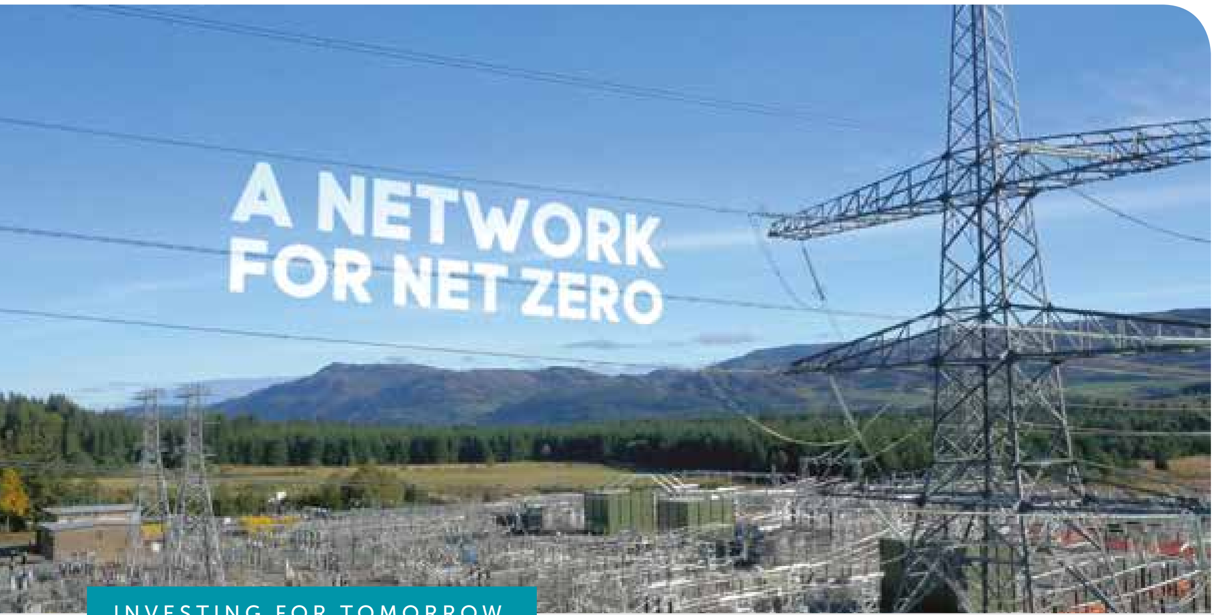
In December 2019, the Competition and Markets Authority cleared the proposed sale, confirming that the transaction would not result in a substantial lessening of competition. This underlined SSE's belief that a dedicated, focused and independent energy supplier would ultimately best serve key stakeholder groups of the business.

SSE Finance Director Gregor Alexander said: "Completing this transaction was an important milestone for SSE in reshaping the Company, and was the result of outstanding work of all of the teams of people involved, both within Energy Services itself and in key Group-wide functions as well. The commitment and skills shown in completing successfully the Energy Services sale will stand SSE in good stead in the future."

SSE Energy Services enterprise value

£500m

STRATEGY IN ACTION CONTINUED



INVESTING FOR TOMORROW

PLANNING "A NETWORK FOR NET ZERO"

Key development
In June 2019, SSEN Transmission published for consultation its first draft business plan for the transmission price control period between 2021 and 2026 (RIIO-T2) called A Network for Net Zero. The final business plan was submitted to Ofgem in December 2019.

Objective
Securing a regulatory framework for SSEN Transmission that creates the investment needed to deliver a pathway to net-zero emissions and improved networks reliability at an affordable cost to consumers, while also providing a fair return to investors.

Strategic and stakeholder considerations
In its Annual Report 2019, SSE described the work being done by SSEN Transmission to prepare its draft RIIO-T2 business plan, featuring extensive stakeholder engagement to understand what electricity customers, local communities and wider stakeholders are likely to require from the electricity transmission network in the first half of the 2020s.

The first draft business plan published for consultation in June 2019 reflected growing consensus on the need to decarbonise fully the economy to prevent the worst effects of climate change. It set out SSEN Transmission's "Certain View" that a minimum total expenditure ("totex") of £2.2bn would be required over the RIIO-T2 period to maintain and develop the north of Scotland electricity transmission network to meet the certain needs of current and future electricity generators and customers.

Following SSEN Transmission's consultation with stakeholders, the final business plan submitted to Ofgem in December 2019 made a "Certain View" case for minimum totex of £2.4bn, with further investment likely to be required to deliver the transition to net-zero emissions, and confirmed five ambitious goals designed to meet the expectations of stakeholders:
- Transporting the electricity from renewable sources that powers 10 million homes.
- Aiming for 100% transmission network reliability for homes and businesses.
- Delivering every connection on time.
- Reducing greenhouse gas emissions by one third.
- Securing £100m in efficiency savings from innovation.

In submitting the final business plan, SSEN Transmission Managing Director Rob McDonald thanked all of the stakeholders who helped to shape the plan and pointed to further stakeholder engagement to be undertaken by Ofgem.

Ofgem's draft determination on the business plan is expected in the summer of 2020.

Business plan "Certain View" totex

£2.4bn

LEADING THE SECTOR

COMPETING SUCCESSFULLY IN OFFSHORE WIND

Key development

In September 2019, the results for the UK's third Contracts for Difference (CfD) Allocation Round for renewable energy projects were announced, with SSE Renewables-backed offshore wind projects at Dogger Bank and Seagreen securing 15-year contracts for delivery between 2023 and 2025.

Objective

Creating the opportunity for SSE Renewables to follow the successful completion of the Beatrice offshore wind farm in 2019 by securing contracts to build additional offshore wind farms around the coast of the UK.

Strategic and stakeholder considerations

In its Annual Report 2019, SSE confirmed the adoption of four new goals for 2030, aligned to the United Nations' Sustainable Development Goals (SDGs), including Goal 7 – affordable and clean energy. SSE's goal is to develop and build by 2030 enough infrastructure to treble output of renewable energy to 30TWh per annum.

At the time the bids for the third allocation round of CfDs were submitted, Seagreen 1 (capacity 1,075MW) was wholly-owned by SSE and the projects at Dogger Bank (capacity 3,600MW) were owned by SSE and Equinor in a 50:50 joint venture.

Submission of bids was the culmination of many years of development work, including extensive engagement with key stakeholder groups including government, NGOs and suppliers and contractors.

Seagreen and Dogger Bank are discrete projects with different ownership structures and governance. SSE's involvement in the projects reflected its strategic commitment to build on its credentials as the leading renewable energy company across the UK and Ireland and make progress towards its 2030 goal in relation to affordable and clean energy.

In June 2020, a final investment decision was taken to proceed with Seagreen 1 with a 51% stake sold to a new joint venture partner, Total. SSE Renewables will use its sector expertise to lead on development and construction of the £3bn project. Success in the allocation round confirmed SSE Renewables' capabilities as a developer of renewable energy projects and its ability to partner successfully with other companies such Total and, in the case of Dogger Bank, Equinor.

Reflecting on the results of the third allocation round, SSE Renewables' Managing Director Jim Smith said: "This success demonstrates that offshore wind is the key technology to enable the UK to become carbon neutral by 2050 in the most cost-effective way, whilst also delivering significant economic benefit across the UK."

Dogger Bank offshore wind farm capacity

3,600MW

STRATEGY IN ACTION CONTINUED

RENEWING INVESTMENT

BUILDING NEW ONSHORE WIND

Key development

In January 2020, SSE Renewables announced it would go ahead with the construction of an 11-turbine extension to its existing 35-turbine onshore wind farm at Gordonbush in Sutherland – its first onshore wind construction project since the completion of Stronelairg in 2018, SSE's last onshore wind farm constructed under the Renewables Obligation.

Objective

Building on the potential of onshore wind as the lowest-cost form of low-carbon electricity generation and on SSE's capabilities as an onshore wind farm developer to contribute to supplies of electricity and the drive to net-zero emissions.

Strategic and stakeholder considerations

In its Annual Report 2019, SSE said it would continue to take forward development options for new onshore wind farms and extensions to existing wind farms and that it was well placed to take advantage of any future opportunities as they emerge.

Onshore wind was ineligible to participate in the second and third rounds of the Contracts for Difference scheme – the UK Government's main support mechanism for large-scale renewable electricity projects.

Nevertheless, in line with its strategic focus on renewable energy and its goal to develop and build by 2030 enough capacity to treble output of renewable energy to 30TWh per annum, SSE continued to develop a substantial onshore wind farm development pipeline.

This included engaging with stakeholders to optimise planning arrangements to accommodate more advanced turbine technology. In November 2019 the Scottish Government revised planning consent for the Gordonbush extension, with the number of new turbines reduced from 15 to 11 whilst increasing the height of the turbines to just under 150m. This will allow SSE Renewables to take advantage of more powerful turbines to maximise electricity generation potential and efficiency of the Gordonbush extension site.

Following the decision to proceed with construction of Gordonbush, SSE Renewables has engaged with local businesses and suppliers to assess the opportunities available on the project and with local communities in relation to a community investment fund. Construction is under way and the project is expected to be operational in the spring of 2021.

In June 2020, SSE approved a final investment decision for Viking wind farm on Shetland, subject to Ofgem's approval of a 600MW transmission link to the mainland. Viking will be the largest onshore wind farm in the UK in terms of annual electricity output.

SSE Renewables' Managing Director Jim Smith welcomed the announcement by the UK Government that onshore wind would be allowed to compete in future auctions for Contracts for Difference. Speaking in March 2020, he said: "Onshore wind has a crucial role to play alongside other important renewable technologies such as offshore wind in generating the low-cost green energy needed for the UK to reach net zero."

By 2030 SSE Renewables is targeting a trebling of output to

30TWh

CUTTING CARBON INTENSITY

TARGETING EMISSIONS REDUCTIONS

Key development

In March 2020, SSE reviewed its targets for reducing greenhouse gas emissions through significant engagement with the Science Based Targets initiative (SBTi). The SBTi encourages companies to set greenhouse gas emissions reduction targets against strict criteria which ensure they are in line with the Paris Agreement to future-proof growth.

Objective

Setting science-based targets to demonstrate that SSE has a clear and credible pathway to achieve its vision of being a leading energy company in a net-zero world, giving stakeholders confidence that SSE will be able to create value for shareholders and society through the transition to net zero.

Strategic and stakeholder considerations

In its Annual Report 2019, SSE confirmed the adoption of four new goals for 2030, aligned to the United Nations' Sustainable Development Goals (SDGs), including Goal 13 – climate action. SSE's goal then was to reduce the carbon intensity of electricity generated by 50% by 2030, compared to 2018 levels, to around 150g/kWh.

Nevertheless, SSE recognised that its position in relation to science-based targets was of significant interest to its key stakeholder groups and that there would be benefit in ensuring its emissions reduction targets, and the actions taken by the Company as a result of them, were aligned with current climate science and consistent with the Paris Agreement that came into force in 2016.

Following extensive analysis of SSE's current energy and emissions performance; assessment of the impact of SSE's strategic focus on creating value through the transition to net-zero emissions; and engagement with the Science Based Targets initiative, SSE adopted the following targets in relation to greenhouse gas emissions (GHG), all compared with the base year of 2018:

- Scope 1 – Reduce the carbon intensity of electricity generated by 60% by 2030 to around 120g/kWh.
- Scope 1 and 2 – Reduce absolute GHG emissions by 40% by 2030.
- Scope 3 – Reduce absolute GHG emissions from use of products sold by 50% by 2034.

A further Scope 3 target was set – for SSE to engage with 50% of its suppliers and contractors (by spend) to set a science-based target by 2024.

SSE's Chief Sustainability Officer Rachel McEwen said: "These new targets combined with targets to cut its direct emissions mean that SSE's carbon goals have been verified by the Science Based Targets initiative, which means that SSE's carbon emissions reduction trajectory is consistent with the Paris Agreement and a "well below two degrees" warming scenario. SSE will continue to keep its four 2030 Goals under review to ensure that they remain in line with the best available science."

SSE target reduction in carbon intensity (2030)

60%

STRATEGY IN ACTION CONTINUED

ADVOCATING CHANGE

MAKING THE CASE FOR NET-ZERO EMISSIONS

Key development
In June 2019 the UK became the first major economy to pass legislation for net zero, requiring the reduction of greenhouse gas emissions down to that level by 2050.

Objective
Engaging effectively with government and other stakeholders in support of SSE's vision of being a leading energy company in a net-zero world.

Strategic and stakeholder considerations
In its Annual Report 2019, SSE noted the broad political consensus in the UK on the need to decarbonise and described its focus on advocating for the right mechanisms to enable investment in renewable energy.

SSE continues to believe that an ambitious, economy-wide, decarbonisation agenda – focused on delivery – will put the UK on course to achieve net-zero emissions by 2050 and put Ireland on course to achieve significant decarbonisation ambitions also.

In its engagement with government, SSE set out its belief that achieving net-zero emissions will require the UK to go faster and further on decarbonising electricity and will also need a renewables-led approach to decarbonising power, heat and transport – supported by progressively lower carbon, flexible gas-fired generation to maintain security of supply. In line with that, in 2019 SSE campaigned for government to increase its ambition for offshore wind by raising its 2030 target from 30GW to 40GW of capacity; a policy that was subsequently adopted.

SSE has also pointed out that gas-fired generation with Carbon Capture, Use and Storage, and hydrogen, will be needed in any net-zero pathway and can provide relatively quick, cost-effective and flexible low-carbon capacity in comparison with new nuclear, which has shown itself to be unable to deliver within budget or on time.

SSE also makes the case for the electrification of transport to improve local air quality, reduce carbon emissions and help integrate renewables into the electricity system. SSE believes that local authorities and local electricity network companies should work together to assist delivery of EV charging in their areas via a new partnership model. In May 2020, SSE published a "greenprint" for a cleaner, more resilient recovery from the economic impact of coronavirus, recommending that the UK Government should "greenlight" billions of pounds of private investment in low-carbon infrastructure, committing to a net-zero power sector by 2040.

SSE Chief Executive Alistair Phillips-Davies said: "Our May 2020 "greenprint" sets out a number of steps policymakers could take to unlock major investment and drive a green recovery from coronavirus that leaves as its legacy a cleaner, more resilient economy."

UK's target for offshore wind capacity for 2030

40GW

RESPONDING TO CRISES

REASSESSING RISK IN LIGHT OF CORONAVIRUS

Key development

In March 2020, the World Health Organisation declared the coronavirus outbreak a pandemic and governments in the UK and Ireland introduced so-called "lockdowns" affecting the way everyone in the countries lives and works.

Objective

SSE's over-riding priority through the pandemic has been to support the safe and reliable supply of electricity, on which the people and organisations whose work is critical to the coronavirus respond depend.

Strategic and stakeholder considerations

In its Annual Report 2019, SSE listed 10 Group Principal Risks and confirmed the enduring responsibilities of the Board and the Group Executive Committee in relation to identification, understanding and mitigation of risk.

As set out elsewhere in this Annual Report, SSE took a range of significant steps to fulfil its operational responsibilities during the pandemic, address the financial matters arising from its economic impact and confirm its long-term strategy to create value for shareholders and society.

Critical to this is a robust risk management framework; and at the request of the Board an additional assessment of Group Principal Risks was undertaken between March and May 2020 to enable reflection on whether there had been any changes to the risk profile in which SSE's businesses operate. This process was designed to be inclusive and iterative.

This assessment concluded, and the Board agreed, that SSE's Group Principal Risks have not changed as a result of the pandemic, although the prevalence of some material influencing factors has. See pages 28 to 36.

This confirmation that SSE's Group Principal Risks have not changed as a result of the pandemic indicates that SSE has a resilient risk management framework. At the same time, the coronavirus outbreak has demonstrated in the most acute way the high impact that risks – even if not in themselves principal or material – can have on the operation and performance of businesses.

SSE will, therefore, remain focused on risk management as an essential means of fulfilling its strategic goal of creating value for shareholders and society.

Finance Director Gregor Alexander said: "Coronavirus has had clear operational and financial impacts, but the underlying resilience of SSE built, amongst other things, on a measured assessment of risk, has stood the Company in good stead. Effective identification, understanding and mitigation of risk must continue to be a top priority."

The total number of SSE's Group Principal Risks has been increased to

11

OUR EXTERNAL **OPERATING ENVIRONMENT**

The United Nations has set a Sustainable Development Goal for 2030 of affordable and clean energy, ensuring access to affordable, reliable, sustainable and modern energy for all. This goal, the UK becoming the first major economy to legislate for net-zero greenhouse gas emissions by 2050 and the upcoming COP26 summit in November 2021, provide the context for developments in the energy sector. SSE's response to these developments is to focus on successful development, efficient operation and responsible ownership of electricity infrastructure and businesses that support the transition to net zero.

ESG FOCUS

CAPITAL FLOW TO NET ZERO

The clean electricity sector has become increasingly attractive for investors. This has been driven by technology development, stable regulatory frameworks, high growth prospects and – importantly – strong sustainability credentials. Globally there is expected to be around £1 trillion a year invested in low-carbon generation and electricity networks.

At the same time, the financial sector is increasingly focused on Environmental, Social and Governance (ESG) standards. Similarly, debt and equity investors are recognising the risks and opportunities from climate change, supported by initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD). This means capital is increasingly flowing to businesses and assets which are well-positioned to benefit from the low-carbon transition, and which are less exposed to the downsides that more emissions-intensive competitors face.

As the world emerges from the coronavirus crisis, the role for publicly-listed utilities in providing customers with reliable, affordable and clean electricity will be more important than ever.

The long-term human, social, economic and business impacts of the pandemic remain uncertain. But it is becoming clear that companies will increasingly be expected to be purpose-led; have regard for all of their key stakeholder groups in decision-making; fulfil their part of a "social contract" with the societies of which they are part; and earn the right to make a profit and remunerate shareholders for their continued investment.

Forecast global investment in low carbon generation and networks (annual)

£1tr

The debate about the future of the corporation is not specific to the energy sector; but the energy sector is one in which the debate is especially critical.

While the trend of capital flow to net zero represents an opportunity for SSE, it will also require effective identification, understanding and mitigation of risks, including Climate Change; Speed of Change; Energy Affordability; and Politics, Regulation and Compliance.

More information on the risks posed by SSE's operating environment can be found across pages 31 to 36.

NET ZERO

A MAJOR OPPORTUNITY FOR ELECTRICITY

Climate change remains a critical global crisis to resolve over the next few decades. Accordingly, society, governments and businesses are increasing the momentum behind decarbonisation targets.

In June 2019 the UK Parliament legislated for net-zero carbon emissions by 2050 – the first major economy to do so – following a landmark report by the UK Committee on Climate Change (CCC). Many other countries – from France to South Korea – have followed suit by legislating for net zero.

The **electricity** sector will be crucial in powering a net-zero economy. It is expected to be the first sector to decarbonise, with net-zero emissions needed before 2040. At same time, the sector will need to expand to electrify transport, heat and parts of industry. Annual demand for electricity in Great Britain is forecast to increase from around 300TWh to 600TWh or more by 2050. This represents a transformational growth opportunity for SSE.

The UK and Ireland continue to make strong progress in decarbonising electricity, with the growth of renewables and the phase-out of coal. In 2019, the UK power sector emitted less CO_2 (58 $mtCO_2e$), a fall of 60% over the last decade. This is less than the three largest power stations in Germany emitted (59 $mtCO_2e$). Latest figures show over 33% of UK power generation came from renewable sources in 2018 compared to just 5% in 2008. Rapid growth in wind power will continue to reshape the electricity mix. To deliver a net-zero economy by 2050 the UK CCC estimates over 100GW of wind capacity will be required (a quadrupling of overall renewable capacity), with offshore wind providing the bulk of this. In turn, this means a major role for electricity transmission companies to connect customers to both onshore and offshore wind – where major new networks in the North and Irish Seas will need to be coordinated and built out.

Transport is the next sector where momentum behind decarbonisation is growing, with electrification a key route to this. In early 2020 the UK Government brought forward the ban on sales of new diesel and petrol car sales to 2035. At the same time, businesses and local governments are expanding the coverage of electric vehicle (EV) charging points connected into networks grids, giving customers more confidence to use EVs. By 2030 we could see more than 10m EVs on UK roads, driving decarbonisation while also bringing cleaner air in towns and cities.

Forecast GB demand for electricity by 2050 (annual)

600TWh

Decarbonisation of **heat** remains a major challenge, with progress relatively slow. Again, electrification is expected to have a major role to play. More than 80% of GB households currently use gas heating. In the future, electric heat pumps will be the most viable low-carbon alternative in many homes. Other low-carbon heating fuels, such as hydrogen, will also e important in certain situations and areas. The UK Government plans to publish a Heat and Buildings Strategy in 2020.

Both heat and transport decarbonisation will require more localisation of energy policy and planning, with local authorities playing a major role ensuring that solutions are tailored to local needs in partnership with distribution networks. By 2035, the GB distribution grid could require more than £50bn of investment to support accelerated uptake of heat pumps and EVs.

Net zero and electrification create clear opportunities right across the SSE Group: from building new low-carbon electricity generation; to transmission and distribution network upgrades and services; to installing EV charging points; and creating new retail propositions such as corporate power purchase agreements (PPAs) for renewable energy.

As with the capital flow to net zero, the trend towards electricity represents an opportunity for SSE but will also require effective identification, understanding and mitigation of risks, including Safety and the Environment; Energy Affordability; Large Capital Projects Quality, Energy Infrastructure Failure; and Politics, Regulation and Compliance.

TECHNOLOGY

A KEY ROLE FOR INNOVATION

Technology and innovation remain crucial to enabling a secure and affordable transition to net zero.

In **renewables**, wind power technology continues to develop fast and costs are still falling, driven by advances in technology, larger turbine capacities and efficient financing. Wind is now one of the cheapest forms of power generation in many countries – particularly in windy areas such as the UK and Ireland.

Offshore wind technology cost reductions have been particularly dramatic, dropping by more than 50% since the early 2010s, with record low auction clearing prices of £40/MWh in the 2019 Contracts for Difference (CfD) auctions.

SSE is one of a relatively small number of organisations globally with deep experience in offshore wind development and operations. This makes SSE's pipeline – the largest in the UK which, in turn, is the most significant offshore wind market globally – uniquely valuable.

In a growing electricity sector with increasing renewables penetrations, the key role for flexible **low-carbon thermal** generation in the transition to net zero is also becoming clear. Thermal power stations with Carbon Capture, Use and Storage or fired by hydrogen will be a cost-effective way of meeting growing peak and seasonal electricity demands.

More widely, these technologies will be needed to decarbonise industry and parts of heat. The UK is well-placed to be a global leader in low-carbon thermal – leveraging existing gas infrastructure and skills and making use of its large CO_2 storage capacity in the North Sea (around 80,000mtCO_2 of potential). In turn SSE has valuable skills and sites to play a full part in low-carbon industry clusters such as the Humber.

Meanwhile in electricity networks, **transmission** High-Voltage Direct Current technology continues to develop, with high power capacities and longer distances covered at a lower cost. In turn, this is increasing the viability of renewables in more remote locations with high wind resource, including far from shore in the North Sea.

Further downstream, fast reductions in battery costs are improving the outlook for Electric Vehicles and providing flexible energy solutions. Digitalisation along with the growth of internet-connected and smart devices are also creating opportunities for more efficient operations and better customer service. In particular, this includes more active management of **distribution** networks as they manage more localised energy and accelerated EV uptake.

The sector trend relating to innovation represents a further opportunity for SSE, but will also require effective identification, understanding and mitigation of risks, particularly Speed of Change, Cyber Security and Resilience and People and Culture.

Potential CO_2 storage capacity in North Sea

80,000mt

MARKETS AND REGULATION

STRONG COMPETITION, ACTIVE INTERVENTION

The growth in clean electricity means it is a space many others want to be in. Competition is strong and large electricity utilities are emerging to take the global opportunities arising from renewables and networks growth.

Meanwhile, so-called "oil majors" are recognising net zero and setting targets aligned to it. These targets are only achievable with a major shift to clean fuels (e.g. hydrogen and Carbon Capture, Use and Storage) and renewables. They will create a new competitive threat for SSE, but also partnering opportunities.

By 2030 Ireland has ambitions for electricity derived from renewables to amount to

70%

In renewables, supportive public policy frameworks have given confidence to investors, developers and the supply chain to deliver.

The UK Government has committed to regular auctions for CfDs for renewables through the 2020s. And from 2021, onshore wind and solar will be eligible to compete for CfD contracts as well as other renewables technologies such as offshore wind. In Ireland, the new Renewable Electricity Support Scheme will replace the REFIT scheme to provide support to renewable projects. The RESS is expected to support Ireland's renewable electricity ambition of up to 70% by 2030. The first RESS auction is due to take place over summer 2020. Meanwhile, carbon pricing continues to underpin emissions reductions in the sector.

Turning to regulated networks, the RIIO-2 (RIIO – Revenue = Incentives + Innovation + Outputs) price controls are expected to be challenging, with Ofgem looking to drive a "harder bargain" with network companies. This partially reflects falls in the costs of finance for regulated infrastructure. SSEN Transmission and SSEN Distribution continue to seek balanced RIIO-T2 and RIIO-ED2 regulatory settlements, starting in 2021 and 2023 respectively, which support investment, innovation and strong customer service.

Ofgem is also gearing up for net zero, recognising the need for anticipatory investment to ensure networks are "net-zero ready". As a result, business planning for the RIIO-2 and RIIO-3 price controls has a focus on where efficient investments can be made this decade to support net zero in the long-term interests of customers. This includes ensuring coordinated investment is in place to support timely connection of renewables in transmission networks and EVs in distribution networks.

As the UK, Ireland and other countries emerge from the coronavirus crisis, ensuring that long-term and sustainable policy frameworks are in place to deliver a "green recovery" and set the path to net zero will be critical.

An Energy White Paper is expected in the UK and this will be an important step on this path. In addition, the UK's future relationship with the European Union will need to ensure continued energy market integration and cooperation on climate policy.

SSE believes it has the strategy and capability to respond to strong competition and active intervention, but it will require effective identification, understanding and mitigation of risks, particularly Speed of Change; Commodity Prices; and Politics, Regulation and Compliance.

MANAGING SSE'S **PRINCIPAL RISKS**

The successful delivery of SSE's strategic objectives depends on effective identification, understanding and mitigation of its Principal Risks. SSE has an established Risk Management Framework and wider system of internal control (as described on page 128 of the Directors' Report) to inform decision-making in support of creating value in a sustainable way.

In January 2020, SSE completed the disposal of its Energy Services business, thereby confirming its strategic focus on developing, building, operating and owning assets that support the transition to a net-zero economy and its ambition to be a leading energy company in a low-carbon world. This reshaping of SSE took place against a background developments in SSE's operating environment and of a number of key external factors which will set the operating context for SSE for years to come.

Key external factors

First, the UK's Brexit process gave rise to significant economic, regulatory and political developments and uncertainties, many of which are believed to be unprecedented and are expected to have long-lasting consequences.

Second, the concept of state control and ownership of infrastructure such as energy networks continued to feature in political and public debates and is likely to continue to do so for some time to come.

Third, the power cuts experienced in Great Britain on 9 August emphasised the extent to which society is dependent on a fully functioning electricity system and the extent to which stakeholders therefore expect the highest standards of delivery from infrastructure providers.

Fourth, the UK became the first major economy to pass a law to require it to bring all greenhouse gas emissions to net zero by 2050. This occurred amidst significantly enhanced stakeholder concern and activism in relation to climate change that is expected to increase further in the future.

Towards the end of 2019/20, the coronavirus outbreak reached the UK and Ireland, with immediate, and potentially long-term, human, social, economic and business effects that may shape the operating context for SSE for years to come and that require to be considered in any assessment of risk.

The reshaping of the SSE Group following the sale of the Energy Services business and along with the key factors described above formed the basis of the full review of SSE's Principal Risks that took place during the course of the financial year.

Board considerations

Effective identification, understanding and mitigation of Principal Risks underpins the Board's approach to setting strategic objectives for SSE and informing strategic decision making. The Board aims to consider all material influencing factors and key external trends in the energy market, including those relating to climate change, security of energy supply and technological developments and aims to do so in a way that reflects the expectations of SSE's key stakeholder groups. These material influencing factors also impact the nature and extent of risks the Board is willing to take in order to meet these objectives, and related mitigation strategies adopted by the Group. Material changes in the nature and potential impacts of SSE's Group Principal Risks are continuously assessed with appropriate mitigations implemented where necessary.

Overseeing risk

The Group Executive Committee and its sub-committees have responsibility for overseeing SSE's Principal Risks. During the third quarter of SSE's financial year, an assessment of each Principal Risk is completed by the assigned oversight committee. This assessment requires committee members to provide commentary on contextual changes to the Risks and whether they consider them to have become more or less material during the year. Consideration is also given to potential emerging risks and whether or not any of those identified have the potential to become a Principal Risk to the business in the medium to long term.

These responses are then consolidated into reports, one for each Principal Risk, which are presented back to the committees along with the results of provisional viability testing and analysis of relevant, current management information and key information relating to Business Unit Principal Risks and Controls. These reports form the basis for the committees to discuss and confirm risk trend (more, less or equally material), overall effectiveness of the risk control and monitoring environment, and whether any additional control improvement actions are required. This is an inclusive and iterative process that results in considered and objective outputs and a robust assessment of Principal Risks.

The outputs from these committee assessments are then presented to the Group Executive Committee for full review, with any emerging risks or additional material changes resulting from this being proposed to the Board.

2019/20 review outcome

Following the 2019/20 annual review process, the number of Principal Risks to the Group has increased from 10 to 11 with the introduction of "Climate Change". Ensuring its strategy and goals are consistent with national and international efforts to tackle climate change has long been at the heart of SSE's approach to business, but in light of the UK's legislation on net-zero emissions in 2019, it was recognised that stakeholders would expect climate change to be explicitly recognised as a Principal Risk.

In addition, the pre-existing "Development and Change" risk has been redefined and renamed "Speed of Change" to ensure clarity relating to its focus. An emerging risk "Joint Venture and Partner Management" was also been identified. The importance of joint ventures and partner management is continuing to increase in SSE as its business units pursue their strategic and business objectives in association with other companies and organisations.

Important revisions have also been made to the descriptions of each of the other Principal Risks to take account of key developments and corresponding mitigations that were introduced during the year.

Group Principal Risks

SSE operates in fast moving markets that are under normal circumstances subject to a high degree of political, regulatory and legislative intervention. It is therefore essential that SSE's Risk Management Framework is dynamic and flexible, allowing decision makers to focus on material risk information that may have an impact, whether positive or negative, on strategic objectives.

The Board and Group Executive Committee look for as complete a perspective as possible when assessing the Principal Risks that face the Group. This graphic illustrates SSE's 11 Group Principal Risks positioned on a relative basis against **the output of the business as usual Principal Risk Self Assessment process** (based on changes in the context and prevalence of each risk since June 2019) and **the risk trend based on the additional Group Principal Risk Assessment process** completed in May and taking into consideration the change in prevalence of each Group Principal Risk as a result of the coronavirus outbreak.

In addition, Principal Risks that were considered by their oversight committees to have increased in materiality during the last 3 months are shown in **red**, and those that have not changed significantly are shown in **blue**. No Principal Risk was deemed to have reduced in materiality.

* Safety remains SSE's most important value, and management of risk remains SSE's highest priority.

** It should be noted that Energy Affordability is particularly closely linked to – and therefore impacted by – Politics, Regulation and Compliance and Commodity Prices.

Coronavirus

The outbreak of coronavirus in the UK and Ireland in March 2020 resulted in the Board undertaking an additional assessment of each of the Principal Risks. As with SSE's established process for the assessment of Principal Risks, this was an inclusive and iterative exercise delivering considered and objective outputs.

Completed by the members of the assigned oversight committees, this further assessment required consideration of contextual changes to the Risks based on information collected from SSE's Business Units and corporate functions, highlighting any additional areas of concern and re-assessing the risk trends resulting from the impacts of coronavirus (more, less or equally material).

The output from this additional assessment was then considered by the Group Risk Committee before being presented to the Board for review and approval. The overall conclusion of this assessment was that the human, social and economic impact of coronavirus has increased the prevalence of a number of the material influencing factors detailed against each of SSE's Group Principal Risks.

In turn, these material influencing factors may increase the likelihood of occurrence of the Risks and in some cases may increase the materiality of their impacts should they occur.

For example the dependence of critical national response activities on energy infrastructure has been highlighted during the pandemic, with SSE's overriding priority being on supporting the safe and reliable supply of electricity and essential energy services at local, regional and national level. At the same time, the social and economic impact of coronavirus has thrown into sharper relief the question of energy affordability – a matter that affects all parts of the energy sector, not just companies involved in direct supply to end customers.

Full details of the Group Principal Risks are detailed overleaf.

RISK-INFORMED DECISION MAKING CONTINUED

Risk Appetite Statement

No business is risk free and indeed the achievement of SSE's strategic objectives necessarily involves taking risk. SSE will however only accept risk where it is consistent with its core purpose, strategy and values; is well understood; can be effectively managed; and offers commensurate reward.

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

Furthermore, each of SSE's Business Units have differing levels of exposure to additional risks. For example, the Transmission and Distribution businesses are largely economically regulated and are characterised by relatively stable, inflation-linked cash flows while the SSE Renewables business benefits from cash flows linked to government-mandated renewables subsidies. Those business units that generate and trade energy are also exposed to significant medium- to long-term energy market and commodity risks in operational and investment decision making.

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

Fundamentally:

- SSE is focused on creating value from the successful development, efficient operation and responsible ownership of energy infrastructure and businesses in a sustainable way. This provides a complementary portfolio of business activities whilst keeping the depth of focus on a single sector – energy;
- SSE has a clear understanding of the risks and opportunities in the Great Britain and Ireland energy markets and these markets therefore continue to provide the Group's geographic focus, with any expansion into other markets being subject to especially rigorous scrutiny.

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

In areas where SSE is exposed to risks for which it has little or no appetite, even though it has implemented high standards of control and mitigation, the nature of these risks mean that they cannot be eliminated completely.

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

1. Risks should be consistent with SSE's strategy, values and financial objectives;
2. Risks should only be accepted where appropriate reward is achievable on the basis of objective evidence and in a manner that is consistent with SSE's purpose, strategy and values; and
3. Risks should be actively controlled and monitored through the appropriate allocation of management and other resources, underpinned by the maintenance of a healthy business culture.

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

Viability Statement

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

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

As required within Provision 41 of the UK Corporate Governance Code the Board has formally assessed the prospects of the Company over the next three financial years to the period ending March 2023. The Directors have determined that as this time horizon aligns with the Group's current capital programme and is within the strategy planning period, a greater degree of confidence over the forecasting assumptions modelled can be established.

In making this statement the Directors have considered the resilience of the Group taking into account its current position, the impacts of the coronavirus outbreak, the Principal Risks facing the Group and the control measures in place to mitigate each of them. In particular the Directors recognise the significance of the strong balance sheet, and total committed lending facilities of £1.5bn.

The Group is an owner and operator of critical national infrastructure and has a proven ability to maintain access to capital markets during stressed economic conditions, as demonstrated in April through the successful issuance of a €1.1bn 5- and 10-year dual tranche euro bond.

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

To help support this Statement, over the course of the year a suite of severe but plausible scenarios has been developed for each of SSE's Principal Risks. These scenarios are based on relevant real life events that have been observed either in the markets within which the Group operates or related markets globally. Examples include critical asset failure (for **Energy Infrastructure Failure**); changes to key government energy policies (for **Politics, Regulation and Compliance**); and the impact of the loss of key systems (for **Cyber Security and Resilience**).

Scenarios are stress tested against forecast available financial headroom which this year also considered sensitivities on future cashflow projections resulting from the coronavirus pandemic. Further details can be found in A6.3 (Accompanying Information to the Financial Statements).

In addition to considering these in isolation, the Directors also consider the cumulative impact of different combinations of scenarios, including those that individually have the highest impact.

Upon the basis of the analysis undertaken, and on the assumption that the fundamental regulatory and statutory framework of the markets in which the Group operates does not substantively change, the Directors have a reasonable expectation that the Group will be able to continue to meet its liabilities as they fall due in the period to March 2023.

GROUP PRINCIPAL RISKS

Key

- Focusing on the electricity core
- Developing, operating, owning
- Creating value for shareholders and society
- Delivering in a sustainable way

CLIMATE CHANGE

Oversight:
Group Executive Committee

What is the risk?
The risk that SSE's strategy, investments or operations are deemed to have an unacceptable future impact on the natural environment and on national and international targets to tackle climate change.

Material Influencing Factors:
- The impact of physical risks associated with climate change, such as severe adverse weather that causes damage or interrupts energy supply or generation.
- The speed of technological developments.
- Transitional risks relating to developments in political and regulatory requirements around the products and services that SSE provides.

Material Influencing Factors most impacted by coronavirus:
- Fast developing stakeholder needs and expectations in relation to efficient, innovative and flexible products and services.
- Ensuring the continuation of Large Capital Projects which are fundamental to Group net zero targets.
- Global and domestic policies.
- Political and regulatory engagement.

Strategic link:

Key developments
- Following the UK Parliament's legislation requiring the UK to bring all greenhouse gas emissions to net zero by 2050, SSE refined its vision which is now to be a leading energy company in a net zero world.

Key developments associated with coronavirus:
- Continued focus on SSE's business model and strategy to create value for shareholders and society through developing, operating and owning principally electricity assets and businesses in a sustainable way will ensure that SSE is best placed to play its part in long-term economic recovery. There has been widespread recognition that the transition to net zero and the opportunities that arise from it will play an important role in the recovery phase from the coronavirus crisis.

Key mitigations:
- Policy Link: SSE Climate Change Policy.
- SSE provides transparent disclosures to allow its stakeholders to properly assess its performance in managing climate related issues including a commitment to meet the TCFD recommendations in full by March 2021.
- The Group Executive Committee is responsible for implementing the Group strategy set by the Board and driving climate-related performance programmes across the organisation. The Chief Sustainability Officer is responsible for advising the Board, Group Executive Committee and businesses on climate-related matters and provides support in the implementation of relevant initiatives across the Group.
- In March 2019, SSE's Remuneration Committee took the decision that from 2019/20 onwards 20% of the total Annual Incentive Plan (AIP) for Executive Directors would be determined by the progress made in meeting SSE's four 2030 Goals which are focussed on addressing the challenge of climate change.

COMMODITY PRICES

Oversight:
Group Risk Committee

What is the risk?
The risk associated with the Group's exposure to fluctuations in both the physical volumes and price of key commodities, including electricity, gas, CO_2 permits, oil and related foreign exchange values.

Material Influencing Factors:
- Weather associated seasonal fluctuations in demand, supply and generation capabilities – which may not be in line with historical trends, which in turn, may or may not be associated with climate change – both in GB and globally. Further detail is available on page 37 of the Strategic Report.
- Generation technology advancements.
- Global and domestic political change.
- European generation outputs and availability.
- International and national agreements on climate change.
- International flows of fuel.

Material Influencing Factors most impacted by coronavirus:
- Fluctuations in foreign exchange values.
- Fluctuations in the global supply and demand of fuel.
- Global economic growth.
- Geopolitical events.

Strategic link:

Key developments:
- Managing the impacts of geopolitical events including those relating to Brexit.

Key developments associated with coronavirus:
- Managing the impacts of significant reduction in energy demand.
- Managing the impacts of significant fluctuations in commodity prices and foreign exchange values.

Key mitigations:
- Policy Link: An asset-by-asset approach to hedging strategy that ensures trading positions cannot have a material impact on SSE Group earnings. This was fully implemented in April 2020. Full details of SSE's hedging approach can be read on sse.com.
- The Energy Markets Risk Committee monitors the effectiveness of Group hedging arrangements.
- SSE uses VaR and PaR measures to monitor and control exposures. Trading limits are reviewed regularly by the Energy Markets Risk Committee, with consideration given to changes in the material influencing factors noted above, before being approved by the Board.
- SSE's Energy Economics team provides commodity price forecasts which are used to inform decisions on trading strategy and asset investment.
- SSE utilises hedging instruments to minimise exposure to fluctuations in foreign exchange markets, details of which are available in the Financial Statements section of the Annual Report and Account.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

CYBER SECURITY AND RESILIENCE

Oversight:
Information, Security and Privacy Committee

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

Material Influencing Factors:
- Software or hardware issues, including telecoms network and connectivity and power supplies.
- Ineffective operational performance, for example, breach of information security rules or poor management of resilience expertise.
- Employee and contractor understanding and awareness of information security requirements.

Material Influencing Factors most impacted by coronavirus:
- Geopolitical events including impacts relating to Brexit.
- Malicious cyber attack.

Strategic link:

Key developments:
- Work to ensure the successful technological separation of systems associated with the sale of SSE Energy Services to Ovo, in a secure manner without interruption to services.

Key developments associated with coronavirus:
- Ensuring the continued security and resilience of Critical National Infrastructure given the heightened risk of malicious cyber attack.

Key mitigations:
- Policy Link: SSE Cyber Security Policy and SSE Data and Information Policy.
- Key technology and infrastructure risks are incorporated into the design of systems and are regularly appraised with risk mitigation plans recommended.
- SSE conducts regular internal and third party testing of the security of its information and operational technology networks and systems.
- Further strengthening and embedding of the cyber risks and controls framework to continue to identify threats and reduce exposures through, for example, improved use of data analytics and further migration from unsupported systems.
- Significant longer term Security Programme investment and planning which seeks to strengthen the resilience of the systems on which SSE relies.
- IT Service Assurance works with individual business units to form and agree appropriate service level agreements for business critical IT services.
- Business continuity plans are in place and regularly tested and reviewed.

ENERGY AFFORDABILITY

Oversight:
Group Executive Committee

What is the risk?
The risk that energy customers' ability to meet the costs of providing energy, or their ability to access energy services is limited, giving rise to negative political or regulatory intervention that has an impact on SSE's core regulated Networks and Renewables businesses.

Material Influencing Factors:
- Technology changes and innovations.
- Supply chain cost management.
- Public policies, including those aimed at reducing carbon emissions and energy consumption.
- Accessibility to energy and related services for all.
- Required investment in the upgrading of the UK's energy infrastructure to achieve net zero.

Material Influencing Factors most impacted by coronavirus:
- Macro-economic impacts on household and business incomes.
- Fluctuations in the cost of fuels.
- Supplier and customer failures and related bad debt.
- Political interventions, such as renationalisation of any part of the UK's energy infrastructure.

Strategic link:

Key developments:
- In the second half of 2019/20, SSEN published three strategies to help coordinate its work in a fast changing energy sector and deliver the best outcome for customers. Full details of these strategies can be found in the Sustainability Report.

Key developments associated with coronavirus:
- In line with the commitments of the C-19 Business Pledge SSE has accelerated the availability of up to 10% of its annual community funds in direct response to the challenges posed by coronavirus.

Key mitigations:
- Policy Link: SSE Sustainability Policy.
- In February 2019, SSEN attained the British Standard for inclusive service provision (BS 18477) for the fourth year in a row. This recognition, from business standards company BSI, is achieved through rigorous assessments to ensure SSEN's policies, procedures and services are accessible and fair to all customers.
- SSE Airtricity continues to focus on helping customers reduce their carbon output and to save on energy costs. Through partnerships with local authorities, the Sustainable Energy Authority Of Ireland (SEAI) and others, SSE Airtricity Energy Services has been delivering large-scale energy efficiency retrofit projects for homes across Ireland.
- SSE continues to advocate its belief that modernisation of the energy market is best delivered by a cost-effective privatised system that is properly regulated.

Key

- Focusing on the electricity core
- Developing, operating, owning
- Creating value for shareholders and society
- Delivering in a sustainable way

ENERGY INFRASTRUCTURE FAILURE

Oversight:
Group Executive Committee

What is the risk?
The risk of national energy infrastructure failure, whether in respect of assets owned by SSE or those owned by others which SSE relies on, that prevents the Group from meeting its obligations.

Material Influencing Factors:
- Severe adverse weather that causes damage or interrupts energy supply or generation.
- Government policy regarding the operation of the energy network which relates to security of supply.
- Transition to a low carbon energy network.
- Failures in any aspect of the GB national critical infrastructure.
- Continuing access to the European energy markets and continued inclusion of Northern Ireland in the all-island Single Electricity Market.

Material Influencing Factors most impacted by coronavirus:
- Appropriate asset management and necessary upgrading works of both generation and network assets.
- Malicious attack on the GB energy infrastructure.
- Energy network balancing mechanisms.
- Continued availability of competent staff.
- Continued availability of key systems.

Strategic link:

Key developments:
- Continued progress in developing and building electricity network flexibility and infrastructure to help accommodate 10 million electric vehicles in GB by 2030.

Key developments associated with coronavirus:
- The successful implementation of comprehensive crisis management and business continuity plans designed to protect and ensure the ongoing security of energy supplies.
- SSE's electricity networks business is using its well established Priority Services Register to provide additional support to vulnerable customers, working closely with local agencies to ensure those who are vulnerable can be reached as quickly as possible in the event of an electricity network fault.

Key mitigations:
- Policy Link: Business Unit Asset Management Policies.
- SSE's dedicated Engineering Centre of Excellence reviews and develops plans to ensure the ongoing integrity of its generation assets is maintained.
- Crisis management and business continuity plans are in place across the Group. These are tested regularly and are designed for the management of, and recovery from, significant energy infrastructure failure events. Where there are material changes in infrastructure (or the management of it) additional plans are developed.
- SSE continues to be an active participant in national security forums such as the Centre for the Protection of National Infrastructure (CPNI).

FINANCIAL LIABILITIES

Oversight:
Group Risk Committee

What is the risk?
The risk that funding is not available to meet SSE's financial liabilities, including those relating to its defined benefit pension schemes, as these fall due under both normal and stressed conditions without incurring unacceptable costs or risking damage to its reputation.

Material Influencing Factors:
- Ongoing commitment to an Investment Grade credit rating.

Material Influencing Factors most impacted by coronavirus:
- Global macro-economic changes and subsequent volatility in foreign exchange markets.
- Fluctuations in interest rates and inflation which influence borrowing costs.
- Defined benefit pension scheme investment and performance.
- The impact of fluctuations in gilt yields on the value of defined benefits pension scheme liabilities.

Strategic link:

Key developments:
- In September 2019, SSE issued a 16-year £350m Green Bond – its third Green Bond in three years – making SSE the largest issuer of Green Bonds in the UK Corporate sector.

Key developments associated with coronavirus:
- In April 2020, the Group successfully issued a €1.1bn 5- and 10-year dual tranche euro bond, ensuring continued affordable funding for the Group.

Key mitigations:
- Policy Link: SSE Financial Management Policy.
- Committed borrowings and facilities are available at all times equal to at least 105% of forecast borrowings over a rolling 6 month period.
- SSE seeks to maintain a diverse and innovative portfolio of debt to avoid over-reliance on any one market. This allows it to build relationships with, and create competition between, debt providers.
- Each of SSE's defined benefit pension schemes has a Board of Trustees which acts independently of the Group.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

LARGE CAPITAL PROJECTS QUALITY

Oversight:
Group Large Capital Projects Committee

What is the risk?
The risk that major assets that SSE builds do not meet the quality standards required to support economic lives of typically 15 to 30 years.

Material Influencing Factors:
- Appropriate contractual arrangements.
- New or unproven technology.
- Appropriate and effective budget management.
- All aspects of supply chain management, including those relating to human rights, modern slavery and labour standards, as well as the potential impacts of Brexit.

Material Influencing Factors most impacted by coronavirus:
- Availability of competent contractors.

Strategic link:

Key developments:
- In September 2019 SSE Renewables was awarded Contracts for Difference (CfDs) for 2.2GW of new offshore wind farm projects. This was the largest volume of low carbon contracts secured in this allocation round by any developer and the largest ever secured by SSE. This award will materially assist in meeting the Group's business goal of trebling renewable output by 2030.

Key developments associated with coronavirus:
- Maintaining momentum across Large Capital Projects currently in the development phase is essential to ensure successful delivery of the Group's net-zero ambitions.

Key mitigations:
- Policy Link: SSE's Large Capital Projects Governance Framework manual ensures that all major capital investment projects for the Group are governed, developed, approved and executed in a consistent and effective manner, with full consideration of best practice project delivery. The manual provides common standards across the Group and incorporates continuous improvement practices.
- The Large Capital Project Services function employs dedicated quality and assurance teams who perform in-depth quality reviews.
- In major projects, SSE generally manages insurance placement by organising owner controlled insurance. This strategy allows it to have greater control and flexibility over the provisions in place. SSE also sees the insurance market as an important source of information on the reliability of technology and uses this to inform the design process of major projects.

PEOPLE AND CULTURE

Oversight:
Group Risk Committee (2019/20) Group Executive Committee (2020/21)

What is the risk?
The risk that SSE is unable to attract, develop and retain an appropriately skilled, diverse and responsible workforce and leadership team, and maintain a healthy business culture which encourages and supports ethical behaviours and decision-making.

Material Influencing Factors:
- Rewarding employee contributions through fair pay and benefits.
- Recognition of the value and benefit of having an inclusive and diverse workforce.
- A responsible employer ethos (see the Sustainability Report for further detail).
- Clearly defined roles, responsibilities and accountabilities for all employees.
- Availability of career development opportunities and appropriate succession planning that recognises potential future skills shortages.
- Clear personal objectives and communication of the SSE SET of values.
- A focus on ethical business conduct and creating a culture in which employees feel confident to speak up when they suspect wrongdoing.

Material Influencing Factors most impacted by coronavirus:
- The health and wellbeing of all employees (see the Sustainability Report for further detail).
- Clear and well structured employee communications.

Strategic link:

Key developments:
- SSE continues to promote fair tax and a living wage as the core of its ability to share economic value with society. As such, during 2019/20 SSE achieved ongoing accreditation of both the Fair Tax Mark and the Living Wage, supporting both campaigns to attract more companies to become accredited. Furthermore SSE continued its support of the new Living Hours initiative.

Key developments associated with coronavirus:
- SSE has carefully tracked the direct impact of the virus on its workforce as well as taking actions to help protect and support them. It has introduced measures and provided guidance on a wide range of issues that impact its employees during this period. This includes protective measures for those critical workers that can't work from home, redeploying those that cannot carry out their jobs at this time to other areas of the business, helping those with caring responsibilities and allowing time off work to support both local and national volunteering efforts.

Key mitigations:
- Policy Link: SSE Employment Policy and SSE Whistleblowing Policy.
- SSE has a detailed inclusion and diversity policy and plan, progress against which is reviewed and monitored by SSE's Group Executive Committee on a monthly basis.
- There are a wide range of tools and services available to all employees to support mental health and wellbeing, including those provided as part of the Employee Assistance Programme. Full details are available in the Sustainability Report.
- "Doing the Right Thing, a guide to ethical business conduct", explicitly outlines the steps employees should take to ensure their day-to-day actions and decisions are consistent both with SSE's values and ethical business principles. SSE employees can report incidents of wrongdoing through both internal and external mechanisms. SSE uses an independent "Speak Up" phone line and email service, hosted externally by SafeCall, through which incidents can be reported.
- The Audit Committee reviews all key accounting judgements made as part of the preparation of the Annual Report and Accounts.
- SSE's business leaders are required to undertake regular succession planning reviews. At a Group level, SSE continues to develop its approach to the management of talent.

Key

- Focusing on the electricity core
- Developing, operating, owning
- Creating value for shareholders and society
- Delivering in a sustainable way

POLITICS, REGULATION AND COMPLIANCE

Oversight:
Group Risk Committee

What is the risk?
The risk from changes in obligations arising from operating in markets which are subject to a high degree of regulatory, legislative and political intervention and uncertainty.

Material Influencing Factors:
- Changes to regulatory frameworks.
- International and national agreements such as the 2015 Paris Agreement on Climate Change and The Climate Change Act 2008.

Material Influencing Factors most impacted by coronavirus:
- Government intervention into the structure of the energy sector including renationalisation of any aspect of the UK's energy infrastructure.
- Constitutional uncertainty relating to Brexit.
- Changes in financial, employment, safety and consumer legislation and regulation and the impact of these changes on business as usual activities.

Strategic link:

Key developments:
- Following the UK Parliament's legislation requiring the UK to bring all greenhouse gas emissions to net zero by 2050, SSE refined its vision which is now to be a leading energy company in a net-zero world.

Key developments associated with coronavirus:
- Managing the implementation of all Government guidance relating to social distancing while maintaining critical energy supplies across GB.

Key mitigations:
- Policy Link: SSE Political and Regulatory Engagement Policy.
- The Group has dedicated Corporate Affairs, Regulation, Legal and Compliance departments that provide advice, guidance and assurance to each business area regarding the interpretation of political, regulatory and legislative change. These teams take the lead in engagement with regulators, politicians, officials, and other such stakeholders.
- SSE has a clear Political Engagement Statement that sets out principles for any employees who make representations to institutions of governments or to legislatures on the Company's behalf.
- The Group has a dedicated project team to manage all aspects of the regulatory and legislative change impacts of Brexit.
- There is regular engagement with the Board and Group Executive Committee on political and regulatory developments which may impact SSE's operations or strategy.

SAFETY AND THE ENVIRONMENT

Oversight:
Group Safety, Health and Environment Committee

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

Material Influencing Factors:
- Clear and appropriately communicated safety processes.
- Regular and documented training.
- Adverse weather.
- Challenging geographic locations.
- Appropriate task and asset risk assessment.

Material Influencing Factors most impacted by coronavirus:
- Safety culture – "if it's not safe, we don't do it".
- Clear, effective and regular communications of all relevant safety updates.
- Competent employees and contractors.

Strategic link:

Key developments:
- The key deliverables of SSE's 50by20 safety campaign were successfully met earlier than expected. Despite the positive progress and improvement in safety performance, work will continue to further embed the strong safety culture across the Group.

Key developments associated with coronavirus:
- In order to protect those supplying a critical service and to reflect government guidance, measures are in place to protect key personnel on SSE sites where work must continue to support the supply of electricity, while non-critical work has been suspended to enable as many employees as possible to remain in their homes.
- As part of SSE's response to coronavirus an additional preparedness test of all relevant crisis management and business continuity plans was carried out in February tailoring these to the specific circumstances of the pandemic. Plans were then implemented in stages beginning from the end of February and, as a result, SSE has managed to continue to fulfil its current priority of supporting the safe and reliable supply of electricity at local, regional and national level.

Key mitigations:
- Policy Link: SSE Safety and Health Policy and SSE Environment Policy.
- Safety is the Group's number one value with Board oversight being provided by the Safety Health and Environment Advisory Committee.
- Crisis management and business continuity plans are in place across the Group. These are tested regularly and are designed for the management of, and recovery from, significant safety and environmental events.
- Each business carries out regular SHE assurance reviews of the risks faced, the controls in place and the monitoring that is undertaken.
- SSE's dedicated Engineering Centre of reviews and develops plans to ensure that the integrity of its generation assets is maintained.
- Full environmental impact assessments are carried out for all major projects, to ensure adverse environmental impacts are well understood and minimised.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Key

- Focusing on the electricity core
- Developing, operating, owning
- Creating value for shareholders and society
- Delivering in a sustainable way

SPEED OF CHANGE

Oversight:
Group Executive Committee

What is the risk?
The risk that SSE is unable to keep pace with the speed of change affecting the sector and markets in which it operates and so fails to meet the evolving expectations of its stakeholders or achieve its strategic objectives.

Material Influencing Factors:

- Fast developing customer needs in relation to efficient, innovative and flexible products and services.
- Technological developments and innovation.
- Climate change and the necessity to generate the energy required by a modern society in a responsible and sustainable way, which includes ensuring that value is shared with those impacted by SSE's operations.
- Longer term capital investment plans and budgets.

Material Influencing Factors most impacted by coronavirus:

- The size, scale and number of change programmes under way, including those relating to regulatory or legislative requirements.
- Geopolitical events.
- Governance and decision-making within the Group.

Strategic link:

Key developments:

- On 1 April 2019, a revised Group operating model was implemented to support SSE's agreed low-carbon strategy, the focus of which was the creation of distinct business units and the restructuring of the sub-committees which report to the Group Executive Committee. This redefined management structure supports the empowerment of business units by ensuring SSE's strengths are used to deliver sustainable outcomes for its key stakeholders through optimising its core and complementary business mix (see page 90 of the Directors report).

Key developments associated with coronavirus:

- Following the implementation of social distancing measures in response to the coronavirus outbreak, around two thirds of SSE's workforce began working from home on a full-time basis. SSE's ability to quickly and successfully enable this significant change in working arrangements for the majority of its employees was a result of the major financial investment and the wider efforts over previous years to provide modern, flexible working for its employees.

Key mitigations:

- Policy Link: SSE Operating Model Policy.
- The Board sets the risk appetite of the Group and approves and regularly reviews the Group's commercial strategy, business development initiatives and long-term options ensuring alignment of risk appetite and strategic objectives.
- SSE's revised Group operating model has been designed to ensure dynamic and efficient decision making, empowered and accountable delivery of business unit strategies and to fulfil SSE's purpose to provide energy needed today while building a better world of energy for tomorrow.
- The Group Executive Committee is responsible for ensuring that divisional strategies are consistent and compatible with the overarching Group strategy and its vision to be a leading energy provider in a low carbon world.

EMERGING RISK – JOINT VENTURE AND PARTNER MANAGEMENT

An essential tenet of SSE's Risk Management process is the consideration of potential emerging risks and whether or not any of those identified has the potential to become a Group Principal Risk in the medium to long term. As such, following the 2019/20 review process an emerging risk "Joint Venture and Partner Management" was identified and will continue to be monitored over the course of the year.

Monitored by:
Group Executive Committee

What is the emerging risk?
The reshaped SSE Group features an increasing number of significant Joint Ventures (operated and non-operated). SSE must ensure that joint venture structures, governance and operations are robust and consistent with its goals as a company so that SSE's investments continue to be protected and managed well.

Policy Link: SSE Joint Venture Management Policy.

METEOROLOGICAL IMPACT

MANAGING THE EFFECTS **OF THE WEATHER**

SSE's operational and financial performance in any given year is affected by weather patterns in its home markets of GB and Ireland.

Variability in the weather has an impact on SSE Renewables' output, the efficient operation of SSEN Distribution and SSEN Transmission networks and energy demand in the Group's customer businesses.

The interconnectivity of international commodity markets and national energy systems – particularly between GB, Ireland and continental Europe – creates an additional layer of complexity to the impact of weather events on wholesale energy prices and SSE's earnings.

The link between unseasonal or exceptional conditions and SSE's business performance is recognised as a material contributing factor to a number of SSE's Group Principal Risks including Energy Affordability, Commodity Prices and Energy Infrastructure Failure, and further detail of these can be found on the preceding pages 31 to 36).

SSE has well-established crisis management and business continuity plans in place to deal with severe meteorological events that pose a risk to critical national energy infrastructure.

Short- and long-term weather conditions are closely monitored by SSE so it can respond quickly to changing conditions for the benefit of customers and to meet business objectives. This monitoring includes:

- Predicting how forecast temperatures might affect energy demand and whether daily temperature fluctuations will require a response from generation assets.
- Weather forecasting to inform the purchasing decisions of SSE's energy portfolio managers, improving procurement operations.
- Determining short-, medium- and long-term wind forecasts and electricity output from renewables assets.
- Gauging how rainfall patterns will impact hydro-electric generation output and storage capacity.
- Accurately forecasting extreme and unseasonal weather such as high winds and rainfall that could affect the resilience of distribution and transmission infrastructure.

Looking ahead, the impact of climate change, such as severe adverse weather that causes damage or interrupts energy supply or generation, is one of the material influencing factors identified by SSE in relation to its climate change risk.

WEATHER: A SNAPSHOT

Rainfall

SSE's hydro-electric generation operations are directly affected by rainfall. In 2019/20 rainfall in the North of Scotland was…

112%

of the Met Office's 30-year (1981-2010) Climatology Average.

Wind

The wind drives much of SSE's renewables output, but too much can damage electricity networks. In 2019/20 the wind speed deviation at 10m in Scotland was…

102%

of that recorded in the Met Office's 30-year (1981-2010) Climatology Average.

Temperature

Temperature fluctuations can influence the total energy demand faced by SSE's customer businesses. In 2019/20 average UK temperatures were…

+0.6°C

relative to the Met Office's 30-year Climatology Average.

KEY PERFORMANCE INDICATORS

SOLID RECOVERY **IN PERFORMANCE**

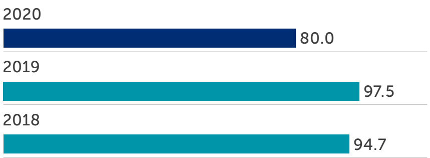
SSE uses a number of financial and non-financial measures to track progress against its strategy to create value from developing, operating and owning energy-related infrastructure and businesses.

2019/20 in summary

The coronavirus outbreak occurred late in 2019/20 and had some impact on SSE's underlying financial results in for the financial year.

Nevertheless, these results themselves represented a solid recovery from the previous year, with increases in adjusted operating profit, adjusted profit before tax and adjusted earnings per share. Unless otherwise stated, these results exclude discontinuing operations.

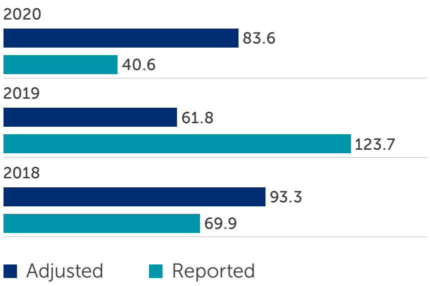
Dividend per share (pence)



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

Performance: The recommended full-year dividend for 2019/20 is in line with the five-year dividend plan set out by SSE in 2018.

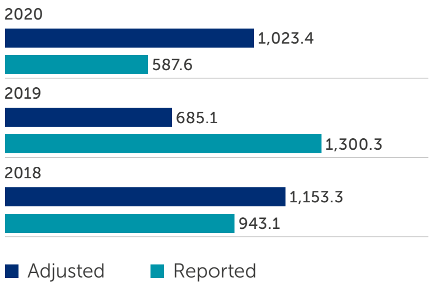
Adjusted APM and reported earnings per share (£m)



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

Performance: Results reflect restoration of GB Capacity Market payments, reduced EPM-related losses and strong performance in SSE Renewables.

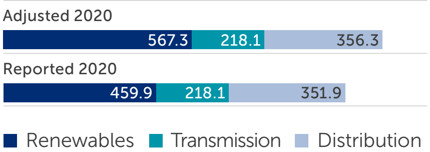
Adjusted APM and reported profit before tax (£m)



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

Performance: Results reflect restoration of GB Capacity Market payments, reduced EPM-related losses and strong performance in SE Renewables.

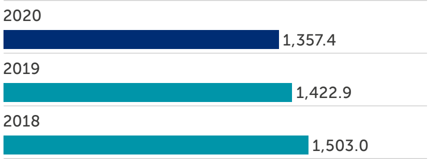
Adjusted APM and reported operating profit by core business (£m)



Strategic relevance: 2019/20 was the first full year of reporting under the SSEN Transmission, SSEN Distribution and SSE Renewables business structure.

Performance: Combined, SSE's core renewables and regulated electricity networks businesses, plus its share of SGN's regulated gas networks, accounted for 90% of Group adjusted operating profit.

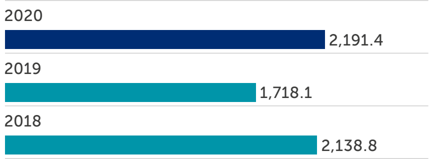
Adjusted APM investment and capital expenditure (£m)



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

Performance: The £1.36bn total took SSE's capital and investment expenditure for the five years to March 2020 to over £7.5bn.

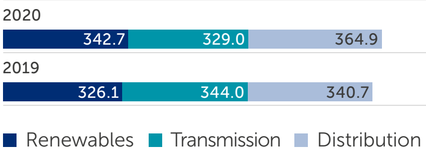
Adjusted APM EBITDA (£m)



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

Performance: Results reflect restoration of GB Capacity Market payments, reduced EPM-related losses and strong performance in SSE Renewables.

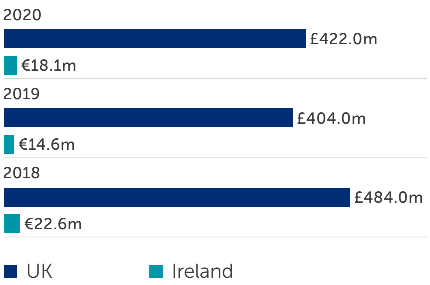
Investment and capital expenditure by core business (£m)



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

Performance: SSE invested £1.04bn in its core businesses, representing 77% of its total capital and investment expenditure for the year.

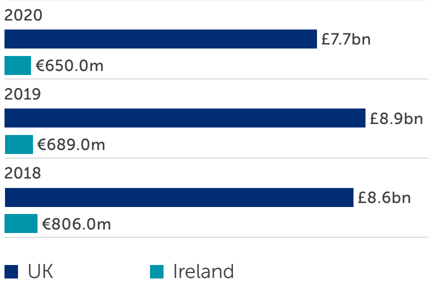
Taxes paid in the UK/Ireland



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

Performance: Taxes paid in the UK and Ireland both increased in 2019/20. SSE's total tax contribution (taxes paid and taxes collected) in 2019/20 was £1,099m.

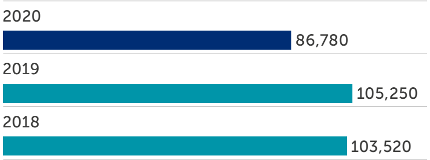
Economic contribution in UK/Ireland



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

Performance: SSE's economic contribution (including SSE Energy Services) reduced in 2019/20 due to reduced recorded procurement spend and a decline in energy traded. See page 76 for more information.

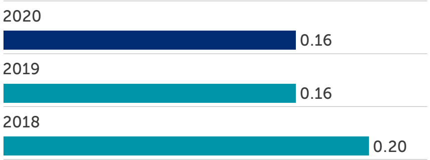
Jobs supported in UK and Ireland



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

Performance: Through its operations in the UK and Ireland, SSE supported 83,040 and 3,740 jobs respectively, in line with its 2030 Goal relating to decent work and economic growth. This includes SSE Energy Services.

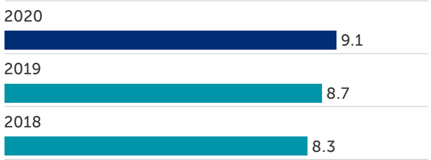
Total recordable injury rate per 100,000 hours worked (employees and contractors combined)



Strategic relevance: Safety is SSE's No 1 core value, and everybody in the Company operates to the safety licence of "if it's not safe, we don't do it".

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

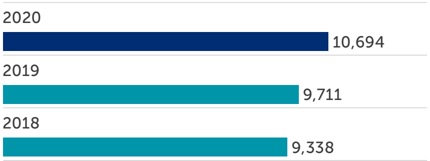
Combined Networks Regulated Asset Value (£m)



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

Performance: In the five years between 2015 and 2020, the RAV of SSE's electricity networks businesses (i.e. excluding SGN) increased from £4.9bn to £7.2bn.

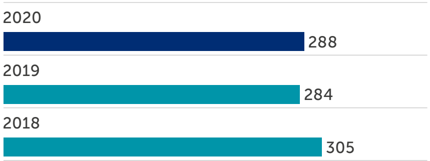
Renewable output (inc. pumped storage) (GWh)



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

Performance: The completion of the Beatrice offshore wind farm helped 2019/20 be a record year for SSE for output of electricity from renewable sources.

Carbon intensity of electricity generated (gCO_2e per kWh)



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

Performance: SSE's carbon intensity includes output of electricity from Fiddlers Ferry power station, which was closed in March 2020, ending SSE's involvement in coal-fired generation.

More information

SSE's social contribution: page 76

Financial overview: pages 40 to 55

Transmission operating review: pages 58 to 60

Distribution operating review: pages 61 to 64

Renewables operating review: pages 65 to 67

FINANCIAL REVIEW

CREATING VALUE FOR TOMORROW

2019/20 was a year of recovery for SSE, building a solid platform for sustainable success as the world turns its attention back to tackling climate change.

I am pleased to be able to look back 2019/20 as a year of financial progress for SSE, with increases in adjusted operating profit and adjusted profit before tax.

These results, coupled with the reshaping of SSE achieved through the sale of Energy Services in January, and the progress made in our core of low-carbon businesses, give us a strong platform to create value through the transition to net-zero emissions.

We can point to the reduction in EPM-related losses, the restoration of GB Capacity Market payments and a good operational performance from our renewables assets as the key contributors to these results.

More broadly, we have shown yet again that it is our regulated networks and renewables businesses that give SSE its fundamental resilience. Together they contributed adjusted EBITDA of nearly £1.9bn – or 85% of the Group total – and adjusted operating profit of £1.3bn – or 90% of the total. Also, of £1.4bn in capital and investment expenditure in the year over £1.0bn was targeted at this low-carbon core.

The onset of the coronavirus emergency, coming as it did in the final weeks of our financial year, did have some impact on the numbers in the following pages. But a robust business model, SSE's underlying resilience and the outstanding job done by people right across the Group in supporting the supply of electricity needed in the fight against the virus have stood us in good stead.

In November 2019 we said that we expected adjusted earnings per share for the year to be in the 83p to 88p range; and despite an £18.2m impact on operating profit from coronavirus it still came in within that range, at 83.6p.

The long-term economic and business affects of coronavirus are difficult to tell but we believe the impact of bad debt on our customer businesses, and the effect of demand reduction on Distribution, will amount to an estimated total of £150-£250m on Group operating profit for 2020/21.

Dividends underpin the income on which people depend, never more so than in the current economic climate. With our results for 2019/20 representing a solid recovery, and mindful of our plans for this current financial year and beyond, we are recommending to shareholders a full-year dividend for 2019/20 of 80 pence per share.

This Annual Report rightly highlights the important role SSE has to play in providing profitable solutions to the global problem of climate change, and I reiterate the point here: we stand ready to seize opportunities to create value for shareholders and society through contributing to a much-needed green-led economic recovery and supporting the transition to net zero emissions.

Gregor Alexander
Finance Director
16 June 2020

"A robust business model, SSE's underlying resilience and the outstanding job done by people right across the Group ... have stood us in good stead."

Group financial overview

The following tables provide a summary of SSE Group financial performance in 2019/20. The definitions SSE uses for adjusted measures are consistently applied and are explained in the Alternative Performance Measures section of this document, before the Financial Statements.

SSE Energy Services was sold on 15 January 2020 and SSE's investment in Gas Production assets was classified as held for sale at 31 March 2020. Both businesses have been classified as discontinued operations in the Financial Statements and have therefore been excluded from profit- and loss-based measures in the tables below in all periods.

Key Adjusted Financial Metrics

	March 2020 £m	March 2019 £m	March 2018 £m
Adjusted Operating Profit	**1,488.4**	**1,088.7**	**1,520.8**
Adjusted Net Finance Costs	465.0	403.6	367.5
Adjusted Profit before Tax	**1,023.4**	**685.1**	**1,153.3**
Adjusted Current Tax charge	114.2	7.1	111.7
Effective current tax rate (%)	11.2%	1.0%	9.7%
Adjusted Profit after Tax	**909.2**	**678.0**	**1,041.6**
Less: hybrid equity coupon payments	46.5	46.6	98.5
Adjusted Profit After Tax attributable to ordinary shareholders	**862.7**	**631.4**	**943.1**
Adjusted EPS – pence	**83.6**	**61.8**	**93.3**
Number of shares for basic/reported and adjusted EPS (million)	1,032.5	1,021.7	1,010.9
Shares in issue 31 March (m)	1,039.4	1,039.1	1,023.0

Key Reported Financial Metrics

	March 2020 £m	March 2019 £m	March 2018 £m
Reported Operating Profit	**963.4**	**1,613.6**	**1,228.1**
Reported Net Finance Costs	375.8	313.3	285.0
Reported Profit before Tax	**587.6**	**1,300.3**	**943.1**
Reported Tax (credit)/charge	121.5	(9.9)	138.0
Reported Profit after Tax on continuing operations	**466.1**	**1,310.2**	**805.1**
Reported (loss)/Profit for the period on discontinued operations (net of tax)	**(478.6)**	**145.5**	**115.0**
Reported Profit/(Loss) after Tax	**(12.5)**	**1,455.7**	**920.1**
Less: hybrid equity coupon payments	46.5	46.6	98.5
Reported Profit/(Loss) After Tax attributable to ordinary shareholders[1]	**(59.0)**	**1,409.1**	**821.6**
Reported earnings per share (including discontinued operations) (pence)	**(5.7)**	**137.9**	**81.3**

1 After distributions to hybrid capital holders.

Dividend per Share

	March 2020	March 2019	March 2018
Interim Dividend pence	24.0	29.3	28.4
Final Dividend pence	56.0	68.2	66.3
Full Year Dividend pence	80.0	97.5	94.7

FINANCIAL REVIEW CONTINUED

Segmental EBITDA results are included in Note 5 (v) to the Financial Statements.

Operating profit performance 2019/20

SSE Group
Business-by-business segmental adjusted EBIT/Adjusted Operating Profit analysis

	March 2020 £m	March 2019 £m	March 2018 £m
SSEN Transmission	218.1	252.1	195.6
SSEN Distribution	356.3	401.3	402.2
Electricity networks total	**574.4**	**653.4**	**597.8**
Investment in SGN	202.3	176.8	165.3
Economically-regulated networks total	**776.7**	**830.2**	**763.1**
SSE Renewables	**567.3**	**455.9**	**475.9**
Thermal Generation	152.7	(22.3)	107.8
Gas Storage	3.7	(5.7)	(6.5)
Thermal Energy Total	**156.4**	**(28.0)**	**101.3**
Business Energy (GB)	9.2	51.6	64.2
SSE Airtricity (NI and Ire)	48.8	38.6	33.0
Customer Solutions Total	**58.0**	**90.2**	**97.2**
Energy Portfolio Management	(137.4)	(284.9)	46.0
Gas Production Contracts	77.1	–	–
Energy Portfolio Management and Investments	**(60.3)**	**(284.9)**	**46.0**
Enterprise	8.1	31.8	26.9
Corporate Unallocated	(17.8)	(6.5)	10.4
Total Adjusted Operating Profit	**1,488.4**	**1,088.7**	**1,520.8**
Adjusted Net Finance Costs	465.0	403.6	367.5
Adjusted PBT (continuing operations)	**1,023.4**	**685.1**	**1,153.3**
Discontinued Operations:			
Gas Production Assets – held for sale	25.8	48.9	34.0
SSE Energy Services – sold Jan 2020	32.7	89.6	278.7

SSE Group
Business-by-business segmental reported EBIT/Operating Profit/(Loss) analysis

	March 2020 £m	March 2019 £m	March 2018 £m
SSEN Transmission	218.1	252.1	195.6
SSEN Distribution	351.9	401.3	402.2
Electricity Networks Total	**570.0**	**653.4**	**597.8**
Investment in SGN	80.8	85.1	71.8
Economically-regulated networks total	**650.8**	**738.5**	**669.6**
SSE Renewables	**459.9**	**1,242.9**	**452.0**
Thermal Generation	15.5	(50.6)	71.4
Gas Storage	(1.4)	(5.7)	(6.5)
Thermal Energy Total	**14.1**	**(56.3)**	**64.9**
Business Energy (GB)	(18.5)	51.6	64.2
SSE Airtricity (NI and Ire)	42.8	38.6	26.9
Customer Solutions Total	**24.3**	**90.2**	**91.1**
Energy Portfolio Management	(171.6)	(613.1)	(43.1)
Gas Production Contracts	77.1	–	–
Enterprise	(2.0)	31.8	15.1
Corporate Unallocated	(89.2)	179.6	(21.5)
Total Reported Operating Profit	963.4	1,613.6	1,228.1
Reported Net Finance Costs	375.8	313.3	285.0
Reported PBT (excluding held for sale & discontinued operations)	587.6	1,300.3	943.1
Discontinued Operations:			
Gas Production – held for sale	(265.5)	78.6	(70.7)
SSE Energy Services – sold Jan 2020	(205.0)	35.3	221.8

A reconciliation of adjusted operating profit by segment to reported operating profit by segment can be found in Note 5.1 to the Financial Statements.

Operating profit

Adjusted operating profit/losses in SSE's business segments for the twelve months to 31 March 2020 are as set out below; comparisons are with the twelve months to 31 March 2019 unless otherwise stated.

SSEN Transmission: Adjusted and reported operating profit reduced to £218.1m, compared to £252.1m, reflecting the phasing of allowed revenue and increased depreciation costs relating to on-going capital expenditure.

SSEN Distribution: Adjusted operating profit decreased to £356.3m from £401.3m, reflecting a net increase in costs including: increased depreciation; and higher costs associated with supplying Shetland. Despite lower than expected volumes during the year, SSEN Distribution's collected revenue in 2019/20 was still £37m higher than allowed revenue; and tariffs in 2021/22 will be adjusted down to reflect this. Separately, it is expected that £23m of allowances which had been anticipated to be allowed in 2019/20 will now be reflected in increase in allowed revenue in 2021/22. In addition to the above, there was an exceptional charge of £4.4m to reported profit for restructuring expenses.

Investment in SGN: adjusted operating profit was £202.3m, compared to £176.8m, mainly due to the phasing of allowed revenue, totex out-performance and additional commercial income.

The increases to adjusted operating profit were offset by a £31.0m increase in SSE's share of SGN interest and tax. As a result, reported operating profit was £80.8m compared to £85.1m.

SSE Renewables: adjusted operating profit was £567.3m compared to £455.9m, mainly due to a significant increase in output of electricity as a result of more favourable weather conditions and a net increase in wind energy capacity in operation over the period (largely from Beatrice offshore wind farm). This result for 2019/20 also includes £26.5m of GB Capacity Market payments in respect of the 18 months to March 2020, compared to just £2.7m in 2018/19. In addition, as outlined in the 2019/20 Interim Financial Statements, SSE changed the estimated useful life of its onshore wind farms from 20 to 25 years. The financial impact of this in 2019/20 was to reduce the depreciation charge, increasing the adjusted and reported operating profit of £30.2m.

FINANCIAL REVIEW CONTINUED

Operating profit continued

SSE Renewables continued

Reported operating profit was £459.9m, compared to £1,242.9m, mainly due to the exceptional gain on partial disposal of Stronelairg, Dunmaglass and Clyde wind farms in 2018/19. The Group's share of joint venture interest and tax also increased by £61.9m compared with the previous year as a result of those wind farms now being joint ventures, and interest from Beatrice as the wind farm was fully commissioned.

SSE Thermal: adjusted operating profit was £152.7m, compared to an adjusted operating loss of £(22.3)m, mainly due to the £125m of GB Capacity Market payments received in respect of the 18 months to March 2020, compared to £13m received in 2018/19. Also reflected in 2019/20 results is improved portfolio optimisation of gas-fired generation assets. There was also an increase in multifuel adjusted operating profit, to c.£30m from c.£19m reflecting the start of commercial operation of the new Ferrybridge Multifuel 2 from December 2019 onwards.

Reported operating profit was £15.5m, compared to a loss of £50.6m, due to the above factors and the exceptional charge incurred in 2019/20 at Fiddlers Ferry of £112.3m as the plant consumed its remaining coal stocks until its closure in March 2020.

Gas Storage: adjusted operating profit was £3.7m, compared to an adjusted operating loss of £(5.7)m, reflecting operation of the plant on a merchant basis and better market conditions.

Reported operating loss was £(1.4)m as a result of the change in accounting policy to revalue gas stocks held in storage at year end to fair market price. This resulted in a £5.1m downward valuation at 31 March 2020.

SSE Business Energy: adjusted operating profit was £9.2m, compared to £51.6m, as a result of higher bad debts and other indirect costs, along with increased third-party intermediary and GB Capacity Market charges.

The business also recorded an exceptional charge of £27.7m related to bad debts arising from coronavirus. As a result, the business recorded a reported operating loss of £(18.5m).

SSE Airtricity: adjusted operating profit was £48.8m, compared to £38.6m, reflecting slightly improved margins.

SSE Airtricity also recorded an exceptional charge of £6.0m for a provision against bad debts arising as a result of coronavirus. Reported operating profit was therefore £42.8m.

Energy Portfolio Management (EPM): adjusted operating loss was £(137.4)m, slightly more than expected due to an effect of the sale of SSE Energy Services and the impact of Sterling weakness. This is compared to an adjusted operating loss of £(284.9)m in the same period last year. As previously stated, and in line with implementation of SSE's Approach to Hedging, EPM is expected to earn a small adjusted operating profit from 20/21 onwards through service provision to those SSE businesses requiring access to the energy markets.

Reported operating loss was £(171.6)m compared to £(613.1)m as a result of the above reduction in adjusted operating loss, in addition a smaller net re-measurement loss on open and delivered contracts was recorded of £34.2m, compared to £328.2m in prior year.

SSE Enterprise: adjusted and reported operating profit was £8.1m, compared to £31.8m, mainly reflecting the reduction in SSE's share of SSE Telecoms' profits following the sale of 50% of the business in March 2019, together with some impact on revenues from coronavirus and increased contract provisioning. As a result of SSE Telecoms becoming a joint venture, an £8.3m share of interest and tax was included in reported operating profit, together with depreciation on fair value uplifts of £1.8m, resulting in an overall reported operating loss of £(2.0)m.

Corporate Unallocated: adjusted operating loss of £(17.8)m compared to £(6.5)m reflecting the results of a change in SSE's cost allocation model following the sale of SSE Energy Services.

Reported operating loss was £(89.2)m compared to a profit of £179.6m mainly due to the exceptional gain on sale recorded on the disposal of SSE Telecoms in the prior year and current year IT impairments following the sale of SSE Energy Services.

Investment in Gas Production (held for sale): while the assets of this business are held for sale, the benefit of an internal gas hedge is being retained within the SSE Group due to the structure of the proposed disposal, which is unhedged effective from 1 April 2019. As a result, in 2019/20:

- The internal gas hedge being retained contributed an adjusted and reported operating profit of £77.1m.
- The assets held for sale had an adjusted operating profit of £25.8m, which is excluded from SSE's adjusted results. As the business was held for sale, this operating profit excludes depreciation charges of £61.6m from September 2019 onwards.
- If reported together, and including depreciation, Gas Production would show a total operating profit of £41.3m; compared to an adjusted and reported operating profit of £48.9m in the same period in 2018/19.

The reported operating loss was £265.5m in 2019/20, compared to a reported operating profit of £78.6m in the prior year, primarily due to an exceptional impairment of £291.3m being recognised in 2019/20 to reduce the carrying value of the business to its expected recoverable value from disposal.

In 2018/19 there was also an exceptional reversal of previous impairments of £29.7m due to the estimated gas reserves at that time.

SSE Energy Services (discontinued operations): The sale of SSE Energy Services was completed on 15 January 2020. This business earned an adjusted operating profit of £32.7m in 2019/20 up to the date of disposal. On disposal, SSE recorded an exceptional loss of £226.9m in discontinued operations (an update to the expected loss on disposal impairment provision of £489.1m, published in the September 2019 interim results). In addition, exceptional restructuring costs of £10.8m were incurred in 2019/20 prior to disposal.

Investment and Capital Expenditure

Investment and Capex Summary (adjusted)

	March 2020 Share %	March 2020 £m	March 2019 £m	March 2018 £m
Electricity Transmission	24%	329.0	344.0	434.2
Electricity Distribution	27%	364.9	340.7	326.1
Electricity Networks total	**51%**	**693.9**	**684.7**	**760.3**
SSE Renewables	**26%**	**342.7**	**326.1**	**301.7**
Thermal Generation	13%	177.0	187.7	89.0
Gas Storage	0%	0.2	0.7	1.8
Thermal energy total	**13%**	**177.2**	**188.4**	**90.8**
Customer Solutions total	0%	0.3	1.2	1.5
Enterprise	4%	57.4	19.8	61.9
Corporate	6%	85.9	72.2	110.5
Gas Production	–	–	27.9	65.5
SSE Energy Services	–	–	102.6	110.8
Total investment and capital expenditure (adjusted)	**100%**	**1,357.4**	**1,422.9**	**1,503.0**

Gas Production Assets are held for sale and Energy Services was disposed of on 15 January 2020. During 2019/20 the Group incurred £53m of capital expenditure within its Energy Services business (mainly smart meter related) and £44.6m, in Gas Production. However, this capital expenditure has been excluded from SSE's adjusted Investment and Capital Expenditure, as the Group incurred an exceptional loss on disposal of SSE Energy Services and an exceptional impairment in Gas Production.

Investing efficiently in energy assets that the UK and Ireland need in 2019/20

During the year to 31 March 2020, SSE's investment and capital expenditure (excluding SSE Energy Services and Gas Production) totalled £1,357.4m, including £1,036.6m (or 76%) invested in the core businesses of SSEN Transmission, SSEN Distribution and SSE Renewables.

Total investment and capital expenditure in the year included the following:

- SSEN Transmission investment and capital expenditure of £329.0m included work on the 275kV line between Knocknagael and a new substation at Tomatin, work on the 275kv line between Inveraray and Crossaig plus the construction of new substations at Fort Augustus, Rothienorman and New Deer, to enable renewable energy projects to connect to the network.
- SSEN Distribution investment and capital expenditure of £364.9m consisted primarily of asset replacement and reinforcement projects, including the replacement of subsea cables and several overhead line circuits.
- SSE Renewables investment in renewable energy in GB and Ireland totalled £342.7m and included spend on Seagreen (£166m) and Doggerbank (£58m); along with spend on Beatrice, Gordonbush extension, Viking Wind Farm and upgrades to hydro-electric schemes.
- SSE's flexible thermal gas-fired power stations will play a key part in the transition to a low-carbon economy and investment in thermal generation totalled £177.0m (13% of the SSE Group total) in the year, including the Keadby 2 and Ferrybridge Multifuel 2 projects, along with development spend on the Slough Multifuel project.
- In addition, £57.4m was invested in SSE Enterprise, predominantly in Telecoms, and £86.0m in SSE Group services, which was mainly on shared IT to support the work of business units.

"SSE has an established reputation in managing large capital projects and at the heart of it is a robust, progressive governance framework designed to ensure the highest standards of project development and delivery. As stakeholders' expectations evolve, so does our approach to governance, so there can be real confidence in our businesses' ability to deliver in the future."

Liz Tanner
SSE's General Counsel

FINANCIAL REVIEW CONTINUED

SSE's hedging position at 31 March 2020

To aid understanding, the following hedging summary should be read in conjunction with the full "SSE's Approach to Hedging" document published in November 2018 and the subsequent update published in May 2019.

Renewables – GB wind and hydro hedging position

Since March 2019, as part of preliminary and interim results, SSE has included its hedge position in relation to its GB Wind and Hydro generation.

The following table includes an update as at 31 March 2020, showing the hedge position for full years 2020/21, 2021/22 and 2022/23.

		2018/19	2019/20	2020/21	2021/22	2022/23
Wind	Expected volume TWh	4.5	4.5	4.5	4.6	4.6
	Volume hedged%	100%	100%	100%*	61%	19%
	Hedge price £/MWh	£39	£39	£46	£48	£45
Hydro	Expected volume TWh	3.4	3.5	3.4	3.4	3.4
	Volume hedged %	100%	100%	100%*	61%	18%
	Hedge price £/MWh	£39	£43	£48	£50	£45

For comparison purposes, for 2018/19 and 2019/20, volumes are based on average expected output, and the contracted hedge price is at the beginning of each financial year. The table excludes the additional income streams outlined in the May 2018 hedging paper update (i.e. BM activity, ROCs, ancillary services, cap mech & shape variations) and income relating to Irish Wind, pumped storage and CfD income for Beatrice.

As set out in "SSE's Approach to Hedging", in order to account for the effect of the "wind capture price" SSE's target is to hedge only 85% of its anticipated wind energy output for the coming 12 months. Historic hedges in place at 31 March 2020 resulted in 100% of 2020/21 anticipated wind energy output being hedged.

*Since then, in light of low market prices for electricity, and the possibility of reduced wind farm availability due to coronavirus lockdown impacts, SSE Renewables has executed trades to reduce the percentage of wind volume hedged for the remainder of 2020/21 to 85%, bringing it in line with its target.

SSE Business Energy: supplies electricity and gas to business and public sector customers. Sales to contract customers are 100% hedged: at point of sale for fixed contract customers; upon instruction for flexi contract customers; and on a rolling hedge for tariff customers.

Business Energy's sales demand volumes have been adversely impacted by the coronavirus lockdown and the extent to which this will impact customers' consumption and viability in the medium term remains uncertain. To reflect this expected reduction in demand, Business Energy have reduced hedged volumes for 2020/21, incurring a mark to market loss that will be recognised in 2020/21 and which forms part of the coronavirus impacts on Customer Solutions' operating profit estimated between £60m and £110m before mitigation. Further adjustments to hedged volumes may be required as more evidence of the medium-term impact on customers' consumption becomes available.

SSE Thermal: in the 12 months prior to delivery, SSE aims to hedge all of the expected output of its CCGT assets, having progressively established this hedge over the preceding 24 months. Hedging activity depends on the availability of sufficient market depth and liquidity, which can be limited, particularly for periods further into the future.

Gas Storage: is being commercially operated after the annual auction to offer gas storage capacity contracts, held in April 2020, resulted in no contracts being secured. The business continues to manage its exposure to changes in the spread between summer and winter prices, market volatility and plant availability whilst also making capacity available, at fair value, to interested third parties.

Gas Production: at 31 March 2020, SSE's E&P assets were hedged to around 20% of gas output and 60% of oil exposure for 2020/21 and 2021/22. As the E&P business remains held for sale on an unhedged basis, this position has been kept under review and, in June 2020, SSE reversed these gas hedges resulting in a mark-to-market gain that will be recognised in financial results in coming years.

Energy Portfolio Management (EPM): provides the route to market and manages the execution for all of SSE's commodity trading outlined above (spark spread, power, gas, carbon and oil). This includes managing market conditions and liquidity and reporting and monitoring net Group exposures.

Adjusted Earnings per share

Adjusted Earnings per share – including coronavirus adjustments

To monitor its financial performance over the medium term, SSE reports on its adjusted earnings per share measure. This measure is calculated by excluding the charge for deferred tax, interest costs on net pension liabilities, exceptional items, depreciation on fair value adjustments and the impact of certain re-measurements.

SSE's adjusted EPS measure provides an important and meaningful measure of underlying financial performance. In adjusting for depreciation on fair value adjustments, non-recurring joint venture refinancing costs, exceptional items and certain re-measurements, adjusted EPS reflects SSE's internal performance management, avoids the volatility associated with mark-to-market IFRS 9 re-measurements and means that items deemed to be exceptional due to their nature and scale do not distort the presentation of SSE's underlying results. For more detail on these and other adjusted items please refer to the Adjusted Performance Measures section of this report.

In the year to 31 March 2020, SSE's adjusted earnings per share on continuing operations was 83.6p (after £18.2m negative impact on operating profit from, mainly demand related, coronavirus impacts in 2019/20). This adjusted EPS of 83.6p compares to 61.8p in the previous year and reflects the reduction in the EPM-related loss, the restoration of the GB Capacity Market and increased earnings in SSE Renewables.

Summarising movements on derivatives

Operating derivatives

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

SSE shows the change in the fair value of these forward contracts separately as this mark-to-market movement does not reflect the realised operating performance of the businesses. The underlying value of these contracts is recognised as the relevant commodity is delivered, which for the large majority of the position at 31 March 2020 is expected to be in the next 12 months.

The balance sheet movement in the operating derivative mark-to-market valuation for the 2019/20 was a reduction in the out-of-the-money value of derivatives of £197m. This movement consisted of:

- Derivatives with an "out-the-money" mark-to-market valuation of £231m being novated to SSE Energy Services as part of its disposal to OVO. This benefit to SSE has been netted off against the loss on disposal of SSE Energy Services as part of exceptional items.
- The balance of movements in operating derivatives in 2019/20 is a loss of £39.3m, which also includes the revaluation of gas stocks held in Gas Storage of £5.1m. This balance remains in continuing operations in SSE's profit and loss statement.

Financing derivatives

In addition to the net movement loss of £39.3m recognised on operating derivatives, there were losses of £79.8m recognised on the remeasurement of financing derivatives at 31 March 2020, including SSE's share of remeasurement joint venture financing derivatives. These losses are predominately due to the impact of weaker Sterling against the Dollar and Euro on cross currency swaps linked to Eurobonds, Hybrids and US private placement debt along with lower interest rates on cross currency swaps and interest rate swaps.

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

Summarising exceptional items

For the year to 31 March 2020, SSE recognised a net exceptional charge of £209.7m before tax on its continuing operations and £529.0m on its discontinued operations. The following table provides a summary of the key components making up the net charge position:

Exceptional Charges/(Gains)	Continuing operations £m	Discontinued operations £m	Total £m
Reshaping the SSE Group:			
Retail restructuring and loss on disposal	48.8	237.7	286.5
Coal loss on closure	112.3		112.3
Telecoms & Onshore Wind true up (gain)	(30.6)		(30.6)
Restructuring and other impairments	45.5		45.5
Coronavirus impact:			
Coronavirus impact – bad debt	33.7		33.7
Market Conditions:			
Gas Production impairment		291.3	291.3
Total exceptional items	**209.7**	**529.0**	**738.7**

The Group recorded an exceptional loss of £286.5m on disposal of its SSE Energy Services business including an offsetting gain of £231m on the settlement of operating derivatives (as outlined above). This is an update to the expected loss on disposal impairment provision of £489.1m, published in the September 2019 Interim Results. For a full description of exceptional charges see Note 7 of the Financial Statements.

Reported profit/(loss) before tax and earnings per share

Reported results for the year to 31 March 2020 were significantly lower than the previous year, reflecting pre-tax exceptional charges of £738.7m recognised during the year; both in relation to the reshaping of SSE (with the sale of SSE Energy Services and the closure of Fiddler's Ferry coal fired power station) and a deterioration in market conditions (with lower forward gas prices resulting in an impairment in the valuation of the Gas Production business).

Reported results for the prior year benefited from exceptional gains from the disposal of stakes in SSE Telecoms and Stronelairg, Dunmaglass and Clyde wind farms. These are explained in more detail in the notes to the accounts and are the main driver for:

- A reported profit before tax on continuing operations of £587.6m in 2019/20 compared to a reported profit on continuing operations of £1,300.3m in the previous year; and
- A reported profit per share on continuing operations of 40.6p compared to a reported profit per share on continuing operations of 123.7p in the previous year.

Dividend 2019/20

SSE understands the importance of its dividend, which provides vital income for people's pensions and savings, which is particularly important following the economic consequences of the coronavirus pandemic. The Board is recommending to shareholders a full year dividend of 80 pence, and payment of the final dividend of 56 pence per share, on 18 September 2020.

FINANCIAL REVIEW CONTINUED

Financial management and balance sheet

Debt metrics

	March 2020 £m	September 2019 £m	March 2019 £m
Adjusted net debt and hybrids (£m)	**(10,465.9)**	**(10,338.9)**	**(9,437.0)**
Average debt maturity (years)	6.5	7.0	7.0
Adjusted interest cover (excluding SGN) times	3.3	1.8	2.8
Adjusted interest cover (including SGN) times	3.2	2.0	2.8
Average interest rate for the period excluding JV/assoc. interest and all hybrid coupon payments)	3.18%	3.22%	3.28%
Average cost of debt at period end (including all hybrid coupon payments)	3.51%	3.60%	3.70%
Net Debt/EBITDA (inc. hybrid capital)	5.7	–	5.8

Net finance costs Reconciliation

	March 2020 £m	March 2019 £m	March 2018 £m
Adjusted net finance costs	**465.0**	**403.6**	**367.5**
Add/(less):			
Lease interest charges	(37.6)	(28.6)	(30.8)
Notional interest arising on discounted provisions	(9.2)	(9.1)	(8.3)
Hybrid equity coupon payment	46.5	46.6	98.5
Adjusted finance costs for interest cover calculation	464.7	412.5	426.9

SSE Principal Sources of debt funding

	March 2020	March 2019	March 2018
Bonds	48%	46%	49%
Hybrid debt and equity securities	21%	22%	23%
European investment bank loans	12%	12%	13%
US private placement	8%	9%	10%
Index –linked debt & short-term funding	11%	11%	5%
% of total SSE borrowings secured at a fixed rate	87%	88%	90%

Rating Agency	Rating	Criteria	Date of Issue
Moody's	Baa1 "stable outlook"	"Low teens" Retained Cash Flow/Net Debt	September 2019
Standard and Poor's	BBB+ "outlook stable"	About 18% Funds From Operations/Net Debt	September 2019

Adjusted net debt and hybrid capital

SSE's adjusted net debt and hybrid capital was £10.5bn at 31 March 2020, up from £9.4bn at March 2019. This reflected: the on-going capital investment programme, dividend payments, share buybacks, interest payments, working capital movements and debt revaluation adjustments partially offset by operating profits, dividends received following the refinancing of Beatrice offshore wind farm, and the cash inflow from the sale of Energy Services to OVO.

The debt revaluation adjustment, of £276.8m as at 31 March 2020 (up from £190.6m at 31 March 2019), relates to marked-to-market movements on cross-currency swaps and floating rate swaps that are classed as hedges under IAS 39. The hedges ensure that any movement in the value of net debt is predominately offset by a movement in the derivative position. The debt revaluation increase at March 2020 was primarily driven by Sterling weakness against both the Euro and US Dollar partially offset by lower interest rates during the year.

Hybrid Bonds summary as at 31 March 2020

Hybrid Bonds are a valuable part of SSE's Capital Structure, helping to diversify SSE's investor base and most importantly to support credit rating ratios, with their 50% equity treatment by the rating agencies being positive for SSE's credit metrics.

A summary of SSE's Hybrid Bonds can be found below:

Issued	Hybrid Bond Value *	All in rate	First Call Date	Accounting Treatment
March 2015	£750m	3.99%	September 2020	Equity accounted
March 2015	€600m (£440m)	4.04%	April 2021	Equity accounted
March 2017	£300m	3.73%	September 2022	Debt accounted
March 2017	$900m (£749m)	2.72%	September 2022	Debt accounted

* Note: Sterling equivalents shown reflect the fixed exchange rate where proceeds have been swapped to Sterling and where proceeds remain in Euros the Sterling equivalent is revalued each period.

Further details on each hybrid bond can be found in Notes 21 & 22 to the Financial Statements and a table noting the amounts, timing and accounting treatment of coupon payments is shown below:

	2020/21		2019/20		2018/19	
Hybrid coupon payments	HYe	FYe	HYa	FYa	HYa	FYa
Total equity (cash) accounted	£47m	£47m	£47m	£47m	£47m	£47m
Total debt (accrual) accounted	£15m	£30m	£15m	£30m	£15m	£30m
Total hybrid coupon	**£62m**	**£77m**	**£62m**	**£77m**	**£62m**	**£77m**

SSE's March 2015 Hybrid Bonds are perpetual instruments and are therefore accounted for as part of equity within the Financial Statements but, as in previous years, have been included within SSE's "Adjusted net debt and hybrid capital" to aid comparability. The March 2017 Hybrid Bonds have a fixed redemption date, are therefore debt accounted and included within Loans and Other Borrowings; and are already part of SSE's adjusted net debt and hybrid capital.

The coupon payments relating to the March 2015 equity accounted hybrid bonds are presented as distributions to other equity holders and are reflected within adjusted earnings per share when paid. The coupon payments on the March 2017 debt accounted hybrid bonds are treated as finance costs under IFRS 9.

Managing net finance costs

SSE's adjusted net finance costs, including interest on debt accounted hybrid bonds but not equity accounted hybrid bonds, were £465.0m in the year to 31 March 2020, compared to £403.6m in the previous year. This reflected higher net debt during 2019/20, higher JV interest costs as Beatrice became fully operational, lower capitalised interest (due to large projects completing in 2018/19), and the impact of IFRS 16.

Reported net finance costs were £375.8m, compared to £313.3m, as a result of higher net debt, lower capitalised interest and the impact of adoption of IFRS 16.

Adoption of IFRS 16

The Group adopted IFRS 16 "Leases" with effect from 1 April 2019, applying the "modified retrospective" approach whereby comparative figures are not restated. In adopting this approach, the results for the year to 31 March 2020 are not directly comparable with those reported in the prior period under the previous applicable accounting standard IAS 17 "Leases".

For the Adoption impact, the disclosures given in the notes to the financial statements are:

Adoption of IFRS 16 (including SSE's share of joint ventures) resulted in adjusted operating profit for the year to 31 March 2020 increasing by £10.8m, offset by increased adjusted interest costs of £18.1m, resulting in a £7.3m net reduction in adjusted profit before tax.

At 31 March 2020, including additions during that year, the net value of right-of-use assets recognised under IFRS 16 totalled £229.1m. In total, lease liabilities at 31 March 2020 were £455.2m.

The revised presentation of lease payments under IFRS 16 results in a £45.9m improvement in net cash flows from operating activities and a corresponding deterioration in net cash flows from financing activities. There is no impact on total cash and cash equivalents.

Summarising cash and cash equivalents

At 31 March 2020, SSE's adjusted net debt included cash and cash equivalents of £0.2bn. This is down from £0.5bn at March 2019 which benefited from receipt of sales proceeds in the month for the part disposal of Stronelairg and Dunmaglass wind farms and SSE's Telecoms business.

The cash collateral value decreased by £87.8m in the year and totalled £256.4m at 31 March 2020. The decrease relates to the unwind of collateral required to cover out of the money commodity positions.

Revolving Credit Facility

SSE has £1.5bn of committed bank facilities in place to ensure the Group has sufficient liquidity to allow the Group's day to day operations and investment programmes to continue in the event of disruption to Capital Markets preventing SSE from issuing new debt for a period of time. These facilities are set out in the table below.

Date	Issuer	Debt Type	Term	Value
March 19	SSE plc	Syndicated Revolving Credit Facility with 10 Relationship Banks	2025: option to extend to 2026	£1.3bn
October 19	SSE plc	Revolving Credit Facility with Bank of China	2024: with 2 one-year extension options	£200m

The facilities can also be utilised to cover short-term funding requirements and in line with this £75m drawn was against the Bank of China facility for one week over the year end.

Both facilities are classified as sustainable facilities with interest rate and fees paid dependant on SSE's performance in environmental, social and governance matters, as assessed independently by Vigeo Eiris. In September 2019 Vigeo Eiris published their updated ESG Score for SSE, which has improved significantly to 62, from 51 the previous year, which resulted in the sustainability clauses on the refinanced £1.3bn RCF and £200m Bank of China facilities being triggered, reducing the margin on both by 2.5bps.

FINANCIAL REVIEW CONTINUED

Financial management and balance sheet continued

Focusing on effective financial management: debt issuance and treasury facilities in 2019/20

During 2019/20 the following debt was issued:

Date	Issuer	Debt Type	Term	Value	Coupon	All in Funding Cost
September 2019	Scottish Hydro Electric Transmission plc	Green Bond	16 year	£350m	2.25%	2.39%

This was the SSE's third Green Bond in three years, affirming SSE as the largest issuer of Green Bonds from the UK corporate sector. In addition, SSE is the only UK corporate to offer up multiple benchmark sized tranches in the Sterling and Euro markets.

Maintaining a prudent Treasury policy

SSE's treasury policy is designed to be prudent and flexible. In line with that, cash from operations is first used to finance regulatory and maintenance capital expenditure and then dividend payments, with capital and investment expenditure for growth generally financed by a combination of cash from operations, bank borrowings and bond issuance.

As a matter of policy, a minimum of 50% of SSE's debt is subject to fixed rates of interest. Within this policy framework, SSE borrows as required on different interest bases, with financial instruments being used to achieve the desired out-turn interest rate profile. At 31 March 2020, 87% of SSE's borrowings were at fixed rates.

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

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

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

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

Ability to raise funds at competitive rates is fundamental to investment. SSE's fund-raising over the last five years, including senior bonds, hybrid capital and term loans, now totals £5.2bn and SSE's objective is to maintain a reasonable range of debt maturities. Its average debt maturity, excluding hybrid securities, at 31 March 2020 was 6.5 years, down from 7.0 years at March 2019. This reflects SSE's recent debt issuance, which has taken advantage of the best value on the maturity curve; and SSE's average cost of debt is now 3.5%.

SSE's activities and plans in relation financial management and liquidity from the start of 2020/21 onwards are summarised in the **Group financial outlook 2020/21 and beyond** section below.

SSE's principal joint ventures and associates

SSE's financial results include contributions from equity interests in joint ventures ("JVs") and associates, all of which are equity accounted. The details of the most significant of these are included in the table below. This table also highlights SSE's share of off-balance sheet debt associated with its equity interests in JVs, which, including SGN, is just over £2.6bn as at 31 March 2020.

SSE principal JVs and associates	Asset type	SSE holding	SSE share of external debt as at 31 March 2020	SSE Shareholder loans as at 31 March 2020
Seabank Power	1,140MW CCGT	50%	No external debt	No loans outstanding
Marchwood Power	840MW CCGT	50%	No external debt	£59m
Clyde Windfarm (Scotland)	522MW onshore wind farm	50.1%	No external debt	£127m
Walney (UK) Offshore Windfarms	367MW offshore wind farm	25.1%	No external debt	No loans outstanding
Doggerbank Wind Farms	Up to 1,200MW offshore wind farm each. Up to 3,600MW total	50%	No external debt	£117m
Scotia Gas Networks	Gas distribution network	33.3%	£1,571m	£109m
Ferrybridge Multifuel Energy	68MW multifuel	50%	No external debt	£90m
Ferrybridge Multifuel Energy 2	70MW multifuel	50%	No external debt	£167m
Beatrice Offshore Windfarm Ltd	588MW offshore wind farm	40%	£1,006m	£17m (Primarily project financed)
Cloosh Valley Wind Farm	105MW onshore wind farm (part of Galway Wind Park)	25%	£33m	Project financed
SSE Telecoms	Private telecoms network	50%	No external debt	£28m
Stronelairg Windfarm	228MW onshore wind farm	50.1%	No external debt	£88m
Dunmaglass Windfarm	94MW onshore wind farm	50.1%	No external debt	£47m

Greater Gabbard, a 504MW offshore wind farm (SSE share 50%) is proportionally consolidated and is reported as a Joint Operation with no loans outstanding.
SSE's share of Clyde wind farm reduced to 50.1% from 65% in May 2018.
SSE's share of Cloosh wind farms reduced to 25% from 50% in March 2019. SSE's share of SSE Telecoms reduced to 50% in March 2019.
SSE's share of Stronelairg and Dunmaglass wind farms reduced to 50.1% in March 2019.

Going Concern

The Directors regularly review the SSE Group's funding structure and have assessed that the Financial Statements should be prepared on a going concern basis. In making their assessment the Directors have assessed the forecast future cashflows of the SSE Group taking account of the Group's ability to access Capital Markets following a period of disruption due to the coronavirus crisis, as demonstrated by the recent dual tranche Euro bond issuance and expectation of future available liquidity in the commercial paper market. In addition, the SSE Group still has significant headroom on its committed borrowing facilities.

Scrip Dividend Scheme

The scrip dividend uptake during 2019/20 was:

- 30% for the 2018/19 final dividend; and
- 55% for the 2019/20 interim dividend.

Taxation

SSE is one of the UK's biggest taxpayers, and in the PwC survey published in November 2019 was ranked 16th out of the 100 Group of Companies in 2019 in terms of taxes borne (those which represent a cost to the Company, and which are reflected in its financial results).

SSE considers being a responsible taxpayer a core element of its social contract with the societies in which it operates. SSE seeks to pay the right amount of tax on its profits, in the right place, at the right time, and was the first FTSE 100 company to be awarded the Fair Tax Mark. While SSE has an obligation to its shareholders, customers and other stakeholders to efficiently manage its total tax liability, it does not seek to use the tax system in a way it does not consider it was meant to operate, or use "tax havens" to reduce its tax liabilities.

SSE understands it also has an obligation to the society in which it operates, and from which it benefits – for example, tax receipts are vital for the public services SSE relies upon. Therefore, SSE's tax policy is to operate within both the letter and spirit of the law at all times.

In December 2019, SSE published Talking Tax 2019: Being transparent about tax. It did this because it believes building trust with stakeholders on issues relating to tax is important to the long-term sustainability of the business.

In the year to 31 March 2020, SSE paid £421.6m of taxes on profits, property taxes, environmental taxes, and employment taxes in the UK, compared with £403.6m in the previous year. The increase in total taxes paid in 2019/20 compared with the previous year was primarily due to:

- An increase in the level of corporation tax paid. SSE's corporation tax liability for 201 8/19 was lower due to a combination of reduced profits, continued investment, and the one-off impact of loss surrenders; and
- A reduction in the level of environmental taxes paid, as a result of lower levels of electricity generation at SSE's coal and gas-fired power stations.

In 2019/20 SSE also paid €18.1m of taxes in Ireland, compared to €14.6m the previous year. Ireland is the only country outside the UK in which it has any trading operations.

As with other key financial indicators, SSE's focus is on adjusted profit before tax and, in line with that, SSE believes that the adjusted current tax charge on that profit is the tax measure that best reflects underlying performance. SSE's adjusted current tax rate, based on adjusted profit before tax, was 11.2%, as compared with 1.0% in 2018/19 on the same basis. SSE's adjusted current tax rate for 2018/19 was extremely low primarily due to the lower corporation tax charge for t he year on SSE's reduced underlying profits, being more than eliminated by tax credits from earlier years. As SSE continued to invest heavily in capital projects, at a time when profits were reduced, the capital allowances obtained on that expenditure also had a more significant impact on SSE's adjusted current tax rate for the year. The rate for 2019/20 was more in line with the historic trend.

Impacts of prior year adjustments

In the year the Group has adjusted its balance sheet to correct for four separate prior year adjustments. The prior year adjustments are noted in Note 1.3 of the Financial Statements. The impact on net assets at 31 March 2019 is a decrease of £49.0m, which has been recognised through reserves. As a result, profits are unchanged in the comparative year.

Pensions

Contributing to employees' pension schemes – IAS 19

	March 2020 £m	March 2019 £m	March 2018 £m
Net pension scheme asset recognised in the balance sheet before deferred tax	**341.7**	287.1	334.5
Employer cash contributions Scottish Hydro Electric scheme	**5.8**	12.6	29.0
Deficit repair contribution included above	**–**	–	14.0
Employer cash contributions Southern Electric scheme	**66.5**	66.3	68.9
Deficit repair contribution included above	**42.6**	47.5	45.9

In the year to 31 March 2020, the surplus across SSE's two pension schemes increased by £54.6m, from £287.1m to £341.7m, primarily due to movements in inflation and discount rates.

During 2019/20, the strong funding position of the Hydro Electric scheme enabled trustees to convert the longevity swap covering around £800m of liabilities to a "buy-in". This means SSE is now only exposed to fluctuations in the valuation of the obligations associated with active members in the scheme.

Additional information on employee pension schemes can be found in Note 23 to the Financial Statements.

FINANCIAL REVIEW CONTINUED

Group financial outlook 2020/21 and beyond

Key points

- Coronavirus impacts on operating profit estimated between £150m and £250m before mitigation;
  - Guidance on adjusted earnings per share to be provided later in financial year.
- Comprehensive plan to sustain dividends and create value;
  - Maintaining good liquidity and effective financial management.
  - Reducing planned cash outflow (mainly capex) by at least £250m in 2020/21.
  - Securing value from disposals of at least £2bn by autumn 2021.
- Plan to invest capital and investment of around £7.5bn net in five years to 2024/25, focused on core strategic decarbonisation projects.
- New target to cut carbon intensity of electricity generation by 60% by 2030[1].
- Targeting net debt/EBITDA ratio at lower end of 4.5 to 5 times range between 2021/22 and 2024/25.
- Target to maintain credit rating ratios comfortably above those required for investment grade.

1 Based on 2018 levels; previous target 50%. See sse.com for details.

Dividend for 2020/21

- Continuing to target 80p + RPI dividend for 2020/21.
- Intention to declare 24.4p interim dividend[2] in November 2020 for payment in March 2021.
- Continuing to target delivery of the five-year 2018/19 to 2022/23 dividend plan.

2 Based on estimated RPI of 1.5%.

Comprehensive plan to deliver two objectives

While it remains too early to forecast with complete accuracy the human, social, economic and business impact of coronavirus, SSE has completed an initial assessment of its potential financial impact on its business units in the 2020/21 financial year. This has confirmed that the impact of coronavirus on the wider economy will, in turn, have adverse effects on a number of SSE's Business Units that are currently expected to be substantial in the context of one financial year, but temporary in duration. As the wider impact of coronavirus becomes clearer, SSE will keep under review its assessment of the impact on its business units. The comprehensive plan set out below is designed to give it the best opportunity to mitigate the economic and business impacts of coronavirus and in doing so achieve two clear and related objectives:

- Sustain its ability to pay dividends on which people with pensions and savings depend for income – especially in the current financial climate;
- Promote the long-term success of the Company, realising future opportunities in the transition to net zero for the benefit of its stakeholders.

Coronavirus is having a significant impact on every company operating, like SSE, in the UK and Ireland. Relative to many other companies, however, the impact on SSE is mitigated by its business model and the nature and quality of its asset base in regulated electricity networks and renewable energy, and the role they have to play in the transition to net-zero emissions. The quality and nature of SSE's businesses and assets and their potential for sustainable value creation transcends the financial impact of coronavirus in 20/21.

Talent, skills and values

This comprehensive plan is designed to ensure SSE emerges from the impacts of coronavirus in 2020/21 well-placed to play a full part in the transition to net-zero emissions, that will – amongst other things – be key to wider economic recovery in the UK and Ireland. In doing so, SSE will benefit from the talent, skills and values of its employees. In its response to coronavirus, SSE has sought to be a responsible employer, working closely with its recognised trades unions and agreed with them a flexibility across working practices and retention of full pay over use of the UK government's Job Retention Scheme – and so has not "furloughed" any employees. This flexibility has helped to accelerate change that is delivering new, efficient ways of working that will be of enduring benefit.

Adverse effects of coronavirus

While no material net financial impact from coronavirus in 2020/21 is expected for SSE's Transmission, Renewables and Thermal businesses, the wider economic impact of coronavirus on the economies of the UK and Ireland is currently expected to have following main adverse effects on SSE's other businesses in 2020/21, with the greater impacts likely to be experienced in the first six months of the financial year:

- Reduced demand for electricity affecting DUoS for SSEN Distribution;
- Reduced demand from customers for electricity and related services;
- Excess electricity hedges with negative mark-to-market valuations; and
- Higher levels of customers' bad debt.

Potential impacts of coronavirus

The net negative impact of these adverse effects on SSE's operating profit in 2020/21 is expected to be significant in the context of one financial year, and based on SSE's latest assessment could be in the range of £150m to £250m before mitigation. The unprecedented nature of these events and the uncertainty inherent in any forecast means the outcome could also foreseeably be outside this range. Nevertheless, the estimated impact by business area for 2020/21 is set out below:

- In **Electricity Distribution** operating profit impacts are expected to include reduced DUOS revenue resulting from reduced customer demand and a negative impact on operating profit from reduced new connection activity. SSE's current estimate of the overall impact from these effects on operating profit is between £50m and £90m with over 80% of this expected to be recoverable in future years under established regulatory arrangements in relation to uncollected DUoS revenue;
- In **SGN**, reduced activity is expected to lead to some costs not being recovered and therefore SSE's share of SGN's operating profit is expected to be impacted by between £10m and £15m;
- In **Customers Solutions** (SSE Business Energy and SSE Airtricity) operating profit is expected to be negatively impacted by around £60-110m, including the impact of reduced demand, increased bad debts and losses incurred on the mark-to-market for hedged volumes no longer required; and
- In **SSE Enterprise**, it is expected that Contracting and Telecoms will be impacted by between £30m and £35m as a result of a reduced contracting order book and reduced overall activity.

It is also expected that **adjusted net finance costs** will see an increase, mainly as a result of higher net debt in the period.

Given the unprecedented nature of the impacts of coronavirus, SSE will keep under review the impact on its business units as the wider economic consequences of coronavirus become clearer and will provide updates as and when appropriate. Because this is a forecast, because of the continuing uncertainty about the impact of coronavirus, and because it is early in the financial year, SSE does not believe it would be appropriate to provide any guidance relating to earnings per share for 2020/21 until much later in the financial year.

The continuing uncertainty also means it is possible that some adverse business effects arising from coronavirus may continue in to the 2021/22 financial year.

SSE's plan to respond to coronavirus impacts

SSE's plan features three main approaches to mitigating the potential impact of coronavirus on its business units in 2020/21, with the related objectives of sustaining its ability to pay dividends and promoting the long-term success of the Company:

- Maintaining good liquidity effective financial management, demonstrated by the successful launch in April 2020 of a Euro bond with Sterling equivalent proceeds of around £975m;
- Managing cash outflow with a downward pressure by reviewing operational expenditure plans and where possible by deferring capital expenditure until 2021/22; and
- Securing value and cash proceeds from timely disposal of assets and businesses that are non-core to SSE's strategic focus on the transition to net-zero emissions.

Maintaining good liquidity and effective financial management

SSE has always viewed optionality, agility and discipline as important qualities in financing, and the importance of these qualities has been emphasised by the disruptions to capital markets following the outbreak of coronavirus. In terms of overall liquidity and financial management, SSE is in a good position for 2020/21 and beyond.

SSE has already moved quickly, following a period of capital market disruption, to launch successfully in April 2020 €1.1bn of senior bonds with a Sterling equivalent proceeds of around £975m. Following this, SSE plans to redeem its €600m Eurobond on 17 June, after which it will hold cash and committed facilities totalling over £2bn.

SSE has a clear plan to secure sale proceeds of at least £2bn by the autumn of 2021, and on that basis its refinancing requirements over the next 2 years are focused on the first call dates for the £1.2bn Hybrid Equity Bonds issued in March 2015; by September 2020 (£750m) and April 2021 (€600m).

SSE is confident in its ability to complete refinancing at this level and intends to issue new hybrid bonds this summer but will make a final decision in light of prevailing capital market conditions in the coming weeks. More generally, SSE will maintain its focus on good liquidity and effective financial management, and the £2bn-plus disposals plan (see below) is part of that. SSE believes it has plenty of options – and the agility and discipline – to ensure it remains a well-financed company through 2020/21 and beyond.

Managing cash outflow

SSE plans to mitigate the impact of reduced demand for electricity and challenging economic conditions for customers arising in 2020/21 by managing cash outflow. Through reducing and deferring operational expenditure plans and prioritising and deferring capital expenditure, SSE expects cash outflow to be at least £250m less than it had planned in early March 2020. Of this around 90% relates to capital expenditure, with the remainder relating to operational expenditure.

This won't jeopardise SSE's core strategic investment projects, which are designed to earn sustainable returns to support earnings in the years ahead, but it does mean less strategic or less advanced projects will be deprioritised and deferred. For example, SSE will pause development of options to extend renewables activities beyond the UK and Ireland.

In addition to this reduction in cash outflow, there will be no new share buy-back programmes in the 2020/21 financial year. Furthermore, SSE will not buy back shares even if uptake of the Scrip Dividend for the 2019/20 dividend exceeds 20%.

"Our new plans for capital investment through to 2025 are focused on core strategic projects that will make the greatest early contribution to achieving net zero, contribute to wider economic recovery, help achieve our goals for 2030 on renewable energy and wider electrification and earn sustainable returns to support earnings in the years ahead."

Martin Pibworth
SSE's Energy Director

FINANCIAL REVIEW CONTINUED

Group financial outlook 2020/21 and beyond continued

Securing value from disposals: sales and partnerships

Since 2014, SSE has undertaken a series of disposals of non-core assets and businesses designed to simplify significantly the SSE Group; sharpen its focus on businesses core to the transition to net-zero emissions; recycle capital from mature assets; realise value from development and operation of assets; and establish partnerships to support investment in new assets.

In total, since 2014, these have secured proceeds totalling £3.2bn.

During 2020/21, SSE plans to give renewed impetus to this by preparing for the disposal, subject to market conditions, of a further series of non-core assets. By non-core, SSE means assets in which it is not the principal operator or are less aligned with the transition to net-zero emissions.

SSE's non-operating investments in **Walney offshore wind farm** (SSE's 25% share is 92MW) and some or all of SSE's interests in **UK multifuel facilities** (SSE's 50% share is 68MW in operation and c.50MW under development) are assets which meet these criteria and are early priorities for disposal. In addition, SSE still intends to complete the sale of its interests in gas production assets and progress plans to dispose of electrical and rail contracting.

SSE currently retains a non-operating financial interest in **SGN** and, having already sold a 16.7% equity stake in 2016, retains the option of selling its remaining 33.3% stake.

SSE continues to regard partnering capability as vital for the future and an important means of helping unlock future opportunities in its core businesses.

In terms of its core **SSE Renewables** business, SSE will continue its established approach to partnering with other organisations to secure investment where that enables the right risk/reward balance to be struck and maximises the ability to develop and then deliver large capital projects that will support future earnings and dividends.

SSE will also consider extending the partnering approach to stakes in its core **SSEN Transmission and SSEN Distribution** businesses, which would be minority, enabling SSE to retain the lead role in relation to governance and also operational control, but only if it is deemed to be in the interests of customers, the electricity system as a whole, and shareholders to do so.

While asset sales, including bringing in partners, result in reductions in future earnings, SSE believes that this is significantly outweighed by the strategic and financial benefits, including supporting dividend payments and aiding investment in new assets that support the transition to net-zero emissions and also earn returns to support future dividends.

The timing of any disposals will be subject to market conditions, and other stakeholder considerations, including in relation to employees, and while processes for asset sales are expected to get under way in 2020/21, they may not result in completed sales until later. SSE is targeting disposal proceeds of at least £2bn by the autumn of 2021.

This further reshaping of the SSE Group is consistent with SSE's strategic focus on the transition to net-zero emissions and demonstrates the range of options that SSE has to secure value that supports dividend payments and future investment and promotes the Company's long-term success.

Impact on capital expenditure plans to 2025

Securing value from disposals will support SSE's investment in core strategic assets that will support the ongoing transition to net-zero emissions; contribute to a wider "green" economic recovery; and help achieve SSE's ambitious 2030 goals on renewable energy and the wider electrification of the economy.

SSE's 2018 plan to invest around £6bn across the five years from 18/19 to 22/23, has been re-shaped to focus on the delivery of core strategic projects that will make the greatest early contribution to the achievement of net-zero emissions and earn sustainable returns that will support earnings in the years ahead. Projects in the new five-year plan include the Seagreen and Dogger Bank offshore wind farms and the Viking onshore wind farm. SSE's focus on these core strategic projects and to wider plans for investment to support the transition to net-zero emissions is currently expected to require total investment expenditure by SSE of around £7.5bn in the period to March 2025, net of project finance development expenditure refunds.

The £7.5bn includes equity investments to March 2025 – net of project finance development expenditure refunds – of £1.5bn in Seagreen and Dogger Bank. Of the £7.5bn, almost 90% will be in SSE's core Renewables, Transmission and Distribution businesses.

Capital and investment expenditure on less strategic projects or less advanced projects will be deprioritised and deferred. As stated above, SSE will pause development of options to extend SSE Renewables' activities to additional jurisdictions.

In 2020/21, as a result of the decisions it has taken to focus capital expenditure on core strategic projects, SSE expects capital and investment expenditure to be just under £1bn. This compares with an annual average of £1.4bn in the five years to March 2020.

Adjusted net debt and credit rating

While there may be short-term fluctuations, the objective of SSE's approach to managing cash outflow and securing value and proceeds from disposals will be to keep its debt/EBITDA ratio at the lower end of a range of 4.5 and 5 times across the four years March 2025.

As well as promoting the long-term success of the Company and sustaining SSE's ability to pay dividends, this approach is also designed to ensure that SSE maintains credit rating ratios (Retained Cash Flow (RCF)/Net Debt and Funds From Operations (FFO)/Net Debt) that are comparable with private sector utilities across Europe and comfortably above those required for an investment grade credit rating.

In addition to maintaining effective financial management and managing cash outflow, therefore, SSE will ensure that its decisions on capital investment projects are calibrated with the progress of, and prospects for, its planned programme of disposals of non-core assets and businesses (see above) and in line with these commitments to: target a net debt/EBITDA ratio at the lower end of a range of around 4.5 to 5 times; and maintain RCF and FFO ratios that are comfortably above those required for an investment grade credit rating. This represents a sustainable financial framework for the future.

Dividend plan

SSE's first financial objective has always been to remunerate shareholders for their investment through the payment of dividends. People with pensions and savings depend on dividend payments for income, especially in the current financial climate.

SSE continues to believe that dividends should be sustainable, based on earnings and the longer-term financial outlook and also on the quality and nature of its assets and operations. In terms of its core businesses:

- SSE Renewables has a diverse portfolio of capacity for renewable energy in operation or under construction totalling over 5.3GW (net) and its net capacity in operation is expected to grow to around 6.7GW in 2026.
- The RAV of SSEN Transmission and SSEN Distribution and SSE's investment in SGN is forecast to grow from £9.1bn at March 2020 to around £12bn in by March 2026.

The core businesses of SSE Group provide a good balance, being economically-regulated or operating under public policy targeting net-zero emissions; and are complemented by other businesses such as SSE Thermal, which provides a key role in supporting the electricity system through the net-zero transition.

The quality and nature of SSE's businesses and assets, and their potential for sustainable value creation, transcends the financial impact of coronavirus in 2020/21.

As stated in March 2020, the Board's final decisions on dividend payments in relation to 2020/21 will have to take account of the impact of the wider economic situation on SSE's businesses and will also have regard to the associated expectations of all of SSE's key stakeholder groups. They will also be in line with SSE's commitment to promote the success of the Company for the long term; but SSE believes that long-term success will be founded on sustaining dividends through short-term adverse economic and business conditions.

In line with that, and based on a RPI rate of 1.5%, the Board expects to declare in November 2020 an interim dividend for 2020/21 of 24.4 pence, to be paid in March 2021.

Looking further ahead, there are clearly uncertainties about the wider economic situation and, therefore the impact on SSE's businesses and the Board will continue to take account of that in making decisions on dividends; but based on SSE's current forecast of the financial impact of coronavirus, it is confident in its ability to deliver all of its existing five year 2019-23 dividend plan including a full-year dividend for 80 pence plus RPI inflation for 2020/21.

Summary – Group financial outlook 2020/21 and beyond

SSE's strategic focus on regulated electricity networks and renewable energy helps to limit the adverse effects of coronavirus on its businesses. The quality and nature of its assets and operations and the earnings derived from them, mean SSE is well-placed to manage the substantial, but temporary, adverse effects on its businesses arising from coronavirus, and it has a comprehensive plan for doing so.

SSE is also well placed to play a significant part in helping the UK to complete the transition to net-zero emissions. Its core businesses of SSEN Transmission, SSEN Distribution and SSE Renewables in particular have strong opportunities to create value through that transition, and SSE is committed to maintaining a financially-disciplined and agilely-executed approach to value-creation.

SSE is, therefore, in a strong position to support a green economic recovery. More than ever, this economic recovery will have to create value for shareholders and society – and that remains SSE's over-riding strategic goal.

OPERATING REVIEW

SSE'S STRENGTH IN BUSINESS DEPTH

SSE's strategic focus on the successful development, efficient operation and responsible ownership of energy infrastructure and businesses is delivered through a range of business units. These operating segments are designed to allow decision-making to be as effective and efficient as possible, for the benefit of SSE's stakeholder groups, and to give investors visibility over performance and future priorities.

Electricity Transmission RAV (£bn)
3.5

Electricity Distribution RAV (£bn)
3.7

Renewable energy capacity in operation (net) (MW)
3,974

Thermal energy capacity in operation (net) (MW)
5,364

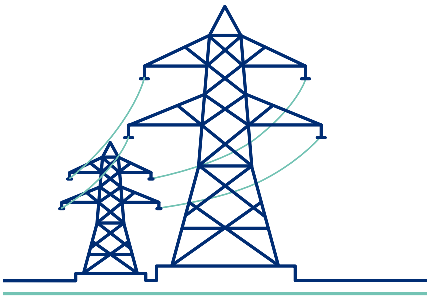
Business energy customer accounts (GB) (millions)
0.52

All energy customer accounts (Ireland) (millions)
0.72


SSE
MF62 ODW

SSEN TRANSMISSION
A NETWORK FOR NET ZERO

SSEN Transmission owns, operates and maintains the high-voltage electricity transmission network in the north of Scotland.



Adjusted APM operating profit (£m)
218.1

Reported operating profit (£m)
218.1

Capital and investment expenditure (£m)
329.0

Renewable energy connected (MW)
6,298

Regulatory Asset Value (£m)
3,469

"In A Network for Net Zero we have a business plan for 2021-26 that is testament to the national strength of feeling that we all need to play our part in tackling climate change. Having listened to stakeholders over many months, I have no doubt that we are right to put net-zero emissions at the heart of our business activities."

Rob McDonald
Managing Director, SSEN Transmission

SSEN Transmission key performance indicators

	March 2020	March 2019
ELECTRICITY TRANSMISSION		
Transmission adjusted and reported operating profit – £m	**218.1**	252.1
Regulated Asset Value (RAV) – £m	**3,469**	3,276
Renewable Capacity connected to SSEN Transmission Network – GW	**6,298**	6,236
Transmission adjusted Capital expenditure – £m	**329.0**	344.0

SSEN Transmission overview

Operating as Scottish Hydro Electric Transmission plc, SSEN Transmission owns, operates and develops the high voltage electricity transmission system in the north of Scotland and remote islands. Since the start of the eight-year RIIO-T1 price control in 2013, investment and capital expenditure by SSEN Transmission has totalled over £3bn, including £329m in 2019/20. This investment plays a pivotal role in providing the critical national infrastructure required to facilitate the transition to net zero and to maintain network reliability for the communities SSEN Transmission serves.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2019/20 and Group Financial Outlook 2020/21 and Beyond.

Maintaining network reliability

The coronavirus pandemic has highlighted the critical importance of electricity network reliability to society, with the people and organisations whose work is crucial to the coronavirus response more dependent than ever on a safe and reliable supply of electricity.

SSEN Transmission is very focused on its role in maintaining a safe and reliable supply of electricity to the communities it serves and during 2019/20 it continued to maintain impressive network reliability of over 99.99%. Faults that impacted end users led to a loss of demand totalling just 1.15MWh resulting in SSEN Transmission earning £1.2m through the Energy Not Supplied (ENS) Incentive. This will be reflected in 2021/22 earnings.

The ENS Incentive provides a financial reward or penalty, on a sliding scale, if the volume of energy not supplied to customers due to faults is below (reward) or above (penalty) a pre-determined annual target, which for SSEN Transmission is 120MWh. SSEN Transmission expects the ENS incentive to continue with a new target in RIIO-T2, during which SSEN Transmission has a clear goal to aim for 100% network reliability, where economic to do so. SSEN Transmission has an ongoing programme of inspections, maintenance, refurbishment and asset replacement to ensure its critical national infrastructure continues to deliver for electricity customers, generators and wider society. This includes the replacement of the existing transmission line from Inveraray to Crossaig, with these major works essential to maintaining security of supply in Argyll and Kintyre. Construction of the first phase of this project, from Inveraray to Port Ann, is under way and remains on track for completion in 2021; with the second phase, from Port Ann to Crossaig, to be delivered in RIIO-T2.

Connecting renewables

SSEN Transmission's north of Scotland operating area is home to some of the UK's greatest resources of renewable electricity. During 2019/20 it connected around 60MW of new renewable electricity generation, contributing to an overall increase in the total renewable capacity connected to SSEN Transmission's network from 3.3GW at the start of RIIO-T1 to over 6.3GW today.

While there has been a slowdown in new onshore wind connections in the final years of RIIO-T1, SSEN Transmission continues to see strong demand for future grid connections and notes proposed changes in UK Government policy to reintroduce support for onshore wind in future CfD auctions. The next ScotWind leasing round for future offshore wind farm sites in waters off the coast of Scotland is also likely to result in further growth of renewables connecting to SSEN Transmission's network.

Based on its "Certain View" of generation growth forecast over the RIIO-T2 period, SSEN Transmission expects the installed renewable capacity connected to its network in the north of Scotland will increase to at least 10GW, the equivalent of powering 10 million homes and playing a pivotal role in UK net-zero targets as well as supporting future earnings and RAV growth. However, following the introduction of net-zero emissions legislation, based on SSEN Transmission's "Likely View" this could increase to around 12GW, putting the north of Scotland on a clear pathway to net zero.

As SSEN Transmission plays its part in enabling a net-zero economy, it will be guided by its strategy which is focused on innovative and flexible connections, delivered in greater collaboration with customers and other stakeholders.

Delivering capital investment

The forecast growth and continued renewal of SSEN Transmission's network will support future earnings and RAV growth. Progress made on the capital investment programme can be seen in the new 400kV substation at Fort Augustus, which remains on track for completion in 2021. The substation is a key component to support the growth in renewables unlocked by the replacement Beauly to Denny line that was completed by SSEN Transmission in 2015.

The Fort Augustus substation builds on a number of delivery milestones in 2019/20 including completion, on time and on budget, of the Fort Augustus to Fort William overhead line refurbishment and completion of the 275kV line between Knocknagael and a new substation at Tomatin.

A significant proportion of current and future works are focused on the east coast, building the transmission network infrastructure required to connect and transport the growth in renewable energy. This includes the ongoing construction of new substations at New Deer and Rothienorman, which are progressing well. Both will initially operate at 275kV, increasing to 400kV as part of the wider east coast onshore reinforcements that are scheduled for RIIO-T2, which will see the capacity of the existing east coast line increase to 400kV. These works will also include new substations at Alyth and Peterhead, and an extension to the existing substations at Fetteresso, Kintore and Tealing.

SSEN Transmission is also working with the other GB Transmission Owners, Scottish Power Energy Networks and National Grid Electricity Transmission, on grid reinforcement proposals to develop a subsea High Voltage Direct Current (HVDC) link from Peterhead substation to Drax substation in the north east of England.

OPERATING REVIEW – OUR CORE BUSINESSES CONTINUED
SSEN TRANSMISSION CONTINUED

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

In September 2019, Ofgem approved SSEN Transmission's Needs Case for the 220kV (220MW) Orkney link, subject to Orkney renewable developers meeting a number of conditions no later than December 2021. Subject to developers meeting Ofgem's conditionality, energisation of the link is not expected before 2025.

In April 2020, Ofgem published a consultation on the Shetland transmission link, in which the regulator stated it is minded to approve a 600MW HVDC link to Shetland, conditional on Viking wind farm (wholly owned by SSE Renewables) reaching a positive final investment decision. As well as unlocking Shetland's renewable potential, the link could help meet Shetland's future security of supply needs and it is scheduled for energisation in 2024, pending construction of Viking.

As developers have been unable to collectively commit to the volume of megawatts required to underpin the regulatory investment case for the proposed 600MW Western Isles HVDC link, the planned energisation date has been moved back to 2025 at the earliest.

SSEN Transmission will continue to engage constructively to take forward proposals for each island link in a timely and efficient manner, as soon as developer commitment and all necessary regulatory and planning approvals are confirmed.

Competition in transmission
SSEN Transmission remains committed to working constructively with the Electricity System Operator (ESO), Ofgem and other stakeholders as part of the ESO's development of competition for the RIIO-T2 period. It continues to believe that any further extension of competition in onshore transmission should be underpinned by legislation; should only be considered where it can be clearly demonstrated that it does not compromise the security and effective operation of GB's critical national electricity infrastructure; and that it provides demonstrably better value to consumers.

A Network for Net Zero
In December 2019, SSEN Transmission submitted to Ofgem and published its final Business Plan for the RIIO-T2 price control, A Network for Net Zero, following over two years of detailed stakeholder engagement. The evidence-based business plan makes a powerful investment case that a minimum total expenditure of £2.4bn is required over the five-year price control period to maintain and grow the north of Scotland transmission network to meet the needs of current and future electricity generators and customers. This could see the Regulatory Asset Value of SSEN Transmission increase to over £5bn by 2026.

Whilst the coronavirus pandemic resulted in Ofgem postponing its planned Spring 2020 Open Hearings, Ofgem has confirmed it expects the RIIO-T2 process to remain on track, with draft determinations still expected to be consulted on in the Summer of 2020 with final determinations due to be published towards the end of 2020.

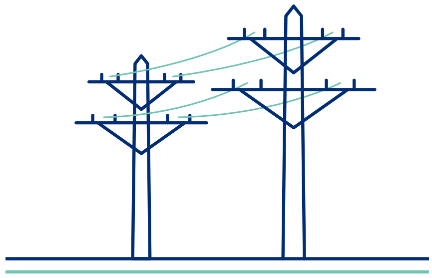
Despite the impact of coronavirus, SSEN Transmission continues to believe its business plan delivers against the needs of, and retains the support of, its stakeholders; it provides the flexibility required to manage uncertainty in the speed and scale of future decarbonisation; and will deliver significant local and national economic benefits as part of a post coronavirus green economic recovery.

SSEN Transmission will continue to engage constructively with all stakeholders as part of the ongoing price control process. It remains committed to delivering the infrastructure investment needed to achieve net-zero targets. And it intends to do this through its ambitious Business Plan, under an appropriate regulatory financial framework.

A link to this Business Plan can be found on: https://www.ssen-transmission.co.uk/riio-t2-plan/.

SSEN DISTRIBUTION **ENABLING ELECTRIFICATION**

SSEN Distribution owns, operates and maintains the low-voltage electricity distribution networks in the north of Scotland and central southern England.



Adjusted APM operating profit (£m)
356.3

Reported operating profit (£m)
351.9

Electricity distributed (TWh)
38.0

Capital and investment expenditure (£m)
364.9

Regulatory Asset Value (£m)
3,685

"Tackling climate change unites us all. Changing the pace of electric vehicle uptake and the transformation of heat through electricity is vital in this. The big opportunity for us in the 2020s is to work with key stakeholders to encourage frameworks for investment that anticipate future needs and ensure the most rapid progress possible in electrification."

Colin Nicol
Managing Director, SSEN Distribution

OPERATING REVIEW – OUR CORE BUSINESSES CONTINUED
SSEN DISTRIBUTION CONTINUED

SSEN Distribution key performance indicators

	March 2020	March 2019
ELECTRICITY DISTRIBUTION		
Electricity Distribution Adjusted operating profit – £m	**356.3**	401.3
Electricity Distribution Reported operating profit – £m	**351.9**	401.3
Regulated Asset Value (RAV) – £m	**3,685**	3,555
Distribution adjusted capital expenditure – £m	**364.9**	340.7
Electricity Distributed – TWh	**38.0**	38.3
Customer minutes lost (SHEPD) average per customer	**56**	59
Customer minutes lost (SEPD) average per customer	**46**	50
Customer interruptions (SHEPD) per 100 customers	**63**	69
Customer interruptions (SEPD) per 100 customers	**47**	52

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

As with SSEN's Transmission business, Ofgem sets price control frameworks for SSE's electricity distribution business. The RIIO-ED1 Price Control ends in March 2023, with the new RIIO-ED2 running for the five years to 2028.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2019/20 and Group Financial Outlook 2020/21 and Beyond.

Prioritising delivery
Three years remain of the RIIO-ED1 Price Control, and SSEN Distribution continues to deliver significant changes to its operations, process and standards, with the needs of its customers remaining at the forefront of decision making. Operational changes implemented by SSEN Distribution in 2019/20 have positioned the business to deliver in four key areas:
- good performance in relation to incentives available within RIIO-ED1;
- efficient delivery of capital investment;
- focused delivery of regulatory outputs; and
- maintaining a leadership position in innovation.

Driving value through RIIO-ED1
While the bulk of DNO profits are earned through the RIIO-ED1 allowed return on equity, incentives provide an opportunity to earn additional income in excess of base return and may equally result in penalties being applied for poor performance. SSEN has been targeting improvements in this area, and details of SSEN Distribution's performance on incentives for the financial year 2019/20 are provided below.

Incentive performance in relation to financial year 2019/20 for SSEN's Distribution business is expected to be £16.2m (to be received in financial year 2021/22), compared to £10m in relation to financial year 2018/19. This represents a significant improvement, particularly in light of the tightening nature of targets year-on-year, and is SSEN Distribution's strongest performance since the 2016/17 incentive period. There are three categories of incentives under RIIO-ED1: the Interruptions Incentives Scheme, Customer Services, and Connections, and a summary of each is set out below.

Improvements in interruptions
SSEN Distribution's core priority is to provide a safe and reliable supply of electricity to the communities it serves. Equally, under the RIIO regulatory regime, "keeping the lights on" for customers is a key revenue driver.

As part of the Interruptions Incentive Scheme (IIS), SSEN is incentivised on its performance against the loss of electricity supply through the recording of Customer Interruptions (CI) and Customers Minutes Lost (CML), which include both planned and unplanned supply interruptions. Details of performance compared to the previous year is highlighted in the KPI table above.

Across both its licence areas, overall IIS incentive earnings were £7.8m in 2019/20, up from £2.5m in 2018/19.

These improved returns under the IIS scheme are driven by the strong performance of the high voltage network and the continued implementation of automation measures, enabling the swift and efficient restoration of power supplies to customers, alongside network protection investment.

Strong customer performance
In 2019/20, SSEN Distribution secured a Broad Measure of Customer Satisfaction Incentive reward of £5.6m, up significantly from £4.7m the previous year. The improvement has been driven through improved communication with customers. Greater notice for planned shutdowns is now provided and action has been taken to improve the Estimated Time of Restoration process, giving advanced notice and accurate information to SSEN customers. These measures have also led to a 20% reduction in complaints in 2019/20 compared to the previous year.

SSEN Distribution was awarded an increased customer satisfaction rating from the Institute of Customer Service of 89%, up from 88% in the previous financial year, and it secured the British Standard for Inclusive Service Provision for the fifth consecutive year, recognising that its policies, procedures and services are accessible and fair to all customers.

Customer-focused connections
The customer-focused improvements SSEN has implemented in its connections business continues to deliver consistent high performance, reflected by the award of £2.7m under the Average Time to Connect (TTC) Incentive for 2019/20. This is consistent with performance last year of £2.8m and represents 90% of maximum allowable incentive.

In October 2019, Ofgem announced its decision not to penalise SSEN under the penalty only Incentive on Connections Engagement (ICE). This is the fourth consecutive year SSEN has avoided a penalty since its introduction at the beginning of the RIIO-ED1 Price Control period. Under RIIO-ED1 incentive targets will become harder to achieve in the second half of the Price Control, but SSEN Distribution remains confident that it will deliver sustained incentive performance in this area.

A Regional Operating Model

SSEN Distribution's seven Customer Operations regions now work to a new Regional Operating Model aimed at improving productivity, employee utilisation and customer service. Coordination Centres were established to implement a standardised way of working across the regions and to give teams greater visibility of their programmes of work, resources and performance. The new Regional Operating Model will deliver greater efficiency of network management and operational costs, and improved utilisation and productivity. This, in turn, will drive efficient delivery of regulatory outputs and improvements in incentive performance.

Delivering capital investment

Key to successful delivery against a regulatory price control is efficient and focused capital investment. SSEN Distribution has a major capital investment programme for both its network areas which will deliver significant improvements for its customers as well as contributing to sustained and fair returns and increased RAV. During 2019/20, SSEN invested a total of £364.9m across its distribution networks, bringing the total invested since the beginning of the RIIO-ED1 Price Control to over £1.6bn. This is part of a forecast investment of £2.4bn throughout the RIIO-ED1 period, supporting future earnings through RAV growth.

A whole system for Shetland

In December 2019, Ofgem approved SSEN Distribution's whole-system proposal to contribute to the cost of the transmission link to Shetland, which is required to meet the islands' energy needs, on condition of appropriate implementation in industry codes and final approval of the Shetland transmission link Needs Case. In line with SSEN Distribution's recommendation, if the transmissions link is approved, SSEN Distribution would contribute £251m towards it, based upon the value of services it would provide to its local distribution network across the Shetland Islands.

Transitioning to a DSO

SSEN Distribution is investing £162m during RIIO-ED1 in improving visibility of flexibility opportunities, undertaking a comprehensive upgrade of its IT systems that will facilitate the use of network connectivity models and bridging the gap between planning and operational functions. Underpinning this work is a fundamental realignment of the supporting datasets and how our core systems share data.

In 2019/20, SSEN became the first DNO to utilise an economically-viable Constraint Managed Zone (CMZ) in the UK, avoiding 2,450 tonnes of CO_2 emissions (the equivalent of powering half a million homes for a week). Rather than utilising diesel generators or a back-up power station during a period of network maintenance, a low-carbon generator was contracted instead. This is the first example of a low-carbon economically viable CMZ operating in the UK and is an important step forward in SSEN Distribution transitioning to a Distribution System Operator (DSO).

The roll-out of SSEN Distribution's Active Network Management programme will be completed in 2020/21, enabling it to utilise flexibility options over traditional network reinforcement, supporting smarter management of the energy system and establishing SSEN's credentials as a DSO.

Project LEO

Led by SSEN Distribution, Project Local Energy Oxfordshire (LEO) is one of the most ambitious smart grid trials conducted to date in the UK. The project is demonstrating how the growth in small scale renewables, EVs, battery storage and demand side response can be supported by a local, flexible and responsive electricity grid, ensuring value for consumers and opportunities for communities and market providers. In the first of its three years, Project LEO has made good progress, with 47 assets identified to take part in the trials. Project LEO is backed by £13.8m of funding from the UK Government's Industrial Strategy Challenge fund, and is running concurrently in Oxfordshire with Project TRANSITION, funded by an £11m Ofgem grant, which will replicate DSO models. Further information on the respective projects is available on www.project-leo.co.uk and www.ssen-transition.com.

Enabling electrification

SSEN strongly supports the UK's net-zero emissions targets and the proposed plans to bring forward the phasing out of internal combustion engine vehicles. The Committee on Climate Change's 2019 Net Zero Technical Report states that meeting net zero could double electricity demand in the UK by 2050, and electricity networks will have a critical role in accommodating this. SSEN can provide secure, resilient infrastructure that supports this increasing demand, sharing the data and key learnings from innovation projects, to ensure drivers have the confidence to make the transition to EVs. SSEN published its first Electric Vehicle (EV) Strategy document in March 2020.

Recognising earlier targets in Scotland, SSEN Distribution is part of a first-of-its-kind Strategic EV Partnership alongside the Scottish Government, Transport Scotland and Scottish Power Energy Networks to provide £7.5m of investment and innovation in planning and delivery of the infrastructure required for the EV rollout. A separate Strategic Heat partnership has been created with the Scottish Government recognising the distinct challenge that decarbonising heating poses. SSEN is seeking to progress options for similar collaboration at a UK level.

Planning for RIIO-ED2

SSEN Distribution continues to make significant progress in planning for the RIIO-ED2 price control period, with its draft business plan due to be submitted to Ofgem in May 2021 and a final plan due to be submitted later that year. A key focus for the year was the establishment of its RIIO-ED2 Customer Engagement Group (CEG).

The CEG, chaired by Tracey Matthews who also led the SSEN Transmission RIIO-T2 User Group, brings together eight experts with varied backgrounds including energy regulation, consumer advocacy, fuel poverty, community renewables and asset management. SSEN is confident it will provide the right level of industry and consumer insight, independent challenge and scrutiny as it prepares its RIIO-ED2 business plan. SSEN has also commenced an enhanced consumer and stakeholder engagement programme to ensure its business plan is fully shaped by external views and is reflective of societal needs.

To understand the growth potential expected during RIIO-ED2, SSEN worked with energy consultants Regen and local stakeholders to produce local future energy scenarios for each of its distribution areas during 2019/20. This analysis supports SSEN's efforts to understand what energy needs are likely at a local level and provides a strong rationale for strategic investment in anticipation of network demand. In addition to this work, SSEN has also progressed engagement with local authorities and other stakeholders on the role for Local Area Energy Plans (LAEPs), an initiative designed to ensure network investment is progressed in concert with local development.

Ahead of the publication of the RIIO-ED2 sector specific framework later this summer, SSEN has actively participated in a series of working groups held by Ofgem on key areas such as strategic investment and the interruptions incentive framework. SSEN will continue to advocate constructively for a regulatory framework that strikes the right balance between driving efficiency and delivering the necessary investment required for network reliability, innovation and customer service improvements and further decarbonisation of the energy system.

OPERATING REVIEW – OUR CORE BUSINESSES CONTINUED
SCOTIA GAS NETWORKS

INVESTMENT IN SGN
SGN key performance indicators

	March 2020	March 2019
SCOTIA GAS NETWORKS (SGN)		
SSE's 33.3% share		
SGN adjusted operating profit (SSE's share) – £m	**202.3**	176.8
SGN reported operating profit (SSE's share) – £m	**80.8**	85.1
Regulated Asset Value – £m	**1,952**	1,898

SGN overview
Investment in SGN
SSE continues to hold a 33% investment stake in Scotia Gas Networks (SGN), the gas distribution company which serves 5.9 million homes and businesses across the south of England, all of Scotland, and the western region of Northern Ireland. The best performing gas network on Ofgem's customer service measures, SGN is also a leader on innovation and new technologies.

Looking after communities through the provision of a safe and reliable gas distribution network is a key priority, and this focus continued through the coronavirus emergency in line with official guidance on critical work and social distancing.

During the year to 31 March 2020, 98% of uncontrolled gas escapes were attended in under an hour and 16,787 new gas connections were delivered, including 2,095 assisted connections as part of efforts to help those in fuel poverty.

Ready for RIIO-GD2
SGN continues to make progress in its preparation for the next price control (RIIO-GD2) which is due to start from April 2021. Leading on innovation, supporting the decarbonisation agenda and delivering on engineering excellence, SGN has submitted a strong, stakeholder-led business plan to Ofgem in December 2019. This plan commits SGN to making a positive impact on society, delivering a safe and efficient service and contributing to net-zero goals by accelerating decarbonised gas solutions.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2019/20 and Group Financial Outlook 2020/21 and Beyond.

How our economically-regulated networks businesses create value
SSE owns and operates an electricity transmission network in Scotland and two electricity distribution networks, in Scotland and in central southern England. Through its 33.3% stake in Scotia Gas Networks, it is also involved in the distribution of gas. Owners of energy networks in Great Britain are remunerated according to the RIIO (Revenue = Incentives + Innovation + Outputs) framework set by Ofgem, under which the regulator determines an annual allowed level of required capital expenditure and operating costs, in order to meet required network outputs. These are added together to form total expenditure or "totex", which is split by defined capitalisation rates which differ between networks.

Regulatory operational expenditure ("fast money") flows into licensee revenue, whereas regulatory capex ("slow money") is added to the regulatory asset value ("RAV") for each network. Licensees earn a return on regulatory equity and receive an allowance for the cost of debt, both of which are calculated based on a notional split of their RAV.

Each licensee has the opportunity to earn above its base return on equity through delivering efficiency savings on totex. Additionally, if customer service levels improve against targets, there is an opportunity to earn additional income through incentives. In the event that service levels fall below targets set out in the price control, a penalty will be incurred which reduces network revenue and therefore customer bills. This ensures that customers only compensate networks for improving service levels. Further, customers benefit from reduced bills when network providers achieve efficiency savings on totex expenditure.

In respect of Electricity and Gas Distribution, charges per MWh ("tariffs") are set by licensees 15 months in advance of the regulatory year and are based on forecasts of: (a) revenue which licensees are entitled to collect in respect of the regulatory year ("allowed revenue"); (b) the incentives and totex outperformance for the last three months of the year in which the tariffs are set; and (c) the level of volumes which will be distributed within the regulatory year. Differences in collected versus allowed revenue (referred to as "over- or under-recovery") are accommodated in allowed revenue two years after the year in which they occurs.

SSEN's Transmission and Distribution networks will play a key part in the low-carbon transition, connecting new renewable generation to the grid and leading the transition from network to system operation. SSE expects its combined RAV (including its third share in SGN) to reach £10bn by 2023.

SSE RENEWABLES PROVIDING CLEAN ENERGY

SSE Renewables develops, constructs, owns and operates assets that generate electricity from renewable sources (wind and water).

Adjusted APM operating profit (£m)
567.3

Reported operating profit (£m)
459.9

Hydro capacity in operation (net) (MW) – 1,159MW conventional hydro plus 300MW pumped storage
1,159

Onshore wind capacity in operation (net) (MW)
1,936

Capital and investment expenditure (£m)
342.7

Offshore wind capacity in operation (net) (MW)
579

"The progress made in renewable energy in the 2010s is a foretaste of what's achievable in the 2020s. Electricity is critical to achieving net zero; and maximising electricity from renewable sources is fundamental to that. The credentials built up by SSE Renewables in the past decade will really come into their own in the new one."

Jim Smith
Managing Director, SSE Renewables

SSE Renewables overview

SSE Renewables is a core part of the SSE Group and central to its future growth plans. It comprises the Company's existing operational assets and those under development in onshore wind, offshore wind, flexible hydro-electricity, run-of-river hydro-electricity and pumped storage.

Further decarbonisation of electricity, heat and transport – on the scale envisaged by the UK Committee on Climate Change's 2019 report – relies on a significant scaling up of renewable sources of electricity, which SSE Renewables is well equipped to play a key part in delivering.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2019/20 and Group Financial Outlook 2020/21 and Beyond.

Onshore wind

SSE Renewables' onshore wind capacity in GB and Ireland stands at 1,936MW, following the divestment in March 2020 of Slieve Divena II wind farm (18.8MW) to Greencoat UK Wind. Its onshore development pipeline consists of over 1GW of potential newbuild projects.

OPERATING REVIEW – OUR CORE BUSINESSES CONTINUED
SSE RENEWABLES CONTINUED

SSE Renewables key performance indicators

	March 2020	March 2019
Renewable adjusted operating profit – £m	**567.3**	455.9
Renewable reported operating profit – £m	**459.9**	1,242.9
Renewable adjusted capital expenditure and investment – £m	**342.7**	326.1
RENEWABLE GENERATION CAPACITY – MW		
Pumped storage capacity (GB) – MW	**300**	300
Conventional hydro capacity (GB) – MW	**1,159**	1,150
Onshore wind capacity (GB) – MW	**1,247**	1,247
Onshore wind capacity (NI) – MW	**122**	141
Onshore wind capacity (ROI) – MW	**567**	567
Offshore wind capacity (GB) – MW	**579**	344
Total renewable generation capacity (inc. pumped storage) – MW	**3,974**	**3,749**
Renewable capacity qualifying for ROCs – MW	**c2,150**	c2,150
RENEWABLE GENERATION OUTPUT – GWh		
Pumped storage output – GWh	**127**	225
Conventional hydro output – GWh	**3,743**	3,318
Onshore wind output GB – GWh	**2,676**	2,890
Onshore wind output NI – GWh	**373**	315
Onshore wind output ROI – GWh	**1,531**	1,524
Offshore wind output – GWh	**2,244**	1,439
Total renewable generation (inc. pumped storage) – GWh	**10,694**	**9,711**
Total renewable generation (also inc. constrained off) – GWh	**11,384**	**10,399**

Note 1: Capacity is wholly-owned and share of joint ventures.
Note 2: Electricity output is based on SSE 100% share of wholly owned sites and % share of joint ventures.
Note 3: Onshore wind output excludes 687GWh of constrained off generation in both 2019/20 and 2018/19; Offshore wind output excludes 2 GWh of constrained off generation in 2019/20 and nil in 2018/19.
Note 4: Increase in hydro capacity is due to a review as part of the internal Operating Model improvements and is not related to the delivery of additional hydro plant.
Note 5: Onshore wind capacity in GB reflects Stronelairg coming on line December 2018 and the subsequent part disposal of it and Dunmaglass in March 2019. NI onshore wind capacity reflects the disposal of Slieve Divena in February 2020. ROI onshore wind capacity reflects the part disposal of Cloosh in March 19.
Note 6: Offshore wind capacity increase due to Beatrice coming on line May 2019.
Note 7: Biomass capacity and output at Slough is excluded as now part of the Enterprise business.

Onshore wind continued
This includes around 700MW of capacity with consent for development, some of which it is seeking to optimise through planning amendments to accommodate more advanced turbine technology.

Onshore development
In January 2020, SSE Renewables announced its decision to progress Gordonbush Extension (38MW) subsidy-free on a merchant basis, adding 11 turbines to the existing 35-turbine 70MW Gordonbush onshore wind farm in Sutherland. Construction is under way with the project expected to b e operational by Spring 2021. A planning application for Cloiche wind farm, located in the Great Glen, was submitted in May 2020 seeking permission for at least 150MW capacity.

In March 2020, the UK Government announced it would allow onshore wind to compete in future Contracts for Difference (CfD) auctions starting from the next allocation round in 2021. SSE Renewables believes that revenue stabilisation, like the CfD, will be needed to build out the volume of onshore wind required to deliver net-zero targets cost-effectively.

SSE Renewables has approved a final investment decision for Viking Wind Farm (443 MW). Located on Shetland, it will be the largest onshore wind farm in the UK in terms of annual electricity output playing a vital role in meeting Scottish and UK net-zero targets. Viking is the anchor project that commercially underpins the transmission link which will play a critical role in Shetland's security of supply needs. Both the wind farm and the link will bring vital socio-economic benefits to the islands, opening up much needed and sustainable diversification of the Shetland economy. SSE now awaits the outcome of the consultation on Ofgem's minded-to position to approve a 600MW transmission connection from Shetland to the GB mainland, expected by July 2020. Final approval from Ofgem was conditional on Viking wind farm reaching a positive final investment decision.

In Ireland, the Department of Communication, Climate Action and Environment has completed the pre-qualification process for the first auction under the new Renewable Electricity Support Scheme (RESS) due to be in August 2020. Successful projects will be awarded contracts for up to 15 years of support.

Offshore wind
SSE Renewables' operational offshore wind portfolio continued to perform well in 2019/20, with increased output driven by the Beatrice offshore wind farm (588MW – SSE Renewables' share 40%), which became fully operational in May 2019 and was officially opened by HRH The Duke of Rothesay in July 2019.

Offshore development
In September 2019, SSE Renewables was awarded 15-year contracts in CfD Allocation Round 3 for the offshore wind projects shown in the table below. Outside the 15-year CfD period, the successful offshore wind projects will be important assets with significant earnings capacity anticipated over their operational lifetimes.

Dogger Bank wind farms, located off the North East coast of England, is a joint venture with Equinor in which SSE Renewables has a 50% stake. The three successful Dogger Bank projects are each expected to generate over 5,500GWh of electricity annually. The joint venture continues to progress towards final investment decisions for all three projects, aiming for Q4 2020 for Dogger Bank A and B and late 2021 for Dogger Bank C. SSE Renewables will lead the development and construction phases and Equinor will lead on operations. Preferred suppliers of turbines, turbine installation and foundation installation services, HVDC equipment, HVDC platform and the export cable have been announced, as has the location of the operations and maintenance base at Port of Tyne.

Seagreen, located in the Firth of Forth, has a total capacity of 1,075MW and is expected to generate around 5,000GWh of electricity annually. In early June 2020, Seagreen reached financial close following SSE Renewables' entry into an agreement to divest a 51% stake of Seagreen to Total.

The sell-down includes an equivalent stake in a potential extension opportunity at the site of up to 360MW. SSE Renewables will continue to lead on the development and construction of Seagreen and will operate the asset on completion, which is expected in 2022/23. Preferred suppliers of turbines, offshore platform and onshore substation, and offshore and onshore cables and foundations have been announced, as has the Montrose location of the operations and maintenance base.

In March 2020, BEIS confirmed that the Judicial Review against CfD AR3 had been withdrawn.

The Crown Estate's Leasing Round 4 opened in October and will offer seabed rights for at least 7GW of new offshore wind projects in the waters around England and Wales. The process is under way and successful bidders are expected to be announced in late 2021. Crown Estate Scotland's ScotWind seabed leasing process was launched in June 2020 with results expected by mid-2021. SSE Renewables is reviewing its options for participating in both processes.

In Ireland, SSE Renewables continues to progress its Arklow Bank offshore wind project, which is well placed to help Ireland achieve its targets in the Climate Action Plan of 1GW of offshore wind by 2025 and 3.5GW by 2030. An offshore RESS auction is expected to take place in Q2 2021. SSE Renewables has also submitted foreshore lease applications for two further Irish projects in the early stages of development: the 800MW Braymore Point project off the north-east coast and the 800MW Celtic Sea array off the south-east coast.

SSE Renewables' operational offshore portfolio consists of:

Asset	Capacity	SSE Renewables share	Status
Walney (UK)	367MW	25%	Operational
Greater Gabbard (UK)	504MW	50%	Operational (Operated by SSE Renewables)
Beatrice (UK)	588MW	40%	Operational (Operated by SSE Renewables)

Project	CfD contract capacity	Strike price (2012 prices)	Delivery year
Dogger Bank A	1,200MW	£39.65/MWh	2023/2024
Dogger Bank B	1,200MW	£41.61/MWh	2024/2025
Dogger Bank C	1,200MW	£41.61/MWh	2024/2025
Seagreen 1	454MW	£41.61/MWh	2024/2025

SSE Renewables' future offshore development pipeline consists of:

Project	Capacity	SSE Renewables share	Status
Arklow Bank (ROI)	520MW*	100%	Consented and in development
Seagreen Phase 2 & 3 (UK)	Up to 3,200MW	100%	In development
Greater Gabbard Extension (UK)	Up to 500MW	50%	In development

* Following further analysis, the capacity has been revised down from 800MW to c520MW.

Hydro

SSE Renewables owns and operates the largest electricity storage capacity in the UK, comprising 750MW of flexible hydro and 300MW of pumped storage, as well as 400MW of run-of-river hydro. Its hydro fleet is uniquely placed in the GB system to deliver large-scale power that is both flexible and zero-carbon.

Optimising and enhancing this hydro resource is critical to supporting the electricity market and to enabling the transition to a net zero world by supporting the integration of high levels of renewables onto the electricity grid.

Hydro's performance continues to be enhanced by additional focus on flexing "nature's batteries" to provide support to the grid when required and a higher utilisation of the storage and catchment within hydro, consistent with SSE Renewables environmental obligations.

SSE Renewables' hydro assets also provide a valuable option to the System Operator, which can take advantage of hydro's flexibility to meet system requirements. Increasingly, additional revenue opportunities for hydro will come from providing these grid services.

2019/20 saw strong levels of production across the hydro fleet. Improved operational reliability and proactive management of water – the "fuel source" for hydro – through storage contributed to hydro's strong performance.

The hydro fleet has high levels of availability and continues to perform reliably and efficiently with relatively low levels of operational expenditure supported by a proactive, long-term capital investment programme.

Investments are being made across the hydro fleet through SSE Renewables' capital governance programme to ensure these assets endure over the coming decades. Grudie Bridge (18.7MW) is currently undergoing overhaul (£16m capex) with the first of two machines complete. This work will extend its operational life by at least a further 30 years and improve reliability and efficiency.

The refurbishment of the two generators at Foyers pumped hydro station is progressing well with the first of the two machines back in service. As this machine provides the bulk of Foyers' value, the station will now return to contributing significantly to grid services and income.

Following the completion of these works, SSE Renewables will continue with its rolling programme of life extension fleet refurbishments. This will also increase their efficiency and flexibility, allowing SSE Renewables to capture more value from the available water.

Hydro development

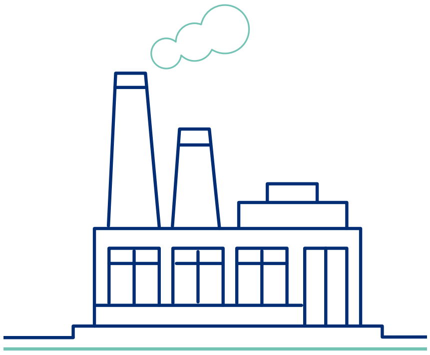
SSE Renewables' currently has consent for 600MW of pumped storage at Coire Glas and is awaiting a decision on increasing this capacity up to 1,500MW. With no other bulk seasonal storage solution available in the UK, pumped storage can play an important role in the electricity system in the 2030s and beyond. As such, SSE Renewables continues to explore the business case for taking forward Coire Glas.

Other geographies

In December 2019, SSE Renewables entered an agreement to acquire the development rights for a small portfolio of onshore wind projects in Germany from Holt Holding Group. These are small scale exploratory projects at very early stages of development. As a result of ongoing investigations by the German authorities into Holt Holding Group, it has stopped all development on these early stage projects in Germany and is supporting the authorities with their enquiries. SSE Renewables' potential financial exposure is limited to single digit millions of euros.

OTHER BUSINESSES **SUPPORTING THE NET-ZERO TRANSITION**

SSE's core businesses are complemented by a range of other businesses that each have a role in fulfilling SSE's core purpose of providing energy needed today while building a better world of energy for tomorrow, through supporting the transition to net zero.



SSE THERMAL

Thermal generation key performance indicators

	March 2020	March 2019
Thermal adjusted operating profit/(loss) – £m	**152.7**	(22.3)
Thermal reported operating profit/(loss) – £m	**15.5**	(50.6)
Thermal adjusted capital expenditure and investment – £m	**177.0**	187.7
GENERATION CAPACITY – MW		
Gas- and oil-fired generation capacity (GB) – MW	**4,004**	3,929
Gas- and oil-fired generation capacity (Ire) – MW	**1,292**	1,292
Coal-fired generation capacity – MW	**0**	1,510
Multi-fuel capacity – MW	**68**	34
Total thermal generation capacity – MW	**5,364**	**6,765**
GENERATION OUTPUT – GWh		
Gas- and oil-fired (inc. CHP) output (GB) – GWh	**12,948**	18,322
Gas- and oil-fired output (Ire) – GWh	**2,436**	1,861
Coal-fired output – GWh	**1,946**	579
Multi-fuel output – GWh	**395**	294
Total thermal generation – GWh	**17,725**	**21,056**

Note 1: Capacity is wholly-owned and share of joint ventures.
Note 2: Electricity output is based on SSE 100% share of wholly owned sites, 100% share of Seabank & Marchwood PPAs due to the contractual arrangement and % share multifuel JVs.
Note 3: Increase in thermal capacity is due to a review as part of the internal Operating Model improvements and is not related to the delivery of additional thermal plant.
Note 4: SSE's last remaining coal fired power station Fiddlers Ferry, closed in March 2020. Output for 2019/20 is reflected above with capacity omitted as at 31 March 2020.
Note 5: Increased multifuel capacity relates to Ferrybridge MF2 which came on line in December 2019.

"Our vision is to provide flexible thermal energy in a net-zero world, and our Keadby 2 project is a key stepping stone on that journey. With a first-of-a-kind turbine, it will be the cleanest, most efficient CCGT in Europe, replacing more carbon-intensive generation, and complementing the increasing amounts of renewable energy on the electricity system."

Stephen Wheeler
Managing Director, SSE Thermal

SSE Thermal overview

SSE Thermal owns and operates conventional thermal generation and energy-from-waste facilities in the UK and Ireland. The SSE Thermal fleet fulfils an important strategic function within SSE, providing the generation flexibility that is needed to support the transition to net zero. Within the wider electricity market, it provides reliable capacity at scale, and the flexibility to respond to market changes and to events and meet the needs of electricity customers in the event of, for example, unplanned nuclear outages and periods of low wind or rain.

SSE's Combined Cycle Gas Turbine (CCGT) fleet is among the most flexible on the GB and Irish electricity systems and has increasingly created value from its intra-day flexibility. Demonstrating flexibility through the Balancing Mechanism to support the electricity system for the benefit of electricity customers will remain an important complementary earnings stream, which varies from year to year but for SSE's thermal plant can exceed £50m gross profit per annum. This flexibility is important in supporting the transition to a low-carbon electricity system whilst ensuring security of supply.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2019/20 and Group Financial Outlook 2020/21 and Beyond.

Capacity Market

Through competitive auctions in GB and Ireland SSE Thermal's assets have been awarded the capacity contracts set out in the table on the right.

An end to coal-fired generation

As part of its low-carbon strategy, SSE Thermal closed its last remaining operational coal-fired generation units (1,510MW) at Fiddlers Ferry on 31 March 2020, opening the way for a decommissioning programme. The closure of Fiddlers Ferry is part of SSE's commitment to a net-zero emissions future and comes five years ahead of the UK Government's target to end unabated coal-fired electricity generation by 2025. It also supports SSE's decision, outlined today, to increase its target to reduce the carbon intensity of electricity generated by 50% by 2030 to a 60% reduction as part of setting its science-based targets. The Fiddlers Ferry closure follows the closure of the Company's other coal-fired plant, the Ferrybridge 'C' station in West Yorkshire, in 2016. Demolition of Ferrybridge 'C' is under way and is expected to be complete in 2021.

Lower-carbon thermal

Construction of SSE Thermal's £350m, 840MW CCGT at Keadby 2 in Lincolnshire, is in progress and is expected to be delivered by summer 2022. The project, which is adjacent to the existing Keadby CCGT, will introduce Siemens' first-of-a-kind, high efficiency, gas-fired generation technology to the UK. In March, Keadby 2 won a 15-year contract from capacity year 2023/24 at a price of £15.97/kW (prices indexed annually by CPI which is estimated to be worth c.£17.29/kW when the contract begins in October 2023).

SSE Thermal has opportunities to develop further thermal power stations; these will only be progressed where they have a clear low-carbon pathway and are consistent with SSE's wider decarbonisation targets.

SSE Thermal believes strongly in the potential of pre- and post-combustion Carbon Capture, Use and Storage (CCUS) and hydrogen to decarbonise flexible thermal generation. SSE Thermal is actively looking at developing generation assets with low carbon pathways at our sites, with a planning application for a low carbon CCGT at Keadby 3 in the early stages.
SSE Thermal is a member of the Humber Cluster, which is participating in the UK Government's Industrial Strategy Challenge Fund competition. It is also involved in the Cavendish cluster in the Isle of Grain as well as the NECCUS grouping in Scotland.

Station	Asset type	Capacity	Capacity obligation
Medway (GB)	CCGT	735MW SSE 100%	To September 2022
Keadby (GB)	CCGT	755MW SSE 100%	To September 2022
Keadby 2 (GB)	CCGT	840MW SSE 100%	15 year contract commencing October 2023
Peterhead (GB)	CCGT	1,180MW SSE 100%	To September 2024
Seabank (GB)	CCGT	1,234MW SSE 50%	To September 2024
Marchwood (GB)	CCGT	920MW SSE 50%	To September 2024
Great Island (Ire) *	CCGT	464MW SSE 100%	To September 2024
Rhode (Ire)*	Gas/oil peaker	104MW SSE 100%	To September 2024
Tawnaghmore peaking plant (Ire)*	Gas/oil peaker	104MW SSE 100%	To September 2024
Tarbert (Ire)	Oil	620MW SSE 100%	To September 2022

* Based on provisional 2023/24 results.

These clusters provide a forum to work with partners to develop opportunities for decarbonisation of SSE Thermal sites.

Energy-from-waste

Construction of Ferrybridge Multifuel 2 (69MW – SSE Thermal share 50%, a joint venture with Wheelabrator) is now complete and the site began commercial operation in December 2019. The station will generate enough energy to power around 180,000 homes.

Site preparation work is also under way for a new energy-from-waste plant (up to 50MW) at Slough which will be operated by SSE Thermal under a 50:50 joint venture agreed with Copenhagen Infrastructure Partners (CIP) in April 2020. This site is expected to be operational by 2025.

SSE Thermal is also developing a 44MW multifuel unit at Skelton Grange under a 50:50 joint venture with Wheelabrator Technologies; the project is working towards FID by the end of 20/21 and project completion in 2024. The proposed facility will divert around 400,000 tonnes of non-recyclable residential, commercial and industrial waste from landfill annually.

OPERATING REVIEW – OUR COMPLEMENTARY BUSINESSES
CONTINUED

GAS STORAGE

Gas Storage key performance indicators

	March 2020	March 2019
GAS STORAGE		
Gas storage adjusted operating profit/(loss) – £m	**3.7**	(5.7)
Gas storage reported operating (loss) – £m	**(1.4)**	(5.7)
Gas storage adjusted capital investment – £m	**0.2**	0.7

Gas Storage overview

SSE Thermal believes its Gas Storage assets can play an important role in the transition to net zero, despite the challenging economic conditions experienced by the sector in recent years. Gas storage has increasing importance for security of supply with the UK's continuing shift away from coal-fired generation and the resulting loss of inherent energy storage in coal stocks.

SSE Thermal holds around 40% of the UK's conventional underground gas storage capacity and its assets are well placed to provide this service to energy users. While the market has historically undervalued this service, making it challenging to cover the cost of maintaining and operating these assets, SSE Thermal believes that the economics are now improving, and these assets returned to profit in 2019/20.

SSE Thermal remains committed to working with UK Government departments and Ofgem to ensure that the critical role of UK storage in relation to security of supply and stability of gas price is properly rewarded. These assets may also prove useful in the longer-term decarbonisation of our energy system with potential repurposing for other lower carbon gases in future.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2019/20 and Group Financial Outlook 2020/21 and Beyond.

SSE BUSINESS ENERGY

Business Energy key performance indicators

	March 2020	March 2019
Business Energy adjusted operating profit – £m	**9.2**	51.6
Business Energy reported operating (loss)/profit – £m	**(18.5)**	51.6
Business Energy Electricity Sold – GWh	**16,914**	19,336
Business Energy Gas Sold – mtherms	**272**	277
Aged Debt (Business Energy) – £m	**48.7**	35.8
Bad debt expense (Business Energy) – £m	**31.3**	14.8
Exceptional bad debt expense (Business Energy) – £m	**27.7**	–
Energy customers' accounts (Business Energy sites) – m	**0.52**	0.55

"The coronavirus has brought huge challenges for everyone, but it has also spurred forward-looking companies to embrace new ways of working, and with some fantastic, really practical use of technology that's what we've done. We've kept our colleagues safe and kept serving our customers and this can-do approach will be key to success in the future."

Nikki Flanders
Managing Director,
SSE's customer businesses

SSE Business Energy overview

SSE Business Energy plays an important role in providing a valuable route to market for SSE's electricity generation businesses to non-domestic customers across GB.

The business continues to innovate, focusing on extending beyond energy supply and into energy solutions such as energy optimisation, electric vehicle tariffs and corporate PPAs (Power Purchase Agreements).

SSE Business Energy is continuing to invest in new and improved data and technology systems with a focus on quality of service and improving outcomes for customers. The business retains a solid book and customer base. It is also responding to regulatory requirements to install smart meters and deliver faster customer switching in order to better serve customers in the future.

It has also been agreed that SSE Business Energy and SSE Enterprise (see below) will move towards a shared brand, so that all of the services provided by the SSE Group to business, public sector and third sector customers in GB are branded SSE Energy Solutions. This is designed to enhance engagement with customers and SSE's profile in its chosen markets.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2019/20 and Group Financial Outlook 2020/21 and Beyond.

SSE AIRTRICITY

SSE Airtricity key performance indicators

	March 2020	March 2019
Airtricity adjusted operating profit – £m	**48.8**	38.6
Airtricity reported operating profit – £m	**42.8**	38.6
Adjusted capital expenditure (Airtricity)	**0.3**	1.2
Aged Debt (Airtricity) – £m	**5.6**	5.5
Bad debt expense (Airtricity) – £m	**3.4**	3.3
Exceptional bad debt expense (Airtricity) – £m	**6.0**	–
All-Island energy market customers (Ire) – m	**0.72**	0.72

SSE Airtricity overview

SSE Airtricity retains a strong market position as Ireland's largest supplier of 100% green energy, supplying over 700,000 customers across the island of Ireland with a 24% market share from a load perspective.

Eighteen months into the establishment of ISEM, the Irish sector remains strong but increasingly competitive, with a number of new entrants to the domestic market. Favourable Irish government policy has resulted in continued growth in demand for non-domestic customers such as data centres, with whom Airtricity continues to successfully partner.

With its heritage in green energy supply, Airtricity has taken a strong leadership position on the sustainability agenda, through innovative partnerships such as the "Solar for Schools" project and the retrofitting of Laura Lynn children's hospice in partnership with Microsoft. The continued success and strength of the "This is Generation Green" marketing campaign highlights some of the valuable contributions Airtricity has made to Irish communities.

Airtricity continues to expand its Energy Services business which offers a diverse portfolio of green products and services including solar PV, boiler services, housing retrofit and EV charging. Through innovation and a growing offering, Airtricity Energy Services is leading the way in terms of delivering energy solutions and supporting customers on their path to net zero.

The ongoing delivery of a high standard of customer service remains a key business priority and continues to be recognised by external stakeholders, with Airtricity having recently won the Bonkers.ie Award for Best Customer Service, for the fourth consecutive year.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2019/20 and Group Financial Outlook 2020/21 and Beyond.

OPERATING REVIEW – OUR COMPLEMENTARY BUSINESSES
CONTINUED

SSE ENTERPRISE
Enterprise key performance indicators

	March 2020	March 2019
ENTERPRISE		
Adjusted operating profit	**8.1**	31.8
Reported operating (loss)/profit	**(2.0)**	31.8
SSE Heat Network Customer Accounts	**8,851**	8,184
Telecoms Number of BT exchanges unbundled	**259**	137

"Distributed energy is going to be a key feature of the transition to net zero, and we were delighted to secure an Independent Distribution Network Operators licence. It means we will be able to offer local and innovative energy solutions to customers who, like us, are committed to playing their part in energy decarbonisation."

Neil Kirkby
Managing Director, SSE Enterprise

SSE Enterprise overview
The key role of Enterprise within the SSE Group is to seek out new opportunities in areas that complement the Group's core energy portfolio – with a focus on distributed energy. In addition, it has a 50% share in a telecoms business with a 50% partner, Infracapital, and Enterprise continues to undertake Mechanical and Engineering work in its Contracting and Rail business.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2019/20 and Group Financial Outlook 2020/21 and Beyond.

Innovation in the marketplace
SSE Enterprise's distributed energy business continues to develop in core markets as well as seeking opportunities to meet the evolving needs of its customers; including services in heat networks and EV infrastructure. For example, it can now provide electricity infrastructure for embedded local networks after securing an Independent Distribution Network Operators (IDNO) licence from Ofgem.

A further example of innovation is a new partnership combining Enterprise's EV infrastructure expertise with access to hundreds of lock up garage sites across London managed by InfraTech Property Solutions (IPS). These garage sites will be transformed into smart charging sites, known as Digital Community Hubs (DCHs) which combine rapid charging with 5G and Edge computing technology – with a pilot project planned near Heathrow Airport later in 2020.

In order to enhance its smart city offering SSE Enterprise has also signed a landmark deal with Smarter Grid Solutions to develop an "energy as a service" platform to unify its capabilities in distributed energy generation, EV infrastructure, private electricity networks and heat networks. An example of this innovation in action is SSE Enterprise's participation in the Peterborough Integrated Renewables Infrastructure project (PIRI). Led by Peterborough Council, this scheme will bring green energy and transport for residents as part of the largest smart city-wide energy system in the UK.

Core services for customers
SSE Enterprise Telecoms continues to deliver strong sales growth across its target sectors. This includes helping to enable the UK's 5G roll out, securing a third substantial contract with Three UK, and helping to connect 250 towns and cities across the UK with fast 5G in the process. It has also successfully won its first metro-cities contract to deploy a new high capacity fibre network, enabling high-speed connections for Aberdeenshire Council, as well as for businesses to boost the local economy.

SSE Enterprise's Contracting division secured significant LED replacement projects with Leeds City Council, Swindon Borough Council, Camden Council and Wirral Council. These contracts will see around 185,000 units replaced over the next four years. Likewise, the Rail division continues to deliver work via the Control Period 6 programme, and it has won new clients like LNER.

It has also been agreed that SSE Enterprise and SSE Business Energy (see above) will move towards a shared brand, so that all of the services provided by the SSE Group to business, public sector and third sector customers in GB are branded SSE Energy Solutions. This is designed to enhance engagement with customers and SSE's profile in its chosen markets.

ENERGY PORTFOLIO MANAGEMENT

EPM key performance Indicators

	March 2020	March 2019
EPM		
EPM adjusted operating (loss) – £m	**(137.4)**	(284.9)
EPM reported operating (loss) – £m	**(171.6)**	(613.1)

EPM overview

Energy Portfolio Management provides route to market services to SSE's market-based businesses, namely SSE Renewables, SSE Thermal, SSE Business Energy, SSE Airtricity, Gas Production, Gas Storage and SSE Enterprise. Each of these businesses is responsible for its own hedging strategy and pays EPM a service fee to manage the implementation of hedging and delivery of energy on its behalf.

SSE trades principal commodities, as well as the spreads between two or more commodity prices (e.g. spark spreads): power (baseload and other products); gas; carbon (emissions allowances); and oil. Each commodity has different liquidity characteristics, which impacts on the quantum of hedging possible.

SSE first set out a new approach to the management of its energy portfolio in November 2018, and subsequently published "SSE's Approach to Hedging: May 2019 Update". 2019/20 largely draws a line under the issues relating to the closing out of SSE's short gas position in 2018 and EPM is expected to earn a small adjusted operating profit from 20/21 onwards.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2019/20 and Group Financial Outlook 2020/21 and Beyond.

GAS PRODUCTION (Held for sale)

Gas Production key performance indicators

	March 2020	March 2019
GAS PRODUCTION		
Gas production contracts adjusted and reported operating profit (continuing) – £m	**77.1**	–
Gas Production assets adjusted operating profit (held for sale) – £m	**25.8**	48.9
Gas Production assets reported operating profit (held for sale) – £m	**(265.5)**	78.6
Gas production – M therms	**456**	504
Gas production – Mboe	**8.14**	9.00
Liquids production – Mboe	**0.60**	0.62

Technical review carried out annually:

	March 2020	March 2019
Proved Plus Probable (2P) – (Bn Th)	**1.5**	1.7
Proved Plus Probable (2P) – (MMboe)	**24.9**	29.7

Gas Production overview

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

Investment in gas production assets is however no longer consistent with SSE's strategy and focus on decarbonisation, and these assets are accounted for as held for sale. SSE continues to pursue the sale of these assets, but will only complete this transaction if it is believed to be the right outcome for shareholders.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2019/20 and Group Financial Outlook 2020/21 and Beyond.

SSE ENERGY SERVICES (Discontinued)

SSE Energy Services key performance indicators

	March 2020	March 2019
SSE ENERGY SERVICES (HELD FOR DISPOSAL)		
SSE Energy Services adjusted operating profit – £m	**32.7**	89.6
SSE Energy Services reported operating (loss)/profit – £m	**(205.0)**	35.3

SSE Energy Services overview

SSE Energy Services, formerly comprising SSE's domestic energy supply and energy-related services businesses in Great Britain, was sold to OVO Energy Limited on 15 January 2020. As part of the terms of the transaction, transitional service agreements are in place for the provision of some services, such as IT, telecoms and HR, between SSE and OVO in order to ensure continuity of service and a smooth experience for employees and customers.

The transaction was predicated on SSE's belief that it was in the best interests of customers and the wider market. Its successful completion marked a key milestone in the strategic repositioning of the SSE Group as a developer, operator and owner of low-carbon assets and infrastructure that will support the transition to a net-zero emissions economy. The adjusted operating profit for the business of £32.7m is retained by the Group for the period to 15 January 2020 when the business was disposed. On disposal, the Group recorded an exceptional loss on disposal of £226.9m, which includes the recognition of a 13.25% unsecured loan note receivable of £100m, due in 2029.

A SUSTAINABLE APPROACH

ALIGNING BUSINESS AND **SOCIAL OBJECTIVES**

SSE's strategic goal is to create value for shareholders and society. SSE recognises that a sustainable company is purpose-led; and that a purpose-led company is one that offers profitable solutions to the world's problems. The UN Sustainable Development Goals (SDGs) are the blueprint for addressing global challenges, including climate change, and therefore SSE's strategic goals for 2030 are aligned to the UN's SDGs.

Making progress on the 2030 Goals

In March 2019, SSE set four fundamental business goals for 2030, aligned to the SDGs most material to its business. Over 2019/20, SSE worked to embed these 2030 Goals throughout the organisation and ensure meaningful progress is being made against them and this work is continuing in 2020/21:

13 CLIMATE ACTION

Cut our carbon intensity by 60%

The carbon intensity of electricity generated by SSE increased marginally.

Whilst SSE's carbon intensity increased marginally, the closure of its last remaining coal plant in March 2020 and significant development of its renewables pipeline mean that SSE has made very good progress in achieving its long-term objective of permanent carbon reduction from the production of electricity generated. In line with this progress, SSE increased its carbon intensity reduction target from 50% by 2030 to 60%, as part of setting its science-based targets.

7 AFFORDABLE AND CLEAN ENERGY

Treble renewable energy output

2019/20 represented SSE's highest-ever year of electricity generation from renewable sources in 2018/19 (including constrained off wind in GB).

Important progress was made to achieve 30TWh of renewable energy output by 2030 with success in the 2019 Contracts for Difference auctions and the investment decision to progress SSE's first subsidy-free onshore wind farm, Gordonbush Extension (see page 20).

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Help accommodate 10m electric vehicles

SSEN Distribution is working at pace to pilot and trial electricity network flexibility that will enable local grids to accommodate, at scale, the electrification of cars.

SSEN's Project LEO and a partnership between government and network owners in Scotland represent two of the most significant projects in the UK that will help accelerate transport electrification. To support EV manufacturers, SSE joined the global EV100 initiative, committing to switch 3,500 of its vehicles to electric.

8 DECENT WORK AND ECONOMIC GROWTH

Champion Fair Tax and a real Living Wage

SSE continues to promote fair tax and a Living Wage as the core of its ability to share economic value with society.

In 2019/20 SSE achieved ongoing accreditation from both the Fair Tax Mark and the Living Wage, supporting both campaigns to attract more companies to become accredited. Furthermore, SSE continued its support of the new Living Hours initiative, which is designed to address negative impacts associated with exploitative zero-hour contracts.

Performance towards the long-term achievement of the 2030 Goals is reflected within executive remuneration, with 20% of SSE's Executive Directors' total Annual Incentive Plan determined by progress against them. For more information please see pages 136 to 157 in the Remuneration Committee Report.

Integrating sustainability into business unit strategies

SSE's commitment to creating value for shareholders and society in a sustainable way is reflected in the strategy and operations of its individual business units which, amongst other things, are required to demonstrate how they support the transition to net-zero emissions (see page 9).

In 2019/20, a number of SSE's Business Units and corporate functions developed tailored strategies and targets aligned to the SSE Group commitment to operating in a sustainable way and to the goals for 2030. This enables them to meet the needs of their businesses while helping the Group achieve its ambitions. Read more about the progress made by SSEN Transmission, SSE Renewables, SSE Thermal and SSE Business Energy in the Sustainability Report 2020.

Benchmarking against best practice

Further to integrating the UN's SDGs into strategy and operations, SSE reports against additional external best practice frameworks and benchmarks. In this way SSE can understand and respond to stakeholder expectations and assess its relative performance on sustainability issues.

SSE is a signatory to the United Nations Global Compact (UNGC), committing to take action that advances societal goals. As a signatory, SSE has incorporated the Ten Principles of the UNGC, focused on the environment, human rights, labour and anti-corruption into its approach to business. SSE's Commitment of Progress is provided within its Sustainability Report each year.

Within SSE's Sustainability Report, KPI alignment to international non-financial reporting standards is highlighted. This includes frameworks such as the Global Reporting Initiative (GRI) and the global environmental disclosure body, CDP.

SSE also actively engages with several investor ESG (environmental, social, governance) ratings agencies and investor-led initiatives. This includes MSCI, Vigeo Eiris, Sustainalytics, CDP Programmes on Carbon, Water and Forestry, the Bloomberg Gender-Equality Index, the WDI and the FTSE4Good Index. Current and historic scores are detailed within the Sustainability Report 2020.

Supporting customers, employees, suppliers and communities during the coronavirus pandemic

The coronavirus pandemic has demonstrated the extent to which companies depend on their key stakeholder groups if they are to be successful in the long term. Since its outbreak in the UK and Ireland in March 2020, SSE has sought to work closely with key stakeholders in each of the jurisdictions in which it operates. In line with this, in March 2020 SSE signed up to the C-19 Business Pledge which aims to unite businesses in taking action to support customers, employees and communities affected by the pandemic.

Alongside its commitment to the C-19 Business Pledge, SSE has taken a series of practical steps to support customers, employees, communities and suppliers, with full details set out on sse.com/coronavirus. Examples of the steps taken included:

- **£1m made available immediately for communities:** SSE brought forward up to 10% of its annual community funding to be available to communities in direct response to the challenges posed by coronavirus;
- **Supporting vulnerable customers through the Priority Services Register:** SSE's electricity networks business used this well-established channel through which vulnerable customers are provided additional support, working closely with local agencies to ensure those who are vulnerable can be reached as quickly as possible in the event of an electricity network fault;
- **Protecting those providing a critical service:** Reflecting government guidance, measures were put in place to protect key personnel on SSE sites where work must continue to support the supply of electricity, while non-critical work was suspended to enable as many employees as possible to remain in their homes.

Sustainability Report 2020

Significantly more information on SSE's sustainability approach, initiatives and performance can be found within the Annual Report's sister document, SSE's Sustainability Report 2020.

A SUSTAINABLE APPROACH CONTINUED

FULFILLING SSE'S SOCIAL CONTRACT

Companies exist within an inter-connected society and SSE has a social contract with the societies of which it is part. This means sharing value. Value is delivered for shareholders through dividends and sustainable long-term growth, and for society it is reflected in economic contribution, jobs created, taxes paid and sustained investment and the long-term stewardship of infrastructure for the benefit of individuals, businesses and communities.

Performance summary

	Unit	2019/20	2018/19
Contribution to GDP (UK/Ireland)[1]	£bn/€m	7.7/650	8.9/689
Total jobs supported (UK/Ireland)[2]	Headcount	83,040/3,740	101,170/4,080
Total taxes paid (UK/Ireland)	£m/€m	421.6/18.1	403.6/14.6
Investment in communities[3]	£m	8.2	8.5

1 Total direct, indirect and induced Gross Value Added, from PwC analysis.
2 Total direct, indirect and induced jobs supported, from PwC analysis.
3 Total across UK and Ireland, including: charitable donations through matched funding, Community Investment Funds, Resilient Communities Fund and the financial value of employee volunteering.

Promoting inclusive and sustainable economic growth

The first three of SSE's four 2030 Goals focus on SSE's pathway to a net-zero carbon future, with the fourth seeking to ensure that the transition is delivered in a fair and just way. This fourth goal is aligned to UN SDG 8, *Decent work and economic growth*, with SSE's own goal of meeting and championing the principles of a Living Wage and Fair Tax.

Furthermore, SSE is committed to contributing to long-term value creation and growth in the countries in which it operates through service provision, investment in energy-related infrastructure, procurement of goods and services and provision of productive jobs. This will be particularly important during the recovery from the coronavirus pandemic.

This is SSE's way of helping deliver fairness in the transition to a net-zero economy: sustaining the right to earn a profit from providing solutions to the climate crisis which deliver positive social outcomes. SSE understands that it is only through creating value for society that it safeguards its ability to create value for shareholders.

Contributing to GDP and supporting jobs

To understand better the impact it makes each year in terms of GDP and jobs, since 2011/12 SSE has worked with a professional services firm, PwC, to quantify (1) the economic contribution it makes to and (2) the jobs it supports in the UK and Ireland through its direct operations and supply chain. SSE's annual economic contribution reports can be found on sse.com/sustainability.

Over 2019/20 SSE contributed £7.7bn to UK GDP, of which £1.4bn was in Scotland, and €650m to Irish GDP. Whilst the contribution in Ireland was relatively consistent with previous years (2018/19: €689m), the contribution made in the UK was lower (2018/19: £8.9bn). This was primarily driven by a reduced recorded spend in procurement due to the completion of major capex projects over the preceding two years and a decline in energy traded over 2019/20 compared to 2018/19, both of which led to a lower indirect and induced economic contribution.

Employment is a cornerstone of a well-functioning society and in 2019/20 SSE supported 83,040 jobs across the UK, of which 10,530 were in Scotland, and 3,740 across Ireland.

The nature of SSE's operations means that the people it employs directly, as well as the jobs it supports through its supply chain, are located in many different regions across the UK and Ireland. Just over 1% of SSE's workforce on 31 March 2020 were based in the Greater London Area. Sustaining skilled jobs right across the countries SSE operates within, often in rural and remote areas, helps to ensure SSE makes an economic contribution in a geographically inclusive way.

Sustainable supply chains

Over recent years, SSE spent around £2-3bn per year with around 10,000 suppliers. Like other energy companies, SSE complies with EU public procurement rules which are based on the principles of value for money and equitable treatment. SSE's Responsible Procurement Charter confirms that SSE is committed to going beyond minimum requirements to promote real economic and social benefits that flow to local businesses and communities in the UK and Ireland as a result of expenditure on its day-to-day operations and investment in new energy infrastructure.

SSE has a structured approach to engaging with its strategic suppliers and looks to form constructive local relationships so that communities derive economic and social benefit from SSE's investment. SSE also works with communities directly to help ensure value from its projects is maximised for them. For example, over 2019/20, SSE and its relevant project partners held numerous "Meet the Buyer" events in areas close to future development projects, such as Seagreen and Dogger Bank offshore wind farms. The aim of these events was to communicate opportunities for local businesses at an early stage. Over 500 local businesses signed up to attend.

In 2020/21, SSE will review and update its Responsible Procurement Charter following a review undertaken by Action Sustainability, external advisors commissioned by SSE in 2019/20 to undertake a full gap analysis of its existing procurement approach against the ISO 20400 sustainable procurement guidance standard.

More information about SSE's approach to building sustainable supply chains and working with local suppliers can be found in its Sustainability Report 2020. Detail of how SSE worked with and supported suppliers during the coronavirus pandemic can be found on sse.com/coronavirus.

Decent work and a Living Wage

While employment is a cornerstone of a well-functioning society, SSE supports the UN SDG focus on "decent work", in which employees are treated with respect, paid at least a real Living Wage and have working arrangements that are modern and progressive in the third decade of the 21st century. See more on page 80.

Committing to tax fairness

The coronavirus pandemic highlighted the importance of quality public services in enabling governments to help people stay safe and support workers and businesses. Good public services and infrastructure must be paid for. SSE considers tax as one of the key ways in which businesses contribute to the societies that enable business success in the first place. It is one of the largest tax payers in the UK and was ranked 16th in PwC's '2019 Total Tax Contribution survey for the 100 Group'.

"At SSE, we don't have a strategy for sustainability. We believe what really matters is a sustainable business strategy, which is designed to realise the economic opportunity associated with the transition to net zero, while managing non-financial impacts to ensure that the transition is just and commands the support of all stakeholders."

Rachel McEwen
SSE's Chief Sustainability Officer

In 2019/20, SSE gained Fair Tax Mark accreditation for the sixth consecutive year. The Fair Tax Mark is an independent verification that SSE pays the right amount of tax in the right place and at the right time; and that it rules out the use of artificial tax avoidance schemes or tax havens. Further detail on SSE's tax approach can be found in its 2019 Talking Tax booklet.

Total tax contribution over 2019/20

£1,099m

In 2019/20, SSE's total tax contribution across the UK and Ireland was £1,099m, compared with £1,013m in the previous year. This includes £437m in taxes paid by SSE, such as Corporation Tax and business rates, and £662m in taxes collected by SSE, such as VAT, employment taxes and environmental taxes.

Investing in communities

SSE seeks to be an active contributor to the communities of which it is a part, and has an ongoing commitment to sharing value directly where it has been created, consistent with its strategic goal of creating value for shareholders and society. This approach is focused on three key principal programmes:

- SSE Renewables' Community Investment Programme delivers financial support to a diverse range of community projects run by legally-constituted community groups, non-profit organisations and registered charities in areas close to its wind farms;
- SSEN's Resilient Communities Fund helps communities in its north of Scotland and central southern England network operating regions build their resilience, tackle issues of vulnerability and prepare for winter storms;
- SSE, as a whole, operates its "Be the Difference" scheme, under which every employee can take a day away from their usual job and give a helping hand to a community project of their choice.

Funds distributed directly to local communities over the last five years

£35m

Across these three programmes, SSE administered a total of £8.2m in community funding across the UK and Ireland in 2019/20, compared with £8.5m in the previous year. This brings the total value of funding administered by SSE to communities over the last five years to around £35m.

Supporting communities during the coronavirus pandemic

Communities across the UK and Ireland are facing significant challenges as a result of coronavirus. SSE believes the best support it can provide to communities is ensuring its funds can be easily accessed by the communities, who are best placed to deliver a front-line emergency response. As well as making up to £1m immediately available to fund community coronavirus responses, SSE introduced new measures to work closely with community groups and offer flexibility. Full details can be found on sse.com/coronavirus.

Advocating for a just transition

The world will undoubtedly change as a result of the coronavirus pandemic, though the full scale of the human, social and economic impact is still unknown. Creating the path to net zero will however remain key, and the recovery from this crisis and will require significant environmental, economic and social transformations. The challenge for policy makers, regulators and companies is to work together to help ensure those transformations are undertaken in a way that is fair to customers, employees and communities, as well as investors. SSE believes that a just transition is one where the benefits of climate action are shared widely, while costs do not unfairly burden those least able to pay; and that people whose livelihoods are directly or indirectly at risk as the economy evolves receive appropriate support through the period of change.

SSE believes it is crucial that necessary investment in decarbonisation is secured and in doing so also seeks to ensure that:

- current and future employees in energy are regarded with respect and given decent work;
- communities in the areas in which energy assets are located or planned are regarded as key stakeholders with comprehensive engagement on all key issues; and,
- energy customers are provided with affordable energy and accessible energy services.

In March 2020, SSE signed the C-19 Business Pledge to show its commitment to supporting customers, employees and communities during the coronavirus pandemic. Read more on sse.com/coronavirus.

COMMITTING TO DECENT WORK

The talents, skills and values of the people that work for SSE enable it to fulfil its purpose, achieve strategic goals and manage Principal Risks. That's why decent work and economic growth is one of the UN SDGs prioritised by SSE. SSE aims to be a company for which people want to work; providing an inclusive, fulfilling and high-performing workplace. This means maintaining a healthy business culture; upholding good employment standards; and enabling people to develop their careers.

Performance summary

The sale of SSE Energy Services (ES) in January 2020 has impacted SSE's overall workforce KPIs. The performance summary below is designed to transparently communicate these changes, providing relevant new baselines where possible.

Metric	Unit	2019/20 – excluding ES	2019/20 – including ES[1]	2018/19 – excluding ES	2018/19 – including ES
Employees	Headcount[2]	12,133	19,182	12,111	20,370
Contingent labour force size	Headcount[2]	2,335	5,065	2,443	4,533
Mean/median length of service	Years	11.1/8.4	10.2/8.0	11.2/8.9	9.8/7.7
Employees on permanent contracts	%	95.4	95.1	95.5	95.1
Retention/turnover rate	%	88.0/12.0	86.2/13.8	89.4/10.6	86.8/13.2
Gender split of Board of Directors	Male/female headcount (% female)	7/3 (30%)	7/3 (30%)	7/3 (30%)	7/3 (30%)
Gender split of employees	Male/female headcount[2] (% female)	9,088/3,045 (25.1%)	13,140/6,042 (31.5%)	9,180/2,931 (24.2%)	13,974/6,396 (31.4%)
Investment in learning and development[3]	£m	18.6	23.9	14.6	28.3
Average training per FTE	Hours	24.9	23.4	21.4	22.0
Speak up contacts made[4]	Number	86	188	47	112

1 Energy Services employees are included up to the date of the transaction with OVO Energy where relevant.
2 As at 31 March in each financial year.
3 Total internal and external learning and development expenditure including pipeline programme investment. Pipeline programme investment includes the total cost of apprentice, graduate, Technical Skills Trainee and other pipeline programmes, including salary costs.
4 Number of contacts made through both internal mechanisms and through SSE's externally hosted whistleblowing channel. Figures are for calendar year.

Responding to strategic workforce challenges

Coronavirus clearly presents a strategic workforce challenge to every organisation and SSE's first priority is keeping its people safe while providing energy needed for by people and organisations leading the coronavirus response. Looking to the future, the focus for SSE remains on transitioning to a net-zero economy. Overcoming the challenges outlined by SSE over several years – a significant skills gap in the sector and a stark lack of diversity across the industry – will be critical. SSE believes the first challenge can be addressed, in part, by the second.

SSE is therefore focused on attracting, retaining and developing a talented, diverse and engaged workforce. It has three strategic priorities for the 2020s:

1. **Effective workforce planning** – assessing the skills needed for future requirements, as well as assessing how many, and what kind of, people will be required to support the delivery of SSE's business strategy.
2. **Organisational capability** – understanding the key capabilities that will enable SSE to deliver its strategy in the most effective way. Some of these capabilities will be provided by SSE's existing workforce and some will be brought in externally.
3. **Productive people** – implementing working practices that promote collaboration, innovation and efficiency. Investment in technology, employee benefits and wellbeing will enable people working for SSE to operate at their best.

Underpinning SSE's strategic priorities is its well-established responsible employer ethos, which focuses on developing its workforce from within, limiting out-sourcing where possible, and creating an inclusive culture where employees are treated with fairness and respect.

People-related risks and governance

SSE has well-defined processes in place to measure, monitor and mitigate people-related risks. Detailed information on this can be found within the "People and culture" Group Principal Risk disclosure on page 34. Information on SSE's approach to governance over people issues can be found in the Directors' Report.

Safety and health

If it's not safe, we don't do it

SSE's aim is to make sure everyone gets home safely. In SSE's employee engagement survey in September 2019, 96% of its workforce said they understand that at SSE, if it's not safe – we don't do it. This sentiment has never been more important than during the coronavirus pandemic. See the Safety, Health and Environment Advisory Committee Report on pages 132 to 135.

Getting more people home safely

2019/20 marked the conclusion of SSE's '50by20' health and safety campaign. Strong progress was made over the year in SSE's safety performance. The total number of injuries was 71, compared to 82 over 2018/19. The severity of incidents also reduced, with one incident during 2019/20 that would be considered life changing compared to three incidents during 2018/19. SSE has introduced the concept of "Safe Days" as a new way to monitor and track its safety progress and performance.

Focused on health and wellbeing

Health and wellbeing have been areas of increasing focus and investment for SSE since 2017. This has driven a wide number of actions, including the training of hundreds of Mental Health First Aiders, the introduction of "Mindful Mondays", access for all employees to an Employee Assistance Programme which provides counselling and support, senior management commitment to the Time to Change initiative, and the roll out of programmes with Nuffield Health to provide additional support for those on long-term sick-leave either through mental health or musculoskeletal issues.

This focus over recent years is now helping SSE provide a more sophisticated response and greater support for employees to the wider health and wellbeing impacts of the coronavirus.

Training and learning

Investment in learning and development

Over 2019/20, SSE invested £13.8m in pipeline programmes with a total of 888 people on one of these programmes during the year. This includes apprenticeships, Technical Skills Trainees, graduates and other employability programmes, such as the Barnardo's Works programme for unemployed people aged 16-24. In 2018/19, SSE invested £17.2m in pipeline programmes. Whilst this shows a reduction in investment between 2019/20 and 2018/19, when SSE Energy Services' investment in pipeline programmes is excluded, the SSE Group invested £11.1m in pipeline programmes in 2019/20 and £8m in 2018/19.

A further £10.0m was invested by SSE in 2019/20 in other learning and development programmes, such as management and technical training. SSE employees received an average of 23.4 hours of training (per full-time equivalent) over 2019/20, an increase from 22.0 in 2018/19.

In total, SSE invested over £23.9m in learning, training and development over 2019/20, compared to £28.3m in 2018/19. SSE's consistent investment in the training and development of its employees means it has invested just under £100m in training and learning over the past four years.

More information about SSE's approach to training and learning, including the ways it has been targeting a wider and more diverse group for entry-level programmes, can be found within the Sustainability Report 2020.

Inclusion and diversity

'Champion' status on inclusion

SSE understands that with a more inclusive and diverse workforce and leadership team, the more likely it is that business success will be achieved and sustained because the breadth and depth of talent across the SSE team will be maximised. SSE's Inclusion Strategy, often referred to as "IN, ON, UP", was created in 2017 with support from external experts Equal Approach. It focuses on bringing all kinds of different people "IN", encouraging them to stay "ON", and supporting them to progress "UP" to the most senior levels. By creating a truly inclusive workplace, SSE believes it will in turn have a more diverse workforce where all kinds of difference – whether that's gender, sexual preference, ability, race, ethnicity or ways of thinking – are respected and valued.

SSE measures progress against IN, ON, UP by using Equal Approach's "Return on Inclusion" tool which analyses the financial return from SSE's investment in inclusion initiatives. The latest results, calculated over 2019/20, show SSE moving from "Aspiring" into "Champion" status, and generating a financial return of £9.85 for every pound spent on inclusion. This return has more than doubled since SSE's initial return rate of £4.52 was calculated in 2017.

Flexible working at SSE

SSE's 2019 employee engagement survey, carried out in September 2019, showed that 61% of employees believe they are able to work differently at SSE, an increase from 44% in 2018 and 37% in 2017. Working differently covers a number of flexible working arrangements, including compressed hours, working from home and flexible start and end times.

Following the implementation of social distancing measures in response to the coronavirus outbreak, around two thirds of SSE's workforce began working from home on a full-time basis. SSE's ability to quickly and successfully enable this significant change in working arrangements for the majority of its employees was a result of the major financial investment in technology and the wider efforts over previous years to provide modern, flexible working for its employees.

Reporting SSE's gender pay gap

In 2016 SSE became the first FTSE company to report its gender pay gap, with 2020 its fifth year of reporting this information. As at 5 April 2020, the SSE Group (UK) had a mean gender pay gap of 17.1% and a median gender pay gap of 18.4%. Detailed information about SSE's current and historic gender pay gap and the actions SSE has been taking to close this gap can be found within the Sustainability Report 2020.

Progress on gender targets

In 2018, in response to the Hampton-Alexander Review, SSE set three new targets to promote greater gender balance at SSE's most senior levels. The following year, the Company set a further Board-level gender ambition.

Progress against these four targets are shown on page 80. SSE has now passed its target to have 25% female membership of its Group Executive Committee, its sub-committees and Business Unit Executive Committees, and believes it is on track to have at least 20% of women earning £70,000 (indexed to 31/12/17) or above by the end of 2020/21. SSE understands there is still significant work to do before reaching its target of 30% women comprising the Group Executive Committee and direct reports (excluding administrative employees) and will continue to focus on this over the years ahead. There are different challenges involved in achieving gender diversity at leadership levels and in achieving it in other levels of the organisation, especially in relation to operations roles in business units.

Reward

Linking executive pay to SSE's 2030 Goals

In March 2019, SSE's Remuneration Committee took the decision that from 2019/20 onwards, 20% of the total Annual Incentive Plan (AIP) for Executive Directors would be determined by the progress made in meeting SSE's four 2030 Goals, which are aligned to the UN's Sustainable Development Goals. More information can be found within the Remuneration Committee Report, on pages 136 to 157.

A SUSTAINABLE APPROACH CONTINUED
COMMITTING TO DECENT WORK CONTINUED

Progress on senior-level gender targets continued

Gender split of:	Unit	2020/21 target	2019/20	2018/19
Board of Directors[1]	Average % over three years[4]	33%	28.5%	30%
Group Executive Committee[2]	Male/female headcount in group[4] (% female)	N/A	7/2 (22.2%)	7/2 (22.2%)
Group Executive Committee[2] and direct reports (excl. admin employees)		30% female	48/12 (20%)	44/10 (18.5%)
Group Executive Committee[2], its sub-committees and Business Unit Executive Committees[3]		25% female	62/23 (27.1%)	53/17 (24.3%)
Roles at £70,000 (indexed to 31/12/17) or above		20% female	524/108 (17.1%)	477/91 (16%)

1 For more information about the diversity of the SSE Board and SSE's Board-level gender target, see page 119.
2 The Group Executive Committee, and senior management within SSE, is defined as members of the Committee, as well as the Company Secretary, General Counsel and MD Corporate Affairs and Strategy, who attend all Committee meetings.
3 Figures for all committees includes the relevant Committee Secretary.
4 Data is correct as at 31 March in each financial year, with the exception of the "Group Executive Committee, its sub-committees and Business Unit Executive Committees" in 2018/19 which is correct as at 1 April 2019. SSE's revised operating model was implemented on 1 April 2019 and has embedded throughout the financial year.

The Living Wage
SSE has been an accredited UK Living Wage employer since 2013 and has paid its Irish employees a Living Wage since 2016. One of SSE's 2030 Goals is to champion the Living Wage and Fair Tax. Progress on the goal over 2019/20 can be found on page 74.

Employee benefits
SSE offers a wide range of employee benefits. As well as contractual benefits determined by factors such as seniority and length of service, such as company car/allowance and private medical insurance, SSE offers a comprehensive suite of non-contractual voluntary benefits to all employees. This includes all-employee share plans, health benefits, gym membership, childcare vouchers, a holiday purchase scheme and technology loans.

SSE's maternity benefits are market-leading with 21 weeks leave at full-pay and a gradual return to work policy which offers those returning from maternity leave the opportunity to work 80% of their contractual hours but still receive full pay and benefits for up to six months. The introduction of enhanced maternity benefits has resulted in a significant reduction in women leaving SSE within 12 months of returning to work from maternity leave. Read more in SSE's Sustainability Report 2020.

Performance management
SSE has a well-established and structured approach to evaluating employee performance each year. All employees, including those at SSE's highest levels, have their performance measured in the same way. As well as evaluation against personal objectives set at the previous annual review and mid-year review, employees are expected to demonstrate how they have met SSE's values, the SSE SET.

Employee voice
Respecting industrial relations
SSE respects the right to join a trade union as a fundamental right for all employees. Excluding Energy Services employees, over 2019/20 at least 56%* of SSE's employees were covered by collective bargaining agreements. The Joint Agreement, covering 47.8% of SSE employees (excluding Energy Services) at the end of 2019/20, is the main collectively bargained agreement which applies to a wide range of employees up to middle management level across all areas of the business. A Joint Negotiating and Consultative Committee (the JNCC) comprising of SSE, Unite, Unison, Prospect and GMB agree terms and conditions of the Joint Agreement on employees' behalf including those relating to remuneration.

SSE's response to coronavirus has been the subject of enhanced and continuous engagement with trade union representatives.

Measuring employee engagement
Each year SSE runs an employee engagement survey to better understand the level of employee engagement in the Company. The last survey was carried out in September 2019. To reflect the changed shape of the new SSE Group, the survey was provided by a new supplier, Willis Towers Watson, with a full review of the questions asked undertaken to create a new "sustainable engagement index".

SSE achieved a sustainable engagement index score of 76%, with 76% of employees participating in the survey. Whilst the 2019 score was higher than SSE's employee engagement score of 68% in 2018, a different survey population (the 2019 survey excluded SSE Energy Services employees) and a change of survey supplier means that looking back to the 2018 survey is not an effective like-for-like comparison. The 2019 results showed however that SSE was 2% behind the UK engagement norm in 2019, compared to 5% behind the benchmark in 2018.

SSE has a non-Executive Director for Employee Engagement who provides the Board with an understanding of employee views. See page 108 for more information.

Supporting employees during the coronavirus pandemic
Since its outbreak in the UK and Ireland in March 2020, SSE has carefully tracked the direct impact of the virus on its workforce as well as taking actions to help protect and support them. It has introduced measures and provided guidance on a wide range of issues that impact its employees during this period. This includes protective measures for those critical workers that can't work from home, redeploying those that cannot carry out their jobs at this time to other areas of the business, helping those with caring responsibilities and allowing time off work to support both local and national volunteering efforts.

SSE worked with trades unions to extend flexible working practices, and retained full pay, over use of the UK Government's furlough scheme during lockdown. In May 2020, 71% of SSE's 12,000 employees responded to an engagement survey that sought views on the Company's response to coronavirus, emotional wellbeing and post-lockdown working practices. The results of this survey informed SSE's redeployment of people on SSE premises as social distancing was eased.

Details of these actions can be found on sse.com/coronavirus, where SSE posts information about how it is supporting customers, employees, suppliers and communities at this time.

* Other employees may be members of trade unions without formally recording this with SSE.

Culture and Ethics

Doing business ethically

SSE believes that doing business ethically means doing business better. Many of SSE's business dealings are governed by laws and regulation, but every day SSE's employees must make decisions where the right thing to do is guided by different standards. Following the rules and demonstrating the correct values, attitudes and behaviours, and encouraging speaking up against wrongdoing, are central to SSE's ethical business culture.

Since 2016, SSE has used its "Doing the Right Thing" guide to help employees make decisions and guide behaviours which are in line with the Company's values as well as the rules they must follow. Over 2019/20, SSE reviewed this guide in line with best practice and in the context of substantial changes to its business and workforce. A revised guide will be published in 2020/21 and made available on sse.com/sustainability.

Review of the SSE Group policies

SSE's set of Group Policies are statements of principle approved by the SSE Board in line with the view of what a healthy business culture is for SSE. They are intended to guide and drive employee attitudes in areas of fundamental importance to the Group and support decision-making that is sustainable and takes full account of the perspectives of SSE's key stakeholder groups. The policies are widely available to all employees and implementation of their key messages is supported by the employee guide, dedicated training and communications.

Details of the review of the SSE Group Policies which was undertaken during 2019/20 can be found on page 107.

Speaking up against wrongdoing

Over 2019/20, SSE continued to communicate the importance of speaking up to its employees. This included an all-employee maildrop with a letter from SSE's Chief Executive about why speaking up matters for SSE, with details of how to report wrongdoing through SSE's speak up channels.

SSE has a well-established process to enable employees to speak up against unethical behaviour. This includes both internal and external channels, with all employees able to speak up anonymously if they choose to do so. In SSE's 2019 employee engagement survey, 89% of employees said that if they had a concern regarding wrongdoing or unethical behaviour within SSE, they would speak up.

Over calendar year 2019, there were 188 reports made through SSE's internal and external speak up channels. This is a significant increase from 112 reports in 2018, which SSE believes was largely driven by targeted communications over the year to increase visibility of SSE's speak up channels and support for people that do speak up. More information on these reports can be found in the Sustainability Report 2020.

SSE has a suite of mandatory ethics and compliance training modules which all employees are required to complete. In 2019/20, a new Cyber Security eLearning module was rolled out across the business, with IT system access linked to completion. A new Financial Sanctions and Money Laundering eLearning module was also rolled out to highlight the threats SSE faces from financial crime.

Prevention of financial crime and corruption

SSE does not accept corruption, fraud and criminality (including financial crime), and the giving or receiving of bribes for any purpose. It has an established policy framework which aims to minimise exposure to bribery, corruption and financial crime and maintain a culture where these are never acceptable. SSE's Anti-Corruption and Financial Crime Committee (ACFCC), set up in 2016, supports SSE's businesses to drive policy adherence through awareness, training and monitoring of its implementation.

Over 2019, 25% of contacts made through SSE's speak up channels related to dishonest behaviour which includes fraud, theft, bribery, integrity, money laundering and corruption. This compares to 24% in 2018. All incidents and breaches are reviewed by the ACFCC following investigation by SSE's Group Security and Investigations Team. Opportunities for improvement also developed on a continual basis by the ACFCC.

Modern slavery and human rights

SSE's zero tolerance approach to modern slavery and the abuse of human rights continues to be a foundation of its approach to doing business ethically. Detailed disclosure of the Company's approach and actions taken over 2019/20 to mitigate this risk can be found within SSE's annual Modern Slavery Statement which is published on sse.com.

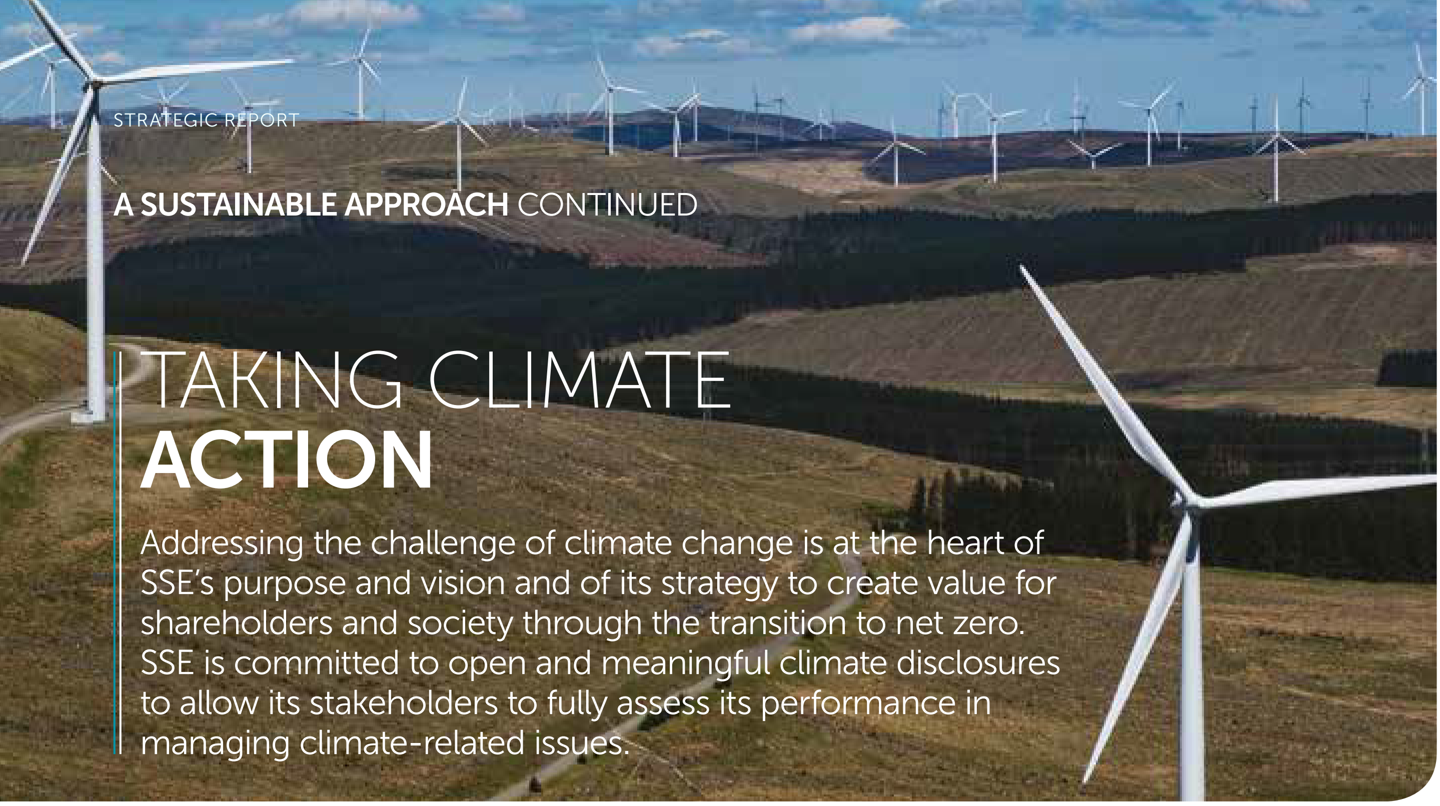
In addition to the initiatives previously disclosed by SSE to mitigate the risk of modern slavery within its direct and supply chain operations (such as robust recruitment practices, relevant policies and processes and a risk assessment of all expenditure), key progress over 2019/20 included:

- The strengthening of both SSE's Modern Slavery Clause and its Living Wage Clause which are included in all contracts;
- One-to-one engagement sessions on modern slavery held with SSE's strategic suppliers following a detailed risk assessment carried out with them in 2018/19;
- A full gap analysis by external experts Action Sustainability of SSE's procurement approach against the international standard for sustainable procurement: ISO 20400; and
- Significant action to give greater focus to modern slavery risk for major new projects.

Over 2020/21, SSE will carry out a gap analysis of its modern slavery approach against best practice with the support of external expertise. This will inform its strategy to take action to mitigate this risk.

"Culture goes right to the heart of whether a business will succeed in the long term. There has to be a purpose, vision and strategy around which people can unite; and a commitment to making sure that only decent values, attitudes and behaviours are acceptable. I believe that's what we have at SSE.

John Stewart
SSE's Director of Human Resources



A SUSTAINABLE APPROACH CONTINUED

TAKING CLIMATE **ACTION**

Addressing the challenge of climate change is at the heart of SSE's purpose and vision and of its strategy to create value for shareholders and society through the transition to net zero. SSE is committed to open and meaningful climate disclosures to allow its stakeholders to fully assess its performance in managing climate-related issues.

Performance summary

	Unit	2019/20 – excluding ES	2019/20 – including ES[2]	2018/19 – excluding ES	2018/19 – including ES
Total carbon emissions[1]	Million tonnes CO_2e	12.52 (A)	15.77	13.37	18.82
Scope 1 carbon emissions – total (UK/Ire)	Million tonnes CO_2e	8.26 (A) (7.35/0.91)	8.27 (7.36/0.91)	8.80 (7.95/0.85)	8.81* (7.96/0.85)
Scope 2 carbon emissions – total (UK/Ire)	Million tonnes CO_2e	0.65 (A) (0.65/<0.01)	0.65 (0.65/<0.01)	0.72 (0.72/<0.01)	0.72* (0.72/<0.01)
Scope 3 carbon emissions – total (UK/Ire)	Million tonnes CO_2e	3.61 (A) (2.97/0.64)	6.85 (6.21/0.64)	3.85 (3.37/0.48)	9.29* (8.80/0.49)
Carbon intensity ratio (relative to generation output)	gCO_2e per kWh	288 (A)	–	284*	–
Total renewable generation output[3] – UK/Ire	GWh	9,221/1,532	–	8,253/1,524	–
Total renewable generation output including GB constrained off wind[3] – UK/Ire	GWh	9,910/1,532	–	8,940/1,524	–
Total non-renewable generation output – UK/Ire	GWh	15,297/2,436	–	19,195/1,861	–
Total generation output – UK/Ire	GWh	24,518/3,967	–	27,450/3,385	–
Purchased heat from non-renewable sources – UK/Ire	GWh	3.4/0.15	3.7/0.15	3.4/0.2	7.2/0.19
Purchased electricity from renewable sources – UK/Ire	GWh	96/1.5	103/1.5	101/1.6	110/1.6
Purchased electricity from non-renewable sources – UK/Ire	GWh	233/0	233/0	241/0	241/0

This table shows SSE's energy use and associated GHG emissions in line with the UK Government Streamlined Energy and Carbon Reporting requirements. Where SSE Energy Services (ES) data is included or excluded this has been outlined.

1 GHG emissions from SGN's activities are excluded (SGN reports these separately). GHG emissions from other Joint Ventures are also excluded. For more detail see SSE's GHG and Water Reporting Criteria at sse.com/sustainability.
2 Energy Services data is included where relevant up to the date of the transaction with OVO Energy Ltd, in January 2020.
3 Totals include pumped storage and biomass output.
(A) This data has been subject to assurance. For the limited assurance opinion see sse.com/sustainability.
* This data was subject to assurance in 2019. For the limited assurance opinion see sse.com/sustainability.

Keeping a focus on the climate crisis

In advance of the Petersberg Climate Dialogue in April 2020, the UK Government reaffirmed its commitment to increasing global climate action and said that "the world must work together, as it has to deal with the coronavirus pandemic, to support a green and resilient recovery, which leaves no-one behind". In line with that, SSE's strategy remains focused on providing solutions to the climate challenge, and thereby contributing to human, social and economic wellbeing for the long term. Stakeholders remain keen to understand what action SSE is taking to manage climate-related issues, especially the investor community who are increasingly concerned about the climate resilience of its investments.

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

In making progress towards this commitment SSE responds to the annual CDP Climate Change Programme, which is aligned to TCFD recommendations (receiving an "A-" for its 2019 disclosure), and provides detailed information on climate-related risks and opportunities and their potential financial impact in its Sustainability Report. It also aligns its climate disclosures in this Strategic Report to the four TCFD recommendations: **Strategy; Governance; Risk management; and Metrics and targets**.

Strategy

A strategy for net zero

The core of SSE is formed by regulated electricity networks (SSEN Transmission and SSEN Distribution) and electricity from renewable sources (SSE Renewables), complemented by flexible thermal generation of electricity (SSE Thermal).

The most material ways in which SSE is both reducing the carbon impact of its own operations and supporting the UK and Ireland transition to net zero are by:

Developing, operating and owning more renewable generation

SSE Renewables has invested significantly in renewable generation (over £4.2bn since 2010) and currently has the largest capacity for generating electricity from hydro and wind across the UK and Ireland at around 4GW (inc. pumped storage). SSE has a core business goal to treble renewable generation output by 2030 (see progress on page 74) and has significant opportunities in onshore and offshore wind with a development pipeline of over 7GW. This pipeline includes two offshore wind farms, Dogger Bank (3,600MW, SSE share = 50%) and Seagreen (1,075MW, SSE share = 49%), and the onshore Viking wind farm (443MW) which SSE approved a final investment decision for in June 2020. See pages 65 to 67 for more detail.

Providing flexible and efficient thermal generation to balance the grid in the transition to net zero

SSE Thermal is focused on providing flexible and efficient gas-fired generation to complement the increasing levels of renewables on the electricity system. In March 2020, it closed its last coal-fired power station, Fiddlers Ferry. Electricity system flexibility will in future be provided by assets like the 840MW Keadby 2 CCGT in North Lincolnshire, which is expected to become the cleanest and most efficient gas-fired power station in Europe when completed. SSE Thermal is now actively exploring opportunities in emerging Carbon Capture, Use and Storage (CCUS) and hydrogen solutions to fully decarbonise its energy generation in the years ahead. See pages 21, 22 and 26 for more detail.

Enabling more renewable generation to connect to the transmission network

SSEN's investment in its electricity transmission infrastructure enables more renewable energy to connect to the network in the north of Scotland, playing a crucial role in supporting the UK achieve its carbon targets. In 2019/20, around 135MW of new renewable generation capacity, developed and operated by a range of electricity generators, was connected, bringing the total to over 6.3GW. In June 2019, SSEN Transmission launched its business plan for the RIIO-T2 price control period with one of its key ambitions being to deliver a network that accommodates 10GW of renewable generation in the north of Scotland by 2026. See page 18 for more detail.

Paving the way for the electrification of transport and a smarter distribution system

SSEN Distribution has a key role in enabling net zero through its transition to Distribution System Operator (DSO) and building the network flexibility and infrastructure to support the rapid increase in electric vehicles (EVs) that is expected in the coming decades. In the second half of 2019/20, SSEN published three strategies to help coordinate its work in a fast changing energy sector and deliver the best outcome for customers: Electric Vehicle Strategy; Digital Strategy; and Delivering DSO. It continued efforts towards SSE's 2030 Goal to support 10 million EVs in GB by 2030 (see page 74) and made progress in key innovation projects that provide practical demonstrations of the local, low-carbon networks of the future. See page 25 for more detail.

Green finance

As part of SSE's strategy for supporting the transition to net zero, SSE is an active participant of the newly emerging sustainable debt markets. In September 2019, SSE issued a 16-year £350m Green Bond – its third Green Bond in three years, making SSE the largest issuer of Green Bonds in the UK corporate sector. The proceeds of the three Green Bonds will go towards financing SSE's portfolio of renewables and electricity transmission assets.

Advocating for climate action

SSE has long advocated for a strong carbon price to ensure continued success in decarbonising the power sector and driving investment towards low-carbon generation, and it continued to do so throughout 2019/20. In March 2020, ahead of the UK Chancellor's Budget, it called for the UK Government to consider introducing an annually increasing carbon price to underpin the transition to net zero.

In autumn 2019, SSE advocated for an increase in the UK's offshore wind ambitions following adoption of the national net-zero target earlier in the year. SSE called for an increase from 30GW to 40GW in offshore wind by 2030, and welcomed the manifesto commitment from the new UK Government to adopt this target. SSE has since published its nine-point action plan of how this can be delivered.

Throughout 2019/20, SSE worked with governments, regulators and industry partners to create the right policy framework to accelerate the development of Carbon Capture, Use and Storage (CCUS) and hydrogen which is considered vital in the transition to net zero. SSE Thermal is part of a consortium which aims to transform the Humber region into the first "zero-carbon cluster" by 2040.

In addition, SSE welcomed the UK Government's proposal in February 2020 to bring forward the date to phase out petrol and diesel cars to 2035 from 2040 and has advocated that this could be done by 2030 with the correct electric vehicle charging infrastructure in place.

A SUSTAINABLE APPROACH CONTINUED
TAKING CLIMATE ACTION CONTINUED

Governance

Governing climate-related issues

SSE's Chief Executive has lead responsibility for climate-related issues, including at Board-level. The Board is responsible for setting the Group strategy direction and, when setting strategic objectives, it considers all material influencing factors including those relating to climate change. Details of climate-related issues and net zero in the context of Board considerations during 2019/20 can be found on pages 100, 101 and 104.

The Group Executive Committee is responsible for implementing the Group strategy set by the Board and driving climate-related performance programmes across the organisation. The Chief Sustainability Officer is responsible for advising the Board, Group Executive Committee and business units on climate-related matters and provides support in the implementation of relevant initiatives across the business.

Strengthening climate governance

In March 2020, SSE's Board agreed two new steps to codify better the way that climate-related issues are governed in the Company. Firstly, it approved a stand-alone Group Climate Change Policy and, secondly, the Board agreed to the introduction of a new Climate Change Group Principal Risk. See the Risk management section on this page for more detail.

Accountability for climate performance

Agreed by the Remuneration Committee in March 2019, a proportion of executive remuneration is linked to performance against SSE's four 2030 Goals. The 2019/20 financial year was the first in which progress was assessed in performance measures. Three of SSE's 2030 Goals are focused on addressing the challenge of climate change and supporting the net-zero transition. See page 145 for detailed performance.

Risk management

Managing climate-related risks

SSE identifies and evaluates risk at both Group and Business Unit (including assets) level. The Group Risk Management Framework has been designed to ensure, amongst other things, that SSE can address all material issues that threaten the achievement of its strategic objectives including those relating to climate change, as well as all strategic opportunities climate change may present. This framework is outlined on page 129.

In line with the Board's introduction of a specific Group Principal Risk relating to climate change, scenarios relating to both the physical and transitional risks posed by climate change now feature in SSE's viability assessment and climate-related material influencing factors will continue to be considered against all relevant Group Principal Risks. See pages 31 to 36 for more detail.

Climate scenario analysis to assess risk and opportunities

SSE published its *Transition to net zero: the role of gas* report in November 2019, which uses climate scenario analysis to understand the role of its gas businesses in different decarbonisation pathways. The report builds on SSE's *Post Paris* report published in 2017 that undertook a similar analysis for SSE's electricity businesses. Both reports can be found at sse.com/sustainability. SSE also uses scenario analysis in the assessment of the potential financial impacts of climate-related risks and opportunities.

Assessing potential financial impacts of climate change

For the second year in a row SSE has quantified the potential financial impacts of the key climate-related risks and low-carbon opportunities that face its business. More detail can be found in SSE's Sustainability Report 2020 and SSE's CDP Climate Change Programme response, both available at sse.com/sustainability.

For information about how SSE considers the price of carbon in its decision-making, see the Sustainability Report 2020.

Metrics and targets

SSE's carbon emissions performance

SSE's total carbon emissions (scope 1, 2 and 3) decreased by 6.5% between 2018/19 and 2019/20 (excluding SSE Energy Services). The main contributing factors to this decrease included:

- **Emissions from electricity generation activities:** these emissions, which are responsible for 66% of SSE's total carbon emissions, fell by 6% (from 8.76m tCO_2e to 8.21m tCO_2e), with a corresponding reduction in the emissions associated with the raw fuel purchased for the generation of electricity.
- **Emissions from SSE's electricity and gas consumption:** SSE's buildings and operations used less gas and electricity in comparison to the previous year as a result of continued investments in energy efficiency measures combined with lower output from thermal power station assets.
- **Carbon emission factors:** the carbon factors SSE used to calculate its emissions fell as a direct result of the decarbonisation of the GB electricity grid which impacted emissions associated with electricity consumption in buildings and operations and the associated electricity network losses in both the transmission and distribution networks.

SSE's carbon intensity performance

The carbon intensity of SSE's generated electricity increased marginally to 288gCO_2e/kWh in comparison to 284gCO_2e/kWh the previous year. SSE's renewable generation portfolio had another record year in 2019/20, increasing output to 10.8TWh from 9.8TWh the previous year (inc. pumped storage and biomass). In the same period, SSE's carbon emissions from thermal generation fell as a result of output reducing from 21.1TWh to 17.7TWh. The fall in output reflected reduced demand as the UK and Ireland experienced a mild and wet winter, as well as the role thermal plays in providing flexible and efficient generation to support renewable generation on the grid.

While renewable generation output increased and total emissions from thermal generation fell, SSE's carbon intensity performance remaining level was in line with expectations as its approach was to use the remaining coal stocks at Fiddlers Ferry ahead of its closure in March 2020. This resulted in a change to thermal generation output mix compared to the previous year, with gas generation output reducing whilst more carbon intensive coal generation output increased.

SSE remains committed to significantly reducing the carbon intensity of its electricity generation. From 2020/21 its target for this will become more ambitious to align it with climate science. See the following section for more detail.

SSE's science-based target

An important part of SSE's low-carbon strategy is to track and report progress by setting stretching carbon targets. To reflect climate science and global and national momentum on climate change, SSE has set a series of new carbon targets and in April 2020 these were approved by the Science Based Target Initiative (SBTi). These targets reflect the latest climate science and meet the strict SBTi criteria.

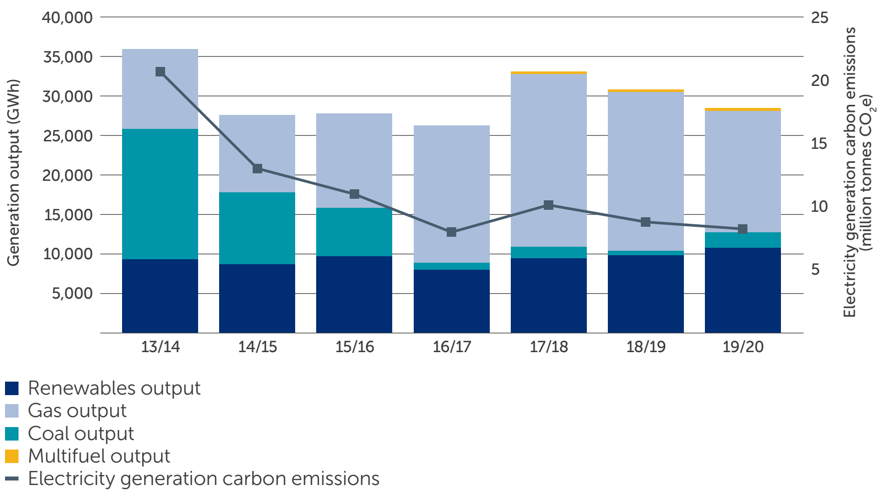
SSE's 2030 Goal for climate action will become more stretching from 2020/21 onwards, now targeting a reduction in the carbon intensity of electricity generated by 60% by 2030, compared to 2018 levels (the previous target was a 50% reduction from 2018 baseline).

This target will be supported by three other targets which focus on reducing absolute emissions from material business activities:

- Reduce absolute scope 1 and 2 GHG emissions by 40% by 2030 from a 2018 base year;
- Reduce absolute GHG emissions from use of products sold by 50% by 2034 from a 2018 base year; and
- Engage with 50% of suppliers by spend to set an SBT by 2024.

SSE will report progress on these targets in the 2021 Annual Report and Sustainability Report.

Generation output (GWh) and electricity generation carbon emissions (million tonnes CO_2e)



Wider environmental performance

Wider environmental performance beyond carbon emissions, for example air emissions and water use data, is provided in detail in SSE's Sustainability Report 2020.

FOR A COMMITMENT **TO GOOD GOVERNANCE**

SSE believes that good corporate governance is fundamental to its strategic goal of creating value for shareholders and society in a sustainable way. It also endorses the Financial Reporting Council's view that corporate governance reporting should align to other parts of the Annual Report, particularly the Strategic Report; and that reporting should show how the governance of the Company contributes to its long-term success and achieves wider objectives. The following Directors' Report has been prepared with these points in mind.

Directors' Report


265

CHAIR'S INTRODUCTION TO THE DIRECTORS' REPORT

GOVERNANCE WITH PURPOSE

Our leadership role
This Directors' Report complements the Strategic Report and further explains how the Board works in support of fulfilling SSE's core purpose, of providing energy needed today and building a better world of energy for tomorrow.

Our leadership role centres on maintaining and overseeing frameworks for strategy, stakeholder engagement, governance, risk management and culture. I hope this Directors' Report and the earlier Strategic Report combined, enable shareholders and other stakeholders to assess the effectiveness of these frameworks and the quality of their outcomes.

Governance with purpose
The introduction of the 2018 UK Corporate Governance Code, which applied to SSE for the first time in 2019/20, was a welcome and well-timed opportunity for us as a Board to reflect upon how we discharge our role in relation to the frameworks set out above. We initiated work early to ensure changes could be meaningfully developed and integrated by the Board and its Committees, and I hope this is evident throughout this Annual Report. The table overleaf provides details of our compliance for the year under review, and I can confirm that work to support Chair succession and address the related position in respect of my tenure has been initiated by the Nomination Committee during the year. Details are provided in its Report on pages 114 to 119.

Engaging, understanding and responding
Engaging goes to the very core of our role; within the Boardroom, across each of SSE's businesses and with shareholders and other stakeholders. Coronavirus has shown that this engagement and our corresponding responses to events must be dynamic. Since early March, the priority of the Board has been SSE's role in supporting the safe and reliable supply of electricity, while protecting employees and helping customers. Whilst the long-term impacts of the pandemic remain unknown, details of our considerations, approach and mitigations where required, are explained on pages 94 to 95.

Around the Board table, oversight has been varied and broad-ranging, covering many of the strategic, financial and operational deliberations which are discussed in the previous pages, in addition to pertinent matters such as governance developments, our sustainability ambitions, assessing culture and managing risk. To support the related decisions we take, appropriate time has again been spent understanding our operating environment, shareholder and stakeholder views, and the complementary engagement that takes place across the Group. An overview of our activities and decision-making throughout 2019/20 is covered on pages 100 to 105.

Meeting the employees who do vital work within SSE's businesses every day continues to be a key area of Board focus. The appointment of Dame Sue Bruce as SSE's non-Executive Director for Employee Engagement in 2018/19 was a natural extension to this long-standing Board activity, and as explained across pages 108 to 110, we value the insights we gain. In 2020/21 we will reinforce our engagement with employees, whose talents, skills and values are fundamental to the Company's success.

Building effectiveness
There is always the ability to improve, and each year we take the Board evaluation as an important opportunity to reflect upon our own performance and agree meaningful actions to drive positive change. As set out on pages 112 to 113, I believe that good progress was made following the external evaluation of 2018/19. Through our internally-led assessment this year, we agreed to retain focus on the areas of talent and inclusion, and consider methods to progress our engagement work described above. We will again assess and report on progress in 2020/21 to ensure that we as a Board adapt and address SSE's needs.

The importance of fulfilling SSE's core purpose is at the heart of the way in which the Board is composed, and the Directors' individual and collective skills, knowledge and insights must support both this, and progress towards SSE's vision of being a leading energy company in a net-zero world. Through the work of the Nomination Committee, I was pleased to welcome Dame Angela Strank as an additional non-Executive Director from 1 May 2020. Her breadth and depth of sector and operational experience and understanding of climate issues will complement the existing skills already evident in the Board.

Supporting the Board
We continue to be supported by the work of our Committees whose full reports follow across pages 114 to 157. As noted, key recommendations from the Nomination Committee have centred on people and succession. The Audit Committee has now overseen the first year following a transition in the External Auditor, working with Ernst and Young LLP. The Energy Markets Risk Committee will formally remain in place, following agreement of the enhanced role it has played in overseeing the management of commodity price exposures. The Safety, Health and Environment Advisory Committee has championed safety, employee wellbeing and the environment, and seen improved performance across all three. And the Remuneration Committee has continued to oversee the alignment between pay and performance, with consideration of balanced and fair outcomes in light of coronavirus.

Looking at 2020/21 and beyond
I write this at a time of considerable uncertainty as brought about by the coronavirus pandemic. Ensuring SSE's response to the challenges it brings is appropriate and effective will be one of the key tasks for the Board in the coming months. I am confident however, that SSE has a corporate culture – in and outside of the Boardroom– that will result in the right decisions and actions to promote the success of SSE for the long term.

Richard Gillingwater CBE
Chair
16 June 2020

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2018

The Annual Report for the year ended 31 March 2020 is the first to be published by SSE since the UK Corporate Governance Code 2018 (the Code) became applicable to it. The application of the Principles is evidenced throughout this Annual Report and the table below is designed to help shareholders evaluate how this has been done. The Board considers that compliance with the Provisions has been achieved during 2019/20, with the exception of Provision 19 in respect of Chair tenure. An explanation of the actions which are being taken to address and mitigate the position are set out on page 117.

Section 1: Board leadership and company purpose

	Page reference
A. An effective and entrepreneurial Board promotes the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society.	pages 1 to 85, 100 to 105
B. Purpose, values and strategy are set and align with culture, which is promoted by the Board.	pages 100 to 101, 106 to 107
C. Resources allow the Company to meet its objectives and measure performance. A framework of controls enables assessment and management of risk.	pages 1 to 85, 28 to 36, 128 to 129
D. Engagement with shareholders and stakeholders is effective and encourages their participation.	pages 12 to 15, 100 to 101, 108 to 110
E. Oversight of workforce policies and practices ensures consistency with values and supports long-term sustainable success. The workforce is able to raise matters of concern.	pages 79 to 81, 102 to 110, 118 to 119

Section 2: Division of responsibilities

	Page reference
F. The Chair is objective and leads an effective Board with constructive relations.	pages 97 to 99, 113
G. The Board comprises an appropriate combination of non-Executive and Executive Directors, with a clear division of responsibilities.	pages 90 to 93, 96 to 98
H. Non-Executive Directors commit appropriate time in line with their role.	pages 90 to 93, 99, 113
I. The Company Secretary and the correct policies, processes, information, time and resources support Board functioning.	pages 98 to 99, 102 to 105, 111

Section 3: Composition, succession and evaluation

	Page reference
J. There is a procedure for Board appointments and succession plans for Board and senior management which recognise merit and promote diversity.	pages 114 to 119
K. There is a combination of skills, experience and knowledge across the Board and its Committees. Tenure and membership are regularly considered.	pages 90 to 93, 114 to 119
L. Annual evaluation of the Board and directors considers overall composition, diversity, effectiveness and contribution.	pages 112 to 113

Section 4: Audit, risk and internal control

	Page reference
M. Policies and procedures ensure the independence and effectiveness of internal and external audit functions. The Board satisfies itself of the integrity of financial and narrative statements.	pages 120 to 129
N. A fair, balanced and understandable assessment of the Company's position and prospects is presented.	pages 1 to 85, 124, 161 to 284
O. Procedures manage and oversee risk, the internal control framework and the extent of Principal Risks the Company is willing to take to achieve its long-term strategic objectives.	pages 28 to 36, 128 to 129

Section 5: Remuneration

	Page reference
P. Remuneration policies and practices are designed to support strategy and promote long-term sustainable success, with executive remuneration aligned to Company purpose, values and strategic delivery.	pages 136 to 157
Q. A transparent and formal procedure is used to develop policy and agree executive and senior management remuneration.	pages 136 to 157
R. Independent judgement and discretion is exercised over remuneration outcomes taking account of the relevant wider context.	pages 136 to 157

The Code is published by the Financial Reporting Council, a full copy of which can be viewed on its website www.frc.org.uk.

BOARD OF DIRECTORS

CHAIR

1 Richard Gillingwater CBE

EXECUTIVE DIRECTORS

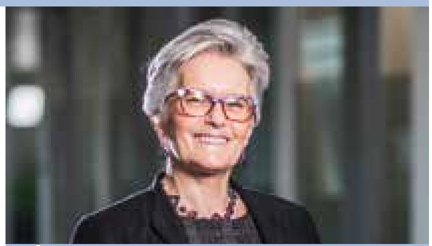
2 Alistair Phillips-Davies

3 Gregor Alexander

4 Martin Pibworth

INDEPENDENT NON-EXECUTIVE DIRECTORS

5 Crawford Gillies



6 Dame Sue Bruce DBE

7 Tony Cocker

8 Peter Lynas

9 Helen Mahy CBE

10 Melanie Smith

11 Dame Angela Strank DBE

COMPANY SECRETARY

12 Sally Fairbairn

KEY

Committee membership

- NC Nomination Committee
- AC Audit Committee
- ER Energy Markets Risk Committee
- SHE Safety, Health and Environment Advisory Committee
- RC Remuneration Committee
- ◯ Committee Chair

BOARD CHANGES

As announced on 27 March 2020, Dame Angela Strank joined the Board as a new non-Executive Director on 1 May 2020 and became a member of the Nomination Committee and Safety, Health and Environment Advisory Committee as of the same date.

EXTERNAL APPOINTMENTS

The Board considered and approved the new external appointments undertaken by Richard Gillingwater and Melanie Smith during the period. In each case it was confirmed that they would not impact upon the time commitment or objectivity required to discharge their respective duties as Directors of SSE.

1

Richard Gillingwater CBE

Chair

NC ER RC

Date of appointment

Non-Executive Director since May 2007

Appointed Deputy Chair in January 2015 and has been Chair since July 2015

Individual skills and experience

Richard has extensive and diverse leadership experience, and a sound practical understanding of corporate governance having held the position of Chair, Senior Independent Director and non-Executive Director across a number of private and public sector organisations, including Janus Henderson, the Shareholder Executive and CDC Group plc. In conjunction with a City career spanning over 20 years, he has a deep appreciation of capital markets and investor sentiment which he brings to Board deliberations, in addition to financial expertise. Matters surrounding the long-term direction of the Company, including strategic development, are supported by a long-standing, developed knowledge of the energy sector and the environment in which SSE operates. Richard has an interest in the broader role of business in society and is a member of the Future of the Corporation Corporate Advisory Group, and is committed to ensuring stakeholder views are heard, understood and considered in the Boardroom.

Key external appointments and changes during the period

- Chair of Janus Henderson Group plc
- Senior Independent Director of Whitbread plc
- Governor of the Wellcome Trust (appointed in September 2019)

2

Alistair Phillips-Davies

Chief Executive

Date of appointment

Executive Director since January 2002 and Chief Executive from July 2013

Individual skills and experience

Alistair joined SSE in 1997 and through a variety of senior roles possesses extensive knowledge of each business area. Prior to joining the Board in 2002 as Energy Supply Director, Alistair was Director of Corporate Finance and Business Development. In 2010, he became Generation and Supply Director, before becoming Deputy Chief Executive in 2012, then Chief Executive in 2013. Alistair's career has supported the development of sound leadership skills, and a considered strategic approach to business matters. He has a detailed understanding of the energy markets in Great Britain and Ireland, including the factors which can have a material impact on the operating context such as politics and regulation. He is a Fellow of the Energy Institute and holds a broad knowledge of markets across Europe as a former Vice President of Eurelectric. Through regular and proactive engagement, he understands stakeholder priorities, and provides focus to people development and efficient operations in order to develop SSE's capabilities for future growth.

Key external appointments and changes during the period

- Member of Scottish Energy Advisory Board

- Stepped down as Vice President of Eurelectric in May 2019
- Stepped down as a member of the Accenture Global Energy Board in November 2019

3

Gregor Alexander

Finance Director

ER

Date of appointment

Finance Director since October 2002

Individual skills and experience

Gregor joined SSE in 1990 and has been Finance Director on the Board since 2002. Prior to Finance Director, Gregor worked in various senior finance roles and led specialist teams such as Treasury and Tax. Over the course of his career, he has directed significant corporate projects and has been instrumental in the major transactions and investments which define the SSE Group, supported by his experience of operating within an evolving energy sector and an understanding of the risks and opportunities which this can present. His extensive knowledge of financial markets and shareholder views has influenced the development of SSE's financial strategy to create long-term value, demonstrated through sustainable debt financing, and the commitment to Fair Tax and the Living Wage. The Board benefits from Gregor's regulatory insight through his role as Chair of Scottish and Southern Energy Power Distribution and of Scotia Gas Networks.

Key external appointments and changes during the period

- Chair of Scotia Gas Networks Ltd
- Non-Executive Director of Stagecoach Group plc

4

Martin Pibworth

Energy Director

ER

Date of appointment

Executive Director since September 2017

Individual skills and experience

Martin joined SSE in 1998 as an energy trader, which was followed by a series of commercial roles before becoming Managing Director, Energy Portfolio Management, and a member of SSE's then Management Board, in 2012. In 2014, he was appointed Managing Director, Wholesale, and a member of SSE's Group Executive Committee, taking on responsibility for SSE's electricity generation assets and associated capital investment programme. Martin has overseen the development of SSE's diverse and flexible generation portfolio including its growing renewable fleet. Having joined the Board in 2017 as Energy Director, he currently leads on SSE's renewables, thermal, customer and energy portfolio management businesses. He brings significant knowledge of energy markets and experience of commercial, technical and operational matters, with his innovative approach to strategy in seeking opportunities to create future value being a key Board attribute.

Key external appointments and changes during the period

- Member of Energy UK Board

BOARD OF DIRECTORS CONTINUED

5

Crawford Gillies

Senior Independent Director

NC AC ER RC

Date of appointment

Non-Executive Director since August 2015

Individual skills and experience

Crawford has substantial international and cross-sector experience, including in utilities, which has been gained through a career of over 40 years. With this, he has expertise in the development of corporate strategy for multi-business organisations. Through both private and public sector roles in the areas of management consultancy, finance, risk, and trade and industry, he brings strong commercial knowledge to the Board. This experience provides SSE's businesses with the benefit of extensive external insight and breadth of outlook. Having served on the Board and Board Committees of a number of organisations, including in the position of Chair, and twice as a FTSE 50 Senior Independent Director, he has the oversight and understanding required for his current Board role. This includes an established view and understanding of governance and Boardroom dynamics.

Key external appointments and changes during the period

- Senior Independent Director of Barclays plc
- Chair of The Edrington Group Ltd

6

Dame Sue Bruce DBE

Non-Executive Director

NC RC

Date of appointment

Non-Executive Director since September 2013

Individual skills and experience

Sue has extensive public sector experience from a career which spanned almost 40 years, holding a variety of roles in local government, including the position of Chief Executive at East Dunbartonshire Council, Aberdeen City Council, and latterly the City of Edinburgh Council. Her strategic and operational experience of leading organisations with large numbers of employees, significant assets, construction projects, and an important place in the community they serve, make her an excellent source of knowledge on these matters for the Board, as does her experience in stakeholder engagement. This experience in relationship building, and collating and understanding a diverse range of views, is evident in her roles as Remuneration Committee Chair and non-Executive Director for Employee Engagement. Sue has also held a number of Board and Board Committee positions in organisations across the arts, education and charitable sectors.

Key external appointments and changes during the period

- Convenor of Court of the University of Strathclyde
- Trustee of the Prince's Foundation
- Chair of the Royal Scottish National Orchestra
- Electoral Commissioner, The Electoral Commission
- Independent Chair of Nominations Committee, The National Trust for Scotland

- Stepped down as Governor of Erskine Stewart Melville School in November 2019

7

Tony Cocker

Non-Executive Director

NC AC ER SHE

Date of appointment

Non-Executive Director since May 2018

Individual skills and experience

Tony possesses highly detailed knowledge of the energy sector gained through a 20 year career with E.ON. He brings wide-ranging and relevant insight to the Board regarding technical and operational matters, including energy infrastructure and assets, and a comprehensive understanding of commodity markets, energy trading and risk. Latterly, as CEO and Chair of E.ON UK plc, which comprised E.ON's main businesses in the UK, Tony oversaw the supply of energy to households, businesses and communities, digital transformation programmes and the smart meter roll-out. This industry experience in combination with his current external appointments, enhances the Board's knowledge of trends relevant to SSE's operations and of utilities regulation. Tony has experience in strategic planning and development through early consultancy roles, and in governance and energy and utility stakeholder management, through his non-executive roles.

Key external appointments and changes during the period

- Chair of Affinity Water Ltd
- Chair of Infinis Energy Management Ltd
- Deputy Chair and Governor of Warwick Independent Schools Foundation

- Stepped down as Chair of Energy Innovation Centre Ltd in April 2020

8

Peter Lynas

Non-Executive Director

NC AC RC

Date of appointment

Non-Executive Director since July 2014

Individual skills and experience

Peter has over 30 years business experience spanning all areas of finance. As a Fellow of the Chartered Association of Certified Accountants and through his recently retired role as Finance Director, BAE Systems plc, he brings recent and relevant financial experience to the Board and strong direction to the Audit Committee. Within BAE he previously served as Director, Financial Control, Reporting and Treasury, and his early career involved roles within GEC Marconi, where he was appointed Finance Director of Marconi Electronic Systems prior to the completion of the British Aerospace/Marconi merger. This background affords international experience, in addition to an understanding of long-term project management and delivery, including investment appraisal and contracting. Peter also brings pensions experience having been Chair of the trustee Board of a major UK scheme.

Key external appointments and changes during the period

- No key external appointments

- Stepped down as Group Finance Director of BAE Systems plc in March 2020
- Stepped down as Member of the BAE Systems Inc Board in the US in March 2020

9

Helen Mahy CBE

Non-Executive Director

NC AC SHE

Date of appointment

Non-Executive Director since March 2016

Individual skills and experience

Helen's depth of knowledge of the energy sector brings valuable external perspective to discussions. Through her previous role of Company Secretary and General Counsel at National Grid plc, she has a comprehensive understanding of legal, compliance, governance and risk issues, and of the regulatory framework in which SSE's businesses operate. As a member of the Parker Review steering committee into the Ethnic Diversity of UK Boards, a patron of the charity Social Mobility Business Partnership, and an Equality and Human Rights Commissioner, she brings knowledge of, and interest in, inclusion and diversity, and cultural focus to the Board. Helen's previous directorships include Aga Rangemaster plc, Stagecoach Group plc, SVG Capital plc and she was formerly chair of MedicX Fund Limited. Through these cross-sectoral and international roles she has experience in investor and stakeholder engagement.

Key external appointments and changes during the period

- Chair of The Renewables Infrastructure Group Limited
- Non-Executive Director of Bonheur ASA
- Equality and Human Rights Commissioner

- Stepped down as Deputy Chair and Senior Independent Director of Primary Health Properties PLC in April 2020

10

Melanie Smith

Non-Executive Director

NC SHE RC

Date of appointment

Non-Executive Director since January 2019

Individual skills and experience

Melanie has over 20 years in-depth strategy experience, advising on strategy and transformation to consumer and retail clients worldwide. She is currently CEO of Ocado Retail, the world's largest online only grocer and the no.1 online supermarket in the UK. Prior to this she was Strategy Director for Marks & Spencer with responsibility for group strategy, M&S Bank and M&S Services. Earlier roles include Global Strategy and Marketing Director at Bupa and Chief Operating Officer at TalkTalk. This career experience, in conjunction with insight from her time as partner in McKinsey's Consumer practice, brings deep commercial and customer experience across multiple goods and services categories, including insurance, telco and energy. Having overseen and led operational teams, she brings further valuable perspectives surrounding people leadership and development.

Key external appointments and changes during the period

- CEO, Ocado Retail Limited (appointed in August 2019)
- Trustee at Beat
- Advisory Board member of Manaia
- Trustee of Sadlers Wells (appointed in February 2020)

- Stepped down as Strategy Director, Marks & Spencer in August 2019

11

Dame Angela Strank DBE

Non-Executive Director

NC SHE

Date of appointment

Non-Executive Director since May 2020

Individual skills and experience

Angela has a depth of executive experience through a long-standing international career at BP, in which she has held a variety of business and technical leadership positions spanning the areas of technology and digital, innovation, engineering and renewables. Her notable contribution has been recognised through appointment to the BP plc Executive Team in 2018, and a number of scientific and engineering fellowships and awards, including a DBE in 2017. Currently, she is Head of Downstream Technology and Group Chief Scientist of BP plc, and will fully retire from these roles by the end of 2020. Through this career and her non-executive Board activities, she brings broader energy industry expertise, including applicable sector regulation, and has an international outlook from working in the Middle East, Europe, Africa and America. Corporate social responsibility and sustainability impacts are key areas of interest, having worked actively in climate science research, pioneered women in STEM careers and been a champion of inclusion and diversity.

Key external appointments and changes during the period

- Head of Downstream Technology and Group Chief Scientist of BP plc (will retire in December 2020 with a handover of the roles currently underway)
- Non-Executive Director of Severn Trent plc
- Non-Executive Director of Rolls Royce plc (appointed in May 2020)
- Member of the Royal Society's Science, Industry & Translation Committee

12

Sally Fairbairn

Company Secretary and Director of Investor Relations

Date of appointment

Company Secretary and Director of Investor Relations since December 2014

Individual skills and experience

Sally joined SSE in 1997 as a chartered accountant working in the Corporate Finance team. Through this role which included responsibility for long-term financial modelling of the SSE Group, she developed a good knowledge of the Group's diverse operations and the UK energy industry. In 2007 Sally became Director of Investor Relations and Analysis, allowing her to develop extensive experience of the shareholder and financial analyst community, and through associated engagement has a detailed understanding of relevant investor views. Sally was appointed to the joint role of Company Secretary and Director of Investor Relations in December 2014.

RESPONDING TO CORONAVIRUS

The coronavirus pandemic was declared in March 2020 towards the end of SSE's financial year, and has brought significant human, social, economic and business uncertainty. Since then, the Board has taken steps to understand and mitigate the risks posed by, and the impacts arising from, the ongoing situation. This has been founded on the approach to governance explained across this Directors' Report and on the Board's responsibility to promote SSE's long-term success.

Setting the over-riding priority

The Board confirmed that SSE's over-riding priority during the pandemic should be to play its part in supporting the safe and secure supply of electricity at local, regional and national level, on which the people and organisations whose work is critical to the coronavirus response depends. This over-riding priority was set out in a routine update issued via the Regulatory News Service (RNS) prior to SSE's year-end in March 2020.

Setting a new date for publication of the financial results

The Board noted a statement of policy issued by the Financial Conduct Authority in March 2020 which recognised the unprecedented challenges faced by companies, and their auditors, in preparing audited financial information as a result of the coronavirus pandemic. Following discussions with SSE's auditors, EY, the Board concluded that SSE should defer publication of its financial results for 2019/20 from May 2020 to June 2020.

Being transparent about the issues arising from coronavirus

The Board recognised that forecasting with accuracy the human, social and economic effects of coronavirus, and its impact on companies such as SSE would be very difficult. This point was further acknowledged in the routine update issued in March 2020, and the possible impacts affecting the 2019/20 and 2020/21 financial year addressed.

Adapting operation of the Board to address coronavirus

Since and including March 2020, all full meetings of the Board and its Committees have been conducted virtually with full attendance. The agendas have been developed with active consideration of the status of the coronavirus pandemic and the current priorities of the SSE Group, with practices already in place to allow decision-making surrounding both routine and new Board business to continue. Following the decision to defer publication of the financial results for 2019/20, additional meetings of the Audit and Remuneration Committees were arranged and took place in June 2020.

Reviewing the initial response to coronavirus

Prior to the March 2020 Board meeting, a comprehensive update was provided on preparedness and response activities which were being overseen through a command team structure, to ensure control and co-ordination across the SSE Group given the evolving nature of the pandemic. This provided confirmation of employee safety, business resilience and mitigating actions being driven by senior management, providing a backdrop for the operational, financial and commercial discussions that would follow at Board level.

Monitoring the ongoing response to coronavirus

Standing updates from the Executive Directors and senior leaders has provided assurance of operational continuity and possible headline impacts of coronavirus arising from human, social and economic factors. These have been reported in conjunction with the ongoing dialogue with government authorities and other stakeholders across the UK and Ireland surrounding SSE's role during the pandemic. This has included supporting customers and the communities in which SSE operates. For further details of SSE's commitment through the C-19 pledge see page 75.

Supporting employees

In addition to fulfilling SSE's core purpose, the Board agreed that employee support and wellbeing should be a key responsibility during, and at the forefront of, response workstreams – recognising also that the pandemic represented a test of the efficacy of the Company's culture. In line with that, the Board endorsed the decision not to "furlough" any employees within SSE; and encouraged an extensive programme of employee engagement. Since then, the planned activities for Dame Sue Bruce as non-Executive Director for Employee Engagement have continued, allowing conversations to take place remotely with a number of operational and front line teams with reflections communicated to the Board (see page 108). Additionally, the Chair, Tony Cocker and the Executive Directors, participated in separate virtual sessions to answer employee questions and gain understanding of material issues during this time.

Listening to the views of shareholders

Shareholder feedback and engagement has continued despite the coronavirus outbreak, with significant shareholder perspectives having been received and considered. This has been accompanied by confirmation of enduring investor priorities, including long-term focus, a commitment to addressing the climate crisis and the importance of broader ESG issues. Specific feedback was received following the routine trading update in March 2020 and extensive dialogue with shareholders will continue, in line with SSE's broader commitment to meaningful engagement with key stakeholder groups.

Adapting the strategy review process

The Board has an ongoing process for strategy review (see page 101), which has in recent years included a bespoke and substantive session each June. In light of coronavirus this was adapted to take place in two-parts, across May 2020 and June 2020, to allow for a robust assessment of the impact of coronavirus on SSE's financial results and incorporation of relevant matters arising from the operating context. Strategic focus for 2020/21 will therefore be re-confirmed against the external environment and any evolving stakeholder needs.

Overseeing financial management

The sensitivity to coronavirus impacts of funding, liquidity, and the planned Company budget for 2020/21 was first assessed in March 2020, and was subject to further assessments in April, May and June 2020, in support of ensuring effective financial management. Throughout this, the Board confirmed SSE's financial position and agreed to monitor the level and timing of operational and capital expenditure under SSE's ongoing low carbon investment programme. Flexibility in funding and refinancing plans was supported by approval of a senior bond issuance in April 2020, following close monitoring of capital markets during a volatile period. SSE's viability assessment followed in June 2020 see page 30.

Augmenting the risk review process

Assessment and confirmation of SSE's Group Principal Risks was conducted in line with the standing annual timeline ahead of the coronavirus pandemic being declared. At the request of the Board, an additional assessment was completed to enable reflection on whether there had been any changes to the risk profile in which the Group's businesses operate. The conclusion was that SSE's Group Principal Risks have not changed, however, the prevalence of some of their material influencing factors has. Further details are set out on pages 23 and 28 to 36.

Adapting the Annual General Meeting (AGM)

The Board agreed that the delay in the release of SSE's financial results for 2019/20, in combination with social distancing measures, required changes to both the date and format of SSE's planned AGM for July 2020. In considering the approach which should be adopted, influencing factors were shareholder and employee safety, and the requirement to safeguard shareholder engagement and participation. Further details of the arrangements are set out in SSE's Notice of AGM 2020.

Recommending the final dividend

The Board confirmed in March 2020, after the coronavirus outbreak, that it still intended to recommend a full-year dividend of 80 pence per share; and stated that intention in the routine trading update issued in March 2020. In that update, SSE made reference to dividend decisions having regard to the expectations of all key stakeholder groups and being in line with the Board's commitment to promote the success of the Company for the long term. Against this background, in June 2020, the Board confirmed two objectives for SSE that it believes to be related: sustaining dividend payments, on which people with savings and pensions depend, through short-term adverse economic and business conditions; and promoting the long-term success of the Company for the benefit of all of its stakeholders. It therefore agreed to recommend a final dividend of 56 pence per share, making a full-year dividend of 80 pence per share, for payment in September 2020.

SUPPORT FROM THE BOARD COMMITTEES

Audit Committee

In line with its role, the work of the Audit Committee from March 2020 was shaped by the extended External Audit timeline and the decision to set a new date for the publication of the financial results. The potential impact of coronavirus on SSE's businesses in the current year, and also on the short- to medium-term forecast with an expected reduced demand for electricity, received Committee focus. Further details can be found on pages 120 to 129.

SHEAC

The SHEAC agenda in March 2020 centred on SSE's ongoing response to the pandemic situation, with live updates provided on SHE matters, government guidance and employees. The Committee will continue to respond to the key SHE issues that arise in relation to coronavirus and provide support for the safe delivery of SSE's core purpose throughout this time. See pages 132 to 135.

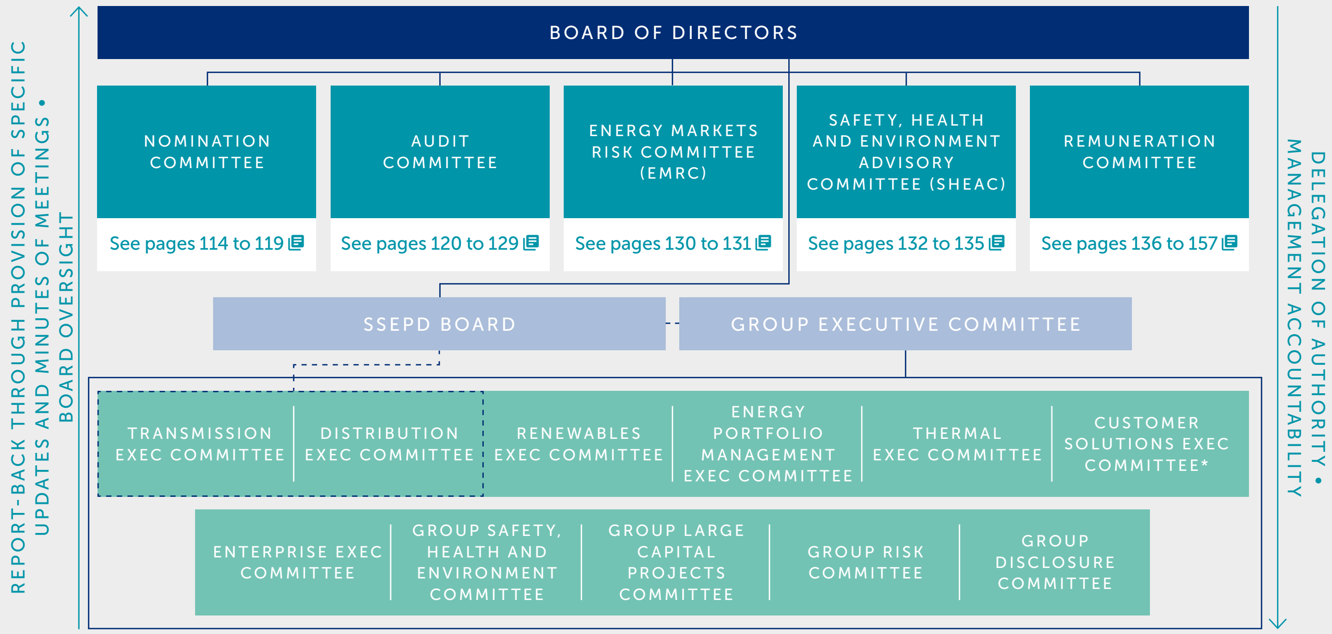
Remuneration Committee

At the March 2020 meeting of the Remuneration Committee, potential impacts of the coronavirus pandemic on executive pay were discussed and it was agreed that decision making on base salary, fees and incentives should be delayed until the additional meeting in June 2020. Details of how the position was monitored to ensure a fair and balanced approach to executive remuneration, whilst understanding the wider impacts across SSE's stakeholders is set out on pages 136 to 157.

CORPORATE GOVERNANCE CONTINUED

GOVERNANCE FOR **LONG-TERM SUCCESS**

SSE's Governance Framework



* Comprising SSE Business Energy and SSE Airtricity.

SSE's Governance Framework is supplemented by and reflective of: SSE's Articles of Association; the Board's Schedule of Reserved Matters; applicable law and regulation including the Companies Act 2006 and the Code; Directors' Letters of Appointment and Individual Role Profiles; SSE's Financial Approvals Framework; and Committee Terms of Reference.

Meetings and attendance during 2019/20

	Board	Nomination Committee	Audit Committee	EMRC	SHEAC[1]	Remuneration Committee
Meetings held during the year	7	4	4	5	4	3
Richard Gillingwater	7/7 (C)	4/4 (C)	–	5/5	–	3/3
Dame Sue Bruce	7/7	4/4	–	–	1/2[2]	3/3 (C)
Tony Cocker	7/7	4/4	4/4	5/5 (C)	4/4	–
Crawford Gillies	7/7	4/4	4/4	5/5	–	3/3
Peter Lynas	7/7	4/4	4/4 (C)	–	–	2/3[3]
Helen Mahy	7/7	4/4	4/4	–	4/4 (C)	–
Melanie Smith	7/7	4/4	–	–	4/4	1/1[4]
Alistair Phillips-Davies	7/7	–	–	–	–	–
Gregor Alexander	7/7	–	–	5/5	–	–
Martin Pibworth	7/7	–	–	5/5	–	–

1 The membership of the SHEAC comprises a number of senior employees in addition to the non-Executive Directors. Details and attendance are as follows: Chief Sustainability Officer (4/4); Managing Director, Networks (4/4); Managing Director, Renewables (4/4); Managing Director, SSE Enterprise Utilities (3/4); Group Safety, Health and Environment Manager (4/4).

2 Dame Sue Bruce stepped down from the SHEAC prior to the November 2019 meeting and was unable to attend the September meeting due to medical reasons.

3 Peter Lynas was unable to attend the November 2019 meeting of the Remuneration Committee due to a previously arranged personal commitment.

4 Melanie Smith joined the Remuneration Committee in January 2020.

Where a Director is unable to attend a meeting of the Board or a Board Committee, feedback is provided on the corresponding agenda and materials, which is communicated by the Committee Chair or Secretary within the meeting to ensure that it is incorporated into relevant discussions and actions.

SSE BOARD OF DIRECTORS

Role. The Board has collective responsibility for leading the SSE Group and promoting its long-term success. It has the prime role of confirming SSE's purpose and establishing its vision; agreeing a sustainable strategy that clearly supports this intent; and setting cultural and behavioural expectations that drive responsible business conduct. Underpinning successful execution and continued Board oversight of these matters is SSE's Governance Framework.

As depicted opposite, the Governance Framework defines the agreed delegation of authority and responsibilities within the SSE Group, such that there is clear accountability at every level. It is designed to enable review and challenge of management performance; is a pillar of SSE's System of Internal Control; and supports the processes by which principal and emerging risks are identified and managed.

Composition. As at 31 March 2020, SSE's Board of Directors comprised the Chair, six independent non-Executive Directors and three Executive Directors. As announced on 27 March 2020, Dame Angela Strank joined as an additional independent non-Executive Director on 1 May 2020. Across this membership there are additional responsibilities assigned to specific Board roles which are explained further on page 98.

The composition of the Board is subject to ongoing review and is a responsibility delegated to the Nomination Committee. Changes typically follow the progression of succession plans or can be in response to relevant findings from the annual Board evaluation or shareholder feedback. Upon appointment, the Chair and non-Executive Directors undertake a fixed term of three years subject to annual re-election by shareholders, which can be further renewed by mutual agreement. As explained on page 115, the collective experience of the Directors is designed to strengthen the work of the Board, through clear alignment between their respective competencies and SSE's core purpose and operating context, including the role of key stakeholder groups. All Board-level deliberations further benefit from diversity of approach due to each Director's wider background, career development and training.

BOARD COMMITTEES

Role. The Board is directly assisted in the discharge of its duties by five Board Committees, whose remit, authority and composition is monitored to ensure effective Board support. Each Committee provides dedicated focus to a defined area of responsibility, with the nature of delegated work ranging from a recommendation being made to the Board, or if within its agreed authority, a final decision being taken on behalf of the Board. Further information on the specific role of each Committee is set out in their respective reports across pages 114 to 157.

Composition. Board Committee membership is determined by the Board, on the recommendation of the Nomination Committee in consultation with the relevant Committee Chair. Any recommendation will consider the subject matter of the Committee's work, and the technical skills, knowledge and experience required, whilst recognising the benefits associated with diversity.

GROUP EXECUTIVE COMMITTEE

Role. The Group Executive Committee is accountable to the Board for implementation of agreed strategy. This is achieved through the management of SSE's businesses, oversight of Group-wide performance and operational governance on a day-to-day basis. It is in turn supported by its own Committee structure. The operating rhythm of the Committee results in typically monthly meetings.

Composition. As at 31 March 2020, the membership of the Group Executive Committee comprised the: Chief Executive; Finance Director; Energy Director; Managing Director, SSEN Distribution; Managing Director, SSEN Transmission; and Managing Director; SSE Renewables. The Company Secretary is Secretary to the Group Executive Committee and the General Counsel and Managing Director, Corporate Affairs and Sustainability, attend meetings. From 1 April 2020, in succession to the Managing Director, Corporate Affairs and Sustainability, the Director of Corporate Affairs and Strategy will attend meetings and will be joined in addition by the Director of HR. At this time the General Counsel will become a member to reflect the role of the Group Executive Committee under SSE's revised operating model (see Empowered and accountable business executive committees below).

SSEPD BOARD

Role. The Scottish and Southern Energy Power Distribution (SSEPD) Board oversees SSE's economically regulated electricity networks businesses (which trade as SSEN Transmission and SSEN Distribution) in compliance with the applicable regulatory license conditions. It reports directly to the SSE plc Board and advises the Group Executive Committee of relevant decisions and developments where appropriate.

Composition. The Finance Director is Chair of the SSEPD Board, with the membership comprising senior leaders from within SSEN, Group Regulation and Group Sustainability, in addition to two external independent members who are not involved in any other forums within the SSE Group.

EMPOWERED AND ACCOUNTABLE BUSINESS EXECUTIVE COMMITTEES

On 1 April 2019, a revised operating model was implemented to support SSE's agreed low-carbon strategy; which saw the creation of distinct business units and reform of the sub-Committees which report to the Group Executive Committee. With SSE's Governance Framework being a reserved matter, the approval and subsequent updates on progress were reviewed by the Board. The new operating model features empowered and accountable business units that are designed to maximise the benefit of specialist knowledge, insight and stakeholder engagement in support of SSE's strategic goal of creating value for shareholders and society. These business units are led by bespoke executive committees with their strategy, governance and performance overseen by the Group Executive Committee and, ultimately, the Board.

DEFINING CLEARLY BOARD RESPONSIBILITIES

Roles within the Board

The below role specifications set out the clear division of responsibility between executive and non-executive members of the Board and ensure adequate focus on areas central to its role.

NON-EXECUTIVE

Chair

- Leading the effective operation and governance of the Board.
- Setting agendas which support efficient and balanced decision-making.
- Ensuring effective Board relationships and a culture that supports constructive discussion, challenge and debate.
- Understanding the views of key stakeholders and seeking assurance that they have been considered.
- Overseeing the annual Board evaluation and identifying any actions required.
- Leading initiatives to assess the culture across SSE and ensuring the Board set the correct tone.

Senior Independent Director[1]

- Providing a sounding board for the Chair.
- Leading the Chair's performance evaluation.
- Serving as an intermediary to other Directors when necessary.
- Being available to shareholders and other stakeholders if they have any concerns which are unable to be resolved through normal channels, or if contact through these channels is deemed inappropriate.

Independent non-Executive Directors

- Scrutinising, measuring and reviewing the performance of management.
- Constructively challenging and assisting in the development of strategy.
- Providing independent insight and support based on relevant experience.
- Reviewing Group financial information and ensuring the System of Internal Control and Risk Management are appropriate and effective.
- Reviewing the succession plans for the Board and key members of senior management.
- Monitoring and ensuring appropriate actions to support inclusion and diversity in line with Board and Group Policy.
- Engaging with internal and external stakeholders and feeding back insights as to their views, including employees in relation to business culture.
- Setting policy in respect of executive remuneration.
- Serving on or chairing various Committees of the Board.

Non-Executive Director for Employee Engagement[1]

- Representing the Board in discussions with employees.
- Developing, implementing and feeding back on employee engagement initiatives in conjunction with management; providing an employee voice in the Boardroom.
- Communicating to employees the outcomes and developments made by the Board on specific matters.
- Engaging with officers of trades unions and internal trades union representatives on key strategic issues affecting the workforce.

1 The responsibilities of Senior Independent Director and Non-Executive Director for Employee Engagement apply in addition to those of non-Executive Director.

EXECUTIVE

Chief Executive

- Proposing and directing the delivery of strategy as agreed by the Board through leadership of the Group Executive Committee.
- Communicating and providing feedback on the implementation of Board agreed policies, and their impact on behaviours and culture, ensuring SSE operates in a way that is consistent with its values.
- Leading and supporting each of SSE's businesses and the functions of: HR; Corporate Affairs and Strategy; Sustainability; and jointly, Group Change.
- Engaging with SSE's six key stakeholder groups and leading on related activity at EU and UK level.

Finance Director

- Deputising for the Chief Executive.
- Proposing policy and actions to support sound financial management including in relation to funding and net debt.
- Leading SSE's finance teams.
- Overseeing and reporting on SSE's regulated business activities and leading on M&A transactions.
- Leading and supporting the functions of: Finance, Procurement and Commercial; Risk and Audit; Investor Relations and Company Secretarial; the General Counsel areas of responsibility, covering, Legal, Services, Markets Regulation, Compliance and Large Capital Project Services; IT; and jointly, Group Change.
- Overseeing SSE's relationships with the investment community.
- Engaging with SSE's six key stakeholder groups and leading on related activity in Scotland.

Energy Director

- Supporting the work of the Chief Executive and Finance Director.
- Leading the business units which oversee SSE's: renewable assets; thermal generation fleet; gas storage facilities; energy portfolio management and related investments; and energy customer solutions which supply energy to businesses in GB and Ireland and households across Ireland.
- Engaging with SSE's six key stakeholder groups and leading on related activity in Ireland and Northern Ireland.

COMPANY SECRETARY

Company Secretary

- Compliance with Board procedures and supporting the Chair.
- Ensuring the Board has high quality information, adequate time and the appropriate resources.
- Advising and keeping the Board updated on corporate governance developments.
- Considering Board effectiveness in conjunction with the Chair.
- Facilitating the Directors' induction programmes and assisting with professional development.
- Providing advice, services and support to all Directors as and when required.

SETTING
BOARDROOM PRACTICE

Relationships and reporting

The Board, led by the Chair, seeks to nurture a Boardroom culture that supports well-informed and transparent decision making, through constructive dialogue within and outwith Board meetings.

The Board adopts a non-hierarchical approach and meets regularly with, and seeks information from, senior managers, technical specialists and other key teams to whom they have unfettered access, to build understanding of Company or sector issues and opportunities. The development of relationships with management further strengthens both the role of the non-Executive Directors and their ability to constructively challenge, offer guidance and provide counsel in respect of strategic decision-making.

Regular reporting within the Governance Framework, through the provision of minutes from key meetings in every Board meeting pack, and reporting from individuals on significant developments, is an additional and supporting information flow.

Number of non-Executive Director engagements outside of the Boardroom in 2019/20

>20

See pages 108 to 110.

Independence

Director independence of thought and judgement is key to securing balanced outcomes and is protected through a number of mechanisms, including:

- Meetings between the Chair and the non-Executive Directors, individually and collectively, without the Executive Directors present. These are used to discuss areas relevant to the operation and performance of the Board and the SSE Group. Two meetings were held in 2019/20 with no areas of concern raised.
- Separate and clearly defined roles for the Chair, as head of the Board, and the Chief Executive, as head of executive management as set out on page 98. This division of responsibility is supported by a degree of contact outwith Board meetings to ensure an effective ongoing dialogue and channel for the timely escalation of external or internal developments.

The Nomination Committee oversees the overall independence of Board membership and the continuing independence of individual Directors, with the Board deemed independent in line with the recommendations of the Code. Further details of this supporting evaluation and the related conflicts of interest process, which were approved by the Board are set out on page 118.

Independence of the Board excluding the Chair (as at 1 May 2020)

70%

See pages 90 to 93.

Time commitment

The expected time commitment of the Chair and non-Executive Directors is agreed and set out in writing in the Letter of Appointment to the position, at which time the existing external demands on an individual's time are assessed to confirm their capacity to take on the role. Further appointments which could impair the ability to meet these arrangements can only be accepted following approval of the Board. The taking on of any external appointments by an Executive Director is further subject to Board consent. Changes to key external appointments in 2019/20 which were approved by the Board, including reasoning where appropriate, are set out on pages 90 to 93.

Board meeting attendance in 2019/20

100%

See page 96.

SSE's Board Charter

The Board Charter comprises a number of documents and Board-level policies which govern the operation of the Board and its Committees in addition to pertinent Group-wide matters. The contents are subject to annual review to ensure that they remain appropriate to the SSE Group. In 2019/20 the review considered the impact of revised ICSA Terms of Reference guidance notes, building on updates which had been applied in 2018/19 with the release of the 2018 Code.

Board Charter contents

- Articles of Association*.
- Schedule of Reserved Matters*.
- Code of Ethical Business Conduct*.
- SSE's Guide to Governance.
- Board Committee Terms of Reference*.
- Non-Audit Services Policy*.
- Procedure for Taking Independent Advice.
- Non-Executive Directors Shareholding Policy.
- Board Inclusion and Diversity Policy*.
- Responsibilities of key Board roles*.

* Documents are available to read in full on SSE.com in addition to the Directors' Letters of Appointment.

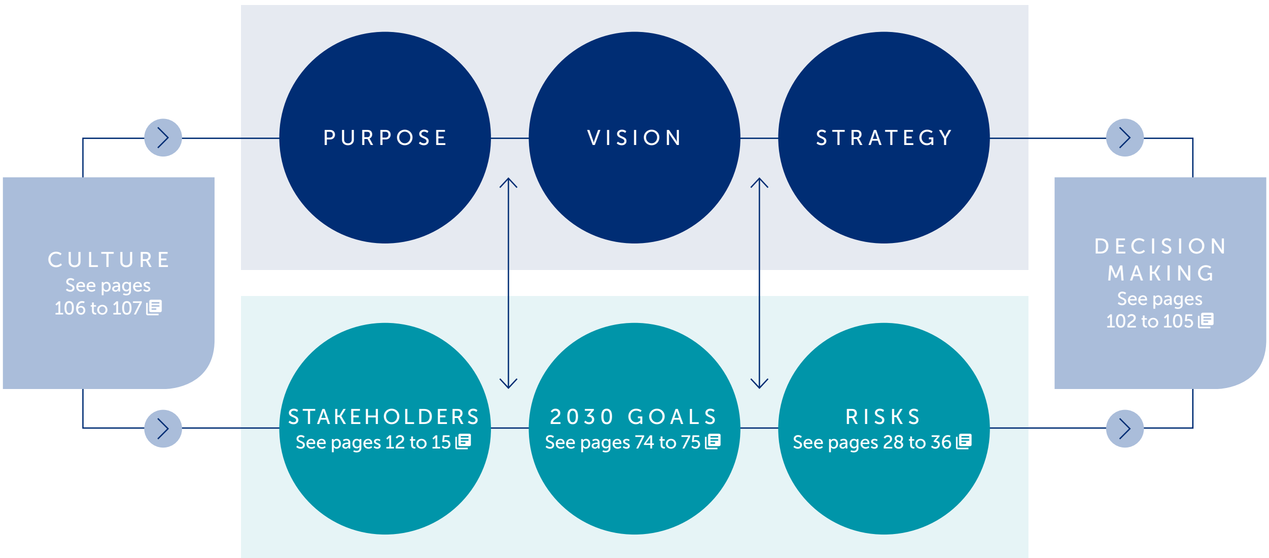
CORPORATE GOVERNANCE CONTINUED

ENSURING EFFECTIVE DECISION-MAKING

Purpose-led considerations

The parameters within which decisions are taken across the SSE Group are ultimately directed by SSE's core purpose, which is designed to drive alignment between why it exists, what it aims to achieve in the future, who it exists for, and how it generates sustainable financial and non-financial value for its key stakeholders. This is discussed further in Our business explained on pages 6 to 9.

The Board-agreed matters of purpose, vision and strategy are not developed in isolation and are influenced by stakeholder views, SSE's sustainable business goals for 2030 and SSE's risk environment. In turn, it is the combination of all of these matters that set the context and expectations in relation to decision-making outcomes, attitudes and behaviours, forming the baseline for management accountability; and in combination with values, contribute to the overall cultural tone across SSE.



Understanding stakeholder views

The views, perspectives and insights of SSE's six key stakeholder groups are influencing factors in the key operational, investment and business decisions that SSE takes. In 2019/20, the Board confirmed its role in relation to stakeholder engagement in SSE is to:

- ensure the strategy of the SSE Group is set in light of the perspectives, insights and opinions of relevant stakeholders, which should be actively sought;
- set an expectation that all key operational, investment or business decisions taken in SSE (whether at business unit or SSE Group-level) demonstrably take account of the perspectives, insights and opinions of relevant stakeholders;
- require Executive Directors and other senior leaders to engage with relevant stakeholders in a dynamic way that ensures current and emerging perspectives, insights and opinions are understood;
- encourage business units to take a progressive view of stakeholder engagement, embracing the spirit as well as the letter of all statutory or regulatory requirements; and
- undertake direct stakeholder engagement which complements, and does not distort or undermine, day-to-day stakeholder engagement.

Further information surrounding SSE's six key stakeholder groups, including engagement, views and outcomes can be found on pages 12 to 15.

Looking forward, the below stakeholder engagement priorities were defined by the Board for 2020/21:

- continued external soundings on strategy;
- engagement surrounding SSE's sustainability goals;
- activities and partnerships with stakeholders to support advances in public policy on climate change;
- continuation of the stakeholder approach adopted to date in the development of RIIO-T2 and RIIO-ED2 ambitions; and
- a refreshed employee engagement approach in line with the change brought about through the sale of SSE Energy Services.

Strategic development

At Board level the development of strategy follows on from SSE's purpose and vision, and is an iterative process characterised by the presence of strategy-related issues on every Board agenda. This is supported by a separate in-depth annual review and at least one additional deep dive per business unit each year.

The annual review which is typically held in June, holistically assesses SSE's external environment, strategic position and its key strategic options. The Board conducts its standing assessment of the Group's Principal Risks, as described on pages 28 to 36 in advance of this, to ensure the strategic decision-making process is informed by a current view of the Group's risk environment and highlights any risks that may impact the achievement of strategic objectives and priorities. Updates at Board meetings enable assessment of progress in relation to Group-wide and material business unit-specific matters, in line with the empowered and accountable operating model adopted since 2019.

Area of focus	Key development in 2019/20
Strategic priorities	During 2019/20, the Board's strategic focus centred on the growth opportunities presented by decarbonisation and how this growth should be funded, with the outcomes agreed including: • growth plans to support SSE's position and portfolio as a developer, owner and operator of renewable assets; • business plan priorities for the next RIIO-2 price control period in Networks, founded on the net-zero transition and stakeholder priorities; • longer-term options for the evolving role of thermal energy, including providing electricity system flexibility to support the achievement in net zero and the maximum possible deployment of renewable energy; and • SSE's approach to financial partnering and divestments to further focus on its core businesses, of which the disposal of SSE Energy Services in January 2020 was part.
Sector trends	In confirming these strategic priorities, the Board has overseen and debated a number of key areas which characterise and have the ability to influence change within the sectors in which SSE's businesses operate. These include trends spanning a general time horizon of 5 to 10 years, with those relating to net zero extending out to 2050, such as: • the sizing of market growth opportunities and the changing structure of the industry, including the impact of global competition and changing regulation of electricity infrastructure; • the implications of net-zero targets across the power, heat and transport sectors in relation to electrification and the impact of this on SSE businesses; • forecasts around long-term electricity prices, future market design and the risks associated with these; • developments in technology, including the resultant change in technology costs; • trends in capital markets including a shift towards ESG-driven investment and the long-term focus on a progressive role for utilities as enablers of the net-zero transition; and • SSE's current and future capabilities, including the synergies and links across business units. Analysis and debate around these topics was informed by a range of inputs from specialist teams across SSE including: Corporate Finance; Energy Economics; business unit leadership teams; and Group Strategy. This was further augmented with a range of guest speakers from management consultancies, energy consultancies and academia. Further commentary on key external trends affecting SSE is set out on pages 24 to 27.
External challenge	Following agreement, the legitimacy of the strategic proposals is also assessed in part through external soundings, which involve the gathering of views from experts in academia, business, consultancy, government and politics. For 2019/20, this assessment evaluated the key risks and opportunities to SSE's businesses from developments in technology, politics and competitors; and reflective of commitments to net zero and ongoing Brexit developments, additional specific focus was given to policy developments over the coming decade. The external review conclusions were shared with the Board and a number of recommendations taken forward to SSE's individual business units.
Sustainability	SSE's purpose, vision and strategy are intended to have sustainability at their heart, reflected in SSE's four business goals for 2030 and the related commitment to fulfilling SSE's social contract with the societies in which it operates. In practice, this requires deep understanding of stakeholders' perspectives and a commitment to understanding and managing SSE's key environmental, social and economic impacts.

BOARD ACTIVITY AND ACTIONS

Board meetings

There were seven scheduled meetings of the Board in the period to 31 March 2020 and details of Director attendance can be found on page 96. In the months between full Board meetings, a Board update call provides the opportunity to discuss key business developments, and emerging issues and opportunities, with arrangements also in place should a Board decision or approval be required out with the above times.

Scheduled meetings of the Board follow an agreed format, with agendas developed by the Chair, Chief Executive and Company Secretary who consider the Board's annual plan of business and the current status of projects, strategic workstreams and the overarching operating context. Adequate time is allocated to support effective and constructive discussion of each item, and guidance is available to authors and presenters of Board materials surrounding the scope and level of content which should be provided. An electronic meeting portal allows efficient navigation of papers, information and requests.

Board activity in 2019/20

To support the continued execution of SSE's agreed low-carbon strategy, a number of principal decisions were taken during the year which are explained in detail on the following pages.

BOARD PRINCIPAL DECISIONS

- Completing the sale of SSE's Energy Services (see page 17)
- Competing successfully in offshore wind (see page 19)
- Building new onshore wind (see page 20)
- Targeting emissions reductions (see page 21)
- Reassessing risk in light of coronavirus (see page 23 and 95)
- Recommending the final dividend (see page 95)

The following pages provide a non-exhaustive overview of additional areas of focus, in addition to those matters discussed throughout the Directors' Report. Alongside taking key decisions and agreeing future actions, a proportion of Board time was dedicated to receiving updates and deep-dives to ensure that the Directors had the relevant information and context in which to consider proposals.

SSE'S STRATEGY

Focusing on the electricity core	Developing, operating, owning	Creating value for shareholders and society	Delivering in a sustainable way

Area of focus	Board actions and associated approvals
Safety, Health and Environment (SHE) **Strategic link:** **Link to risk:** Climate Change People and Culture Safety and the Environment	• Assessed SHE performance, culture and initiatives, with confirmation from the **SHEAC** of improved analysis of supporting KPIs. • Supported ongoing focus on employee wellbeing and mental health. • Reviewed updates on the development of supporting climate action plans, environment targets and work on site biodiversity.
Overseeing strategic implementation through business units **Strategic link:** **Link to risk:** All Group Principal Risks	• **Renewables** updates covered the progress of existing projects, including the successful commissioning of the Beatrice offshore wind farm, with decisions being made in relation to: CfD parameters, offshore and onshore governance and financing; the parameters for considering additional geographies; and the timing of opportunities to recycle capital. • **Transmission** presented RIIO-T2 business plan progress and further highlighted: the infrastructure requirements to increase renewable capacity; the view of frontier performance; and the needs cases for the three island links in Scotland. • **Distribution** set out the continuing role and opportunities of the business within a low-carbon electricity system confirming the need to balance service and cost for customers, in the context of: the electrification of transport and heat; the transition to a Distribution System Operator model; and the learnings in advance of the next phase of the price control. • **Thermal** continued to review the generation mix within its portfolio and presented views on future policies and technologies, with the Board: confirming the closure of SSE's last coal-fired plant, Fiddlers Ferry; approving capital expenditure relating to ongoing projects; and reviewing the income framework provided by the Capacity Mechanism. • **Enterprise** updated the Board on work to realign its key activities to enhance overall synergies within the Group. • **Customer Solutions (comprising SSE Business Energy and SSE Airtricity)** highlighted the current focus on key IT and change programmes to further develop the B2B customer experience and offering. • **Energy Portfolio Management and Investments** received approval to initiate a process to explore the sale of SSE's interests in non-core E&P assets.
Financial management and performance **Strategic link:** **Link to risk:** Financial Liabilities	• Approved the Group budget reviewing and challenging key inputs, assumptions and risks. • Assessed Group and business unit financial performance including the impact of: the reinstated Capacity Mechanism payments; the previously reported prior year EPM losses; and impact of weather. • Monitored the annual credit rating review process, net debt, and funding requirements and activities in conjunction with the **Audit Committee**. • Considered share performance including EPS, SCRIP dividend take-up and the progress of the agreed share buyback programmes. • Reviewed scenario analysis of SSE's long-term financial outlook and approved return parameters for future investment opportunities. • Reviewed an update on the funding and management of SSE's pension schemes.
Operating context **Strategic link:** **Link to risk:** Climate Change Politics, Regulation and Compliance	• Monitored the political environment and advocacy priorities through dedicated project teams, including developments resulting from the ongoing Brexit negotiations and the 2019 General Election; and reviewed and agreed mitigating actions, including incorporation in Switzerland of a direct and wholly-owned subsidiary company of SSE plc. • Reviewed policy developments including the legislating of net-zero targets. In response, agreed to update SSE's vision and to engage in a deep dive surrounding: economic scenarios; long-term demand; and commodity pricing for future project evaluation. • Monitored judicial decisions in respect of the GB Capacity Market and CfD frameworks.

CORPORATE GOVERNANCE CONTINUED
BOARD ACTIVITY AND ACTIONS

Area of focus	Board actions and associated approvals
Sustainability **Strategic link:** **Link to risk:** Climate Change People and Culture	• Reviewed SSE's holistic sustainability priorities and agreed a 10-point action plan, involving: supporting progress in the 4 aligned UN SDG Goals; developing sustainability principles for future investment decisions; business-led sustainability plans, environment strategies and targets; and work to support TCFD compliance and climate-related risks. • Approved the publication of SSE's annual Modern Slavery Statement and oversaw the release of SSE's gas scenarios report, "Transition to net zero: the role of gas". • Approved the adoption of science based targets enhancing SSE's ambitions to reduce its carbon intensity.
Shareholders and key stakeholders **Strategic link:** **Link to risk:** Politics, Regulation and Compliance Speed of change	• Reaffirmed SSE's key stakeholder groups, strategy and the approach to business-led engagement. • Received updates from SSE's Brokers and Investor Relations covering: market trends and performance; shareholder feedback and priorities; and the investor view of SSE. • Monitored the implementation of SSE's political engagement policy to ensure meetings with all institutions of government in SSE's areas of operation, are conducted in a transparent, balanced and fair way, representing SSE's position truthfully and honestly. • Received updates from the Chair on external views, including those gained through engagement with the British Academy's Future of the Corporation work.
Workforce policy, practices and culture **Strategic link:** **Link to risk:** People and Culture Politics, Regulation and Compliance	• Approved a revised Group Policy suite and participated in a cultural update covering: the results of the annual employee engagement survey; whistleblowing reporting and effectiveness; and the revised executive operating model. • Endorsed an updated definition of a healthy corporate culture for SSE and a proposed set of cultural KPIs. • Considered an overview of the Group-wide approach to remuneration and policy, following positive feedback from the **Remuneration Committee** surrounding its role within SSE's wider people strategy. • Received feedback from the **Remuneration Committee** on delegated matters including SSE's Remuneration Policy, pension arrangements, performance measures, below-Board pay and external views.
People strategy, leadership and succession **Strategic link:** **Link to risk:** People and Culture Politics, Regulation and Compliance	• Reviewed people strategy across the Group to ensure sustained engagement, contribution, and capability to deliver business priorities and endorsed future plans in line with SSE's strategy and operating model. • Upon the recommendation of the **Nomination Committee**, approved: the appointment of Dame Angela Strank as a new non-Executive Director; the re-appointment of Dame Sue Bruce for a further three-year term; and changes to Board Committee membership. • Received updates from the **Nomination Committee** on considerations surrounding Chair succession.

Area of focus	Board actions and associated approvals
Corporate governance and reporting **Strategic link:** **Link to risk:** Politics, Regulation and Compliance	• Conducted the annual performance evaluation of the Board. • Reviewed progress made under the 2018 Code action plan and horizon scanning activities, including the proposed reform of the FRC and in relation to the area of audit. • Approved the issue of: quarterly trading updates and the financial results to 30 September 2019, including the payment of an interim dividend of 24 pence. • Approved the 2020 Annual Report and Accounts following review of **Audit Committee** feedback comprising: confirmation of significant judgements and exceptional items; the going concern position; viability timeframe; and fair, balanced and understandable requirement. • Approved the approach and business to be considered at the 2020 AGM including a recommended final dividend of 56 pence.
Risk and assurance **Strategic link:** **Link to risk:** All Group Principal Risks.	• Approved the Group's Risk Appetite Statement, Principal Risks and approach to identifying and managing emerging risks. • Received updates from the **Audit Committee** on the: transition in External Auditor; external audit plan; internal audit strategy; and review of the System of Internal Control which the Board confirmed to be effective. • Maintained focus on cyber security following approval of a cyber risk appetite statement in 2018/19, with updates covering: risk; delivery of strategic plans; resilience; culture; and compliance. • Confirmed completion of the initial GDPR project and agreed future reporting to ensure continued oversight and assurance of governance, systems and mitigations. • Reviewed updates from the **EMRC** on the implementation and progress of SSE's approach to hedging and briefings on commodity market performance.

OVERSEEING **SSE'S CULTURE**

Defining culture

The definition of what a healthy corporate culture means for SSE was first considered by the Board in 2017. Since this time the Group has been through a period of strategic transition, and as introduced on page 104, the Board has overseen a number of supporting culture-related developments. An updated view of healthy corporate culture, as set out below, was therefore adopted by the Board during 2019/20 as a guide for existing and future cultural considerations.

'A healthy corporate culture is one in which SSE has: a purpose, values and strategy that are respected by the Company's stakeholders; and an operating environment that is inclusive, diverse and engaging; encourages employees to make a positive difference for stakeholders; in which values guide decisions and actions; and in which attitudes and behaviours are consistent with high standards of conduct and doing the right thing.'

Guiding culture

Alignment with the definition of a healthy corporate culture is guided by three Board-approved pillars, which are first communicated to an individual when they join SSE and are the principles against which the Board monitors how the culture exists and is viewed by employees. These can be described as:

- **values** as articulated within the SSE SET (Safety, Service, Efficiency, Sustainability, Excellence and Teamwork);
- **attitudes** as summarised through SSE's Group Policies; and
- **behaviours** as explained in SSE's employee guide to ethical business conduct.

The ongoing implementation of key messages and expectations contained within the above, is driven through a wide range of culture-related programmes and initiatives which are overseen by the Group Executive Committee and SSE's Business Units. This includes targeted communications and mandatory training, with the output of this work reported back to the Board through its monitoring activities. Further details of the practical application of cultural matters can be found on pages 78 to 81 and within SSE's Sustainability Report.

Promoting culture

The role of the Board in relation to purpose, vision, strategy, long-term goals and stakeholder engagement is key in supporting a healthy corporate culture, as is reinforcing the agreed cultural tone through: the substance of the decisions it takes; the way in which those decisions are taken; and the visibility, transparency and communication of those decisions. The additive role of the Board Committees can be explained in so far as:

- the Remuneration Committee's approach to reward (see pages 136 to 157);
- the Nomination Committee's responsibility for ensuring appropriate appointments to, and succession plans for, senior roles (see pages 114 to 119);
- the Audit Committee's oversight of systems of internal control and audit which assist in safeguarding a healthy business culture (see pages 120 to 129); and
- the SHEAC's dedicated focus in relation to safety, health and environmental matters (see pages 132 to 135).

Monitoring culture

To understand more fully how culture manifests in employee beliefs and actions, in 2017 the Board endorsed the proposal to develop tools to allow culture to be assessed, in part, on objective evidence. In working towards this, Board agendas always highlight where a matter should be regarded as relevant to culture, and further enhancements have been made within the annual employee engagement survey (see page 81) and KPI reporting. All of the above supports the objective of identifying shortcomings and taking corrective action should it be required; however the Board recognises that this will continue to be an evolving area.

CULTURE FOCUS IN 2019/20

Developing a KPI dashboard

Objective. To date, the Board has continued to review a programme of updates covering areas which are implicitly and explicitly linked to SSE's culture. This is supported by a standing overview of people matters, which is presented monthly through the Chief Executive's Report. During 2019/20, work was undertaken to build on these existing sources of data, and put in place additional measures to allow trends to be assessed across a stand-alone set of cultural indicators which could be viewed and discussed collectively. It was agreed these should be structured around the revised definition of culture, linked to the annual engagement survey and include existing behavioural insights as captured by Human Resources and Group Compliance.

Status. A dashboard was developed and agreed by the Board forming a construct which could develop during 2020/21. Stemming from the output and focus areas of the annual engagement survey, supplementary metrics were selected to provide a comparison between perceptions as measured by the survey and observed behaviours in areas such as: safety, absenteeism, employee turnover, employee wellbeing, recruitment performance, training completion rates, whistleblowing statistics and engagement. Compliance performance and trends have been gathered from internal data sources to further build upon this view.

Next steps. The cultural dashboard agreed by the Board will provide a baseline of information and insight for reviewing updates on culture-related matters, and for assessing the effectiveness of related programmes and initiatives. Board questions or observations will be used to inform areas for further discussion and fed-in to the work led by the non-Executive Director for Employee Engagement where appropriate. In order to keep building on this area, the Group Audit Plan, as approved by the Audit Committee, includes an audit of progress in relation to action taken on the 2019 employee engagement survey and proposals are being considered in relation to an externally-facilitated culture audit for 2020/21. The outcomes from both of which, will provide additional views on the application of values, actions and behaviours across the Group.

Reviewing SSE's Group Policies

Assessment. Annually, in March, the Board reviews SSE's Group Policies in order to confirm their continuing effectiveness, in the context of culture and in their coverage of matters of importance to the Group. During 2019/20, a comprehensive assessment of the Group Policy environment was carried out to ensure:

- all current and emerging issues relating to ethical business culture matters were captured;
- there was alignment with SSE's agreed purpose, refocussed strategy and established values; and
- the needs and expectations of SSE's key stakeholder groups were represented and addressed.

Output. The review identified potential opportunities to reposition, consolidate and update existing policy content on areas such as: Environment and Climate Change; Data; Cyber Security; and the approach to strategic partnerships. The Board approved the recommendations in the form of a revised Group Policy suite which was relaunched in April 2020.

UNDERSTANDING EMPLOYEE VIEWS

Board engagement and communication

SSE employs around 12,000 people across the UK and Ireland, who either operate in one of the Company's business units or in a Group-wide support function. Some employees are desk-based; some have operational roles in urban and built-up environments; and some work in very remote rural locations.

One of SSE's goals for 2030 relates to decent work; and the Company seeks to promote a positive culture based on values, attitudes and behaviours (see pages 106 to 107). In line with its commitment to undertake direct stakeholder engagement that complements day-to-day stakeholder engagement across the Group, the Board works to understand employee views through a direct dialogue and by engaging on site outside of the Boardroom.

Listening to the employee voice

In 2018 Dame Sue Bruce was appointed non-Executive Director for Employee Engagement, and has continued to develop the role as a channel for two-way communication and employee access to the Board through advocacy of their views. As Chair of the Remuneration Committee, Sue also works to ensure relevant employees' perspectives are understood in the context of remuneration and policy.

Here, Sue provides insights on the impact of the role on Board work to date and thoughts on how it could continue to develop.

What are your reflections on how the role has developed?

Over the past year we have made use of both formal and more informal opportunities to engage with colleagues. We have also taken the opportunity to develop theme-based engagements and to structure discussions so that they can feed-back into Board work.

For you, what were the key highlights in 2019/20?

I have really enjoyed all the engagements which have taken place, but if I have to pick some highlights, I would point to the conference calls and online meetings right across the Company since the coronavirus "lockdown" began. We have thousands of colleagues working from home and I have been deeply impressed by their commitment not only to ensuring business continuity but also to each others wellbeing. At the same time, we have still had colleagues out on site and being innovative about how they can do their jobs and still keep each other safe.

How do you ensure the employee voice is heard on the Board?

A big part of the role is the opportunity to hear directly from employees about what's important to them and the outputs from engagement sessions are reported back to the Board in a variety of ways. One of the key aims is to inform and enrich the Board's decision-making. Verbal feedback is given at the Board meeting following the engagement and this is complemented by a written feedback report that all Board members are asked to furnish following site visits.

What are some of the key insights you gleaned in 2019/20?

Employee attitudes generally will have been influenced greatly by coronavirus, but I think we can look back at some valuable insights from the annual all-employee survey that was held in the autumn of 2019 that probably still hold true. The survey showed us that employees feel connected to SSE's culture, with questions on safety and ethics scoring very highly. Questions on managing change and confidence in the likelihood of actions arising from the survey scored less well, and it is these areas that the management team have worked on in the months since.

How do you share outcomes with the wider employee base?

There are established internal channels at our disposal to communicate engagement activity beyond those directly involved in individual events. A blog is posted to ensure that the themes discussed in engagement sessions are shared, along with issues raised and any actions subsequently taken. Similarly, a blog following Board meetings helps to keep employees tuned in to the broad issues being considered by the Board.

What areas does the Board want to focus on in future?

The role has been evolving since it was established and it is crucial to be able to act with pace and agility, picking up discussions that reflect current issues. The views and experiences of colleagues arising from coronavirus will undoubtedly remain high on the agenda. Once the outbreak passed its peak in the UK and Ireland we surveyed all employees to take a measure of communication effectiveness, emotional wellbeing and appetite for longer-term changes to ways of working. We have already heard ideas on how working practice could reasonably change, making good use of the digital communications infrastructure and embedding a greater degree of flexible working patterns. As part of the role I have also had the opportunity to meet with representatives of the trades unions at scheduled times each year. This is something I welcome and would want to continue by virtual meetings in the meantime.

"Sue attended an Executive Committee meeting for our standing 'People' discussion, covering engagement; inclusion and diversity; health and wellbeing; and talent and development. It was extremely valuable to get Sue's perspective and advice on our forward plan, particularly surrounding employee engagement."

Stephen Wheeler
MD, Thermal

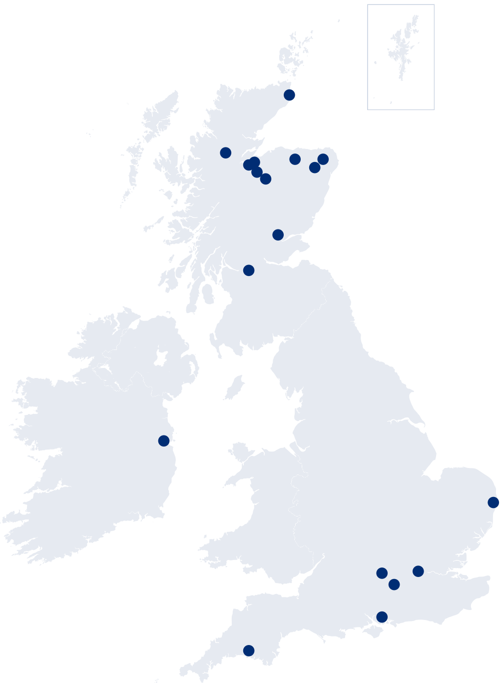
"I enjoyed the open and relaxed conversation concerning both the current working situation and the annual employee survey results. I felt my voice and that of my colleagues was being heard and understood. It was very positive."

Laura Hutchison
RTS Support Engineer, SSEN

Engaging outwith the Boardroom

Engagement outwith the Boardroom is a rolling activity for all non-Executive Directors and continues long-after formal induction to the SSE Group. The purpose of the engagement can be directed by the work of the Board, a Director's interests, proposed by the businesses or may complement areas of executive focus at a certain point in time. During 2019/20 there were over 20 non-Executive Director visits over a broad range of sites. Feedback from these meetings is highlighted at the following Board meeting to allow incorporation into relevant discussions, and supplements the views of Executive Director's who engage in their day-to-day role.

Locations visited by non-Executive Directors in 2019/20



VISITING MAJOR PROJECTS

Engagement undertaken through: the opening of Beatrice offshore wind farm; meeting the team at Greater Gabbard offshore wind farm; visiting key Caithness-Moray Transmission sites and attending a Group Large Capital Projects Committee meeting.

Board feedback and outcomes

- **Wind pipeline.** Confirmation of the key learnings and achievements for application in future development projects, including: the successful trialling and deployment of specialised deep-water engineering and technologies; the positive delivery of socio-economic and community benefits including within supply chain and employment; and the scale of the assets' net-zero contribution in the context of 2030 and 2050 targets.
- **Regulated networks.** Observed the significant role of owner and operator of the Transmission network in the north of Scotland, and the investment and asset management which has been delivered through the current price control period to ensure system reliability, performance and increased renewable capacity. Understanding was gained of the specialised training, expertise and safety considerations which apply to networks infrastructure, alongside construction challenges.
- **Stakeholder strategy.** Feedback of the demonstrable outcomes of the stakeholder-led approach within all capital projects, including the engagement methods used, the integration of views from early planning and the commissioning of dedicated projects, such as underground cabling within SSEN, to mitigate the impact of existing electricity infrastructure on the visual amenity of nationally designated landscapes.
- **Project governance.** Confirmation of the governance, assurance and oversight processes through which large capital projects are progressed and monitored at an executive level.

"The Directors' visit was a chance for the team to explain how a wind farm is run, the challenges we face and the positive part Greater Gabbard plays in UK energy supply. The team gained an understanding of the role of the Board and the visit definitely gave everyone a boost. The key takeaway for us was the importance of safely and effectively delivering value from our investments."

Ross Turbet
General Manager, Greater Gabbard offshore wind farm

CORPORATE GOVERNANCE CONTINUED
UNDERSTANDING EMPLOYEE VIEWS CONTINUED

OBSERVING FRONT-LINE OPERATIONS

Engagement undertaken through: SHE-focussed visits to Grudie Bridge hydro station, a multi-contractor Enterprise project; and distribution operations in Camberley and Perth.

Board feedback and outcomes

- **Safety culture.** Greater awareness of specific safety challenges pertaining to their varied geographies, age, terrain and operations, in spite of which, a consistent and strong safety culture can be observed and is deemed key to mitigating their unique risks.

- **Engagement.** Confirmation that engagement with staff in each operational setting should remain a key focus, and should include projects which involve close working of multiple contractors.

- **Wellbeing.** SSE'S commitment to employee wellbeing and mental health was covered through engagement and Q&A sessions on site. The roll-out of initiatives that had been introduced through Board and SHEAC safety updates were explained in the operational setting, including empowering supervisors, and the power of SSE's safety license and getting home safely.

UNDERSTANDING BUSINESS PRIORITIES

Engagement undertaken through: one-to-one deep dive sessions across SSE's office-based sites.

Board feedback and outcomes

- **Strategic execution.** Met with senior leaders within each business area to understand their view of opportunities and challenges in delivering strategic priorities and growth. Feedback was gathered on the experience of individuals within senior teams following the implementation of the new operating model focused on business units.

- **Performance.** Time was spent understanding the performance of core business operations, investment and innovation, including ongoing transformation programmes, as a backdrop for all Board discussions.

- **Data and IT.** A recommendation was made for an additional Board update on digital strategy and analytics following one-to-one briefings on emerging technologies, future IT and existing digital capabilities.

DIRECTORS' INDUCTION **AND TRAINING**

Board induction

Comprehensive induction programmes are individually tailored for all new Directors, following the appointment process as overseen by the Nomination Committee (see pages 114 to 119). Designed in discussion with the Chair and the Company Secretary, each programme considers existing expertise and any prospective Board or Board Committee roles.

In advance of Dame Angela Strank's first Board meeting in May 2020, the below arrangements were made for introductions and briefings to ensure there was an appropriate opportunity to understand and ask questions about the strategic, financial and operating context. The ongoing coronavirus pandemic placed restrictions on the initial format, with these briefings conducted by videoconference and face-to-face engagements, with site visits to follow. As with SSE's existing approach, this will continue to allow knowledge of SSE to be developed over an appropriate timescale, however, prioritisation for this period will be given to any current and emerging matters.

INDUCTION PROGRAMME FOR DAME ANGELA STRANK

Timing and purpose	Inductions to come from	Matters to cover and discuss to include
When: In advance of first Board meeting. **Approach:** To ensure that the right information and support is provided in line with: the May Board agenda; ongoing Board discussions; and any decisions that could be required to be taken.	• Executive Directors • Company Secretary and Director of Investor Relations • Executive Committee Team • Key senior leaders	• Strategic focus and current Group and business priorities. • Financial position and performance, Group Principal Risks and the internal control environment. • SSE's long-standing safety culture, and governance of health and environmental matters. • Listed company governance and Board and Committee process. • SSE's key stakeholder groups including material views and the approach to engagement. • Politics and regulation. • Sustainability and ESG matters.
When: Immediately following first Board meeting. **Approach:** To understand the external view, and confirm whether additional time is required on any of the initial briefings or for further technical updates.	• SSE's Brokers, external legal advisors and the External Auditor. • Others as agreed by Dame Angela Strank, the Chair and Company Secretary.	• Overview of the broker-shareholder relationship, the external view of SSE and the External Audit plan. • Additional information as required.
When: Planned for later in 2020/21 or when practically safe to do so. **Approach:** To provide an overview of operations, people and culture through face-to-face engagements and site visits.	• Operational leaders and teams	• Meetings covering key assets, sites and projects. • Sessions with a cross section of SSE's employee base.

Director development and training

At the request of a Director or the full Board, the Company Secretary will put in place the necessary resources for additional information, further meetings or briefings as required. The resultant sessions can be internally or externally facilitated, and can originate from an identified training opportunity or an area of interest. In line with the agreed actions from the 2018/19 external evaluation, the Board participated in an externally-led confirmation bias session in June 2019 – see page 112.

As part of SSE's mandatory training programme, all Directors are further required to complete courses which address areas most pertinent to SSE and their role on the Board. These cover both statutory obligations and ethical considerations, and include: the legal duties of a Director; competition law; anti-money laundering and financial sanctions; GDPR; and inclusion and diversity.

CORPORATE GOVERNANCE CONTINUED

ASSESSING BOARD EFFECTIVENESS

Board and Committee evaluation

In line with best practice, the performance and effectiveness of the Board, its Committees and individual Directors is assessed annually through formal performance evaluation. During 2018/19, the Board and Committee process was externally facilitated by Schneider Ross with the outcomes informing elements of the Board's work. Both progress made and overall effectiveness were subsequently reflected upon through an internally-led evaluation in 2019/20.

Progress against the 2018/19 external Board evaluation

Actions identified in 2018/19 to support continuous improvement	Progress made in 2019/20
Board session on Confirmation Bias.	Held in June 2019 and positively received by the Board.
Greater use of "warm up" sessions to aid Board preparations in respect of complex or material decisions.	Successfully adopted for CfD auction bids in 2019/20.
Further development of internal reporting to the Nomination Committee on actions to enhance inclusion and diversity*.	The Nomination Committee received an update on internal strategy, supporting initiatives and progress (see page 119).
Reinforce the importance of constructive challenge in the Boardroom.	The Board observed an increase in constructive challenge throughout the year.
Challenge management to continually improve SSE's ability to manage change and monitor respective progress*.	New business unit Executive Committees are in place to improve focus and accountability for strategic implementation and related areas such as people development. The status and implementation of change has been monitored through reporting to both the Group Executive Committee and Board (see page 97).
Support management in attracting and developing talent from a wide range of backgrounds*.	A Talent and Organisational Capability Group was established as a sub-group of the Group Executive Committee to discuss talent and capability in the context of the business-led operating model. The output, in the form of recommended actions to support talent development and recruitment, has subsequently been reviewed by both the Group Executive Committee and Nomination Committee (see page 118).

* Will remain an area of focus in 2020/21.

2019/20 Internal Board and Committee evaluation

PROCESS

1 Design and initiate process

Questionnaires for the Board and its Committees were developed by the Company Secretary and Chair, in consultation with the Board Committee Chairs. Questions were set under the below areas in consideration of relevant recommendations from 2018/19, in addition to best practice and revised guidance such as the Code and Guidance on Board Effectiveness.

- Composition and dynamics of the Board/Committee
- Strategic and financial decision-making
- People decision-making
- Systems and processes
- Overall perception of effectiveness
- Risk and control (applied to the Board only)
- Stakeholder engagement (applied to the Board only)

2 Data collation

Responses to the questionnaires were collated by the Company Secretary who prepared anonymised draft reports for the Board and each Committee. The reports summarised the findings of the evaluation and included proposed recommendations for discussion.

3 Review by Chairs

The draft reports were reviewed by the Chair of the Board and of each Committee, and their feedback provided to the Company Secretary for incorporation into a finalised discussion paper for onward circulation.

4 Discussion and actions

The relevant report of findings was presented at the corresponding Board and Committee meetings across February and March 2020. Through review and discussion, in which all Directors and members participated, actions were agreed for implementation and monitoring.

FINDINGS

Board

The evaluation feedback supported an overall view that the Board is effective, with evidence of: diversity of thought; openness; good, constructive challenge and collegiality; and an effective Chair. The Directors view the Board as working well in terms of providing leadership, oversight and advice, with specific positive commentary surrounding strategy discussions, which was agreed should continue to be progressed and encouraged.

2019/20 Recommendations	Board discussion and agreed actions for 2020/21
Energy Markets Risk Committee (EMRC) should remain in place.	There was consensus that the EMRC has fulfilled an important role surrounding the oversight of commodity risks and that this should continue. The Board will further consider whether it should explicitly allocate more agenda time to other risk areas.
Opportunities to further work on culture including employee and trades unions engagement should be considered.	The Board recognised the progress that had been made through the creation of the non-Executive Director for Employee Engagement role and agreed to look for ways to maintain and develop Board engagement in this area, including reflections on how best to support the role as it continues to evolve.
Additional deep dives and discussion time for certain topics relevant to the Board's work should be arranged.	Future deep dives were agreed to centre on: the continued opportunity to meet senior leadership teams; complex, technical or evolving areas relevant to the SSE Group and strategic priorities; and matters of interest. Initial progress has been made with SSE's Energy Economics team presenting a "virtual" session on long-term energy price curves, with plans in place for a session on the Customer Solutions business, and the transition to net zero and the related potential of hydrogen.
Consideration should be given to the use of Board sessions for external guests and additional non-Executive Director only time.	There was consensus that the opportunity to hear from external guests in Board sessions from time to time was useful and should continue. The Board agreed that further non-Executive Director only time should be arranged, in addition to the non-Executive Director only meetings which currently take place.
Additional stakeholder engagement opportunities that complement business-led engagement should be sought.	The Board confirmed that site visits, employee and other stakeholder engagement are areas of continued focus, and that additional opportunities should be identified in line with the priorities set out on page 100.

Board Committees

As described above, the evaluation process further assessed the effective performance and support provided by the Board Committees. Specific findings and the agreement of actions was overseen by each Committee Chair, with consideration of the overall Board findings where deemed relevant to the Committee's work. Progress will continue to be monitored and assessed by each forum, with further details set out in the reports across pages 114 to 157.

NEXT STEPS AND LOOKING AHEAD

The implementation of actions is now underway, and will be monitored in advance of measuring and reporting on progress through a further internal evaluation in 2020/21. In light of the coronavirus pandemic, the Board notes that some elements may need to be delayed and considered at an appropriate time. Notwithstanding, the Board will work to evolve and adapt in line with stakeholder expectations to ensure it remains effective and supports SSE's long-term success.

Individual Director performance

In addition to collective Board effectiveness, individual Director performance and contribution was assessed through one-to-one meetings with the Chair. These sessions were to allow reflection on personal development and discussion of matters relevant to Boardroom culture and process. The findings, in combination with individual skills (see pages 90 to 93, and 115), time commitment and independence (see page 118), confirmed that each Director continues to contribute positively and effectively within and outwith Board meetings.

Chair evaluation

The evaluation of the Chair was led by the Senior Independent Director, who gathered performance feedback through separate meetings with each of the non-Executive Directors with supplementary views from the Executive Directors and selected senior leaders. The findings confirmed that Richard Gillingwater continues to lead the Board respectfully and is highly thought of by the Directors and other senior leaders in this regard. He drives a committed and inclusive culture that encourages constructive debate, appropriate challenge and diversity of views, and establishes a positive and open tone that supports collegiate discussion and the effective operation of meetings. It was confirmed that he continues to devote sufficient time to the role, and except for the Provision surrounding tenure, in all respects meets the requirements of the Code. More details on a succession planning process for the new Chair can be found on page 117.

NOMINATION COMMITTEE REPORT

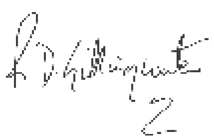
Dear Shareholder,

The role of the Nomination Committee centres on people matters, which ultimately determine the success or otherwise of every corporation.

In practice, this means focusing on the leadership required for SSE to fulfil its purpose, achieve its vision and execute its strategy. This, in turn, requires a clear focus on inclusion and diversity to maximise the skills and capabilities from which SSE can benefit. The Committee also oversees the structure of all of the Board Committees and assesses the feedback from the annual Board evaluation process. This report sets out the results of the work done by the Committee on all of these matters.

I am pleased that an effective search process for a new non-Executive Director during 2019/20 resulted in the appointment of someone with the richness of experience of Dame Angela Strank; and that SSE has continued to make good progress in developing a capable senior management team for the long term. I also believe the Committee's focus on inclusion and diversity sets the tone and direction for SSE to be an inclusive employer, with diverse teams delivering for the benefit of all of the Company's stakeholders.

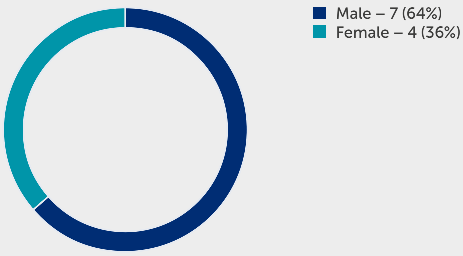
This report also summarises the work done to identify my successor as Chair. I am not involved in the process, but I am confident that my successor will benefit from the work of an effective and impactful Nomination Committee.



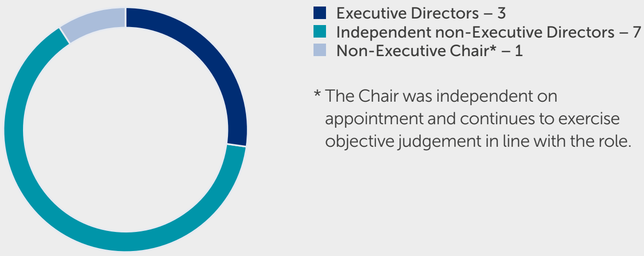
Richard Gillingwater CBE
Chair of the Nomination Committee
16 June 2020

BOARD COMPOSITION DASHBOARD

Board gender balance

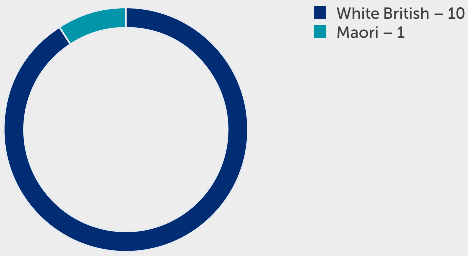


Board independence



* The Chair was independent on appointment and continues to exercise objective judgement in line with the role.

Board ethnicity



Chair and non-Executive Director tenure

The details set out above reflect the composition of the Board following the appointment of Dame Angela Strank.

Whilst each Director has a solid understanding and valuable contribution to make in relation to the focus areas below, the analysis seeks to confirm how the complementary and specific skills and experience of each non-Executive Director supports differing aspects of Board considerations.

The non-Executive Directors are further individually, and collectively, committed to maintaining their knowledge and insights of the evolving energy sector and wider operating environment, through ongoing training and development, and dedicated Board sessions (see pages 111 to 113).

Supporting SSE to be a leading energy company in a net-zero world	Skills required	Board members
SSE's businesses operate in a dynamic and at times complex, political, regulatory and competitive environment, with each individual business having unique challenges. Reading these external trends is crucial for making strategic choices which create value.	Understanding of the energy sector, commodity and capital markets, the policy context relating to energy and the environment, and utilities regulation.	Richard Gillingwater Dame Sue Bruce Tony Cocker Helen Mahy Dame Angela Strank
SSE has well-defined strategic priorities which are founded upon successful development, efficient operation and responsible ownership of energy assets and businesses, which requires amongst other things, understanding of significant technical issues associated with asset development and operation.	Experience in strategic development and implementation, large capital project development, asset operations, and commercial insight, including supply chain.	Richard Gillingwater Dame Sue Bruce Tony Cocker Crawford Gillies Peter Lynas Melanie Smith Dame Angela Strank
SSE is committed to creating value for shareholders and providing a stable return on investment through sustainable financing, suitable corporate transactions and the pursuit of appropriate growth opportunities.	Financial literacy including corporate finance, appraisal of project economics and funding, corporate transactions and partnering experience, and insight into global capital markets.	Richard Gillingwater Tony Cocker Crawford Gillies Peter Lynas Helen Mahy Melanie Smith
SSE is focused on responsible and ethical operations, and being a Company that people want to work for and with, and invest in.	Consumer and commercial knowledge, understanding of investor markets, experience of meaningful stakeholder engagement and understanding of the social contract.	Dame Sue Bruce Crawford Gillies Peter Lynas Melanie Smith Dame Angela Strank
SSE's diverse portfolio of operations, including the delivery of large scale projects, rely on the dedication and skills of its employees, and the support of many contractors, all of whom are based within in a wide range of working environments.	Recognition of the conditions required to ensure safe working and a positive business culture generally, experience of leading large organisations, and acknowledgement of the responsibilities to, and areas of importance to the broader workforce.	Richard Gillingwater Dame Sue Bruce Tony Cocker Helen Mahy Melanie Smith Dame Angela Strank
SSE is a premium listed company with a group company structure and is committed to the highest standards of governance and compliance.	Sound understanding of exemplary governance practices and awareness of the relevant legislative and regulatory frameworks, emerging trends and experience in risk management.	Richard Gillingwater Crawford Gillies Peter Lynas Helen Mahy

Key Nomination Committee activities during the year

- Recommended the appointment of Dame Angela Strank as new non-Executive Director.
- Monitored the progress of ongoing Chair succession plans.
- Engaged on talent and capability.
- Considered Group-wide inclusion and diversity strategy and progress.

NOMINATION COMMITTEE REPORT CONTINUED

Role of the Committee

The Nomination Committee's role centres on the people matters set out below.

LEADERSHIP NEEDS

It is responsible for understanding and fulfilling SSE's leadership needs through effective succession planning and confirmation of the balance of skills, knowledge and experience to ensure long-term success. To achieve this, the Committee proactively assesses the competencies required to support SSE's agreed purpose, vision and strategy and ensures that these are represented across the Board, its key roles and within senior leadership. It makes sure plans are in place to address identified gaps through internal talent development and/or external recruitment.

INCLUSION AND DIVERSITY

It plays a key role in supporting inclusion and diversity across the SSE Group. At Board and within senior management, it considers the range of perspectives and attributes, to ensure that they remain appropriate to both strategy and culture and confirms and monitors suitable ambitions to drive progress. Holistically, it considers inclusion and diversity strategy to embed SSE's approach to valuing difference. These activities are in line with the stated Board Inclusion and Diversity Policy (see page 119).

BOARD COMMITTEE STRUCTURE

It reviews the size, structure and composition of the Board Committees, to ensure that they are able to provide the required support and have the necessary expertise to discharge their role now, and going forward, in line with succession plans.

ANNUAL EVALUATION

It considers feedback gathered through the overall Board evaluation process which is relevant to its work and ensures that this is covered, or integrated, into relevant considerations and workstreams.

The full responsibilities of the Nomination Committee are set out in its Terms of Reference which are available on sse.com. During the year, and following revised ICSA guidance under the 2018 Code, the Committee reviewed and recommended minor updates to its Terms of Reference for Board consideration.

Committee membership and attendance

The membership of the Committee comprises the non-Executive Directors and the Chair of the Board, who is also Chair of the Nomination Committee. The Company Secretary is Secretary, and where appropriate to do so, the Executive Directors may attend meetings. Biographical details of the Nomination Committee members can be found on pages 90 to 93 and details of meeting attendance are set out on page 96.

Committee evaluation

The performance of the Committee was considered through the annual Board evaluation process (see pages 112 to 113), from which its continued effective operation was confirmed. The key themes and feedback were similar to those reported at Board-level, due to the importance of people and talent strategy to the Group. Actions will be addressed through the Board action plan and work of the Committee during 2020/21 and are summarised in the table below.

Evaluation themes	The confirmation bias session was constructive and has improved overall understanding of the risks attached to this area.
	Increased focus and detail on talent and capability, and inclusion and diversity workstreams has been well received.
	Succession planning at Board-level continues to work well as exemplified through the most recent Director appointments.
Actions for 2020/21	Continue to support desk-based updates on talent and inclusion; keep working to understand the key gaps and actions that are being taken; and keep engaging outwith the Boardroom to supplement this.
	Keep focusing on diversity in its greatest sense and at all levels within the Group.
	Ensure that business succession is owned by each business unit as a strategic workstream.

Meetings and focus areas in 2019/20

Board composition and succession

Key recommendations made: The appointment of Dame Angela Strank as a new non-Executive Director and the process to identify a candidate to succeed Richard Gillingwater as Chair.

During 2019/20, the Committee maintained oversight of combined Director tenure and experience in the context of the Board's role, and has continued its focus on Board membership and composition on two main fronts; succession plans for the position of Chair, and the search and appointment of a new non-Executive Director to join the Board. Committee work in this area is carried out with active consideration of the Board Composition Dashboard set out on pages 114 to 115.

Chair succession

Richard Gillingwater was appointed to the position of Chair in July 2015 having joined the Board as a non-Executive Director in May 2007. Since this time, he has overseen the agreement and initial implementation of SSE's low-carbon strategy and led the Board against a backdrop of political uncertainty. The Committee and Board continue to believe that it is in the best interests of SSE's shareholders, and other stakeholders, that succession plans allow for an orderly and thorough handover of the position of Chair. The Annual Report 2019 explained that while SSE was mindful of Provision 19 of the Code, there would be a time-limited extension to Richard Gillingwater's tenure as Chair that would end no later than 31 March 2021.

To ensure this timetable is met, the Committee has initiated a robust process that will ultimately identify a suitable candidate to chair the Board. This is well in hand and is being supported by the executive search firm Sam Allen Associates[1]. Richard has had no role in the process to preserve the objectivity of this work.

Notwithstanding Provision 19 of the Code, the Board continues to support structured succession and the continued effectiveness of the Chair. Some of the key matters considered in reaching this view can be found within the below.

- Performance evaluation of the Chair (see page 113).
- Director's time commitment and other appointments (see page 91).
- Independence and conflicts of interest (see page 118).

New non-Executive Director

Through discussion of existing Board attributes and SSE's long-term strategic plans, the Committee agreed that consideration should be given to additional capabilities that would both enhance and preserve the Board's collective experience, and safeguard the transition within key Board and Committee roles. It was agreed that the appointment of an additional non-Executive Director could address both of these points should a suitable candidate be identified. A rigorous search process was initiated to explore the candidate pool, which resulted in the recommendation to appoint Dame Angela Strank with effect from 1 May 2020. Dame Angela's biographical details are set out on page 93 and details of the programme to support induction to the Board are on page 111.

NON-EXECUTIVE DIRECTOR SEARCH AND APPOINTMENT TIMELINE

Q2 2019/20

- Nomination Committee confirmed the rationale for the appointment of an additional non-Executive Director to the Board which included relevant shareholder views.
- Russel Reynolds Associates (RRA)[1] were engaged to support the search process and a detailed candidate specification was agreed.

Q3 2019/20

- RRA conducted a search based on appropriate current, or recent, FTSE350 experience, against the agreed candidate specification.
- Discussions were held with prospective candidates surrounding interest in the role and capacity, to generate a diverse longlist for Committee review.
- Through Committee discussion and with views invited from the Executive Directors, a shortlist was agreed for interview.

Q4 2019/20

- Separate meetings took place between the shortlist and a sub-Group of the Nomination Committee, the Chief Executive and Finance Director. Dame Angela Strank was identified to be a strong fit against the role specification with enthusiasm for the sector and SSE's operations, and who would support the overall commitment to maintain a diverse breadth of capability and perspective within the Board.
- Directors who had not yet met Dame Angela were invited to do so, following which, the Committee would further agree an appropriate recommendation for the Board.
- With confirmation of the required time commitment and a lack of actual or potential conflicts of interest, the Committee recommended, and the Board approved, the appointment of Dame Angela Strank with effect from 1 May 2020, joining the Nomination Committee and Safety, Health and Environment Advisory Committee of the same time.

Overview of candidate specification and search criteria

- Expertise in engineering or large infrastructure.
- Understanding of the broader energy, utility or oil and gas sectors.
- Strong stakeholder experience and dynamic engagement skills.
- Demonstrable ability to fulfil the role of non-Executive Director in a FTSE 100 company.
- Appreciation of SSE's core values.
- Experience of regulation and government.

Incorporating diversity from the initial stages of the search

SSE's Board Inclusion and Diversity Policy (see page 119) sets out the approach taken to ensure Board appointments support and embrace difference and nurture an inclusive Board culture. In this context, diversity encompasses gender and BAME ambitions, but also extends further to differing experience, background and thinking styles. This ethos was a key input into the methodology applied by RRA, who have a supporting approach to recruiting diverse talent, and experience of supporting organisations and relevant initiatives. As a result, both the longlist and shortlist which were considered comprised at least 50% women, international/ non-UK backgrounds and a range of training and career experience.

1 Sam Allen Associates and Russel Reynolds Associates have no other connection with the Company or the individual Directors, and are accredited for the FTSE 350 category under the enhanced voluntary code of conduct for Executive search firms.

NOMINATION COMMITTEE REPORT CONTINUED

Meetings and focus areas in 2019/20 continued

Board Committee membership

Key recommendations made: Melanie Smith's joining of the Remuneration Committee and the stepping down of Dame Sue Bruce from the Safety, Health and Environment Advisory Committee.

The composition of SSE's Board Committees is designed around the following principles: to ensure alignment between skillset and specific Committee responsibilities; to prevent undue reliance on the capacity of any Director; and to comply with recognised guidance and best practice such as the Code. Changes are most often recommended following directorate appointments and succession, or in response to formal review.

During the year, the Committee conducted one such review and recommended that: Melanie Smith become a member of the Remuneration Committee from January 2020 following her initial period on the Board; and Dame Sue Bruce step down from the Safety, Health and Environment Advisory Committee with effect from November 2019, in line with the maturing programme of activity under the role of non-Executive Director for Employee Engagement. The Board approved both proposals.

Conflicts of interest and independence

Key recommendations made: Continuing independence and objective judgement of each non-Executive Director.

Each Director has a duty to disclose any actual or potential conflict of interest situations, as defined by law, for consideration and approval if appropriate by the Board. This requirement is supported by an annual conflicts authorisation process, whereby the Nomination Committee reviews SSE's Conflicts of Interest Register and seeks confirmation from each Director of any changes or updates to their position.

The above process informs the simultaneous assessment of a non-Executive Director's independence, as following the absence of any conflict, the Committee reflects upon the outcome of each individual Director's performance evaluation and the circumstances set out in the Code which could compromise an individual's position.

Following review of the above in 2019/20, and to exclusion of the interested Director in each case, the Committee recommended and the Board confirmed: updates to the Conflicts of Interest Register; and the continuing independence and objective judgement of each non-Executive Director.

Director re-appointment

Key recommendations made: The re-appointment of Dame Sue Bruce for a further three-year term.

In line with each non-Executive Directors appointment term, the Committee considered and recommended an extension to Dame Sue Bruce's current tenure for a further three year period to September 2022. This decision was supported by the continuing independence, experience and contribution that Sue brings to both the Board and its Committees, in addition to the specific roles of Remuneration Committee Chair and non-Executive Director for Employee Engagement. These matters were confirmed with reference to the most recent annual evaluation process, and conflicts and independence review. In line with best practice, this position will remain subject to annual re-election by shareholders.

Talent capability and development

Key recommendations made: To continue to engage on executive and senior succession and SSE's attract, retain and develop strategy.

The Committee recognises that meaningful development plans are key to securing a capable pipeline for executive succession and to lead the growth of SSE's businesses in the future. Oversight of this area is achieved through updates and deep-dives from Group HR, and by engaging directly in career development initiatives.

Since the implementation of SSE's revised operating model, HR-led briefings have centred on: capability and succession to deliver business strategy; talent identification and development; and leading performance. Additionally, detail has been presented on the workstreams and investment to develop future leaders against an agreed skillset for SSE which has included: leadership programmes; Group Executive Committee and MD-sponsored development; and the creation of a Talent and Organisation Capability Group. The Committee has also remained informed of talent assessment, external benchmarking and succession plans for key senior roles; and the methods used to ensure transparent and inclusive recruitment. Within 2019/20 this included the successful external appointment of Nikki Flanders to the position of MD, Customer Solutions, which has brought significant fresh insight and experience to the leadership of this business unit.

Direct Committee involvement in talent development ranges from engagement in the Boardroom, when teams attend and present business matters, through to attending leadership and talent events. In the course of 2019/20, Committee members participated in Career Development Programme (CDP) sessions where they were able to discuss the impact of the programme with participants, and share leadership and development insights in an open setting. These discussions are designed to have a positive impact for the programme participants, whilst providing the Committee with an in-depth understanding of the content of the programme and how key learnings are being applied back in the workplace.

Additional information on the strategic development plans to further people development across the Group can be found on pages 78 to 81.

Board Inclusion and Diversity Policy

Objectives and linkage to SSE's strategy

SSE's Board Inclusion and Diversity Policy forms part of SSE's Group-wide inclusion and diversity strategy, which is founded on the belief that greater diversity brings broader debate, which leads to better decisions and in turn better business delivery.

The objective of the Board-level policy is to ensure that Board membership remains appropriately balanced and relevant to SSE's purpose, strategy and values; and in line with this, sets out measures that the Nomination Committee and Board will take in order to achieve this. During the year, the Committee reviewed the Policy to ensure that it remained fit for purpose and to confirm its ongoing application within the context of its work. It can be viewed in full on sse.com.

Implementation and progress

Measure	Implementation and progress
Identify the needs of the Board and its Committees, and in doing so consider the balance of: skills; knowledge; perspectives; experience; gender; ethnicity; and length of membership.	• The annual Board evaluation seeks views on the difference represented by Board and Committee membership. With the process having been conducted through a specific inclusion and diversity lens in 2018/19, many of the tracked actions and perspectives have been followed through into the internal evaluation approach (see pages 112 to 113). • The Committee is mindful of the large number of focus areas on which Directors are required to decide or advise. It therefore monitors the individual and collective skills of the Board to test whether, cumulatively, they are sufficiently strong to ensure the Board's responsibilities are discharged effectively (see page 115).
Adopt a formal, rigorous, transparent and inclusive Director appointment process.	• See details of the process used to appoint Dame Angela Strank on page 117. The candidate specification was subject to review by SSE's Inclusion and Diversity and Recruitment team to ensure that it remained free from bias.
Work with executive search firms that are best placed to deliver a diverse pool of candidates aligned to the Board's needs.	• The Nomination Committee has engaged the services of two executive search firms in the year, both of whom meet this criteria (see page 117).
Recruit based on an objective and shared understanding of merit, with due consideration of any agreed criteria such as SSE's needs.	• See details of the process used to appoint Dame Angela Strank on page 117.
Nurture an inclusive Board and Committee culture.	• The Chair of the Board is responsible for promoting an inclusive culture in the Boardroom and setting the tone which should be applied across the Board Committees (see pages 99 and 113). • To safeguard the above, cultural fit with SSE's values and ethos are key considerations when considering any Board appointments. To ensure that this does not translate into a group-think approach, a confirmation bias session was completed by the Directors during the year.
Oversee work to promote and progress inclusion and diversity within the talent pipeline.	• See Talent capability and development on page 118 and Developing a diverse pipeline below.
Supporting diversity through relevant initiatives and ambitions where appropriate.	• The Committee supports the Hampton-Alexander and Parker reviews and considers progress against the targets they recommend under the operation of this Policy. The diversity of the Board is set out on page 114. The gender balance of those in senior management and their direct reports is set out on page 80. • In February 2019, the Board set a supplementary ambition in respect of its own composition, which was for at least 33% female membership to be maintained on average over a three-year rolling period. It was recognised that this would be sensitive to changes in both the size and composition of the Board but would be consistent with achieving the ultimate goal of a Board that remains generally gender-balanced over time. In 2018, SSE set self-led gender ambitions for increased gender diversity in the levels below Board. Progress against all of SSE's self-led ambitions is set out on page 80.

Developing a diverse pipeline

Wider inclusion and diversity initiatives are recognised as critical to the continued development of a diverse talent pipeline and are areas which are routinely raised within both the Board and Committee evaluation for continued focus. In support of this, a detailed progress update was delivered from SSE's inclusion and diversity team in 2019/20 which covered: the status of ongoing initiatives to ensure SSE is an inclusive workplace with diverse teams of people who deliver for all of the Company's stakeholders; and the key business drivers for increased inclusive practices and overall diversity within the SSE Group. The Committee endorsed a number of recommendations, which were agreed to be brought back for further discussion in 2020/21.

AUDIT COMMITTEE REPORT

Dear Shareholder,

On behalf of the Board, I am pleased to present the Audit Committee Report for the financial year ending 31 March 2020. This report is intended to provide shareholders with an insight into key areas considered, together with how the Audit Committee has discharged its responsibilities and provided assurance on the integrity of the 2019/20 Annual Report and Financial Statements.

The coronavirus outbreak started in the UK and Ireland late in SSE's financial year. The FCA issued a statement of policy in March 2020 recognising the unprecedented challenges faced by companies and their auditors in preparing audited financial information as a result of the pandemic. Following a review of the practical impacts on the audit process, such as travel and access to key offices, we agreed with our External Auditor that it would take longer to prepare and audit SSE's financial statements for 2019/20. As a result, SSE moved the publication date of its Preliminary Results from 20 May 2020 to 17 June 2020 and its AGM from 16 July 2020 to 12 August 2020.

The Committee held four meetings in 2019/20 in line with the financial reporting calendar and has met twice since the year-end, with both of these meetings being held in line with the applicable government guidance on tackling coronavirus. Before each Committee meeting, I meet with the Finance Director and External Auditor to ensure there is a shared understanding of the key issues to be discussed.

In addition to covering how we have discharged our responsibilities during the year, I would draw your attention to three areas which were developed and received additional consideration.

Firstly, this year SSE welcomed Ernst and Young LLP (EY) who replaced KPMG LLP as the External Auditor. EY's appointment followed a competitive tender process, which was featured in a case study in the Audit Committee Report last year. Shareholders approved the appointment of EY at our AGM in July 2019 and will be asked to approve the re-appointment of EY at the 2020 AGM. Under the direction of Audit Partners, Hywel Ball and Annie Graham and working closely with SSE, EY have implemented a comprehensive audit transition plan and carried out the review of the half-year results and audit for the full-year ended 31 March 2020.

Secondly, the Committee considered the FRC's Practice Aid for Audit Committees published in December 2019 and implemented a broader and more integrated approach to the evaluation of the external auditor and the audit process this year. The enhanced approach was designed to help provide assurance that a high-quality audit has been performed and further details can be found on page 126.

Thirdly, both the Board and Audit Committee have applied additional focus to assess the coronavirus impact on the risk management and internal control framework, together with the assessment carried out to support the long-term viability statement. SSE has a robust business model, but like other companies operating during these unprecedented and challenging times, SSE continues to closely monitor the human, social and economic impacts.

The role of the Audit Committee will remain in sharp focus during the months and year ahead and we continue to be committed to meaningful disclosure of the Committee's activities. In addition to routine business, the Committee for the year ahead will have focus on:

- the development and implementation of a three year Internal Audit plan; and
- a review of the Internal Audit function against the new Internal Audit Code of Practice.

I hope that you find this report informative and take assurance from the work undertaken by the Committee during the year.

Peter Lynas
Chair of the Audit Committee
16 June 2020

Key Audit Committee activities during the year

- Overseen the implementation of EY's audit transition plan during their first year as External Auditor.
- Reviewed and implemented an updated approach to the performance evaluation of the External Auditor.
- Considered the potential impact of coronavirus on the Group's Principal Risks and viability assessment.

Role of the Committee

The Committee's role is to support the Board within the Governance Framework in matters relating to: the integrity of Financial Reporting; the relationship with the External Auditor; the effectiveness of the Internal Audit function; and the effectiveness of the System of Internal Control and Risk Management. The Audit Committee Terms of Reference were last updated and approved by the Board in March 2020 and are available from sse.com. The practice of effective governance and quality reporting underpin all aspects of the work of the Committee. Internal Control and Risk Management in relation to SSE's energy market related exposures are overseen by the Energy Markets Risk Committee and further information can be found on pages 130 to 131.

FINANCIAL REPORTING

- Review the integrity of the interim and annual financial statements;
- Review the appropriateness of accounting policies and practices;
- Review the significant financial judgements and estimates considered in relation to the financial statements, including how each was addressed; and
- Review the content of the Annual Report and Accounts and advise the Board on whether taken as a whole, it is fair, balanced and understandable.

See pages 124 to 125.

EXTERNAL AUDIT

- Review and monitor the objectivity and independence of the External Auditor, including the policy to govern the provision of non-audit services;
- Review and monitor the effectiveness of the external audit process and the ongoing relationship with the External Auditor; and
- Review and make recommendations to the Board on the tendering of the external audit contract, and the appointment, remuneration and terms of engagement of the External Auditor.

See pages 126 to 127.

INTERNAL AUDIT

- Review and approve the Internal Audit Plan and monitor its implementation; and
- Review and monitor the effectiveness of the Internal Audit function.

See pages 127 to 128.

INTERNAL CONTROL AND RISK MANAGEMENT

- Review and monitor the effectiveness of the management of risk and overall System of Internal Control; and
- Review the framework and analysis to support both the going concern and the long-term viability statement.

See pages 128 to 129.

Committee membership and attendance

The composition of the Committee is compliant with the Code and currently comprises four independent non-Executive Directors as Committee members. Peter Lynas has chaired the Committee since 2014 and is considered by the Board to have recent and relevant financial experience. He was Group Finance Director of BAE Systems plc until 31 March 2020 and is a Fellow of the Chartered Association of Certified Accountants. The Board considers the Audit Committee as a whole has competence relevant to the sector, with two members having had significant executive roles in the energy sector, and all members possessing an appropriate level of experience in corporate financial matters. Biographical details of the Audit Committee members can be found on pages 90 to 93 and details of meeting attendance are set out on page 96.

The Committee meetings are routinely attended by: the Company Chair; the Finance Director; the Director of Risk and Audit; both Partners from the External Auditor; and the Deputy Company Secretary (who is Secretary to the Committee). The Committee also invites other senior finance and business managers to attend certain meetings to gain a deeper level of insight on particular items of business. The Committee meets with the External Auditor privately at least twice each year in line with the financial reporting calendar and also with the Director of Audit and Risk.

Committee evaluation

The evaluation of the Board and its Committee's during the year was carried out by an internally-led questionnaire based process. The output of the Audit Committee evaluation was considered at its meeting in February 2020 in advance of being considered at the Board. The Board confirmed the effective operation of the Audit Committee in discharging its responsibilities. The key themes and actions for 2020/21 are summarised in the table below.

Evaluation themes	• Meetings were effectively chaired allowing sufficient challenge and debate on key issues. • Members had a good mix of skills and experience and the relationship with management and the External Auditor was open and constructive. • EY have provided fresh perspective and challenge to the management team and the deliberations of the Audit Committee.
Actions for 2020/21	• Continue to monitor the level of resource in the finance teams. • Encourage management and EY to enhance the audit relationship to further improve the process to resolve any issues. • Review cultural aspects of risk management and internal control in specific business units.

AUDIT COMMITTEE REPORT CONTINUED

Meetings and focus areas in 2019/20

The Committee met on four occasions during the year and has met twice since the end of the financial year. Meetings of the Committee are held in advance of the Board meeting to allow the Committee Chair to provide a report of the key matters discussed, and this provides the opportunity for the Board to consider any recommendations. A forward plan of agenda items informs the business considered at each meeting and is regularly reviewed and developed to ensure the work of the Committee is focused on key matters. In addition to the scheduled meetings, the Committee Chair meets separately with the Finance Director, Director of Risk and Audit and the Audit Partners from the External Auditor to ensure the work of the Committee is focused on key and emerging issues.

Key matters considered during the year

Audit Committee Meeting held on 20 May 2019

Financial reporting	• Considered the appropriateness of the accounting in relation to the Significant Financial Judgements and Exceptional Items in 2018/19. • Reviewed the Preliminary Results and 2019 Annual Report, including alternative performance measures, viability statement and going concern prior to Board approval. • Reviewed the status of various accounting projects relating to mandatory changes in Accounting Standards and Interpretation, including: IFRS 9 (Financial Instruments); IFRS 15 (Revenue from Contracts and Customers); IFRIC 22 (Foreign Currency Transactions and Advance Consideration); IFRS 16 (Leases); and IFRIC 23 (Uncertainty over Income Tax Treatments). • Received a report on the Group's tax position covering adjusted underlying tax rate, areas of potential tax exposure and provisioning, Fair Tax Mark accreditation, and priorities for the coming year. • Reviewed letters of representation issued to the External Auditor prior to Board approval.
External Audit	• Considered the accounting, financial control and audit issues from the External Auditor's report on the 2018/19 audit, and discussed remedial plans with management. • Reviewed the effectiveness of the external audit process. • Reviewed the independence and objectivity of the External Auditor, including the level of non-audit fees. • Held a private meeting with both the exiting and incoming External Auditor.
Internal Audit	• Received an update on delivery of the 2018/19 Internal Audit plan and progress with the 2019/20 Internal Audit plan.
Risk management and internal control	• Reviewed Treasury operations, including the funding plan, liquidity and going concern. • Reviewed the analysis to support the viability statement prior to Board approval. • Reviewed the effectiveness of the System of Internal Control prior to Board approval.
Governance	• Received a report on the disclosure of information to the External Auditor. • Approved the narrative of the 2019 Audit Committee Report and Principal Risk related disclosures.

Audit Committee Meeting held on 9 September 2019

External Audit	• Reviewed the external audit strategy, significant risks and areas of audit focus, scope and materiality for 2019/20 and agreed the external audit engagement and audit fee for 2019/20. • Considered the safeguards relating to the integrity, objectivity and independence of the External Auditor, including the level of non-audit fees and any new non-audit engagements.
Internal Audit	• Received an update on the work undertaken by Internal Audit, including progress with the 2019/20 Internal Audit plan, significant findings and audit actions.
Risk management and internal control	• Received an update on the work undertaken by Group Compliance, including resource and progress with the compliance review programme and resulting actions.
Governance	• Reviewed the Committee's Terms of Reference, Non-Audit Services Policy and Policy on Employing Former Auditors. • Considered the status of audit reform and other related governance developments.

Audit Committee Meeting held on 11 November 2019

Financial reporting	• Considered the Key Accounting Judgements applied in the preparation of the Interim Financial Results. • Reviewed letters of representation issued to the External Auditor prior to Board approval.
External Audit	• Considered the accounting, financial control and audit issues from the External Auditor's report on the 2019/20 half year review. • Reviewed the independence and objectivity of the External Auditor, including the level of non-audit fees. • Received an update on progress with the audit transition plan and approved refinements to the audit strategy for 2019/20.
Internal Audit	• Received an update on the work undertaken by Internal Audit, including audit resource, progress with the 2020/21 Internal Audit plan, significant findings and audit actions.
Risk management and internal control	• Reviewed Treasury operations, including the funding plan, liquidity, going concern, hedging and credit ratings. • Received an update on progress with the Group Risk Programme covering the assessment of Principal Risks and assurance frameworks to assess the effectiveness of the system of internal control.
Governance	• Approved the Committee business planner and areas of focus for 2020.

Audit Committee Meeting held on 27 February 2020

Financial reporting	• Received an update from the Director of Group Reporting and Chief Accountant on various accounting policy matters and the status of statutory accounts preparation process for Group companies.
External Audit	• Considered the findings from the External Auditor's controls report and reviewed progress on delivery of the audit strategy. • Reviewed the independence and objectivity of the External Auditor, including the level of non-audit fees.
Internal Audit	• Received an update on the work undertaken by Internal Audit, including progress with the 2019/20 Internal Audit plan, significant findings and audit actions and approval of the 2020/21 Internal Audit Plan. • Reviewed a progress report on the actions identified during the external quality assessment of Internal Audit.
Risk management and internal control	• Received an update on the work undertaken by Group Compliance, including resource and progress with the compliance review programme and resulting actions. • Reviewed the output of an exercise to test SSE's defences against cyber security threats. • Received an update on Group-level fraud risks, corruption and anti-financial crime governance. • Considered scenarios aligned to the Group's Principal Risks to stress test the viability assessment.
Governance	• Considered an Audit Committee governance update covering: the output of the evaluation of the performance of the Audit Committee; proposals on the evaluation of the External Auditor, audit process and Internal Audit; reporting themes for the 2020 Audit Committee Report; and the status of audit reform. • Received a report on the qualifying companies in the Group required to publish reports on their payment practices, policies and payments, and sought assurances that improvement plans were in place for the qualifying companies not meeting the Prompt Payment Code requirements.

Audit Committee Meeting held on 18 May 2020

Financial reporting	• Reviewed a report on the Group's tax position covering adjusted underlying tax rate, areas of potential tax exposure and provisioning, Fair Tax Mark accreditation, and priorities for the coming year.
External Audit	• Received an update on the external audit process.
Internal Audit	• Received an update on delivery of the 2019/20 Internal Audit plan, progress with the 2020/21 Internal Audit plan and the initial scope of a three year Internal Audit plan. • Reviewed and confirmed the effectiveness of the Internal Audit function.
Risk management and internal control	• Reviewed the effectiveness of the System of Internal Control prior to Board approval. • Considered audit reports on cyber security threats in regard to Operational IT and subsequently requested enhanced reporting to the Board.

Audit Committee Meeting held on 15 June 2020

Financial reporting	• Considered the appropriateness of the accounting in relation to the Significant Financial Judgements, estimates and Exceptional Items in 2019/20. • Considered those items highlighted by the External Auditor as requiring prior year adjustment. • Considered the impact of coronavirus on the financial statements for 2019/20. • Reviewed the Preliminary Results and 2020 Annual Report, including alternative performance measures, viability statement and going concern prior to Board approval. • Reviewed letters of representation issued to the External Auditor prior to Board approval.
External Audit	• Considered the accounting, financial control and audit issues from the External Auditor's report on the 2019/20 audit. • Reviewed the effectiveness of the external audit process using an enhanced framework. • Reviewed the independence and objectivity of the External Auditor, including the level of non-audit fees.
Internal Audit	• Reviewed a gap analysis of the Internal Audit function against the Internal Audit Code of Practice. • Reviewed and approved a three year Internal Audit plan.
Risk management and internal control	• Reviewed Treasury operations, including the funding plan, liquidity, going concern, hedging and credit ratings. • Reviewed the analysis to support the viability statement prior to Board approval. • Approved the narrative of the 2019/20 Audit Committee Report and Principal Risk related disclosures.

AUDIT COMMITTEE REPORT CONTINUED

Financial reporting

The Annual Report and Accounts seek to provide the information necessary to enable an assessment of SSE's position and performance, business model and strategy. During the year, SSE received a letter from the FRC in connection with its thematic review of companies revenue disclosures following the first full year of adoption of IFRS 15 "Revenue from Contracts and Customers". There were no questions or queries the FRC wished to raise with SSE, however the FRC made several suggestions surrounding disclosure and these have been addressed in the 2019/20 Annual Report and Accounts. The FRC requires companies to state that the letter provided no assurance that the Annual Report and Accounts are correct in all material respects. The FRC's role is not to verify the information provided but to consider compliance with the reporting requirements.

In preparing the Financial Statements for 2020 there are several areas requiring the exercise by management of judgement or a high degree of estimation. Throughout the year, the Finance team worked closely with the External Auditor to ensure SSE provides the required level of disclosure. This section outlines the significant areas of judgement that have been considered by the Committee – through discussion and detailed reporting by both management and the External Auditor – to ensure appropriate rigour has been applied. In the prior year the Group considered that the classification of SSE Energy Services as held for sale at 31 March 2019 was a significant financial judgement. Since actively progressing a range of options for disposal in the prior year, the Group entered into a SPA with Ovo Group Limited in September 2019 which led to the disposal of SSE Energy Services on 15 January 2020. Consequently, as at 31 March 2020, the Audit Committee considered that this no longer represents a significant financial judgement and Note 12 of the Financial Statements appropriately disclose this transaction. Other key accounting judgements and areas of estimation uncertainty applied in the preparation of the Financial Statements for 2020 are provided in Notes 5.2 and 5.3. The Independent Auditor's Report on pages 285 to 299 sets out the audit approach and highlights the other key audit matters that EY drew to the attention of the Audit Committee.

Significant financial judgements and estimates

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. The Group's most significant financial judgement areas, some of which are also areas of estimation uncertainty, as specifically discussed by the Audit Committee being highlighted opposite.

Going Concern and Viability Statement

The Committee reviewed the information to support the assessment of going concern prior to Board approval (see A6.3 Accompanying Information to the Financial Statements). Given the committed bank facilities of £1.5bn maintained by the Group, the current commercial paper market conditions, and the assumption the Group's will be able to refinance maturing debt, the Directors have concluded that both the Group and SSE plc as Parent Company have sufficient headroom to continue as a going concern. In coming to this conclusion, the Directors have considered sensitivities on future cashflow projections resulting from the coronavirus pandemic, the Group's credit rating, and the successful issuance of £9.1bn of medium- to long-term debt and Hybrid equity since February 2012 (including €1.1bn of senior bond issuance in April 2020 during the coronavirus lockdown). In the very unlikely event of not being able to access the revolving credit facility or otherwise refinance as may be required, the Group's options include not calling the £1.2bn Hybrid debt instruments over the next 12 months, deferring uncommitted capex and implementing further cost reductions. The Financial Statements are therefore prepared on a Going Concern basis.

The Committee agreed the parameters and reviewed the supporting report for the Board's assessment of the prospects of the Company which is covered in the Viability Statement on page 30. In doing so, the Committee considered the potential impacts arising from coronavirus and reviewed the period covered by the viability statement and continues to be of the view that a three-year period remains the most appropriate timespan.

Fair, balanced and understandable assurance framework

The assurance framework used in the preparation of the 2020 Annual Report and Accounts to assist the Directors discharge their requirement to state that, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy is as follows:

- a verification process dealing with the factual content;
- comprehensive reviews undertaken independently by senior management to consider messaging and balance;
- comprehensive reviews undertaken by the Company's brokers to ensure consistency and balance;
- reporting by the External Auditor of any material inconsistencies; and
- comprehensive review by the Directors and the senior management team.

The Committee and Board received confirmation from management that the assurance framework had been adhered to for the preparation of the 2020 Annual Report.

Significant financial judgements and estimates for the year ended 31 March 2020	How those were addressed by the Audit Committee
Impairment testing and valuation of certain non-current assets (Estimation Uncertainty) The Group reviews the carrying amounts of its goodwill, other intangible assets and specific property, plant and equipment assets to determine whether any impairment of the carrying value of those assets requires to be recorded. The specific assets under review in the year ended 31 March 2020 are intangible development assets and specific property, plant and equipment assets related to gas production and thermal power generation as they displayed indicators of impairment. In conducting its reviews, the Group makes judgements and estimates in considering both the level of cash generating unit (CGU) at which common assets such as goodwill are assessed against, as well as the estimates and assumptions behind the calculation of recoverable amount of the respective assets or CGUs. Changes to the estimates and assumptions on factors such as regulation and legislation changes, power, gas, carbon and other commodity prices, volatility of gas prices, plant running regimes and load factors, expected proven and probable reserves, discount rates and other inputs could impact the assessed recoverable value of assets and CGUs and consequently impact the Group's income statement and balance sheet.	An annual valuation/impairment exercise is carried out and the basis and outcome of this review is presented to the Committee by management and includes a description of the assumptions applied in deriving the recoverable values. The Committee reviewed and challenged the assumptions and projections presented in the management paper and considered the detailed reporting from, and findings by, the External Auditor. Further detail of the calculation basis and key assumptions used in the impairment review, the resulting impairment charges and the sensitivity of this assessment to key assumptions is disclosed at Note 15. Detail on the accounting policies applied is included in the Accompanying Information section A1. Following this review, the Committee supported the recommendation to recognise an impairment of £291.3m in relation to gas production assets in the financial year.
Accounting for the impacts of coronavirus (Accounting Judgement and Estimation Uncertainty) At the Balance Sheet date the UK was in a period of lockdown during the coronavirus pandemic. The impact of the pandemic on the Group's results for the year to 31 March 2020 are limited as the pandemic happened late in the Group's financial year. However, it is expected that there will be reduced demand for electricity in the 2020/21 financial year, which will impact on the Group's profitability in that year. As a result, additional scenario modelling, including periods of reduced demand and stressed scenarios on the Group's ability to refinance maturing debt was included in the Group's going concern and viability statement assessments.	At 31 March 2020, the Group recorded an exceptional bad debt charge of £33.7m related to the recovery of bad debts and unbilled amounts in the Group's Customers business. In addition, charges estimated at £18.2m related to reduced demand in March and resulting hedging losses in that period were recognised within adjusted operating profit. The Committee have reviewed the provisions and consider them to be appropriate. Changes in estimation basis or in economic conditions, such as coronavirus, could lead to a change in the level of provisions recorded and consequently on the charge or credit to the income statement. Further detail of the analysis of the ageing of trade receivables, movement in the provision for bad and doubtful debts and the net trade receivables expected to be recoverable is detailed within the Accompanying Information section A6.
Retirement benefit obligations (Estimation Uncertainty) The assumptions in relation to the cost of providing post-retirement benefits during the period are based on the Group's best estimates and are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the level of the retirement benefit obligation recorded and the cost to the Group of administering the schemes.	The assets and liabilities of the Group's defined benefit retirement schemes are regularly reviewed. Advice is taken from independent actuaries on the IAS 19R valuation of the schemes. The Committee was updated on the schemes' valuation and considered the findings of EY in relation to the scheme's key assumptions relative to market practice. Following this review, the Committee supported the judgements made. Further detail of the calculation basis and key assumptions used, the resulting movements in obligations and the sensitivity of key assumptions to the obligation is disclosed at Note 23.
Revenue recognition – Customers unbilled supply of energy (Estimation Uncertainty) In the prior year, the estimation of revenue arising from the Group's SSE Energy Services business was considered a significant financial judgement in the preparation of the Group's consolidated financial statements. Whilst the significance of financial judgement involved for the Group's remaining customer focused businesses has reduced, the Group considers that the estimation uncertainly for the unbilled supply of energy at 31 March 2020 remains a significant financial judgement. Revenue from energy supply activities undertaken by the Business Energy and Airtricity businesses 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 comprises both billed revenue (disclosed as trade receivables) and unbilled revenue (disclosed as accrued income) and is calculated based on applying the tariffs and contract rates applicable to customers against estimated customer consumption and taking account of various factors including usage patterns, weather trends and externally notified aggregated volumes supplied to customers from national settlements bodies. A change in the assumptions underpinning the calculation would have an impact on the amount of revenue recognised in any given period.	This estimation is subject to an corroboration process which compares calculated unbilled volumes to a theoretical "perfect billing" benchmark measure of unbilled volumes (in GWh and millions of therms) derived from historical weather-adjusted consumption patterns and aggregated metering data used in industry reconciliation processes. Furthermore, actual meter readings and billings continue to be compared to unbilled estimates between the Balance Sheet date and the finalisation of the financial statements. The Committee reviewed the practical process issues and assumptions applied in determining the estimation uncertainty and considered the findings of the External Auditor. Following this review, the Committee supported the estimate for revenue recognition from energy supply activities. Further details of the sensitivity associated with this judgement is disclosed at Note 18.

AUDIT COMMITTEE REPORT CONTINUED

External Audit

External Auditor

Following a competitive tender process carried out during in the previous financial year, EY were appointed by shareholders as SSE's External Auditor for the financial year commencing 1 April 2019. EY carried out the review of the half-year results and audit for the full-year ending 31 March 2020. The Committee monitored the transition of the External Auditor throughout the year and approved refinements to the initial planned audit approach following identification of prior year adjustments as disclosed within Note 1.3 of the Financial Statements. The results of procedures that EY performed following the refinement in planned audit approach were reported to the Audit Committee, alongside the conclusion of prior year adjustments identified. The lead audit partners, Hywel Ball and Annie Graham, have been in post since EY were appointed and will be required to rotate after 5 years. The external audit contract will be put out to tender at least every 10 years. Any future tenders will be carried out in line with the prevailing best practice. The Committee confirms ongoing compliance with the Statutory Audit Services Order.

Effectiveness

An important part of the Committee's work consists of overseeing the Group's relationship with the External Auditor to ensure the independence, quality, rigour and challenge of the external audit process is maintained. The Committee reviews the effectiveness of the audit throughout the year taking into account:

- the detailed audit strategy for the year and coverage of the highlighted risks, scope, and level of fees for the audit;
- the quality, knowledge and expertise of the engagement team;
- insight around the key accounting and audit judgements and the competence with which EY has applied constructive challenge and professional scepticism in dealing with management; and
- the outcome of the review of effectiveness of the External Auditor and audit process discussed below.

The Committee considered the updated version of the Practice Aid for Audit Committees which was published by the FRC in December 2019 and enhanced the review of the effectiveness of the External Auditor and the audit process to help provide assurance that a high-quality audit has been performed. The key elements set out below were delivered individually and were considered collectively in the Committee's review of effectiveness. The changes introduced this year included a comprehensive review of the questionnaires used to seek feedback from members of the Audit Committee, Partners at the External Auditor and senior management of the business areas subject to the audit. The importance of management engagement in the external audit process is recognised and the practice of briefing management on their obligations in relation to the provision of information to the External Auditor has continued.

FEEDBACK TO INFORM THE REVIEW OF EFFECTIVENESS OF THE EXTERNAL AUDITOR AND EXTERNAL AUDIT PROCESS

EXTERNAL	MANAGEMENT	EXTERNAL AUDITOR	AUDIT COMMITTEE
• Assurance from EY covering the matters raised in the FRC's Annual Quality Review inspection reports and remedial actions taken by the audit firm.	• Assess output from survey of those subject to the external audit process. • Assurance on the disclosure process for the provision of information to the auditors has been adhered to.	• Assess delivery of the audit strategy and Auditors' Report. • Assess output from survey of Audit Partners on the external audit process. • Assurance on the operation of audit quality process at audit firm.	• Assess output from annual Audit Committee evaluation. • Assess output from survey of Audit Committee members, Regular Attendees and Group Finance.

OUTCOME

Following consideration of all elements of the audit quality review process, in addition to taking into account of the engagement and communication between the Audit Committee, management and External Auditor, the Committee confirmed it was satisfied that the external audit process provided by EY had been delivered effectively. The Committee Chair will follow up with management and the External Auditor to ensure delivery of the actions agreed to improve the audit process for 2020/21.

Independence and objectivity

In addition to the annual review of effectiveness, the Committee considered the independence and objectivity of the External Auditor through a combination of assurances provided by the External Auditor on the safeguards in place to maintain independence; oversight of the Non-Audit Services Policy and fees paid; and oversight of SSE's policy on employing former auditors. EY confirmed that all its partners and staff complied with their ethics and independence policies and procedures including that none of its employees working on the audit hold any shares in SSE plc.

Non-Audit Services Policy

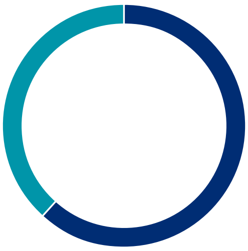
The Non-Audit Services Policy governs the engagement of the External Auditor to provide non-audit services. This policy was reviewed by the Committee and updated during the year to ensure that it remained fit for purpose and in line with the revised FRC Ethical Standard. Non-Audit Services are split into two categories for the purposes of approval:

- **Audit-Related Services.** Services that would usually be pre-approved by the Committee as part of the approval of the total annual audit fee.
- **Permitted Non-Audit Services.** Services where the Committee has approved the use of the External Auditor subject to the following limits: the Finance Director up to £50,000; the Committee Chair up to £100,000; and the Committee above this amount.

External Auditor Fees

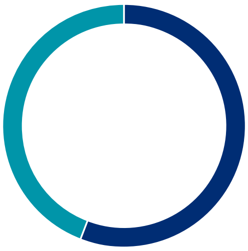
The Committee keeps under review the services EY provide by reviewing a report at each meeting. Fees for Audit and Audit-Related Services incurred during the year amounted to £1.9m and £0.28m for Permitted Non-Audit Services. Fees paid to EY during the year are made in Note 6 to the Financial Statements. Permitted Non-Audit Services principally related to tax compliance and capital allowance for a non-material offshore wind farm development project at £0.19m, issuance of debt prospectus at £0.05m and assurance work relating to intra-group company transfers at £0.05m. The Committee was satisfied that the work was best handled by EY because of its knowledge of the Group and the services provided did not give rise to threats to independence. All non-audit services were approved in accordance with the Non-Audit Services Policy.

2017/18 Auditor Fees (paid to KPMG)



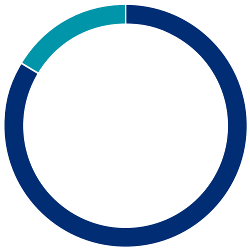
- Audit and Audit Related Services – £1.3m (62%)
- Permitted Non-Audit Services – £0.8m (38%)

2018/19 Auditor Fees (paid to KPMG)



- Audit and Audit Related Services – £1.4m (56%)
- Permitted Non-Audit Services – £1.1m (44%)

2019/20 Auditor Fees (paid to EY)



- Audit and Audit Related Services – £1.9m (86%)
- Permitted Non-Audit Services – £0.28m (14%)

Re-appointment of the External Auditor

The Committee concluded that it is satisfied with the objectivity and independence of the External Auditor, and that the effectiveness of the external audit process delivered by EY was robust. The Committee proposed to the Board that it seek shareholder approval for the re-appointment of EY for the financial year ending 31 March 2021.

Internal Audit

Internal Audit plays an important role in SSE, helping the organisation to deliver its objectives by bringing a risk-based, independent and objective approach to evaluating and improving the effectiveness of risk management, internal control and governance processes. The Director of Risk and Audit has management responsibility for the Internal Audit function. In addition to the normal corporate reporting structure, he has the right of direct access to the Chief Executive, the Committee and the Company Chair. At each Committee meeting, an update on Internal Audit is provided covering an overview of the work undertaken in the period, actions arising from audits conducted, and the tracking of remedial actions, audit resource and progress against the Internal Audit Plan.

Internal Audit Plan

The Internal Audit Plan is structured to align with SSE's operating model, strategic priorities and key risks. An integrated assurance mapping and planning process is undertaken to ensure that Internal Audit work is appropriately aligned to, and coordinated with, the activities of other relevant assurance providers across the Group. The Internal Audit Plan now has a three year time horizon and comprises both fixed and flexible elements to be able to respond to any change in priorities and requirements. The plan also includes audits of key transformational programmes, financial control and areas relating to responsible behaviour and non-financial risk.

AUDIT COMMITTEE REPORT CONTINUED

Internal Audit effectiveness

The Committee keeps under review and assesses the independence and effectiveness of Internal Audit by adopting the process outlined below. The assessment considered Internal Audit's positioning within the organisation and the quality of its planning and operational procedures. The assessment incorporated a survey of Internal Audit's stakeholders across the Group, along with a review of outputs from a number of recent internal audits.

FEEDBACK TO INFORM THE REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT

INTERNAL AUDIT	MANAGEMENT	EXTERNAL	AUDIT COMMITTEE
• Assess delivery of the Internal Audit plan. • Assess audit resource and expertise.	• Assess output from survey of Group Executive Committee and other key members of senior management.	• Assess feedback provided from the External Auditor. • Assess progress with actions identified by the externally-led evaluation carried out every 3 years.	• Views from members of the Audit Committee.

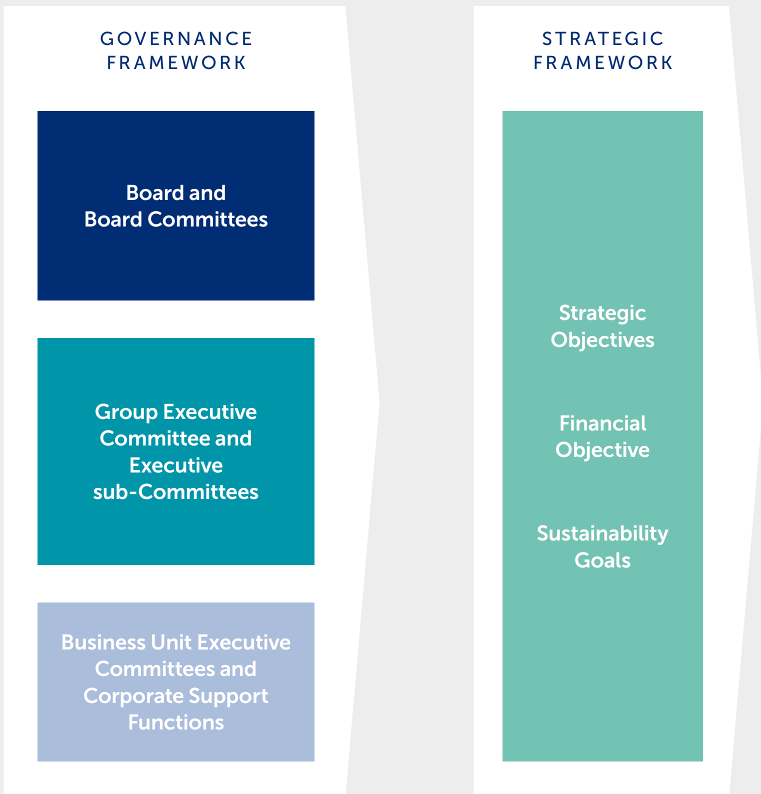
OUTCOME

Following consideration of all elements of the review, the Committee recognised the progress made during the year on delivery of the actions from the externally-led evaluation of the function, and confirmed it was satisfied with the overall performance of the Internal Audit Function. The key areas of focus for 2020/21 included further alignment to each of SSE's seven operating divisions, data analytics and the development of a three year audit plan including necessary resource.

System of Internal Control

The elements that make up the System of Internal Control are:

- **Governance Framework.** Designed to ensure focus on the key components of high quality and effective decision making – clarity, accountability, transparency and efficiency. For further details please see page 96 of the Directors' Report.
- **Strategic Framework.** This includes Group's strategic objectives, financial objective and sustainability goals and forms the basis for all activity within the Risk Management Framework. For further details please see pages 6 to 9 of the Strategic Report.
- **Risk Management Framework.** This framework supports each Business Unit in managing its risks and helps to ensure that the Board can meet its obligations. The framework is underpinned by the fundamental principle that everyone at SSE is responsible for the management of risk.
- **Assurance Framework.** An integrated programme of audit and assurance activity that is independent of the day to day operations of the Business Units and Corporate Functions. It is made up of Internal Audit, Group Compliance, Large Capital Projects Services and Group Safety, Health and Environment.
- **Standards and Quality Framework.** Sets out the expected standards and guidelines to be followed in the delivery of the Group's core purpose.



Internal Control and Risk Management

Internal Control

The Board has delegated to the Committee responsibility for reviewing the effectiveness of SSE's System of Internal Control. This covers all material controls including financial, operational and compliance controls, in addition to the financial reporting process.

To assist the Committee's review of the System of Internal Control, the different elements are evaluated by relevant key stakeholders. These evaluations are assessed by the Finance Director and a letter is provided to the Committee summarising the work conducted in the year to improve the control environment and making a recommendation on the overall effectiveness of the System of Internal Control.

In addition, when undertaking the review of the effectiveness of the System of Internal Control, the Committee considers the Assurance Evaluations undertaken annually by the Managing Directors of each of SSE's seven operating divisions. These assurance evaluations consider 10 key management control areas and include any planned improvements to enhance controls. These improvements are tracked, with updates reported to the Group Risk Committee on a regular basis.

Risk Management

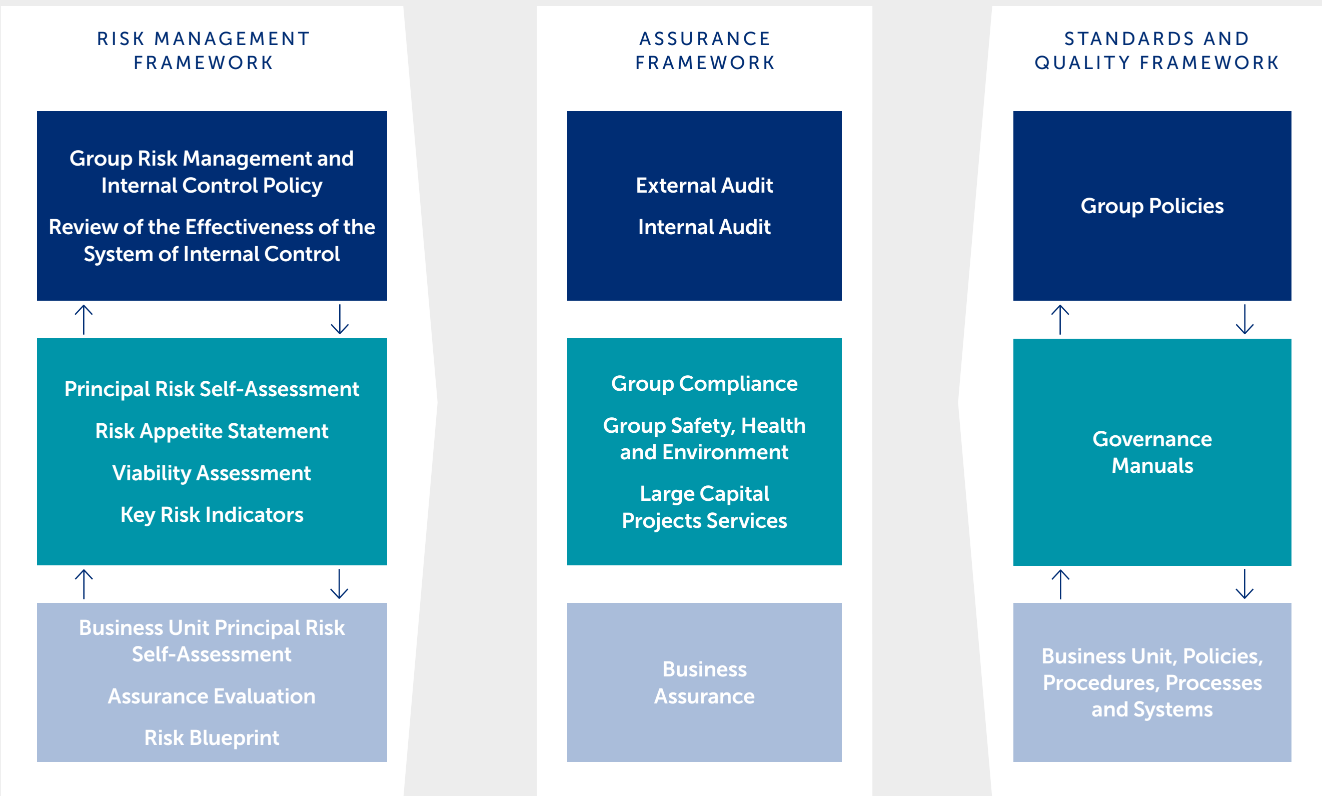
The Group's Risk Management Framework is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can only therefore provide reasonable and not absolute assurance against material misstatement or loss.

In addition to the ongoing review of emerging risks, the Board carried out a robust assessment of the Principal Risks facing the Group, being those that have the potential to threaten its business model, future performance, solvency or liquidity. In response to the coronavirus pandemic, an additional assessment of the Group Principal Risks was completed. Further details of the Group Principal Risks, together with an over-lay of the impact on these from the coronavirus pandemic are set out on pages 28 to 36.

Internal Control and Risk Management Effectiveness

Following the Committee's review and recommendation, the Board agreed that SSE's System of Internal Control (including risk management) continues to be effective. This was in accordance with the requirements of the FRC Guidance on Risk Management, Internal Control and related Financial and Business Reporting.

Taking into account continuous improvement actions, the Board also confirms that no significant failings or weaknesses have been identified during the financial year. Processes are in place to ensure that necessary action is taken and progress is monitored where areas for improvement have been identified. While no significant failings or weaknesses were identified during the year, an investigation is now underway into a possible incident of external fraud against SSE Renewables which was discovered in April 2020.



ENERGY MARKETS RISK COMMITTEE REPORT

Dear Shareholder,

As Chair of the Energy Markets Risk Committee (EMRC), it is my pleasure to present the report for the financial year ended 31 March 2020. This aims to inform shareholders of the EMRC's work and to outline how the Committee has discharged its duties during its first full year of operation.

As a Committee, our initial remit was to oversee and ensure implementation of revised governance arrangements which would provide enhanced transparency of SSE's approach to managing commodity price exposures, aligned to "SSE's Approach to Hedging". Therefore, our main focus in the year has been activities to support the transition to these arrangements by April 2020. I am now pleased to confirm that the implementation of these new arrangements has been completed. We will continue to monitor SSE's management of commodity price exposures and, should circumstances lead to any change in approach being required, these will be fully discussed, challenged and appropriately reported.

During the year, the EMRC had several other focus areas including:

- reviews of emerging energy market risks;
- conducting relevant deep-dive sessions; and
- reviews of risk management and internal controls concerning energy markets.

These areas have afforded the EMRC good visibility of current material issues and concerns and in turn has provided a strong foundation for debate and challenge regarding SSE's energy market exposures and related assurance activities. I would like to thank the members of the EMRC and the management team for the open discussions that have taken place at our meetings and the importance they all attach to its work.

As part of our commitment to good governance and continual improvement, the EMRC's performance was assessed as part of the annual Board evaluation during the year. This confirmed that the EMRC operates effectively and the Board takes confidence from the quality of the Committee's work. I am pleased that the Board recommended that the that EMRC should continue beyond its initial 18-month period, as it provides an important forum for focus on the management of SSE's energy markets risk exposures.

Looking ahead to 2020/21, the EMRC will continue its oversight role on energy markets risks and exposures. In particular, and given the ever-changing external environment, the EMRC will focus on the impact, management and mitigation of relevant macroeconomic and geopolitical events. This will include the influence on SSE's energy market exposures relating to the coronavirus pandemic and the progress of negotiations on the future trade relationship with the EU.

I hope that you find this report informative and representative of the assurance the EMRC provides.

Tony Cocker
Chair of the EMRC
16 June 2020

Key EMRC activities/highlights during the year

- Overseen the implementation of "SSE's Approach to Hedging".
- Monitored emergent energy market issues and risks.
- Reviewed reports on risk management and internal control relating to SSE's energy markets exposures.
- The Board decided that the EMRC should remain in place as a Board Committee and continue its oversight role in relation to energy market risk and exposures.

SSE's approach to Hedging

SSE has committed to delivering a transparent approach to how it manages commodity price exposures and to giving investors the maximum possible visibility of the impact of market movements on profitability.

Central to this transparency is to outline the SSE Group's approach to hedging, which explains how SSE plans to reduce its exposure to variations in earnings from its assets that are subject to volatility in energy commodity prices. In doing so, SSE will provide more stability to future earnings and support the delivery of its dividend commitment.

'SSE's Approach to Hedging' can be read in full on sse.com.

Role of the Committee

The EMRC's purpose is to oversee SSE's energy markets risk exposures. In doing so, it assists the Board in the effective discharge of its responsibilities in relation to risk management and internal control in this area. The EMRC's full Terms of Reference can be found on sse.com.

Committee membership and attendance

The EMRC comprises three non-Executive Directors and two Executive Directors, with full details of membership and meeting attendance set out on page 96. The Chief Executive and the Managing Director of Energy Portfolio Management and Investments also routinely attend meetings, with an Assistant Company Secretary acting as Secretary to the Committee. The Director of Risk and Audit served as a member of the EMRC until 30 April 2019, at which point he took up an interim position of Director of Energy Portfolio Management and has continued to routinely attend meetings in that capacity.

To assist the EMRC in carrying out its responsibilities, relevant senior managers can be invited to attend to present certain items of business and provide additional levels of insight. The External Auditor, EY, also attended a meeting during the year to provide details of its planned approach to the audit of Energy Portfolio Management and a deep dive into risk management controls and market practice.

The composition of the EMRC further facilitates the sharing of relevant experience held by the non-Executive Directors. As EMRC Chair, Tony Cocker brings extensive knowledge from his career in the energy industry, and Richard Gillingwater and Crawford Gillies both provide valuable insights and a wealth of knowledge from various senior roles in the private and public sectors. Biographical information of the EMRC members' backgrounds and experience is contained on pages 90 to 93.

The membership of the EMRC is approved by the Board upon recommendation of the Nomination Committee. The current membership was last reviewed in January 2020 and was deemed to have the sufficient skills and expertise to discharge its duties with no changes proposed.

Committee evaluation

The performance of the EMRC was assessed as part of the annual Board evaluation (see pages 112 to 113). The results of the evaluation indicated that the EMRC is currently operating effectively, and that it continues to provide an appropriate level of challenge and oversight of the areas within its remit. As noted above, it was agreed by the Board that the EMRC should continue as it affords a forum to provide focus to, and assurance of, SSE's energy markets risk exposures.

Meetings and focus areas in 2019/20

The EMRC held five meetings during the year and reports to the Board on its work following each meeting. Each meeting agenda is informed by a forward plan of business, which is designed to ensure that the EMRC carries out its responsibilities in line with its Terms of Reference. In addition, and outwith the cycle of scheduled meetings, the EMRC Chair meets with the Energy Director, Managing Director of Energy Portfolio Management and Investments, the interim Director of Energy Portfolio Management, and the Committee Secretary to ensure that key and emerging issues are brought to the Committee's attention as appropriate.

The EMRC will continue to develop and to regularly review the Committee's forward plan of business to accommodate any emerging issues and risks to the Group concerning energy markets.

Details of the key focus areas and action taken by the EMRC in the year are set out in the table below.

Key EMRC focus areas in 2019/20

Areas of focus	Actions taken
Overseeing the implementation of SSE's "Approach to Hedging"	• As part of a quarterly report on Energy Markets Risk, monitored: – progress surrounding the implementation of revised hedging arrangements; – Energy Portfolio Management's counterparty credit risk exposures; and – the current liquidity of energy markets. • Reviewed and endorsed the update to SSE's Approach to Hedging: May 2019 Update.
Energy Markets Risks	• Received reports throughout the year on emerging energy market issues/risks and recommended relevant matters to the Board on changes to risk management arrangements in line with SSE's "Approach to Hedging". • Considered a report on key energy market risks, risk appetites and risk management controls and governance. • Received reports on reviews of GB and ROI energy markets.
Internal Control and Risk Management relating to Energy Market Exposures	• Considered a report on the key risks and controls arising from operations within Energy Portfolio Management. • Reviewed the Energy Portfolio Management MD Letter of Assurance. • Received an in-depth review of risk control metrics provided internally. • Received quarterly reports from Internal Audit and details of resulting action plans related to the Energy Portfolio Management business. • Received a report from EY on its approach to the audit of Energy Portfolio Management. • Reviewed a report from EY on a deep dive into risk management controls and market practice.
Governance and Other	• Considered the output of the EMRC performance evaluation and recommended to the Board that it continue to discharge an oversight role. • Approved the narrative of the 2019 EMRC Report. • Regularly reviewed the forward business planner.

SAFETY, HEALTH AND ENVIRONMENT ADVISORY COMMITTEE REPORT

Dear Shareholder,

I am pleased to present the Safety, Health and Environment Advisory Committee (SHEAC) report for the year ended 31 March 2020. On behalf of the SHEAC, I would like to thank Dame Sue Bruce for her valuable contribution as a member of the Committee from 2013 to 2019.

SSE operates in a hazardous industry, with unique safety, health and environmental (SHE) challenges and risks facing each of its business areas. SSE's SHE risk profile continues to change as some business units move into new sectors, for example SSE Renewables' increasing involvement in offshore wind, and with the sale of Energy Services completed in January 2020. SSE must continually review the challenges and risks presented to its businesses to adapt and respond to these changing circumstances.

SSE promotes a strong safety culture across all of its businesses, with its Safety value and a mantra of "if it's not safe, we don't do it" providing a unifying message that ensures all employees are empowered to do the right thing, and as a result can get home safe.

2019/20 represented the final year of SSE's 50by20 health and safety campaign, which has resulted in considerable improvements in SSE's safety performance, and I am delighted to report that we met our targets earlier than expected. I am also pleased we have, over the year, placed a strong emphasis on health and wellbeing which was a focus of our Group SHE conference which I much enjoyed attending. A spotlight has also been put on the environment with the launch of a new Group Environment Strategy designed to set clear environmental objectives across SSE's businesses.

At the end of our financial year the coronavirus pandemic struck which has challenged all of us. The work we've done on safety, health and environment has put us in a very strong position to deal with the immediate challenges and the meeting of the Committee in March 2020 was dedicated to considering SSE's response. Now more than ever, we should be focusing on our safety licence and taking care of ourselves and each other.

I would like to thank our employees who have stepped up to the mark in ensuring we continue to provide a safe and reliable supply of electricity that is critical in enabling the national response to the pandemic.

To ensure we continue to work safely, we have changed the way we work. New processes and procedures have been put in place, remote working is being encouraged where possible, and for those who can't work remotely we have clear guidelines on social distancing and all the other precautions that we can take. Our focus going forward will be on ensuring safe working conditions and supporting our employees to adapt to these new ways of working.

I hope that you find the following report a useful explanation of both our work and of SHE performance during the year.

Helen Mahy CBE
Chair of the SHEAC
16 June 2020

Key SHEAC activities during the year

- Endorsed the new Group Environment Strategy.
- Ensured the establishment of safe working practices during the response to the coronavirus pandemic.
- Overseen the roll out of the Nuffield Back to Health scheme for all employees.
- Reviewed the progress of the Contractor Safety Group in improving contractor safety performance.
- Endorsed a revised approach to improve the reporting of absenteeism.

Role of the Committee

The role of the SHEAC is to advise the Board on matters relating to safety, health and the environment. It provides a leadership forum for non-Executive Directors to work with senior management and shape policy, targets and strategy to improve SHE performance and culture.

The SHEAC reviews and oversees three significant Group policies: Safety and Health Policy; Environment and Climate Change Policy; and Sustainability Policy. For 2020/21 the Environment and Climate Change Policy has been replaced by two policies, a Climate Change Policy and an Environment Policy. The SHEAC will oversee the Environment Policy and elements of its work will support SSE's efforts to address climate change.

The Committee ensures it has access to a range of both internal and external stakeholder perspectives to help it better achieve its core focus – to review SHE performance and advise on the strategy to bring about a positive culture of continuous improvement.

Finally, given that SHE matters largely relate to SSE's external impacts, the SHEAC has an overarching role in supporting SSE's commitment to be a sustainable company that makes a positive contribution to the communities and societies of which it is part.

Full detail of the remit of the SHEAC is set out in its Terms of Reference, which were reviewed during the year and are available on sse.com.

Committee membership and attendance

As at 31 March 2020, the membership of the SHEAC comprised three non-Executive Directors; the Chief Sustainability Officer; the Managing Director, SSEN Distribution; the Managing Director, SSE Renewables; Managing Director, SSE Enterprise Utilities; and the Group Safety, Health and Environment Manager. The Deputy Company Secretary is Secretary to the Committee and the Chief Executive routinely attends meetings.

Biographical details of the non-Executive members can be found on pages 90 to 93 and details of meeting attendance are set out on page 96.

Committee evaluation

A review of the effectiveness of the Committee undertaken during the financial year confirmed that the work of the SHEAC remains appropriate and that the Committee continues to fulfil its stated remit. The results of the review will inform the work and considerations of the SHEAC going forward.

Meetings and focus areas in 2019/20

The SHEAC met four times in 2019/20 and undertook six operational site visits across a range of business areas, an increase compared to the previous year. The SHEAC has an annual work plan designed around SSE's Enduring Goals, with standing items covering SHE performance, incidents and trends, risks and priorities.

The Group Safety, Health and Environment Committee (GSHEC), which reports into the Group Executive Committee, supported the strategy of the SHEAC in the continual improvement of SHE management and performance, by overseeing the eight Enduring Goal Subgroups which sit under the GSHEC. These are:

- 50by20 Subgroups – these four groups are in place to deliver a transformation in SSE's approach to: Contractor Safety; Safety Family; Occupational Health and Wellbeing; and Operational Safety.
- Enduring Goal Subgroups – these four groups are in place to deliver continuous improvement and to share best practice across SSE in: Process Safety; Driving; Environment; and Crisis Management.

Progress of 50by20

The SHEAC continued to monitor the 50by20 health and safety programme which was launched in 2017 and drew to a conclusion in 2019/20. Since its launch, SSE has seen significant improvements in its safety performance with a continued reduction in the number of people being hurt, along with a clear focus on taking care of ourselves, each other and the environment so we can all get home safe.

SSE's rolling Total Recordable Injury Rate (TRIR) for employees and contractors combined remained the same as last year at 0.16 per 100,000 hours worked. Road Traffic Collisions (RTCs) (class one severe) rose slightly to 37 from 34 in the previous year. In addition, there were also considerably fewer potentially life changing injuries, falling to one from three the previous year. However, despite this overall positive performance the Committee remains mindful that incidents and accidents still occur, and SSE should not become complacent.

With the conclusion of the 50by20 campaign, next steps are to continue to focus on getting all of SSE's employees home safe. The aim is to continue to shift to a simple, positive and engaging approach, and SSE has introduced the concept of "Safe Days" as a new way to monitor and track its safety progress and performance. The considerable change in the profile of SSE's business with the sale of SSE Energy Services, means that new health and safety ambitions have been set for 2020/21 and beyond to continue momentum and drive improved performance across the business.

A focus on mental health

Good progress was made during 2019/20 in enhancing awareness of mental health issues and rolling out a range of measures including mental health first aiders and training. Around 170 colleagues have been trained as mental health first aiders and over 1,200 managers trained in mental health awareness and support, as at 31 March 2020.

SAFETY, HEALTH AND ENVIRONMENT ADVISORY COMMITTEE REPORT CONTINUED

Meetings and focus areas in 2019/20 continued

A focus on mental health continued

SSE's trial of its Back to Health programme supported by Nuffield Health was made available to all employees in Great Britain in 2019 with two areas of focus: anxiety, stress and depression and musculoskeletal conditions. The programme has helped line managers start conversations with colleagues who they were concerned for, by having the ability to offer Nuffield Health as support. Employees also have the option to self-refer. In 2019/20, over 800 employees were referred for anxiety, stress and depression support with approximately 62% remaining in work during treatment. Around 500 employees were also referred for physiotherapy services with most cases affecting the lower back and knees.

The coronavirus pandemic presents challenges for employees around maintaining good mental health in times of uncertainty and social distancing. SSE has used its partnership with Nuffield Health to give employees access to a range of resources to help take care of themselves while at home, including an emotional care guide, advice from physiotherapists and free access to the "My Wellbeing" app which provides home workout videos and tailored programmes. SSE's priority for 2020/21 will be to continue to support employees adapt to new working conditions and look after their mental health.

Improved reporting for absenteeism

A review of sickness and absence data was undertaken during 2019/20, with key issues and targeted actions being identified. The SHEAC approved an improved measure for absence data which will allow more accurate monitoring of performance in future. Absenteeism data for the specific business units was reviewed with further analysis planned to benchmark and drive improved performance across the Group by focusing on interventions. The SHEAC agreed to do an annual deep dive to assess the effectiveness of SSE's management of absenteeism going forward.

Environmental strategy and performance

The primary focus for the SHEAC on environmental issues is to ensure SSE's Business Units mitigate the risk of environmental damage occurring because of their operations. In 2019/20, SSE's environmental permit breaches increased to 10 from four the previous year. While the number of breaches increased the severity decreased, with the majority related to minor environmental incidents. Most breaches were self-reported to the relevant environmental agencies and all incidents were dealt with quickly when identified.

The SHEAC received presentations on environment strategy work being undertaken in SSE's renewables and electricity transmission businesses, which focused on the planning process for new infrastructure projects and the future requirement to demonstrate new developments to create a "biodiversity net gain". The businesses' ambitions in this area contribute to SSE's new Group Environment Strategy, endorsed by the SHEAC, which was launched in March 2020.

The Environment Strategy consists of Group-wide goals across three priority areas covering climate action, responsible consumption and production and natural environment. The Strategy provides a framework for the individual business units to guide their daily activities, and each business has its own environment plan that contributes to the Group's environment goals.

Contractor safety

The SHEAC reviewed the annual progress of the Contractor Safety Group, which has been undertaking a programme of work over the last three years to drive improved performance and embed best practice for contractor safety. The Total Recordable Injury Rate (TRIR) for contractors was 0.32 per 100,000 hours worked. This is the same as the previous year, however a significant drop from 0.51 in 2016/17 as a result of the work being undertaken by the Contractor Safety Group.

Operational site visits

The SHEAC made a concerted effort to increase operational site visits over 2019/20, allowing it to see first hand the way SHE issues are managed at site level and to hear views directly from employees. Site visits in 2019/20 included visits to: two of SSE Renewables' hydro generation sites in the north of Scotland; SSE Thermal's Fiddler's Ferry coal-fired power plant in Cheshire; SSEN's training centre in Perth; an SSE Enterprise Contracting project in Plymouth; and SSEN Distribution's Camberley substation.

Detail of some of the insights fed back to the Board and SHEAC from these operational site visits can be found on pages 108 to 110.

Challenging refurbishment works at Grudie Bridge hydro

Members of the SHEAC undertook an operational site visit to Grudie Bridge power station, a hydro asset at Loch Fannich operated by SSE Renewables. Originally built in the 1950s, the station requires refurbishment works to modernise power station valves.

The nature of the site represents a number of safety challenges which need to be managed including limited documentation of the original engineering, the presence of asbestos and operational employees often being dispersed across a wide area resulting in sometimes limited communication.

Committee members were impressed at the work being undertaken to overcome these challenges and were encouraged to see a strong safety culture onsite, which was also being reinforced by contractors. With many employees having a long length of service at the site, SSE's Safety Family culture was well embedded with employees looking after themselves and each other.

More information on SSE's SHE performance for 2019/20 can be found in SSE's Sustainability Report 2020.

2019/20 performance

Safety

Total Recordable Injury Rate – employees and contractors combined (per 100,000 hours worked)

0.16

(2018/19: 0.16)

Safety

Number of people hurt

71

(2018/19: 82)

Environment

Environmental permit breaches

10

(2018/19: 4)

Health

Number of colleagues trained as mental health first aiders

170

Health

Cumulative total of managers trained in mental health awareness and support

1,217

Priorities for 2020/21

- **Driving:** Improving driving performance by gaining better insights into the black box tracking devices fitted to vehicles in the fleet.
- **Contractor SHE Performance:** The number of contractors making up the work-force is set to increase with a series of significant Renewable projects transitioning from development to build phase.
- **Coronavirus:** Oversight of the Company's response to tackling the spread of coronavirus and ensuring a safe place to work is maintained.
- **Communication:** Maintaining regular and fresh SHE communications will continue to be a priority.

REMUNERATION COMMITTEE CHAIR'S STATEMENT

In this section

Summary of Committee's activities during the year

- Analysis of UK regulatory and market practice
- Monitoring and assessing performance against targets for 2019/20 (including performance against the UN SDGs for the first time)
- Setting performance metrics and targets for 2020/21
- Below Board pay/all-employee pay
- Executive Directors' pension arrangements
- Impact of coronavirus on remuneration

Dear Shareholder,

This Directors' Remuneration Report aims to set out simply and transparently how SSE pays its Directors (both Executive and non-Executive); the decisions made on their pay in 2019/20; and how much they received in relation to the financial year ended 31 March 2020.

Our current Directors' Remuneration Policy was approved by shareholders at the 2019 AGM, with over 99% support. I believe this strong level of support is partly the result of the time we spent engaging with shareholders and other stakeholders to explain the rationale for the policy to make sure it supports the next stage of the Company's development. The policy is built on our core reward principles which endure even though the business model continues to evolve. These are:

- Sustainability, reinforcing SSE's commitment to being a responsible employer;
- Simplicity, maximising transparency and avoiding unnecessary complexity;
- Stewardship, encouraging good decision-making for the long term; and
- Stakeholders, reflecting SSE's strategic goal of creating value for shareholders and society.

Linking remuneration with SSE's purpose and strategy

Our remuneration policy is designed to be **sustainable** and **simple** and to facilitate diligent and effective **stewardship** that is vital to the delivery of SSE's core purpose of providing the energy needed today while building a better world of energy for tomorrow, and our strategy of creating value for shareholders and society, benefiting all **stakeholders**.

Sustainability is at the heart of our business and is reflected in the four fundamental goals we have set for 2030 (explained in more detail in the Sustainability Report]) which are linked to the United Nations Sustainable Development Goals (SDGs). Assessing progress against these SDGs is a key component of the implementation of our Directors' Remuneration Policy and forms part of the Annual Incentive Plan for 2019/20. The measures, targets and progress made are explained on page 142.

Fairness is a central pillar of the policy – fairness to Executive Directors in recognition of the extent of their responsibilities, and fairness relative to the rest of the SSE team whose shared talent, skills and values are essential to SSE's success. The extent of their responsibilities means Executive Directors are well paid, but the remuneration policy is designed, among other things, to ensure they are not overpaid.

Reference points such as the ratio of the Chief Executive's pay to pay for all employees in SSE and wider workforce pay considerations are equally, if not more, important to us than the use of external benchmark data when setting executive pay levels – not least because of the wider importance of maintaining a healthy business culture.

The Remuneration Committee is regularly informed of pay and employment conditions throughout the Company. I am also the designated non-Executive Director for Employee Engagement and, during the year, talked with a wide range of employees (and their representatives) to listen to their thoughts on a range of business matters including executive pay. On page 139 we have provided a snapshot of pay more generally throughout the Company and how this links into the matters we consider when deciding on executive remuneration.

Key considerations for 2019/20

Applying SSE's core reward principles in relation to 2019/20 involved addressing three key points. First, as set out in this Annual Report, 2019/20 was a year of progress for SSE. Second, the coronavirus outbreak demanded decisive action to ensure SSE fulfilled, and continues to fulfil, its immediate responsibilities to stakeholders during exceptional times; and decisive action also to promote the long-term success of the Company for the benefit of all stakeholders. Third, the imperative to address climate change remains and the requirement for SSE to have robust opportunities to create value through the transition to net-zero emissions is more important than ever.

In applying SSE's core reward principles in any given year, the Committee rejects passivity and has a history of exercising its discretion to reduce – and in the case of last year's Annual Incentive Plan award for Executive Directors, to reduce to zero – variable remuneration where it is considered appropriate in the context of overall business performance, Company values and culture and the wider perspectives of stakeholders.

Against this background, the Committee was mindful of two key considerations in particular in relation to 2019/20.

First, SSE recognises that pensioners and savers now depend on dividend income more than ever and SSE has set two related objectives of sustaining dividend payments and promoting the long-term success of the Company, enabling it to realise the opportunities in the transition to net-zero emissions, for the benefit of all stakeholders.

Second, the Committee saw clearly the criticism levelled at the actions of some companies that have taken advantage of UK Government measures to support the economy during the coronavirus impact. SSE preferred to engage with trade unions during this time and take agreed measures to prevent the need to furlough employees, consistent with its long-term commitment to being a responsible employer.

With these considerations in mind, the Committee reviewed variable pay, both in terms of performance outturns in 2019/20 and implementation for 2020/21, and base salary.

Annual Incentive Plan

The Annual Incentive Plan (AIP) is determined against a broad range of financial, operational, strategic and personal performance targets collectively designed to reflect business performance each year. Following good performance against many measures during the year, the formulaic assessment of the 2019/20 award resulted in an outcome of 59% of the maximum opportunity. A detailed AIP scorecard can be seen on pages 142 to 145.

The coronavirus outbreak started late in SSE's financial year and our Executive Directors have been instrumental in directing Company actions in response to this crisis, making sure employees are safe, our suppliers are supported, and our customers receive continuous excellent service – exemplified by SSE's commitment to the C-19 Business Pledge (Read more on sse.com/coronavirus).

In view of the year of progress and good performance, the Committee has considered it appropriate to allow the formulaic outturn to stand, believing it represents a fair outcome for the Executive Directors, for the performance delivered in this period for shareholders and SSE's other stakeholders.

In 2020/21, we propose to continue to use a scorecard approach for the performance assessment of our most senior leaders, with a variety of stakeholders in mind. Despite uncertainty around the coronavirus pandemic, our enduring reward principles will remain unchanged as will our performance measures. The Committee intends to exercise judgement at year-end, once the true impact of coronavirus is understood, to reduce the AIP opportunity in line with any reduction in earnings.

Our 2030 business goals are designed to tackle climate change and support global goals for sustainable development, and as such the Remuneration Committee has agreed that 20% of the AIP will remain focused on performance against meeting these long-term goals.

Performance Share Plan

The Performance Share Plan (PSP) awards granted in 2017 are due to vest following the 2019/20 financial year, subject to financial, operational and value-creation performance measures over the three-year period. These have been objectively assessed, resulting in an outturn of 27% of the maximum opportunity. More details on the performance measures used, the targets set, and the actual performance assessed is set out on page 146.

Amid the ongoing coronavirus pandemic, the Committee confirmed the 27% outcome in relation to the PSP on the basis that it is a long-term plan with performance targets which are both stretching and enduring.

There are no changes planned to the performance targets for 2020/21 in relation to PSP or indeed AIP. However, the Committee recognises that it is difficult to foresee how coronavirus might impact on the business and the wider economy, and how long for. As such, ensuring a fair and balanced approach to executive remuneration, whilst understanding the wider impacts across stakeholders, will be a key focus for the Committee this year.

Base salary

The Committee also reviewed Executive Directors' base salaries and concluded that in light of continued strong performance and leadership throughout the year, an increase of 2.75% was appropriate. This is in line with the average base pay increase across the wider workforce.

Pension arrangements

The Committee is well aware of the views of many investors and representative bodies on the alignment of executive pension arrangements with all employees. Our Directors' Remuneration Policy is clear that any individual appointed to the Board will receive pension arrangements which are aligned, in terms of annual percentage contribution, to those of the majority of SSE employees.

The defined benefit arrangements for the Chief Executive and the Finance Director reflect their long service with the business and, in terms of the benefits provided, are in line with the arrangements for other employees recruited at the same time. The Energy Director, who also joined SSE in the 1990s, and had a contractual right to the same defined benefits arrangements as the other Executive Directors, elected to leave the defined benefit pension scheme and to take a cash allowance of 30% of salary instead, on a cost neutral basis. This is an arrangement open to all employees who are members of the defined benefit pension schemes.

As explained in more detail on page 141, these arrangements pre-dated their respective appointments to the Board. Their total remuneration packages have been set and managed over many years with this in mind. However, the Committee is mindful of shareholder sentiment on executive pensions and as such will reduce the Energy Director's pension allowance from 30% to 15% (in alignment with the majority of SSE employees taking into account length of service) over the next five years on a phased basis. Full details are shown on page 153.

Summary

As a result of these decisions, the Chief Executive and Finance Director will receive total remuneration for 2019/20 that is lower than the average of the preceding three years. The Committee is confident this represents an outcome that is fair and consistent with SSE's established core reward principles relating to simplicity, stakeholders, sustainability and stewardship.

Looking ahead, we will continue to apply these principles in both decision-making and reporting, and do so in a way that is fully cognisant of the perspectives of SSE's stakeholder groups. In line with that, I welcome any feedback or comments on this Report or on remuneration matters more generally and can be reached via Sally Fairbairn at sally.fairbairn@sse.com.

Dame Sue Bruce DBE
Chair of the Remuneration Committee
16 June 2020

REMUNERATION AT A GLANCE

Directors' Remuneration Policy in 2020/21

The illustration below shows how SSE intends to operate its Directors' Remuneration Policy in 2020/21. SSE's core reward principles remain unchanged and therefore the policy will remain unchanged from the previous year.

	Element	Max	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Fixed pay	Salary	Set with reference to pay increases for the wider employee base	Salary paid					
	Benefits	Market competitive	Benefits paid					
	Pension	Final salary and top up/ pension allowance	Pension accrual/ allowance paid					
Variable pay – at risk	Annual Incentive Plan (AIP)	CEO 150% of salary. FD and ED 130% of salary 67% cash/33% career shares	Performance period	AIP cash paid AIP career share awards granted	Vesting period		Awards vest	Career holding
	Performance Share Plan (PSP)	CEO 200% of salary. FD and ED 175% of salary 2-year holding period	PSP awards granted	Performance/vesting period		PSP awards vests	Holding period	Holding period ends
Additional governance	Share ownership requirement	200% of salary	Share ownership requirement					
	Recovery and withholding	All incentives	Clawback: misstatement, serious misconduct, error in calculation Malus: misstatement, misconduct, serious reputational damage, error in calculation					
	Post-employment	Career shares	Holding requirement for career shares until two years after cessation of employment					

Strategic performance

Executive Directors' remuneration is strongly linked to strategic performance. Some of SSE's strategic performance measures are detailed below, with an indication of how they link to remuneration. SSE has delivered against its dividend target and performed well against a range of financial and non-financial measures. Full details can be seen on pages 142 to 145.

Adjusted Earnings per Share

83.6p

AIP and PSP

Total Shareholder Return (FTSE 100)

Rank 32

of 94
PSP

Employee engagement

76%

Engagement index score
AIP (Stakeholders)

Carbon intensity of electricity generated

288

gCO_2e per kWh
AIP (Sustainable Development Goals)

Dividends per Share

80p

AIP and PSP

Total Shareholder Return (MSCI)

Rank 16

of 21
PSP

Total recordable injury rate

0.16

per 100,000 hours worked
AIP (Stakeholders)

Total renewable generation output*

11,442

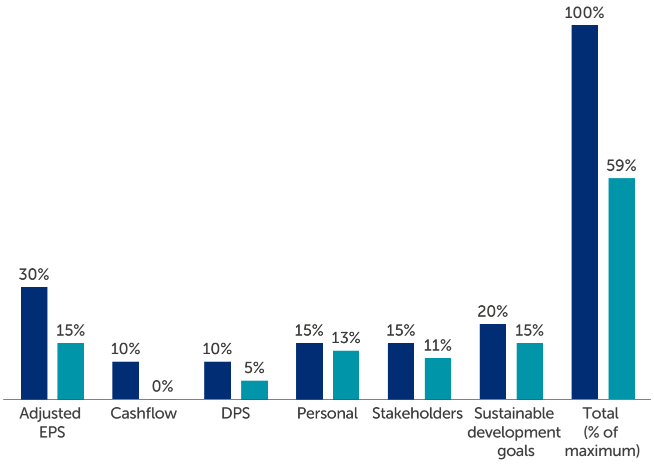
GWh
AIP (Sustainable Development Goals)

* includes pumped storage, biomass and GB constrained off output.

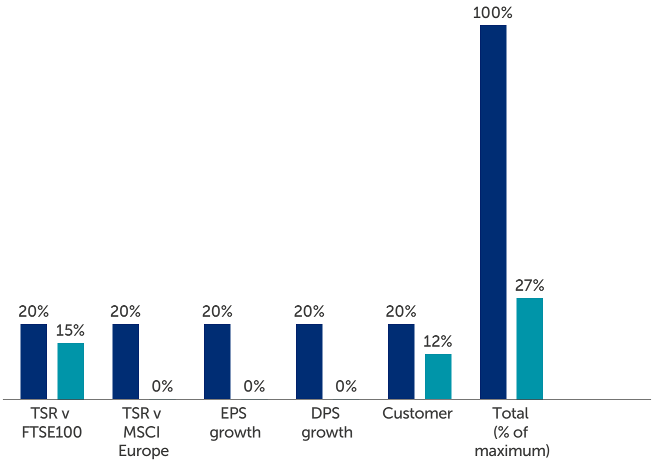
Performance related pay outturns for 2019/20

The charts below summarise the performance outturn of the AIP and PSP for the financial year ended 31 March 2020.

Annual Incentive Plan performance



Performance Share Plan performance



Maximum
Actual

Remuneration across the Company

The Remuneration Committee considers a range of factors when deciding upon the remuneration for Executive Directors, one of which is the alignment with pay practices across the wider workforce. During 2019/20, the Committee considered this in more detail (see case study on page 155). The table below illustrates how remuneration policy and practice compares across the different groups of employees throughout SSE.

	Base Salary	Benefits	Pension	Short-Term Incentive	Long-Term Incentive
Executive Directors	Base salary is typically set with reference to the market and wider workforce considerations. Annual increases are typically in line with or less than the wider employee population.	A range of voluntary benefits in line with the wider workforce plus contractual car and private medical benefits.	All employees are a member of the SHEPS or SEPS defined benefit pension scheme, or the Pension+ defined contribution scheme unless they have opted or cashed out. The arrangements are diverse and the employer cost typically ranges from 3% to 38% of salary when both defined contribution and defined benefits schemes are taken into account.	Annual Incentive Plan linked directly to business performance – 50% financial, 50% non-financial. 33% of the total award is deferred as career shares.	The Performance Share Plan is a share award with performance linked to strategic performance measures.
Group Executive Committee **Senior Management**				Annual Incentive Plan considering performance of the Group (directly linked to the above), the business area and the individual. 25% of the total award is deferred as shares for three years.	The Leadership Share Plan is also linked to strategic performance measures over the longer-term and those with direct impact on strategic output are eligible.
Wider Workforce	Base salary levels are subject to negotiation with recognised trade unions and/or are set in line with market requirements. Annual increases are subject to negotiation.	A range of voluntary benefits are available to all employees, such as a cycle to work scheme, a holiday purchase scheme, health benefits, and enhanced maternity, paternity and adoption leave.		Depending on role, a proportion of employees will participate in the Annual Incentive Plan (as above). 100% of the award is paid in cash.	All employees may participate in the Share Incentive Plan (SSE matches three shares for every three bought) and the Sharesave (SAYE) plan.

ANNUAL REPORT ON REMUNERATION

1. Single total figure of remuneration (audited)

The table below shows the single total figure of remuneration for each Director for the financial year ending 31 March 2020 relative to the previous year, and relative to a three-year average for the Chief Executive and Finance Director. The Energy Director was appointed to the Board in September 2017 and so it is not possible to show a three-year average comparison.

		Alistair Phillips-Davies			Gregor Alexander			Martin Pibworth[8]		Total	
		2019/20 £000s	**3-year average £000s[1]**	2018/19 £000s	**2019/20 £000s**	**3-year average £000s[1]**	2018/19 £000s	**2019/20 £000s**	2018/19 £000s	**2019/20 £000s**	2018/19 £000s
Fixed Pay	Base Salary[2]	**890**	866	890	**688**	669	688	**515**	515	**2,093**	2,093
	Benefits[3]	**25**	25	25	**22**	21	22	**17**	17	**64**	64
	Pension[4]	**141**	433	351	**56**	336	287	**155**	155	**352**	793
	Total Fixed Pay	**1,056**	1,324	1,266	**766**	1,026	997	**687**	687	**2,509**	2,950
Variable Pay	AIP[5]	**788**	641	–	**528**	430	–	**395**	–	**1,711**	–
	PSP[6]	**574**	463	373	**388**	346	252	**–**	–	**962**	625
	Total Variable Pay	**1,362**	1,104	373	**916**	775	252	**395**	–	**2,673**	625
Total[7]		**2,418**	2,428	1,639	**1,682**	1,802	1,249	**1,082**	687	**5,182**	3,575

1 The three-year average is based on the three-year period from 1 April 2016 to 31 March 2019.
2 SSE offers all employees a range of voluntary benefits some of which operate under a salary sacrifice arrangement. The salaries shown above are reported before any such adjustments are made.
3 Benefits relate to company car, Share Incentive Plan company contributions and medical benefits. These benefits are non-pensionable.
4 The pension values for Alistair Phillips-Davies and Gregor Alexander represent the increase in capital value of pension accrued over one year times a multiple of 20 (net of CPI and Directors' contributions) in line with statutory reporting requirements.
5 The AIP figures above show the value of the award including the portion deferred as shares.
6 The PSP figures for 2018/19 have been readjusted in line with statutory reporting requirements, following last year's report to show the actual value upon vesting. The estimated value shown in the table for 2019/20 is based on the average share price in the three months to 31 March 2020 of 1,478.24p, as required by the reporting regulations. The award remains subject to service until May 2020 and so the prior year comparative will be restated in next year's report to show the actual value on vesting, as is required by the regulations. There was no share price appreciation.
7 Directors have not received any other items in the nature of remuneration other than as disclosed in the table.
8 Martin Pibworth was appointed to the Board on 1 September 2017 and therefore, was not granted awards under the 2016 and 2017 PSP which vested/will vest in 2019 and 2020 respectively. Instead, he received awards under the below-Board long-term incentive plan of £256,379 and £431,143 in 2019 and 2020 respectively.

Rationale for 2019/20 single total figure of remuneration

When comparing remuneration for 2019/20 with an average of the previous three years' remuneration, the Chief Executive has seen a small reduction, while the Finance Director has seen a reduction of around 7%. The Energy Director was appointed part way through 2017/18 and therefore, it is not possible to show a comparison against a three-year average although a year-on-year comparison is shown.

In comparison to the three-year average, in 2019/20 there was a reduction in the value of pension accrued, and an increase in base salary and incentive awards. While base salaries have increased over the three-year period, increases have been less than or in line with the wider employee population. Under AIP, the Remuneration Committee used discretion to reduce the 2018/19 award to zero and reduce the award in 2016/17. The PSP award has increased and part of this is due to an increase in the PSP grant value for the awards vesting from 2018/19 onwards.

The Remuneration Committee recognises that total remuneration in 2019/20 increased from the previous year as a result of reducing the AIP award in 2018/19 to zero, however it is satisfied that the total single figure outcomes for all are appropriate based on a comparison over a longer timeframe.

Further details on the Chief Executive's historic remuneration are shown on page 150.

Base salary

In line with SSE's senior management population, Executive Directors' salaries were frozen in 2019/20 at £890,293 for the Chief Executive, £688,124 for the Finance Director and £515,000 for the Energy Director. Below senior management level, SSE employees received salary increases of between 1% and 2.5%.

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 also participate in the Company's all-employee share schemes on the same terms as other employees.

Pension

The Chief Executive and Finance Director are members of the Southern Electric Pension Scheme and the Scottish Hydro Electric Pension Scheme respectively, and their plan membership predates their Board appointments. They participate in the same defined benefit pension arrangements that were available to all employees recruited at that time. The schemes were closed in 1999 and the service costs range from 32.5% to 37.5% of salary. These are both funded final salary pension schemes and the terms of these schemes apply equally to all members. The Executive Directors' service contracts provide for a possible maximum pension of two thirds final salary from the age of 60.

In relation to Executive Directors who are subject to the scheme-specific salary cap (which mirrors the provisions of the previous HMRC cap arrangements) the Company provides top-up (unfunded) arrangements which are designed to provide an equivalent pension on retirement from the age of 60 to that which they would have earned had they not been subject to the salary cap. From 1 April 2017 pensionable earnings increases were capped at RPI +1%. These are legacy arrangements and would not be used for any new external appointments.

The Chief Executive and Finance Director, in common with all other employees who joined at the same time (23 and 29 years ago respectively), have the following pension provisions relating to leaving the Company:

- for retirement through ill-health an unreduced pension based on service to expected retirement is paid;
- in the event of any reorganisation or redundancy an unreduced accrued pension is paid to a member who is aged 50 or above, with at least five years' service or, for a member who has not yet reached that age, it will be payable with effect from 50;
- and from the age of 55, a scheme member is entitled to leave the Company and receive a pension, reduced for early payment, unless the Company gives consent and funds this pension on an unreduced basis.

Dependent on the circumstances surrounding the departure of the Executive Director and financial health of the Company at the time, the Committee's policy is to give consideration to a cash commutation of the unfunded unapproved retirement benefit (UURB) pension at the time of leaving. Any cash commutation will limit SSE's liability, taking into account valuations provided by independent actuarial advisors, and will be calculated on what was judged to be a cost neutral basis to SSE.

The Energy Director, who has been with SSE since 1998, was already in receipt of a pension allowance of 30% of salary prior to his appointment as an Executive Director. While the arrangement is consistent with the approach used for all other members who have elected to receive a cash allowance in lieu of accruing future pension benefits, the Committee is conscious that this current pension allowance is greater than that offered to a new joiner elsewhere in the Group.

As such, following a review in 2019/20, the Energy Director's future pension arrangements will be aligned with the current workforce at 15% of salary given the significant number of employees still receiving defined benefit provision and taking into account length of service (see page 153 for further details). This builds on last year's policy review which set out that any new appointment to the Board or major role change would have arrangements which aligned to the average pension provided to new employees at 12% of salary.

The table below details pension accrued for each of the Executive Directors as at 31 March 2020 and 2019.

	Accrued pension as at 31 March 2020 £000s	Accrued pension as at 31 March 2019 £000s
Alistair Phillips-Davies	**457**	439
Gregor Alexander	**418**	404
Martin Pibworth[1]	**0**	0

1 Martin Pibworth received an allowance in lieu of a pension contribution of 30% of salary.

ANNUAL REPORT ON REMUNERATION CONTINUED

Annual Incentive Plan and Performance Share Plan

In setting targets and assessing performance, the following process is used for both the AIP and PSP:

1. Set performance measures aligned with strategy
2. Set stretching performance targets
3. Assess performance
4. Take account of wider environment
5. Apply discretion if required

2019/20 Annual Incentive Plan

1. Set performance measures aligned with strategy

AIP requires broad performance across a number of financial metrics (Adjusted EPS, DPS Growth and Cashflow) and strategic metrics (Personal, Stakeholders and Sustainable Development Goals). These reflect a review of performance measures in 2019/20 which resulted in some strategic measures being updated to reflect SSE's evolving business. The Stakeholders and Sustainable Development Goals performance measures replace the former Customer and Teamwork measures. The performance measures and their weightings are shown below.

Financial (50%)			Personal (15%)	Stakeholders (15%)			Sustainable Development Goals (20%)			
Adjusted EPS (30%)	Cashflow (10%)	DPS (10%)	Individual Objectives (15%)	Customers (5%)	Employees (5%)	Suppliers (5%)	Carbon Intensity (5%)	Renewable Output (5%)	Elective Vehicle Infrastructure (5%)	Fair Tax & Living Wage (5%)

2. Set stretching performance targets

The financial performance targets were set at the start of the financial year taking into account internal financial plans, external consensus where it exists and the expected impact of identified opportunities and threats to the business in the context of wider economic conditions. The performance target range is set on a realistic basis but requires true outperformance for Executive Directors to achieve the maximum. The Remuneration Committee has a history of setting challenging targets, evidenced by the average AIP payout of 48% since 2010 as shown on page 150.

3. Assess performance

The table below shows how performance measures are linked to strategy and how performance was ultimately delivered.

	Performance measure							
AIP	Adjusted EPS	Cashflow		DPS	Personal	Stakeholders	Sustainable development goals	Total
Link to strategy	Simple Stewardship Stakeholders	Simple Sustainable Stakeholders	Simple Sustainable Stakeholders	Simple Sustainable Stakeholders	Simple Sustainable Stewardship Stakeholders	Simple Sustainable Stewardship Stakeholders	Simple Sustainable Stewardship Stakeholders	
Rationale	Underlying measure of financial performance	Retained cashflow to net debt	Funds from operations to net debt	Return on investment through payment of dividends	To reflect those activities which go beyond the normal responsibilities of the role	Customers, employees and suppliers	Contribution to the four UN SDGs for 2030	
Weighting	30%	5%	5%	10%	15%	15%	20%	
Threshold	79.5p	10.5%	18%	80.0p				
Max	92.1p	11.5%	20%	81.6p				
Outcome	**83.6p**	**Below threshold**	**Below threshold**	**80p**		**See next section**		
Performance	49%	0%	0%	50%	85%	72%	75%	
Outturn (% of max)	**15%**	**0%**	**0%**	**5%**	**13%**	**11%**	**15%**	**59%**

The Committee generally sets non-financial measures and targets that are specific, measurable, attainable, relevant and timely ("SMART" objectives) but also recognises that important measures and targets in support of the Company's vision, purpose and strategy may require some subjective assessment, and this is done by the Committee following the input from the wider Board and other Board Committees as appropriate. The Committee is committed to providing as much retrospective detail of the measures as possible, setting out clearly the decision-making process and the levels of attainment achieved, but mindful that any information which could be considered commercially sensitive cannot be disclosed.

The tables below and on the following pages provide detail on each of the non-financial measures and the assessment of performance against each one.

High-level measure	Detailed measure	Factors to be assessed	Summary performance	Assessment	Outcome (% of max)
Personal 15%	**Chief Executive**	Culture and the SSESET, Financial, People Development, Succession, Stakeholder Management, Strategy and Growth	A solid recovery in financial results; strong strategic progress in reshaping the SSE Group in line with goals for 2030 and focus on net zero; significant operational and business successes, stemming from successful implementation of new operating model, and very good overall safety performance. Comprehensive plan to respond to impacts of coronavirus and strong engagement with UK stakeholders focused on steps to achieve net zero.	✓✓✓	**85%**
	Finance Director	Culture and the SSESET, Financial, People Development, Succession, Stakeholder Management, Strategy and Growth	A solid recovery in financial results and strong financial management, including major progress in sustainable finance such as Green Bond issue. Successful completion of Energy Services transaction and effective leadership of new IT delivery model. Comprehensive plan to respond to impacts of coronavirus, including sustainable financial framework. Strong engagement with stakeholders, especially in relation to Scotland.	✓✓✓	**85%**
	Energy Director	Culture and the SSESET, Financial, People Development, Succession, Stakeholder Management, Strategy and Growth	A solid recovery in financial results and effective Board-level leadership of SSE's renewables, thermal and customer businesses across UK and Ireland, following adoption of new operating model. Supported work of businesses' leadership teams in safety and the environment; securing opportunities, such as new contracts for offshore wind farms; and delivering existing priorities such as Keadby 2, consistent with goals for 2030.	✓✓✓	**85%**
				TOTAL	**85%**

x= Below expectation ✓= Met expectation ✓✓= Exceeded expectation ✓✓✓= Far exceeded expectation

ANNUAL REPORT ON REMUNERATION CONTINUED

High-level measure	Detailed measure	Factors to be assessed	Summary performance	Assessment	Outcome (% of max)
Stakeholders 15%	**Customers 5%**	**Business Energy** – A range of measures including customer complaints and satisfaction. Gateway for threshold performance at median performance of Citizens Advice league table.	Consistently ranked in the top 3 of business energy providers by Citizens Advice.	✓✓✓	85%
		Electricity Networks – A range of measures including customer interruptions and customer minutes lost. Gateway for threshold performance if average position is above median for all league tables.	Average ranking across the league tables is below median and therefore the performance gateway has not been met.	x	0
	Employees 5%	**Safety** – Total Recordable Injury Rate (TRIR) and Accident Frequency Rate (AFR) for direct employees. TRIR target of <0.1.	TRIR and AFR have been maintained at the same low level as 2018/19. Continued improvement in driving safety and environmental performance. See page 132.	✓✓✓	92%
		Engagement – A range of measures including employee engagement survey score, employee uptake of share plans and retention rate. Board and leadership engagement with employees.	Good employee engagement index relative to external benchmark and continued good uptake on employee share plans. A programme of employee engagement activity has been delivered. See page 80.	✓✓	80%
		Inclusion and diversity – progress made closing SSE's median UK gender pay gap and progress made against SSE's Inclusion Strategy including progress on Return on Inclusion.	Improved Return on Inclusion with "champion" status reached. Increase in inclusive hiring practices, and strong improvement in women applying for and being appointed into senior roles. Decreased gender pay gap. See page 79.	✓✓✓	85%
	Suppliers 5%	**Safety** – Total Recordable Injury Rate (TRIR) and Accident Frequency Rate (AFR) for contractors. TRIR target of <0.37.	Maintained TRIR at previous year's level and improved AFR. See page 132.	✓✓✓	87%
				TOTAL	**72%**

x= Below expectation ✓= Met expectation ✓✓= Exceeded expectation ✓✓✓= Far exceeded expectation

High-level measure	Detailed measure	Factors to be assessed	Summary performance	Assessment	Outcome (% of max)
Contribution to the UN Sustainable Development Goals 20% (see the Sustainability Report)	**Climate action:** Take urgent action to combat climate change and its impacts	Reduce the carbon intensity of electricity generated by 50% by 2030, compared to 2018 levels, to around 150gCO2e/kWh.	Carbon intensity of electricity generated increased marginally by 1.5%; but decision taken to bring coal-fired generation to an end, effective from March 2020. Significant long-term opportunities developed in SSE Renewables and SSE Thermal, enabling adoption of more stretching target to reduce carbon intensity by 60% by 2030, in line with adoption of other science-based targets.	✓	**65%**
	Industry, innovation and infrastructure: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation	Build electricity network flexibility and infrastructure that helps accommodate 10 million electric vehicles in GB by 2030.	Working to pilot and trial electricity network flexibility that will enable local grids to accommodate the electrification of cars. Project LEO and a partnership between Government and network owners in Scotland represent two of the most significant projects in the UK that will help accelerate transport electrification. SSE joined the global EV100 initiative, committing to switch 3,500 of its vehicles to electric.	✓✓	**75%**
	Affordable and clean energy: Affordable, reliable and sustainable energy for all	Develop and build by 2030 more renewable energy to contribute renewable output of 30TWh a year.	2019/20 represented SSE's highest-ever year of electricity generation from renewable sources. Secured 2.2GW of new offshore wind through CfD contracts. Announced development of first subsidy-free onshore wind farm.	✓✓✓	**90%**
	Decent work and economic growth: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.	SSE achieved ongoing accreditation of both the Fair Tax Mark and the Living Wage, supporting both campaigns to attract more companies to become accredited. Furthermore, SSE continued its support of the new Living Hours initiative, which is a positive antidote to exploitative zero-hour contracts.	✓✓	**70%**
				TOTAL	**75%**

x= Below expectation ✓= Met expectation ✓✓= Exceeded expectation ✓✓✓= Far exceeded expectation

4. Take account of wider environment

The Remuneration Committee believes that the range of measures used in the AIP ensures that performance is assessed using a balanced approach, without undue focus on a single metric which could be achieved at the expense of wider initiatives. AIP outturns for the wider employee population were taken into account by the Committee. In addition, they also considered the impact of the coronavirus outbreak which started during the final month of the performance year.

5. Apply discretion if required

In 2018/19, the Remuneration Committee applied its discretion and reduced Executive Directors' AIP awards to zero after taking into account overall performance during the year. In consideration of the performance noted above, the wider operational achievements noted in the Strategic Report on pages 38 and 39 and relativity to the wider employee population, the Committee are satisfied that the AIP outcomes for 2019/20 represent a fair reward for performance delivered and as a result have not made any adjustment to the award.

ANNUAL REPORT ON REMUNERATION CONTINUED

AIP earned for each of the Executive Directors is shown in the table below. The total award is made up of 67% cash and 33% which is deferred into shares for three years which are then retained until two years after stepping down from the Board.

	Maximum potential (% of salary)	AIP earned[1]	AIP cash	AIP deferred
Alistair Phillips-Davies	150%	£787,909	£527,899	£260,010
Gregor Alexander	130%	£527,791	£353,620	£174,171
Martin Pibworth	130%	£395,005	£264,653	£130,352

1 Both the cash and deferred element are subject to clawback provisions.

2017 – 2020 Performance Share Plan

1. Set performance measures aligned with strategy

PSP performance measures are designed to encourage sustainable value creation, consistent with effective stewardship, encouraging good decision-making for the long term. The measures and their weightings are shown below:

Value Creation (40%)		Financial (40%)		Operational (20%)	
Total Shareholder Return relative to FTSE 100 (20%)	Total Shareholder Return relative to MSCI Europe Index (20%)	Adjusted EPS growth (20%)	DPS growth (20%)	Customer: Distribution (10%)	Customer: Business Energy (10%)

2. Set stretching performance targets

The performance target ranges for PSP are set each year to ensure they are stretching and represent value creation for shareholders.

3. Assess performance

The vesting of shares under the PSP is subject to the performance measures and targets shown in the table below which also details the actual outturn for the 2017 PSP award vesting this year.

	Performance measure						
PSP	TSR v FTSE 100	TSR v MSCI Europe	EPS growth	DPS growth	Customer (Distribution)	Customer (Business Energy)	Total
Link to strategy	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	Simple Sustainable Stakeholders	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	
Rationale	Relative measure of performance	Relative measure of performance	Underlying measure of financial performance	Return on investment through payment of dividends	Meeting customers needs is at core of our business	Meeting customers needs is at core of our business	
Weighting	20%	20%	20%	20%	10%	10%	
Threshold	50th percentile	50th percentile	RPI	RPI	Median ranking	Median ranking	
Max	75th percentile	75th percentile	RPI +10%	RPI +5%	Rank 1	Rank 1	
Outcome	**67th percentile**	**25th percentile**	**Below RPI**	**Below RPI**	**Median ranking**	**90th percentile**	
Performance	75%	0	0	0	25%	86%	
Outturn (% of max)	**15%**	**0**	**0**	**0**	**3%**	**9%**	**27%**

4. Take account of wider environment
SSE's TSR has performed at above the threshold level relative to the FTSE100, and performance in relation to Business Energy and Networks customer service rankings is also above median. Conversely, the threshold level was not met for TSR performance relative to the MSCI European Utilities Index. While SSE's dividend commitment has been met over the three-year period, threshold performance at RPI has not been achieved following the resetting of the dividend policy.

While the PSP applies to Executive Directors only, the Committee is mindful of the outturns of the long-term incentive arrangement which applies to senior managers. On average, the below-Board incentive award has paid out at a higher level than the PSP outturn.

5. Apply discretion if required
The Committee believes that the formulaic outcome is a fair reflection of wider performance over this three-year period.

The table below shows the maximum number of shares available, the dividends accrued over the three-year performance period, the total number of shares vesting based on the performance outturn and the estimated value of these shares.

	Awards available (% of salary)	Awards available (number of shares)	Additional awards in respect of accrued dividends	Total number of shares vesting	Estimated value of awards vesting[1]
Alistair Phillips-Davies	200%	115,479	28,406	38,848	£574,267
Gregor Alexander	175%	78,099	19,210	25,300	£388,378

1 The estimated value of the awards vesting has been calculated on the same basis as the PSP value in the single figure table on page 140.

Martin Pibworth was not an Executive Director when the 2017 PSP award was granted and therefore, is not disclosed in the table above. However, he received an award in 2017 under the LSP, the below-Board long-term incentive plan, which will vest in 2020 in accordance with its original performance conditions. The estimated value on vesting is £431,143, which has been calculated using the same share price as used for the PSP awards above.

Other remuneration disclosures
Fees paid to non-Executive Directors during 2019/20 were as follows:

Non-Executive Directors	Fees £000s 2019/20	Fees £000s 2018/19
Jeremy Beeton[1]	0	26
Katie Bickerstaffe[2]	0	7
Sue Bruce[3]	98	90
Tony Cocker[4]	84	68
Crawford Gillies	88	88
Richard Gillingwater CBE	389	389
Peter Lynas	88	88
Helen Mahy[5]	84	80
Melanie Smith[6]	70	17
Total	**900**	**853**

1 Jeremy Beeton stepped down from the Board as a non-Executive Director on 20 July 2018.
2 Katie Bickerstaffe stepped down from the Board as a non-Executive Director on 30 April 2018.
3 Sue Bruce assumed the position as Chair of the Remuneration Committee on 30 April 2018 and became the non-Executive Director for Employee Engagement on 14 November 2018.
4 Tony Cocker joined the Board as a non-Executive Director on 1 May 2018 and became Chair of the Energy Markets Risk Committee on 1 January 2019.
5 Helen Mahy assumed the position as Chair of the SHEAC on 19 July 2018.
6 Melanie Smith joined the Board as a non-Executive Director on 1 January 2019.

ANNUAL REPORT ON REMUNERATION CONTINUED

Share interests and share awards (audited)

Directors' share interests

The table below shows the share interests of the Executive and non-Executive Directors at 31 March 2020.

		Number of shares			Number of options		
Director	*Shareholding requirement as a % of salary (Actual/% met)	Shares owned outright at 31 March 2020	Interests in shares, awarded without performance conditions at 31 March 2020 (DBS & Retention Awards)	Interests in shares, awarded subject to performance conditions at 31 March 2020 (PSP & LSP)	Interests in share options, awarded without performance conditions at 31 March 2020	Interests in share options, awarded subject to performance conditions at 31 March 2020	Shares owned outright at 31 March 2019
Gregor Alexander	375% (200% – met)	197,564	30,082	271,556	2,023	–	179,527
Sue Bruce		2,484	–	–	–	–	2,484
Tony Cocker		5,000	–	–	–	–	5,000
Crawford Gillies		6,950	–	–	–	–	5,000
Richard Gillingwater		2,383	–	–	–	–	2,208
Peter Lynas		5,000	–	–	–	–	5,000
Helen Mahy		2,027	–	–	–	–	2,027
Alistair Phillips-Davies	322% (200% – met)	219,814	44,909	401,529	1,997	–	197,591
Martin Pibworth	109% (below requirement)	43,054	41,113	168,196	2,662	–	28,164
Melanie Smith		2,000	–	–	–	–	1,099

* Shareholding requirement:
Executive Directors – 200% of salary.
Non-Executive Directors – minimum 2,000 shares.

Directors' Long-term Incentive Plan interests

Deferred Bonus awards granted in 2019

Following the Remuneration Committee's exercise of discretion to reduce the 2018/19 AIP award to zero, no deferred bonus awards were granted in 2019.

PSP awards granted in 2019

The table below shows the PSP awards granted to Executive Directors in 2019.

Recipient	Award	Date of grant	Shares granted	Market value on date of award	Face value
Gregor Alexander	Conditional award	28/06/2019	103,991	£11.22	£1,166,779
Alistair Phillips-Davies	Conditional award	28/06/2019	153,763	£11.22	£1,725,221
Martin Pibworth	Conditional award	28/06/2019	77,828	£11.22	£873,230

Directors' Long-term Incentive Plan interests

The table below details the Executive Directors' Long-term Incentive Plan interests.

	Share plan	Date of award	Normal exercise period (or vesting date)	No. of shares under award as at 1 April 2019	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 2020
Gregor Alexander	DBP 2006[2]	27/07/2016	27/07/2019	5,302				5,302[6]	
	DBP 2016[2]	26/06/2017	26/06/2020	13,442					13,442
	DBP 2016[2]	28/06/2018	28/06/2021	16,640					16,640
	DBP 2016[2]	28/06/2019	28/06/2022	0		0			0
	PSP[1]	27/07/2016	27/07/2019	70,390			52,089	18,301[6]	
	PSP[1]	26/06/2017	26/06/2020	78,099					78,099
	PSP[1]	28/06/2018	28/06/2021	89,466					89,466
	PSP[1]	28/06/2019	28/06/2022			103,991[5]			103,991
	Sharesave	02/07/2014	01/10/2019-31/03/20	2,213	1,247p			2,213	
	Sharesave	03/07/2015	01/10/20-31/03/21	186	1,288p				186
	Sharesave	12/07/2019	01/10/22-31/03/23		901p	1,837			1,837
Alistair Phillips-Davies	DBP 2006[2]	27/07/2016	27/07/2019	6,860				6,860[6]	
	DBP 2016[2]	26/06/2017	26/06/2020	20,068					20,068
	DBP 2016[2]	28/06/2018	28/06/2021	24,841					24,841
	DBP 2016[2]	28/06/2019	28/06/2022	0		0			0
	PSP[1]	27/07/2016	27/07/2019	104,081			77,020	27,061[6]	
	PSP[1]	26/06/2017	26/06/2020	115,479					115,479
	PSP[1]	28/06/2018	28/06/2021	132,287					132,287
	PSP[1]	28/06/2019	28/06/2022			153,763[5]			153,763
	Sharesave	02/07/2014	01/10/2019-31/03/20	1,202	1,247p		1,202		
	Sharesave	06/07/2017	01/10/2022-31/03/23	1,256	1,194p		1,256		
	Sharesave	12/07/2019	01/10/22-31/03/23		901p	1,997			1,997
Martin Pibworth	DBP 2006[2]	27/07/2016	27/07/2019	4,383				4,383[6]	
	DBP 2016[2]	26/06/2017	26/06/2020	5,715					5,715
	DBP 2016[2]	28/06/2018	28/06/2021	10,398					10,398
	DBP 2016[2]	28/06/2019	28/06/2022	0		0			0
	PSP[1]	28/06/2018	28/06/2021	66,957					66,957
	PSP[1]	28/06/2019	28/06/2022			77,828[5]			77,828
	LSP[3]	27/07/2016	27/07/2019	18,534				18,534[6]	
	LSP[3]	26/06/2017	26/06/2020	23,411					23,411
	Retention Award[4]	12/01/2017	12/07/2020	25,000					25,000
	Sharesave	02/07/2014	01/10/2019-31/03/20	1,202	1,247p		1,202		1,202
	Sharesave	06/07/2017	01/10/2022-31/03/23	1,256	1,194p		1,256		1,256
	Sharesave	12/07/2019	01/10/22-31/03/23		901p	998			998
	Sharesave	12/07/2019	01/10/24-31/03/25		901p	1,664			1,664

Shares which are released under the DBP 2006 and PSP attract additional shares in respect of the notional reinvestment of dividends. In addition to the shares released under the DBP 2006 and PSP, as indicated in the table above, the following shares were realised arising from such notional reinvestment of dividends:
Gregor Alexander received 5,392 shares, Alistair Phillips-Davies received 7,752 shares and Martin Pibworth received 5,234 shares.

1 The performance conditions applicable to awards under the PSP are described on page 146. The 2016 award under the PSP vested at 26%.
2 33% of the annual bonus payable to Executive Directors is satisfied as a conditional award of shares under the DBP 2016. Vesting of shares under the DBP 2016 is dependent on continued service over a three-year period.
3 Awards granted under the Leadership Share Plan (LSP) equate to the AIP award earned in the previous year. The shares awarded are subject to annual evaluation and may be modified upwards or downwards based on financial or strategic performance. No modifications have been made across the performance periods. The vesting of the award is subject to an "underpin" condition which is the achievement of SSE's dividend policy over the period.
4 Awards granted as Retention Share Awards was prior to Martin Pibworth's appointment as an Executive Director.
5 The market value of a share on the date on which these awards were made was 1,122p.
6 The market value of a share on the date on which these awards were realised was 1,122p.

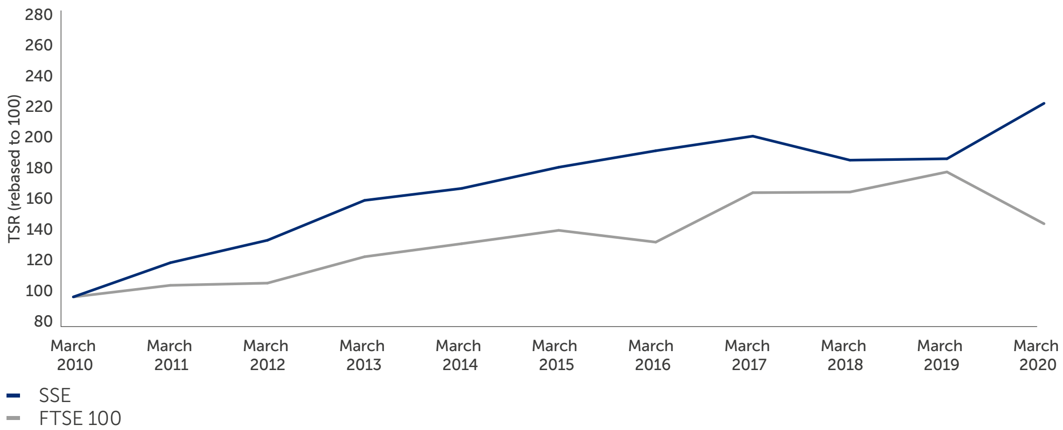
The closing market price of shares at 31 March 2020 was 1,305p and the range for the year was 1,008p to 1,686p. Awards granted during the year were granted under the PSP. The aggregate amount of gains made by the Directors on the exercise of share options and realisation of awards during the year was £1,108,680 (2019 – £1,090,468).

ANNUAL REPORT ON REMUNERATION CONTINUED

2. Historical remuneration disclosures

Change in Chief Executive total remuneration

The graph below shows SSE TSR performance over the last ten years relative to FTSE 100 performance.



The table below shows the Chief Executive's annual remuneration over the same period.

Directors	Single total figure of remuneration[1] (£'000)	Annual variable element award[2] (% of maximum)	Long-term incentive vesting[3] (% of maximum)	Application of discretion
2019/20 (Alistair Phillips-Davies	2,418	59	27	
2018/19 (Alistair Phillips-Davies)	1,639	0	26	Downward discretion applied to AIP
2017/18 (Alistair Phillips-Davies)	2,693	78	30	
2016/17 (Alistair Phillips-Davies)	2,917	72	46	Downward discretion applied to AIP
2015/16 (Alistair Phillips-Davies)	1,696	54	0	
2014/15 (Alistair Phillips-Davies)	2,311	64	0	
2013/14 (Alistair Phillips-Davies and Ian Marchant)[4]	2,546	63	22	
2012/13 (Ian Marchant)	2,241	0	53	Chief Executive waived AIP
2011/12 (Ian Marchant)	1,214	25	0	Downward discretion applied to AIP
2010/11 (Ian Marchant)	1,686	60	0	
2009/10 (Ian Marchant)	1,795	59	16	

1 The single total figure of remuneration is calculated on the same basis as the "single total figure of remuneration" table on page 140.
2 The annual variable element award (AIP) is the figure shown on page 142 and reflected in the "single total figure of remuneration table" on page 140.
3 The long-term incentive (PSP) vesting is the figure shown on page 146, and reflected in the "single total figure of remuneration table" on page 140.
4 For 2013/14, an aggregate number has been applied by combining pro-rata values for each CEO based upon their time in role.

Alignment of Directors' Remuneration Policy with pay across the wider employee population

In setting Executive Directors' pay, a number of factors are taken into account including importantly, relativity to the wider workforce. For a number of years, a Chief Executive pay ratio has been disclosed voluntarily. In 2018/19, the methodology was revised to meet the new reporting requirements. The methodology used is a hybrid approach combining Gender Pay Gap data (as disclosed in the Sustainability Report) with additional elements of pay which are important components of SSE employees' pay such as overtime, employer's contribution to pension and excluding salary sacrifice arrangements. This is believed to allow the most appropriate and consistent comparison.

As shown in the table below, the pay ratio has increased from 41:1 at median in 2018/19 to 59:1 in 2019/20. While the median remuneration for all employees has increased by 5%, the Chief Executive's remuneration has increased by 48%. This is due to the increase in the Chief Executive's variable pay following the Remuneration Committee's decision to reduce the 2018/19 AIP award to zero for Executive Directors. All eligible employees received AIP awards during 2018/19 and 2019/20 resulting in a smaller year-on-year increase relative to Executive Directors.

SSE's is committed to being a responsible employer, and the remuneration policy is designed with fairness in mind – fairness to Executive Directors in recognition of the extent of their responsibilities and, fairness relative to the rest of the SSE team. More information on SSE's responsible employer ethos can be found within the Sustainability Report which includes information on the commitment to being a real Living Wage employer, and other initiatives which help to ensure value is created and retained for employees and the organisation.

Year	Calculation Methodology	25th percentile		Median		75th percentile		Total employee earnings (m)
		Total Remuneration	Ratio	Total Remuneration	Ratio	Total Remuneration	Ratio	
2019/20	C	£29,234	83:1	£40,908	59:1	£54,863	44:1	£510.0
2018/19[1]	C	£28,611	57:1	£39,010	41:1	£54,066	30:1	£495.3

1 The figures for 2018/19 have been revised to exclude Energy Services employees following the successful completion of the transaction to allow a consistent comparison.

Annual percentage change in remuneration of the Chief Executive

Each year, when the Remuneration Committee is considering salary increases, incentive awards and benefits for Executive Directors, it is mindful of the treatment of the wider workforce. The table below shows how the Chief Executive's change in remuneration in 2019/20 compares to that of the wider workforce. In 2019/20, the Chief Executive's salary was frozen and the Remuneration Committee used discretion to reduce the AIP award to zero in 2018/19. Over the same period, the wider employee population received increases in both base salary and bonus levels, and a change in taxation and policy in respect of company car benefits resulted in an increase in the value of benefits.

	Chief Executive %	All employees %
Base salary	0	4
Benefits[1]	1	8
Bonus	–	5

1 All employee benefits include car benefits, Share Incentive Plan Company contributions and medical benefits in alignment with the benefits reported for the Chief Executive in the single total figure of remuneration on page 140.

Relative importance of the spend on pay

The table below indicates how the earnings of Executive Directors compare with SSE's other financial dispersals. The movement in Executive Directors' earnings in 2020 is explained on page 140.

	2016/17 £m	2017/18 £m	2018/19 £m	**2019/20 £m**
Executive Directors' earnings[1]	5.1	5.3	3.6	**5.2**
Dividends to shareholders	906.6	926.1	973.0	**948.5**
Capital and investment expenditure	1,726.2	1,503.0	1,422.9	**1,371.9**
Total UK taxes paid (profits, property, environment and employment taxes)[2]	385.0	484.1	403.7	**421.6**
Staff costs[3]	679.4	665.6	653.5	**684.7**

1 Calculated on the same basis as the "single total figure of remuneration" table on page 140.
2 Includes corporation tax, employers' National Insurance contributions and business rates.
3 Staff costs for all employees, as per Note 8.1 of the accounts, excluding Executive Directors. The figures for 2016/17 and 2017/18 have been restated to exclude staffing costs for the Energy Services business in line with the financial accounts.

For every £1 spent on Executive Directors' earnings by SSE in 2019/20, £81 was paid in tax, £132 was spent on employee costs and £265 was spent on capital and investment expenditure. In addition, £183 was made in dividend payments to shareholders for every £1 spent on Executive Directors' earnings.

3. Governance

External appointments

Executive Directors are able to accept a non-Executive appointment outside the Company with the consent of the Board, as such appointments can enhance their experience and value to the Company. Any fees received are retained by the Director. Gregor Alexander was a non-Executive Director of Stagecoach Group plc during 2019 and received £61,000 in fees. Gregor Alexander is also Chairman of Scotia Gas Networks but receives no additional fees for this.

Payments for loss of office and payments to past Directors

There were no payments for loss of office or to former Directors during the year.

Advice to the Remuneration Committee

The Chief Executive, the Director of Human Resources and Head of Reward advised the Committee on certain remuneration matters for the Executive Directors and senior executives although they were not present for any discussions related to their own remuneration.

The Director of Human Resources and Head of Reward advised on HR strategy and the application of HR policies across the wider organisation.

FIT Remuneration Consultants LLP (FIT) provided a range of information to the Committee which included market data drawn from published surveys, governance developments and their application to the Company, advice on remuneration disclosures and regulations and comparator group pay. FIT received fees of £67,257 in relation to their work for the Committee, calculated on a time and materials basis. FIT are founding members of, and adhere to, the Remuneration Consultants' Group Code of Conduct. The Code defines the roles of consultants, including the requirement to have due regard to the organisation's strategy, financial situation, pay philosophy, the Board's statutory duties and the views of investors and other stakeholders. The Committee reviews the advisers' performance annually to determine that it is satisfied with the quality, relevance, objectivity and independence of advice being provided. FIT provides no other services and has no other connection to the Company or individual Directors.

Freshfields LLP also provided advice on legal matters, such as share plan rules, during the year.

Evaluation

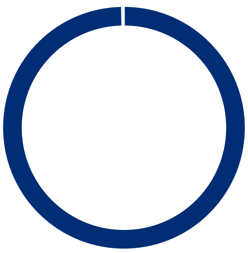
Through the internal Board evaluation process which was carried out during the year, it was confirmed that the Remuneration Committee continued to operate effectively. Details of the wider annual evaluation process are set out on pages 112 and 113.

ANNUAL REPORT ON REMUNERATION CONTINUED

Risk assessment
The Remuneration Committee carries out a remuneration risk assessment on an annual basis to identify and evaluate the risks inherent in our Directors' Remuneration Policy. Important risk mitigators identified included the broad balance of clear financial and non-financial performance measures, targets which are set in line with SSE's business plans and an overall approach to pay design which rewards the delivery of strong, yet sustainable, performance. The close coordination with the Audit Committee was also highlighted as a strength. Specific areas of focus for the future in respect of remuneration risk include those associated with succession, reputational, governance and behavioural risks.

Shareholder voting in 2019
On 18 July 2019, shareholders approved the Remuneration Policy and the Remuneration Report for the year ended 31 March 2019. The results of the resolutions are shown below.

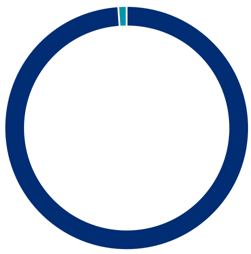
Annual Report on Remuneration – shareholding voting in 2019



For – 99.85%
Against – 0.15%

Total votes cast: 687,909,559
Votes withheld: 1,330,554

Directors' Remuneration Policy – shareholder voting in 2019



For – 99.13%
Against – 0.87%

Total votes cast: 680,814,523
Votes withheld: 8,425,369

Remuneration Committee
The Terms of Reference for the Committee were reviewed during 2019/20 and are available on the Company's website (www.sse.com). In summary, the Committee determines and agrees with the Board, the Company's framework and policy for executive remuneration including setting remuneration for all Executive Directors, the Company Chair, the Group Executive Committee and Company Secretary. During the year, the Committee made some minor amendments to the Terms in consideration of new ICSA Guidance published and the annual review of the Board charter.

The members of the Committee and the meetings attended are set out on page 96. The following agenda items were considered:

Meeting date	Agenda items
May 2019	2019 remuneration policy changes, AIP and PSP year-end performance, below-Board remuneration, 2019 Directors' Remuneration Report, review of executive shareplan leavers, remuneration advisers review, 2019-21 Remuneration Committee Plan.
November 2019	Market and governance update, Executive Directors' pensions, AIP and PSP mid-year performance update, Energy Services transaction, Telecoms reward, review of incentive scheme rules, below-Board remuneration, 2019-21 Remuneration Committee plan.
March 2020	Market and governance update, Executive Directors' pensions, AIP and PSP performance update, Executive Directors' salaries and the Chair's fee, below-Board remuneration, 2020 Directors' Remuneration Report, annual risk assessment, Remuneration Committee terms of reference review, 2012-22 Remuneration Committee plan, impact of coronavirus on broad executive pay matters.

4. Implementation for 2020/21
The table below sets out how the Remuneration Committee intends to operate the remuneration policy for the year ending 31 March 2021:

Element of pay	Implementation for 2020/21	Comment
Base salary	2.75% increase to £914,776 for the Chief Executive, £707,047 for the Finance Director and £529,163 for the Energy Director.	In line with the salary increases for the wider employee population.
Benefits	No changes proposed.	In line with the wider employee population.
Pension	Reduction in the Energy Director's pension allowance from 30% to 15% over a period of five years, as shown on the following page.	This brings the Energy Director's pension in line with the majority of SSE employees taking into account length of service.
Annual Incentive Plan	No change in quantum. No changes proposed to performance measures which are shown in detail on the following page.	Performance measures were reviewed in 2019 and changes were made to the strategic performance measures; Sustainable Development Goals replaced the former Teamworking measures, and a Stakeholder measure replaced the Customer measure.
Performance Share Plan	No change in quantum. No changes proposed to performance measures which are shown in detail on the following page.	The Customer measures was updated in 2019 to reflect customer service performance in Networks and Business Energy rather than Retail following the conclusion of the Energy Services transaction.

Pension alignment

In order to better align the Energy Director's pension arrangements to those of the wider workforce, his pension allowance will be reduced from 30% to 15% which is representative of the wider employee population given the significant number of employees still receiving defined benefit provision and taking length of service into account. As this is a change in contractual entitlement, the reduction will take place on a phased basis over a period of five years. The phased reduction will take place as follows:

	2021/22	2022/23	2023/24	2024/25	2025/26
Pension allowance (% of salary)	25%	23%	21%	19%	15%

AIP performance measures 2020/21

The AIP scorecard will remain unchanged from 2019/20. The performance measures are shown below.

Performance measure	Dividends per Share	Cashflow	Adjusted Earnings per Share	Personal	Stakeholders	Sustainable Development Goals
Weighting	10%	10%	30%	15%	15%	20%
Description	Return on investment through payment of dividends	Retained cashflow and funds from operations to net debt	Underlying measure of financial performance	To reflect those activities which go beyond the normal responsibilities of the role	Customers, employees and suppliers	Contribution to the four SDGs for 2030 For more information see the Sustainability Report

It is expected that the performance measures will be assessed on a similar basis as the 2019/20 award as set out on page 142, with the same level of stretch. At year-end, once the true impact of coronavirus is understood, the Committee intends to exercise its judgement to reduce the AIP opportunity in line with any reduction in earnings.

PSP performance measures 2020/21

The PSP performance measures are unchanged form 2019/20 and are set out in the following table:

Performance measure	Total Shareholder Return relative to FTSE 100	Total Shareholder Return relative to MSCI Europe	Adjusted Earnings per Share growth	Dividends per Share growth	Networks customer	Business Energy customer
Weighting	20%	20%	20%	20%	10%	10%
Minimum performance	50th percentile (25% outturn)	50th percentile (25% outturn)	RPI (25% outturn)	RPI (50% outturn)	Median ranking (25% outturn)	Median ranking (25% outturn)
Maximum performance	75th percentile (100% outturn)	75th percentile (100% outturn)	RPI +5% (80% outturn) RPI + 10% (100%) outturn)	RPI +5% (100% outturn)	1st place ranking (100% outturn)	1st place ranking (100% outturn)

The Committee is mindful of the current share price and the impact this would have on the number of shares granted for the 2020/21 PSP award vis-à-vis the prior year award. The current intention remains to grant awards in line with the policy, but with the caveat that the Committee will more closely monitor outcomes and will be prepared to use its discretion to moderate the quantum vesting to avoid any windfall gains. Any alternative approach will be described in the appropriate RNS when the awards are made.

Chair's and non-Executive Directors' fees

Last year, the Chair and non-Executive Directors' fees were frozen in line with Executive Directors and senior managers. For 2020/21, it is proposed that fees are increased by 2.75% in line with the wider employee population.

Chair and non-Executive Director fee levels for 2020/21 are shown in the table below. non-Executive Directors receive a base fee plus an additional fee for chairing a Committee or for performing the role of non-Executive Director for Employee Engagement.

Fee	2020/21
Chair	£399,518
Base fee	£71,966
Senior Independent Director	£17,992
Audit Committee Chair	£17,992
Remuneration Committee Chair	£17,992
SHEAC Chair	£14,385
Energy Markets Risk Committee Chair	£14,385
Non-Executive Director for Employee Engagement	£10,275

DIRECTORS' REMUNERATION POLICY – A SUMMARY

The SSE's Directors' Remuneration Policy (the "Policy") was approved with over 99% of shareholder support at the AGM on 18 July 2019. The full Policy is provided in the 2019 Annual Report.

At the time the Policy was approved some of the provisions of the new UK Corporate Governance Code were not directly relevant given the financial year, but nonetheless did feature in the Committee's thinking when determining the Policy and how it would be operated. For completeness, we have noted below how the Committee has address the six factors as set out in the Code:

CLARITY

- Our directors' remuneration policy is designed to be sustainable and simple and to facilitate diligent and effective stewardship that is vital to the delivery of SSE's core purpose of providing energy needed today while building a better world of energy for tomorrow, and our strategy of creating value for shareholders and all stakeholders.
- The Policy is an update of the previous Policy, with minimal structural changes so is already embedded into the business and is well understood by participants and shareholders alike.
- The Policy clearly sets out the terms under which it can be operated including appropriate limits in terms of quantum, the measures which can be used and discretions which could be applied if appropriate.
- Transparency in approach has been a cornerstone of our Policy. Detailed disclosure of the relevant performance assessments and outcomes is provided for shareholders to consider.

SIMPLICITY

- Our arrangements include a market standard annual incentive and long-term share plan, each of which is explained in detail in our Policy.
- No complex or artificial structures are required to operate the plans.

RISK

- Appropriate limits are stipulated in the Policy and within the respective plan rules.
- The Committee also has appropriate discretions to override formulaic outturns under the assessment of the variable incentive plans.
- The Committee undertakes an annual risk review of the Policy and its operation. Identified risks are considered with appropriate mitigation strategies or tolerance levels agreed.
- Regular interaction with the Audit Committee and the SHEA Committee ensures relevant risk factors are considered when setting or assessing performance targets.
- Clawback and malus provisions are in place across all incentive plans.

PREDICTABILITY

- The possible reward outcomes can be easily quantified, and these are reviewed by the Committee.
- The graphical illustrations provided in the Policy, clearly show the potential scenarios of performance and pay outcomes which would result.
- Performance is reviewed regularly so there are no surprises at the end of period assessment.

PROPORTIONALITY

- Variable incentive pay outcomes are clearly dependent on delivering the Company's strategy.
- Performance is assessed on a broad basis, including a combination of financial, operational and ESG which ensures there is no undue focus on a single metric which may be at the detriment of other stakeholders.
- The Committee also has the discretion to override formulaic outcomes if they are deemed inappropriate in light of the wider performance of the Company and considering the experience of stakeholders.

ALIGNMENT TO CULTURE

- At the heart of the Policy is a focus on the long-term sustainability of the business. This reflects the whole business culture which is aligned to effective stewardship which creates value for all stakeholders.
- Our incentive plans and, in particular the performance measures used, reflect our values which means doing the right thing, promoting fairness at work and paying our fair share.

The Remuneration Committee believes that SSE's remuneration principles are enduring and that the existing policy sufficiently addresses current legislation whilst maintaining adequate flexibility to withstand any recent business changes. For these reasons, it is proposed that the policy remains unchanged in 2020 with the exception of the current Energy Director's pension arrangement which is to reduce as explained on the previous page.

The Remuneration Committee has been conscious of relativity between Executive Directors' pay and that of the wider employee population for some time, and below Board pay is a key reference point in decision making. As stakeholder sentiment in relation to fair pay relative to the wider workforce continues to grow, so too does the Committee's activity in this area. The case study below shows how the Committee operated in this respect both during the year and historically.

BELOW BOARD REMUNERATION: A CASE STUDY

Focus for 2019/20

During 2019/20, below Board pay was a particular area of focus for the Committee alongside its other responsibilities, and a series of papers were reviewed and discussed. At the Committee's request, these papers were later shared with the full SSE Board to give them a flavour of pay practices across SSE. This focus means that the Committee is well placed to make remuneration decisions that are appropriate and fair relative to the wider workforce.

The topics discussed during the year included:

- General workforce composition (age, service, gender, etc).
- Terms and conditions.
- Pay award and incentive mechanisms.
- Employee benefits.
- Pension arrangements.
- Performance management.
- Employee engagement.
- Responsible employer ethos.

Historical activity

The focus on below Board pay in 2019/20 compliments activity carried out by the Committee over a number of years. The timeline below shows some of the key milestones in the Committee's below Board activity to date.

The Committee has always noted the outcomes of pay negotiations or anticipated budget spend for employees below Board level when suggesting an increase to Executive Directors' salaries.

2012

- An annual process was established to provide information on executive remuneration to recognised trade unions and for them to feedback to the Remuneration Committee.

2016

- The Remuneration Committee Chair began meeting directly with trade union representatives to discuss executive remuneration on an annual basis.

2016

- A ratio of Chief Executive's earnings to employees' earnings was published for the first time ahead of this becoming a mandatory requirement in 2019.

2018

- The Remuneration Committee Chair was appointed as the non-Executive Director for Employee Engagement, a role designed to engage with employees to enhance the "employee voice" in the boardroom. While this role has a wider remit than remuneration, the Chair is well placed to provide feedback on remuneration to the Committee.

2019

- The Committee formalised its responsibility for setting remuneration for senior managers.

2019

- Throughout 2019/20, the Committee reviewed a series of papers describing in detail the pay arrangements applicable to the wider employee population. Below Board pay now forms a standing item on the Committee's agenda.

The policy is summarised below.

BASE SALARY	
Purpose and link to strategy	Supports the retention and recruitment of Executive Directors of the calibre required to develop the Company's strategy.
Operation and maximum opportunity	Base salary is normally reviewed annually with changes effective from 1 April. Salary increases will normally be capped at the typical level of increases awarded to other employees in the Company, although increases may be above this level in certain circumstances.
Performance measures	Broad review of performance is included in the annual review process.

DIRECTORS' REMUNERATION POLICY – A SUMMARY CONTINUED

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 of the business.
Operation and maximum opportunity	For the CEO and FD, funded final salary and top-up unfunded arrangements up to the maximum two-thirds of final salary at age 60. From 1 April 2017, future pensionable pay increases are capped at RPI + 1%. For the Energy Director a pension contribution or cash allowance of up to 30% of salary reducing to 15% on a phased basis over five years which reflects the wider employee population taking length of service into account. For new appointments, employer's pension contributions are capped at 12% of base salary in line with arrangements for SSE employees.
Performance measures	Not applicable.

BENEFITS	
Purpose and link to strategy	To provide a market-competitive level of benefits for Executive Directors.
Operation and maximum opportunity	Core benefits – currently include car allowance, private medical insurance and health screening. Participation in the Company's all-employee share plans on the same terms as UK colleagues. Relocation assistance if required. Reimbursement of travel and business-related expenses incurred. The cost will depend on the cost to the Company of providing individual items and the individual's circumstances and there is no maximum benefit level.
Performance measures	Not applicable.

ANNUAL INCENTIVE PLAN (AIP)	
Purpose and link to strategy	Reward Executive Directors for achievement of performance targets linked to SSE's strategy and core purpose.
Operation and maximum opportunity	Maximum annual incentive opportunity is 150% of base salary for the Chief Executive and 130% of base salary for the Finance and Energy Directors. The award will normally be delivered: • 67% in cash; and • 33% in deferred shares, which will be granted as a career share award. Career share awards will normally vest three years from the award date subject to continued employment with accrual of dividends over that period. The career share award will be held until the second anniversary of the cessation of the Executive Director's employment with the Company (irrespective of the circumstances of such cessation). Subject to malus and/or claw back provisions.
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.

PERFORMANCE SHARE PLAN (PSP)	
Purpose and link to strategy	Reward Executive Directors for their part in delivering the sustained success of SSE and to ensure that their interests are aligned with those of the shareholders.
Operation and maximum opportunity	Maximum value of award is 200% of base salary for the Chief Executive and 175% of base salary for the Finance and Energy Directors. Shares are awarded which normally vest based on performance over a period of three years with 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. Subject to malus and/or claw back provisions.
Performance measures	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.

SHARE OWNERSHIP POLICY	
Purpose and link to strategy	Align the interests of Executive Directors with those of shareholders who invest in the Company.
Operation and maximum opportunity	Executive Directors are expected to maintain a shareholding equivalent to two times base salary built up within a reasonable timescale. Normally built up via shares vesting through the PSP, deferred shares from the AIP and all employee share schemes and Executive Directors may also choose to buy shares. Vested career shares (which must be retained for two years post-cessation of employment) may also count towards the Executive Director's shareholding.
Performance measures	Not applicable.
CHAIR AND NON-EXECUTIVE DIRECTORS' FEES	
Purpose and link to strategy	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 and maximum opportunity	The aggregate level of non-Executive Director fees shall not exceed the maximum limit set out in the Articles of Association. 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 Chair fee; • an additional fee for any committee chairship or membership; and • an additional fee for further responsibilities e.g. Senior Independent Director, non-Executive Director for Employee Engagement or periods of increased activity. 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.
Performance measures	There are no direct performance measures relating to Chair and non-Executive Director fees.

The full Policy also includes further information on:
- Performance measures and targets.
- Committee discretion.
- Legacy commitments.
- Directors' service contracts and non-Executive Directors' letters of appointment.
- Loss of office policy.
- Recovery provisions.
- Recruitment policy.
- Shareholders' views.
- Remuneration engagement across the Group.
- Illustration of the Policy.

Dame Sue Bruce DBE
Chair of the Remuneration Committee
16 June 2020

OTHER STATUTORY INFORMATION

The Directors submit their Annual Report and Accounts for SSE plc, together with the consolidated Financial Statements of the SSE Group of companies, for the year ended 31 March 2020.

The Strategic Report is set out on pages 1 to 85 and the Directors' Report is set out on pages 86 to 161. The Strategic Report and the Directors' Report together constitute the management report as required under Rule 4.1.8R of the Disclosure Guidance and Transparency Rules.

As permitted by section 414C(11) of Companies Act 2006 the below matters have been disclosed in the Strategic Report:

	Page reference
An indication of likely future development in the business of the Company	1 to 85
Particulars of important events affecting the Company since the financial year end	N/A
Greenhouse gas emissions	82 to 85
Employee engagement and involvement	4 to 5, 12 to 13, 16 to 23 and 78 to 81
Engagement with suppliers, customers and others in a business relationship with the Company	4 to 5, 12 to 15, 16 to 23 and 74 to 77
A summary of the principal risks facing the Company	28 to 36

Information required to be disclosed under Listing Rule 9.8.4R is contained on the pages detailed below.

	Page reference
Statement of amount of interest capitalised by the Group during the financial year	205 to 206
Details of any long-term incentive schemes	136 to 157

Results and dividends

The Group's results and performance highlights for the year are set out on pages 38 to 39. An interim dividend of 24.0p per Ordinary Share was paid on 13 March 2020. The Directors propose a final dividend of 56.0p per Ordinary Share. Subject to approval at the 2020 AGM, the final dividend will be paid on 18 September 2020 to shareholders on the Register of Members at close of business on 24 July 2020.

Board of Directors

Director appointment and retirement

The Company's Directors who served during the financial year ending 31 March 2020 are provided on pages 90 to 93.

The rules governing the appointment and retirement of Directors are set out in the Company's Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and other related legislation.

Indemnification of Directors and insurance

The Directors have the benefit of an indemnity provision contained in the Company's Articles of Association. In addition, the Directors have been granted a qualifying third-party indemnity provision which was in force throughout the financial year and remains in force. Also, throughout the financial year, the Company purchased and maintained Directors' and Officers' liability insurance in respect of itself and for its Directors and Officers.

Political donations and expenditure

SSE operates on a politically neutral basis and does not make any donations to political parties, political organisations or independent election candidates. During the year, no political expenditure was incurred and no political donations were made by the Group.

Accounting policies, financial instruments and risk

Details of the Group's accounting policies, together with details of financial instruments and risk, are provided in Note 24 to the Financial Statements and Notes A6 to A8 of the Accompanying Information, and are incorporated by reference.

Research and development

SSE is involved in a range of innovative projects and programmes which are designed to progressively transform the energy system. A number of these projects and programmes are referred to in the Strategic Report in pages 1 to 85.

Employment of disabled people

SSE has a range of employment policies which clearly detail the standards, processes, expectations and responsibilities of its people and the organisation. These policies are designed to ensure that everyone, including those with existing or new disabilities and people of all backgrounds, are dealt with in an inclusive and fair way from the recruiting process on through their career at SSE, whether that means access to appropriate training, development opportunities or job progression. Further details of this approach can be found on pages 78 to 81.

Shares

Share capital

The Company has a single share class which is divided into Ordinary Shares of 50p each. The issued share capital of the Company as at 31 March 2020, together with details of any changes during the year, is set out in Note 22 to the Financial Statements.

As at 16 June 2020, the issued share capital of the Company consisted of 1,046,340,882 Ordinary Shares. This figure includes 6,897,830 ordinary shares which are held in treasury (representing 0.65% of the Company's issued share capital), with these shares voting and dividend rights automatically suspended.

The Company was authorised at the 2019 AGM to allot shares, or grant rights over shares up to an aggregate nominal amount equal to £172,458,586 (representing 344,917,172 Ordinary Shares of 50p each excluding treasury shares), representing one-third of its issued share capital. A renewal of this authority will be proposed at the 2020 AGM.

The Company was authorised at the 2019 AGM to allot up to an aggregate nominal amount of £25,868,787 (representing 51,737,574 Ordinary Shares of 50p each and 5% of issued share capital) for cash without first offering them to existing shareholders in proportion to their holding. A renewal of this authority will be proposed at the 2020 AGM.

Transfer of Ordinary Shares

There are no restrictions on the transfer of Ordinary Shares in the Company other than certain restrictions which may from time-to-time be imposed by law. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Substantial shareholdings

At 31 March 2020, the following percentage interests in the Ordinary Share capital of the Company, had been notified under Rule 5 of the Disclosure Guidance and Transparency Rules, ("DTR 5"). The Company is not aware of any changes in the interests disclosed under DTR 5 between 31 March 2020 and 16 June 2020.

Shareholder	Voting rights attached to shares*		Voting rights through financial instruments*		Total of both in %	Nature of holding
BlackRock, Inc.	58,953,367	5.70%	11,344,987	1.09%	6.79%	Indirect, Securities Lending, CFD
The Capital Group Companies, Inc.	53,671,379	5.19.%	–	–	5.19%	Indirect, ADR
UBS Investment Bank	49,558,763	4.93%	2,444,392	0.23%	5.17%	Indirect, Equity Options, Equity Swaps
Invesco Limited	45,775,918	4.69%	–	–	4.69%	Indirect
Caisse de dépôt et placement du Québec	41,334,931	3.99%	–	–	3.99%	Direct

* At date of disclosure by relevant entity.

Authority to purchase shares

At the 2019 AGM, the Company obtained shareholder approval to purchase up to 103,475,152 of its own Ordinary Shares (representing 10% of its issued share capital) up until the earlier of the conclusion of the 2020 AGM and close of business on 30 September 2020.

There were two active share repurchase programmes during the year as follows: (i) as part of SSE's £200m capital return programme announced on 1 February 2019; and (ii) in light of the Scrip take-up of the 2018/19 dividend exceeding 20% announced on 30 September 2019 (and updated on 31 January 2020). These programmes were carried out in accordance with: the Company's share buyback authority granted by shareholders at the Company's Annual General Meetings on 19 July 2018 (being 101,517,639 shares) and 18 July 2019 (see above); the EU Market Abuse Regulation; and Chapter 12 of the UK Listing Rules. The details of the shares repurchased under each programme are set out below. All shares purchased were cancelled.

Share repurchase programme	Number of shares repurchased	Nominal value of shares purchased	Aggregate amount paid	Percentage of called-up share capital as at 16 June 2020 represented by shares repurchased
£200m capital return programme (completed on 20 August 2019)	17,850,924	£8,925,462.00	£199,999,971.30	1.71%
Scrip take-up (completed on 26 February 2020)	10,909,709	£5,454,854.50	£149,999,996.86	1.04%
Totals	**28,760,633**	**£14,380,316.50**	**£349,999,968.16**	**2.76%**

During the financial year, and up until 16 June 2020, the Company used 867,581 of the treasury shares acquired under the 2016/17 share repurchase programme to satisfy the requirements of the all-employee Sharesave scheme.

OTHER STATUTORY INFORMATION CONTINUED

The Directors will, again, seek renewal of their authority to purchase in the market the Company's own shares at the 2020 AGM.

Voting
Each Ordinary Share of the Company carries one vote at general meetings of the Company. Any Ordinary Shares held in treasury have no voting rights.

A shareholder entitled to attend, speak and vote at a general meeting may exercise their right to vote in person, by proxy, or in relation to corporate members, by corporate representatives. To be valid, notification of the appointment of a proxy must be received not less than 48 hours before the general meeting at which the person named in the proxy notice proposes to vote. The Directors may in their discretion determine that in calculating the 48-hour period, no account be taken of any part of a day which is not a working day.

Employees who participate in the Share Incentive Plan whose shares remain in the schemes' trust give directions to the trustees to vote on their behalf by way of a Form of Direction. SSE also has a Share Plan Account service with Computershare available to employees with shares arising from a SAYE option maturity, which are voted through the nominee.

Annual General Meeting (AGM)
The Annual General Meeting (AGM) of SSE plc (the Company) will be held at Inveralmond House, 200 Dunkeld Road, Perth, PH1 3AQ on Wednesday, 12 August 2020 at 11:00 am. In light of the outbreak of the coronavirus (COVID-19) pandemic and social distancing measures, this year's AGM will be held with only the minimum number of shareholders present as required to form a quorum under the Company's articles of association, who will be officers or employees of the Company. To ensure safety, other shareholders will not be able to gain access to the AGM on the day. Details of the resolutions to be proposed, how to vote and ask questions are set out in a separate Notice of Annual General Meeting which accompanies this report for shareholders receiving hard copy documents, and which is available at sse.com for those who elected to receive documents electronically.

Articles of Association changes
The Company's Articles of Association were adopted at the 2010 AGM. Any amendments to the Articles of Association can only be made by a special resolution at a general meeting of shareholders.

Change of control
The Company is party to a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover. At 31 March 2020, change of control provisions were included in agreements for committed credit facilities, EIB debt, US Private Placements, Senior Bonds and Hybrid instruments. The Company is not aware of any other agreements with change of control provisions that are considered to be significant in terms of their potential impact to the business.

Disclosure of information to the auditor
Each of the Directors who held office at the date of approval of this Directors' Report confirms that, so far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware and each Director has taken all the steps that ought to have been taken in his or her duty as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Related party transactions
Related party transactions are set out in Note A5 of the Accompanying Information.

The Directors' Report set out on pages 86 to 161 has been approved by the Board of Directors in accordance with the Companies Act 2006.

By order of the Board

Sally Fairbairn
Company Secretary
16 June 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable United Kingdom law and have elected to prepare the parent Company financial statements under Financial Reporting Standard 101, Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Alistair Phillips-Davies
Chief Executive
16 June 2020

Gregor Alexander
Finance Director

RECOVERY AND **PROGRESS**

Record levels of renewable energy output, the restoration of GB Capacity Market payments and a lower EPM-related loss in 2019/20 contributed to a year of solid financial performance.

Financial Statements

ALTERNATIVE PERFORMANCE MEASURES

When assessing, discussing and measuring the Group's financial performance, management refer to measures used for internal performance management. These measures are not defined or specified under International Financial Reporting Standards (IFRS) and as such are considered to be Alternative Performance Measures ("APMs").

By their nature, APMs are not uniformly applied by all preparers including other participants in the Group's industry. Accordingly, APMs used by the Group may not be comparable to other companies within the Group's industry.

Purpose

APMs are used by management to aid comparison and assess historical performance against internal performance benchmarks and across reporting periods. These measures provide an ongoing and consistent basis to assess performance by excluding items that are materially non-recurring, uncontrollable or exceptional. These measures can be classified in terms of their key financial characteristics:

- Profit measures allow management to assess and benchmark underlying business performance during the year. They are primarily used by operational management to measure operating profit contribution and are also used by the Board to assess performance against business plan.
- Capital measures allow management to track and assess the progress of the Group's significant ongoing investment in capital assets and projects against their investment cases, including the expected timing of their operational deployment.
- Debt measures allow management to record and monitor both operating cash generation and the Group's ongoing financing and liquidity position.

Changes to APMs in the period

In the period the Group changed its adjusted profit before tax, adjusted net finance cost and adjusted earnings per share metrics to adjust for its share of non-recurring joint venture refinancing costs incurred in the year ended 31 March 2020. The rationale for including this adjustment to these APMs is set out in adjustment number 8 on page 166.

Impact of coronavirus on the Group's APMs

The Group has not adjusted its APMs for the impact of coronavirus. However, it has treated certain costs related to coronavirus as exceptional in the year ended 31 March 2020. The coronavirus pandemic happened late in the Group's financial year, therefore the impact on underlying results for the year was limited. Nonetheless, the Group recognised exceptional charges following the impact of coronavirus related factors in relation to the Group's bad debt provisions at 31 March 2020.

The additional bad debt provision charges recognised at 31 March 2020, which the Group has attributed to the coronavirus and classified as exceptional was £33.7m. In addition to this, the Group has incurred a reduction in underlying operating profit estimated at £18.2m, which has not been adjusted through the APMs. Had this additional expense been treated as exceptional, or excluded from the Group's adjusted performance measures, it would equate to an £18.2m increase in the Group's adjusted EBITDA, adjusted operating profit and adjusted profit before tax measure; an increase of £2.0m to the Group's adjusted current tax measure; and a 1.5 pence per share increase to the Group's adjusted earnings per share measure. The adjusted results of the Group set out in the tables below have not been adjusted to remove this impact. The Group's adjusted net debt and hybrid capital; and adjusted investment and capital expenditure measures are unchanged by the additional charges recognised.

The Group is still to fully assess the impact of the coronavirus on its financial results for the year ending 31 March 2021, however the pandemic is expected to result in a significant reduction in electricity demand, which may be directly attributable to coronavirus.

Impact of IFRS 16 adoption on the Group's APMs

The Group has not adjusted its APMs for the impact of the adoption of IFRS 16. The impact of adoption of IFRS 16 is explained fully in Note 2.1 of the Financial Statements. The Group has applied the modified retrospective approach to adoption and has not restated comparative information.

Had the Group adjusted its APMs to remove the impact of IFRS 16 adoption at 31 March 2020, adjusted operating profit would be £1.9m lower; adjusted net finance costs would have been £9.2m lower; adjusted profit before tax would have been £7.3m higher; and adjusted earnings per share would have been 0.6 pence higher.

The following table explains the key APMs applied by the Group and referred to in these statements:

Group APM	Purpose	Closest equivalent IFRS measure	Adjustments to reconcile to primary financial statements
Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation)	Profit measure	Operating profit	• Movement on operating and financing derivatives ("certain re-measurements") • Exceptional items • Share of joint ventures and associates' interest and tax • Depreciation and amortisation before exceptional charges (including depreciation and amortisation expense on fair value uplifts) • Reversal of IFRIC 18 adjustment on adoption of IFRS 15 • Share of joint venture and associates' depreciation and amortisation • Release of deferred income

Impact of IFRS 16 adoption on the Group's APMs continued

Group APM	Purpose	Closest equivalent IFRS measure	Adjustments to reconcile to primary financial statements
Adjusted operating profit	Profit measure	Operating profit	• Movement on operating and financing derivatives ("certain re-measurements") • Exceptional items • Depreciation and amortisation expense on fair value uplifts • Share of joint ventures and associates' interest and tax
Adjusted profit before tax	Profit measure	Profit before tax	• Movement on operating and financing derivatives ("certain re-measurements") • Exceptional items • Depreciation and amortisation expense on fair value uplifts • Interest on net pension assets/liabilities (IAS 19R) • Share of non-recurring joint venture refinancing costs • Share of joint ventures and associates' tax
Adjusted net finance costs	Profit measure	Net finance costs	• Movement on financing derivatives • Share of joint ventures and associates' interest • Share of non-recurring joint venture refinancing costs • Interest on net pension assets/liabilities (IAS 19R)
Adjusted current tax charge	Profit measure	Tax charge	• Share of joint ventures and associates' tax • Deferred tax including share of joint ventures and associates • Tax on exceptional items and certain re-measurements • Reclassification of tax liabilities
Adjusted earnings per share	Profit measure	Earnings per share	• Exceptional items • Movements on operating and financing derivatives ("certain re-measurements") • Depreciation and amortisation expense on fair value uplifts • Interest on net pension assets/liabilities (IAS 19R) • Share of non-recurring joint venture refinancing costs • Deferred tax including share of joint ventures and associates
Adjusted net debt and hybrid capital	Debt measure	Unadjusted net debt	• Hybrid equity • Outstanding liquid funds • Lease obligations • Cash presented as held for sale
Adjusted investment and capital expenditure	Capital measure	Capital additions to Intangible Assets and Property, Plant and Equipment	• Other expenditure • Customer funded additions • Allowances and certificates • Disposed additions • Joint ventures and associate additions

Rationale for adjustments
Adjustments to Profit Measure
1 Movement on operating and financing derivatives ("certain re-measurements")
This adjustment can be designated between operating and financing derivatives.

Operating derivatives are contracts where the Group's Energy Portfolio Management function enters into forward commitments or options to buy or sell electricity, gas and other commodities to meet the future demand requirements of the Group's Business Energy and Airtricity operating units, or to optimise the value of its Renewables, Thermal or discontinued Gas Production assets. Certain of these contracts are determined to be derivative financial instruments under IFRS 9 and as such are required to be recorded at their fair value. Changes in the fair value of those commodity contracts designated as IFRS 9 financial instruments are reflected in the income statement (as part of "certain re-measurements"). The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments due to the volatility that can arise on revaluation. 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 24 months. Conversely, commodity contracts that are not financial instruments under IFRS 9 are accounted for as "own use" contracts and are consequently not recorded until the commodity is delivered and the contract is settled.

Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts entered into by the Group to manage its banking and liquidity requirements as well as risk management relating to interest rate and foreign exchange exposures. Changes in the fair value of those financing derivatives are reflected in the income statement (as part of "certain re-measurements"). The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments.

The re-measurements arising from operating and financing derivatives, and the tax effects thereof, are disclosed separately to aid understanding of the underlying performance of the Group.

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Rationale for adjustments continued

Adjustments to Profit Measure continued

2 Exceptional Items

Exceptional charges or credits, and the tax effects thereof, are considered unusual by nature or scale and of such significance that separate disclosure is required for the underlying performance of the Group to be properly understood. Further explanation for the classification of an item as exceptional is included in Note 3.2.

3 Share of joint ventures and associates' interest and tax

This adjustment can be split between the Group's share of interest and the Group's share of tax arising from its investments in equity accounted joint ventures 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 relevant adjusted profit measures before its share of the interest and/or tax on joint ventures and associates.

4 Share of joint ventures and associates' depreciation and amortisation

For management purposes, the Group considers EBITDA (earnings before interest, tax, depreciation and amortisation) based on a sum-of-the-parts derived metric which includes a share of the EBITDA from equity accounted investments. While this is not equal to adjusted cash generated from operating activities, it is considered useful by management in assessing a proxy for such a measure, given the complexity of the Group structure and the range of investment structures utilised.

5 Reversal of IFRIC 18 adjustment on adoption of IFRS 15

The Group has restated the comparative EBITDA figure at 31 March 2018 following the adoption of IFRS 15 on 1 April 2018. The adoption of the standard changed the way the Group accounts for electricity distribution connections, therefore the adjusted measure for March 2018 has been restated to provide a consistently prepared comparative.

6 Depreciation and amortisation expense on fair value uplifts

The Group's operating strategy includes securing value creation from divestments of stakes in certain assets and businesses, specifically but not exclusively in its Renewables business. Where SSE's interest in such vehicles changes from full to joint control, and the joint arrangement is an equity accounted joint venture, SSE will recognise a fair value uplift on its retained equity investment. Those uplifts will be treated as exceptional (and non-cash) gains in the year of the relevant transactions completing. These uplifts create assets which are depreciated or amortised over the remaining life of the underlying assets or contracts in those businesses with the charge being included in the Group's adjusted depreciation and amortisation expense. The Group's adjusted operating profit, adjusted profit before tax and adjusted earnings per share have therefore been adjusted to exclude this depreciation and amortisation expense from the fair value uplift given the charges derived from significant one-off gains which are treated as exceptional when initially recognised.

7 Release of deferred income

The Group deducts the release of deferred income in the year from its adjusted EBITDA metric as it principally relates to customer contributions against depreciating assets. As the metric adds back depreciation, the income is also deducted.

8 Non-recurring joint venture refinancing costs

The Group's joint venture investment, Beatrice Offshore Winds Limited ("BOWL"), completed a refinancing of its debt in the year ended 31 March 2020, which resulted in transaction costs from the original debt of £27.2m being expensed to the income statement of the joint venture. In addition, £3.5m of costs related to the repayment of the original instrument were incurred. The Group's 40% share of the £30.7m expense is £12.3m, which has been adjusted from the Group's adjusted profit before tax and the Group's adjusted finance costs as refinancing of this scale is non-recurring and is not representative of normal operations.

9 Interest on net pension assets/liabilities (IAS 19R)

The Group's interest charges relating to defined benefit pension schemes are derived from the net assets/liabilities of the schemes as valued under IAS 19R. This will mean that the charge recognised in any given year will be dependent on the impact of actuarial assumptions such as inflation and discount rates. To avoid income statement volatility derived from this basis of measurement and reflecting the non-cash nature of these charges, the Group excludes these from its adjusted profit measures.

10 Deferred tax

The Group adjusts for deferred tax when arriving at adjusted profit after tax, adjusted earnings per share and its adjusted effective rate of tax. Deferred tax arises as a result of differences in accounting and tax bases that give rise to potential future accounting credits or charges. As the Group remains committed to its ongoing capital programme, the liabilities associated are not expected to reverse and accordingly the Group excludes these from its adjusted profit measures.

Adjustments to Debt measure

11 Hybrid equity

The characteristics of certain hybrid capital securities mean they qualify for recognition as equity rather than debt under IFRS. Consequently, their coupon payments are presented within dividends rather than within finance costs. As a result, the coupon payments are not included in SSE's adjusted profit before tax measure. In order to present total funding provided from sources other than ordinary shareholders, SSE presents its adjusted net debt measure inclusive of hybrid capital to better reflect the Group's funding position.

Rationale for adjustments continued

Adjustments to Debt measure continued

12 Outstanding liquid funds

Outstanding liquid funds are SSE cash balances held by counterparties as collateral at the year end. SSE includes these as cash until they are utilised for the purposes of calculating adjusted net debt. Loans with a maturity of less than three months are also included in this adjustment. The Group includes this adjustment in order to better reflect the immediate cash resources to which it has access, which in turn better reflects the Group's funding position.

13 Leases

On adoption of IFRS 16, SSE's reported loans and borrowings include lease liabilities, as explained in Note 2.1, which are not directly related to the external financing of the Group. The Group excludes these liabilities from its adjusted net debt and hybrid capital measure to better reflect the Group's underlying funding position with its primary sources of capital.

14 Cash presented as held for disposal

A balance of cash has been presented as held for disposal as it will be disposed of on completion of pending transactions. As the Group continues to fund the businesses which it holds for disposal through intercompany loans and borrowings, and will continue to do so until transactions to dispose of them are completed, the cash included within these businesses has been included as an adjustment in the Group adjusted net debt measure.

Adjustments to Capex Measure

15 Other expenditure

Other expenditure primarily represents subsequently derecognised development expenditure which is excluded to better reflect the Group's ongoing capital position.

16 Customer funded additions

Customer funded additions represents additions to electricity and other networks funded by customer contributions. Given these are directly funded by customers, these have been excluded to better reflect the Group's underlying investment position.

17 Allowances and certificates

Allowances and certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs) and are not included in the Group's "capital expenditure and investment" APM to better reflect the Group's investment in enduring operational assets.

18 Additions through business combinations

In the year ended 31 March 2020, the Group took a controlling interest in the Viking partnership and acquired a wind farm portfolio in Wexford in Ireland, resulting in an addition to intangible assets on consolidation of £26.4m. In the year ended 31 March 2019, the Group acquired 50% interest in Seagreen Wind Energy Limited (see Note 12). On consolidation of Seagreen, £143.4m of development asset was included in the Group's consolidated intangible assets. This has been removed from "adjusted investment and capital expenditure" as it was not direct capital expenditure by the Group.

19 Additions subsequently disposed/impaired

In the year ended 31 March 2020, there were additions of £44.6m in the Group's Gas Production segment which were subsequently impaired following the annual impairment assessment. Additions subsequently disposed in the year ended 31 March 2019 represent capital additions related to Stronelairg and Dunmaglass wind farms and SSE Telecommunications prior to their disposal and subsequent recognition as part of SSE's investment in joint ventures. Additions disposed in the year ended 31 March 2018 related to Ferrybridge MFE2 Limited which was subsequently part-disposed to Wheelabrator Technologies Inc.

20 Joint ventures and associates' additions

Joint ventures and associates' additions represent direct funding provided to joint venture and associate arrangements in relation to capital expenditure projects. This has been included to better reflect the Group's use of directly funded equity accounted vehicles to grow the Group's asset base. Project finance raised by the Group's joint ventures and associates is not included in this adjustment.

Impact of discontinued operations on the Group's APMs

The following metrics have been adjusted in all periods presented to exclude the contribution of SSE Energy Services and the Group's Gas Production operations, which have been presented as discontinued operations as at 31 March 2020 (see Note 4.2(i) and 12.2(i)):
Adjusted EBITDA;
Adjusted operating profit;
Adjusted net finance costs;
Adjusted profit before tax;
Adjusted current tax charge; and
Adjusted earnings per share.

"Adjusted net debt and hybrid capital", and "investment and capital expenditure" have not been adjusted as the Group continues to fund the discontinued operations and will continue to do so until the date of disposal.

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Rationale for adjustments continued

Impact of discontinued operations on the Group's APMs continued

The table below reconciles the adjusted performance measures to the reported measure of the Group.

	March 2020	March 2019 (restated)*	March 2018 (restated)*
Adjusted operating profit	**1,488.4**	1,088.7	1,520.8
Adjusted net finance costs	**(465.0)**	(403.6)	(367.5)
Adjusted profit before tax (PBT) APM	**1,023.4**	685.1	1,153.3
Adjusted current tax charge	**(114.2)**	(7.1)	(111.7)
Adjusted profit after tax	**909.2**	678.0	1,041.6
Hybrid coupon paid	**(46.5)**	(46.6)	(98.5)
Adjusted profit after tax attributable to ordinary shareholders for EPS APM	**862.7**	631.4	943.1
Number of shares for EPS	**1,032.5**	1,021.7	1,010.9
Adjusted earnings per share APM	**83.6**	61.8	93.3
Adjusted EBITDA APM	**2,191.4**	1,718.1	2,138.8
Depreciation, impairment and amortisation, before exceptional charges	**(530.1)**	(519.0)	(625.9)
Reversal of IFRIC 18 adjustment on adoption of IFRS 15	**–**	–	98.6
Depreciation and amortisation expense on fair value uplifts	**20.6**	2.9	4.8
Release of deferred income	**14.7**	10.2	20.6
Share of joint ventures and associates' depreciation and amortisation	**(208.2)**	(123.5)	(116.1)
Adjusted operating profit APM	**1,488.4**	1,088.7	1,520.8
Adjusted operating profit APM	**1,488.4**	1,088.7	1,520.8
Movement on operating and joint venture financing derivatives	**(36.2)**	(327.0)	(85.8)
Exceptional items	**(212.1)**	1,010.2	(51.7)
Depreciation and amortisation expense on fair value uplifts	**(20.6)**	(2.9)	(4.8)
Share of joint ventures and associates' interest and tax	**(256.1)**	(155.4)	(150.4)
Reported operating profit	**963.4**	1,613.6	1,228.1
Adjusted profit before tax PBT APM	**1,023.4**	685.1	1,153.3
Movement on operating and financing derivatives	**(119.2)**	(371.8)	(118.8)
Exceptional items	**(209.7)**	1,010.2	(51.7)
Depreciation and amortisation expense on fair value uplifts	**(20.6)**	(2.9)	(4.8)
Interest on net pension assets/(liabilities)	**8.3**	11.4	2.9
Share of joint ventures and associates' tax	**(82.3)**	(31.7)	(37.8)
Share of non-recurring joint venture refinancing costs	**(12.3)**	–	–
Reported profit before tax	**587.6**	1,300.3	943.1
Adjusted net finance costs APM	**465.0**	403.6	367.5
Exceptional items	**(2.4)**	–	–
Movement on financing derivatives	**83.0**	44.8	33.0
Share of joint ventures and associates interest	**(173.8)**	(123.7)	(112.6)
Interest on net pension assets	**(8.3)**	(11.4)	(2.9)
Share of non-recurring joint venture refinancing costs	**12.3**	–	–
Reported net finance costs	**375.8**	313.3	285.0
Adjusted current tax charge APM	**114.2**	7.1	111.7
Share of joint ventures and associates' tax	**(82.3)**	(31.7)	(37.8)
Deferred tax including share of joint ventures and associates	**91.9**	87.6	238.6
Reclassification of tax liabilities	**–**	–	(101.3)
Tax on exceptional items and certain re-measurement	**(2.3)**	(72.9)	(73.2)
Reported tax charge/(credit)	**121.5**	(9.9)	138.0
Adjusted net debt and hybrid capital APM	**(10,465.9)**	(9,437.0)	(9,221.8)
Hybrid equity	**1,169.7**	1,169.7	1,169.7
Adjusted net debt APM	**(9,296.2)**	(8,267.3)	(8,052.1)
Outstanding liquid funds	**(256.4)**	(344.2)	(75.1)
Lease obligations	**(455.2)**	(229.3)	(251.1)
Cash presented as held for sale	**–**	(95.2)	–
Unadjusted net debt	**(10,007.8)**	(8,936.0)	(8,378.3)

Rationale for adjustments continued
Impact of discontinued operations on the Group's APMs continued

	March 2020	March 2019 (restated)*	March 2018 (restated)*
Investment and capital expenditure (adjusted) APM	**1,357.4**	1,422.9	1,503.0
Customer funded additions	**110.7**	224.7	82.0
Allowances and certificates	**652.7**	954.0	712.9
Additions through business combinations	**26.4**	143.4	–
Disposed/impaired additions	**44.6**	195.3	60.6
Joint ventures and associates' additions	**(167.1)**	(292.5)	(110.3)
IFRS 16 right of use asset additions	**46.5**	–	–
Capital additions to intangible assets and property, plant and equipment	**2,071.2**	2,647.8	2,248.2
Capital additions to intangible assets	**973.6**	1,333.3	967.0
Capital additions to property, plant and equipment	**1,097.6**	1,314.5	1,281.2
Capital additions to intangible assets and property, plant and equipment	**2,071.2**	2,647.8	2,248.2

* The Group's adjusted performance measures have been restated to remove the Group's Gas Production business from the 31 March 2019 and 31 March 2018 comparative disclosures as the business has been classified as a discontinued operation. See Note 4.2(i).

The following table summarises the impact of excluding discontinued operations from the continuing activities of the Group in current and prior years:

	March 2020 £m	March 2019 £m	March 2018 £m
Adjusted EBITDA of SSE Group (including discontinued operations)	**2,281.0**	2,008.6	2,622.5
Less: SSE Energy Services	**(32.7)**	(140.0)	(330.7)
Less: Gas Production	**(56.9)**	(150.5)	(153.0)
Adjusted EBITDA of continuing operations APM	**2,191.4**	1,718.1	2,138.8
Adjusted operating profit of SSE Group (including discontinued operations)	**1,546.9**	1,227.2	1,833.5
Less: SSE Energy Services	**(32.7)**	(89.6)	(278.7)
Less: Gas Production	**(25.8)**	(48.9)	(34.0)
Adjusted operating profit of continuing operations APM	**1,488.4**	1,088.7	1,520.8
Adjusted net finance costs of SSE Group (including discontinued operations)	**471.6**	411.9	375.5
Less: SSE Energy Services	**–**	–	–
Less: Gas Production	**(6.6)**	(8.3)	(8.0)
Adjusted net finance costs of continuing operations APM	**465.0**	403.6	367.5
Adjusted profit before tax of SSE Group (including discontinued operations)	**1,075.3**	815.3	1,458.0
Less: SSE Energy Services	**(32.7)**	(89.6)	(278.7)
Less: Gas Production	**(19.2)**	(40.6)	(26.0)
Adjusted profit before tax of continuing operations APM	**1,023.4**	685.1	1,153.3
Adjusted current tax of SSE Group (including discontinued operations)	**110.3**	11.3	130.7
Less: SSE Energy Services	**3.9**	(18.1)	(48.2)
Less: Gas Production	**–**	13.9	29.2
Adjusted current tax of continuing operations APM	**114.2**	7.1	111.7
Adjusted earnings per share of SSE Group (including discontinued operations)	**89.0**	74.1	121.6
Less: SSE Energy Services	**(3.6)**	(7.0)	(22.8)
Less: Gas Production	**(1.8)**	(5.3)	(5.5)
Adjusted earnings per share of continuing operations APM	**83.6**	61.8	93.3

The remaining APMs presented by the Group are unchanged in all periods presented by the discontinued operations.

FINANCIAL STATEMENTS

Contents Page No.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 Before exceptional items and certain remeasurements £m	2020 Exceptional items and certain remeasurements (Note 7) £m	2020 Total £m	2019 Before exceptional items and certain re-measurements (restated)* £m	2019 Exceptional items and certain re-measurements (Note 7) (restated)* £m	2019 Total (restated)* £m
Continuing operations							
Revenue (i)	5	6,800.6	–	6,800.6	7,301.5	–	7,301.5
Cost of sales(i)	6	(4,745.0)	(39.3)	(4,784.3)	(5,582.5)	(328.2)	(5,910.7)
Gross profit		2,055.6	(39.3)	2,016.3	1,719.0	(328.2)	1,390.8
Operating costs	6	(1,019.1)	(240.3)	(1,259.4)	(957.9)	(86.4)	(1,044.3)
Other operating income		24.4	28.2	52.6	41.0	1,096.9	1,137.9
Operating profit before joint ventures and associates		1,060.9	(251.4)	809.5	802.1	682.3	1,484.4
Joint ventures and associates:							
Share of operating profit		406.8	–	406.8	283.7	(0.3)	283.4
Share of interest		(173.8)	–	(173.8)	(123.7)	–	(123.7)
Share of movement on derivatives		–	3.2	3.2	–	1.2	1.2
Share of tax		(81.7)	(0.6)	(82.3)	(31.5)	(0.2)	(31.7)
Share of profit on joint ventures and associates	16	151.3	2.6	153.9	128.5	0.7	129.2
Operating profit from continuing operations	5	1,212.2	(248.8)	963.4	930.6	683.0	1,613.6
Finance income	9	79.2	2.4	81.6	87.0	–	87.0
Finance costs	9	(374.4)	(83.0)	(457.4)	(355.5)	(44.8)	(400.3)
Profit before taxation		917.0	(329.4)	587.6	662.1	638.2	1,300.3
Taxation	10	(123.8)	2.3	(121.5)	(63.0)	72.9	9.9
Profit for the year from continuing operations		793.2	(327.1)	466.1	599.1	711.1	1,310.2
Discontinued operations							
Profit/(loss) from discontinued operation, net of tax	12	44.2	(522.8)	(478.6)	141.7	3.8	145.5
Profit/(loss) for the year		837.4	(849.9)	(12.5)	740.8	714.9	1,455.7
Attributable to:							
Ordinary shareholders of the parent	11	790.9	(849.9)	(59.0)	694.2	714.9	1,409.1
Other equity holders		46.5	–	46.5	46.6	–	46.6
(Loss)/Earnings per share							
Basic (pence)	11			(5.7)			137.9
Diluted (pence)	11			(5.7)			137.9
Earnings per share – continuing operations							
Basic (pence)	11			40.6			123.7
Diluted (pence)	11			40.6			123.7

* Restated to remove the Group's Gas Production business from the 31 March 2019 continuing operations as the business has been classified as a discontinued operation. See Note 4.2(i).

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020

	2020 £m	2019 (restated)* £m
(Loss)/profit for the year	**(12.5)**	1,455.7
Other comprehensive income:		
Items that will be reclassified subsequently to profit or loss:		
Net gains/(losses) on cash flow hedges	**38.0**	(7.9)
Transferred to assets and liabilities on cash flow hedges	**3.7**	(3.6)
Taxation on cashflow hedges	**(7.2)**	1.3
	34.5	(10.2)
Share of other comprehensive loss of joint ventures and associates, net of taxation	**(40.3)**	(33.5)
Exchange difference on translation of foreign operations	**33.0**	(27.1)
(Loss)/gain on net investment hedge	**(28.7)**	20.4
	(1.5)	(50.4)
Items that will not be reclassified to profit or loss:		
Actuarial gain/(loss) on retirement benefit schemes, net of taxation	**97.8**	(61.4)
Share of other comprehensive income/(loss) of joint ventures and associates, net of taxation	**36.6**	(5.2)
Losses on revaluation of investments in equity instruments, net of taxation	**(1.3)**	–
	133.1	(66.6)
Other comprehensive gain/(loss), net of taxation	**131.6**	(117.0)
Total comprehensive income for the period	**119.1**	1,338.7
Attributable to:		
Ordinary shareholders of the parent	**72.6**	1,292.1
Other equity holders	**46.5**	46.6
	119.1	1,338.7

* Restated to remove the Group's Gas Production business from the 31 March 2019 continuing operations as the business has been classified as a discontinued operation. See Note 4.2(i).

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH

	Note	2020 £m	2019 Restated £m	1 April 2018 Restated £m
Assets				
Property, plant and equipment	14	**12,814.7**	12,429.4	12,343.3
Goodwill and other intangible assets	13	**1,101.4**	960.1	1,456.0
Equity investments in joint ventures and associates	16	**1,849.4**	1,899.0	977.0
Loans to joint ventures and associates	16	**847.5**	935.4	781.0
Other investments	16	**0.2**	0.5	4.8
Other receivables	10	**100.0**	–	–
Derivative financial assets	24	**308.2**	244.4	239.5
Retirement benefit assets	23	**534.2**	537.7	572.1
Non-current assets		**17,555.6**	17,006.5	16,373.7
Intangible assets	13	**503.2**	800.3	712.5
Inventories	17	**174.0**	228.5	225.9
Trade and other receivables	18	**1,761.2**	1,836.9	2,403.7
Current tax asset	10	**15.1**	–	–
Cash and cash equivalents	21	**164.6**	431.6	232.2
Derivative financial assets	24	**631.2**	306.1	202.2
Assets held for disposal	12	**226.8**	1,859.4	117.2
Current assets		**3,476.1**	5,462.8	3,893.7
Total assets		**21,031.7**	22,469.3	20,267.4
Liabilities				
Loans and other borrowings	21	**1,966.9**	697.4	650.3
Trade and other payables	19	**1,995.4**	2,705.2	3,309.6
Current tax liabilities	10	**–**	12.5	117.9
Provisions	20	**61.4**	12.2	20.6
Derivative financial liabilities	24	**785.8**	796.3	418.9
Liabilities held for disposal	12	**398.7**	1,087.0	–
Current liabilities		**5,208.2**	5,310.6	4,517.3
Loans and other borrowings	21	**8,205.5**	8,670.2	8,015.8
Deferred tax liabilities	10	**645.8**	611.6	678.3
Trade and other payables	19	**639.5**	355.4	385.3
Provisions	20	**600.1**	1,017.7	812.5
Retirement benefit obligations	23	**192.5**	250.6	237.6
Derivative financial liabilities	24	**620.0**	460.9	446.3
Non-current liabilities		**10,903.4**	11,366.4	10,575.8
Total liabilities		**16,111.6**	16,677.0	15,093.1
Net assets		**4,920.1**	5,792.3	5,174.3
Equity:				
Share capital	22	**523.1**	523.4	511.5
Share premium		**875.6**	879.6	890.3
Capital redemption reserve		**49.2**	34.8	34.8
Hedge reserve		**(111.1)**	(105.3)	(61.6)
Translation reserve		**6.4**	2.1	8.8
Retained earnings		**2,407.2**	3,288.0	2,620.8
Equity attributable to ordinary shareholders of the parent		**3,750.4**	4,622.6	4,004.6
Hybrid equity	22	**1,169.7**	1,169.7	1,169.7
Total equity		**4,920.1**	5,792.3	5,174.3

* The comparative balance sheets have been restated. See Note 1.3.

The accompanying notes are an integral part of the financial statements. These financial statements were approved by the Board of Directors on 16 June 2020 and signed on their behalf by:

Gregor Alexander Finance Director

Richard Gillingwater Chairman

SSE plc Registered No: SC117119

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020

	Share capital £m	Share premium £m	Capital redemption reserve £m	Hedge reserve (ii) £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid equity £m	Total equity attributable to equity holders of the parent £m
At 1 April 2019 (i)	523.4	879.6	34.8	(105.3)	2.1	3,250.9	4,585.5	1,169.7	5,755.2
Total comprehensive income for the year	–	–	–	(5.8)	4.3	74.1	72.6	46.5	119.1
Dividends to shareholders	–	–	–	–	–	(948.5)	(948.5)	–	(948.5)
Scrip dividend related share issue	14.1	(14.1)	–	–	–	345.5	345.5	–	345.5
Distributions to Hybrid equity holders	–	–	–	–	–	–	–	(46.5)	(46.5)
Issue of shares	–	10.1	–	–	–	–	10.1	–	10.1
Share repurchase	(14.4)	–	14.4	–	–	(352.0)	(352.0)	–	(352.0)
Credit in respect of employee share awards	–	–	–	–	–	24.5	24.5	–	24.5
Investment in own shares	–	–	–	–	–	(14.6)	(14.6)	–	(14.6)
Adjustment in relation to historic depreciation rates, net of tax	–	–	–	–	–	27.3	27.3	–	27.3
At 31 March 2020	**523.1**	**875.6**	**49.2**	**(111.1)**	**6.4**	**2,407.2**	**3,750.4**	**1,169.7**	**4,920.1**

(i) Opening retained earnings at 1 April 2019 have been reduced by £37.2m following adoption of IFRS 16 (See Note 2.1).
(ii) The hedge reserve and translation reserve at 1 April 2018 and 31 March 2019 have been restated (See Note 1.3).

	Share capital £m	Share premium £m	Capital redemption reserve £m	Hedge reserve (restated) £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid equity £m	Total equity attributable to equity holders of the parent £m
At 1 April 2018 (restated)	511.5	890.3	34.8	(61.6)	8.8	2,623.3	4,007.1	1,169.7	5,176.8
Total comprehensive income for the year	–	–	–	(43.7)	(6.7)	1,342.5	1,292.1	46.6	1,338.7
Dividends to shareholders	–	–	–	–	–	(973.0)	(973.0)	–	(973.0)
Scrip dividend related share issue	11.9	(11.9)	–	–	–	283.1	283.1	–	283.1
Distributions to Hybrid equity holders	–	–	–	–	–	–	–	(46.6)	(46.6)
Issue of shares	–	1.2	–	–	–	–	1.2	–	1.2
Credit in respect of employee share awards	–	–	–	–	–	15.7	15.7	–	15.7
Investment in own shares	–	–	–	–	–	(3.6)	(3.6)	–	(3.6)
At 31 March 2019 (restated)	523.4	879.6	34.8	(105.3)	2.1	3,288.0	4,622.6	1,169.7	5,792.3

Opening reserves on 1 April 2018 have been restated for the effect of prior year adjustments (see Note 1.3) and the impact of adoption of IFRS 15 on 1 April 2018 (£2.5m increase to retained earnings).

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £m	2019 £m
Operating profit – continuing operations		963.4	1,613.6
Operating profit – discontinued operations (i)	12	(243.6)	113.9
Operating profit – total operations		719.8	1,727.5
Less share of profit of joint ventures and associates		(153.9)	(129.2)
Operating profit before jointly controlled entities and associates		565.9	1,598.3
Pension service charges less contributions paid	23	(25.2)	(25.5)
Movement on operating derivatives	24	34.2	328.2
Depreciation, amortisation, write downs and impairments		947.2	748.2
Charge in respect of employee share awards (before tax)		24.5	20.8
Profit on disposal of assets and businesses	7, 12	(60.5)	(1,122.2)
Release of provisions	20	(21.2)	(33.9)
Release of deferred income	5	(14.7)	(10.2)
Cash generated from operations before working capital movements		1,450.2	1,503.7
Decrease/(increase) in inventories		122.5	(3.4)
Decrease/(increase) in receivables		155.0	(57.6)
(Decrease) in payables		(269.2)	(116.8)
(Decrease)/increase in provisions		(3.0)	23.8
Cash generated from operations		1,455.5	1,349.7
Dividends received from investments	16	213.4	121.9
Interest paid		(272.9)	(251.9)
Taxes paid		(95.8)	(43.0)
Net cash from operating activities		1,300.2	1,176.7
Purchase of property, plant and equipment	5	(814.1)	(1,226.4)
Purchase of other intangible assets	5	(396.8)	(282.4)
Deferred income received		11.8	20.9
Proceeds from disposals	12	413.9	1,145.9
Cash disposed from disposals	12	(235.6)	–
Loans and equity provided to joint ventures and associates	16	(175.7)	(318.0)
Purchase of businesses and subsidiaries	12	(29.0)	(119.8)
Loans and equity repaid by joint ventures	16	213.3	57.3
Net cash from investing activities		(1,012.2)	(722.5)
Proceeds from issue of share capital		10.1	1.2
Dividends paid to company's equity holders		(603.0)	(689.9)
Hybrid equity dividend payments		(46.5)	(46.6)
Employee share awards share purchase	22	(14.6)	(3.6)
New borrowings	21	1,122.4	1,260.0
Repayment of borrowings		(770.3)	(677.1)
Settlement of cashflow hedges		3.7	(3.6)
Repurchase of own shares		(352.0)	–
Net cash from financing activities		(650.2)	(159.6)
Net (decrease)/increase in cash and cash equivalents		(362.2)	294.6
Cash and cash equivalents at the start of year	21	526.8	232.2
Net (decrease)/increase in cash and cash equivalents		(362.2)	294.6
Transfer to held for disposal		–	(95.2)
Cash and cash equivalents at the end of year		164.6	431.6

(i) Excludes loss on disposal of SSE Energy Services of £226.9m, which is not included in the operating loss of discontinued operations.

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

1. General Information and basis of preparation
1.1 General information
SSE plc (the Company) is a company domiciled in Scotland. The address of the registered office is given on the back cover. The Group's operations and its principal activities are set out in the Strategic Report. The consolidated financial statements for the year ended 31 March 2020 comprise those of the Company and its subsidiaries (together referred to as the Group). The Company financial statements present information about the Company as a separate entity and not about the Group, these can be seen on pages 272 to 284.

1.2 Basis of preparation
Statement of compliance
The financial statements were authorised for issue by the Directors on 16 June 2020. 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. In assessing the Group's ability to continue as a going concern, the impact of the coronavirus was considered and has been included as a key financial judgement (see Note 4.1(ii)).

In addition, further details of the Group's liquidity position and going concern review, including the potential impacts of coronavirus, are provided in A6 Accompanying Information to the Financial Statements on page 260.

Basis of measurement
The financial statements of the Group are prepared on the historical cost basis except for certain gas inventory, derivative financial instruments, financial instruments designated at fair value through profit or loss or other comprehensive income on initial recognition, assets of the Group pension schemes which are measured at their fair value, and liabilities of the Group pension schemes which are measured using the projected unit credit method. The Directors believe the financial statements present a true and fair view. The financial statements of the Group are presented in pounds sterling. The basis for including operations and transactions conducted in currencies other than pounds sterling is provided in A1 Accompanying Information to the Financial Statements on page 240.

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 on pages 181 to 183.

Changes to presentation
During the year, the Group assessed that its Gas Production business met the criteria to be presented as held for sale and a discontinued operation (see Note 4.2(i)). As a result, the comparative income statement, cash flow statement and related notes have been re-presented to exclude the activities classified as discontinued, in line with the requirements of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

Changes to estimates
Extension of useful lives of onshore wind farms
During the year the Group performed a detailed technical review of the operating lives of its onshore and offshore wind farms. Following this review, the Group has changed the estimated useful life of the majority of its onshore wind farms from 20 to 25 years. The financial impact of this extension to the useful economic life is to increase adjusted and reported profit before tax by £30.2m. As this is considered a change in estimate under IAS 8, the change has been applied prospectively and prior period comparatives have not been restated.

1.3 Prior year adjustments
Six separate prior year adjustments have been made to reflect the restatement of certain financial statement line items and balances. These adjustments either have no impact, or a limited impact on reserves and net assets and no impact on the adjusted performance measures of the Group, at any reporting date.

Net presentation of financial instruments and deferred taxation balances – restatement of prior period balance sheets
Following the March 2019 IFRS Interpretations Committee (IFRIC) agenda decision on the accounting treatment applied to the physical settlement of contracts to buy or sell a non-financial item, the Group reviewed the balance sheet presentation for EPM commodity trades. Whilst this review reconfirmed that the net presentation approach for the income statement applied by the Group from 1 April 2018 for EPM commodity trades was consistent with the IFRIC pronouncement, it has been subsequently identified that the majority of these commodity trades will, in time, be settled on a "net" basis with counterparties.

1. General Information and basis of preparation continued

1.3 Prior year adjustments continued

Net presentation of financial instruments and deferred taxation balances – restatement of prior period balance sheets continued

Previously, trade receivables and payables resulting from commodity trades were presented on a "gross" basis on the balance sheet, as if each underlying trade was individually cash settled. In accordance with the requirements of IAS 32 "Financial Instruments", and IFRS 7 "Financial Instruments: Disclosures", these balances should have been presented "net" on the balance sheet and a restatement has been made to correct this position. In addition, and in line with industry practice, the Group has chosen to present operational derivative balances representing unsettled and undelivered commodity trades "net" on the balance sheet, assuming normal monthly settlement terms applied.

Furthermore, we have reviewed the presentation of deferred tax assets and liabilities and have noted that deferred tax balances meeting the offset criteria in IAS 12 were presented "gross" rather than "net" on the balance sheet, with a "net" presentation included within a note to the accounts. The Group has therefore restated the comparative balance sheets to present deferred tax assets and liabilities net where the offset criteria are met.

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", changes in accounting policies and prior period errors should be adjusted retrospectively. Given the errors identified in the presentation of trade receivables and payables and the deferred tax assets and liabilities and consequential presentational changes in operational derivative balances resulting from commodity trades, the Group has changed the balance sheet presentation of these balances from a "gross" to a "net" basis for both the current and comparative reporting periods presented. For March 2019, commodity trades have been presented on a "monthly" net settlement basis reflecting current practice.

The adjustment has no impact on the Income Statement, net assets or adjusted performance measures of the Group at 31 March 2019 or 1 April 2018. The impact of this adjustment on the Balance Sheet at that date is as follows:

	31 March 2019			1 April 2018		
	As reported £m	Adjustment £m	Restated £m	As reported £m	Adjustment £m	Restated £m
Derivative financial assets	325.9	(81.5)	244.4	336.4	(96.9)	239.5
Deferred tax assets	302.8	(302.8)	–	294.7	(294.7)	–
Other items	16,792.2	–	16,792.2	16,164.3	–	16,164.3
Non-current assets	17,420.9	(384.3)	17,036.6	16,795.4	(391.6)	16,403.8
Trade and other receivables	3,144.6	(1,307.7)	1,836.9	4,071.7	(1,668.3)	2,403.4
Derivative financial assets	1,452.2	(1,146.1)	306.1	1,060.1	(857.9)	202.2
Other items	3,324.7	–	3,324.7	1,287.8	–	1,287.8
Current assets	7,921.5	(2,453.8)	5,467.7	6,419.6	(2,526.2)	3,893.4
Total assets	25,342.4	(2,838.1)	22,504.3	23,215.0	(2,917.8)	20,297.2
Liabilities						
Trade and other payables	4,012.9	(1,307.7)	2,705.2	4,977.6	(1,668.3)	3,309.3
Derivative financial liabilities	1,882.4	(1,086.1)	796.3	1,253.1	(834.2)	418.9
Other items	1,814.0	–	1,814.0	788.8	–	788.8
Current liabilities	7,709.3	(2,393.8)	5,315.5	7,019.5	(2,502.5)	4,517.0
Derivative financial liabilities	602.4	(141.5)	460.9	566.9	(120.6)	446.3
Deferred tax liabilities	947.0	(302.8)	644.2	1,002.8	(294.7)	708.1
Other items	10,242.4	–	10,242.4	9,395.6	–	9,395.6
Non-current liabilities	11,791.8	(444.3)	11,347.5	10,965.3	(415.3)	10,550.0
Total liabilities	19,501.1	(2,838.1)	16,663.0	17,984.8	(2,917.8)	15,067.0
Net assets	5,841.3	–	5,841.3	5,230.2	–	5,230.2

Calculation of net result on cash flow hedges – restatement of prior period statements of comprehensive income and changes in equity

During the year, it was identified that the calculation of the net result arising from cash flow hedge accounting relationships incorrectly resulted in gains or losses on the effective portion of those relationships being recognised against the hedged item (being foreign currency denominated debt), rather than recognised within the Hedge Reserve. Following a detailed review of all hedging activity, it was confirmed that this calculation error only affected a specific type of financial instruments – fixed rate cross currency swaps – and did not affect the hedge designation of these or other hedge relationships.

Whilst this restatement has no impact on the Income Statement and has limited impact on the Statement of Comprehensive Income and Balance Sheet, it was assessed that there is a material impact to the Hedge Reserve. Therefore, a restatement of prior year balances has been made in accordance with IAS 8. The impact of this adjustment at 31 March 2019 is to increase Loans and Other Borrowings by £51.5m (2018: £55.6m), decrease deferred tax liabilities by £8.8m (2018: £9.5m) and decrease Other Comprehensive Income and the Hedge Reserve by £42.7m (2018: £46.1m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

1. General Information and basis of preparation continued
1.3 Prior year adjustments continued
Calculation of deferred tax deriving from business combinations – restatement of prior period balance sheets
During the year, it was identified that in the accounting for the acquisition of Airtricity plc on 15 February 2008 in the Group's 31 March 2008 financial statements, a deferred tax liability was incorrectly recognised on a goodwill balance arising on the acquisition. The Group has corrected its 31 March 2019 and 31 March 2018 balance sheets presented to remove both the residual goodwill and deferred tax balance balances. In addition, as part of the accounting for the Group's Net Investment Hedge which acts as a hedge against translation risk associated with its businesses transacting in Euros and which was established following the 2008 transaction, a deferred tax asset of £31.0m (2018: £34.5m) has been recognised based on the retranslation of Euro denominated debt through the translation reserve. As this asset would only be realised following disposal of the businesses, it has been derecognised by the Group with corrections required to its 31 March 2019 and 2018 balance sheets. The impact on the 31 March 2019 balance sheet for both corrections is to decrease goodwill by £30.1m (2018: £30.1m), decrease the net deferred tax liability by £23.8m (2018: £20.7m), reduce translation reserve by £31.0m (2018: £34.4m) and increase retained earnings by £24.7m (2018: £25.0m).

Presentation of gains on disposal – restatement of 31 March 2019 income statement
In the year ended 31 March 2019, the Group made significant gains on disposals (see Note 12) which were presented as an exceptional offset to operating costs in the 31 March 2019 income statement. The Group has re-presented the 31 March 2019 income statement to present the gains on sale as exceptional "other operating income".

2. New accounting policies and reporting changes
The principal accounting policies applied in the preparation of these financial statements are set out below and in the A1 Accompanying Information to the Financial Statements on pages 240 to 250.

2.1 New standards, amendments and interpretations effective or adopted by the Group
The accounting policies are consistent with those of the prior period, except for the following new standards which became effective for the period beginning on 1 April 2019. There are no other new standards or interpretations effective for the year ended 31 March 2020, in addition to the below, which are considered to have a material impact on the Consolidated Financial Statements of the Group.

IFRS 16 "Leases"
This standard replaces IAS 17 "Leases" and related interpretations in setting out the principles for the recognition, measurement, presentation and disclosure of leases. The principal change from the previous standard is the introduction of a single lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

(i) Transition approach
The Group has applied the "Modified Retrospective" approach, whereby comparative figures are not restated. Instead, the cumulative effect of initially applying IFRS 16 has been recognised as an adjustment to the opening balance of retained earnings as at 1 April 2019. The Group has elected to apply the following practical expedients, as allowed by the standard, on initial application:
- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- rely on the assessment of whether leases are onerous through applying IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" immediately prior to transition;
- exclude initial direct costs from the measurement of the right-of-use asset; and
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group did not apply the practical expedient on defining leases, and therefore performed a full reassessment of the lease population under IFRS 16 criteria. Furthermore, the Group has applied the exemptions within the standard whereby both leases with a duration of 12 months or less and leases for assets which are deemed "low value" will continue to be expensed to the income statement on a straight-line basis over the lease term.

In determining whether any break and/or extension clauses should be included within the lease term, the Group has considered that where an internal decision has been made to break or extend the lease agreement, that decision shall be applied in determining the appropriate lease term. Where an internal decision has not been made, and where the non-cancellable element of the lease term has longer than five years remaining, it is considered that any clauses will not be triggered as any decision beyond that date is not reasonably certain. For all leases with less than five years remaining, an assessment is made at each reporting period on a lease-by-lease basis on whether the clause is reasonably certain to be triggered. Reassessment of break and/or extension judgements made in prior periods could result in recalculation of the lease liability and adjustments to associated balances.

Where the interest rate implicit in the lease is not readily determinable, the Group has applied the intercompany borrowing rate which is based on the Group's external medium-term borrowing rates with premia adjustments for any subsidiary specific risk factors.

(ii) Impact of transition at 1 April 2019
On transition to IFRS 16 the Group recognised £225.8m of additional right of use assets (presented within property, plant and equipment), £258.1m of additional lease liabilities, a £9.6m reduction in equity investments in joint ventures and associates and a deferred tax asset of £4.8m. This resulted in a £37.1m adjustment on transition to retained earnings. Furthermore, application of IFRS 16 to existing finance lease commitments under IAS 17 resulted in £4.8m of previously recognised leased assets and lease liabilities being derecognised on transition, as the consideration paid for these commitments did not meet the measurement criteria of a lease liability under IFRS 16.

2. New accounting policies and reporting changes continued

2.1 New standards, amendments and interpretations effective or adopted by the Group continued

IFRS 16 "Leases" continued

The differences between the operating lease commitments under IAS 17 at 31 March 2019 and the lease liability recognised under IFRS 16 at 1 April 2019 relating to the same contracts are explained below:

	1 April 2019 £m
Operating lease commitments as at 31 March 2019	430.9
Recognition exemption for short-term and low value leases on date of transition	(27.7)
IAS 17 leases outside the scope of IFRS 16	(30.5)
IFRS 16 remeasurement of lease payments, break and/or extension clauses reasonably certain to be exercised	30.1
Non-discounted lease liability under IFRS 16	402.8
Discount effect	(144.7)
Additional lease liability recognised on 1 April 2019	258.1

The weighted average incremental borrowing rate applied to calculate the right of use assets and lease liabilities recognised on transition at 1 April 2019 over the contracted residual term was 4.56%. Incremental borrowing rates applied to individual leases in the period ranged between 4.06% to 5.06%. A 2% increase to the incremental borrowing rates would reduce right of use assets and lease liabilities by approximately £30m, with a 2% reduction increasing right of use assets and lease liabilities by approximately £45m with minimal impact on profit after tax in either case.

(iii) Impact on results for the year ended 31 March 2020

Adoption of IFRS 16 resulted in operating costs for the year decreasing by £45.9m, offset by £41.1m of additional depreciation charges and £9.2m of additional interest charges, resulting in a £4.4m net decrease in profit before tax. The Group's share of JV operating profit was £6.0m higher, offset by an increase in the Group's share of JV interest of £8.9m. In total, the Group's profit before tax is £7.4m lower. At 31 March 2020, including additions during that period, the net value of additional right-of-use assets under IFRS 16 totalled £229.1m with a corresponding lease liability of £259.7m. The revised presentation of lease payments under IFRS 16 results in a £45.9m improvement in net cash flows from operating activities and a corresponding deterioration in net cash flows from financing activities. There is no impact on total cash and cash equivalents.

2.2 New standards, amendments and interpretations issued, but not yet adopted by the Group

The following standard has been issued but not yet adopted by the Group within these financial statements, because application is not yet mandatory or because adoption by the EU remains outstanding at this point in time:

IFRS 17 "Insurance Contracts" is effective from 1 January 2021 (and thus 1 April 2021 to the Group) and is subject to EU endorsement

IFRS 17 "Insurance contracts" was issued in May 2017, replaces IFRS 4 "Insurance Contracts" and sets out the requirements that a company should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds.

Whilst the Group operates a captive insurance company – SSE Insurance Limited – its primary purpose is to provide greater control over SSE's management of specific risks, with minor annual premium payments made. It is therefore not expected that adoption of this standard will have a material impact on the Group's consolidated financial statements.

Other interpretations and amendments

In addition to these issued standards, there are a number of other interpretations, amendments and annual improvement project recommendations that have been issued but not yet adopted by the Group because application is not yet mandatory or because adoption by the EU remains outstanding at this point in time. These are not anticipated to have a material impact on the Group's consolidated financial statements.

3. Adjusted accounting measures

The Group applies the use of adjusted accounting measures throughout the Annual Report and Financial Statements. These measures enable the Directors to present the underlying performance of the Group and its segments to the users of the statements in a consistent and meaningful manner. The adjustments applied and certain terms such as "adjusted operating profit", "adjusted EPS", "adjusted EBITDA" and "adjusted net debt and Hybrid equity" that are not defined under IFRS and are explained in more detail below.

3.1 Adjusted measures

The Directors assess the performance of the Group and its reportable segments based on "adjusted measures". These measures are used for internal performance management and are believed to be appropriate for explaining underlying performance to users of the accounts. These measures are also deemed the most useful for the ordinary shareholders of the Company and for other stakeholders.

The performance of the reportable segments is reported based on adjusted profit before interest and tax ("adjusted operating profit"). This is reconciled to reported profit before interest and tax by adding back exceptional items and certain re-measurements (see Note 3.2 below), depreciation on fair value uplifts and after the removal of interest and taxation on profits from equity-accounted joint ventures and associates.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

3. Adjusted accounting measures continued
3.1 Adjusted measures continued
The performance of the Group is reported based on adjusted profit before tax which excludes exceptional items and certain re-measurements (see below), depreciation on fair value uplifts, non-recurring financing costs in joint ventures, the net interest costs associated with defined benefit schemes and taxation on profits from equity-accounted joint ventures and associates. The interest costs removed are non-cash and are subject to variation based on actuarial valuations of scheme liabilities.

The Group also uses adjusted earnings before interest, taxation, depreciation and amortisation ("adjusted EBITDA") as an alternative operating performance measure which acts as a management proxy for cash generated from operating activities. This does not take into account the rights and obligations that SSE has in relation to its equity-accounted joint ventures and associates. This measure excludes exceptional items and certain re-measurements (see below), the depreciation charged on fair value uplifts, non-recurring financing costs in joint ventures, the net interest costs associated with defined benefit schemes, depreciation and amortisation from equity-accounted joint ventures and associates and interest and taxation on profits from equity-accounted joint ventures and associates.

The Group's key performance measure is adjusted earnings per share (EPS), which is based on basic earnings per share before exceptional items and certain re-measurements (see below), depreciation on fair value uplifts, non-recurring financing costs in joint ventures, the net interest costs associated with defined benefit schemes and after the removal of deferred taxation and other taxation items. Deferred taxation is excluded from the Group's adjusted EPS because of the Group's significant ongoing capital investment programme, which means that the deferred tax is unlikely to reverse. Adjusted profit after tax is presented on a basis consistent with adjusted EPS except for the exclusion of payments to holders of hybrid equity.

The financial statements also include an "adjusted net debt and Hybrid equity" measure. This presents financing information on the basis used for internal liquidity risk management. This measure excludes obligations due under lease arrangements and includes cash held as collateral on commodity trading exchanges, cash presented as held for disposal in the prior year and other short-term loans. The measure represents the capital owed to investors, lenders and equity holders other than the ordinary shareholders. As with "adjusted earnings per share", this measure is considered to be of particular relevance to the ordinary shareholders of the Group as well as other stakeholders and interested parties.

Finally, the financial statements include an "adjusted investment and capital expenditure" measure. This metric represents the capital invested by the Group in projects that are anticipated to provide a return on investment over future years or which otherwise support Group operations and is consistent with internally applied metrics. This therefore includes capital additions to Property, Plant and Equipment and Intangible Assets and also the Group's direct funding of joint venture and associates capital projects. The Group has considered it appropriate to report these values both internally and externally in this manner due to its use of equity-accounted investment vehicles to grow the Group's asset base, where the Group is providing a source of funding to the vehicle through either loans or equity. The Group does not include project funded ventures in this metric, nor does it include other capital invested in joint ventures and associates. In addition, the Group excludes from this metric additions to its Property, Plant and Equipment funded by Customer Contributions and additions to Intangible Assets associated with Allowances and Certificates. As with "adjusted earnings per share", this measure is considered to be of particular relevance to the ordinary shareholders of the Group as well as other stakeholders and interested parties.

Reconciliations from reported measures to adjusted measures along with further description of the rationale for those adjustments are included in the "Adjusted Performance Measures" section on pages 164 to 169.

Where the Group have referred to an adjusted performance measure in the financial statements the following sign is presented to denote this. APM

3.2 Exceptional items and certain re-measurements
Exceptional items are those charges or credits that are considered unusual by nature and/or scale and of such significance that separate disclosure is required for the financial statements to be properly understood. The trigger points for exceptional items will tend to be non-recurring although exceptional charges may impact the same asset class or segment over time.

Market conditions that have deteriorated significantly over time will only be captured to the extent observable at the balance sheet date. Examples of items that may be considered exceptional include material asset or business impairment charges, reversals of historic impairments, business restructuring costs and reorganisation costs, significant realised gains or losses on disposal, unrealised fair value adjustments on part disposal of a subsidiary and provisions in relation to contractual settlements associated with significant disputes and claims.

During the year, the Group refined its framework for estimating whether items are considered to be exceptional. This new framework estimates the materiality of each broad set of potentially exceptional circumstances, after consideration of strategic impact and likelihood of recurrence, by reference to the Group's key performance measure of Adjusted Earnings per Share. This framework estimates that any item greater than £30.0m will be considered exceptional, with lower thresholds applied to circumstances that are considered to have a greater strategic impact and are less likely to recur. The only exception to this threshold is for gains or losses on disposal or divestment of international or offshore wind farm projects which will be considered non-exceptional in line with the expressed strategy to generate recurring gains in these businesses. The application of these revised estimates in prior periods would not have materially changed the classification or disclosure of exceptional items previously presented. Finally, in response to the impact of the coronavirus pandemic on the Group's financial position at March 2020, a specific category of exceptional charge was identified and defined relating to impairment of current assets assessed as being a direct consequence of the outbreak. Further detail is noted at 4.1(ii) below.

3. Adjusted accounting measures continued

3.2 Exceptional items and certain re-measurements continued

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, or remeasurements on stocks of commodities held at the balance sheet date. The amount shown in the before exceptional items and certain re-measurements results for these contracts is the amount settled in the year as disclosed in Note 24.1.

This excludes commodity contracts not treated as financial instruments under IFRS 9 where held for the Group's own use requirements which are not recorded until the underlying commodity is delivered.

The impact of changes in Corporation Tax rates on deferred tax balances are also included within certain remeasurements.

3.3 Other additional disclosures

As permitted by IAS 1 "Presentation of financial statements", the Group's income statement discloses additional information in respect of joint ventures and associates, exceptional items and certain re-measurements to aid understanding of the Group's financial performance and to present results clearly and consistently.

4. Accounting judgements and estimation uncertainty

In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The Group's key accounting judgement and estimation areas are noted with the most significant financial judgement areas as specifically discussed by the Audit Committee being highlighted separately.

4.1 Significant financial judgements

The preparation of these financial statements has specifically considered the following significant financial judgements, some of which are also areas of estimation uncertainty as noted below.

(i) Impairment testing and valuation of certain non-current assets – estimation uncertainty

The Group reviews the carrying amounts of its goodwill, other intangible assets and specific property, plant and equipment assets to determine whether any impairment of the carrying value of those assets requires to be recorded. The specific assets under review in the year ended 31 March 2020 are intangible development assets and specific property, plant and equipment assets related to gas production and thermal power generation as they displayed indicators of impairment. In conducting its reviews, the Group makes judgements and estimates in considering both the level of cash generating unit (CGU) at which common assets such as goodwill are assessed against, as well as the estimates and assumptions behind the calculation of recoverable amount of the respective assets or CGUs.

Changes to the estimates and assumptions on factors such as regulation and legislation changes, power, gas, carbon and other commodity prices, volatility of gas prices, plant running regimes and load factors, expected proven and probable reserves, discount rates and other inputs could impact the assessed recoverable value of assets and CGUs and consequently impact the Group's income statement and balance sheet.

Further detail of the calculation basis and key assumptions used in the impairment review, the resulting impairment charges and the sensitivity of this assessment to key assumptions is disclosed at Note 15. Detail on the accounting policies applied is included in the Accompanying Information section A1.

(ii) Accounting for the impacts of coronavirus – accounting judgement and estimation uncertainty

At the balance sheet date the UK was in a period of lockdown caused by the coronavirus pandemic. The impact of the pandemic on the Group's results for the year to 31 March 2020 is limited, as the pandemic happened late in the Group's financial year. However, due to the impact on credit risk, specifically recovery of current and aged debt balances, a specific change to the Group's policy for exceptional charges was adopted in relation to increased provisioning directly attributable to coronavirus effects.

In relation to the financial year ended 31 March 2021, there is expected to be a period of reduced demand for electricity, gas and other products and services in the 20/21 financial year which will specifically impact on the profitability of the Group's Distribution, Customers and Enterprise businesses in that year. To assess the impact on the financial position and going concern basis, additional cash flow modelling, including the impact of periods of reduced demand and stressed conditions on the Group's ability to refinance maturing debt was carried out against which operational and financial mitigants were also considered. This is referred to in the Group's going concern commentary at A6.3 and in the Viability Statement.

At 31 March 2020, applying the revised policy noted above, the Group recorded an exceptional bad debt charge of £33.7m related to the recovery of bad debts and unbilled amounts in the Group's Customers business. In addition, charges estimated at £18.2m primarily related to reduced demand and sales activity in March were recognised within adjusted operating profit. The basis of determining the provisions for bad and doubtful debts is explained within the Accompanying Information section A6 on pages 260 to 268. While the provisions are considered to be appropriate, changes in estimation basis or in economic conditions, such as coronavirus, could lead to a change in the level of provisions recorded and consequently on the charge or credit to the income statement.

The analysis of the ageing of trade receivables, movement in the provision for bad and doubtful debts and the net trade receivables expected to be recoverable is detailed within the Accompanying Information section A6 on pages 260 to 268.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

4. Accounting judgements and estimation uncertainty continued
4.1 Significant financial judgements continued
(iii) Retirement benefit obligations – estimation uncertainty
The assumptions in relation to the cost of providing post-retirement benefits during the period are based on the Group's best estimates and are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the level of the retirement benefit obligation recorded and the cost to the Group of administering the schemes.

Further detail of the calculation basis and key assumptions used, the resulting movements in obligations and the sensitivity of key assumptions to the obligation is disclosed at Note 23.

(iv) Revenue recognition – Customers unbilled supply of energy – estimation uncertainty
In the prior year, the estimation of revenue arising from the Group's SSE Energy Services business was considered a significant financial judgement in the preparation of the Group's consolidated financial statements. Whilst the significance of financial judgement involved for the Group's remaining customer focused businesses has reduced, the Group considers that the estimation uncertainly for the unbilled supply of energy at 31 March 2020 remains a significant financial judgement.

Revenue from energy supply activities undertaken by the Business Energy and Airtricity businesses 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 comprises both billed revenue (disclosed as trade receivables) and unbilled revenue (disclosed as accrued income) and is calculated based on applying the tariffs and contract rates applicable to customers against estimated customer consumption and taking account of various factors including usage patterns, weather trends and externally notified aggregated volumes supplied to customers from national settlements bodies. A change in the assumptions underpinning the calculation would have an impact on the amount of revenue recognised in any given period. The sensitivity associated with this judgement factor is disclosed at Note 18.

This estimation is subject to an internal corroboration process which compares of calculated unbilled volumes to a theoretical "perfect billing" benchmark measure of unbilled volumes (in GWh and millions of therms) derived from historical weather-adjusted consumption patterns and aggregated metering data used in industry reconciliation processes. Furthermore, actual meter readings and billings continue to be compared to unbilled estimates between the balance sheet date and the finalisation of the accounts.

4.1.1 Significant financial judgements – changes from prior year
In the prior year the Group considered that the classification of SSE Energy Services as held for sale at 31 March 2019 was a significant financial judgement. At 31 March 2019, a proposed demerger and combination of the business with Innogy's subsidiary, nPower, had been abandoned and the Group noted it was seeking an alternative method of disposal of the business. On 15 January 2020 the business was disposed in a sale transaction to Ovo Group Limited (see Note 12). Consequently, as at 31 March 2020, this no longer represents a significant financial judgement.

4.2 Other key accounting judgements
Other key accounting judgements applied in the preparation of these Financial Statements include the following:

(i) Held for sale classification of the Group's investment in Gas Production
In accordance with IFRS 5, the Group has classified its investment in Gas Production assets as held for sale at 31 March 2020. The Group is engaged in discussions with potential buyers for the business, though due to economic conditions at the balance sheet date, finalising a sale transaction could take longer than expected. The Group has received formal offers for the business and continues to negotiate with potential buyers. As the business constitutes a reportable segment of the Group, it has been considered a discontinued operation and comparative results have been represented to remove the business from continuing operations.

4.2.1 Other key accounting judgements – changes from prior year
Accounting for the Smart meter infrastructure
In the prior year the Group disclosed that the capitalisation of costs related to the UK's Smart Meter infrastructure constituted a key accounting judgement, as other market participants had elected to expense the costs as incurred. Following the disposal of SSE Energy Services during the year Note 12.2.(i)), the assets are no longer capitalised on the Group's consolidated balance sheet therefore this no longer represents a key accounting judgement as at 31 March 2020.

Lease classification for Smart Meter contracts
In the prior year, the Group disclosed that agreements with Meter Fit 10 Limited and Maple Topco Limited, a joint venture company, for the provision of meter asset provider (MAP) services did not contain leases of the smart meters owned by the MAP due to other parties taking a significant amount of the output from the meters and due to the Group being unable to control either the operation or the physical access to the meters. Upon adoption of IFRS 16 "Leases" on 1 April 2019 this assessment did not change. These agreements were part of the disposal of SSE Energy Services (see Note 12.2 (i)), and therefore this no longer represents a key accounting judgement as at 31 March 2020.

4. Accounting judgements and estimation uncertainty continued

4.2 Other key accounting judgements continued

Accounting for the suspension of the UK Capacity Mechanism scheme

At 31 March 2019 the UK Capacity Market scheme was suspended following legal challenge as to whether payments made to electricity generation companies constituted state aid. At 31 March 2019 the Group considered that the Capacity Market scheme would be reinstated and continued to accrue the costs of the scheme through its UK electricity supply businesses, while income due from the scheme through the Group's UK electricity generation businesses was only recognised to the extent received prior to the standstill. On 24 October 2019, the European Commission announced their approval of the British Capacity Market scheme, which resulted in the resumption of capacity payments in respect of agreements that existed in November 2018. In the year ended 31 March 2020 the Group has recognised income received in the year, including the payment of suspended payments relating to the prior year. As a result of the resumption of the scheme, this is no longer a key accounting judgement.

4.3 Other areas of estimation uncertainty

(i) Tax provisioning

The Group has a number of open tax issues with the tax authorities in the UK and Republic of Ireland, the two jurisdictions in which the Group operates. Where management makes a judgement that an outflow of funds is probable, and a reliable estimate of the dispute can be made, provision is made for the best estimate of the most likely liability.

In estimating any such liability, the Group applies a risk-based approach, taking into account the specific circumstances of each dispute based on management's interpretation of tax law and supported, where appropriate, by discussion and analysis by external tax advisors. These estimates are inherently judgemental and could change substantially over time as each dispute progresses and new facts emerge. Provisions are reviewed on an ongoing basis, however the resolution of tax issues can take a considerable period of time to conclude and it is possible that amounts ultimately paid will be different from the amounts provided. Provisions for uncertain tax positions are included in current tax liabilities, and total £39.4m at 31 March 2020 (2019: £47.6m). The Group estimates that a reasonably possible range of settlement outcomes for the uncertain tax provisions given their binary nature is between nil and the full value of the provision.

IFRIC 23 "Uncertainty over Income Tax Treatments", was adopted by the Group on 1 April 2019 and resulted in no changes to the judgements or estimates made for tax provisions.

(ii) Decommissioning costs

The estimated cost of decommissioning at the end of the useful lives of certain property, plant and equipment assets is reviewed periodically, with a full reassessment by an independent decommissioning consultant performed in the year to 31 March 2019. Decommissioning costs in relation to gas exploration and production assets are periodically agreed with the field operators and reflect the latest expected economic production lives of the fields. Provision is made for the estimated discounted cost of decommissioning at the balance sheet date.

The dates for settlement of future decommissioning costs are uncertain, particularly for gas exploration and production assets where reassessment of gas and liquids reserves and fluctuations in commodity prices can lengthen or shorten the field life. The Group is currently incurring decommissioning costs related to Ferrybridge power station, with the remaining provision expected to being increasingly utilised over the next ten years and continue out to 2040.

Further detail on the assumptions made and movement in decommissioning costs during the year are disclosed at Note 20.

5. Segmental information

As part of its 2019 Annual Results announcement, the Group announced that from 1 April 2019 it was focusing on its core low-carbon renewable energy generation and network businesses. These low-carbon renewables and networks businesses are supported by thermal generation plant that provides flexibility to complement the variability of renewables output, and the Group's Business Energy and Irish supply businesses that provide key energy services for customers and secure valuable routes to market for SSE's generation fleet. As a result, the Group's operating segments have been redefined from 1 April 2019. These segments are used internally by the Board to run the business and make strategic decisions. The only change to reported segments has been to split the previously reported "Electricity Generation" segment into two segments – "Renewables" and "Thermal". Comparative information has been re-presented to reflect the change to these segments. The Group's "Corporate unallocated" segment is the Group's residual corporate central costs which cannot be allocated to individual segments.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

5. Segmental information continued

The following describes the types of products and services from which each reportable segment generates its revenue:

Business Area	Reported Segments	Description
Continuing operations		
Transmission	Electricity Transmission	The economically regulated high voltage transmission of electricity from generating plant to the distribution network in the North of Scotland. Revenue earned from constructing, maintaining and renovating our transmission network is determined in accordance with the regulatory licence, based on an Ofgem approved revenue model and is recognised as charged to National Grid. The revenue earned from other transmission services such as generator plant connections is recognised in line with delivery of that service over the expected contractual period and at the contracted rate.
Distribution	Electricity Distribution	The economically regulated lower voltage distribution of electricity to customer premises in the North of Scotland and the South of England. Revenue earned from delivery of electricity supply to customers is recognised based on the volume of electricity distributed to those customers and the set customer tariff. The revenue earned from other distribution services such as domestic customer connections is recognised in line with delivery of that service over the expected contractual period and at the contracted rate.
	Gas Distribution	SSE's share of Scotia Gas Networks, which operates two economically regulated gas distribution networks in Scotland and the South of England. The revenue earned from transportation of natural gas to customers is recognised based on the volume of gas distributed to those customers and the set customer tariff.
Renewables	Renewables	The generation of electricity from renewable sources, such as onshore and offshore wind farms and run of river and pumped storage hydro assets in the UK and Ireland. Revenue from physical generation of electricity sold to SSE EPM is recognised as generated, based on the spot price at the time of delivery. Revenue from national support schemes (such as Renewable Obligation Certificates or the Capacity Market) may either be recognised in line with electricity being physically generated or over the contractual period, depending on the underlying performance obligation.
Thermal	Thermal Generation	The generation of electricity from thermal plant and the Group's interests in multifuel assets in the UK and Ireland. Revenue from physical generation of electricity to SSE EPM is recognised as generated, based on the spot price at the time of delivery. Revenue from national support schemes (such as the Capacity Market) and ancillary generation services may either be recognised in line with electricity being physically generated or over the contractual period, depending on the underlying performance obligation.
	Gas Storage	The operation of gas storage facilities in the UK, providing a mix of capacity products to the external gas market with excess capacity used to develop secondary trading opportunities. For capacity products, revenue from the injection and withdrawal of gas is recognised when provided, with revenue from the provision of storage services is recognised based on the number of days utilised at the contractual rate. Revenue arising on secondary trading activities is recognised as gas is injected into the network, based on the spot price at the time of delivery.
Customers	Business Energy	The supply of electricity and gas to business customers in GB. Revenue earned from the supply of energy is recognised in line with the volume delivered to the customer, based on actual and estimated volumes, and reflecting the applicable customer tariff after deductions or discounts.
	Airtricity	The supply of electricity, gas and energy related services to domestic and business customers in the Republic of Ireland and Northern Ireland. Revenue earned from the supply of energy is recognised in line with the volume delivered to the customer, based on actual and estimated volumes, and reflecting the applicable customer tariff after deductions or discounts. Revenue earned from energy related services may either be recognised over the expected contractual period or following performance of the service, depending on the underlying performance obligation.
Enterprise	Enterprise	The integrated provision of services in competitive markets for industrial and commercial customers including electrical contracting, private energy networks, lighting services and SSE's share of telecoms capacity and bandwidth. Revenue is recognised by reference to the progress towards completion of the contractual performance obligation, based on the proportion of costs incurred to date relative to total expected costs, provided the contract outcome can be assessed with reasonable certainty.
EPM & I	Energy Portfolio Management (EPM)	The optimisation of SSE's electricity, gas and other commodity requirements. Revenue from physical sales of electricity, gas and other commodities produced by SSE is recognised as supplied to either the national settlements body or the customer, based on either the spot price at the time of delivery or trade price where that trade is eligible for "own use" designation. The sale of commodity optimisation trades are presented net in cost of sales alongside purchase commodity optimisation trades.

5. Segmental information continued

Business Area	Reported Segments	Description
Discontinued operations		
SSE Energy Services	SSE Energy Services	The supply of electricity and gas and the provision of energy related goods and services to domestic customers in GB. Revenue earned from the supply of energy is recognised in line with the volume delivered to the customer, based on actual and estimated volumes, and reflecting the applicable customer tariff after deductions or discounts. Revenue earned from energy related services may either be recognised over the expected contractual period or following performance of the service, depending on the underlying performance obligation.
EPM & I	Gas Production	The production and processing of gas and oil from North Sea fields. Revenue is recognised based on the production that has been delivered to the customer at the specified delivery point, at the applicable contractual market price.

As referred to in Note 3, the internal measure of profit used by the Board is "adjusted profit before interest and tax" or "adjusted operating profit" which is arrived at before exceptional items, the impact of financial instruments measured under IFRS 9, the net interest costs associated with defined benefit pension schemes and after the removal of taxation and interest on profits from joint ventures and associates.

Analysis of revenue, operating profit, assets and other items by segment is provided on the following pages. All revenue and profit before taxation arise from operations within the UK and Ireland.

5.1 Segmental information disclosure

(i) Revenue by segment

	Reported revenue 2020 £m	**Inter-segment revenue (i) 2020 £m**	**Segment revenue 2020 £m**	Reported revenue 2019 £m	Inter-segment revenue (i) 2019 £m	Segment revenue 2019 £m
Continuing operations						
Electricity Transmission	**378.6**	**–**	**378.6**	395.7	0.2	395.9
Electricity Distribution	**784.7**	**159.4**	**944.1**	676.4	229.5	905.9
Renewables	**252.2**	**595.9**	**848.1**	224.6	626.2	850.8
Thermal Generation	**416.9**	**790.0**	**1,206.9**	324.4	910.1	1,234.5
Gas storage	**8.4**	**586.0**	**594.4**	24.2	488.3	512.5
Business Energy	**2,431.0**	**26.4**	**2,457.4**	2,592.9	26.2	2,619.1
Airtricity	**1,134.5**	**57.4**	**1,191.9**	1,087.3	144.7	1,232.0
Enterprise	**338.5**	**75.2**	**413.7**	483.8	110.1	593.9
EPM:						
Gross trading	**12,814.5**	**4,072.4**	**16,886.9**	20,240.8	4,464.6	24,705.4
Optimisation trades	**(11,826.8)**	**(826.5)**	**(12,653.3)**	(18,808.7)	475.7	(18,333.0)
EPM (ii)	**987.7**	**3,245.9**	**4,233.6**	1,432.1	4,940.3	6,372.4
Corporate unallocated	**68.1**	**213.9**	**282.0**	60.1	242.7	302.8
Total continuing operations	**6,800.6**	**5,750.1**	**12,550.7**	7,301.5	7,718.3	15,019.8
Discontinued operations						
SSE Energy Services	**2,711.1**	**136.5**	**2,847.6**	3,584.7	184.9	3,769.6
Gas Production	**20.9**	**203.3**	**224.2**	30.1	210.9	241.0
Total discontinued operations	**2,732.0**	**339.8**	**3,071.8**	3,614.8	395.8	4,010.6
Total SSE Group	**9,532.6**	**6,089.9**	**15,622.5**	10,916.3	8,114.1	19,030.4

(i) Significant intra-segment revenue is derived from the sale of power and stored gas from Renewables, Thermal Generation and Gas Storage to EPM; use of system income received by Electricity Distribution from SSE Energy Services (discontinued) and Business Energy; Business Energy provides internal heat and light power supplies to other Group companies; Enterprise provides electrical contracting and other services to other Group companies; EPM provides power, gas and other commodities to SSE Energy Services (discontinued), Business Energy and Airtricity; Gas Production sells gas from producing upstream fields to EPM; SSE Energy Services provided metering and other services to other Group companies; and Corporate unallocated provides corporate and infrastructure services to all segments. All are provided at arm's length.

(ii) Up to the date of disposal of SSE Energy Services, the Group's EPM business procured power and gas and other commodities for SSE Energy Services and generated internal revenue of £908m in the period to 15 January 2020. In future years these revenue transactions will not exist following the disposal of SSE Energy Services.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

5. Segmental information continued
5.1 Segmental information disclosure continued
(i) Revenue by segment continued

Revenue from the Group's Joint Venture investment in Scotia Gas Networks Limited, SSE's share being £423.9m (2019: £411.8m), is not recorded in the revenue line in the income statement.

Disaggregation of revenue

Revenue from contracts with customers can be disaggregated by reported segment, by major service lines and by timing of revenue recognition as follows:

	Revenue from contracts with customers									
	Goods or services transferred over time			Goods or services transferred at a point in time						
	Use of electricity networks 2020 £m	Supply of energy 2020 £m	Construction related services 2020 £m	Other contracted services 2020 £m	Physical energy 2020 £m	Gas storage 2020 £m	Other revenue 2020 £m	Total revenue from contracts with customers 2020 £m	Other contract revenue 2020 £m	Total 2020 £m
Continuing operations										
Electricity Transmission	349.9	–	–	25.7	–	–	3.0	378.6	–	378.6
Electricity Distribution	719.7	–	–	7.7	–	–	57.3	784.7	–	784.7
Renewables	–	252.2	–	–	–	–	–	252.2	–	252.2
Thermal Generation	–	413.7	–	–	–	–	3.2	416.9	–	416.9
Gas Storage	–	–	–	–	–	8.4	–	8.4	–	8.4
Business Energy	–	2,431.0	–	–	–	–	–	2,431.0	–	2,431.0
Airtricity	–	1,118.3	–	16.2	–	–	–	1,134.5	–	1,134.5
Enterprise	36.0	19.0	233.4	25.0	–	–	18.1	331.5	7.0	338.5
EPM	–	–	–	–	977.9	–	9.8	987.7	–	987.7
Corporate unallocated	–	–	–	–	–	–	68.1	68.1	–	68.1
Total continuing operations	1,105.6	4,234.2	233.4	74.6	977.9	8.4	159.5	6,793.6	7.0	6,800.6
Discontinued operations										
SSE Energy Services	–	2,539.6	–	90.8	–	–	80.7	2,711.1	–	2,711.1
Gas Production	–	–	–	–	–	–	20.9	20.9	–	20.9
Total discontinued operations	–	2,539.6	–	90.8	–	–	101.6	2,732.0	–	2,732.0
Total SSE Group	1,105.6	6,773.8	233.4	165.4	977.9	8.4	261.1	9,525.6	7.0	9,532.6

5. Segmental information continued
5.1 Segmental information disclosure continued
(i) Revenue by segment continued

	Revenue from contracts with customers									
	Goods or services transferred over time				Goods or services transferred at a point in time					
	Use of electricity networks 2019 £m	Supply of energy 2019 £m	Construction related services 2019 £m	Other contracted services 2019 £m	Physical energy 2019 £m	Gas storage 2019 £m	Other revenue 2019 £m	Total revenue from contracts with customers 2019 £m	Other contract revenue 2019 £m	Total 2019 £m
Continuing operations										
Electricity Transmission	369.8	–	–	23.5	–	–	2.4	395.7	–	395.7
Electricity Distribution	641.4	–	–	2.2	–	–	32.8	676.4	–	676.4
Renewables	–	224.6	–	–	–	–	–	224.6	–	224.6
Thermal Generation	–	324.4	–	–	–	–	–	324.4	–	324.4
Gas Storage	–	–	–	–	–	24.2	–	24.2	–	24.2
Business Energy	–	2,592.9	–	–	–	–	–	2,592.9	–	2,592.9
Airtricity	–	1,070.9	–	16.4	–	–	–	1,087.3	–	1,087.3
Enterprise	13.2	23.0	312.3	88.8	1.2	–	38.1	476.6	7.2	483.8
EPM	–	–	–	2.3	1,429.8	–	–	1,432.1	–	1,432.1
Corporate unallocated	–	–	–	–	–	–	60.1	60.1	–	60.1
Total continuing operations	1,024.4	4,235.8	312.3	133.2	1,431.0	24.2	133.4	7,291.3	7.2	7,301.5
Discontinued operations										
SSE Energy Services	–	3,465.8	–	113.5	–	–	–	3,579.3	5.4	3,584.7
Gas Production	–	–	–	–	30.1	–	–	30.1	–	30.1
Total discontinued operations	–	3,465.8	–	113.5	30.1	–	–	3,609.4	5.4	3,614.8
Total SSE Group	1,024.4	7,701.6	312.3	246.7	1,461.1	24.2	133.4	10,903.7	12.6	10,916.3

Included within Trade and other receivables (Note 18) is £370.7m (2019: £395.9m) of unbilled energy income and £25.6m (2019: £29.7m) of contract related assets. Included within Trade and other payables (Note 19) is £262.9m (2019: £275.4m) of contract related liabilities. Contract related assets reflect the Group's right to consideration in exchange for goods or services that have transferred to the customer, and contract related liabilities reflect the Group's obligation to transfer future goods or services for which the Group has already received consideration. Contract related assets and liabilities principally arise in the Enterprise reporting segment with changes during the periods reflecting ongoing contract progress, offset by cash receipts or customer invoicing.

The Group has not disclosed information related to the transaction price allocated to remaining performance obligations on the basis that the Group's contracts either have an original expected duration of less than one year, or permit the Group to recognise revenue as invoiced.

Revenue by geographical location on continuing operations is as follows:

	2020 £m	2019 £m
UK	**5,804.3**	6,399.9
Ireland	**996.3**	901.6
	6,800.6	7,301.5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

5. Segmental information continued
5.1 Segmental information disclosure continued
(ii) Operating profit/(loss) by segment

	2020					
	Adjusted operating profit reported to the Board APM £m	Depreciation on fair value uplifts £m	JV/Associate share of interest and tax (i) £m	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Continuing operations						
Electricity Transmission	218.1	–	–	218.1	–	218.1
Electricity Distribution	356.3	–	–	356.3	(4.4)	351.9
Gas Distribution	202.3	–	(125.3)	77.0	3.8	80.8
Renewables	567.3	(18.8)	(93.4)	455.1	4.8	459.9
Thermal Generation	152.7	–	(24.9)	127.8	(112.3)	15.5
Gas Storage	3.7	–	–	3.7	(5.1)	(1.4)
Business Energy	9.2	–	–	9.2	(27.7)	(18.5)
Airtricity	48.8	–	–	48.8	(6.0)	42.8
Enterprise	8.1	(1.8)	(8.3)	(2.0)	–	(2.0)
EPM	(137.4)	–	–	(137.4)	(34.2)	(171.6)
Gas Production (continuing)	77.1	–	–	77.1	–	77.1
Corporate unallocated	(17.8)	–	(3.7)	(21.5)	(67.7)	(89.2)
Total continuing operations	1,488.4	(20.6)	(255.6)	1,212.2	(248.8)	963.4
Discontinued operations						
SSE Energy Services	32.7	–	–	32.7	(237.7)	(205.0)
Gas Production	25.8	–	–	25.8	(291.3)	(265.5)
Total discontinued operations	58.5	–	–	58.5	(529.0)	(470.5)
Total SSE Group	1,546.9	(20.6)	(255.6)	1,270.7	(777.8)	492.9

The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives, the depreciation charged on fair value uplifts and tax from joint ventures and associates and after adjusting for exceptional items (see Note 7). The share of Scotia Gas Networks Limited interest includes loan stock interest payable to the consortium shareholders (included in Gas Distribution). The Group has accounted for its 33% share of this, £9.4m (2019: £9.4m), as finance income (Note 9).

The Group's share of operating profit from joint ventures and associates has been recognised in the Renewables, Thermal Generation and Gas Distribution segments.

The Group has assessed that the Gas Production business meets the criteria to be classified as held for sale under IFRS 5 (see Note 4.2(i)). The Gas Production business is being marketed for sale unhedged under a "locked box" agreement with an effective date of 1 April 2019. In line with the Group's stated hedging policy, the forecast production of the business since 1 April 2019 has been hedged, resulting in realised gains arising in this period of £77.1m. The Group has retained these profits within continuing operations, as it is not intended that the economic benefit of these contracts will be disposed with the business.

5. Segmental information continued
5.1 Segmental information disclosure continued
(ii) Operating profit/(loss) by segment

	2019					
	Adjusted operating profit reported to the Board APM £m	Depreciation on fair value uplifts £m	JV/Associate share of interest and tax (i) £m	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Continuing operations						
Electricity Transmission	252.1	–	–	252.1	–	252.1
Electricity Distribution	401.3	–	–	401.3	–	401.3
Gas Distribution	176.8	–	(94.3)	82.5	2.6	85.1
Renewables	455.9	(2.9)	(31.5)	421.5	821.4	1,242.9
Thermal Generation	(22.3)	–	(25.6)	(47.9)	(2.7)	(50.6)
Gas Storage	(5.7)	–	–	(5.7)	–	(5.7)
Business Energy	51.6	–	–	51.6	–	51.6
Airtricity	38.6	–	–	38.6	–	38.6
Enterprise	31.8	–	–	31.8	–	31.8
EPM	(284.9)	–	–	(284.9)	(328.2)	(613.1)
Gas Production (continuing)	–	–	–	–	–	–
Corporate unallocated	(6.5)	–	(3.8)	(10.3)	189.9	179.6
Total continuing operations	1,088.7	(2.9)	(155.2)	930.6	683.0	1,613.6
Discontinued operations						
SSE Energy Services	89.6	–	–	89.6	(54.3)	35.3
Gas Production	48.9	–	–	48.9	29.7	78.6
Total discontinued operations	138.5	–	–	138.5	(24.6)	113.9
Total SSE Group	1,227.2	(2.9)	(155.2)	1,069.1	658.4	1,727.5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

5. Segmental information continued
5.1 Segmental information disclosure continued
(iii) Capital expenditure by segment

	Capital additions to Intangible Assets 2020 £m	Capital additions to Property, Plant and Equipment 2020 £m	Capital additions to Intangible Assets 2019 £m	Capital additions to Property, Plant and Equipment 2019 £m
Continuing operations				
Electricity Transmission	2.5	333.2	2.7	341.3
Electricity Distribution	–	447.5	20.5	541.5
Renewables	220.6	62.5	177.0	162.9
Thermal Generation	11.4	134.6	9.1	153.9
Gas Storage	–	0.2	–	0.7
Business Energy	–	0.6	–	–
Airtricity	–	–	1.8	0.1
Enterprise	1.3	49.7	0.7	80.0
EPM	652.7	–	954.0	–
Corporate unallocated	70.3	39.5	55.6	15.5
Total continuing operations	958.8	1,067.8	1,221.4	1,295.9
Discontinued operations				
SSE Energy Services	–	–	100.0	2.6
Gas Production	14.8	29.8	11.9	16.0
Total discontinued operations	14.8	29.8	111.9	18.6
Total SSE Group	973.6	1,097.6	1,333.3	1,314.5
Decrease/increase in prepayments related to capital expenditure	–	(2.2)	–	(0.9)
Decrease/(increase) in trade payables related to capital expenditure	–	(127.9)	–	(25.4)
Fair value uplift	–	–	(96.9)	–
Settlement through assets	–	5.0	–	43.4
IFRS 15 adjustment	–	(111.9)	–	(105.2)
Lease asset additions	–	(46.5)	–	–
Less: Other non-cash additions	(287.2)	–	(265.2)	–
Net cash outflow	686.4	814.1	971.2	1,226.4

Capital additions do not include assets acquired in acquisitions or assets acquired under leases. Capital additions to Intangible Assets includes the cash purchase of emissions allowances and certificates (2020: £365.5m; 2019: £688.8m). Other non-cash additions comprise self-generated renewable obligation certificates.

No segmental analysis of assets requires to be disclosed as this information is not presented to the Board.

5. Segmental information continued

5.1 Segmental information disclosure continued

(iii) Capital expenditure by segment continued

At 31 March 2020	Capital additions to Intangible Assets 2020 £m	Capital additions to Property, Plant and Equipment 2020 £m	Capital Investment relating to Joint Ventures and Associates (i)	Allowances and certificates (ii)	Customer funded additions (iii)	Acquired through business combinations (iv)	Lease asset additions (v)	Impaired additions (vi)	Adjusted Capital Expenditure and Investment 2020 APM £m
Continuing operations									
Electricity Transmission	**2.5**	**333.2**	–	–	–	–	(6.7)	–	**329.0**
Electricity Distribution	**–**	**447.5**	–	–	(82.6)	–	–	–	**364.9**
Renewables	**220.6**	**62.5**	101.6	–	–	(26.4)	(15.6)	–	**342.7**
Thermal Generation	**11.4**	**134.6**	31.0	–	–	–	–	–	**177.0**
Gas Storage	**–**	**0.2**	–	–	–	–	–	–	**0.2**
Business Energy	**–**	**–**	–	–	–	–	–	–	**–**
Airtricity	**–**	**0.6**	–	–	–	–	(0.3)	–	**0.3**
Enterprise	**1.3**	**49.7**	34.5	–	(28.1)	–	–	–	**57.4**
EPM	**652.7**	**–**	–	(652.7)	–	–	–	–	**–**
Corporate unallocated	**70.3**	**39.5**	–	–	–	–	(23.9)	–	**85.9**
Total continuing operations	**958.8**	**1,067.8**	167.1	(652.7)	(110.7)	(26.4)	(46.5)	–	**1,357.4**
Discontinued operations									
SSE Energy Services	**–**	**–**	–	–	–	–	–	–	**–**
Gas Production	**14.8**	**29.8**	–	–	–	–	–	(44.6)	**44.6**
Total discontinued operations	**14.8**	**29.8**	–	–	–	–	–	(44.6)	**44.6**
Total SSE Group	**973.6**	**1,097.6**	167.1	(652.7)	(110.7)	(26.4)	(46.5)	(44.6)	**1,357.4**

(i) Represents funding provided to joint venture arrangements and associates in relation to capital expenditure projects.
(ii) Allowances and Certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs) and are not included in the Group's Capital Expenditure and Investment alternative performance measure.
(iii) Represents additions to electricity and other networks funded by customer contributions.
(iv) Additions through business combinations primarily represents the Group's capital additions through the acquisition and consolidation of Greenwind Energy (Wexford) Limited and the consolidation of the Viking Partnerships.
(v) Represents right of use assets recognised on the commencement date of a lease arrangement, and may be subject to adjustments for certain re-measurements of the corresponding lease liability.
(vi) Additions to Gas Production assets, subsequently impaired following the annual impairment assessment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

5. Segmental information continued
5.1 Segmental information disclosure continued
(iii) Capital expenditure by segment continued

At 31 March 2019	Capital additions to Intangible Assets 2019 £m	Capital additions to Property, Plant and Equipment 2019 £m	Capital Investment relating to Joint Ventures and Associates (i)	Disposed additions (ii)	Allowances and certificates (iii)	Customer funded additions (iv)	Acquired through business combinations (v)	Adjusted Capital Expenditure and Investment 2019 APM £m
Continuing operations								
Electricity Transmission	2.7	341.3	–	–	–	–	–	344.0
Electricity Distribution	20.5	541.5	–	–	–	(221.3)	–	340.7
Renewables	177.0	162.9	266.7	(137.8)	–	–	(142.7)	326.1
Thermal Generation	9.1	153.9	24.7	–	–	–	–	187.7
Gas Storage	–	0.7	–	–	–	–	–	0.7
Business Energy	–	–	–	–	–	–	–	–
Airtricity	1.8	0.1	–	–	–	–	(0.7)	1.2
Enterprise	0.7	80.0	–	(57.5)	–	(3.4)	–	19.8
EPM	954.0	–	–	–	(954.0)	–	–	–
Corporate unallocated	55.6	15.5	1.1	–	–	–	–	72.2
Total continuing operations	1,221.4	1,295.9	292.5	(195.3)	(954.0)	(224.7)	(143.4)	1,292.4
Discontinued operations								
SSE Energy Services	100.0	2.6	–	–	–	–	–	102.6
Gas Production	11.9	16.0	–	–	–	–	–	27.9
Total discontinued operations	111.9	18.6	–	–	–	–	–	130.5
Total SSE Group	1,333.3	1,314.5	292.5	(195.3)	(954.0)	(224.7)	(143.4)	1,422.9

(i) Represents share of capital expenditure undertaken by joint venture arrangements and associates.
(ii) Represents capital additions related to Stronelairg and Dunmaglass wind farms and Telecoms (See Note 12).
(iii) Allowances and Certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs) and are not included in the Group's Capital Expenditure and Investment alternative performance measure.
(iv) Represents additions to electricity and other networks funded by customer contributions.
(v) Additions through business combinations primarily represents the Group's capital additions through the acquisition and consolidation of Seagreen Wind Energy Limited. See Note 12.

5. Segmental information continued
5.1 Segmental information disclosure continued
(iv) Items included in operating profit/(loss) by segment

	Depreciation/Impairment on Property, Plant and Equipment			Amortisation/Impairment of Intangible Assets		
	Before exceptional charges 2020 £m	Impairment charges 2020 £m	Total 2020 £m	Before exceptional charges 2020 £m	Impairment charges 2020 £m	Total 2020 £m
Continuing operations						
Electricity Transmission	77.5	–	77.5	1.5	–	1.5
Electricity Distribution	154.9	–	154.9	–	–	–
Renewables	156.7	–	156.7	–	–	–
Thermal Generation	50.3	–	50.3	–	–	–
Gas Storage	0.8	–	0.8	–	–	–
Business Energy	0.3	–	0.3	–	–	–
Airtricity	5.1	–	5.1	1.5	–	1.5
Enterprise	8.8	–	8.8	0.7	–	0.7
EPM	–	–	–	–	–	–
Corporate unallocated	48.7	–	48.7	23.3	45.9	69.2
Total continuing operations	503.1	–	503.1	27.0	45.9	72.9
Discontinued operations						
SSE Energy Services	–	–	–	–	48.8	48.8
Gas Production	31.1	231.1	262.2	–	60.2	60.2
Total discontinued operations	31.1	231.1	262.2	–	109.0	109.0
Total SSE Group	534.2	231.1	765.3	27.0	154.9	181.9

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

5. Segmental information continued
5.1 Segmental information disclosure continued
(iv) Items included in operating profit/(loss) by segment continued

	Depreciation/Impairment on Property, Plant and Equipment			Amortisation/Impairment of Intangible Assets		
	Before exceptional charges 2019 £m	Impairment charges 2019 £m	Total 2019 £m	Before exceptional charges 2019 £m	Impairment charges 2019 £m	Total 2019 £m
Continuing operations						
Electricity Transmission	68.2	–	68.2	1.1	–	1.1
Electricity Distribution	126.2	–	126.2	5.9	–	5.9
Renewables	192.7	–	192.7	–	5.2	5.2
Thermal Generation	40.3	2.7	43.0	–	–	–
Gas Storage	1.0	–	1.0	–	–	–
Business Energy	–	–	–	0.3	–	0.3
Airtricity	6.0	–	6.0	1.6	–	1.6
Enterprise	32.3	0.3	32.6	–	–	–
EPM	–	–	–	–	–	–
Corporate unallocated	43.4	41.0	84.4	–	–	–
Total continuing operations	510.1	44.0	554.1	8.9	5.2	14.1
Discontinued operations						
SSE Energy Services – Energy Supply	10.7	–	10.7	39.7	58.0	97.7
Gas Production	101.6	(29.7)	71.9	–	–	–
Total discontinued operations	112.3	(29.7)	82.6	39.7	58.0	97.7
Total SSE Group	622.4	14.3	636.7	48.6	63.2	111.8

The Group's share of Scotia Gas Networks Limited depreciation (2020: £56.8m; 2019: £57.5m) and amortisation (2020: £4.5m; 2019: £nil) is not included within operating costs.

5. Segmental information continued

5.1 Segmental information disclosure continued

(v) Earnings before interest, taxation, depreciation and amortisation ("EBITDA")

	Adjusted operating profit reported to the Board (Note 5.1 (ii)) APM 2020 £m	Depreciation on fair value uplifts 2020 £m	Depreciation/ Impairment/ amortisation before exceptional charges (Note 5.1 (iv)) 2020 £m	JV/Associate share of depreciation and amortisation (Note 16.4) 2020 £m	Release of Deferred income (Note 6) 2020 £m	Adjusted EBITDA APM 2020 £m
Continuing operations						
Electricity Transmission	218.1	–	79.0	–	(1.5)	295.6
Electricity Distribution	356.3	–	154.9	–	(7.9)	503.3
Gas Distribution	202.3	–	–	56.8	–	259.1
Renewables	567.3	(18.8)	156.7	98.1	–	803.3
Thermal Generation	152.7	–	50.3	17.3	(0.2)	220.1
Gas Storage	3.7	–	0.8	–	–	4.5
Business Energy	9.2	–	0.3	–	–	9.5
Airtricity	48.8	–	6.6	–	–	55.4
Enterprise	8.1	(1.8)	9.5	29.4	(4.1)	41.1
EPM	(137.4)	–	–	–	–	(137.4)
Gas Production (continuing)	77.1	–	–	–	–	77.1
Corporate unallocated	(17.8)	–	72.0	6.6	(1.0)	59.8
Total continuing operations	1,488.4	(20.6)	530.1	208.2	(14.7)	2,191.4
Discontinued operations						
SSE Energy Services	32.7	–	–	–	–	32.7
Gas Production	25.8	–	31.1	–	–	56.9
Total discontinued operations	58.5	–	31.1	–	–	89.6
Total SSE Group	1,546.9	(20.6)	561.2	208.2	(14.7)	2,281.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

5. Segmental information continued
5.1 Segmental information disclosure continued
(v) Earnings before interest, taxation, depreciation and amortisation ("EBITDA") continued

	Adjusted operating profit reported to the Board (Note 5.1 (ii)) APM 2019 £m	Depreciation on fair value uplifts 2019 £m	Depreciation/ Impairment/ amortisation before exceptional charges (Note 5.1 (iv)) 2019 £m	JV/Associate share of depreciation and amortisation (Note 16.5) 2019 £m	Release of Deferred income (Note 6) 2019 £m	Adjusted EBITDA APM 2019 £m
Continuing operations						
Electricity Transmission	252.1	–	69.3	–	(2.8)	318.6
Electricity Distribution	401.3	–	132.1	–	(1.1)	532.3
Gas Distribution	176.8	–	–	57.5	–	234.3
Renewables	455.9	(2.9)	192.7	48.7	(0.4)	694.0
Thermal Generation	(22.3)	–	40.3	14.8	(0.5)	32.3
Gas Storage	(5.7)	–	1.0	–	–	(4.7)
Business Energy	51.6	–	0.3	–	–	51.9
Airtricity	38.6	–	7.6	–	–	46.2
Enterprise	31.8	–	32.3	–	(4.5)	59.6
EPM	(284.9)	–	–	–	–	(284.9)
Corporate unallocated	(6.5)	–	43.4	2.5	(0.9)	38.5
Total	1,088.7	(2.9)	519.0	123.5	(10.2)	1,718.1
Discontinued operations						
SSE Energy Services – Energy Supply	89.6	–	50.4	–	–	140.0
Gas Production	48.9	–	101.6	–	–	150.5
Total discontinued operations	138.5	–	152.0	–	–	290.5
Total SSE Group	1,227.2	(2.9)	671.0	123.5	(10.2)	2,008.6

6. Other operating income and cost

Group operating profit on continuing operations is stated after charging/(crediting) the following items:

	2020 £m	2019 £m
Depreciation of property, plant and equipment on continuing operations (i)	**503.1**	510.1
Net (gains) on disposal (Note 7)	**(28.2)**	(1,096.9)
Exceptional charges (continuing operations) (Note 7)	**240.3**	86.7
Research costs	**3.4**	3.7
Lease charges (ii)	**16.7**	114.2
Release of deferred income in relation to capital grants and historic customer contributions	**(14.7)**	(10.2)
Gain on disposals (non-exceptional) (Note 12)	**(28.2)**	(25.3)
Amortisation of other intangible assets	**2.4**	1.5

(i) Does not include exceptional impairment charges.

(ii) Following the adoption of IFRS 16 (Note 2) on 1 April 2019, the Group applied the exemptions within the standard whereby both leases with a duration of 12 months or less and leases for assets which are deemed "low value" will continue to be expensed to the income statement on a straight line basis over the lease term with £16.7m charged in the current year. In addition, variable lease payments, which are not included within the measurement of lease liabilities as they do not depend on an index or rate, of £6.4m were charged in the current year. Lease charges in the prior year relate to Operating Lease Charges under IAS 17.

Auditor's remuneration

	2020 £m	2019 £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	**1.6**	0.9
Audit related assurance services	**0.2**	0.2
Other services fees	**0.1**	1.1
	1.9	2.2
Total remuneration paid to Auditor	**2.2**	2.5

In the year the Group changed its auditor from KPMG to EY. Assurance and Tax service fees incurred in the year were £0.3m (2019: £0.2m). Audit related assurance services include fees incurred in relation to regulatory accounts and returns required by Ofgem. In the prior year, other service fees included fees of £0.8m in relation to KPMG's role as Reporting Accountant for the preparation of the circular and listing prospectus for the demerger of SSE Energy Services. A description of the work of the Audit Committee is set out on pages 120 to 129 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

7. Exceptional items and certain re-measurements

	2020 £m	2019 £m
Continuing operations		
Exceptional items (Note 7.1)		
Asset impairments and related (charges) and credits	(158.6)	(49.9)
Provisions for restructuring and other liabilities	(81.7)	(27.5)
GMP equalisation charge	–	(9.3)
	(240.3)	(86.7)
Net (losses)/gains on disposals of businesses and other assets	30.6	1,096.9
Total exceptional items	(209.7)	1,010.2
Certain re-measurements		
Movement on operating derivatives (Note 24)	(34.2)	(328.2)
Movement in fair value of commodity stocks	(5.1)	–
Movement on financing derivatives (Note 24)	(83.0)	(44.8)
Share of movement on derivatives in jointly controlled entities (net of tax)	2.6	1.0
Total certain re-measurements	(119.7)	(372.0)
Exceptional items after certain re-measurements and before taxation	(329.4)	638.2
Taxation		
Taxation on other exceptional items	46.0	5.6
Taxation on certain re-measurements	20.9	67.3
Effect of deferred tax rate change	(64.6)	–
Taxation	2.3	72.9
Exceptional items after certain re-measurements and after taxation	(327.1)	711.1
Discontinued operations		
Exceptional items (Note 7.1)		
Asset impairments and related (charges) and credits	(291.3)	(24.6)
SSE Energy Services	(237.7)	–
Taxation	6.2	28.4
Exceptional items on discontinued operations after taxation	(522.8)	3.8

7. Exceptional items and certain re-measurements continued

Exceptional items and certain remeasurements are disclosed across the following categories within the income statement:

	2020 £m	2019 £m
Continuing operations		
Cost of sales:		
Movement on operating derivatives (Note 24)	**(34.2)**	(328.2)
Movement in fair value of commodity stocks	**(5.1)**	–
	(39.3)	(328.2)
Operating costs:		
Asset impairments and reversals	**(158.7)**	11.5
SSE Energy Services related restructuring costs and IT impairments	**–**	(88.9)
Other exceptional provisions and charges	**(81.6)**	(9.3)
	(240.3)	(86.7)
Operating income:		
Net (losses)/gains on disposals of businesses and other assets	**28.2**	1,096.9
	28.2	1,096.9
Joint ventures and associates:		
Share of movement on derivatives in jointly controlled entities (net of tax)	**2.6**	1.0
	2.6	1.0
Operating profit/(loss)	**(248.8)**	683.0
Finance costs/(income)		
Movement on financing derivatives (Note 24)	**(83.0)**	(44.8)
Interest income on deferred consideration receipt	**2.4**	–
	(80.6)	(44.8)
Profit/(loss) before tax on continuing operations	**(329.4)**	638.2
Discontinued operations		
SSE Energy Services	**(237.7)**	(54.3)
Gas Production (E&P) related credit/(charges)	**(291.3)**	29.7
Loss before tax on discontinued operations	**(529.0)**	(24.6)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

7. Exceptional items and certain re-measurements continued
7.1 Exceptional items
In the year to 31 March 2020, the Group recognised a net exceptional charge of £209.7m in its continuing operations and a charge of £529.0m in its discontinued operations. The net exceptional charge in continuing operations is primarily due to the closure of Fiddler's Ferry coal fired power station (£112.3m), provisions for bad debts as a result of coronavirus of £33.7m, impairments to SSE assets as a result of the disposal of SSE Energy Services (£48.8m) and other asset impairments and restructuring costs of £45.6m. These exceptional charges are offset by gains on disposal of £30.6m in total related to recognition of additional contingent consideration, offset by related costs and including £2.4m unwound discounting, in relation to the prior year disposal of SSE Telecommunications and a completion accounts adjustment to the gain on sale of Stronelairg and Dunmaglass wind farms, also from the prior year.

In the discontinued operations, the Group incurred an exceptional impairment on its Gas Production assets of £291.3m to adjust the carrying value of the assets to their expected fair value on disposal, a loss on disposal of SSE Energy Services of £226.9m and restructuring costs of £10.8m within SSE Energy Services.

The net exceptional items recognised can be summarised as follows:

	Property, Plant & Equipment (Note 14) £m	Intangible assets (Note 13) £m	Inventories (Note 17) £m	Provisions & other charges £m	Trade receivables £m	Other receivables £m	Total charges/ (credits) £m
Thermal Electricity Generation (i)	–	–	75.6	35.0	–	1.7	112.3
Other charges (ii)	–	83.0	–	11.3	33.7	–	128.0
Other income (iii)	–	1.9	–	5.3	–	(37.8)	(30.6)
Total continuing operations	–	84.9	75.6	51.6	33.7	(36.1)	209.7
SSE Energy Services (iv)	–	–	–	237.7	–	–	237.7
Gas Production (v)	231.1	60.2	–	–	–	–	291.3
Total SSE Group	231.1	145.1	75.6	289.3	33.7	(36.1)	738.7

(i) Thermal Electricity Generation
On 13 June 2019, the Group announced its intention to close the remaining power generation units at Fiddler's Ferry power station by 31 March 2020. On 17 March 2020 the plant generated its last electricity having burnt through the remaining coal stocks at the plant. As a result of the closure, the Group has incurred a total exceptional charge of £112.3m, comprising an impairment of the coal and oil inventory and related tax credits of £77.5m; a redundancy provision of £20.5m; and operating losses at the plant since closure announcement of £14.3m.

(ii) Other charges
The Group has recognised an exceptional provision for exposure to bad debts of £33.7m specifically related to the coronavirus pandemic within its Business Energy (£27.7m) and Airtricity (£6.0m) businesses. The provision recognised reflects the Group's best estimate at the date of approval of the financial statements of charges that will be incurred on the Group's debt book and has been treated as an adjusting post balance sheet event. As understanding of the impact of the pandemic on SSE's customer base evolves, further information will become available which may adjust this provision in the next financial year.

During the year, the Group committed to an investment plan in IT software, operations and infrastructure which is aimed at transforming the Group's IT systems to drive growth and profitability. As a result, new agreements with software providers have been entered into to allow employees to benefit from cloud based IT arrangements, which resulted in the impairment of legacy software contracts of £34.2m. The Group has also incurred redundancy costs of £6.9m following an agreement to outsource certain IT support roles and has also recognised a charge of £4.4m related to restructuring costs incurred by its Electricity Distribution business.

(iii) Other income
On 29 March 2019, the Group disposed of 50% of SSE Telecommunications to Infracapital Partners III for initial consideration of £215.0m, with the potential for a further £165m of consideration contingent upon achievement of future profitability targets and securing certain key customer contracts. In the 31 March 2019 results, the Group assessed that a total of £230.5m should be recognised in the initial transaction, which resulted in a £235.4m gain on disposal. During the current year, the Group has reassessed the components of contingent consideration recognised based on updated forecasts of business performance and current status of key customer contract negotiations and related costs and has recognised a further £33.1m of consideration, including interest unwind of £2.4m which has been treated as exceptional finance income. Incremental exceptional costs of disposal of the business totalling £7.2m have also been recognised, which predominantly relate to the expected cost of full IT separation for this business.

The Group disposed of a 49.9% stake in the Stronelairg and Dunmaglass wind farms in the prior year, recognising a gain on disposal of £733.0m, including a fair value uplift of £369.2m. Following the completion of the sale, an adjustment to the consideration of £6.4m was received in the period, offset by a tax adjustment of £1.6m. The adjustment to the gain on sale has been treated as exceptional to align with the treatment of the original disposal in the prior year.

7. Exceptional items and certain re-measurements continued

7.1 Exceptional items continued

Charges within discontinued operations

(iv) SSE Energy Services – loss on disposal and related charges

On 15 January 2020 the Group disposed of its household energy and services business in Great Britain ("SSE Energy Services") to Ovo Group Limited ("Ovo") (see Note 12.2(i)). As a result, the Group has recognised an exceptional loss on disposal of £226.9m (recognised within discontinued operations) and incurred impairment charges on Group IT assets connected to the transaction totalling £48.8m (recognised within continuing operations). Within the business there were also redundancy costs of £10.8m incurred in the year.

In the Group's interim results to 30 September 2019, an impairment charge of £489.1m was recognised reflecting the agreed enterprise value and consolidated asset carrying values at that balance sheet date. This charge did not include the value of inter-company payables and derivative financial liabilities at that date (which were eliminated on consolidation in the interim results) which amounted to £148.1m and, being disposed of as part of the SPA agreement, would have reduced the equivalent loss on disposal to £341.0m. Movements in working capital, derivative financial liabilities and intercompany transactions in the period to deal completion on 15 January 2020, attributable to the purchaser, resulted in a reduction to the cumulative loss recognised on disposal. Further detail is provided in Note 12.2(i).

(v) Gas Production – impairment charges

The Group recorded an exceptional impairment charge of £291.3m related to the carrying value of assets and liabilities held for sale. The impairment has been calculated based on the fair value of the business following negotiations with potential buyers and reflects the reduction in gas prices through the year (see Note 15.2).

31 March 2019

In the year to 31 March 2019, the Group recognised a net exceptional credit of £1,010.2m in its continuing operations and a charge of £24.6m in its discontinued operation. The gain in the continuing operations is primarily due to gains on disposal of businesses and assets totalling £1,096.9m. These gains on disposal are offset by net asset impairments of £49.9m, reorganisation costs of £27.5m and an exceptional charge for GMP equalisation of £9.3m.

The net exceptional charges excluding gains on disposal (see Note 12) recognised can be summarised as follows:

	Property, Plant & Equipment (Note 14) £m	Intangible assets (Note 13) £m	Investments (Note 16) £m	Provisions & other charges £m	Total charges £m
Electricity Generation (i)	2.7	2.7	(13.3)	(0.9)	(11.5)
Disposal costs – SSE Energy Services (ii)	41.0	41.0	–	47.9	88.9
Pensions GMP equalisation (iii)	–	–	–	9.3	9.3
	43.7	–	(13.3)	56.3	86.7
Discontinued operations	(29.7)	54.3	–	–	24.6
Total SSE Group	14.0	54.3	(13.3)	56.3	111.3

(i) Electricity Generation

On 24 September 2018, the Group purchased the remaining 50% stake in Seagreen Wind Energy Limited ("Seagreen") taking its ownership to 100% and bringing Seagreen under full control of the Group. As part of the acquisition, the Group reversed a previous impairment charge of £14.2m based on its renewed commitment to developing the prospect. The reversal of the impairment was included as an exceptional credit due to the original impairment of the Group's offshore wind portfolio being treated as exceptional in 2013/14.

In the prior year, the Group recognised an exceptional impairment of £30.5m on the Keadby gas fired power station due to a market shift in energy prices achievable from its thermal fleet. The movement in clean spark spreads was adverse for Keadby, however the same shift is considered favourable to the Group's newer and more efficient plant at Marchwood. As a result, the Group reversed prior impairments of £27.8m against Marchwood power station, which is classified as a right of use asset.

(ii) Disposal costs – SSE Energy Services

At 31 March 2019 the Group's UK domestic supply business was presented as held for disposal and as a result the Group incurred restructuring costs and recognised provisions for costs that will be incurred on completion of the disposal. In the year the Group has incurred non-cash impairment charges of £41.0m on certain properties that will be sub-let to SSE Energy Services at a rate of rent that will not support the current carrying value of the assets. In addition, the Group incurred a further £47.9m of professional advisor fees and IT and physical separation costs related to the disposal.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

7. Exceptional items and certain re-measurements continued
7.1 Exceptional items continued
(iii) Pensions GMP equalisation
On 26 October 2018, the High Court finalised a judgement in the case of Lloyds Banking Group Pensions Trustees Limited vs. Lloyds Bank plc. As a result, the Group has recognised an exceptional past service cost of £9.0m in the 31 March 2019 income statement for guaranteed minimum pension (GMP) equalisation across the schemes. The exceptional charge is 0.22% of the Group's pension liabilities as at 31 March 2019. In addition, the Group's joint venture SGN recognised an exceptional past service charge of £0.8m, of which the Group recognised its share of £0.3m as exceptional.

Charges within discontinued operations
Within its discontinued SSE Energy Services segment, the Group recorded an exceptional impairment charge of £54.3m related to discontinued marketing and customer data management software assets. The Group also recognised a net impairment reversal of £29.7m related to its North Sea Gas Production assets following an increase in independently assessed hydrocarbon reserves and an increase to long-term gas price forecasts. The impairment reversals were recognised on the Bacton (£15.8m) and Sean (£13.9m) fields due to the revision of reserves. Following these impairment reversals, the residual value in the Group's gas production assets at 31 March 2019 was £488.6m.

31 March 2018
In the year ended 31 March 2018, the Group recognised a net exceptional charge of £213.3m. This consisted of asset impairment and related charges totalling £207.9m and net exceptional charges for provisions of £5.4m.

The exceptional impairment and related charges can be summarised as follows:

	Property, Plant & Equipment £m	Goodwill & Other Intangibles £m	Provisions & other charges £m	Investments £m	Total charges £m
Gas Production (i)	104.7	–	–	–	104.7
Retail and technology development (ii)	6.1	56.9	–	–	63.0
Other (iii)	20.9	(4.4)	5.4	23.7	45.6
	131.7	52.5	5.4	23.7	213.3

(i) Gas Production
In the year ended 31 March 2018, the Group recognised net impairment charges of £104.7m related to its North Sea Gas Production assets following an increase in projected costs at certain fields and revised assessments of hydrocarbon reserves. The impairment charges were recognised on the Greater Laggan fields (£104.2m) and Bacton fields (£19.3m). These charges were offset by a £18.8m reversal of previous exceptional impairments on the ECA field following an increase to estimated hydrocarbon reserves.

(ii) Retail and other technology developments
The Group undertook an internal restructuring exercise following the announcement on 8 November 2017 that SSE planned to dispose of its UK domestic supply business in a demerger and combination with npower. That restructuring, which was concluded on 1 April 2018, resulted in the transfer of assets and contracts between wholly owned subsidiaries of the Group, and necessitated a detailed impairment review. This review resulted in an impairment of £29.3m to software development costs related to the Group's previous Retail strategic investment in transformation and a further £33.7m of charges in relation to Retail related software developments and programmes within the Group's central service company.

(iii) Other
In the year ended 31 March 2018, SSE disposed of its 1.8% shareholding in Faroe Petroleum Limited for cash consideration of £4.0m, crystallising £7.2m of losses on disposal. The Group also disposed of its 15% shareholding in Burntisland Fabrication Limited resulting in an exceptional charge of £16.5m, including £10.0m of losses previously recognised in the statement of other comprehensive income.

The Group also recognised an impairment charge of £15.6m on its Barkip anaerobic digestion plant following experience of operational issues and assessment of future economic prospects; and charges of £11.8m in its Enterprise Utilities business following detailed review and assessment of the assets and contracts in its Heat Network portfolio. As part of its preparation for the proposed demerger of SSE Energy Services, the Group also incurred £11.8m of exceptional transaction-related costs in the year to 31 March 2018.

Offsetting these exceptional charges, the Group recognised a reversal in impairment in its Doggerbank offshore wind farm prospect of £7.9m following a renewed commitment to the project by the joint venture partners. The Group also released £9.3m of provisions related to historic regulatory investigations and legal disputes following satisfaction of remedies and reassessment of liability in relation to the Glendoe dispute.

7. Exceptional items and certain re-measurements continued

7.2 Certain re-measurements

The Group, through its EPM business, enters into forward commodity purchase (and sales) contracts to meet the future demand requirements of its Business Energy and Airtricity supply businesses and to optimise the value of its Generation, Production and Storage assets. Certain of these contracts are determined to be derivative financial instruments under IFRS 9 "Financial Instruments" and as such are required to be recorded at their fair value. Conversely, commodity contracts that are not financial instruments under IFRS 9 are accounted for as "own use" contracts. In addition, inventory purchased to utilise excess capacity ahead of an optimised sale in the market by the Gas Storage business is held as trading inventory at fair value.

Changes in the fair value through the profit and loss statement of those commodity contracts designated as financial instruments and trading inventory are therefore reflected in the income statement. The Group shows the change in the fair value of these forward contracts and trading inventory separately – as "certain re-measurements" – as the Group does not believe this mark-to-market movement is relevant to the underlying performance of its operating segments.

The Group will recognise the underlying value of these contracts and inventory as the relevant commodity is delivered, which will predominately be within the subsequent 12 to 24 months. The re-measurements arising from IFRS 9 are disclosed separately to aid understanding of the underlying performance of the Group.

This category also includes the income statement movement on financing derivatives (and hedged items) as described in Note 24.

7.3 Change in UK corporation tax rates

The Government announced in the Budget on 11 March 2020 that the main rate of corporation tax for the financial year beginning 1 April 2020 will remain at 19%, rather than falling to 17% as was previously legislated. Finance Bill 2020 will include this amendment and will also set the main rate at 19% for the financial year beginning 1 April 2021. The 19% rate was substantively enacted on 17 March 2020 when the Budget Provisional Collection of Taxes Act resolution was passed, therefore the Group has remeasured the deferred tax balances to be carried at the 19% rate. The remeasurement increases the Group's deferred tax liabilities by £64.6m.

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

	2020 £m	2019 £m
Continuing operations		
Staff costs:		
Wages and salaries	**522.3**	499.2
Social security costs	**57.3**	54.3
Share-based remuneration	**17.0**	15.3
Pension costs (Note 23)	**88.1**	83.7
	684.7	652.5
Less: capitalised as property, plant and equipment	**(140.0)**	(128.5)
	544.7	524.0

8.2 Employee numbers

	2020 Number	2019 Number
Numbers employed at 31 March in continuing operations	**11,676**	12,102
Numbers employed at 31 March in discontinued operations	**6**	8,268
	11,682	20,370

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

8. Directors and employees continued
8.2 Employee numbers continued
The average number of people employed by the Group (including Executive Directors) during the year was:

	2020 Number	2019 Number
Continuing operations		
Electricity Transmission	**499**	464
Electricity Distribution	**3,800**	3,764
Renewables	**957**	858
Thermal Generation	**569**	577
Gas Storage	**82**	80
Business Energy	**793**	754
Airtricity	**588**	555
Enterprise	**2,667**	3,147
Energy Portfolio Management	**152**	151
Corporate	**1,607**	1,680
Total from continuing operations	**11,714**	12,030
Discontinued operations		
SSE Energy Services	**–**	8,531
Gas Production	**6**	9
Total from discontinued operations	**6**	8,540
Total SSE Group	**11,720**	20,570

8.3 Remuneration of key management personnel
The remuneration of the key management personnel of the Group (excluding amounts equivalent to pension value increases as set out in the Remuneration Report), is set out below in aggregate.

	2020			2019		
	Executive committee members £m	Executive directors £m	Total £m	Executive committee members £m	Executive directors £m	Total £m
Salaries and short-term employee benefits	**1.5**	**3.9**	**5.4**	2.7	2.3	5.0
Social security costs	**0.3**	**0.5**	**0.8**	0.4	0.5	0.9
Post-employment benefits	**0.1**	**0.4**	**0.5**	–	0.8	0.8
Share based benefits	**0.8**	**1.1**	**1.9**	0.3	0.6	0.9
	2.7	**5.9**	**8.6**	3.4	4.2	7.6

Key management personnel are responsible for planning, directing and controlling the operations of the Group. From 1 April 2019 the Group changed its operating model which resulted in the Executive Committee members changing to reflect the Group's newly implemented "SSE7" operating model. The Executive committee members included in the table above at 31 March 2020 are the three Executive Directors; the Managing Director of Networks; the Managing Director of SSE Transmission; the Managing Director of Renewables and the Group's General Counsel.

Further information about the remuneration of individual directors is provided in the audited part of the Remuneration Report. Information regarding transactions with post-retirement benefit plans is included in Note 23.

Non-Executive Directors were paid fees of £0.9m during the current year (2019: £0.9m).

9. Finance income and costs
Recognised in income statement

	2020			2019		
	Before Exceptional items and certain remeasurements £m	**Exceptional items and certain remeasurements £m**	**Total £m**	Before Exceptional items and certain remeasurements *restated £m	Exceptional items and certain remeasurements £m	Total *restated £m
Finance income:						
Interest income from short-term deposits	**1.6**	**–**	**1.6**	1.1	–	1.1
Interest on pension scheme assets (i)	**6.6**	**–**	**6.6**	9.5	–	9.5
Foreign exchange translation of monetary assets and liabilities	**0.9**	**–**	**0.9**	–	–	–
Other interest receivable:						
Scotia Gas Networks loan stock	**9.4**	**–**	**9.4**	9.4	–	9.4
Other joint ventures and associates	**52.5**	**–**	**52.5**	51.5	–	51.5
Other receivable	**8.2**	**2.4**	**10.6**	15.5	–	15.5
	70.1	**2.4**	**72.5**	76.4	–	76.4
Total finance income	**79.2**	**2.4**	**81.6**	87.0	–	87.0
Finance costs:						
Bank loans and overdrafts	**(34.5)**	**–**	**(34.5)**	(35.3)	–	(35.3)
Other loans and charges	**(304.1)**	**–**	**(304.1)**	(310.2)	–	(310.2)
Notional interest arising on discounted provisions	**(9.2)**	**–**	**(9.2)**	(9.1)	–	(9.1)
Lease charges	**(37.8)**	**–**	**(37.8)**	(28.6)	–	(28.6)
Less: interest capitalised (ii)	**11.2**	**–**	**11.2**	27.7	–	27.7
Total finance costs	**(374.4)**	**–**	**(374.4)**	(355.5)	–	(355.5)
Changes in fair value of financing derivative assets or liabilities at fair value through profit or loss	**–**	**(83.0)**	**(83.0)**	–	(44.8)	(44.8)
Net finance costs	**(295.2)**	**(80.6)**	**(375.8)**	(268.5)	(44.8)	(313.3)
Presented as:						
Finance income	**79.2**	**2.4**	**81.6**	87.0	–	87.0
Finance costs	**(374.4)**	**(83.0)**	**(457.4)**	(355.5)	(44.8)	(400.3)
Net finance costs	**(295.2)**	**(80.6)**	**(375.8)**	(268.5)	(44.8)	(313.3)

* 2019 has been restated to remove the interest expense on the discounting of Gas Production's decommissioning liability as a result of the business being classified as a discontinued operation.

(i) The interest income on net pension assets for the year ended 31 March 2020 of £6.6m (2019: £9.5m) represents the interest earned under IAS 19R.

(ii) The capitalisation rate applied in determining the amount of borrowing costs to capitalise in the period was 3.65% (2019: 3.71%).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

9. Finance income and costs continued
Recognised in income statement continued

Adjusted net finance costs are arrived at after the following adjustments:

	2020 £m	2019 restated £m
Net finance costs	**(375.8)**	(313.3)
(add)/less:		
Share of interest from joint ventures and associates:		
Scotia Gas Networks loan stock	**(9.4)**	(9.4)
Other joint ventures and associates	**(164.4)**	(114.3)
	(173.8)	(123.7)
Share of non-recurring joint venture refinancing costs (i)	**12.3**	–
	(161.5)	(123.7)
Interest on pension scheme (assets)/liabilities	**(6.6)**	(9.5)
Share of interest on net pension liabilities in joint ventures	**(1.7)**	(1.9)
Movement on financing derivatives (Note 24)	**83.0**	44.8
Exceptional item	**(2.4)**	–
Adjusted net finance costs APM	**(465.0)**	(403.6)
Notional interest arising on discounted provisions	**9.2**	9.1
Lease charges	**37.6**	28.6
Hybrid coupon payment (Note 22.5(iii))	**(46.5)**	(46.6)
Adjusted net finance costs for interest cover calculations APM	**(464.7)**	(412.5)

(i) The Group's joint venture investment, Beatrice Offshore Windfarm Limited ("BOWL"), completed a refinancing of its debt in the year ended 31 March 2020, which resulted in the Group incurring its share of one-off finance costs of £12.3m. These are deemed to be non-recurring and have not been incurred as part of normal operations.

Recognised in other comprehensive income

	2020 £m	2019 £m
Loss on effective portion of cash flow hedges (before tax)	**38.0**	(7.9)
Share of joint venture/associate loss on effective portion of cash flow hedges (before tax)	**(49.6)**	(40.5)
Total recognised in other comprehensive income	**(11.6)**	(48.4)

10. Taxation
10.1 Analysis of charge recognised in the income statement

	2020			2019		
	Before Exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m	Before Exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Current tax						
UK corporation tax	**107.6**	**(24.9)**	**82.7**	44.6	0.4	45.0
Adjustments in respect of previous years	**(28.6)**	**–**	**(28.6)**	(68.0)	–	(68.0)
Total current tax	**79.0**	**(24.9)**	**54.1**	(23.4)	0.4	(23.0)
Deferred tax						
Current year	**34.2**	**(42.0)**	**(7.8)**	58.7	(76.8)	(18.1)
Effect of change in tax rate	**–**	**64.6**	**64.6**	(5.0)	3.5	(1.5)
Adjustments in respect of previous years	**10.6**	**–**	**10.6**	32.7	–	32.7
Total deferred tax	**44.8**	**22.6**	**67.4**	86.4	(73.3)	13.1
Total taxation charge/(credit)	**123.8**	**(2.3)**	**121.5**	63.0	(72.9)	(9.9)

10. Taxation continued

10.1 Analysis of charge recognised in the income statement continued

The Group has separately recognised the tax effect of the exceptional items and certain re-measurements summarised above, including the impact of the reinstated corporation tax rate of 19% from 1 April 2020.

SSE continues to be accredited with the Fair Tax Mark. As a consequence, these financial statements include a number of areas of enhanced disclosure which have been provided in order to develop stakeholder understanding of the tax the Group pays and the reported total taxation charge along with additional commentary on the main reconciling items.

These can be seen at section A2.

The majority of the Group's profits are earned in the UK, with the standard rate of UK corporation tax being 19% for the year to 31 March 2020 (2019: 19%). The Group's Gas Production business, which is included within discontinued operations for the year ended 31 March 2020, is taxed at a UK corporation tax rate of 30% plus a supplementary charge of 10% (combined 40%). Profits earned by the Group in the Republic of Ireland are taxable at either 12.5% or 25%, depending upon the nature of the income.

Deferred tax has been recognised at 19% (2019: 35%) in respect of the defined benefit pension scheme surplus. The Group previously applied a rate of 35% to the surplus as there was insufficient certainty over how the surplus would reverse. If a special repayment is made to the Company, withholding tax of 35% would apply. However, during the year the Group agreed a revised schedule of contributions, including a contribution holiday until such a point that the scheme is in deficit on an actuarial basis for two consecutive quarterly valuations. As a result of this agreement, the Group now believes the surplus will be recovered by means other than special repayments, and has therefore recognised deferred tax at 19% on the surplus at 31 March 2020.

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:

Continuing operations	**2020 £m**	**2020 %**	2019 £m	2019 %
Group tax (credit)/charge and effective rate	**121.5**	**28.0**	(9.9)	(0.8)
Add: reported deferred tax charge and effective rate	**(67.4)**	**(15.5)**	(13.1)	(1.0)
Reported current tax charge and effective rate	**54.1**	**12.5**	(23.0)	(1.8)
Effect of adjusting items		**(7.2)**		(1.6)
Reported current tax charge on adjusted basis	**54.1**	**5.3**	(23.0)	(3.4)
add:				
Share of current tax from joint ventures and associates	**36.7**	**3.6**	30.5	4.5
less:				
Current tax credit on exceptional items	**23.4**	**2.3**	(0.4)	(0.1)
Adjusted current tax charge and effective rate APM	**114.2**	**11.2**	7.1	1.0

Tax charge/(credit) recognised in other comprehensive income/(loss):

	2020 £m	2019 restated £m
Relating to:		
Pension scheme actuarial movements	**(89.5)**	(21.0)
Cash flow and net investment hedge movements	**7.3**	3.7
Deferred tax charge related to historic depreciation adjustment	**6.4**	–
	(75.8)	(17.3)

All tax recognised through other comprehensive income is deferred tax.

See further Taxation disclosures at A2.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

10. Taxation continued
10.2 Current tax liabilities

	2020 £m	2019 £m
Corporation tax (asset)/liability	**(15.1)**	19.3
Less: amounts presented as held for disposal	**–**	(6.8)
Closing corporation tax creditor on continuing operations	**(15.1)**	12.5

Uncertain tax positions

The Group invests heavily in infrastructure, on which significant amounts of capital allowances are potentially available. The extent to which capital allowances are available on any single asset is, however, very much dependent upon the fact pattern for the asset involved, and there will often be an element of uncertainty as to how capital allowances legislation applies in those circumstances. Reaching agreement with tax authorities as to the amount of capital allowances available can take a number of years, and sometimes can only be resolved through a formal legal process.

The calculation of the Group's total tax charge therefore necessarily involves a degree of estimation and judgement in relation to certain items for which the tax treatment cannot be finally determined until resolution has been reached with the tax authorities or, if required, through a formal legal process. At 31 March 2020, the Group has recognised provisions totalling £39.4m in respect of uncertain tax positions, primarily in relation to the availability of capital allowances (2019: £47.6m). The Group estimates that a reasonably possible range of settlement outcomes for the uncertain tax positions could be in the range from nil to the full value of the provision, due to the binary nature of the decision as to whether capital allowances are available or not.

The reduction in recognised provisions in the year to 31 March 2020 was driven by the tax authorities accepting the Group's treatment of items for tax purposes.

Due to the uncertainty associated with such tax positions, it is possible that at a future date, and on conclusion of these open tax positions, the final outcomes may vary significantly. While a range of outcomes is reasonably possible, the Group continues to believe that it has made appropriate provision for periods which are open and not yet agreed with the tax authorities.

In September 2019, the Group's case concerning the availability of capital allowances on Glendoe Hydro Electric Station was heard at the Upper Tribunal. A decision was released in November 2019, which was largely in the Group's favour. HMRC have appealed the decision of the Upper Tribunal to the Court of Appeal, with the hearing expected to take place in early 2021. The Group does not currently anticipate any material changes to the amounts carried for other uncertain tax positions during the next twelve months.

10.3 Deferred taxation

The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated capital allowances £m	Fair value gains/(losses) on derivatives (restated) £m	Retirement benefit obligations £m	Other (restated) £m	Total (restated) £m
At 31 March 2018 (restated)	783.5	(92.9)	159.9	(172.2)	678.3
(Credit)/charge to Income Statement on continuing operations	47.1	(67.1)	6.8	22.8	9.6
(Credit)/charge to Income Statement on discontinued operations	(4.7)	–	–	(1.0)	(5.7)
(Credit)/charge to equity (restated)	–	(1.3)	(21.0)	5.0	(17.3)
(Credit)/charge recognised on disposal	(42.6)	–	–	(4.2)	(46.8)
Transferred to held for sale	(11.4)	–	–	4.9	(6.5)
At 31 March 2019	771.9	(161.3)	145.7	(144.7)	611.6
Opening balance sheet adjustment on IFRS 16 adoption	**(4.8)**	**–**	**–**	**–**	**(4.8)**
(Credit)/charge to Income Statement on continuing operations	**86.6**	**(21.3)**	**6.0**	**(3.8)**	**67.5**
(Credit)/charge to Income Statement on discontinued operations	**(96.4)**	**–**	**2.8**	**102.5**	**8.9**
(Credit)/Charge to equity	**6.4**	**7.2**	**(89.5)**	**0.1**	**(75.8)**
(Credit)/charge recognised on disposal	**(9.4)**	**34.8**	**–**	**(1.5)**	**23.9**
Transferred to held for sale	**(49.8)**	**–**	**–**	**64.3**	**14.5**
At 31 March 2020	**704.5**	**(140.6)**	**65.0**	**16.9**	**645.8**

10. Taxation continued

10.3 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:

	2020 £m	2019 (restated) £m
Deferred tax liabilities	**786.4**	917.6
Deferred tax assets	**(140.6)**	(306.0)
Net deferred tax liabilities/(assets)	**645.8**	611.6

The deferred tax assets disclosed include the deferred tax relating to the Group's pension scheme liabilities.

In total there are £96.6m (2019: £47.8m) of unrecognised deferred tax assets. The Group has not recognised an asset of £47.7m (2019: £nil) in respect of £159m of losses under Ring Fence Corporation Tax and has not recognised an asset of £8.2m in respect of £81.7m of Supplementary Corporation Tax losses (2019 £nil). Further, the Group has not recognised £35.1m (2019: £31.0m) on activated investment allowances of £351.3m (2019: £309.8m) primarily in respect of the Greater Laggan Area fields and an asset of £5.6m (2019: £16.8m) on trading losses of £44.6m (2019: £134.3m) in the Republic of Ireland. These assets have not been recognised as the Group is uncertain that there will be sufficient future profits against which to utilise the assets. There is no time limit for expiry of the losses or allowances to which they relate.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, associates and joint ventures. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future. Total unremitted earnings at 31 March 2020 were £381.4 million, with the balance at 31 March 2019 being £382.8 million.

11. Dividends and Earnings per Share

11.1 Ordinary dividends

	2020 Total £m	Settled via scrip £m	Pence per ordinary share	2019 Total £m	Settled via scrip £m	Pence per ordinary share
Interim – year ended 31 March 2020	**248.2**	**136.3**	**24.0**	–	–	–
Final – year ended 31 March 2019	**700.3**	**209.2**	**68.2**	–	–	–
Interim – year ended 31 March 2019	**–**	**–**	**–**	300.5	141.3	29.3
Final – year ended 31 March 2018	**–**	**–**	**–**	672.5	141.8	66.3
	948.5	**345.5**		973.0	283.1	

The final dividend of 68.2p per ordinary share declared in respect of the financial year ended 31 March 2019 (2018: 66.3p) was approved at the Annual General Meeting on 18 July 2019 and was paid to shareholders on 20 September 2019. 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. The Group had previously stated that where the take-up of the scrip dividend scheme exceeded 20% of the total dividend payment, the Group would repurchase shares to reduce the scrip's dilutive effects. In order to maintain capital reserves following the occurrence of the coronavirus pandemic, the Group will no longer repurchase shares when the scrip take-up exceeds 20%.

An interim dividend of 24.0p per ordinary share (2019: 29.3p) was declared and paid on 13 March 2020 to those shareholders on the SSE plc share register on 18 January 2020. 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 56.0p per ordinary share based on the number of issued ordinary shares at 31 March 2020 is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. Based on shares in issue at 31 March 2020, this would equate to a final dividend of £582.1m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

11. Dividends and Earnings per Share continued
11.2 Basic and adjusted earnings per share
The calculation of basic earnings per ordinary share at 31 March 2020 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 2020.

Adjusted earnings per share has been calculated by excluding the charge for deferred tax, interest on net pension liabilities under IAS 19R, the depreciation charged on fair value uplifts and the impact of exceptional items and certain re-measurements (Note 7).

	2020 Earnings £m	**2020 Earnings per share pence**	2019 Earnings £m	2019 Earnings per share pence
Continuing operations				
(Loss)/earnings attributable to ordinary shareholders	**(59.0)**	**(5.7)**	1,409.1	137.9
Less: earnings attributable to discontinued operations	**478.6**	**46.3**	(145.5)	(14.2)
Basic earnings on continuing operations used to calculate adjusted EPS	**419.6**	**40.6**	1,263.6	123.7
Exceptional items and certain re-measurements (Note 7)	**327.1**	**31.7**	(711.1)	(69.6)
Basic excluding exceptional items and certain re-measurements	**746.7**	**72.3**	552.5	54.1
Adjusted for:				
Share of non-recurring joint venture refinancing costs	**12.3**	**1.2**	–	–
Depreciation charge on fair value uplifts	**20.6**	**2.0**	2.9	0.3
Interest on net pension scheme assets (Note 9)	**(6.6)**	**(0.6)**	(9.5)	(0.9)
Share of interest on net pension scheme liabilities in joint venture (Note 9)	**(1.7)**	**(0.2)**	(1.9)	(0.2)
Deferred tax	**44.8**	**4.4**	86.7	8.4
Deferred tax from share of joint ventures and associates	**46.6**	**4.5**	0.7	0.1
Adjusted APM	**862.7**	**83.6**	631.4	61.8
Basic	**419.6**	**40.6**	1,263.6	123.7
Dilutive effect of outstanding share options	**–**	**–**	–	–
Diluted	**419.6**	**40.6**	1,263.6	123.7

Reported earnings per share

	2020 Earnings £m	**2020 Earnings per share pence**	2019 Earnings £m	2019 Earnings per share pence
Basic				
Earnings per share on continuing operations	**419.6**	**40.6**	1,263.6	123.7
Earnings per share on discontinued operations	**(478.6)**	**(46.3)**	145.5	14.2
Earnings per share attributable to ordinary shareholders	**(59.0)**	**(5.7)**	1,409.1	137.9

The weighted average number of shares used in each calculation is as follows:

	31 March 2020 Number of shares (millions)	31 March 2019 Number of shares (millions)
For basic and adjusted earnings per share	**1,032.5**	1,021.7
Effect of exercise of share options	**1.5**	–
For diluted earnings per share	**1,034.0**	1,021.7

11.3 Dividend cover
The Group's adjusted dividend cover metric is calculated by comparing adjusted earnings per share on continuing operations to the projected dividend per share payable to ordinary shareholders.

	2020 Earnings per share (pence)	**2020 Dividend per share (pence)**	**2020 Dividend Cover (times)**	2019 Earnings per share (pence)	2019 Dividend per share (pence)	2019 Dividend Cover (times)
Reported earnings per share on continuing operations	**40.6**	**80.0**	**0.51**	123.7	97.5	1.27
Adjusted earnings per share (continuing operations) APM	**83.6**	**80.0**	**1.05**	61.8	97.5	0.63

12. Acquisitions, disposals and held-for-sale assets

12.1 Acquisitions

Current year acquisitions

There have been no significant acquisitions in the year.

Prior year acquisitions

Seagreen: On 24 September 2018, the Group acquired the remaining 50% of Seagreen Wind Energy Limited ("Seagreen") for consideration of £118.0m. The Group previously held 50% of Seagreen as an equity accounted joint venture and assessed that the assets acquired do not meet the IFRS 3 "Business Combinations" criteria to be classified as a business. The 50% stake in Seagreen that the Group held prior to the transaction continues to be carried at historical cost.

12.2 Disposals

(i) Significant disposals

Current year disposals

SSE Energy Services: On 15 January 2020 the Group completed the disposal of its household energy and services business in Great Britain ("SSE Energy Services") to Ovo Group Limited ("Ovo"). The agreement, which was announced on 13 September 2019, was based on a "locked box" transaction mechanism with an effective economic date of 30 June 2019. The enterprise value agreed was £500m, comprising £400m cash and £100m in 13.25% unsecured Loan Notes due 2029, less an adjustment for debt-like items of £59.9m. The Group first classified SSE Energy Services as held for disposal in its 30 September 2018 Interim Statement.

As part of determining the result on disposal, consideration was given to the fair value of the £100m par value 13.25% unsecured Loan Notes due 2029. A discounted cashflow valuation technique, based upon a Level 3 IFRS 13 input of estimated repayment profiles driven by the projected cashflows for the business and after applying a calculated discount rate of between 10.9% and 14.8%, determined a valuation between £88m and £125m for the loan notes. Given the range of fair values calculated, and after consideration of cashflow forecast sensitivities, the Group concluded that an appropriate fair value at completion was £100m. As a financial asset held by the Group to collect contractual cashflows only, the Group will measure this asset in subsequent periods at amortised cost in line with its policy on similar financial assets.

The "locked box" transaction mechanic, which fixes consideration at the effective economic date of 30 June 2019, ensures that the economic effect of any subsequent movements in the carrying values of assets disposed are also acquired by Ovo. The carrying value of assets disposed at completion, which includes asset and liability movements subsequent to 30 June 2019, resulted in an exceptional loss on disposal of £226.9m being recognised. This loss includes the effect of impairment charges previously recognised during the year, and is recognised within discontinuing operations.

The Group incurred a further £48.8m of asset impairment charges, recognised within continuing operations, as a result of this transaction. These comprised a £39.5m impairment charge on Group IT assets reflecting the expected cost of providing certain services to Ovo under a Transitional Service Agreement for an agreed period following disposal, and a further £9.3m of impairment charges on SSE Customers' IT assets triggered by entry into a limited Reverse Transitional Service Agreement with Ovo on completion.

Slieve Divena II wind farm: On 30 March 2020 the Group disposed of its subsidiary Slieve Divena Wind Farm No. 2 Limited for consideration of £51.0m to Greencoat UK Wind Holdco Limited, recognising a non-exceptional gain on disposal of £25.2m.

Prior year disposals

Clyde wind farm: On 8 May 2018, the Group disposed of a 14.9% stake in Clyde Wind Farm (Scotland) Limited ("Clyde") for consideration of £202.0m to joint venture partners Greencoat UK Wind Plc and GLIL Infrastructure LLP. The Group recognised an exceptional gain on sale of £74.2m on the disposal and continues to retain a 50.1% interest in Clyde.

Stronelairg & Dunmaglass wind farms: On 31 March 2019, the Group disposed of a 49.9% equity stake in its wholly owned subsidiaries, Stronelairg Wind Farm Limited ("Stronelairg") and Dunmaglass Wind Farm Limited ("Dunmaglass"), to Greencoat UK Wind Plc ("UKW") for total consideration of £635.0m. The Group assessed that it lost control of Stronelairg and Dunmaglass on that date. The 50.1% interest retained in the entities was acquired at fair value under the principles of IFRS 3 "Business Combinations", resulting in a total gain of £733.0m, including fair value gain on acquisition of the joint venture investments of £369.2m.

SSE Telecommunications: On 29 March 2019, the Group disposed of a 50.0% equity stake in its wholly owned subsidiary, SSE Telecommunications Limited ("SSE Telecoms"), to Infracapital Partners III for initial consideration of £215.0m. Under the terms of the sale agreement, SSE had the ability to earn a further £85m in deferred consideration based on SSE Telecoms achieving certain business objectives and a further £80m in contingent consideration to be paid in a series of instalments in the five-year period to 2024, based on financial targets for out-performance. The total consideration was initially assessed at £230.5m, reflecting the span of contingent payments. The Group assessed that it lost control of SSE Telecoms and the 50.0% equity stake retained was acquired at fair value under the principles of IFRS 3 "Business Combinations", resulting in a total gain of £235.4m, including fair value gain on acquisition of the joint venture investment of £119.3m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

12. Acquisitions, disposals and held-for-sale assets continued
12.2 Disposals continued

Indigo pipelines: The Group holds an investment in the Scottish Equity Partners ("SEP") Fund, which disposed of its investment in Indigo Pipelines in the year. On 5 March 2019, the SEP Fund paid a special dividend of £69.2m to SSE, resulting a £54.3m exceptional profit.

Cloosh wind farm: On 28 March 2019, the Group disposed of a 25.0% equity stake in its joint venture investment in Cloosh Valley Wind Farm Holdings DAC to GR Wind Farms 1 Limited for consideration of €34.5m (£29.8m), recognising a non-exceptional gain on sale of £23.6m in the year.

(ii) Disposal reconciliation

The following table summarises all businesses and assets disposed of during the financial year, including other assets and investments disposed of as part of the normal course of business but before recognition of impairment charges in the year, which are noted in the relevant respective notes to the financial statements.

	SSE Energy Services £m	Other £m	Total 2020 £m	Total 2019 £m
Net assets disposed:				
Property, plant and equipment	34.8	39.7	74.5	744.3
Intangible and biological assets	812.8	–	812.8	10.9
Investments and loans – joint ventures	–	11.8	11.8	149.1
Deferred tax asset	23.9	–	23.9	–
Inventories	0.9	–	0.9	–
Trade and other receivables	1,047.1	5.1	1,052.2	227.1
Cash and cash equivalents	235.6	–	235.6	1.2
Trade and other payables	(1,300.6)	(6.7)	(1,307.3)	(207.7)
Deferred tax liability	–	(1.8)	(1.8)	(30.9)
Derivative financial liabilities	(231.0)	–	(231.0)	–
Provisions	(3.5)	(1.8)	(5.3)	(24.4)
Loans and borrowings	–	(37.8)	(37.8)	(270.1)
Retirement benefit obligations	6.9	–	6.9	–
Net assets	626.9	8.5	635.4	599.5
Proceeds of disposal:				
Consideration	440.1	73.8	513.9	1,161.4
Fair value uplift	–	–	–	488.5
Transfer to joint ventures on loss of control	–	–	–	225.5
Debt reduction	–	(36.6)	(36.6)	(146.6)
Costs of disposal	(40.1)	(0.5)	(40.6)	(7.1)
Net proceeds	400.0	36.7	436.7	1,721.7
(Loss)/Gain on disposal	(226.9)	28.2	(198.7)	1,122.2
Presentation:				
Continuing operations				
Income statement exceptional (debit)/credit	(226.9)	–	(226.9)	1,096.9
Income statement non-exceptional credit	–	28.2	28.2	25.3

	2020 £m	2019 £m
Net proceeds of disposal	436.7	1,721.7
Fair value uplift	–	(488.5)
Equity investment – joint ventures	–	(225.5)
Debt reduction	36.6	146.6
Other payables	40.3	7.1
Other receivables	–	(15.5)
2029 13.25% unsecured Loan Notes	(100.0)	–
Total cash proceeds	413.6	1,145.9
Less: cash disposed	(235.6)	(1.2)
Net cash proceeds	178.0	1,144.7

12. Acquisitions, disposals and held-for-sale assets continued

12.3 Held-for-sale assets and liabilities

The Group's Gas Production assets and liabilities are deemed available for immediate sale (see Note 4.2(i)) and have been separately presented on the face of the balance sheet at 31 March 2020. The assets have been written down to their fair value less costs to sell in accordance with IFRS 5, excluding the deferred tax asset which continues to be measured under IAS 12 (see Note 15). In addition, the Group disposed of 50% of its equity in SSE Slough Multifuel Limited on 2 April 2020, subsequent to the balance sheet date (see Note 26.(ii)). Accordingly, 50% of the business' net assets are also presented as held for sale at 31 March 2020.

The assets and liabilities classified as held for disposal, and the comparative balances at 31 March 2019, are as follows:

	2020 £m	2019 £m
Property, plant and equipment	168.3	39.1
Goodwill and other intangible assets	40.7	736.1
Deferred tax asset	14.9	–
Inventories	2.4	0.9
Trade and other receivables	0.5	988.1
Cash and cash equivalents	–	95.2
Total assets	**226.8**	1,859.4
Trade and other payables	(17.0)	(1,069.0)
Current tax liabilities	–	(6.8)
Deferred tax liabilities	–	(6.5)
Derivative financial liabilities	(1.6)	–
Provisions	(380.1)	(4.7)
Total liabilities	**(398.7)**	(1,087.0)
Net (liabilities)/assets	**(171.9)**	772.4

The aggregated pre-tax profit contribution of the held for sale businesses in the year to 31 March 2020 (2019: profit of £34.4m) was a loss of £250.2m, including exceptional charges of £302.1m, but excluding the loss on disposal of SSE Energy Services. There are no accumulated gains or losses recognised in other comprehensive income related to assets and liabilities held for sale.

Prior year assets and liabilities held for disposal

The assets and liabilities classified as held for disposal at 31 March 2019 were the Group's energy supply and related services businesses in Great Britain ("SSE Energy Services") which were sold to Ovo Energy Limited on 15 January 2020 (see Note 12.2 (i)) and the Group's subsidiary SSE Water Limited, which was sold to Leep Utilities Limited on 4 June 2019.

12.4 Discontinued operations

The discontinued operations represent the Group's GB domestic energy supply and related services businesses (SSE Energy Services) and the Group's investment in Gas Production assets. The sale of SSE Energy Services completed on 15 January 2020 (see Note 12.2(i)) and the Group's investment in Gas Production remains held for sale at the balance sheet date. The profit/(loss) of the discontinued operation, after elimination of intercompany transactions, is as follows:

	2020			2019		
	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Revenue	2,732.0	–	2,732.0	3,614.8	–	3,614.8
Cost of sales	(2,169.6)	–	(2,169.6)	(2,726.9)	–	(2,726.9)
Gross profit	562.4	–	562.4	887.9	–	887.9
Operating costs	(503.9)	(302.1)	(806.0)	(749.4)	(24.6)	(774.0)
Operating profit	58.5	(302.1)	(243.6)	138.5	(24.6)	113.9
Finance costs	(6.6)	–	(6.6)	–	–	–
Profit before taxation	51.9	(302.1)	(250.2)	138.5	(24.6)	113.9
Taxation	(7.7)	6.2	(1.5)	3.2	28.4	31.6
	44.2	(295.9)	(251.7)	141.7	3.8	145.5
Loss on disposal of discontinued operations, after tax	–	(226.9)	(226.9)	–	–	–
Profit from discontinued operations, net of tax	44.2	(522.8)	(478.6)	141.7	3.8	145.5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

12. Acquisitions, disposals and held-for-sale assets continued
12.4 Discontinued operations continued

Included within the prior year tax impact of exceptional items is a non-recurring £30m tax credit in respect of Ring Fence corporation tax losses in prior years, which have been surrendered to non-Ring Fenced companies. The tax losses surrendered arose through tax allowances on assets on which exceptional impairments were booked in 2017 and 2018, and therefore the Group considers the tax credit arising to also be exceptional. There was no such surrender in the current year.

Cashflows from discontinued operations

	2020 £m	2019 £m
Cashflows from operating activities	**(15.9)**	158.6
Cashflows from investing activities	**(79.3)**	(145.5)
Net (decrease)/increase in cash and cash equivalents in discontinued operations	**(95.2)**	13.1

13. Intangible assets

	Goodwill (restated) £m	Allowances & Certificates £m	Development Assets £m	Other intangibles £m	Software Assets £m	Total (restated) £m
Cost:						
At 31 March 2018	772.9	940.0	323.2	115.4	1,176.2	3,327.7
Additions	0.7	954.0	199.9	–	178.7	1,333.3
Transfer (to)/from Property Plant and Equipment (Note 14)	–	–	(13.9)	–	–	(13.9)
Disposals/utilised	(10.3)	(866.3)	–	(0.6)	–	(877.2)
Transferred to held for disposal (Note 12)	(187.3)	–	–	–	(717.4)	(904.7)
Exchange adjustments	(2.3)	0.1	(0.1)	(0.1)	–	(2.4)
At 31 March 2019	573.7	1,027.8	509.1	114.7	637.5	2,862.8
Additions	**–**	**652.7**	**246.8**	**0.1**	**74.0**	**973.6**
Transfer (to)/from Property Plant and Equipment (Note 14)	**–**	**–**	**(21.5)**	**–**	**71.3**	**49.8**
Disposals/utilised	**–**	**(949.9)**	**(1.7)**	**–**	**–**	**(951.6)**
Transferred to held for sale (Note 12)	**(39.9)**	**–**	**(152.2)**	**–**	**–**	**(192.1)**
Exchange adjustments	**–**	**0.1**	**0.2**	**–**	**–**	**0.3**
At 31 March 2020	**533.8**	**730.7**	**580.7**	**114.8**	**782.8**	**2,742.8**
Aggregate amortisation and impairment:						
At 31 March 2018	(231.4)	(227.5)	(203.8)	(108.1)	(388.4)	(1,159.2)
Charge for the year	–	–	–	(1.5)	(47.1)	(48.6)
Exceptional impairment (charges)/credits (Note 7)	–	–	–	–	(54.8)	(54.8)
Non-exceptional impairment charge (i)	(3.9)	–	(1.4)	–	(3.1)	(8.4)
Transferred to held for disposal (Note 12)	–	–	–	–	168.6	168.6
At 31 March 2019	(235.3)	(227.5)	(205.2)	(109.6)	(324.8)	(1,102.4)
Charge for the year	**(0.1)**	**–**	**–**	**(1.5)**	**(25.4)**	**(27.0)**
Transfer (to) Property Plant and Equipment (Note 14)	**–**	**–**	**–**	**–**	**(7.8)**	**(7.8)**
Exceptional impairment credits/(charges) (Note 7)	**–**	**–**	**(60.2)**	**–**	**(84.9)**	**(145.1)**
Non-exceptional impairment charge (i)	**–**	**–**	**–**	**–**	**(9.8)**	**(9.8)**
Transferred to held for disposal (Note 12)	**39.9**	**–**	**111.5**	**–**	**–**	**151.4**
Exchange adjustments	**2.6**	**–**	**(0.1)**	**–**	**–**	**2.5**
At 31 March 2020	**(192.9)**	**(227.5)**	**(154.0)**	**(111.1)**	**(452.7)**	**(1,138.2)**
Carrying amount:						
At 31 March 2020	**340.9**	**503.2**	**426.7**	**3.7**	**330.1**	**1,604.6**
At 1 April 2019	338.4	800.3	303.9	5.1	312.7	1,760.4
At 1 April 2018	541.5	712.5	119.4	7.3	787.8	2,168.5

(i) The non-exceptional impairments of software assets comprise developed software no longer utilised by the Group and projects which have been discontinued in the year. (2019: £3.9m goodwill impairment in relation to wind farm developments that are no longer being pursued, £1.4m non-exceptional impairments of development assets relates to the write-off of communications projects in Ireland no longer determined as viable and £3.1m software assets to projects which were discontinued in the year).

There were no non-exceptional write backs of previous impairment charges in the current year (2019: nil).

13. Intangible assets continued

Intangible assets have been analysed as current and non-current as follows:

	2020 £m	2019 £m
Current	503.2	800.3
Non-current	1,101.4	960.1
	1,604.6	1,760.4

(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 £8.2m, is included in Note 15.

A summary of the goodwill allocated to CGUs and the Group's operating segments is presented below:

Cash-generating unit	Operating Segment	2020 £m	2019 £m
Onshore wind farms[1]	Renewables	79.5	–
Offshore wind farms[1]	Renewables	214.9	–
Wind farms[1]	Renewables	–	291.9
Energy Solutions[2]	Business Energy & Enterprise	38.3	38.3
Ireland Supply[3]	Airtricity	8.2	8.2
		340.9	338.4

1 Following the change in internal operating model effective from 1 April 2019, the Group has assessed that the "Wind farm" CGU no longer represents the lowest level of asset aggregation for the purposes of impairment testing. The Renewables segment has been structured with Onshore and Offshore wind farm management teams with internal management reporting at this level. The Group has therefore prospectively allocated the goodwill to the new CGU's using a relative value approach which considers both the value in use and generation capacity. See Note 15.

2 Enterprise Energy Solutions includes goodwill balances arising from the historic acquisitions of Energy Solutions Group (ESG) of £37.6m and a further £0.7m in relation to the acquisition of Fusion Heating Limited. The amount of goodwill associated with the historic businesses is not significant in context of the aggregate carrying value of the business units or the aggregate value of goodwill held by the Group.

3 The value associated with the Ireland supply goodwill represents the difference between the fair value attributed to the Northern Ireland based Phoenix Energy business acquired in 2012 and the book value of those assets. No impairment has been recognised during the year on this balance.

(ii) Allowances and certificates

Allowances and Certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs). These allowances and certificates will be utilised in settlement of environmental obligations incurred by the Group's Generation and Business Energy supply business, and are therefore distinct from allowances and certificates in excess of the Group's environmental obligations which are recorded within inventories.

(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 farms and other Renewable and Thermal 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. At 31 March 2019, development assets also included the Group's exploration and evaluation expenditure in relation to North Sea gas production wells, which have been transferred to assets held for sale during the current year.

At the point the development reaches the consent stage and is approved for construction, the carrying value is transferred to Property, Plant and Equipment (Note 14). At the point a project is no longer expected to reach the consented stage, the carrying amount of the project is impaired.

(iv) Other intangible assets

Included within other intangible assets are brands, customer lists and contracts.

No exceptional or non-exceptional impairment charges have been recognised in the year (2019: £nil).

(v) Software assets

Software assets include application software license fees, software development work, software upgrades and purchased PC software packages.

Exceptional charges of £48.8m (2019: £54.3m) have been recognised in relation to the disposal of SSE Energy Services (recognised within continuing operations) (Note 7) and non-exceptional charges of £9.8m have been recognised due to the identification of obsolete software assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

14. Property, plant and equipment

	Power Generation Assets (i) £m	Gas Production and storage Assets (ii) £m	Land and Buildings £m	Network Assets £m	Metering assets and other equipment £m	Assets Under Construction £m	Total £m
Cost:							
At 31 March 2018	8,538.9	2,053.8	349.1	11,671.5	574.6	569.0	23,756.9
Additions	1.2	–	4.4	109.8	–	1,199.1	1,314.5
Settlement through assets	(43.4)	–	–	–	–	–	(43.4)
Increase in decommissioning asset	101.3	109.0	–	–	–	8.1	218.4
Transfer from Intangible Assets (Note 13)	1.7	0.3	–	–	0.1	11.8	13.9
Transfer from Assets Under Construction	432.1	16.6	12.8	696.4	160.5	(1,318.4)	–
Disposals (iii)	(597.4)	–	(5.1)	(369.7)	(2.6)	(100.9)	(1,075.7)
Transfer to Assets Held for disposal	–	–	–	(15.2)	(149.0)	(6.8)	(171.0)
Exchange rate adjustments	(25.7)	–	(0.4)	–	(1.2)	(0.5)	(27.8)
At 31 March 2019	8,408.7	2,179.7	360.8	12,092.8	582.4	361.4	23,985.8
Right of use asset addition on adoption of IFRS 16	**–**	**–**	**148.2**	**5.5**	**57.3**	**–**	**211.0**
Revised opening balance at 1 April 2019	**8,408.7**	**2,179.7**	**509.0**	**12,098.3**	**639.7**	**361.4**	**24,196.8**
Additions	**0.5**	**–**	**15.6**	**108.7**	**25.1**	**947.7**	**1,097.6**
Settlement through assets	**(5.0)**	**–**	**–**	**–**	**–**	**–**	**(5.0)**
Adjustment to decommissioning asset (i)	**12.4**	**(4.5)**	**–**	**–**	**–**	**21.8**	**29.7**
Transfer (to)/from Intangible Assets (Note 13); (iv)	**(0.6)**	**–**	**–**	**–**	**(71.6)**	**22.4**	**(49.8)**
Transfer from Assets Under Construction	**31.6**	**29.8**	**7.6**	**660.1**	**46.4**	**(775.5)**	**–**
Disposals (iii)	**(142.3)**	**–**	**(3.4)**	**(8.6)**	**(3.2)**	**–**	**(157.5)**
Transfer to Assets Held for sale	**(24.6)**	**(1,528.8)**	**–**	**–**	**–**	**–**	**(1,553.4)**
Exchange rate adjustments	**37.7**	**–**	**0.6**	**–**	**1.5**	**0.6**	**40.4**
At 31 March 2020	**8,318.4**	**676.2**	**529.4**	**12,858.5**	**637.9**	**578.4**	**23,598.8**

14. Property, plant and equipment continued

	Power Generation Assets (i) £m	Gas Production and storage Assets (ii) £m	Land and Buildings £m	Network Assets £m	Metering assets and other equipment £m	Assets Under Construction £m	Total £m
Depreciation:							
At 31 March 2018	(4,569.7)	(1,602.1)	(94.7)	(4,592.7)	(520.8)	(33.6)	(11,413.6)
Charge for the year	(255.1)	(102.6)	(7.6)	(193.5)	(63.6)	–	(622.4)
Impairments charges (Note 7); (v)	(3.1)	29.7	(37.9)	–	(3.0)	–	(14.3)
Transfers in the year	–	–	–	–	1.0	(1.0)	–
Disposals (iii)	68.7	–	1.0	259.8	1.9	–	331.4
Transfer to Assets Held for disposal	–	–	–	–	132.2	(0.3)	131.9
Exchange rate adjustments	29.3	–	–	–	0.8	0.5	30.6
At 31 March 2019	(4,729.9)	(1,675.0)	(139.2)	(4,526.4)	(451.5)	(34.4)	(11,556.4)
Adjustments on adoption of IFRS 16	**–**	**–**	**–**	**–**	**9.9**	**–**	**9.9**
Revised opening balance at 1 April 2019	**(4,729.9)**	**(1,675.0)**	**(139.2)**	**(4,526.4)**	**(441.6)**	**(34.4)**	**(11,546.5)**
Adjustment in relation to historic depreciation rates	**–**	**–**	**–**	**33.7**	**–**	**–**	**33.7**
Charge for the year	**(199.6)**	**(31.9)**	**(27.2)**	**(214.3)**	**(61.2)**	**–**	**(534.2)**
Transfers (to)/from intangible assets	**–**	**–**	**–**	**–**	**7.8**	**–**	**7.8**
Impairments charges (Note 7); (v)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers in the year	**3.6**	**–**	**0.1**	**(3.8)**	**0.1**	**–**	**–**
Disposals (iii)	**113.8**	**–**	**0.3**	**1.8**	**1.9**	**–**	**117.8**
Transfer to Assets Held for disposal	**–**	**1,154.0**	**–**	**–**	**–**	**–**	**1,154.0**
Exchange rate adjustments	**(15.5)**	**–**	**(0.2)**	**–**	**(1.0)**	**–**	**(16.7)**
At 31 March 2020	**(4,827.6)**	**(552.9)**	**(166.2)**	**(4,709.0)**	**(494.0)**	**(34.4)**	**(10,784.1)**
Net book value							
At 31 March 2020	**3,490.8**	**123.3**	**363.2**	**8,149.5**	**143.9**	**544.0**	**12,814.7**
At 31 March 2019	3,678.8	504.7	221.6	7,566.4	130.9	327.0	12,429.4
At 31 March 2018	3,969.2	451.7	254.4	7,078.8	53.8	535.4	12,343.3

(i) Power generation assets comprise Thermal and Renewable generation 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 £207.7m (2019: £217.6m). In the year ended 31 March 2019 an independent review of the Group's decommissioning obligation was performed which resulted in an increase to the decommissioning asset (see Note 20).

(ii) Gas storage and production assets include decommissioning costs with a net book value of £103.3m (2019: £93.8m).

(iii) Assets disposed includes £28.9m in respect of the Group's assets relating to the disposal of Slieve Divena Wind Farm No. 2 Limited (2019: £744.3m in respect of the Group's assets relating to Stronelairg, Dunmaglass and Telecoms). Details of disposals related to assets held for disposal at 31 March 2020 are provided in Note 12.

(iv) Represents the carrying value of development assets transferred from intangible assets (Note 13) which have reached the consent stage and have been approved for construction.

(v) Impairment charges relate to exceptional impairments of £231.1m (see Note 7). (2019: exceptional impairments of £14.0m, non-exceptional impairments £0.3m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

14. Property, plant and equipment continued
Included within property, plant and equipment are the following right of use assets for leased assets:

	Power Generation Assets £m	Land and Buildings £m	Network Assets £m	Metering assets and other equipment £m	Total £m
Cost					
At 31 March 2019	369.6	4.4	–	14.8	388.8
Recognised on adoption of IFRS 16 on 1 April 2019	–	148.2	5.5	72.1	225.8
Derecognised on adoption of IFRS 16 on 1 April 2019	–	–	–	(14.8)	(14.8)
Additions	–	15.6	6.7	24.2	46.5
Disposals	–	(2.5)	–	(3.1)	(5.6)
Exchange rate adjustments	–	(0.6)	–	–	(0.6)
At 31 March 2020	369.6	165.1	12.2	93.2	640.1
Depreciation					
At 31 March 2019	(242.0)	(0.1)	–	(9.9)	(252.0)
Derecognised on adoption of IFRS 16 on 1 April 2019	–	–	–	(9.9)	(9.9)
Charge for the year	(18.4)	(11.8)	(0.4)	(28.9)	(59.5)
Disposals	–	(0.2)	–	(1.8)	(2.0)
At 31 March 2020	(260.4)	(11. 7)	(0.4)	(27.1)	(299.6)
Net book value					
At 31 March 2020	109.2	153.4	11.8	66.1	340.5
At 1 April 2019	127.6	4.3	–	4.9	136.8

15. Impairment testing
Goodwill and intangibles that are not amortised are reviewed at least annually for impairment and PPE and other intangibles are assessed annually for impairment triggers.

The Group's accounting policies and methodologies for impairment testing are described at Accompanying Information sections A1.2.

The key operating and valuation assumptions, specific considerations and outcome of tests for all impairment reviews are noted in the following sections. The discount rates used are pre-tax real, except where noted, and reflect specific risks attributable to the relevant operating segments. The discount rates applied in both 2020 and 2019 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 2020 financial statements were carried out in the fourth quarter of the year, which is consistent with previous reviews. Note that the actual outcomes may differ from the assumptions included in the assessments at the balance sheet date.

15. Impairment testing continued

15.1 Goodwill impairment reviews – CGUs testing

The recoverable amounts of the Wind Farms and Enterprise Energy Solutions CGUs are determined by reference to value-in-use ("VIU") calculations. The VIU calculations use, as a starting point, pre-tax cash flow projections based both on the Group's five year Corporate Model as approved by the Board. The Group's Corporate Model is based both on past experience and reflects the Group's forward view of markets, prices, risks and its strategic objectives. Commodity prices used are based on observable market data and, where this is not available, on internal estimates.

Wind farms – change in CGU

During the year the Group reassessed its CGUs used to test the carrying value of goodwill and decided that, based on the change in internal operating structure effective from 1 April 2019, there was now a clear division between the management and operation of the Group's onshore and offshore wind farms. The Group therefore prospectively allocated the existing goodwill of £294.4m using a relative value approach which considers both the value in use and generation capacity of the Group's onshore and offshore portfolio. As a result, the onshore asset cashflows are now used to assess the carrying value of £79.5m of goodwill allocated to the onshore CGU and the offshore asset cashflows used to assess the carrying value of £214.9m allocated to the offshore CGU.

The Onshore wind farms CGU comprises over 50 operating assets in both the UK and Republic of Ireland, while the Offshore wind farms CGU comprises the Group's investments in the Beatrice, Greater Gabbard and Walney operational wind farms plus the Group's investments in the Seagreen, Doggerbank and Arklow Bank II development projects.

Assets/CGUs	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
Onshore	Period to end of life of portfolio assets	**Onshore** The VIU assessment is used to test the carrying value of £79.5m of goodwill related to the Group's onshore wind farms for impairment. The assessment is based on the discounted pre-tax cash flows expected to be generated by the specific wind farm assets included in the CGU across the remaining useful lives of those assets. This includes over 50 operating assets in both the UK and Republic of Ireland. Cash inflows for the 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 prices. These factors are subject to management review on an annual basis. The prices applied to projected outputs are based either on observable market information during that period, which is deemed to be 3 years, or on internal estimations beyond the observable market period (a Level 3 basis as defined by IFRS 13 Fair Value Measurement). The projections are also dependent on the UK and Irish government's continuing support for existing qualifying wind assets through ROCs or REFIT. Cash outflows are based on planned and expected maintenance profiles and other capital or replacement costs. The Onshore Wind Farm CGU includes cashflows for operational assets only, being over 50 individual wind farms across UK and Republic of Ireland, given risk and uncertainty associated with projects in the development stage. The cash flow projections are based on UK power prices between £35 - £51 per MWh over the next three years and have been discounted applying a pre-tax real discount rate between 5.6% and 6.3% (2019: between 5.7% and 6.0%) based on technology and market risks.	**Impairment conclusion – Onshore** The recoverable amount of the Onshore Wind Farm CGU continues to significantly exceed the carrying value of the CGU based on the impairment test, therefore no impairment has been recognised. **Sensitivity analysis – Onshore** While cash flow projections are subject to inherent uncertainty, a 10% power price decrease was modelled, which indicated significant headroom on the carrying value of the assets. Similarly, a 0.5% increase in the pre-tax real discount rate to between 6.1% - 6.8% also indicated significant headroom. This view is supported by the Group's recent profit on disposal of Slieve Divena II wind farm and the prior year disposals of stakes in the Clyde, Stronelairg and Dunmaglass wind assets which, as FVLCS, is secondary corroboration of the VIU assessment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

15. Impairment testing continued
15.1 Goodwill impairment reviews – CGUs testing continued

Assets	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
Offshore Wind Farms	Period to end of life of portfolio assets	**Offshore** The VIU assessment is used to test the carrying value of £214.9m of goodwill related to the Group's offshore wind farms for impairment. The assessment is based on the discounted pre-tax cash flows expected to be generated by the specific wind farm assets included in the CGU across the remaining useful lives of those assets. The Offshore Wind Farm CGU includes cashflows for operational assets only, being Beatrice, Greater Gabbard and Walney wind farms, given risk and uncertainty associated with projects in the development stage. Cash inflows for the 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 prices. These factors are subject to management review on an annual basis. The prices applied to projected outputs are based either on observable market information during that period, which is deemed to be 3 years, or on internal estimations beyond the observable market period (a Level 3 basis as defined by IFRS 13 Fair Value Measurement). The projections are also dependent on the UK government's continuing support for existing qualifying wind assets through CFD subsidies. Cash outflows are based on planned and expected maintenance profiles and other capital or replacement costs. The cash flow projections are based on UK power prices between £35 - £51 per MWh over the next three years and have been discounted applying a pre-tax real discount rate of 6.3% (2019: between 5.7% and 6.0%) based on technology and market risks.	**Impairment conclusion – Offshore** The recoverable amount of the Onshore Wind Farm CGU significantly exceeds the carrying value of the CGU based on the impairment test, therefore no impairment has been recognised. **Sensitivity analysis – Offshore** While cash flow projections are subject to inherent uncertainty, a 10% power price decrease was modelled, which indicated significant headroom on the carrying value of the assets. Similarly, an increase in the pre-tax real discount rate of 0.5% to 6.8% also indicated significant headroom.
Enterprise Energy Solutions		The Group has capitalised goodwill of £37.6m in relation to the acquisition of the Energy Solutions Group in 2016. The business designs, installs and optimises building management technologies which deliver efficient operating environments for its customers. The VIU of the business CGU has been based on a 6.3% pre-tax real discount rate which is consistent with the prior year.	At 31 March 2020, the impairment review indicates headroom on the carrying value. A decrease in forecast cashflows of 20% would result in a £1.5m impairment. An increase in the discount rate of 2% would result in an impairment of £2.3m.

15.2 PP&E, other intangibles and investment impairment reviews – asset testing
Where an indicator of impairment exists, the recoverable amounts of the Group's PP&E, other intangible assets and interests in joint ventures and associates are determined by reference to VIU calculations. The calculations use, as their starting point, pre-tax cash flow projections based on the Group's five year Corporate Model as approved by the Board. The Group's Corporate Model is based on past experience and reflects the Group's forward view of markets, prices, risks and its strategic objectives. Commodity prices used are based on observable market data and, where this is not available, on internal estimates.

Changes from prior year
In the prior year the Group assessed that its Great Island CCGT plant displayed indicators of impairment due to the uncertainty in the Irish Electricity market following the implementation of the Isle of Ireland Integrated Single Electricity Market ("I-SEM") in October 2018. During the year the Group has seen good operational performance from the asset and limited uncertainty following the implementation of I-SEM. Therefore, the Group has not tested the asset for impairment in the current year.

15. Impairment testing continued

15.2 PP&E, other intangibles and investment impairment reviews – asset testing continued

Assets	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
CCGTs (Keadby, Medway, Peterhead and Marchwood (PPA Right of use lease asset) power stations	Period to end of life	**Modelling methodology and assumptions** The VIU of the Group's GB combined cycle gas turbine ("CCGT") power stations were based on pre-tax discounted cash flows expected to be generated by each plant, based on management's view of operating prospects and operational flexibility within the GB wholesale market, including Capacity Market clearing prices. Cash flows are subject to a real pre-tax discount rate between 7.7% and 12.6%. **Changes from prior year** In the prior year the Group's Peterhead and Medway power stations did not display indicators of impairment, therefore were excluded from the impairment assessment. In the current year management has assessed that decreases in the short-term pricing forecasts was an indicator of impairment for each of the assets. In addition, the Group's Keadby and Medway assets were unsuccessful in the T-4 capacity auction for contract years 22/23 and 23/24, which was a further indicator of impairment on those assets.	**Conclusion** At 31 March 2020 no impairment, or impairment reversal, has been recognised on each of the CCGT assets. The impairment assessment returned an individually non-significant impairment on Medway (£4.8m), and individually non-significant impairment reversals on Keadby (£2.4m); Marchwood (£7.5m); and Peterhead (£0.3m). The Group judged that it was appropriate not to recognise any discrete impairment charges or reversals, as reasonably possible scenarios modelled through the sensitivity analysis included outcomes of impairments and impairment reversals on each asset. **Sensitivity analysis** An increase in the respective discount rates of 0.5% would result in impairments to Medway (£5.0m); and Peterhead (£1.0m); and impairment reversals to Keadby (£2.1m); and Marchwood PPA lease asset (£4.4m). A decrease in the respective discount rates of 0.5% would result in impairments to Medway (£4.5m); and impairment reversals to Peterhead (£1.7m); Keadby (£2.7m); and Marchwood PPA lease asset (£10.6m). A 20% decrease in gross margin would result in impairments to each asset. Medway would be impaired by £13.1m; Keadby by £6.3m impairment; Marchwood PPA lease asset by £29.2m; and Peterhead by £29.0m. A 20% increase in gross margin would result in impairments reversals to each asset. The Medway impairment reversal would be £3.5m; Keadby £11.1m; Marchwood PPA lease asset £44.1m; and Peterhead £29.7m. A £10/KW decrease in non-contracted Capacity Market price would result in impairments of £21.0m on Marchwood PPA lease asset and £24.7m on Peterhead. A £10/KW increase in non-contracted Capacity Market price would result in impairment reversals of £0.4m on Medway; £35.7m on Marchwood PPA lease asset; £8.0m on Keadby; and £25.2m on Peterhead. This assumes that Medway and Keadby will secure a £10/KW contract in the secondary market.

Discontinued operations

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 Group is in negotiations to dispose of the business, with initial offers below the carrying value of the business. The Group assessed that the offers below carrying value coupled with reductions in market observable gas prices were indicators of impairment at 31 March 2020. As the business is classified as held for sale, the assets have been impaired to the lower of fair value less costs to sell or carrying value, determined by a value in use model. The fair value less costs to sell the assets has been determined at £196.8m, which is based on a formal offer received for the business. This is lower than the value in use ("VIU") valuation of £279.7m, therefore the business has been impaired to its fair value less costs to sell.	At 31 March 2020, the lower of fair value less costs to sell and asset carrying value is the fair value less costs to sell. The result of the review is an exceptional impairment charge of £291.3m which is allocated between Greater Laggan (£200.7m); ECA (£39.8m); Bacton (£31.7m); and Sean (£19.1m) based on the fair value less costs to sell the business. (2019: impairment reversal of £29.7m allocated between Bacton (£15.8m); and Sean (£13.9m) driven by an increase in the independently assessed quantity of available proved and probable (2P) hydrocarbon reserves and an increase in forecast gas prices derived through a value in use modelling assessment.) Note 7 provides further detail on the exceptional charge recognised. The residual values for Gas production assets is £196.8m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

16. Investments
16.1 Joint Ventures and associates

	2020			2019		
Share of net assets/cost	**Equity £m**	**Loans £m**	**Total £m**	Equity £m	Loans £m	Total £m
At 1 April	**1,899.0**	**935.4**	**2,834.4**	977.0	781.0	1,758.0
IFRS 16 opening balance adjustment	**(9.5)**	**–**	**(9.5)**	–	–	–
At 1 April (restated)	**1,889.5**	**935.4**	**2,824.9**	977.0	781.0	1,758.0
Additions	**36.2**	**139.5**	**175.7**	124.9	200.4	325.3
Transfer on loss of control (i)	**–**	**–**	**–**	714.0	162.1	876.1
Repayment of shareholder loans	**–**	**(218.5)**	**(218.5)**	–	(69.5)	(69.5)
Dividends received	**(213.1)**	**–**	**(213.1)**	(121.7)	–	(121.7)
Share of profit/(loss) after tax (ii)	**155.9**	**–**	**155.9**	129.2	–	129.2
Share of other reserves adjustments	**(3.4)**	**–**	**(3.4)**	(38.7)	–	(38.7)
Disposals	**(23.9)**	**–**	**(23.9)**	(34.8)	(2.5)	(37.3)
Transfer – Loans to Equity	**8.9**	**(8.9)**	**–**	136.7	(136.7)	–
Transfers – Other Investments	**–**	**–**	**–**	–	0.6	0.6
Impairments	**(1.7)**	**–**	**(1.7)**	13.3	–	13.3
Exchange rate adjustments	**1.0**	**–**	**1.0**	(0.9)	–	(0.9)
At 31 March	**1,849.4**	**847.5**	**2,696.9**	1,899.0	935.4	2,834.4

(i) In the prior year the Group assessed that the equity stakes retained following the disposals of its wholly owned subsidiaries, Stronelairg Wind Farm Limited, Dunmaglass Wind Farm Limited and SSE Telecommunications Limited will be accounted for as equity accounted joint ventures. In the table above an equity investment of £714.0m (including a fair value uplift of £488.5m on acquisition of the joint venture (see Note 12.2)) and loans of £162.1m were recognised on deconsolidation.

(ii) Of the £155.9m share of profits, only £153.9m is recognised through the Income Statement. The £2.0m difference relates to profits earned from SSE Group companies where the costs have been capitalised. This profit has been eliminated on consolidation.

16.2 Acquisitions and disposals of equity in the current year
There have been no significant additions or disposals of equity in the year.

16.3 Additions and disposals of equity in the previous year
Additions in the prior year relate to the acquisition of a 50.1% equity stake in Stronelairg Wind Farm Limited and Dunmaglass Wind Farm Limited, and a 50% equity stake in SSE Telecommunications Limited, as disclosed in Note 12.2.

In May 2018, the Group disposed of a 14.9% equity stake in its joint venture investment Clyde Wind Farm (Scotland) Limited ("Clyde") to the existing joint venture partners for consideration of £202.0m (see Note 12.2). The Group retains a 50.1% interest in Clyde.

The Group holds an investment in the Scottish Equity partners "SEP" Fund, which disposed of its investment in Indigo Pipelines as disclosed in Note 12.2. On 5 March 2019, the SEP Fund paid a special dividend to SSE of £69.2m, resulting in a £54.3m exceptional profit.

On 28 March 2019, the Group disposed of 25.0% equity stake in its joint venture investment in Cloosh Valley Wind Farm Holdings DAC ("Cloosh") to GR Wind Farms 1 Limited ("GRWF1") for consideration of €34.5m (£29.8m), recognising a gain on sale of £23.6m in the prior year. Following the disposal SSE continues to hold a 25% investment in Cloosh, with GRWF1 holding the remaining 75% investment. (see Note 12.2).

16.4 Principal joint ventures and associates
Under IFRS 12 Disclosure of Interests in Other Entities, the Group has evaluated the key joint ventures and associates it holds with the purpose of disclosing any which are materially significant in order to identify the impact on the Groups financial position, performance and cash flows, whilst identifying the nature of the risks associated with these interests. A full listing of the Groups incorporated joint ventures, joint operations, associates and investments are included in the Accompanying Information (A3).

16. Investments continued

16.4 Principal joint ventures and associates continued

Share of results of joint ventures and associates

	2020 SGN £m	2020 Wind Farms £m	2020 Thermal Generation £m	2020 Other (i) £m	2020 Total £m	2019 restated Total £m
Revenue	423.9	205.4	144.0	81.1	854.4	690.0
Other Income	–	112.5	–	–	112.5	18.9
Depreciation and amortisation	(56.8)	(98.2)	(17.2)	(36.0)	(208.2)	(123.5)
Other operating costs	(164.8)	(77.3)	(76.6)	(31.2)	(349.9)	(302.0)
Operating profit	202.3	142.4	50.2	13.9	408.8	283.4
Interest expense	(74.9)	(70.3)	(17.4)	(11.2)	(173.8)	(123.7)
Changes in fair value of derivatives	3.2	–	–	–	3.2	1.2
Corporation tax	(49.8)	(23.1)	(7.5)	(1.9)	(82.3)	(31.7)
Share of post taxation results	80.8	49.0	25.3	0.8	155.9	129.2
Recognised in other comprehensive income						
Actuarial gain on retirement benefit schemes	(45.3)	–	–	–	(45.3)	(6.1)
Taxation	8.8	–	–	–	8.8	0.9
Cashflow hedges	5.1	44.5	–	–	49.6	(40.5)
Taxation	(1.0)	(8.4)	–	–	(9.4)	7.0
Total comprehensive income	48.4	85.1	25.3	0.8	159.6	90.5

(i) Other comprises the investments the Group holds in SSE Telecommunications Limited, Maple Topco Limited and Marron Activ8 Energies Limited.

Share of joint ventures and associates' assets and liabilities

	2020 SGN £m	2020 Wind Farms £m	2020 Thermal Generation £m	2020 Other (i) £m	2020 Total £m	2019 Total £m
Non-current assets	2,693.9	1,775.5	501.3	365.1	5,335.8	5,108.5
Current assets	149.9	237.9	47.0	615.3	1,050.1	339.7
Cash & cash equivalents	2.9	111.8	40.3	21.4	176.4	121.0
Current liabilities	(225.6)	(359.6)	(58.7)	(627.8)	(1,271.7)	(525.5)
Non-current liabilities	(2,042.4)	(1,368.9)	(316.8)	(269.9)	(3,998.0)	(3,712.5)
	578.7	396.7	213.1	104.1	1,292.6	1,331.2
Other adjustments	16.3	456.6	(36.1)	120.0	556.8	567.8
Share of net assets of joint ventures and associates	595.0	853.3	177.0	224.1	1,849.4	1,899.0
Shareholder loans	109.1	395.3	314.7	28.4	847.5	935.4
Interest in joint venture and associate	704.1	1,248.6	491.7	252.5	2,696.9	2,834.4

Information on Group's investments in joint ventures and associates is provided at A3, A4 and A5.

16.5 Joint operations

Listed are the incorporated joint operations that have a material impact on the financial position and financial results of the Group.

	Principal activity	Country of incorporation	Class of shares held	Proportion of shares held (%)	Group Interest (%)	Year end
Greater Gabbard Offshore Winds Limited	Offshore Wind Farm	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 Equinor under which it accounts for its 66.7% share of the Aldbrough gas storage facility owned by SSE Hornsea Limited. The Group also has a similar arrangement for its North Sea Gas Production assets at Greater Laggan, Sean, ECA and Bacton, all of which are owned by SSE E&P UK Limited.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

16. Investments continued
16.6 Other investments held at fair value through other comprehensive income

	Total £m
At 31 March 2018	4.8
Dividends received in the year	(0.2)
Impairments in the year	(3.5)
Transfer to Joint ventures and associates	(0.6)
At 31 March 2019	0.5
Dividends received in the year	**(0.3)**
At 31 March 2020	**0.2**

17. Inventories

	2020 £m	2019 £m
Fuel and consumables	**111.4**	255.9
Renewables Obligation Certificates	**82.6**	–
Gas stocks	**11.0**	3.8
Less: provisions held	**(31.0)**	(31.2)
	174.0	228.5

Where Renewables Obligation Certificates are self-generated or purchased to fulfil the Group's environmental obligations, they are recorded within intangible assets. Following disposal of SSE Energy Services on 15 January 2020 (Note 12) the Group now holds Certificates in excess of the Group's environmental obligations which are recorded within inventories.

The Group has recognised £127.5m within cost of sales in the year (2019: £129.4m).

18. Trade and other receivables

	2020 £m	2019 (restated(i)) £m
Non-current assets		
Loan note receivable	**100.0**	–
Current assets		
Trade receivables	**913.8**	959.6
Unbilled energy income	**370.7**	395.9
Contract related assets	**25.6**	29.7
Other receivables	**78.1**	55.3
Cash held as collateral	**256.4**	344.2
Other prepayments and accrued income	**116.6**	52.2
	1,761.2	1,836.9
Total trade receivables	**1,861.2**	1,836.9

(i) Comparative balance sheet restated (see Note 1.3).

The non-current loan note receivable was recognised on the disposal of SSE Energy Services on 15 January and is payable by Ovo by 2029. The loan note carries interest of 13.25%, and has been discounted at 13.25%.

Unbilled energy income represents an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. Detail of the calculation applied to estimate this balance is included at Note 4.1(iii). The Group estimates the value of residual electricity consumption uncertainty at the year end is plus or minus £4m (2019: plus or minus £8m excluding SSE Energy Services).

Contract related assets comprise amounts for goods or services provided under customer contracts, where the right to consideration is contingent on a performance obligation other than the passage of time. The Group has therefore recognised a contract asset for any work performed where payment is not yet due. The Group has assessed that the disclosures required under IFRS 15 to reconcile and explain opening and closing contract assets are immaterial for the Group financial statements.

Other receivables include financial assets totalling £6.3m (2019: £3.8m). Cash held as collateral relates to amounts deposited on commodity trading exchanges of £256.4m (2019: £344.2m).

Trade receivables and other financial assets are part of the Group's financial exposure to credit risk as explained in accompanying information note A6.

19. Trade and other payables

	2020 £m	2019 (restated (i)) £m
Current liabilities		
Trade payables (i)	**413.2**	1,121.1
Contract related liabilities (ii)	**55.9**	68.0
Other creditors	**251.4**	267.6
Other accruals (iii)	**1,274.9**	1,248.5
	1,995.4	2,705.2
Non-current liabilities		
Contract related liabilities (ii)	**207.0**	207.4
Other accruals (iii)	**432.5**	148.0
	639.5	355.4
	2,634.9	3,060.6

(i) Comparative balance sheet restated (see Note 1.3).
(ii) Current contract related liabilities includes customer contributions of £15.6m (2019: £17.7m) and non-current contract related liabilities includes customer contributions of £207.0m (2019: £207.4m).
(iii) Current other accruals includes government grants of £0.1m (2019: £0.1m) and non-current other accruals includes government grants of £2.1m (2019: £2.1m).

20. Provisions

	Decommissioning (i) £m	Contracting Provisions (ii) £m	Restructuring (iii) £m	Other (iv) £m	Total £m
At 1 April 2018	765.7	23.9	0.6	42.9	833.1
Charged in the year	–	4.2	–	16.7	20.9
Increase in decommissioning provision	228.8	–	–	–	228.8
Unwind of discount	17.4	–	–	–	17.4
Released during the year	(20.4)	(7.1)	–	(6.4)	(33.9)
Disposed during the year	(4.4)	–	–	–	(4.4)
Utilised during the year	(20.7)	(3.2)	(0.5)	(3.0)	(27.4)
Transfer to held for sale	–	–	–	(4.6)	(4.6)
At 31 March 2019	966.4	17.8	0.1	45.6	1,029.9
Charged in the year	**–**	**4.8**	**18.5**	**22.4**	**45.7**
Increase in decommissioning provision	**18.1**	**–**	**–**	**–**	**18.1**
Unwind of discount	**15.7**	**–**	**–**	**–**	**15.7**
Released during the year	**(15.0)**	**(7.1)**	**–**	**1.0**	**(21.1)**
Disposed during the year	**–**	**–**	**–**	**–**	**–**
Utilised during the year	**(36.3)**	**–**	**–**	**(13.0)**	**(49.3)**
Transfer to held for sale	**(380.1)**	**–**	**–**	**–**	**(380.1)**
Exchange rate adjustments	**2.4**	**–**	**–**	**0.2**	**2.6**
At 31 March 2020	**571.2**	**15.5**	**18.6**	**56.2**	**661.5**
At 31 March 2020					
Non-current	**544.0**	**12.2**	**–**	**43.9**	**600.1**
Current	**27.2**	**3.3**	**18.6**	**12.3**	**61.4**
	571.2	**15.5**	**18.6**	**56.2**	**661.5**
At 31 March 2019					
Non-current	966.4	10.7	–	40.6	1,017.7
Current	–	7.1	0.1	5.0	12.2
	966.4	17.8	0.1	45.6	1,029.9

(i) Provision has been made for the estimated net present value of decommissioning the Group's Gas Production assets, Thermal and Renewable power generation assets and Gas Storage facilities. Estimates are based on the forecast remediation or clean-up costs at the projected date of decommissioning and are discounted for the time value of money. It is expected that the costs associated with decommissioning of the Group's Gas Production assets will be incurred between 2019 and 2040. During the prior year, the Group reduced the decommissioning liabilities held in respect of its Ferrybridge Power plant by £20.9m, and increases of £26.3m were recognised relating to reassessments of provisions for wind farm, thermal generation and gas storage assets, excluding any salvage value related to those assets.
(ii) The Group holds provisions in relation to certain long-term construction contracts. This includes the Group's retained sub-contracts with the various street-lighting PFI companies that were disposed in prior years.
(iii) Restructuring includes provisions related to the closure and exit of operations, such as the Group's Ferrybridge power station.
(iv) Other provisions relate to costs associated with claims and disputes and the employer financed retirement benefit provision for certain directors and former directors and employees, which is valued in accordance with IAS 19.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

21. Sources of finance
21.1 Capital management
The Board's policy is to maintain a strong balance sheet and credit rating to support investor, counterparty and market confidence in the Group and to underpin future development of the business. The Group's credit ratings are also important in maintaining an efficient cost of capital and in determining collateral requirements throughout the Group. As at 31 March 2020, the Group's long-term credit rating was BBB+ stable outlook for Standard & Poor's and Baa1 stable outlook for Moody's.

The maintenance of a medium-term corporate model is a key control in monitoring the development of the Group's capital structure and allows for detailed scenarios and sensitivity testing. Key ratios drawn from this analysis underpin regular updates to the Board and include the ratios used by the rating agencies in assessing the Group's credit ratings.

The Group's debt requirements are principally met through issuing bonds denominated in Sterling and Euros as well as private placements and medium-term bank loans including those with the European Investment Bank. During the year to 31 March 2020, SSE successfully issued its third Green Bond being a £350m, sixteen year bond with a coupon of 2.25%. This was a debut issue for Scottish Hydro Electric Transmission Ltd and was the Group's third Green Bond in three years, affirming SSE's position as the largest issuer of Green Bonds from the UK Corporate sector.

In March 2019, SSE refinanced its £1.3bn Revolving Credit Facility (RCF) to have an extended maturity date of March 2024 with an option to extend by two years to 2026. This is now classified as a Sustainable RCF with interest rate and fees paid dependant on SSE's performance in environmental, social and governance matters, as assessed independently by Vigeo Eiris. The £200m bilateral facility matures in November 2022. The £1.5bn of committed bank facilities can be accessed at short notice for use in managing the Group's short-term funding requirements, however these committed facilities remain undrawn for the majority of the time.

The Group capital comprises:

	2020 £m	2019 £m (restated)
Total borrowings (excluding lease obligations)	**9,717.2**	9,138.3
Less: Cash and cash equivalents	**(164.6)**	(431.6)
Cash presented as held for disposal	**–**	(95.2)
Net debt (excluding hybrid equity)	**9,552.6**	8,611.5
Hybrid equity	**1,169.7**	1,169.7
Cash held as collateral and other short-term loans	**(256.4)**	(344.2)
Adjusted Net Debt and Hybrid Equity APM	**10,465.9**	9,437.0
Equity attributable to shareholders of the parent	**3,750.4**	4,622.6
Total capital excluding lease obligations	**14,216.3**	14,059.6

Under the terms of its major borrowing facilities, the Group is required to comply with the following financial covenant:
- **Interest Cover Ratio:** The Group shall procure that the ratio of Operating Profit to Net Interest Payable for any relevant period is not less than 2.5 to 1.

The following definitions apply in the calculation of these financial covenants:
- **"Operating Profit"** means, in relation to a relevant period, the profit on ordinary activities before taxation (after adding back Net Interest Payable) of the Group for that relevant period but after adjusting this amount to exclude any exceptional profits (or losses) and, for the avoidance of doubt, before taking account of any extraordinary profits (or losses) and excluding the effect of IFRS 9 remeasurements.
- **"Net Interest Payable"** means, in respect of any relevant period, interest payable during that relevant period less interest receivable during that relevant period.

In summary, the Group's intent is to balance returns to shareholders between current returns through dividends and long-term capital investment for growth. In doing so, the Group will maintain its capital discipline and will continue to operate within the current economic environment prudently. There were no changes to the Group's capital management approach during the year.

21. Sources of finance continued
21.2 Loans and other borrowings

	2020 £m	2019 (restated) £m
Current		
Short-term loans	**1,893.8**	668.4
Lease obligations	**73.1**	29.0
	1,966.9	697.4
Non-current		
Loans	**7,823.4**	8,469.9
Lease obligations	**382.1**	200.3
	8,205.5	8,670.2
Total loans and borrowings	**10,172.4**	9,367.6
Cash and cash equivalents	**(164.6)**	(431.6)
Unadjusted Net Debt	**10,007.8**	8,936.0
Add/(less):		
Hybrid equity	**1,169.7**	1,169.7
Lease obligations	**(455.2)**	(229.3)
Cash held as collateral and other short-term loans	**(256.4)**	(344.2)
Cash presented as held for disposal	**–**	(95.2)
Adjusted Net Debt and Hybrids APM	**10,465.9**	9,437.0

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and short-term highly liquid investments with a maturity of three months or less. The cash and cash equivalents are lower year on year due to a lower surplus cash position at March 2020.

21.3 Borrowing facilities
The Group has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into sterling) and as at 31 March 2020 £672.4m of commercial paper was outstanding (2019: £497.7m). The Group also has £1.5bn of revolving credit facilities (see Note 21.1). These facilities continue to provide back-up to the commercial paper programme and, as at 31 March 2020, there was £75m drawn which was repaid on 6 April 2020, subsequent to the year end.

During the year to 31 March 2020, the SSE Group successfully issued its third Green Bond being a £350m, sixteen year bond with a coupon of 2.25%. This was a debut issue for Scottish Hydro Electric Transmission Ltd and was the Group's third Green Bond in three years and affirms SSE as the largest issuer of Green Bonds from the UK Corporate sector.

On 7 April 2020, subsequent to the year end, SSE plc successfully launched a €1.1bn five and 10 year dual tranche Eurobond with €600m maturing April 2025 and €500m maturing April 2030, with coupons of 1.25% and 1.75% respectively. Both tranches have been swapped to Sterling resulting in a funding cost of 2.4% and 2.9% respectively.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

21. Sources of finance continued
21.3 Borrowing facilities continued
Analysis of Borrowings

	2020 Weighted average interest rate (iv)	2020 Face value £m	2020 Fair value £m	2020 Carrying amount £m	2019 Weighted average interest rate (iii)	2019 Face value £m	2019 Fair value £m	2019 Carrying amount £m (Restated)
Current								
Bank Loans – non-amortising (i)	1.7%	574.9	577.8	574.8	1.5%	107.7	107.7	107.7
Other Short-term loans – non-amortising (ii)	1.1%	776.2	778.4	772.4	1.4%	497.7	499.6	493.7
US Private placement 16 April 2019	–	–	–	–	3.7%	67.0	82.0	67.0
2.00% 600m Eurobond repayable 17 June 2020 (iv)	2.7%	546.8	548.8	546.6	–	–	–	–
Total current		1,897.9	1,905.0	1,893.8		672.4	689.3	668.4
Non-Current								
Bank loans – non-amortising (i)	2.3%	350.0	362.2	350.0	2.1%	924.9	938.4	924.8
US Private Placement 16 April 2022	4.3%	162.7	211.4	162.6	4.3%	162.7	202.5	162.5
US Private Placement 28 April 2023	2.8%	35.0	34.4	34.6	2.8%	35.0	35.4	34.5
US Private Placement 6 September 2023	2.9%	120.0	116.6	118.5	2.9%	120.0	120.6	118.0
2.00% 600m Eurobond repayable 17 June 2020 (v)	–	–	–	–	2.7%	542.5	555.1	541.6
4.25% Eurobond repayable 14 September 2021	4.3%	300.0	309.8	299.4	4.3%	300.0	319.7	299.0
2.375% €500m Eurobond repayable 10 February 2022 (vi)	2.4%	415.0	428.2	414.8	2.4%	415.0	439.5	414.7
5.875% Eurobond repayable 22 September 2022	5.9%	300.0	327.5	299.3	5.9%	300.0	342.4	299.1
1.75% €700m Eurobond repayable 8 September 2023 (vii)	1.8%	514.6	532.1	513.9	1.8%	514.6	541.6	513.7
US Private Placement 16 April 2024	4.4%	204.1	267.1	203.9	–	–	–	–
4.75% $900m NC5.5 Hybrid debt maturing 16 September 2077 (ix)	4.8%	749.2	729.7	747.5	4.8%	736.9	713.1	734.5
3.625% NC5.5 Hybrid maturing 16 September 2077	3.6%	300.0	293.2	299.3	3.6%	300.0	297.7	299.0
Between two and five years		3,450.6	3,612.2	3,443.8		4,351.6	4,506.0	4,341.4
Bank loans – non-amortising (i)	1.8%	500.0	519.1	499.8	1.9%	500.0	499.1	499.8
US Private Placement 16 April 2024	–	–	–	–	4.4%	204.1	255.0	203.8
US Private Placement 8 June 2026	3.1%	64.0	63.7	63.0	3.1%	64.0	65.1	62.8
US Private Placement 6 September 2026	3.2%	247.1	265.6	243.1	3.2%	247.1	259.9	242.4
US Private Placement 6 September 2027	3.2%	35.0	34.5	34.4	3.2%	35.0	35.7	34.4
0.875% €600m Eurobond repayable 8 September 2025	0.9%	530.9	526.4	527.9	0.9%	518.1	513.7	514.5
1.375% €650m Eurobond repayable 4 September 2027 (viii)	1.4%	591.4	600.9	589.8	1.4%	591.4	599.4	589.5
8.375% Eurobond repayable on 20 November 2028	8.4%	500.0	712.6	496.4	8.4%	500.0	746.9	496.0
5.50% Eurobond repayable on 7 June 2032	5.5%	350.0	451.2	350.1	5.5%	350.0	458.9	350.1
2.25% Eurobond repayable 27 September 2035	2.3%	350.0	331.3	346.8	–	–	–	–
4.625% Eurobond repayable on 20 February 2037	4.6%	325.0	397.3	324.0	4.6%	325.0	399.4	324.0
6.25% Eurobond repayable on 27 August 2038	6.3%	350.0	501.2	347.1	6.3%	350.0	509.2	346.9
4.454% Index linked loan repayable on 27 February 2044	4.5%	135.5	287.1	134.2	4.4%	133.6	275.7	131.3
1.429% Index linked bond repayable on 20 October 2056	2.0%	146.2	199.7	146.2	2.0%	142.4	233.2	142.4
Over five years		4,125.1	4,890.6	4,102.8		3,960.7	4,851.2	3,937.9
Fair value adjustment (iii)				276.8				190.6
Total non-Current		7,575.7	8,502.8	7,823.4		8,312.3	9,357.2	8,469.9
TOTAL		9,473.6	10,407.8	9,717.2		8,984.7	10,046.5	9,138.3

(i) Balances include term loans and EIB debt and is a mixture of fixed and floating rate debt.
(ii) Balances include Commercial Paper and facility advances.
(iii) 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.
(iv) The weighted average interest rates (including the effect of interest rate swaps) for the year ended 31 March 2020 was 3.18% (2019 – 3.28%).

21. Sources of finance continued
21.3 Borrowing facilities continued
Analysis of Borrowings continued
(v) The 2.00% €600m Eurobond maturing on 17 June 2020 has been partly swapped to Sterling giving an effective interest rate of 2.67%.
(vi) The 2.375% €500m Eurobond maturing 10 February 2022 has been swapped to Sterling giving an effective interest rate of 3.53%.
(vii) The 1.75% €700m Eurobond maturing 8 September 2023 has been swapped to Sterling giving an effective interest rate of 3.16%.
(viii)The 1.375% €650m Eurobond maturing 4 September 2027 has been swapped to Sterling giving an effective interest rate of 2.56%.
(ix) The 4.75% $900m NC5.5 Hybrid maturing 16 September 2077 has been swapped to Euros ($605m) and Sterling ($295m) giving an effective interest rate of 2.25% and 3.29% respectively.

(i) Lease liabilities
IFRS 16 was adopted during the year under a Modified Retrospective" approach, whereby comparative figures are not restated. Instead, the cumulative effect of initially applying IFRS 16 has been recognised as an adjustment to the opening balance of retained earnings as at 1 April 2019. See Note 2.1 for further detail on adoption of IFRS 16.

Amounts charged under lease arrangements are detailed within Note 6, and right of use assets recognised under lease arrangements are detailed within Note 14.

	£m
At 1 April 2018	251.1
Additions during the year	–
Unwind of discount	28.6
Repayment in the year	(50.4)
At 31 March 2019	229.3
Additional lease liability recognised on IFRS 16 adoption	**258.1**
Previous lease liability derecognised on IFRS 16 adoption	**(4.8)**
Additions during the year	**46.6**
Disposals during the year	**(7.5)**
Unwind of discount	**36.8**
Repayment in the year	**(103.3)**
At 31 March 2020	**455.2**

The weighted average incremental borrowing rate applied to lease liabilities during the year was 4.56%. Incremental borrowing rates applied to individual leases in the year ranged between 4.06% to 5.06%.

The Group has additional committed payments under short-term and low value leases of £36.2m at 31 March 2020.

The maturity of future lease liabilities are as follows:

	2020 £m	2019 £m
Within one year	**96.5**	53.1
Between one and five years	**303.4**	201.8
After five years	**284.7**	83.9
	684.6	338.8
Less: future finance charge	**(229.4)**	(109.5)
Present value of lease obligations	**455.2**	229.3

Lease liabilities in the prior year predominantly consisted of a power purchase agreement with a related party, Marchwood Power Limited, which was categorised as a finance lease under IAS 17. The agreement is for use of Marchwood Power's main asset, an 890MW Gas powered CCGT Electricity Generating Plant. On adoption of IFRS 16, the Group assessed that this agreement should continue to be categorised as a lease.

(ii) Hybrid Debt
On 16 March 2017, the Group issued £1.0bn of hybrid debt securities. The securities have an issuer first call date on 16 September 2022 and are able to be redeemed at the Group's discretion. This dual tranche issue comprises £300m with a coupon of 3.625% and $900m with a coupon of 4.75%. The $900m tranche was swapped back to both Euros and Sterling, bringing the all-in rate down to 2.72% and resulting in an all-in funding cost for both tranches to SSE of 3.02% per annum. Due to these hybrid instruments having a fixed redemption date, they are accounted for as a debt item and are included within Loans and Other Borrowings in Note 21.2. This is in contrast to the Hybrid instruments issued in 2015 which have no fixed redemption date and are accounted for as Equity, see Note 22.5.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

21. Sources of finance continued
21.4 Reconciliation of net increase in cash and cash equivalents to movement in adjusted net debt and Hybrid equity

	2020 £m	2019 £m (restated)
(Decrease)/increase in cash and cash equivalents	**(267.0)**	199.4
Add/(less):		
Cash presented as held for disposal	**(95.2)**	95.2
New borrowings	**(1,122.4)**	(1,260.0)
Repayment of borrowings	**668.4**	626.6
Non-cash movement on borrowings	**(124.9)**	(145.5)
Increase/(decrease) in cash held as collateral and other short-term loans	**(87.8)**	269.1
(Increase) in adjusted net debt and hybrids APM	**(1,028.9)**	(215.2)

Cash held as collateral refers to amounts deposited on commodity trading exchanges and loans provided with a less than three month maturity which are reported within trade and other receivables on the face of the balance sheet.

21.5 Reconciliation of movements in financing liabilities

		Financing cash flows				Non-cash movements				
	At 31 March 2019 (restated) £m	New Borrowings £m	Repayment of Borrowings £m	Repayment of lease creditor £m	Fair Value movements £m	Foreign exchange Movements £m	Lease liabilities £m	Reclassification £m	Other £m	At 31 March 2020 £m
Financing Liabilities										
Bank loans	1,421.6	–	–	–	3.0	–	–	(574.9)	–	849.7
US Private Placement	999.5	–	–	–	39.3	–	–	–	1.6	1,040.4
Fixed rate Eurobonds	4,762.6	350.0	–	–	44.3	12.8	–	(543.8)	(0.7)	4,625.2
Index Linked Loans	273.7	–	–	–	–	–	–	–	6.7	280.4
Hybrid Debt	989.3	–	–	–	21.0	12.2	–	–	1.0	1,023.5
Total long-term borrowings	8,446.7	350.0	–	–	107.6	25.0	–	(1,118.7)	8.6	7,819.2
Bank loans	115.3	–	(107.7)	–	(5.8)	–	–	574.9	–	576.7
Fixed rate Eurobonds	–	–	–	–	–	4.3	–	543.8	0.8	548.9
Other short-term loans – non-amortising	493.7	772.4	(493.7)	–	–	–	–	–	–	772.4
US Private placement	82.6	–	(67.0)	–	(15.6)	–	–	–	–	–
Total short-term borrowings	691.6	772.4	(668.4)	–	(21.4)	4.3	–	1,118.7	0.8	1,898.0
	9,138.3	1,122.4	(668.4)	–	86.2	29.3	–	–	9.4	9,717.2
Lease liabilities	229.3	–	–	(103.3)	–	–	329.2	–	–	455.2
Total loans and borrowings	9,367.6	1,122.4	(668.4)	(103.3)	86.2	29.3	329.2	–	9.4	10,172.4
Assets held to hedge long-term borrowings	(126.1)	(51.5)	–	–	92.8	–	–	–	–	(84.8)
	9,241.5	1,070.9	(668.4)	(103.3)	179.0	29.3	329.2	–	9.4	10,087.6

21. Sources of finance continued

21.5 Reconciliation of movements in financing liabilities continued

		Financing cash flows				Non-cash movements				
	At 1 April 2018 £m	New Borrowings £m	Repayment of Borrowings £m	Repayment of lease creditor £m	Fair Value movements £m	Foreign exchange Movements £m	Lease liabilities £m	Reclassification £m	Other £m	At 31 March 2019 (restated) £m
Financing Liabilities										
Bank loans	1,329.6	174.9	–	–	24.8	–	–	(107.7)	–	1,421.6
US Private Placement	956.0	–	–	–	110.4	–	–	(67.0)	0.1	999.5
Fixed rate Eurobonds	4,264.3	591.4	–	–	(83.8)	(11.9)	–	–	2.6	4,762.6
Index Linked Loans	264.9	–	–	–	–	–	–	–	8.8	273.7
Hybrid Debt	918.3	–	–	–	78.7	(8.5)	–	–	0.8	989.3
Total long-term borrowings	7,733.1	766.3	–	–	130.1	(20.4)	–	(174.7)	12.3	8,446.7
Bank loans	126.6	–	(126.6)	–	7.6	–	–	107.7	–	115.3
Fixed rate Eurobonds	499.7	–	(500.0)	–	–	–	–	–	0.3	–
US Private placement	–	493.7	–	–	–	–	–	–		493.7
Other short-term loans – non-amortising	–	–	–	–	15.6	–	–	67.0	–	82.6
Total short-term borrowings	626.3	493.7	(626.6)	–	23.2	–	–	174.7	0.3	691.6
	8,359.4	1,260.0	(626.6)	–	153.3	(20.4)	–	–	12.6	9,138.3
Lease liabilities	251.1	–		(50.4)	–	–	28.6	–	–	229.3
Total loans and borrowings	8,610.5	1,260.0	(626.6)	(50.4)	153.3	(20.4)	28.6	–	12.6	9,367.6
Assets held to hedge long-term borrowings	(171.1)	405.0	–	–	(360.0)	–	–	–	–	(126.1)
	8,439.4	1,665.0	(626.6)	(50.4)	(206.7)	(20.4)	28.6	–	12.6	9,241.5

22. Equity

22.1 Share Capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 1 April 2018	1,023.0	511.5
Issue of shares (i)	23.9	11.9
At 31 March 2019	1,046.9	523.4
Issue of shares (i)	28.2	14.1
Shares repurchased (ii)	(28.8)	(14.4)
At 31 March 2020	1,046.3	523.1

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 68.2p per ordinary share (in relation to year ended 31 March 2019) and the interim dividend of 24.0p (in relation to the current year) under the terms of the Company's scrip dividend scheme. This resulted in the issue of 19,086,291 and 9,136,089 new fully paid ordinary shares respectively (2019: 11,316,873 and 12,543,773). In addition, the Company issued 0.8m (2019: 0.1m) shares during the year under the savings-related share option schemes (all of which were settled by shares held in Treasury) for a consideration of £10.1m (2019: £1.2m).

(ii) Under the share buyback programme announced on 1 February 2019, 28.8m shares were repurchased and cancelled in the current year for a total of £352.0m (including stamp duty and commission). The nominal value of share capital repurchased and cancelled is transferred out of share capital and into the capital redemption reserve. There were no shares repurchased in the prior year.

Of the 1,046.3m shares in issue, 6.9m are held as treasury shares. These shares will be held by the Group and used to award shares to employees under the Sharesave scheme in the UK.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

22. Equity continued
22.1 Share Capital continued
During the year, on behalf of the Company, the employee share trust purchased 1.1m shares for a total consideration of £14.6m (2019: 0.3m shares, consideration of £3.6m) to be held in trust for the benefit of employee share schemes. At 31 March 2020, the trust held 7.6m shares (2019: 2.8m) which had a market value of £99.3m (2019: £32.8m).

22.2 Capital redemption reserve
The capital redemption reserve comprises the value of shares redeemed or purchased by the Company from distributable profits.

22.3 Hedge reserve
The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

22.4 Translation reserve
Comprises exchange translation differences on foreign currency net investments offset by exchange translation differences on borrowings and derivatives classified as net investment hedges under IAS 39.

22.5 Hybrid Equity

	2020 £m	2019 £m
GBP 750m 3.875% perpetual subordinated capital securities (ii)	**748.3**	748.3
EUR 600m 2.375% perpetual subordinated capital securities (ii)	**421.4**	421.4
	1,169.7	1,169.7

(i) 10 March 2015 £750m and €600m Hybrid Equity Bonds
The March 2015 hybrid equity bonds have no fixed redemption date, but the Company may, at its sole discretion, redeem all, but not part, of the capital securities at their principal amount. The date for the first potential discretionary redemption of the £750m hybrid equity bond is 10 September 2020 and then every 5 years thereafter. The date for the first discretionary redemption of the €600m hybrid equity bond is 1 April 2021 and then every 5 years thereafter.

(ii) Coupon Payments
In relation to the €600m hybrid equity bond a coupon payment of £17.4m (2019: £17.5m) was made on 1 April 2019 and for the £750m hybrid equity bond a coupon payment of £29.1m (2019: £29.1m) was made on 10 September 2019.

The coupon payments in the year to 31 March 2020 consequently totalled £46.5m (2019: £46.6m).

The Company has the option to defer coupon payments on the bonds on any relevant payment date, as long as a dividend on the ordinary shares has not been declared. Deferred coupons shall be satisfied only in the following circumstances, all of which occur at the sole option of the Company:
- redemption; or
- dividend payment on ordinary shares.

Interest will accrue on any deferred coupon.

23. Retirement Benefit Obligations
Defined Benefit Schemes
The Group has two funded final salary pension schemes which provide defined benefits based on final pensionable pay. The schemes are subject to independent valuations at least every three years. The future benefit obligations are valued by actuarial methods on the basis of an appropriate assessment of the relevant parameters.

The Group also has an Employer Financed Retirement Benefit scheme and a defined contribution scheme, SSE Pensions+ under a master trust with Aviva. 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 year's continuous Group service.

The Group presents its pension scheme valuations under two different measurement bases, an actuarial valuation and an IAS 19 valuation as required by accounting standards. The IAS 19 valuation is used to determine the assets and obligations recognised in the Group's consolidated balance sheet and is calculated annually by scheme actuaries, whereas the formal actuarial valuation is used to determine the contributions the Group make to the scheme. The actuarial valuation is recalculated for each scheme every three years.

23. Retirement Benefit Obligations continued

Actuarial valuations

The individual pension scheme details based on the latest formal actuarial valuations are as follows:

	Scottish Hydro Electric	Southern Electric
Latest formal actuarial valuation	31 March 2018	31 March 2019
Valuation carried out by	Hymans Robertson	Aon Hewitt
Value of assets based on valuation	£2,059.0m	£2,257.8m
Value of liabilities based on valuation	£1,902.3m	£2,544.4m
Valuation method adopted	Projected Unit	Projected Unit
Average salary increase	RPI+1%	RPI+0.5%
Average pension increase	RPI	RPI
Value of fund assets/accrued benefits	108.2%	88.7%

Future Contributions

Scottish Hydro Electric Scheme

The last actuarial valuation of the scheme was carried out at 31 March 2018 and was concluded in the prior year which showed a surplus of £156.7m. Following this valuation, the Group agreed to cease contributions to the scheme during the year ended 31 March 2020 for a period until and if the actuarial valuation of the scheme is in deficit for two consecutive quarterly valuations. Consequently, the Group is not expected to make contributions to the scheme in the year ending 31 March 2021. The next funding valuation will be carried out as at 31 March 2021. As part of that process the Trustee and Company will agree future contributions to the scheme following the valuation.

Southern Electric Pension Scheme

The last actuarial valuation of the Scheme was finalised in the year which showed a deficit of £286.6m as at 31 March 2019. The Group continues to pay deficit contributions which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 31 March 2027. The next funding valuation will be carried out as at 31 March 2022. The Company also pays contributions in respect of current accrual, with some active members also paying contributions. Total contributions of approximately £57.1m are expected to be paid by the Company during the year ending on 31 March 2021, including deficit repair contributions of £39.5m. These payments will be made annually until March 2023, when they are forecast to reduce to £34.7m per annum until 2027.

Pension summary as measured under IAS 19:

	Scheme type	Net actuarial gain/(loss) recognised in respect of the pension asset in the Statement of Comprehensive Income		Net pension asset/(liability)	
		2020 £m	2019 £m	**2020 £m**	2019 £m
Scottish Hydro Electric	Defined benefit	**(2.8)**	(38.9)	**534.2**	537.7
Southern Electric	Defined benefit	**11.1**	(43.5)	**(192.5)**	(250.6)
Net actuarial gain/(loss)		**8.3**	(82.4)	**341.7**	287.1

IFRC 14 surplus restrictions

The value of Scottish Hydro Electric Pension Scheme assets recognised was previously impacted by the asset ceiling test which restricts the surplus that can be recognised to assets that can be recovered through future refunds or reductions in future contributions to the schemes, and may increase the value of scheme liabilities where there are minimum funding liabilities in relation to agreed contributions. IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" clarifies that future refunds may be recognised if the sponsoring entity has an unconditional right to a refund in certain circumstances.

In 2016/17 the Group agreed with the trustees to the Scottish Hydro Electric pensions scheme an amendment to the scheme rules to clarify that the Company has a clear right to any surplus upon final winding up of the scheme. This amendment removes the previous restriction on recognition of any surplus and as such the previously applied restriction is no longer recognised. The net pension asset of the Scottish Hydro Electric Scheme at 31 March 2020 was equal to £534.2m (2019: £537.7m).

At 31 March 2020, the Southern Electric Pension Scheme has a net deficit of £192.5m, and unrecognised future contributions of £258.6m, which when paid, will result in a notional surplus of £66.1m. The Group has assessed that it has the right to recognise any future surpluses on the scheme, therefore has not recognised a liability for future unrecoverable contributions.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

23. Retirement Benefit Obligations continued
23.1 Pension Scheme Assumptions
Both schemes have been updated to 31 March 2020 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 2020	At 31 March 2019
Rate of increase in pensionable salaries	**3.20%**	3.85%
Rate of increase in pension payments	**2.70%**	3.35%
Discount rate	**2.30%**	2.40%
Inflation rate	**2.70%**	3.35%

23.2 Sensitivity Analysis
The assumptions relating to longevity underlying the pension liabilities at 31 March 2020 are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions, equivalent to future longevity for members in normal health at age 65, are as follows:

Scottish Hydro Electric

	At 31 March 2020		At 31 March 2019	
	Male	Female	Male	Female
Currently aged 65	**23**	**24**	23	24
Currently aged 45	**24**	**26**	24	27

The impact on the schemes liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2020		At 31 March 2019	
	Increase/ decrease in assumption	Effect on scheme's liabilities	Increase/ decrease in assumption	Effect on scheme's liabilities
Rate of increase in pensionable salaries	**0.1%**	**+/-0.2%**	0.1%	+/-0.2%
Rate of increase in pension payments	**0.1%**	**+/-0.9%**	0.1%	+/-1.6%
Discount rate	**0.1%**	**+/-0.9%**	0.1%	+/-1.9%
Longevity	**1 year**	**+/-1.8%**	1 year	+/-4.0%

During the year a longevity swap contract in the Scottish Hydro Electric Scheme was converted to a "buy-in" contract, reducing the Group's exposure to fluctuations in the calculation of the obligation (see Note 23.5).

Southern Electric

	At 31 March 2020		At 31 March 2019	
	Male	Female	Male	Female
Currently aged 65	**23**	**25**	23	25
Currently aged 45	**24**	**26**	24	26

The impact on the schemes liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2020		At 31 March 2019	
	Increase/ decrease in assumption	Effect on scheme's liabilities	Increase/ decrease in assumption	Effect on scheme's liabilities
Rate of increase in pensionable salaries	**0.1%**	**+/-0.2%**	0.1%	+/-0.3%
Rate of increase in pension payments	**0.1%**	**+/-1.6%**	0.1%	+/-1.3%
Discount rate	**0.1%**	**+/-1.7%**	0.1%	+/-1.7%
Longevity	**1 year**	**+/-4.4%**	1 year	+/-4.4%

23. Retirement Benefit Obligations continued

23.3 Valuation of combined Pension Schemes

	Quoted £m	Unquoted £m	Value at 31 March 2020 £m	Quoted £m	Unquoted £m	Value at 31 March 2019 £m
Equities	**500.6**	**–**	**500.6**	571.4	–	571.4
Government bonds	**857.8**	**–**	**857.8**	2,081.6	–	2,081.6
Corporate bonds	**145.1**	**–**	**145.1**	537.9	–	537.9
Insurance Contracts (i)	**–**	**725.4**	**725.4**	–	194.4	194.4
Other investments	**1,694.0**	**–**	**1,694.0**	944.3	–	944.3
Total fair value of plan assets			**3,922.9**			4,329.6
Present value of defined benefit obligation			**(3,581.2)**			(4,042.5)
Surplus/(deficit) in the schemes			**341.7**			287.1
Deferred tax thereon (ii)			**(64.9)**			(145.6)
Net pension asset			**276.8**			141.5

(i) See details of valuations of insurance contracts in Note 23.6 (iv).
(ii) Deferred tax rate of 19% applied to pension surplus and deficit positions (2019: 35% to surplus positions and 17% to deficit positions).

23.4 Movements in the combined defined benefit asset obligations and assets during the year

	2020			2019		
	Assets £m	Obligations (i) £m	Total	Assets £m	Obligations (i) £m	Total £m
at 1 April	**4,329.6**	**(4,042.5)**	**287.1**	4,197.3	(3,862.8)	334.5
Included in Income Statement						
Current service cost	**–**	**(39.0)**	**(39.0)**	–	(43.0)	(43.0)
Past service cost (i)	**–**	**(8.1)**	**(8.1)**	–	(10.4)	(10.4)
Settlements and curtailments	**(69.4)**	**83.9**	**14.5**	–	–	–
Interest income/(cost)	**99.8**	**(93.2)**	**6.6**	109.2	(99.7)	9.5
	30.4	**(56.4)**	**(26.0)**	109.2	(153.1)	(43.9)
Included in Other Comprehensive Income						
Actuarial (loss)/gain arising from:						
Demographic assumptions	**–**	**6.6**	**6.6**	–	23.6	23.6
Financial assumptions	**–**	**284.4**	**284.4**	–	(214.5)	(214.5)
Experience assumptions	**–**	**36.6**	**36.6**	–	(65.2)	(65.2)
(Loss)/Return on plan assets excluding interest income	**(319.3)**	**–**	**(319.3)**	173.7	–	173.7
	(319.3)	**327.6**	**8.3**	173.7	(256.1)	(82.4)
Other						
Contributions paid by the employer	**72.3**	**–**	**72.3**	78.9	–	78.9
Scheme participant's contributions	**0.2**	**(0.2)**	**–**	0.2	(0.2)	–
Benefits Paid	**(190.3)**	**190.3**	**–**	(229.7)	229.7	–
	(117.8)	**190.1**	**72.3**	(150.6)	229.5	78.9
Balance at 31 March	**3,922.9**	**(3,581.2)**	**341.7**	4,329.6	(4,042.5)	287.1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

23. Retirement Benefit Obligations continued
23.4 Movements in the combined defined benefit asset obligations and assets during the year continued
Pension scheme contributions and costs

Charges/(credits) recognised:

	2020 £m	2019 £m
Service costs (charged to operating profit)(i)	**47.1**	53.4
Settlements and curtailment (gains)/losses (ii)	**(14.5)**	–
	32.6	53.4
(Credited)/charged to finance costs:		
Interest from pension scheme assets	**(99.8)**	(109.2)
Interest on pension scheme liabilities	**93.2**	99.7
	(6.6)	(9.5)

(i) Service costs charged to operating profit in the prior year includes an exceptional charge of £9.0m for GMP equalisation.
(ii) During the year the Group disposed of SSE Energy Services which resulted in an exceptional gain of £14.5m being recognised in the pension schemes on the transfer values of assets and liabilities transferred from the schemes to a new Ovo defined benefit scheme. The gain has been treated as exceptional and included in the overall loss on disposal of the business.

The return on Pension Scheme assets is as follows:

	2020 £m	2019 £m
(Loss)/return on Pension Scheme assets	**(219.5)**	282.9

Guaranteed minimum pension ("GMP") equalisation charge

On 26 October 2018, the High Court finalised a judgement in the case of Lloyds Banking Group Pensions Trustees Limited vs. Lloyds Bank plc. The ruling resulted in the Group recognising an exceptional past service cost of £9.0m (see Note 7.1(iv)) in the prior year income statement for equalisation across the schemes. The equalisation is a point estimate calculated under the C2 method of equalisation with no limit on the period of arrears. No further adjustment for GMP equalisation charges has been recognised in the year ended 31 March 2020.

Defined contribution scheme

The total contribution paid by the Group to defined contribution pension schemes was £67.1m (2019: £71.1m).

Employer financed retirement benefit (EFRB) pension costs

The decrease in the year in relation to EFRB was £2.4m (2019: increase of £3.6m). This is included in other provisions (Note 20).

Staff costs analysis

The pension costs in Note 8 can be analysed thus;

	2020 £m	2019 £m
Service costs	**47.1**	53.4
Defined contribution scheme payments	**67.1**	71.1
Less: pension costs of employees in discontinued operations	**(26.1)**	(40.8)
	88.1	83.7

23.5 Pension Scheme Risk Assessment and Mitigation
Risks to which the Pension Schemes exposes the Group

The nature of the Group's defined benefit pension schemes expose the Group to the risk of paying unanticipated additional contributions to the schemes in times of adverse experience. The most financially significant risks are likely to be:

(i) Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The schemes hold a significant proportion of growth assets (equities, diversified growth fund and global absolute return fund) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.

(ii) Changes in bond yields

A decrease in corporate bond yields will increase the value placed on the schemes' liabilities for accounting purposes. However, this will be partially offset by an increase in the value of the schemes' bond holdings and its interest rate hedging.

(iii) Inflation Risk

The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

23. Retirement Benefit Obligations continued

23.5 Pension Scheme Risk Assessment and Mitigation continued

Risks to which the Pension Schemes exposes the Group continued

(iv) Life Expectancy

The majority of the schemes' obligations are to provide benefits for the life of the members, so an increase in the life expectancy will result in an increase in the liabilities. The sensitivity analysis disclosed is intended to provide an indication of the impact on the value of the schemes' liabilities of the risks highlighted.

(v) Liability vs asset risk

The risk that movement in the value of the schemes' liabilities are not met by corresponding movements in the value of the schemes' assets will expose the Group to movements in the overall funding surplus.

23.6 Risk Mitigation

(i) De-risking

The Trustees have taken a number of steps to control the level of investment risk including reducing the Schemes' exposures to higher risk assets and increasing the level of protection against adverse movements in interest rates and inflation. The Trustees of both schemes continue to review the risk exposures in light of the longer term objectives of the respective schemes. Detailed below are further details on the hedging of pensioner longevity risk.

(ii) Conversion of longevity swap to asset buy-in

During the year ended 31 March 2018 the Scottish Hydro Electric scheme entered into a longevity swap covering c£800m of the scheme's liabilities related to 1,800 pensioners and 567 dependents. On 1 October 2019, the scheme converted the longevity swap to an asset buy-in, transferring the risk of volatility in the assumptions used to calculate the obligation for these members to a third party. The asset buy-in is valued under the accounting principles of IFRS 13 and is considered a Level 3 instrument in the fair value hierarchy. This is in addition to a previous buy-in completed during the year ended 31 March 2018 when c£250m of the scheme's assets and liabilities related to 617 pensioners and 190 dependents were transferred to a third party. The Group has now insured against volatility in obligations related to all pensioners to third parties (insurer PIC) and is now only exposed to valuation fluctuations related to active and deferred members.

(iii) Asset-liability matching strategies used by the Scheme

The Company and trustees of the schemes have agreed a long-term investment strategy that seeks to reduce investment risk as and when appropriate. The asset-liability matching strategy is part of this approach which aims to reduce the volatility of the funding level of the pension schemes by investing in assets which perform in line with the liabilities of the schemes so as to protect against inflation being higher than expected. This has been adopted for a proportion of the schemes' assets, which is designed to provide partial protection against adverse movements in interest rates and inflation. The trustees of the respective schemes review the schemes' asset allocation on an ongoing basis in light of changes in the funding position and market opportunities.

23.7 Risk Assessment

(i) Maturity profile of the defined benefit obligations

The weighted average duration of the defined benefit obligation is 17 years (2019: 18 years) for the Scottish Hydro Electric Pension Scheme and 17 years (2019: 18 years) for the Southern Electric Pension Scheme.

(ii) Information about the defined benefit obligations

Status of members is weighted by the liabilities of each scheme.

	Scottish Hydro Electric %	Southern Electric Scheme %
Active members	28	27
Deferred members	11	9
Pensioners	61	64
	100	100

23.8 Pension scheme policies

(i) Recognition of gains and losses

The Group recognises actuarial gains and losses in the Statement of Other Comprehensive Income following the re-measurement of the net defined benefit liabilities of the schemes.

(ii) Methods and assumptions used in preparing the sensitivity analyses

The sensitivities disclosed are calculated using approximate methods taking into account the duration of the schemes' liabilities. While these have been calculated consistently with the previous financial year, the method applied may change over time with financial conditions and assumptions.

(iii) Asset recognition

The Group has recognised net pension assets in relation to the Scottish Hydro Electric pension scheme due to a surplus existing under IAS 19 accounting. The Group will only recognise a surplus should it have rights to that surplus under the rules of the pension scheme. The Company no longer applies the "asset ceiling" restriction mandated by IFRIC 14. Details on this key accounting consideration are provided above.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

23. Retirement Benefit Obligations continued
23.8 Pension scheme policies continued
(iv) Fair value assessment of scheme assets
The Group seeks to assess whether there is a quotable market value (referenced as "quotable" above) in relation to pension scheme assets held. This assessment is based on regular reviews conducted in conjunction with the trustees of the schemes. For assets where no quotable market value exists, these assets will be valued based on a set methodology agreed by trustees and scheme advisors and then regularly assessed.

Currently only one unquotable value exists within the two pension schemes of the Group, this being insurance contracts held by the Scottish Hydro Electric Scheme which were entered into during the current financial year. These assets are currently valued consistently with the scheme's liabilities with the expected return on these assets being set equal to the discount rate.

24. Financial instruments
For financial reporting purposes, the Group has classified derivative financial instruments into two categories, operating derivatives and financing derivatives. Operating derivatives include all qualifying commodity contracts including those for electricity, gas, oil, coal and carbon. Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts. Non-hedge accounted contracts are treated as held for trading.

24.1 Financial instruments – income statement

	2020 £m	2019 £m
Operating Derivatives		
Total result on operating derivatives (i)	(526.4)	(695.9)
Less: Amounts settled (ii)	723.2	367.7
	196.8	(328.2)
Novation of derivatives held by discontinued operation (Note 12)	(231.0)	–
Movement in unrealised derivatives	(34.2)	(328.2)
Financing Derivatives (and hedged items)		
Total result on financing derivatives (i)	(74.4)	(35.7)
Less: Amounts settled (ii)	(8.6)	(9.1)
Movement in unrealised derivatives	(83.0)	(44.8)
Net income statement impact	(117.2)	(373.0)

(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.

24.2 Financial instruments – balance sheet
The derivative financial assets and (liabilities) are represented as follows:

Derivative financial assets

	2020 £m	2019 (restated (i)) £m
Non-current	308.2	244.4
Current	631.2	306.1
	939.4	550.5
Derivative liabilities		
Non-current	(620.0)	(460.9)
Current (ii)	(785.8)	(796.3)
Total derivative liabilities	(1,405.8)	(1,257.2)
Net liability	(466.4)	(706.7)

(i) Comparative balance sheet at 31 March 2019 restated (see Note 1.3).
(ii) £1.6m transferred to held for sale liabilities (see Note 12.3).

Information on the Group's financial risk management and the fair value of financial instruments is available at A6 and A7.

25. Commitments and contingencies
25.1 Capital commitments

	2020 £m	2019 £m
Capital expenditure:		
Contracted for but not provided	**596.7**	768.8

Contracted for but not provided capital commitments include the fixed contracted costs of the Group's major capital projects. In practice contractual variations may arise on the final settlement of these contractual costs.

25.2 Contingent assets and liabilities
The Group has no unrecognised contingent assets at 31 March 2020 (2019: £58m). In the prior year, the contingent asset related to the suspension of payments under the UK Capacity Market scheme (Note 4.2(ii)). Based on the Group's assessment of the facts and circumstances of these future payments at the year end, including current UK Government guidance around the suspension of the UK Capacity Market scheme, it was considered probable but not virtually certain that these payments will be received. On 25 October 2019 the Group received consideration for payments of the suspension of the UK Capacity Market Scheme totalling £109.6m, including £60.4m in relation to the year ended 31 March 2019.

Contingent liabilities for the Group solely relate to SSE plc, and have been disclosed within Note 12 to the Company Financial Statements.

26. Post balance sheet events
(i) Bond issuance
On 7 April 2020, SSE plc successfully launched a €1.1bn five and 10 year dual tranche Eurobond with €600m maturing April 2025 and €500m maturing April 2030, with coupons of 1.25% and 1.75% respectively. Both tranches have been swapped to Sterling resulting in funding costs of 2.4% and 2.9% respectively.

(ii) Sale of stake in Slough Multifuel
On 2 April 2020, the Group entered into an agreement with Copenhagen Infrastructure Partners ("CIP") to sell a 50% stake in the Group's subsidiary SSE Slough Multifuel Limited for initial consideration on £10m. The sale agreement includes further contingent consideration of up to £59.6m, dependent upon the successful delivery of certain milestones. The Group is continuing to assess the probability of contingent consideration receivable from the transaction.

(iii) Sale of stake in Seagreen Wind Farm
On 3 June 2020, the Group entered into an agreement to sell a 51% stake in its Seagreen 1 offshore wind farm project to Total for an initial consideration of £70m. The sale includes an equivalent stake in a potential extension opportunity at the site of up to 360MW. The Group is continuing to assess the gain on sale that will be recognised from the transaction.

ACCOMPANYING INFORMATION

A1. Basis of consolidation and significant accounting policies

A1.1 Basis of consolidation

The financial statements consolidate the results of the Company and its subsidiaries together with the Group's share of the results and net assets of its interests in joint arrangements and associates. Where necessary to ensure consistency, the accounting policies of the subsidiaries, joint arrangements or associates have been adjusted to align to the accounting policies of the Group. Intra-Group balances and any unrealised gains and losses or income and expenses arising from Intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with joint arrangements and associates are eliminated to the extent of the Group's interest in the entity. Non-controlling interests represent the equity in subsidiaries that is not attributable, either directly or indirectly, to SSE plc shareholders.

Subsidiaries (Accompanying Information A3)

Subsidiaries are those entities controlled by the Group or the Company. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity in order to obtain variable returns from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries acquired are consolidated in the financial statements of the Group from the date that control commences until the date control ceases. Transactions with non-controlling interests that relate to their ownership interests and do not result in a loss of control are accounted for as equity transactions.

Interests in joint arrangements and associates (Note 16 and Accompanying Information A3)

Joint arrangements, as defined by IFRS 11 "Joint Arrangements", are those arrangements that convey to two or more parties "joint control". Joint control exists when decisions about the "relevant activities", being the financial, operational or strategic policies of the arrangement, are made with the unanimous consent of the parties sharing control. Whilst this assessment is principally focused on any "Reserved Matters", being the material activities that typically require all significant shareholders to approve, other contractual agreements such as Power Purchase Agreements and Management Services Agreements are also considered. The Group's investments in joint arrangements are classified as either joint operations or joint ventures depending on the investee's legal form and the investor's contractual rights and obligations over the assets and liabilities of the investee.

Associates are those investments over which the Group has significant influence but neither control nor joint control.

The Group's interests in its joint operations are accounted for by recognising its share of the assets, liabilities, revenue and expenses of the operation. In these arrangements, the Group's share of the revenue will be eliminated as it relates to its purchased share of the output from the arrangement.

The Group's joint ventures and associates are accounted for using the equity method of accounting where the joint venture and associate net investments (comprising both equity and long-term loans) are carried at historical cost plus the Group's share of post-acquisition results, less any impairment in value. For those investments that were formerly subsidiaries of the Group, this will also include any fair value uplift arising from loss of control. The Group recognises its share of the results of these equity-accounted operations after tax and interest in the income statement.

Foreign currencies

The consolidated financial statements are presented in pounds sterling, which is the functional currency of the parent. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured accordingly.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Any gain or loss arising on the restatement of such items is taken to the income statement as a Finance Cost, with the exception of exchange gains or losses on foreign currency borrowings that provide a hedge against a net investment in a foreign entity or exchange gains or losses incurred as part of a qualifying cash flow hedge. These exchange gains or losses are transferred to the translation reserve to the extent the hedge is effective. Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated at the historic rate at the date of transaction.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into pounds sterling at the balance sheet closing rate. The results of these operations are translated at the average rate in the relevant period. Exchange differences on retranslation of the opening net assets and the results of foreign operations are transferred to the translation reserve and are reported in the consolidated statement of comprehensive income.

The average and spot rates for the principal functional currencies that the Group's foreign operations are denominated in are shown in the table below.

		2020	2019	Change
EUR v GBP	Year end spot rate	**1.1301**	1.1581	(2.4%)
	Average spot rate	**1.1372**	1.1338	0.3%

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies

Revenue (Notes 2 & 5)

Revenue from contracts with customers is recognised to the extent that it reflects the expected consideration for goods or services provided to the customer under contract, over the performance obligations they are being provided. For each separable performance obligation identified, the Group determines whether it is satisfied at a "point in time" or "over time" based upon an evaluation of the receipt and consumption of benefits, control of assets and enforceable payment rights associated with that obligation. If the criteria required for "over time" recognition are not met, the performance obligation is deemed to be satisfied at a "point in time".

Revenue principally arises as a result of the Group's activities in energy production, storage, transmission, distribution, supply and related services in the energy markets in Great Britain and Ireland. The key policies applied by each Business Area are as follows:

Transmission

Use of electricity transmission networks

Revenue from use of electricity transmission networks is derived from the allowed revenue as defined by the parameters in the relevant electricity transmission licence, which informs the tariffs we set.

Electricity transmission revenue is determined in accordance with the regulatory licence, based on an Ofgem approved revenue model and is recognised "over time" as charged to National Grid. Where this revenue differs from the allowed revenue, there may be an over- or under-recovery of revenue which will be reflected in future financial year's allowed revenue as set out in the regulatory licence. No accounting adjustments are therefore made for over- or under-recoveries in the year that they arise.

Transmission network contracted services

Where the Group has an ongoing obligation to provide contracted services (transmission network connections), revenues are recognised "over time" consistent with the customer receiving and consuming the benefits of that service across the expected contractual service period. Any assets constructed in order to deliver the service are capitalised and depreciated over their useful life. Payments from customers are typically received from customers in advance of providing the contracted service and are deferred on balance sheet. No extended warranty periods are offered.

Distribution

Use of electricity distribution networks

Revenue from use of electricity distribution networks is derived from the allowed revenue as defined by the parameters in the relevant electricity distribution licence, which informs the tariffs we set.

Electricity distribution revenue recognised is based on the volume of electricity distributed "over time", as use of distribution service is determined by the customer, and the set customer tariff. As with electricity transmission revenue, any over- or under-recovery of revenue is reflected in future financial year's allowed revenue as set out in the regulatory licence. No accounting adjustments are therefore made for over- or under-recoveries in the year that they arise.

Distribution network contracted services

Where the Group has an ongoing obligation to provide contracted services (such as for distribution network connections), revenues are recognised "over time" consistent with the customer receiving and consuming the benefits of that service across the expected contractual service period. Any assets constructed in order to deliver the service are capitalised and depreciated over their useful life. Payments from customers are typically received from customers in advance of providing the contracted service and are deferred on balance sheet. No extended warranty periods are offered.

Renewables

Electricity generation

Revenue from the physical generation of electricity is recognised "point in time" as generated and supplied to the national settlements body. Revenue is measured at either the spot price at the time of delivery, or trade price where that trade is eligible for "own use" designation.

Renewables contracted services

Revenue from national support schemes, such as Renewable Obligation Certificates, is recognised at the point the performance obligation has been met. This is typically considered to be either at the point electricity has been physically generated or over the contractual period, depending on the underlying performance obligation. Revenue is measured either at the market rate at the point of generation, or at the fixed contractual consideration, depending on the individual scheme mechanic.

Revenue from other ancillary generation services is recognised "over time" consistent with the customer receiving and consuming the benefits of those services across the expected contractual service period, and at the contracted consideration.

Thermal

Electricity generation

Revenue from the physical generation of electricity is recognised "point in time" as generated and supplied to the national settlements body. Revenue is measured at either the spot price at the time of delivery, or trade price where that trade is eligible for "own use" designation.

ACCOMPANYING INFORMATION CONTINUED

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Thermal continued

Gas storage

Revenue from gas storage capacity related services is recognised "point in time" based on the number of days the storage service has been provided at the applicable contractual rate. Revenue for the injection and withdrawal of gas is recognised at the point of gas flowing into or out of the storage facilities at the applicable contractual rate.

Revenue from gas storage secondary trading opportunities is recognised "point in time" as injected back into the network. Revenue is measured at either the spot price at the time of delivery, or trade price where that trade is eligible for "own use" designation.

Thermal Generation contracted services

Revenue from national support schemes, such as the Capacity Market, is recognised at the point the performance obligation has been met. This is typically considered to be either at the point electricity has been physically generated or over the contractual period, depending on the underlying performance obligation. Revenue is measured either at the market rate at the point of generation, or at the fixed contractual consideration, depending on the individual scheme mechanic.

Revenue from other ancillary generation services is recognised "over time" consistent with the customer receiving and consuming the benefits of those services across the expected contractual service period, and at the contracted consideration.

Customers and SSE Energy Services (discontinued)

Supply of energy

Revenue on the supply of energy comprises sales to domestic and business end-user customers based on actual energy consumption including an estimate of the value of electricity and gas supplied to customers between the date of the last meter reading and the year end. Revenue is recognised "over time" consistent with the delivery of energy to the customer as we consider the receipt and consumption of the benefits of the energy to be simultaneous. Revenue is measured based on the applicable customer tariff rate and after deduction of discounts for direct debits, paperless billing or government schemes such as the "Warm Home Discount".

Details of the estimation process for the value of electricity and gas supplied to customers is given within Note 4.1(iv).

Payments from customers may be received in advance of providing the contracted service and are deferred on balance sheet. Amounts received from customers in relation to energy management services provided by Third Party Intermediaries ("TPIs") are offset against payments to those TPIs, reflecting the responsibility for providing the energy management service.

Energy related services

Where the Group has an ongoing obligation to provide contracted energy related services, revenues are recognised "over time" consistent with the customer receiving and consuming the benefits of that service across the expected contractual service period at the fixed contracted rate. Where the Group has an obligation to perform a specific service, revenues are recognised "point in time", following performance of the service at the fixed contracted consideration. No extended warranty periods are offered.

Enterprise

Construction related services

For construction related services, revenue is recognised for each identified performance obligation "over time" by applying an input method to determine the proportion of total contract revenue (being fixed price consideration plus the latest estimate of variable consideration) that should be recognised. The input method applied is calculated by reference to the costs incurred to date on that performance obligation, relative to the total expected costs to satisfy that performance obligation, provided the contract outcome can be assessed with reasonable certainty. Revenue from non-contracted agreements or variations to contracted work is only recognised to the extent there is additional supporting evidence to their recoverability and may be subject to constraints on recognition. Revenue on contracts in customer dispute is recognised only to the extent it is considered to be highly probable that the revenue will be recovered.

Commissions in relation to acquisition of construction related contracts are expensed as incurred. No extended warranty periods are offered. Payments from customers are based on agreed billing schedules, with payment milestones typically aligned with delivery of performance obligations.

EPM & I

Commodity optimisation and other services

Income from sales commodity optimisation trading occurring in any business unit is presented net in cost of sales alongside purchase commodity optimisation trades.

Revenue arising on commodities purchased in excess of the Group's requirements and recorded as inventory assets, such as Renewables Obligation Certificates, is recognised "point in time" on disposal of these inventory assets to third parties.

Revenue from other ancillary services is recognised "over time" consistent with the customer receiving and consuming the benefits of those services across the expected contractual service period, and at the contracted consideration.

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

EPM & I continued

Physical energy production

Revenue from the physical production of natural gas, crude oil and condensates arises from the Group's interest in various joint ventures and associates and is based on the entitlement method; whereby the Group's share of interest and production sharing terms are used to determine the allocation of production to each party in the arrangement. Revenue is recognised "point in time" based on the production that has been delivered to the customer at the specified delivery point and measured based on the applicable market price as specified in the customer contracts.

Aside from where specifically noted above, consideration is due when the performance obligation has been satisfied. As the period between satisfaction of the performance obligation and receipt of consideration from the customer is expected to be less than a year, the Group has applied the practical expedient not to adjust revenue for the effect of any financing components.

Revenue from sources other than the Group's contracts with customers principally comprise meter rental income within the Enterprise business, and Contract for Difference income within certain Joint Venture arrangements.

Income on meter rental agreements, which are classified as operating leases, are presented as revenue where they relate to the core operating activities of that business. Lease payments are recognised as income on a straight-line basis over the lease term.

Contract for Differences are agreements between a low carbon electricity generator and the Low Carbon Contracts Company ("LCCC"), a UK Government owned entity responsible for delivering support mechanisms for low-carbon electricity generation. These agreements are not considered to be contracts with a customer, as the LCCC does not receive any goods or services from the generator. These arrangements are instead considered to be Government Grants, with income arising from these grants recognised in the income statement in the period in which generation takes place. This income is presented as revenue where they relate to the core operating activities of that business.

Cost of sales (Note 6)

Cost of sales includes fuel and energy purchases, direct employee benefits, and depreciation of property, plant and equipment.

The net result from sales and purchases of commodity optimisation trades – comprising both realised and unrealised gains and losses arising from optimisation trading activities – is also presented within cost of sales, reflecting the underlying economic purpose of this trading activity.

Finance income and costs (Note 9)

Interest income and costs are recognised in the income statement as they accrue, on an effective interest method. The issue costs and interest payable on bonds and all other interest payable and receivable is reflected in the income statement on the same basis.

Interest on the funding attributable to major capital projects is capitalised during the period of construction and depreciated as part of the total cost over the useful life of the asset.

The accounting policy for foreign exchange translation of monetary assets and liabilities is described on page 240 and for lease liability charges on page 247.

Taxation (Note 10)

Taxation on the profit for the year comprises current and deferred tax. Taxation is recognised in the income statement unless it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities other than in business combinations that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset within the same tax authority and where the Group intends to either settle them on a net basis, or to realise the asset and settle the liability simultaneously. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Business Combinations (Note 12)

The acquisition of subsidiaries, and joint operations that meet the definition of a business, is accounted for under the acquisition method as defined by IFRS 3 "Business Combinations".

ACCOMPANYING INFORMATION CONTINUED

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Business Combinations (Note 12) continued

The cost of acquisition is measured as being the aggregate fair value of consideration to be transferred at the date control is obtained. Contingent consideration is classified as a liability and subsequently re-measured through the income statement. Acquisition costs are expensed as incurred.

Held for disposal assets and liabilities and discontinued operations (Note 12)

Non-current assets are classified as held for disposal if their recoverable value is likely to be recovered via a sale or distribution as opposed to continued use by the Group. In order to be classified as assets held for disposal, assets must meet all of the following conditions; the disposal is highly probable, it is available for immediate disposal, it is being actively marketed and the disposal is likely to occur within one year.

Assets that qualify as held for disposal and related liabilities are disclosed separately from other assets and liabilities in the balance sheet prospectively from the date of classification. Non-current assets determined as held for disposal are measured at the lower of carrying value and fair value less costs to sell, no depreciation is charged in respect of these assets after classification as held for disposal.

Assets or groups of assets and related liabilities that qualify as held for disposal are classified as discontinued operations when they represent a separate major line of business or geographical area, are part of a single plan to dispose of a separate major line of business or geographical area or are acquired exclusively with a view to resale. Income and expenses relating to these discontinued operations are disclosed in a single net amount after taxes in the income statement, with comparative amounts re-presented accordingly.

Intra-Group balances and any unrealised gains and losses or income and expenses arising from trading between continuing and discontinued operations continue to be eliminated in preparing the consolidated financial statements.

Intangible assets (Note 13)

Goodwill and impairment testing

Goodwill arising on a business combination represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or joint venture at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least on an annual basis.

For the purpose of impairment testing, goodwill is allocated on initial recognition to those cash-generating units (CGUs) expected to benefit from the combination's synergies. The cash-generating units used for goodwill impairment testing purposes will represent how goodwill was attributed but may not represent reportable business segments.

Goodwill may also arise upon investments in joint arrangements and associates. Goodwill arising on a joint operation is recorded as a separate asset and any impairment loss is recognised in the income statement. Goodwill arising on a joint venture or associate is recorded within the carrying amount of the Group's investment and any impairment loss is included within the share of result from joint ventures and associates. On disposal or closure of a previously acquired investment or business, any attributed goodwill will be included in determining the profit or loss on disposal.

Allowances and certificates

Allowances and certificates consist of purchased carbon emissions allowances and generated or purchased obligations certificates. These allowances and certificates will be utilised in settlement of environmental obligations incurred by the Group's Generation and Business and Domestic Energy Supply businesses.

The EU Emissions Trading Scheme (EU ETS) has been in operation since 1 January 2005. Carbon allowances purchased are recorded at cost within intangible assets. Forward carbon contracts are measured at fair value with gains or losses arising on re-measurement being recognised in the income statement. A liability is recognised based on the level of emissions recorded. Up to the level of allowances held, including forward carbon contracts, the liability is measured at the cost of purchase. When the carbon emission liability exceeds the carbon allowances held, the difference is measured at market value selling price. Subsequent movements in market value are recognised in operating profit.

The carbon allowance intangible asset is surrendered at the end of the compliance period to the extent requested reflecting the consumption of the economic benefit and is recorded as being utilised. As a result, no amortisation is booked but an impairment charge may be recognised should the carrying value of allowances exceed market or fair value.

Under the Renewable Obligations Certificates (ROCs) scheme, certificates obtained from own generation are awarded by a third party, Ofgem. ROCs can be traded with third parties and are ultimately used by suppliers to demonstrate to Ofgem that they have met their obligation to source a set proportion of the electricity they supply from renewable sources. The value of a ROC to a supplier comprises two elements: the "buy-out" price which is set annually in advance of the compliance period by Ofgem; and the "recycle" price which is determined after the compliance period by Ofgem. The recycle price element is estimated at the balance sheet date based on assumptions at that point in time around likely levels of renewable generation and supply over the remaining compliance period, and is therefore subject to possible future variation.

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Intangible assets (Note 13) continued

Where ROCs are self-generated or purchased to fulfil the Group's liability under the renewables obligation, they are recorded at market value at the point of generation or purchased within intangible assets. Following disposal of the Group's Energy Services business in January 2020 – as discussed in Note 12.2 (i) – the Group now holds ROCs in excess of the Group's renewables obligation. Due to limited evidence of liquidity or net settlement for ROC trades, we have determined that any purchased ROCs in excess of the Group's renewables obligation are recorded at the lower of cost or net realisable value within inventories. Similarly, the fair value of any forward contracts entered into at the balance sheet date for the purchase or sale of ROCs in future periods are not recognised, as there is insufficient liquidity for net settlement. The Group's liability under the renewables obligation is recognised based on electricity supplied to customers, the obligation level set by Ofgem and the prevailing market price.

The intangible assets are surrendered at the end of the compliance period reflecting the consumption of economic benefit and release of the associated liability. As a result, no amortisation is recorded during the period.

Research and development

Expenditure on research activities is charged to the income statement as incurred.

Expenditure on development activities is capitalised as intangible assets if the project or process is considered to be technically and commercially feasible and the Group intends to complete the project or process for use or for sale. Development projects include wind farm developments, thermal generation and gas storage projects, prospective gas production assets and other developments relating to proven technologies. Costs incurred in bringing these projects to the consent stage include options over land rights, planning application costs and environmental impact studies and may be costs incurred directly or part of the fair value exercise on acquisition of an interest in a project. At the point that the project reaches the consent stage and is approved by the Board, the carrying value of the project is transferred to property, plant and equipment as assets under construction. Once in operation, depreciation will be charged over the expected useful life of the asset. The asset is derecognised on disposal, or when no future economic benefits are expected to arise.

Other intangible assets

Other intangible assets that have been acquired separately by the Group are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated brands or customer lists are expensed as incurred. Expenditure on internally developed software assets and application software licences includes contractors' fees and directly attributable labour and overheads. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of these assets. The amortisation periods utilised are as follows:

	Years
Brands	10
Customer lists	Contract term
Developed software assets and application software licences	3-15

The useful lives of all the intangible assets are reviewed annually and amended, as required, on a prospective basis. Intangible assets are derecognised on disposal, or when no future economic benefits are expected from their use.

Property, plant and equipment (Note 14)

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairments. The cost of self-constructed assets includes the cost of materials, direct labour and other directly attributable costs. Where the asset is a qualifying asset, for which a considerable period of time is required to prepare the asset for use or sale, borrowing costs will be capitalised as part of the asset's cost. Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment, and depreciated accordingly. An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Right of use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where a modification to a lease agreement decreases the scope of the lease, the carrying amount of the right of use asset is adjusted and a gain or loss is recognised in proportion to the decrease in scope of the lease. All other modifications to lease agreements are accounted for as a reassessment of the lease liability with a corresponding adjustment to the right of use asset.

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.

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Property, plant and equipment (Note 14) continued

In accordance with the transition provisions of IFRS 1 "First-time Adoption of IFRS", the Group identified the carrying value of these assets at privatisation and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, has been subject to depreciation over a useful economic life of 75 years. All subsequent maintenance expenditure is chargeable directly to the income statement.

Depreciation

Depreciation is charged to the income statement to write off cost, less residual values, on a straight line basis over their estimated useful lives with the exception of Gas Production Assets which are depreciated on the Units of Production basis. Heritable and freehold land is not depreciated. Depreciation policy, useful lives and residual values are reviewed at least annually, for all asset classes to ensure that the current method is the most appropriate. Depreciation commences following the asset commissioning period and when the asset is available for commercial operation. The estimated useful lives for assets depreciated on a straight line basis are as follows:

	Years
Wholesale specific assets	
Hydro civil assets	75 to 100
Thermal and hydro power stations including electrical and mechanical assets	20 to 60
Onshore wind farms	20 to 25
Offshore wind farms	20 to 25
Gas storage facilities	25 to 50
E&P common infrastructure assets	25 to 50
Networks specific assets	
Overhead lines, underground cables and other network assets	5 to 80
Non-operational assets, fixtures, equipment, plant and machinery, vehicles and mobile plant	5 to 10
Group wide assets	
Office buildings	30 to 40
Fixtures, IT assets, vehicles and mobile plant	3 to 15

Assets held under 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 agreement.

Subsequent expenditure

It is the Group policy to capitalise qualifying replacement expenditure and depreciate it over the expected useful life of the replaced asset. Replaced assets are derecognised at this point and the costs recorded as costs of disposal. Where an item of property, plant and equipment is replaced and it is not practicable to determine the carrying amount of the replaced part, the cost of the replacement adjusted for inflation will be used as an approximation of the cost of the replaced part at the time it was acquired or constructed.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the item of property, plant and equipment to which it relates. Maintenance and repair costs are expensed as incurred.

Derecognition

An item of property, plant or equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are determined by comparing the proceeds received with the carrying amount of the asset and are included in the income statement. Any gain or loss on derecognition of the asset is included in the income statement in the period of derecognition.

Exploration, evaluation and production assets (Notes 13 and 14)

The Group uses the successful efforts method of accounting for exploration and evaluation expenditure associated with exploration wells or "prospects". This expenditure will be capitalised initially within intangible assets and will include licence acquisition costs associated with the prospects. Upon recognition of proved and probable reserves and internal approval for development, the relevant expenditure will be transferred to property, plant and equipment and depreciated on a unit of production basis. If the prospects are determined to be unsuccessful, and no future activity is planned, the intangible asset will be expensed in the period in which that determination is made.

All field development costs, including rights and concessions related to production activities, are capitalised as property, plant and equipment. Capitalised costs relate to the acquisition and installation of production assets and facilities and include specialist engineering, drilling and technical services costs. These property, plant and equipment assets are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on the estimated proven and probable reserves of those fields. Changes in these estimates are dealt with prospectively.

All common infrastructure costs, such as production facilities or pipelines that are common to more than one field, are depreciated on a straight line basis, reflecting their shared usage unrelated to the production of any one field.

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Exploration, evaluation and production assets (Notes 13 and 14) continued

All exploration and production assets are reviewed annually for indicators of impairment. Where indicators of impairment are identified, the carrying value of the field assets are compared with the expected discounted future net cashflows associated with the remaining estimated commercial reserves. An impairment loss will be recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net cashflows. Note that the Gas Production business, in which all exploration, evaluation and production assets are recorded, is classified as "held for sale" in the financial statements to 31 March 2020.

Lease arrangements (Note 21)

Lease arrangements are separately distinguished from service contracts on the basis of whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. If the Group is deemed to control the use of an identified asset, a right of use asset and a corresponding lease liability are recognised on the balance sheet.

Right of use assets are capitalised and held as part of property, plant and equipment. The accounting policy for such arrangements is described on page 245.

Lease liabilities are initially measured at the present value of the future lease payments discounted using the rate implicit in the lease if that can be readily determined. If the interest rate implicit in the lease cannot be readily determined the incremental borrowing rate is used. Where the interest rate implicit in the lease is not readily determinable, the Group has applied the intercompany borrowing rate which is based on the Group's external medium-term borrowing rates with premia adjustments for any subsidiary specific risk factors.

In determining whether any break and/or extension clauses should be included within the lease term, the Group has considered that where an internal decision has been made to break or extend the lease agreement, that decision shall be applied in determining the appropriate lease term. Where an internal decision has not been made, and where the non-cancellable element of the lease term has longer than five years remaining, it is considered that any clauses will not be triggered as any decision beyond that date is not reasonably certain. For all leases with less than five years remaining, an assessment is made at each reporting period on a lease-by-lease basis on whether the clause is reasonably certain to be triggered. Reassessment of break and/or extension judgements made in prior periods could result in recalculation of the lease liability and adjustments to associated balances.

The lease liability is subsequently adjusted for unwind of discounting, repayments and other modifications to the underlying agreement. Lease modifications are accounted for as a separate lease where the scope of the lease increases through the right to use one or more underlying assets and where the consideration of the lease increases by an amount that is equivalent to the standalone price of the increase in scope. Where a modification decreases the scope of the lease, the carrying amount of the right of use asset is adjusted and a gain or loss is recognised in proportion to the decrease in scope of the lease. All other modifications are accounted for as a reassessment of the lease liability with a corresponding adjustment to the right of use asset.

Leases with a duration of 12 months or less and leases for assets which are deemed "low value" are expensed to the income statement on a straight-line basis over the lease term.

Impairment review (Note 15)

The carrying amounts of the Group's PP&E and other intangible assets and the Group's investments in joint ventures and associates, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, or where there are indications that a previously recognised impairment loss has reduced. For PP&E assets that have previously been identified as exhibiting indications of impairment, the review of impairment will be performed annually until there is sufficient evidence to confirm that any potential impairment loss has been appropriately recognised, or until previously recognised impairment losses have been fully written back. For goodwill and other intangible assets with an indefinite life or which are not yet ready for use, the test for impairment is carried out annually. In addition, financial assets measured at amortised cost are also reviewed for impairment annually.

For assets subject to impairment testing, the asset's carrying value is compared to the asset's (or cash-generating unit (CGU)'s, in the case of goodwill), recoverable amount. The recoverable amount is determined to be the higher of the fair value less costs to sell (FVLCS) and the value-in-use (VIU) of the asset or CGU. For financial assets measured at amortised cost the impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If the carrying amount of the asset or CGU exceeds its recoverable amount, an impairment charge will be recognised immediately in the income statement. Reversals of previous impairment charges are recognised if the recoverable amount of the asset or CGU significantly exceeds the carrying amount. Previous impairments of goodwill are not reversed.

Value in use (VIU) calculations require the estimation of future cash flows to be derived from the respective assets (or CGUs) and the selection of an appropriate discount rate in order to calculate their present value. The VIU methodology is consistent with the approach taken by management to evaluate economic value and is deemed to be the most appropriate for reviews of PP&E asset and the Group's identified goodwill-related CGUs. The methodology is based on the pre-tax cash flows arising from the specific assets, underlying assets or CGUs, and discounted using a pre-tax discount rate based on the Group's cost of funding and adjusted for any specific risks. The estimation of the timing and value of underlying projected cash flows and the selection of appropriate discount rates involves management judgement. Subsequent changes to these estimates or judgements may impact the carrying value of the assets.

ACCOMPANYING INFORMATION CONTINUED

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Impairment review (Note 15) continued

The fair value less costs to sell methodology also uses a present value technique, unless there is a quoted price in an active market for that asset. The methodology is based on the post-tax cash flows arising from the specific assets, underlying assets or CGUs, and discounted using a post-tax discount rate determined in the same manner as the rates used in the VIU calculations, adjusted for the relevant taxation rate.

Any impairment charge identified will initially be adjusted against the goodwill allocated to the cash-generating unit. Any excess charge will be allocated against the remaining assets of the cash-generating unit. Reversals of previous impairment charges are allocated against the carrying value of assets previously subject to an impairment charge.

Inventories (Note 17)

Inventories – aside from inventory purchased by the Gas Storage business for secondary trading opportunities – are valued at the lower of cost 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.

Gas inventory purchased by the Gas Storage business for secondary trading opportunities is held at fair value with reference to the forward month market price. Gains and losses on remeasurement at fair value are recognised within the Income Statement, as a "certain remeasurement" item.

Provisions (Note 20)

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Decommissioning

The estimated cost of decommissioning at the end of the useful lives of certain assets is reviewed periodically. Provision is made for the net present value of the estimated cost of decommissioning gas production facilities at the end of the producing lives of fields, and gas storage facilities, offshore wind farms and power stations at the end of the useful life of the facilities. The estimates are based on technology and prices at the balance sheet date and excludes any salvage value related to those assets. A corresponding decommissioning asset is recognised and is included within property, plant and equipment when the provision gives access to future economic benefits. Changes in these provisions are recognised prospectively. The unwinding of the discount on the provision is included in finance costs and the depreciation for the asset is straight-line over the expected useful life of the asset or, for gas production facilities, is amortised on the unit of production method.

Retirement benefit obligations (Note 23)

Defined benefit pension schemes

The Group operates two defined benefit pension schemes, one of which is operated by the Company. Pension scheme assets are measured using bid market values. Pension scheme liabilities are measured using the projected unit credit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Any increase in the present value of liabilities within the Group's defined benefit pension schemes expected to arise from employee service in the year is charged as service costs to operating profit.

Net interest costs are based on net schemes' liabilities adjusted for minimum funding requirement and pension surplus restrictions under IFRIC 14 "IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". Actuarial gains and losses are recognised in full in the consolidated statement of comprehensive income. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet.

Defined contribution pension schemes

The Group also operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amounts charged represent the contributions payable to the schemes in the year and are charged directly to the income statement.

Equity and equity-related compensation benefits

The Group operates a number of employee share schemes as described in the Remuneration Report. These schemes enable Group employees to acquire shares of the Company.

The exercise prices of the sharesave scheme are set at a discount to market price at the date of the grant. The fair value of the sharesave scheme option granted is measured at the grant date by use of a Black-Scholes model. The fair value of the options granted is recognised as an expense on a straight-line basis over the period that the scheme vests. Estimates are updated for non-market conditions at each balance sheet date with any adjustment in respect of the current and prior years being recognised in the income statement. The costs associated with the other main employee schemes are recognised over the period to which they relate. The charge related to the equity shares in the Company awarded under the share schemes is treated as an increase in the cost of investment held by the Company in the subsidiary companies of the Group. The disclosures on equity and equity-related compensation benefits have been removed on the grounds of materiality in relation to the Group.

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Financial instruments (Note 24)

The Group uses a range of financial instruments to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price fluctuations in its normal course of business and in accordance with the Group's risk management policies. The Group's risk management policies are further explained in A6.

As previously noted in the 31 March 2018 Annual Report, the Group's review of the IFRS 9 hedge accounting model concluded that whilst adoption would not change the treatment of existing hedging arrangements, the changes made would not result in any additional hedge designations either. As such, the existing hedge accounting model under IAS 39 appropriately reflects our risk management activities in the financial statements. Therefore, as permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39. This policy choice will be periodically reviewed to consider any changes in our risk management activities.

Interest rate and foreign exchange derivatives

Financial derivative instruments are used by the Group to hedge interest rate and currency exposures. All such derivatives are recognised at fair value and are re-measured to fair value each reporting period. Certain derivative financial instruments are designated as being held for hedging purposes. The designation of the hedge relationship is established at the inception of the hedge and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on re-measurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a "fair value" or "cash flow" hedge. Derivatives that are not designated as hedges are treated as if held for trading, with all fair value movements being recorded through the income statement.

A derivative classified as a "fair value" hedge recognises gains and losses from re-measurement immediately in the income statement. Loans and borrowings are measured at cost except where they form the underlying transaction in an effective fair value hedge relationship. In such cases, the carrying value of the loan or borrowing is adjusted to reflect fair value movements with the gain or loss being reported in the income statement.

A derivative classified as a "cash flow" hedge recognises the portion of gains or losses on the derivative which are deemed to be effective directly in equity in the hedge reserve. Any ineffective portion of the gains or losses is recognised in the consolidated income statement. When hedged cash flows result in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged cash flows affect the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At the point of discontinuation, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction affects profit or loss. On settlement, the cumulative gain or loss recognised in equity is recognised in the income statement.

Commodity derivatives

Within its regular course of business, the Group routinely enters into sale and purchase derivative contracts for commodities such as electricity, gas, coal, carbon allowances and oil. Where the contract was entered into and continues to be held for the purpose of receipt or delivery in accordance with the Group's expected sale, purchase or usage requirements, the contracts are designated as "own use" contracts and are measured at cost. These contracts are not within the scope of IFRS 9.

Derivative commodity contracts which are not designated as own use contracts are accounted for as trading derivatives and are recognised in the balance sheet at fair value. Where a hedge accounting relationship is designated and is proven to be effective, the changes in fair value will be recognised in accordance with the rules noted above. There are currently no designated hedge relationships in relation to commodity contracts.

Other commodity contracts, where own use is not established and a hedge accounting relationship is not designated, are measured at fair value with gains and losses on re-measurement being recognised in the income statement in cost of sales.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives where the characteristics of the derivatives are not closely related to those of the host contracts.

Net investment hedges

Hedges of net investments in foreign operations are accounted in a manner similar to effective cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity, in the translation reserve, and any gain or loss on the ineffective portion of the hedge is recognised in the income statement. On disposal of the foreign operation, the cumulative value of any gains or losses recognised directly in equity is transferred to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

ACCOMPANYING INFORMATION CONTINUED

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Financial instruments (Note 24) continued

Trade receivables

Trade receivables do not carry any interest and are measured at cost less an appropriate allowance for lifetime expected credit losses.

Interest-bearing loans and borrowings

All such loans and borrowings are initially recognised at fair value including transaction costs and are subsequently measured at amortised cost, except where the loan or borrowing is the hedged item in an effective fair value hedge relationship.

Share capital

Ordinary shares are accounted for as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are reacquired are deducted from equity. No gain or loss is recognised in the Group Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Hybrid equity

Hybrid equity comprises issued bonds that qualify for recognition as equity. Accordingly, any coupon payments are accounted for as dividends and are recognised directly in equity at the time the payment obligation arises. This is because the coupon payments are discretionary and relate to equity. Coupon payments consequently do not have any impact on the income statement. Coupon payments are recognised in the cash flow statement in the same way as dividends to ordinary shareholders. Tax credits in relation to the coupon payments are linked to the past transactions or events that support the coupon payments and consequently the tax credits are reported in the income statement.

Hybrid Debt

Hybrid debt comprises issued bonds that have a fixed redemption date and are accounted within Loans and Borrowings. Coupon payments are recognised within the income statement as a finance cost.

A2. Taxation

The Group's primary tax disclosures are included at Note 10. The following tables represent enhanced disclosures adopted in order to assist stakeholder understanding of the Group's tax position and policies as part of the Group's commitment to its Fair Tax Mark accredited status.

Reconciliation of tax charge to adjusted underlying current tax

	2020 £m	**2020 %**	2019 £m	2019 %
Group profit before tax	**587.6**		1,300.3	
Less: share of results of associates and jointly controlled entities	**(153.9)**		(129.2)	
Profit before tax	**433.7**		1,171.1	
Tax on profit on ordinary activities at standard UK corporation tax rate of 19% (2018: 19%)	**82.4**	**19.0**	222.5	19.0
Tax effect of:				
Capital allowances less than depreciation	**13.4**	**3.1**	(25.7)	(2.2)
Increase in restructuring and settlement provisions	**0.5**	**0.1**	2.6	0.2
Non-taxable gain on sale of assets	**(11.6)**	**(2.7)**	(211.3)	(18.0)
Fair value movements on derivatives	**18.3**	**4.2**	70.9	6.1
Pension movements	**(6.0)**	**(1.4)**	(6.7)	(0.6)
Relief for capitalised interest and revenue costs	**(16.3)**	**(3.8)**	(18.2)	(1.6)
Hybrid equity coupon payments	**(8.8)**	**(2.0)**	(8.9)	(0.8)
Expenses not deductible for tax purposes	**13.5**	**3.1**	19.8	1.7
Utilisation of tax losses brought forward	**(4.1)**	**(0.9)**	(0.4)	–
Other items	**1.4**	**0.3**	0.4	–
Adjustments to tax charge in respect of previous years	**(28.6)**	**(6.6)**	(68.0)	(5.8)
Reported current tax charge and effective rate	**54.1**	**12.5**	(23.0)	(2.0)
Depreciation in excess of capital allowances	**(7.6)**	**(1.8)**	36.5	3.1
Increase in provisions	**(0.5)**	**(0.1)**	(2.6)	(0.2)
Fair value movements on derivatives	**(18.3)**	**(4.2)**	(70.9)	(6.1)
Pension movements	**6.0**	**1.4**	6.7	0.6
Relief for capitalised interest and revenue costs	**16.3**	**3.8**	18.2	1.6
Impact of higher deferred tax rates on Gas Production profits	**(4.0)**	**(0.9)**	0.4	–
Adjustments to tax charge in respect of previous years	**10.6**	**2.4**	32.7	2.8
Change in rate of UK corporation tax	**64.6**	**14.9**	(1.5)	(0.1)
Tax losses utilised	**2.1**	**0.5**	(3.7)	(0.3)
Other items	**(1.8)**	**(0.4)**	(2.7)	(0.3)
Reported deferred tax credit and effective rate	**67.4**	**15.5**	13.1	1.1
Group tax charge and effective rate	**121.5**	**28.0**	(9.9)	(0.8)

A2. Taxation continued

Reconciliation of tax charge to adjusted underlying current tax continued

As noted at Note 3 to the accounts, the Group's results are reported on an "adjusted" basis in order to allow focus on underlying business performance. The following table explains the adjustments that are made in order to arrive at adjusted profit before tax. This is the measure utilised in calculation of the Group's "adjusted effective rate of tax".

	2020 £m	2019 £m
Profit before tax	**587.6**	1,300.3
Add/(less):		
Exceptional items and certain re-measurements	**328.9**	(638.4)
Share of tax from jointly controlled entities and associates before exceptional items and certain re-measurements	**82.3**	31.7
Share of non-recurring joint venture refinancing costs	**12.3**	–
Depreciation charge on fair value uplifts	**20.6**	2.9
Interest income/(charge) on pension scheme assets/(liabilities)	**(6.6)**	(9.5)
Share of interest on net pension liabilities in jointly controlled entities and associates	**(1.7)**	(1.9)
Adjusted profit before tax APM	**1,023.4**	685.1

The adjusted current tax charge can therefore be reconciled to the adjusted profit before tax as follows:

	2020 £m	2020 %	2019 £m	2019 %
Adjusted profit before tax	**1,023.4**		685.1	
Tax on profit on ordinary activities at standard UK corporation tax rate	**194.5**	**19.0**	130.2	19.0
Tax effect of:				
Capital allowances in excess of depreciation	**(33.3)**	**(3.3)**	(47.9)	(7.0)
Non-taxable gain on sale of assets	**(5.1)**	**(0.5)**	(3.0)	(0.3)
Non-qualifying depreciation	**7.8**	**0.8**	15.7	2.3
Adjustment for profit on internal trading	**1.9**	**0.2**	0.5	0.1
Increase in restructuring and settlement provisions	**(5.5)**	**(0.5)**	2.7	0.4
Pension movements	**(7.2)**	**(0.7)**	(9.7)	(1.4)
Relief for capitalised interest and revenue costs	**(5.3)**	**(0.5)**	(4.7)	(0.7)
Hybrid equity coupon payments	**(8.8)**	**(0.9)**	(8.9)	(1.3)
Expenses not deductible for tax purposes	**10.8**	**1.1**	7.0	1.0
Losses carried back to earlier years	**(5.7)**	**(0.6)**	(2.1)	(0.3)
Adjustments to tax charge in respect of previous years	**(29.8)**	**(2.9)**	(69.6)	(10.3)
Other	**(0.1)**	**–**	(3.1)	(0.4)
Adjusted current tax charge and effective rate APM	**114.2**	**11.2**	7.1	1.0

The above reconciling adjustments differ from those analysed in the Group tax charge reconciliation above because they include SSE's share of associates and joint ventures, and are based on adjusted profit before tax.

The majority of the Group's profits are earned in the UK, with the standard rate of UK corporation tax being 19% for the year to 31 March 2020 (2019: 19%). The Group's Gas Production business is taxed at a UK corporation tax rate of 30% plus a supplementary charge of 10% (combined 40%). Profits earned by the Group in the Republic of Ireland are taxable at either 12.5% or 25%, depending upon the nature of the income.

Capital allowances are tax reliefs provided in law for the expenditure the Group makes on property, plant and equipment. The rates are determined by Parliament annually and spread the tax relief due over a number of years. This contrasts with the accounting treatment for such spending, where the expenditure on property, plant and equipment is treated as an asset with the cost being depreciated over the useful life of the asset, or impaired if the value of such assets is considered to have reduced materially.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Group is not the same as the profit reported in the financial statements. During both the year to 31 March 2020 and the previous year, the substantial impairments undertaken in relation to certain of the Group's property, plant and equipment, which are explained at Note 7 meant that the charge to profit for the year significantly exceeded the amount of capital allowances due to the Group.

Short-term temporary differences arise on items such as provisions for restructuring costs and onerous contracts, and retirement benefit obligations, because the treatment of such items is different for tax and accounting purposes. These differences usually reverse in the year following that in which they arise, as is reflected in the deferred tax charge in these financial statements. Where interest charges or other costs are capitalised in the accounts, tax relief is either given as the charges are incurred or when the costs are taken to the income statement.

ACCOMPANYING INFORMATION CONTINUED

A2. Taxation continued

Reconciliation of tax charge to adjusted underlying current tax continued

As explained at Accompanying Information A1 and A6, the Group measures its operating and financing derivatives at fair value under IFRS 9. As a result of the Group's subsidiaries applying the HMRC's "disregard regulations", the re-measurement movements have no current tax effect impacting only the deferred tax position.

As detailed at Note 22 and explained in the Accompanying Information A1, the Group has issued Hybrid equity securities which are treated as a component of equity. While the coupon payments relating to these securities are treated as distributions to the holders of the equity instruments, tax relief is allowed on the amount paid in the year. These tax credits are linked to the past transactions or events that support the coupon payments and consequently the tax credits are reported in the income statement.

A3. Related Undertakings

A3.1.1. Subsidiary Undertakings

Details of the principal subsidiary undertakings are as follows:

Company	Country of Incorporation	Registered Address (Key)	2020 Holding %	2019 Holding %	Principal Activity
Abernedd Power Company Limited	England and Wales	B	100.0	100.0	Holding Company
Ahalia Holdings Limited	Ireland	C	100.0	100.0	Dormant
Airtricity Europe Windfarm Holdings Limited	Ireland	C	100.0	100.0	Holding Company
Airtricity Windfarm Finance Limited	Ireland	C	100.0	100.0	Holding Company
Arklow Offshore Phase II Company Limited	Ireland	C	100.0	100.0	Dormant
Beithe AG	Switzerland	Z	100.0	–	Holding Company
Bindoo Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
Brickmount Limited	Ireland	C	100.0	100.0	Power Generation
Building Automation Solutions Limited	England and Wales	D	100.0	100.0	Dormant
Coire Glas Hydro Pumped Storage Limited	Scotland	A	100.0	100.0	Power Generation
Comhlacht Gaoithe Teoranta	Ireland	C	100.0	100.0	Power Generation
Coomacheo Wind Farm Limited	Ireland	C	100.0	100.0	Power Generation
Coomatallin Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
Curragh Mountain Windfarm Limited	Ireland	C	100.0	100.0	Power Generation
Dedondo Limited	Ireland	C	100.0	100.0	Power Generation
Dromada Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
Drumnahough Wind Farm Designated Activity Company	Ireland	C	100.0	–	Power Generation
Evolve Energy Limited	England and Wales	D	–	100.0	Dormant (Dissolved 14/5/19)
Fibre Fuel Limited	England and Wales	B	100.0	100.0	Dormant
Fibre Power (Slough) Limited	England and Wales	B	100.0	100.0	Power Generation
Forbury Assets Limited	England and Wales	B	100.0	100.0	Construction of utility projects
Fusion Heating Limited	Northern Ireland	W	100.0	100.0	Energy Related Services
Galway Wind Park Phase 3 Designated	Ireland	C	100.0	–	Renewable Development
Ganderoy Limited	Ireland	C	100.0	100.0	Power Generation
Gartnaneane Limited	Ireland	C		100.0	Power Generation
Green Wind Energy (Wexford) Limited	Ireland	C	100.0	–	Renewable Development
Griffin Wind Farm Limited	Scotland	A	100.0	100.0	Power Generation
Hydro Electric Pension Scheme Trustees Limited	Scotland	A	100.0	100.0	Dormant
Keadby Developments Limited	England and Wales	E	100.0	100.0	Dormant
Keadby Generation Limited	England and Wales	E	100.0	100.0	Power Generation
Keadby Wind Farm Limited	England and Wales	B	100.0	100.0	Power Generation
Lenalea Wind Farm Designated Activity Company	Ireland	C	100.0	–	Renewable Development
Limerick West Windfarm Limited	Ireland	C	100.0	100.0	Power Generation
March Winds Limited	Ireland	C	100.0	100.0	Power Generation
Medway Power Limited	England and Wales	B	100.0	100.0	Power Generation
Meentycat Limited	Ireland	C	100.0	100.0	Power Generation
Milane Holdings Limited	Ireland	C	100.0	100.0	Dormant
Mullananalt Wind Farm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
Platin Power Limited	Ireland	C	100.0	100.0	Dormant
Power from Waste Limited	England and Wales	B	100.0	100.0	Dormant
Richfield Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
Seagreen Wind Energy Limited	England and Wales	B	100.0	100.0	Renewable Development
Seagreen Alpha Wind Energy Limited	England and Wales	B	100.0	100.0	Renewable Development

A3. Related Undertakings continued
A3.1.1. Subsidiary Undertakings continued

Company	Country of Incorporation	Registered Address (Key)	2020 Holding %	2019 Holding %	Principal Activity
Seagreen Bravo Wind Energy Limited	England and Wales	B	**100.0**	100.0	Renewable Development
Seagreen Charlie Wind Energy Limited	England and Wales	B	**100.0**	100.0	Renewable Development
Seagreen Delta Wind Energy Limited	England and Wales	B	**100.0**	100.0	Renewable Development
Seagreen Holdco 1 Limited (Previously Seagreen Echo Wind Energy Limited)	England and Wales	B	**100.0**	100.0	Renewable Development
Seagreen Holdco 2 Limited (Previously Seagreen Foxtrot Wind Energy Limited)	England and Wales	B	**100.0**	100.0	Renewable Development
Seagreen Holdco 3 Limited (Previously Seagreen Golf Wind Energy Limited)	England and Wales	B	**100.0**	100.0	Renewable Development
Scottish and Southern Energy Power Distribution Limited	Scotland	A	**100.0**	100.0	Holding Company
Scottish Hydro Electric Power Distribution plc	Scotland	A	**100.0**	100.0	Power Distribution
Scottish Hydro Electric Transmission plc	Scotland	A	**100.0**	100.0	Power Transmission
Slieve Divena Wind Farm No 2 Limited	Northern Ireland	F	**–**	100.0	Power Generation (Sold 30/3/20)
Slough Domestic Electricity Limited	England and Wales	B	**100.0**	100.0	Power Generation
Slough Electricity Contracts Limited	England and Wales	B	**100.0**	100.0	Electricity Contracting
Slough Energy Supplies Limited	England and Wales	B	**100.0**	100.0	Dormant
Slough Heat & Power Limited	England and Wales	B	**100.0**	100.0	Power Generation
Slough Utility Services Limited	England and Wales	B	**100.0**	100.0	Utility Services
Southern Electric Gas Limited	England and Wales	B	**–**	100.0	Energy Supply (Sold 15/1/20)
SSE Southern Group Trustee Limited (Previously 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
SSE(SE) Quest Trustee Limited (Previously Southern Electric Quest Trustee Limited)	England and Wales	B	**100.0**	100.0	Dormant
SSE Airtricity Limited	Ireland	C	**100.0**	100.0	Energy Supply
SSE Airtricity Energy Services (NI) Limited	Northern Ireland	F	**100.0**	100.0	Energy Supply
SSE Airtricity Energy Services Limited	Ireland	C	**100.0**	100.0	Energy Supply
SSE Airtricity Energy Supply (NI) Limited	Northern Ireland	F	**100.0**	100.0	Energy Supply
SSE Airtricity Gas (NI) Limited	Northern Ireland	F	**–**	100.0	Dormant (Dissolved 9/7/19)
SSE Airtricity Gas Limited	Ireland	C	**100.0**	100.0	Energy Supply
SSE Airtricity Gas Supply (NI) Limited	Northern Ireland	F	**100.0**	100.0	Energy Supply
SSE Airtricity Utility Solutions Limited	Ireland	C	**100.0**	100.0	Utility Contracting
SSE Beatrice Offshore Windfarm Holdings Limited	Scotland	A	**100.0**	100.0	Holding Company
SSE Contracting Group Limited	England and Wales	B	**100.0**	100.0	Holding Company
SSE Contracting Limited	England and Wales	B	**100.0**	100.0	Contracting
SSE Cumarsáid Teoranta	Ireland	C	**100.0**	100.0	Telecommunications
SSE E&P UK Limited	Scotland	A	**100.0**	100.0	Gas Production
SSE Electricity Limited	England and Wales	B	**–**	100.0	Energy Supply (Sold 15/1/20)
SSE Energy Services Group Limited	England and Wales	B	**–**	100.0	Holding Company (Sold 15/1/20)
SSE Energy Solutions Limited	Scotland	A	**–**	100.0	Energy Related Services (Sold 15/1/20)
SSE Energy Supply Limited	England and Wales	B	**100.0**	100.0	Energy Supply
SSE Enterprise Limited	England and Wales	B	**100.0**	100.0	Corporate Services
SSE EPM Limited	England and Wales	B	**100.0**	100.0	Energy Trading
SSE Galloper Offshore Windfarm Holdings Limited	England and Wales	B	**100.0**	100.0	Holding Company
SSE Generation Ireland Limited	Ireland	C	**100.0**	100.0	Power Generation
SSE Generation Limited	England and Wales	B	**100.0**	100.0	Power Generation
SSE Green Deal Limited	Scotland	A	**–**	100.0	Dormant (Dissolved 1/10/19)
SSE Green Deal Provider Limited	Scotland	A	**–**	100.0	Dormant (Dissolved 1/10/19)
SSE Group Limited	Scotland	A	**100.0**	100.0	Dormant
SSE Heat Networks (Battersea) Limited	England and Wales	B	**100.0**	100.0	Dormant
SSE Heat Networks Limited	Scotland	A	**100.0**	100.0	Utility Services
SSE Home Services Limited	Scotland	A	**–**	100.0	Energy Related Services (Sold 15/1/20)
SSE Hornsea Limited	England and Wales	B	**100.0**	100.0	Gas Storage
SSE Insurance Limited	Isle of Man	G	**100.0**	100.0	Insurance

ACCOMPANYING INFORMATION CONTINUED

A3. Related Undertakings continued
A3.1.1. Subsidiary Undertakings continued

Company	Country of Incorporation	Registered Address (Key)	2020 Holding %	2019 Holding %	Principal Activity
SSE Islay Offshore Windfarm Holdings Limited	Scotland	A	–	100.0	Holding Company (Dissolved 19/11/19)
SSE Maple Limited	England and Wales	B	**100.0**	100.0	Investment Holding
SSE Medway Operations Limited	England and Wales	B	**100.0**	100.0	Holding Company
SSE Metering Limited	Scotland	A	–	100.0	Energy Supply (Sold 15/1/20)
SSE Micro Renewables Limited	Scotland	A	**100.0**	100.0	Energy Related Services
SSE Mineral Solutions Limited	England and Wales	B	–	100.0	Dormant (Dissolved 24/9/19)
SSE OWS Glasgow Limited	Scotland	A	**100.0**	100.0	Property Holding
SSE Production Services Limited	England and Wales	B	**100.0**	100.0	Maintenance Services
SSE Renewables (Ireland) Limited	Ireland	C	**100.0**	100.0	Holding Company
SSE Renewables Developments	Germany	AA	**100.0**	–	Renewable Development
SSE Renewables Developments (UK) Limited	Northern Ireland	F	**100.0**	100.0	Renewable Development
SSE Renewables Generation Ireland Limited	Ireland	C	**100.0**	100.0	Power Generation
SSE Renewables Holdings (Europe) Limited	Ireland	C	**100.0**	100.0	Holding Company
SSE Renewables Holdings (UK) Limited	Northern Ireland	F	**100.0**	100.0	Holding Company
SSE Renewables Holdings Germany GmbH	Germany	H	**100.0**	100.0	Dormant
SSE Renewables Holdings Limited	Ireland	C	**100.0**	100.0	Holding Company
SSE Renewables International Holdings	Scotland	A	**100.0**	–	Holding Company
SSE Renewables Limited	Scotland	A	**100.0**	100.0	Holding Company
SSE Renewables Offshore Limited	Ireland	C	**100.0**	100.0	Holding Company
SSE Renewables Offshore Windfarm Holdings Limited	Scotland	A	**100.0**	100.0	Holding Company
SSE Renewables Onshore Windfarm Holdings Limited	Northern Ireland	F	**100.0**	100.0	Holding Company
SSE Renewables UK Limited	Northern Ireland	F	**100.0**	100.0	Power Generation
SSE Renewables Walney (UK) Limited	England and Wales	B	**100.0**	100.0	Holding Company
SSE Renewables Wind Farms (UK)	Scotland	A	**100.0**	–	Power Generation
SSE Retail Limited	Scotland	A	**100.0**	100.0	Energy Related Services
SSE Retail Telecoms Limited	England and Wales	B	–	100.0	Telecommunications (Sold 15/1/20)
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 Services plc	England and Wales	B	**100.0**	100.0	Corporate Services
SSE Shetland Power Generation Limited	Scotland	A	–	100.0	Dormant (Dissolved 8/1/19)
SSE Slough Multifuel Limited	England and Wales	B	**100.0**	100.0	Power Generation
SSE Slough Multifuel Holdco Limited	England and Wales	B	**100.0**	–	Power Generation
SSE Stock Limited	Scotland	A	**100.0**	100.0	Stock Holding
SSE Toddleburn Limited	Scotland	A	**100.0**	100.0	Power Generation
SSE Trading Limited	England and Wales	B	**100.0**	100.0	Energy Trading
SSE Trustees Limited	England and Wales	B	**100.0**	100.0	Dormant
SSE Utility Services Limited	England and Wales	B	**100.0**	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	Water Network (Sold 5/6/19)
SSEPG (Operations) Limited	England and Wales	B	**100.0**	100.0	Power Generation
Sure Partners Limited	Ireland	C	**100.0**	100.0	Renewable Development
Tealing Solar Park Limited	England and Wales	B	**100.0**	–	Construction of utility project
TESGL Limited	England and Wales	D	**100.0**	100.0	Building Energy Management
The Energy Solutions Group Bidco Limited	England and Wales	D	**100.0**	100.0	Dormant
The Energy Solutions Group Midco Limited	England and Wales	D	**100.0**	100.0	Dormant
The Energy Solutions Group Topco Limited	England and Wales	D	**100.0**	100.0	Dormant
Tournafulla Windfarm (ROI) Limited	Ireland	C	**100.0**	100.0	Power Generation
Viking Energy (Scottish Partnership)	Scotland	I	**100.0**	50.0	Renewable Development
Viking Energy Wind Farm LLP	Scotland	I	**100.0**	50.0	Renewable Development

All shares in subsidiary companies are ordinary share capital, unless otherwise stated.

A3.1.2. Partnerships

Company	Country of Incorporation	Registered Address (Key)	2020 Holding %	2019 Holding %	Principal Activity
The Glasa LLP	Scotland	A	**90.0**	90.0	Renewable Development

A3.1.3 Joint arrangements (incorporated)

Company	Country of Incorporation	Registered Address (Key)	2020 Holding %	2019 Holding %	Principal Activity
3SE (Barnsley, Doncaster & Rotherham) Holdings Limited	England and Wales	J	**25.0**	25.0	Holding Company
3SE (Barnsley, Doncaster & Rotherham) Limited	England and Wales	J	**25.0**	25.0	Waste Management
Aquamarine Power Limited	Scotland	K	**–**	49.9	Renewable Development (Dissolved 4/6/19)
AtlasConnect Limited	Scotland	A	**50.0**	50.0	Dormant
Baglan Pipeline Limited	England and Wales	L	**50.0**	50.0	Dormant
Beatrice Offshore Windfarm Holdco Limited	Scotland	A	**40.0**	40.0	Holding Company
Beatrice Offshore Windfarm Limited	Scotland	A	**40.0**	40.0	Power Generation
Brims Tidal Array Limited	Scotland	M	**50.0**	50.0	Renewable Development
Cloosh Valley Wind Farm Designated Activity Company	Ireland	N	**25.0**	25.0	Power Generation
Cloosh Valley Wind Farm Holdings Designated Activity Company	Ireland	N	**25.0**	25.0	Holding Company
Clyde Windfarm (Scotland) Limited	Scotland	A	**50.1**	50.1	Power Generation
Doggerbank Offshore Windfarm Project 1 Holdco Limited	England and Wales	B	**50.0**	50.0	Holding Company
Doggerbank Offshore Windfarm Project 1 Projco Limited	England and Wales	B	**50.0**	50.0	Renewable Development
Doggerbank Offshore Windfarm Project 2 Holdco Limited	England and Wales	B	**50.0**	50.0	Holding Company
Doggerbank Offshore Windfarm Project 2 Projco Limited	England and Wales	B	**50.0**	50.0	Renewable Development
Doggerbank Offshore Windfarm Project 3 Holdco Limited	England and Wales	B	**50.0**	50.0	Holding Company
Doggerbank Offshore Windfarm Project 3 Projco Limited	England and Wales	B	**50.0**	50.0	Renewable Development
Dunmaglass Wind Farm Limited	Scotland	A	**50.1**	50.1	Power Generation
Everwind Limited	Ireland	Y	**49.0**	49.0	Power Generation
Ferrybridge MFE 2 Limited	England and Wales	B	**50.0**	50.0	Development Company
Ferrybridge MFE Ltd	England and Wales	B	**50.0**	50.0	Power Generation
Forewind Limited	England and Wales	B	**–**	50.0	Dormant (Dissolved 4/6/19)
Greater Gabbard Offshore Winds Limited	England and Wales	B	**50.0**	50.0	Power Generation
Green Energy Company Limited	Ireland	O	**47.5**	47.5	Dormant
Green Way Energy Limited	Ireland	O	**50.0**	50.0	Holding Company
Kerry Power Limited	Ireland	O	**49.0**	49.0	Power Generation
Maple Topco Limited	England & Wales	R	**33.3**	33.3	Holding Company
Marchwood Power Limited	England and Wales	P	**50.0**	50.0	Power Generation
Marron Activ8 Energies Limited	Ireland	X	**45.0**	40.0	Energy Related Services
Midas Energy Limited	Ireland	O	**49.0**	49.0	Power Generation
Multifuel Energy 2 Limited	Scotland	A	**50.0**	50.0	Power Generation
Multifuel Energy Limited	Scotland	A	**50.0**	50.0	Power Generation
Neos Networks Limited	England and Wales	B	**50.0**	50.0	Telecommunications
PriDE (Serp) Ltd	England and Wales	Q	**50.0**	50.0	Estate Maintenance and Improvement
Scotia Gas Networks Limited	England and Wales	R	**33.3**	33.3	Gas Distribution
Seabank Power Limited	England and Wales	S	**50.0**	50.0	Power Generation
SSE Telecommunications Limited	Scotland	A	**50.0**	50.0	Telecommunications
Stronelairg Wind Farm Limited	Scotland	A	**50.1**	50.1	Power Generation
SGN Commercial Services Limited	England and Wales	R	**33.3**	33.3	Energy Related Services
SGN Connections Limited	England and Wales	R	**33.3**	33.3	Gas Distribution
SGN Lessona Limited	England and Wales	R	**33.3**	33.3	Holding company
SGN Place Limited	England and Wales	R	**33.3**	33.3	Holding company

ACCOMPANYING INFORMATION CONTINUED

A3. Related Undertakings continued
A3.1.3 Joint arrangements (incorporated) continued

Company	Country of Incorporation	Registered Address (Key)	2020 Holding %	2019 Holding %	Principal Activity
SGN Belvedere Limited	England and Wales	R	**33.3**	33.3	Property
SGN Brighton Limited	England and Wales	R	**33.3**	33.3	Property
SGN Epsom Limited	England and Wales	R	**33.3**	33.3	Property
SGN Greenwich Limited	England and Wales	R	**33.3**	33.3	Property
SGN Kennington Limited	England and Wales	R	**33.3**	33.3	Property
SGN Motspur Park Limited	England and Wales	R	**33.3**	33.3	Property
SGN Old Kent Road Limited	England and Wales	R	**33.3**	33.3	Property
SGN Property Holdings Limited	England and Wales	R	**33.3**	33.3	Property
SGN Property Services Limited	England and Wales	R	**33.3**	33.3	Property
SGN Rotherhithe Limited	England and Wales	R	**33.3**	33.3	Property
SGN Southampton Limited	England and Wales	R	**33.3**	33.3	Property
SGN Wandsworth Limited	England and Wales	R	**33.3**	33.3	Property
SGN PledgeCo Limited	England and Wales	R	**33.3**	33.3	Holding company
SGN MidCo Limited	England and Wales	R	**33.3**	33.3	Holding company
Scotland Gas Networks plc	Scotland	AC	**33.3**	33.3	Gas Distribution
SGN Contracting Limited	England and Wales	R	**33.3**	33.3	Energy Related Services
SGN Natural Gas Limited	England and Wales	R	**33.3**	33.3	Gas Distribution
Southern Gas Networks plc	England and Wales	R	**33.3**	33.3	Gas Distribution
SGN Smart Limited	England and Wales	R	**33.3**	33.3	Gas Distribution
Maple HoldCo 1 Limited	England and Wales	R	**33.3**	33.3	Energy Related Services
MapleCo1 Ltd	England and Wales	R	**33.3**	33.3	Energy Related Services
Maple HoldCo 2 Limited	England and Wales	R	**33.3**	33.3	Energy Related Services
MapleCo2 Ltd	England and Wales	R	**33.3**	33.3	Energy Related Services
Maple HoldCo 3 Limited	England and Wales	R	**33.3**	–	Energy Related Services
MapleCo3 Ltd	England and Wales	R	**33.3**	–	Energy Related Services

A3.1.4 Associates

Company	Country of Incorporation	Registered Address (Key (i))	2020 Holding %	2019 Holding %	Principal Activity
Murphy Asset Services Limited	England and Wales	AD	**16.6**	16.6	Holding Company
Shetland Land Lease Limited	England and Wales	T	**20.0**	20.0	Development Company
St Clements Services Limited	England and Wales	U	**25.0**	25.0	Utilities Software
Walney (UK) Offshore Windfarms Limited	England and Wales	V	**25.1**	25.1	Power Generation

A.3.1.5 Registered Address Key

Reference	Company registered address
A	Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ
B	No 1 Forbury Place, 43 Forbury Road, Reading RG1 3JH
C	Red Oak South, South County Business Park, Leopardstown, Dublin 18
D	Ocean Court, Caspian Road, Atlantic Street, Altrincham, WA14 5HH
E	Keadby Power Station, Trentside, Keadby, Scunthorpe, North Lincs DN17 3AZ
F	3rd Floor, Millennium House, 17-25 Great Victoria Street, Belfast, BT2 7AQ
G	Tower House, Loch Promenade, Douglas, Isle of Man
H	Büro München, Elektrastrasse 6, 81925, München, Germany
I	The Gutters' Hut, North Ness Business Park, Lerwick, Shetland ZE1 0LZ
J	Dunedin House Auckland Park, Mount Farm, Milton Keynes, Buckinghamshire, MK1 1BU
K	City Point, 65 Haymarket Terrace, Edinburgh, EH12 5HD
L	16 Axis Way, Mallard Way, Swansea Vale, Swansea, SA7 OAJ
M	The Vision Building, 20 Greenmarket, Dundee, DD1 4QB
N	6th Floor, South Bank House, Barrow Street, Dublin 4
O	Lissarda Industrial Park, Lissarda, Macroom, County Cork
P	Oceanic Way, Marchwood Industrial Park, Marchwood, Southampton SO40 4BD
Q	Capital Tower, 91 Waterloo Road, London, SE1 8RT
R	St Lawrence House, Station Approach, Horley, Surrey RH6 9HJ
S	Severn Road, Hallen, Bristol, BS10 7SP
T	18th Floor, 10 Upper Bank Street, Canary Wharf, London, E14 5BF
U	4-6 Church Walk, Daventry, NN11 4BL
V	5 Horwick Place, London, England, SWIP 1WG
W	Unit 14 Maryland Industrial Estate, Ballygowan Road, Belfast

A3. Related Undertakings continued

A.3.1.5 Registered Address Key continued

Reference	Company registered address
X	Dunoge, Carrickmacross, Co. Monaghan, Ireland
Y	Gorthleahy, Macroom, Co Cork, Ireland
Z	c/o Fiduservice SA, Route de Beaumont 20, 1701 Freiburg, Switzerland
AA	c/o CMS Hasche Sigle, Stadthausbrücke 1-3, 20355 Hamburg
AB	Windmill Hill Business Park, Whitehill Way, Swindon, Wiltshire SN5 6PB
AC	Axis House 5 Lonehead Drive, Newbridge, Edinburgh, Scotland, EH28 8TG
AD	Hiview House, Highgate Road, London, United Kingdom, NW5 1TN

A4. Joint ventures and associates

The Directors have assessed that the investments in the following equity accounted joint ventures and associates are of a sufficiently material impact to warrant additional disclosure on an individual basis. Details of on the financial position and financial results of the Group:

Company	Principal activity	Country of incorporation	Class of shares held	Proportion of shares held %	Group Interest %	Year end date	Consolidation basis
Scotia Gas Networks Limited	Gas Distribution	UK	Ordinary	33.3	33.3	31 March	Equity
Seabank Power Limited	Power Generation	UK	Ordinary	50.0	50.0	31 December	Equity
Marchwood Power Limited	Power Generation	UK	Ordinary	50.0	50.0	31 December	Equity
Multifuel Energy Limited	Power Generation	UK	Ordinary	50.0	50.0	31 March	Equity
Clyde Windfarm (Scotland) Limited	Power Generation	UK	Ordinary	50.1	50.1	31 March	Equity
Walney (UK) Offshore Windfarms Limited	Power Generation	UK	Ordinary	25.1	25.1	31 December	Equity
Beatrice Offshore Windfarms Limited	Power Generation	UK	Ordinary	40.0	40.0	31 March	Equity
Dunmaglass Wind Farm Limited	Power Generation	UK	Ordinary	50.1	50.1	31 March	Equity
Stronelairg Wind Farm Limited	Power Generation	UK	Ordinary	50.1	50.1	31 March	Equity
SSE Telecommunications Limited	Telecoms	UK	Ordinary	50.0	50.0	31 March	Equity

Summary information for material joint ventures and associates from unaudited financial statements is as follows:

	SGN 2020 £m	Seabank Power Limited 2020 £m	Marchwood Power Limited 2020 £m	Multifuel Energy Limited 2020 £m	Clyde Windfarm (Scotland) Limited 2020 £m	Walney (UK) Offshore Windfarms Limited 2020 £m	Beatrice Offshore Windfarm Limited 2020 £m	Dunmaglass Wind Farm Limited 2020 £m	Stronelairg Wind Farm Limited 2020 £m	SSE Telecomm-unications Limited 2020 £m	Other 2020 £m	Total 2020 £m
Revenue	1,271.7	112.6	68.7	106.7	133.1	137.3	91.1	32.4	73.6	136.5	79.8	2,243.5
Other income	–	–	–	–	–	–	281.4	–	–	–	–	281.4
Depreciation and amortisation	(184.0)	(11.5)	(24.5)	(22.1)	(29.4)	(50.8)	(86.7)	(7.9)	(13.9)	(58.7)	(45.4)	(534.9)
Other operating costs	(480.8)	(79.2)	(28.5)	(23.6)	(41.6)	(68.2)	(62.3)	(7.4)	(16.7)	(61.1)	(16.8)	(886.2)
Operating profit	606.9	21.9	15.7	61.0	62.1	18.3	223.5	17.1	43.0	16.7	17.6	1,103.8
Interest expense	(215.1)	(0.1)	(7.5)	(24.8)	(18.2)	(2.6)	(112.7)	(6.2)	(12.6)	(14.2)	(26.3)	(440.3)
Profit before tax	391.8	21.8	8.2	36.2	43.9	15.7	110.8	10.9	30.4	2.5	(8.7)	663.5
Corporation tax	(149.4)	(6.1)	(1.3)	(7.7)	(14.2)	(6.8)	(21.1)	(4.0)	(7.6)	(2.5)	(2.1)	(222.8)
Profit after tax	242.4	15.7	6.9	28.5	29.7	8.9	89.7	6.9	22.8	0.0	(10.8)	440.7
Recognised in other comprehensive income												
Actuarial gain on retirement benefit schemes	(136.0)	–	–	–	–	–	–	–	–	–	–	(136.0)
Taxation	26.3	–	–	–	–	–	–	–	–	–	–	26.3
Cash flow hedges	16.9	–	–	–	–	–	(110.3)	–	–	–	0.7	(92.7)
Taxation	(4.5)	–	–	–	–	–	21.0	–	–	–	(0.1)	16.4
	(97.3)	–	–	–	–	–	(89.3)	–	–	–	0.6	(186.0)
Total comprehensive income/(loss)	145.1	15.7	6.9	28.5	29.7	8.9	0.4	6.9	22.8	–	(10.2)	254.7
SSE share of profit (based on % equity)	80.8	7.9	3.4	14.3	14.9	2.2	35.9	3.5	11.4	–	(18.4)	155.9

ACCOMPANYING INFORMATION CONTINUED

A4. Joint ventures and associates continued

	SGN 2020 £m	Seabank Power Limited 2020 £m	Marchwood Power Limited 2020 £m	Multifuel Energy Limited 2020 £m	Clyde Windfarm (Scotland) Limited 2020 £m	Walney (UK) Offshore Windfarms Limited 2020 £m	Beatrice Offshore Windfarm Limited 2020 £m	Dunmaglass Wind Farm Limited 2020 £m	Stronelairg Wind Farm Limited 2020 £m	SSE Telecomm-unications Limited 2020 £m	Other 2020 £m	Total 2020 £m
Dividends paid to shareholders	50.0	6.0	9.7	–	72.8	75.3	252.7	18.7	45.9	–	4.5	535.6
Non-current assets	8,081.8	118.7	257.5	626.4	646.1	639.9	2,071.9	199.9	369.0	461.0	842.9	14,315.1
Current assets	449.6	23.6	36.1	34.3	53.2	12.3	455.0	8.4	21.2	1,219.1	37.5	2,350.3
Cash and cash equivalents	8.8	41.4	10.7	28.5	28.6	15.5	128.2	8.2	30.8	0.6	113.4	414.7
Current liabilities	(676.7)	(3.7)	(33.3)	(80.5)	(9.2)	(15.5)	(500.2)	(1.1)	(13.2)	(1,233.4)	(322.2)	(2,889.0)
Non-current liabilities	(6,127.5)	(29.3)	(150.7)	(453.5)	(406.6)	(129.3)	(2,189.6)	(129.5)	(240.1)	(265.3)	(597.5)	(10,718.9)
Net assets	1,736.0	150.7	120.3	155.2	312.1	522.9	(34.7)	85.9	167.7	182.0	74.1	3,472.2
Group equity interest	33.3%	50%	50%	50%	50%	25.1%	40%	50%	50%	50%	–	–
Net assets	1,736.0	150.7	120.3	155.2	312.1	522.9	(34.7)	85.9	167.7	182.0	74.1	3.472.2
Group's share of ownership interest	578.7	75.3	60.2	77.6	156.4	131.2	(13.9)	43.0	83.8	91.0	8.0	1,291.3
Other adjustments	16.3	(19.6)	3.3	(19.7)	51.2	23.9	(8.0)	84.5	262.7	116.1	47.4	558.1
Carrying value of group's equity interest	595.0	55.7	63.5	57.9	207.6	155.1	(21.9)	127.5	346.5	207.1	55.4	1,849.4

	SGN 2019 £m	Seabank Power Limited 2019 £m	Marchwood Power Limited 2019 £m	Multifuel Energy Limited 2019 £m	Clyde Windfarm (Scotland) Limited 2019 £m	Walney (UK) Offshore Windfarms Limited 2019 £m	Beatrice Offshore Windfarm Limited 2019 £m	Dunmaglass Wind Farm Limited 2019 £m	Stronelairg Wind Farm Limited 2019 £m	SSE Telecomm-unications Limited 2019 £m	Other 2019 £m	Total 2019 £m
Revenue	1,235.4	87.3	71.1	77.8	172.2	128.1	37.3	–	–	–	60.9	1,870.1
Other Income	–	–	–	–	–	–	47.3	–	–	–	–	47.3
Depreciation and amortisation	(172.6)	(11.5)	(17.7)	(17.0)	(36.2)	(53.4)	(22.6)	–	–	–	(25.4)	(356.4)
Other operating costs	(533.1)	(83.8)	(28.3)	(22.4)	(38.5)	(60.5)	(25.0)	–	–	–	(15.9)	(807.5)
Operating profit	529.7	(8.0)	25.1	38.4	97.5	14.2	37.0	–	–	–	19.6	753.5
Interest expense	(222.2)	0.1	(6.3)	(16.5)	(29.0)	(2.1)	(19.5)	–	–	–	(21.4)	(316.9)
Profit before tax	307.5	(7.9)	18.8	21.9	68.5	12.1	17.5	–	–	–	(1.8)	436.6
Corporation tax	(57.4)	–	(3.9)	(4.2)	(13.0)	(2.3)	(3.3)	–	–	–	0.2	(83.9)
Profit after tax	250.1	(7.9)	14.9	17.7	55.5	9.8	14.2	–	–	–	(1.6)	352.7
Recognised in other comprehensive income												
Actuarial gain on retirement benefit schemes	(18.3)	–	–	–	–	–	–	–	–	–	–	(18.3)
Taxation	2.7	–	–	–	–	–	–	–	–	–	–	2.7
Cash flow hedges	(3.3)	–	–	–	–	–	(99.5)	–	–	–	(2.3)	(105.1)
Taxation	0.6	–	–	–	–	–	16.9	–	–	–	0.2	17.7
	(18.3)	–	–	–	–	–	(82.6)	–	–	–	(2.1)	(103.0)

A4. Joint ventures and associates continued

	SGN 2019 £m	Seabank Power Limited 2019 £m	Marchwood Power Limited 2019 £m	Multifuel Energy Limited 2019 £m	Clyde Windfarm (Scotland) Limited 2019 £m	Walney (UK) Offshore Windfarms Limited 2019 £m	Beatrice Offshore Windfarm Limited 2019 £m	Dunmaglass Wind Farm Limited 2019 £m	Stronelairg Wind Farm Limited 2019 £m	SSE Telecomm-unications Limited 2019 £m	Other 2019 £m	Total 2019 £m
Total comprehensive income/(loss)	231.8	(7.9)	14.9	17.7	55.5	9.8	(68.4)	–	–	–	(3.7)	249.7
SSE share of profit (based on % equity)	83.3	(4.0)	7.2	8.9	27.8	2.5	5.7	–	–	–	(2.2)	(129.2)
Dividends paid to shareholders	205.0	–	12.5	–	41.8	73.5	–	–	–	–	–	332.8
Non-current assets	7,644.5	129.9	264.6	265.2	620.6	675.6	2,340.3	197.4	344.5	229.2	1,083.6	13,795.4
Current assets	333.5	27.5	39.6	38.9	42.9	8.9	37.1	9.9	38.1	151.9	90.9	819.2
Cash and cash equivalents	12.2	23.0	11.3	–	49.7	17.7	74.0	6.7	19.8	–	57.6	272.0
Current liabilities	(818.4)	(4.1)	(65.2)	(27.9)	(30.7)	(15.0)	(81.8)	(2.0)	(19.5)	(184.0)	(105.9)	(1,354.5)
Non-current liabilities	(5,782.6)	(38.0)	(125.7)	(204.9)	(334.8)	(109.5)	(2,172.0)	(116.2)	(197.6)	(12.0)	(799.8)	(9,893.1)
Net assets	1,389.2	138.3	124.6	71.3	347.7	577.7	197.6	95.8	185.3	185.1	326.4	3,639.0

Reconciliation of the above amounts to the investment recognised in the consolidated financial statements.

Group equity interest	33.3%	50%	50%	50%	50.1%	25.1%	40%	50.1%	50.1%	50%		
Net assets	1,389.2	138.3	124.6	71.3	347.7	577.7	197.6	95.8	185.3	185.1	326.4	3,639.0
Group's share of ownership interest	463.1	69.2	62.3	35.7	174.2	145.0	79.0	48.0	92.8	92.6	69.3	1,331.2
Other adjustments	16.3	(19.1)	2.9	(9.3)	57.9	18.6	(1.2)	87.6	273.6	119.2	21.3	567.8
Carrying value of group's equity interest	479.4	50.1	65.2	26.4	232.1	163.6	77.8	135.6	366.4	211.8	90.6	1,899.0

In addition to the above at 31 March 2020, the Group was owed the following loans from its principal joint ventures: Scotia Gas Networks Limited £109.1m (2019: £109.1m), Multifuel Energy Limited £257.1m (2019: £251.2m), Marchwood Power Limited £59.2m (2019: £70.6m); Clyde Windfarm (Scotland) Ltd £127.1m (2019: £127.0m); Beatrice Offshore Windfarm Limited £16.5m (2019: £147.7m); Dunmaglass Wind Farm Limited £46.5m (2019: £46.6m); Stronelairg Wind Farm Limited £88.2m (2019: £88.7m) and SSE Telecommunications Limited £28.3m (2019: £26.8m).

This represents 86.2% (2019: 92.8%) of the loans provided to equity-accounted joint ventures and associates.

ACCOMPANYING INFORMATION CONTINUED

A5. Related party transactions

The immediate parent and ultimate controlling party of the Group is SSE plc (incorporated in Scotland). Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Trading transactions

The following transactions took place during the year between the Group and entities which are related to the Group, but which are not members of the Group. Related parties are defined as those in which the Group has control, joint control or significant influence over.

	2020 Sale of goods and services £m	2020 Purchase of goods and services £m	2020 Amounts owed from £m	2020 Amounts owed to £m	2019 Sale of goods and services £m	2019 Purchase of goods and services £m	2019 Amounts owed from £m	2019 Amounts owed to £m
Joint ventures:								
Seabank Power Ltd	**44.3**	**(66.1)**	**0.1**	**(5.8)**	45.9	(60.5)	0.1	(10.2)
Marchwood Power Ltd	**13.6**	**(96.2)**	**0.2**	**(6.8)**	15.4	(116.2)	0.4	(14.6)
Scotia Gas Networks Ltd	**39.5**	**(113.7)**	**0.1**	**(15.0)**	46.2	(140.3)	11.8	(1.2)
Clyde Windfarm (Scotland) Ltd	**4.2**	**(118.0)**	**1.3**	**(41.3)**	3.5	(150.3)	3.7	(41.3)
Beatrice Offshore Windfarm Ltd	**7.1**	**(40.8)**	**1.9**	**(3.3)**	–	–	–	–
Stronelairg Windfarm Ltd	**2.2**	**(55.4)**	**0.4**	**(16.3)**	–	–	–	–
Dunmaglass Windfarm Ltd	**0.9**	**(24.5)**	**–**	**(6.7)**	–	–	–	–
SSE Telecommunications Ltd	**14.4**	**(59.5)**	**11.8**	**(11.6)**	–	–	–	–
Other joint ventures	**45.3**	**(205.5)**	**12.8**	**(60.5)**	–	–	–	–
Associates	**–**	**(36.7)**	**–**	**–**	–	(35.4)	–	–

The transactions with Seabank Power Limited and Marchwood Power Limited relate to the contracts for the provision of energy or the tolling of energy under power purchase arrangements. Scotia Gas Networks Limited has operated the gas distribution networks in Scotland and the South of England from 1 June 2005. The Group's gas supply activity incurs gas distribution charges while the Group also provides services to Scotia Gas Networks in the form of a management service agreement for corporate services, stock procurement services and the provision of the capital expenditure on the development of front office management information systems.

The amounts outstanding are trading balances, are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties. Aggregate capital loans to joint ventures and associates are shown in Note 16.

A6. Financial risk management

This note presents information about the fair value of the Group's financial instruments, the Group's exposure to the risks associated with those instruments, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further qualitative disclosures are included throughout these consolidated financial statements.

The Group has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Commodity risk
- Currency risk
- Interest rate risk

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. 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.

From 1 April 2019, SSE established a Group-wide risk committee reporting to the Group Executive Committee, which replaced the Wholesale and Retail Risk Committees. This committee is responsible for reviewing the strategic, market, credit, operational and liquidity risks and exposures that arise from the Group's operating activities. In addition, the Group has a Board level sub-committee, the Energy Markets Risk Committee, chaired by non-Executive Director Tony Cocker, which was established to oversee the Group's new approach to hedging as announced in November 2018.

Exposure to the commodity, currency and interest rate risks noted arise in the normal course of the Group's business and derivative financial instruments are entered into to hedge exposure to these risks. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below.

A6. Financial risk management continued

A6.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations.

Credit risk arising from the Group's normal commercial operations is controlled by individual business units operating in accordance with Group policies and procedures. Generally, for significant contracts, individual business units enter into contracts or agreements with counterparties having investment grade credit ratings only, or where suitable collateral or other security has been provided. Counterparty credit validation is undertaken prior to contractual commitment.

Credit risk management for the Group's Transmission and Distribution 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 Customers 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. Following the disposal of SSE Energy Services, the Group exposure to retail supply customers is limited to customers of the Group's Airtricity business. The creditworthiness of these customers is reviewed from a variety of internal and external information. The financial strength and creditworthiness of business customers is assessed prior to commencing, and for the duration of, their contract of supply.

Exposure to credit risk in the procurement of wholesale energy and fuel is managed by reference to agreed transaction credit limits which are determined by whether the counterparty:
- holds an investment grade credit rating; or
- can be assessed as adequately creditworthy in accordance with internal credit rules using information from other external credit agencies; or
- can provide a guarantee from an investment grade rated entity or post suitable collateral or provide other acceptable assurances in accordance with group procedures where they have failed to meet the above conditions; or
- can be allocated a non-standard credit limit approved by the relevant Risk or Treasury Committee within its authorised limits as delegated by the Group Board.

Credit support clauses or side agreements are typically included or entered into to protect the Group against counterparty failure or non-delivery. As part of its normal activities, EPM transacts significant volumes of commodity derivative products through cleared exchanges to mitigate credit risk. Such exchanges are subject to strict regulation by the UK Financial Conduct Authority (FCA) and participants in these exchanges are obliged to meet rigorous capital adequacy requirements.

Individual counterparty credit exposures are monitored by category of credit risk and are subject to approved limits. At 31 March 2020, EPM had pledged £183.1m (2019: £210.7m) of cash collateral and letters of credit and had received £182.8m (2019: £72.4m) of cash collateral and letters of credit principally to reduce exposures on credit risk.

Bank credit exposures, which are monitored and reported on daily, are calculated on a mark-to-market basis and adjusted for future volatility and probability of default. Any issues relating to these credit exposures are presented for discussion and review by the Tax and Treasury Committee.

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to cash. These are subject to insignificant risk of change in value or credit risk.

Derivative financial instruments are entered into to cover the Group's market risks – commodity risk, interest rate risk, currency risk – and are consequently covered elsewhere in this note.

Trade receivables represent the most significant exposure to credit risk and are stated after an allowance for impairment.

ACCOMPANYING INFORMATION CONTINUED

A6. Financial risk management continued

A6.2 Concentrations of risk

Trade receivables recorded by reported segment held at the 31 March were:

	2020 £m	2019 (restated (i)) £m
Continuing operations		
Electricity Transmission	**1.3**	17.2
Electricity Distribution	**101.8**	93.3
Renewables	**72.0**	72.6
Thermal Generation	**13.7**	6.4
Gas Storage	**4.0**	2.5
Business Energy	**197.1**	225.5
Airtricity	**153.2**	186.1
Enterprise	**102.0**	126.9
EPM	**258.9**	215.1
Corporate Unallocated	**9.8**	14.0
Total continuing operations	**913.8**	959.6
Discontinued operations		
SSE Energy Services	**–**	300.1
Gas Production	**0.3**	0.3
Total discontinued operations	**0.3**	300.4
Total SSE Group	**914.1**	1,260.0

(ii) Comparative balance sheet restated (see Note 1.3).

The Customers segment (Business Energy and Airtricity) accounts for 38.3% (2019: 42.7%) of the Group's trade receivables from continuing operations. Trade receivables associated with the Group's 1.2 million electricity and gas customers (from continuing operations) are recorded in this segment. The Group also has significant receivables associated with its EPM 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 an EPM customer (also an EPM supplier), is 13% (2019: 19%) of the total trade receivables.

The ageing of trade receivables at the reporting date was:

	2020 £m Continuing	2020 £m Discontinued	2020 £m Total SSE Group	2019 £m Total SSE Group
Not past due	**838.2**	**0.3**	**838.5**	1,015.8
Past due but not individually impaired:				
0 – 30 days	**56.9**	**–**	**56.9**	122.4
31 – 90 days	**36.7**	**–**	**36.7**	71.5
Over 90 days	**59.7**	**–**	**59.7**	171.3
	991.5	**0.3**	**991.8**	1,381.0
Less: allowance for impairment	**(77.7)**	**–**	**(77.7)**	(121.0)
Net Trade receivables	**913.8**	**0.3**	**914.1**	1,260.0

The Group has past due debt which has not had an impairment allowance set aside to cover potential credit losses. The Group has certain procedures to pursue customers in significant arrears and believes its impairment policy in relation to such balances is appropriate.

The Group has other receivables which are financial assets totalling £6.3m (2019: £3.8m).

A6. Financial risk management continued

A6.2 Concentrations of risk continued

The movement in the allowance for impairment of trade receivables on continuing operations was:

	2020 £m	2019 £m
Balance at 1 April	**41.9**	123.6
Increase in allowance for impairment	**39.2**	3.9
Impairment losses recognised	**(3.4)**	(4.2)
Released on disposal	**–**	(2.3)
Transfer to Held for sale	**–**	(79.1)
Balance at 31 March	**77.7**	41.9

At the end of each reporting period a review of the allowance for impairment of trade receivables is performed. Trade receivables do not contain a significant financing element, and therefore expected credit losses are measured using the simplified approach permitted by IFRS 9, which requires lifetime expected credit losses to be recognised on initial recognition. A provision matrix is utilised to estimate the lifetime expected credit losses, based on the age, status and risk of each class of receivable, which is updated periodically to include changes to both forward-looking and historical inputs.

A6.3 Liquidity risk and Going Concern

Liquidity risk, the risk that the Group will have insufficient funds to meet its liabilities, is managed by the Group's Treasury function. The Group can be exposed to significant movements in its liquidity position due to changes in commodity prices, working capital requirements, the impact of the seasonal nature of the business and phasing of its capital investment and recycling programmes.

Treasury is responsible for managing the banking and liquidity requirements of the Group, risk management relating to interest rate and foreign exchange exposures, and for managing the credit risk relating to the banking counterparties with which it transacts. Short-term liquidity is reviewed daily by Treasury, while the longer term liquidity position is reviewed on a regular basis by the Board. The department's operations are governed by policies determined by the Board and any breaches of these policies are reported to the Tax and Treasury Committee and Audit Committee.

In relation to the Group's liquidity risk, the Group's policy is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

During the year, the Group's approach to managing liquidity was to seek to ensure that the Group had available committed borrowings and facilities equal to at least 105% of forecast borrowings over a rolling 6 month period.

The Group uses cash flow forecasts to monitor its ongoing borrowing requirements. Typically, the Group will fund any short-term borrowing positions by issuing commercial paper or borrowing from committed and uncommitted bank lines and will invest in money market funds when it has a cash surplus. Details of the Group's borrowings are disclosed at Note 21. In addition to the borrowing facilities listed at Note 21.3, the Group has £100m of uncommitted bank lines and a £15m overdraft facility.

The refinancing requirement in the 20/21 financial year is £2.5bn, being the £672m of short dated Commercial Paper maturing between May and August, €600m (£546m) Eurobond maturing on 17 June 2020, £750m Hybrid with a first call date of 10 September 2020 and £400m of EIB loans in August 2020 (£100m) and March 2021 (£300m). The view of the Directors is that the Group's 105% funding policy is currently met out to March 2021 and successful refinancing of the maturing debt will see the 105% test met out to September 2021.

Given the committed bank facilities of £1.5bn maintained by the Group, the current commercial paper market conditions, and the assumption the Group will be able to refinance maturing debt, the Directors have concluded that both the Group and SSE plc as Parent Company have sufficient headroom to continue as a going concern. In coming to this conclusion, the Directors have considered sensitivities on future cashflow projections resulting from the coronavirus pandemic, the Group's credit rating, and the successful issuance of £9.1bn of medium- to long-term debt and Hybrid equity since February 2012 (including €1.1bn of senior bond issuance in April 2020 during the coronavirus lockdown). In the very unlikely event of not being able to access the revolving credit facility or otherwise refinance as may be required, the Group's options include not calling the £1.2bn Hybrid debt instruments over the next 12 months, deferring uncommitted capex and implementing further cost reductions. The statement of going concern is included in the Audit Committee Report on page 124.

Treasury also manage the Group's interaction with its relationship banks (defined as those banks that support the Group's financing activities through their ongoing participation in the committed lending facilities that are maintained by the Group). These are each allocated financial limits, subject to the maintenance of a minimum credit rating of investment grade or better allocated by a recognised major ratings group. In respect of short-term cash management, counterparties are subject to review and approval according to defined criteria.

As at 31 March 2020, the value of outstanding cash collateral in respect of mark-to-market related margin calls on exchange traded positions was £256.4m (2019: £344.2m).

ACCOMPANYING INFORMATION CONTINUED

A6. Financial risk management continued

A6.3 Liquidity risk and Going Concern continued

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.

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	2020 Carrying Value £m	2020 Contractual Cash Flows £m	2020 0-12 months £m	2020 1-2 years £m	2020 2-5 years £m	2020 > 5 years £m	2019 Carrying Value £m	2019 Contractual Cash Flows £m	2019 0-12 months £m	2019 1-2 years £m	2019 2-5 years £m	2019 > 5 years £m
Financial Liabilities												
Loans and Borrowings												
Commercial paper and cash advances	772.4	(776.3)	(776.3)	–	–	–	493.7	(497.7)	(497.7)	–	–	–
Loans – floating	824.8	(855.9)	(485.9)	(153.8)	(8.1)	(208.1)	932.5	(975.8)	(12.3)	(593.5)	(159.2)	(210.8)
Loans – fixed	1,594.1	(1,977.1)	(149.5)	(49.5)	(656.6)	(1,121.5)	1,656.5	(2,076.5)	(52.4)	(218.2)	(648.8)	(1,157.1)
Unsecured bonds – fixed	6,249.1	(8,379.9)	(780.7)	(934.3)	(2,318.3)	(4,346.6)	5,865.0	(8,052.0)	(225.4)	(768.0)	(3,088.0)	(3,970.6)
Fair value adjustment	276.8	–	–	–	–	–	190.6	–	–	–	–	–
	9,717.2	(11,989.2)	(2,192.4)	(1,137.6)	(2,983.0)	(5,676.2)	9,138.3	(11,602.0)	(787.8)	(1,579.7)	(3,896.0)	(5,338.5)
Lease liabilities	455.2	(684.5)	(96.5)	(83.7)	(219.7)	(284.6)	229.3	(338.8)	(53.1)	(51.7)	(150.1)	(83.9)
	10,172.4	(12,673.7)	(2,288.9)	(1,221.3)	(3,202.7)	(5,960.8)	9,367.6	(11,940.8)	(840.9)	(1,631.4)	(4,046.1)	(5,422.4)
Derivative Financial Liabilities												
Operating derivatives designated at fair value	844.7	(5,106.1)	(4,096.8)	(901.9)	(107.4)	–	785.9	(4,961.5)	(4,363.6)	(592.4)	(5.5)	–
Interest rate swaps used for hedging	114.3	(113.7)	(30.1)	(14.7)	(32.8)	(36.1)	123.8	(123.8)	(39.9)	(26.2)	(39.9)	(17.8)
Interest rate swaps designated at fair value	430.3	(436.4)	(28.4)	(28.4)	(70.3)	(309.3)	338.5	(338.5)	(22.9)	(21.1)	(58.1)	(236.4)
Forward exchange contracts held for hedging	8.2	(288.5)	(121.2)	(167.3)	–	–	3.1	(166.0)	(81.4)	–	(84.6)	–
Forward exchange contracts designated at fair value	8.3	4.4	(28.2)	24.7	7.9	–	5.9	(109.4)	(121.0)	6.6	5.0	–
Other financial liabilities	1,405.8	(5,940.3)	(4,304.7)	(1,087.6)	(202.6)	(345.4)	1,257.2	(5,699.2)	(4,628.8)	(633.1)	(183.1)	(254.2)
Trade payables	413.2	(413.2)	(413.2)	–	–	–	1,121.1	(1,121.1)	(1,121.1)	–	–	–
	413.2	(413.2)	(413.2)	–	–	–	1,121.1	(1,121.1)	(1,121.1)	–	–	–
TOTAL	11,991.4	(19,027.2)	(7,006.8)	(2,308.9)	(3,405.3)	(6,306.2)	11,745.9	(18,761.1)	(6,590.8)	(2,264.5)	(4,229.2)	(5,676.6)
Derivative Financial Assets												
Financing derivatives	(478.8)	(1,039.4)	(1,300.3)	124.8	119.0	17.1	(345.2)	357.5	148.7	89.9	110.3	8.6
Operating derivatives designated at fair value	(460.6)	4,780.5	4,003.4	726.6	50.5	–	(205.3)	4,539.2	4,172.0	314.2	53.0	–
	(939.4)	3,741.1	2,703.1	851.4	169.5	17.1	(550.5)	4,896.7	4,320.7	404.1	163.3	8.6
Net total 1.1(i)	11,052.0	(15,286.1)	(4,303.7)	(1,457.5)	(3,235.8)	(6,289.1)	11,195.4	(13,864.4)	(2,270.1)	(1,860.4)	(4,065.9)	(5,668.0)

(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 IFRS 9 financial instruments are not included in this analysis, which is prepared in accordance with IFRS 7 "Financial Instruments: Disclosures".

A6. Financial risk management continued

A6.4 Commodity risk

The Group's Energy Portfolio Management ("EPM") business implements the hedging policy through trading in the commodity markets and manages the requirement for the delivery of the Group's 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 Business Energy and Airtricity, and to procure fuel and other commodities and provide a route-to-market for Renewables, Thermal Generation, Gas Storage and Gas Production.

Current hedging approach

In November 2018, the Group published a Statement on SSE's Approach to Hedging, which explained the changes that would be made to the hedging strategy to reduce the Group's exposure to variations in earnings from assets subject to volatility in energy commodity prices. The Group, with oversight from the Energy Markets Risk Committee ("EMRC"), completed the implementation of these changes during the year.

The Group has traded in five principal commodities during the year, as well as the spreads between two or more commodity prices: power (baseload and other products); gas; carbon (emissions allowances); coal and oil. Trading in coal ceased during the year, following closure of the Group's last operational coal-fired power station on 31 March 2020. Each commodity has different liquidity characteristics, which impacts on the degree of hedging possible. Similarly, each of the Group's assets carries different exposures to the commodity market and thus requires a different approach to hedging. As such, the Group's current hedging approach varies by each class of asset as follows:

Asset class	Minimum Hedge Target	Principal Commodity Exposures
Wind	85% of forecast generation 12 months in advance of delivery	Power, Gas, Carbon
Hydro	85% of forecast generation 12 months in advance of delivery	Power, Gas, Carbon
CCGT	100% of expected output 12 months in advance of delivery	Power, Gas, Carbon
Gas Production	90% of expected output at 12 months in advance of delivery	Gas, Oil
Gas Storage	Annual Contract, dependent on results of annual auction	Gas
Business Energy	On contract entry for fixed and flexi customers, with rolling 12 month hedge for tariff customer and rolling 3 month hedge for default tariff customers	Power, Gas, Carbon

However, there are three principal areas where significant variations in earnings cannot be fully mitigated through hedging:

- The impact of the weather on the volume of electricity produced from renewable sources;
- The impact of operational matters such as unplanned outages; and
- The ability of flexible thermal power stations to earn extrinsic income by providing services to the electricity system and by responding to shorter-term electricity market conditions.

Hedging is carried out by each asset class trading internally with EPM to affect these hedges and EPM trading onwards with external counterparties. EPM will only be able to accept internal trades when there is sufficient liquidity to offset them in the external market or they can be offset with internal trades from other asset classes. In this way, the commodity risks EPM is individually exposed are minimised.

The volumetric extent to which assets are hedged are reported monthly, and to the EMRC on at least a quarterly basis. Variations to the hedging approach above will be required as markets and other factors (such as asset disposals, Brexit or coronavirus) change. The EMRC also receives reporting on credit risk, Profit at Risk (which measures the estimated potential loss in the portfolio of hedged positions associated with the movement of a commodity price over the remaining term) and market liquidity in assessing whether any variations to the hedging approach are required. During the year, the only variation to the stated hedging approach was in relation to Gas Production, with future hedge activity ceasing during the year as a result of the intended disposal of those assets on an unhedged basis.

The Group measures and manages the Commodity Risk associated with the financial and non-financial commodity contracts it is exposed to. However, only certain commodity contracts within the Group constitute financial instruments under IFRS 9. As a result, it is only the fair value of IFRS 9 financial instruments which represents the exposure of the Group's commodity price risk under IFRS 7. This is a consequence of the Group's accounting policy which stipulates that commodity contracts which are designated as financial instruments under IFRS 9 should be accounted for on a fair value basis with changes in fair value reflected in profit or equity. Conversely, commodity contracts that are not designated as financial instruments under IFRS 9 will be accounted for as "own use" contracts. As fair value changes in own use contracts are not reflected through profit or equity, these do not represent the IFRS 7 commodity price risk. Furthermore, 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 financial instruments are explained in the Accompanying Information section A1.

ACCOMPANYING INFORMATION CONTINUED

A6. Financial risk management continued
A6.4 Commodity risk continued
Sensitivity analysis
The Group's exposure to commodity price risk according to IFRS 7 is measured by reference to the Group's IFRS 9 commodity contracts. IFRS 7 requires disclosure of a sensitivity analysis for market risks that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables impacting upon the fair value or cash flows associated with the Group's financial instruments.

Therefore, the sensitivity analysis provided discloses the effect on profit or loss and equity at the balance sheet date assuming that a reasonably possible change in the relevant commodity price had occurred and been applied to the risk exposures in existence at that date. The reasonably possible changes in commodity prices used in the sensitivity analysis were determined based on calculated or implied volatilities where available, or historical data.

The sensitivity analysis has been calculated on the basis that the proportion of commodity contracts that are IFRS 9 financial instruments remains consistent with those at that point. Excluded from this analysis are all commodity contracts that are not financial instruments under IFRS 9.

	2020		2019	
	Base Price (i)	Reasonably possible increase/ decrease in variable	Base Price (i)	Reasonably possible increase/ decrease in variable
Commodity prices				
UK gas (p/therm)	**35**	**+/-8**	47	+/-19
UK power (£/MWh)	**39**	**+/-9**	48	+/-19
UK coal (US$/tonne)	**61**	**+/-7**	73	+/-8
UK emissions (€/tonne)	**18**	**+/-6**	22	+/-7
UK oil (US$/bbl)	**42**	**+/-8**	63	+/-13

(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:

Incremental profit/(loss)	2020 Impact on profit and equity £m	2019 Impact on profit and equity £m
Commodity prices combined – increase	**104.7**	104.2
Commodity prices combined – decrease	**(104.7)**	(104.2)

The sensitivity analysis provided is hypothetical and is based on the exposure to energy-related commodities, and their corresponding valuation under IFRS 9, that the Group has at each period end. This analysis should be used with caution as the impacts disclosed are not necessarily indicative of the actual impacts that would be experienced given it does not consider all interrelationships, consequences and effects of such a change in those prices.

A6.5 Currency risk
The Group publishes its consolidated financial statements in Sterling but also conducts business in foreign currencies. As a result, it is subject to foreign currency exchange risk arising from exchange rate movements which will be reflected in the Group's transaction costs or in the underlying foreign currency assets of its foreign operations.

The Group's policy is to use forward contracts, swaps and options to manage its exposures to foreign exchange risk. All such exposures are transactional in nature, and relate primarily to procurement contracts, commodity purchasing and related freight requirements, commodity hedging, long-term plant servicing and maintenance agreements, and the purchase and sale of carbon emission certificates. The policy is to seek to hedge 100% of its currency requirements arising under all committed contracts excepting commodity hedge transactions, the requirements for which are significantly less predictable. The policy for these latter transactions is to assess the Group's requirements on a rolling basis and to enter into cover contracts as appropriate.

The Group has foreign subsidiary operations with significant Euro-denominated net assets. The Group's policy is to hedge its net investment in its foreign operations by ensuring the net assets whose functional currency cash flows are denominated in Euros are matched by borrowings in Euros. For the acquired net assets whose functional cash flows are in Sterling, the Group will ensure Sterling denominated borrowings are in place to minimise currency risk.

Significant exposures are reported to, and discussed by, the Tax and Treasury Committee on an ongoing basis and additionally form part of the bi-annual Treasury report to the Audit Committee.

A6. Financial risk management continued

A6.5 Currency risk continued

At the balance sheet date, the total nominal value of outstanding forward foreign exchange contracts that the Group has committed to is:

	2020 £m	2019 £m
Forward foreign exchange contracts	**5,738.7**	3,637.4

The Group's exposure to foreign currency risk was as follows:

	SEK (million)	€m	$m	CNH	NOK (million)	CHF (million)	SEK (million)	€m	$m
Loans and borrowings	–	4,615.0	1,719.0	–	–	–	–	4,340.0	1,974.0
Purchase and commodity contract commitments	12.6	2,001.1	(182.6)	3,035.7	647.8	70.6	29.5	312.7	(884.4)
Gross exposure	12.6	6,616.1	1,536.4	3,035.7	647.8	70.6	29.5	4,652.7	1,089.6
Forward exchange/swap contracts	12.6	4,796.7	1,254.9	1,816.5	388.7	70.6	29.5	3,237.9	1,090.2
Net exposure (in currency)	–	1,819.4	281.5	1,219.2	259.1	–	–	1,414.8	(0.6)
Net exposure (in £m)	–	1,610.0	227.1	138.6	19.9	–	–	1,221.6	(0.5)

This represents the net exposure to foreign currencies, reported in pounds Sterling, and arising from all Group activities. All sensitivity analysis has been prepared on the basis of the relative proportions of instruments in foreign currencies being consistent as at the balance sheet date. This includes only monetary assets and liabilities denominated in a currency other than Sterling and excludes the translation of the net assets of foreign operations but not the corresponding impact of the net investment hedge.

The sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually changing. The calculations are based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the Group.

A 10% change in foreign currency exchange rates would have had the following impact on profit after taxation, based on the assumptions presented above:

	Equity		Income Statement	
	At 31 March 2020 £m	At 31 March 2019 £m	At 31 March 2020 £m	At 31 March 2019 £m
US Dollars	**–**	–	**(20.4)**	–
Euro	**109.5**	106.9	**35.4**	3.1
CNH	**–**	–	**(12.5)**	–
NOK	**–**	–	**(1.8)**	–
	109.5	106.9	**0.7**	3.1

The impact of a decrease in rates would be an identical reduction in the annual charge.

A6.6 Interest rate risk

Interest rate risk derives from the Group's exposure to changes in the value of an asset or liability or future cash flows through changes in interest rates.

The Group's policy is to manage this risk by stipulating that a minimum of 50% of Group borrowings be subject to fixed rates of interest, either directly through the debt instruments themselves or through the use of derivative financial instruments. The floating rate borrowings are provided by banks including the European Investment Bank (EIB). Such instruments include interest rate swaps and options, forward rate agreements and, in the case of debt raised in currencies other than Sterling, cross currency swaps. These practices serve to reduce the volatility of the Group's financial performance.

ACCOMPANYING INFORMATION CONTINUED

A6. Financial risk management continued
A6.6 Interest rate risk continued

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), a two year FRN and short-term Commercial Paper.

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:

	2020 Carrying Amount £m	2019 Carrying Amount £m
Interest bearing/earning assets and liabilities:		
– fixed	**(8,900.3)**	(8,269.0)
– floating	**(1,209.4)**	(646.9)
	(10,109.7)	(8,915.9)
Represented by:		
Cash and cash equivalents	**164.6**	431.6
Cash presented as held for disposal	**–**	95.2
Derivative financial liabilities	**(102.7)**	(126.6)
Loans and borrowings	**(9,717.2)**	(9,086.8)
Lease liabilities	**(454.4)**	(229.3)
	(10,109.7)	(8,915.9)

Following from this, the table below represents the expected impact of a change of 100 basis points in short-term interest rates at the reporting date in relation to equity and income statement. The analysis assumes that all other variables, in particular foreign currency rates, remain constant. An increase in exchange rates would be a change to either the income statement or equity. The assessment is based on a revision of the fair value assumptions included in the calculated exposures in the previous table.

All sensitivity analysis has been prepared on the basis of the proportion of fixed to floating instruments being consistent as at the balance sheet date and is stated after the effect of taxation.

The sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually changing. The calculations are based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the Group.

	2020 £m	2019 £m
Income statement	**11.0**	9.6

The impact of a decrease in rates would be an equal 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.

A7. Fair Value of financial instruments

A7.1 Fair value of financial instruments within the Group

The fair values of the primary financial assets and liabilities of the Group together with their carrying values are as follows:

	2020 Amortised Cost (i) £m	2020 FVTPL/ FVTOCI (ii) £m	2020 Total Carrying Value £m	2020 Fair Value £m	2019 (restated)(iii) Amortised Cost (i) £m	2019 (restated)(iii) FVTPL/ FVTOCI (ii) £m	2019 (restated)(iii) Total Carrying Value £m	2019 (restated)(iii) Fair Value £m
Financial Assets								
Current								
Trade receivables	**913.8**	**–**	**913.8**	**913.8**	959.6	–	959.6	959.6
Other receivables	**6.3**	**–**	**6.3**	**6.3**	3.8	–	3.8	3.8
Cash collateral and other short-term loans	**256.4**	**–**	**256.4**	**256.4**	344.2	–	344.2	344.2
Cash and cash equivalents	**164.6**	**–**	**164.6**	**164.6**	431.6	–	431.6	431.6
Derivative financial assets	**–**	**631.2**	**631.2**	**631.2**	–	306.1	306.1	306.1
	1,341.1	**631.2**	**1,972.3**	**1,972.3**	1,739.2	306.1	2,045.3	2,045.3
Non-current								
Unquoted equity investments	**–**	**0.2**	**0.2**	**0.2**	–	0.5	0.5	0.5
Loan note receivable	**100.0**	**–**	**100.0**	**100.0**	–	–	–	–
Loans to associates and jointly controlled entities	**847.5**	**–**	**847.5**	**847.5**	935.4	–	935.4	935.4
Derivative financial assets	**–**	**308.2**	**308.2**	**308.2**	–	244.4	244.4	244.4
	947.5	**308.4**	**1,255.9**	**1,255.9**	935.4	244.9	1,180.3	1,180.3
	2,288.6	**939.6**	**3,228.2**	**3,228.2**	2,674.6	551.0	3,225.6	3,225.6
Financial Liabilities								
Current								
Trade payables	**(413.2)**	**–**	**(413.2)**	**(413.2)**	(1,121.1)	–	(1,121.1)	(1,121.1)
Loans and Borrowings	**(1,893.8)**	**–**	**(1,893.8)**	**(1,905.0)**	(668.4)	–	(668.4)	(689.4)
Lease liabilities	**(73.1)**	**–**	**(73.1)**	**(73.1)**	(29.0)	–	(29.0)	(29.0)
Derivative financial liabilities	**–**	**(785.8)**	**(785.8)**	**(785.8)**	–	(796.3)	(796.3)	(796.3)
	(2,380.1)	**(785.8)**	**(3,165.9)**	**(3,177.1)**	(1,818.5)	(796.3)	(2,614.8)	(2,635.8)
Non-current								
Loans and Borrowings	**(7,546.6)**	**(276.8)**	**(7,823.4)**	**(8,502.8)**	(8,279.3)	(190.6)	(8,469.9)	(9,357.2)
Lease liabilities	**(382.1)**	**–**	**(382.1)**	**(382.1)**	(200.3)	–	(200.3)	(200.3)
Derivative financial liabilities	**–**	**(620.0)**	**(620.0)**	**(620.0)**	–	(460.9)	(460.9)	(460.9)
	(7,928.7)	**(896.8)**	**(8,825.7)**	**(9,505.1)**	(8,479.6)	(651.5)	(9,131.1)	(10,018.4)
	(10,308.8)	**(1,682.6)**	**(11,990.4)**	**(12,681.0)**	(10,298.1)	(1,447.8)	(11,745.9)	(12,654.2)
Net financial liabilities	**(8,020.2)**	**(743.0)**	**(8,762.2)**	**(9,452.8)**	(7,623.5)	(896.8)	(8,520.3)	(9,428.6)

(i) Financial assets and liabilities that are measured at amortised cost.
(ii) Financial assets and liabilities that are measured at either Fair Value through Profit and Loss (Derivative Financial Assets and Liabilities) or Fair Value through Other Comprehensive Income (Unquoted Equity Investments).
(iii) Comparative balance sheet restated (see Note 1.3).

A7.1.1 Basis of determining fair value

Certain assets and liabilities have been classified and carried at amortised cost on inception in line with IFRS 9 criteria. The carrying value of these assets are approximately equivalent to fair value due to short-term maturity aside from loans and borrowings which are subject to longer maturity dates.

All other financial assets and liabilities are measured at either Fair Value through Profit and Loss ("FVTPL") or Fair Value through Other Comprehensive Income ("FVTOCI"). Fair values for energy derivatives are based on unadjusted quoted market prices, where actively traded. For energy derivatives that are not actively traded, interest rate instruments, foreign currency hedge contracts and cross currency swap contracts associated with foreign currency denominated long-term fixed rate debt, the fair values are determined by reference to closing rate market prices for similar instruments. Fair values for unquoted equity instruments are derived from venture capital or growth equity firm valuation statements.

ACCOMPANYING INFORMATION CONTINUED

A7. Fair Value of financial instruments continued
A7.1 Fair value of financial instruments within the Group continued
A7.1.1 Basis of determining fair value continued
The fair values are stated at a specific date and may be different from the amounts which will actually be paid or received on settlement of the instruments. The fair value of items such as property, plant and equipment, internally generated brands or the Group's customer base are not included as these are not considered financial instruments.

A7.2 Fair value hierarchy
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from unadjusted quoted market prices for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	**2020 Total £m**
Financial Assets				
Energy derivatives	–	460.6	–	**460.6**
Interest rate derivatives	–	441.9	–	**441.9**
Foreign exchange derivatives	–	36.9	–	**36.9**
Loan note receivable	–	–	100.0	**100.0**
Unquoted equity investments	–	–	0.2	**0.2**
	–	939.4	100.2	**1,039.6**
Financial Liabilities				
Energy derivatives	(230.6)	(614.1)	–	**(844.7)**
Interest rate derivatives	–	(544.6)	–	**(544.6)**
Foreign exchange derivatives	–	(16.5)	–	**(16.5)**
Loans and borrowings	–	(276.8)	–	**(276.8)**
	(230.6)	(1,452.0)	–	**(1,682.6)**

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 2020. The level 3 movements during the year were related to the recognition of £100m of unquoted loan notes due from Ovo Group Limited following the disposal of SSE Energy Services.

	2019 (restated) (i) Level 1 £m	2019 (restated) (i) Level 2 £m	2019 (restated) (i) Level 3 £m	2019 (restated) (i) Total £m
Financial Assets				
Energy derivatives	357.4	1,075.5	–	1,432.9
Interest rate derivatives	–	335.7	–	335.7
Foreign exchange derivatives	–	9.5	–	9.5
Unquoted equity investments	–	–	0.5	0.5
	357.4	1,420.7	0.5	1,778.6
Financial Liabilities				
Energy derivatives	(678.9)	(1,334.6)	–	(2,013.5)
Interest rate derivatives	–	(462.3)	–	(462.3)
Foreign exchange derivatives	–	(9.0)	–	(9.0)
Loans and borrowings	–	(139.1)	–	(139.1)
	(678.9)	(1,945.0)	–	(2,623.9)

(i) Comparative balance sheet at 31 March 2019 restated (see Note 1.3).

There were no significant transfers out of level 1 into level 2 and out of level 2 into level 1 during the year ended 31 March 2019. The level 3 movements during the year totalled £4.3m and solely related to disposals of unquoted equity investments.

A8. Hedge Accounting

A8.1 Cash Flow Hedges

The Group designates contracts which qualify as hedges for accounting purposes either as cash flow hedges or fair value hedges. Cash flow hedges are contracts entered into to hedge a forecast transaction or cash flow risk generally arising from a change in interest rates or foreign currency exchange rates and which meet the effectiveness criteria prescribed by IFRS 9. The Group's accounting policy on cash flow hedges is explained in the Accompanying Information section A1.

The following table indicates the contractual maturities of the expected transactions and the qualifying cash flow hedges associated:

Cash flow hedges	**2020 Carrying amount**	**2020 Expected cash flows**	**2020 0-12 months**	**2020 1-2 years**	**2020 2-5 years**	**2020 > 5 years**	2019 Carrying amount	2019 Expected cash flows	2019 0-12 months	2019 1-2 years	2019 2-5 years	2019 > 5 years
Interest rate swaps:												
Assets	**334.0**	**334.0**	**101.1**	**99.0**	**116.8**	**17.1**	226.3	226.3	65.6	50.0	102.1	8.6
Liabilities	**(113.7)**	**(113.7)**	**(30.1)**	**(14.7)**	**(32.8)**	**(36.1)**	(121.8)	(121.8)	(38.6)	(25.5)	(39.9)	(17.8)
	220.3	**220.3**	**71.0**	**84.3**	**84.0**	**(19.0)**	104.5	104.5	27.0	24.5	62.2	(9.2)
Forward exchange contracts:												
Assets	**28.3**	**(1,558.7)**	**(1,556.4)**	**(2.3)**	**–**	**–**	5.9	(58.4)	(48.5)	(9.9)	–	–
Liabilities	**(8.2)**	**(288.5)**	**(121.2)**	**(167.3)**	**–**	**–**	(3.1)	(166.0)	(81.4)	–	(84.6)	–
	20.1	**(1,847.2)**	**(1,677.6)**	**(169.6)**	**–**	**–**	2.8	(224.4)	(129.9)	(9.9)	(84.6)	–

A8.2 Net investment hedge

The Group's net investment hedge consists of debt issued in the same currency (€) as the net investment in foreign subsidiaries with € denominated functional currencies being the Airtricity Supply business and the thermal plants and wind farms in Ireland. The hedge compares the element of the net assets whose functional cash flows are denominated in € to the matching portion of the € borrowings held by the Group. This therefore provides protection against movements in foreign exchange rates.

Gains and losses in the hedge are recognised in equity and will be transferred to the income statement on disposal of the foreign operation (2020: £28.7m loss, 2019: £20.4m gain). Gains and losses on the ineffective portion of the hedge are recognised immediately in the income statement (2020: £0.7m, 2019: £nil).

COMPANY BALANCE SHEET
AS AT 31 MARCH 2020

	Note	2020 £m	2019 (Restated) £m
Assets			
Equity investments in joint ventures and associates	3	**12.7**	139.2
Loans to joint ventures and associates	3	**196.8**	208.4
Investments in subsidiaries	4	**2,112.9**	2,679.6
Trade and other receivables	5	**10,009.9**	9,528.3
Derivative financial assets	11	**238.7**	215.7
Retirement benefit assets	10	**534.2**	537.7
Non-current assets		**13,105.2**	13,308.9
Trade and other receivables	5	**354.9**	1,008.3
Current tax asset	7	**1.1**	–
Cash and cash equivalents	8	**109.0**	377.2
Derivative financial assets	11	**227.5**	120.0
Current assets		**692.5**	1,505.5
Total assets		**13,797.7**	14,814.4
Liabilities			
Loans and other borrowings	8	**1,893.8**	668.4
Trade and other payables	6	**1,967.6**	1,719.9
Current tax liabilities	7	**–**	20.0
Derivative financial liabilities	11	**60.4**	62.9
Current liabilities		**3,921.8**	2,471.2
Loans and other borrowings	8	**5,772.2**	6,772.3
Deferred tax liabilities	7	**39.0**	147.4
Provisions	13	**7.0**	–
Derivative financial liabilities	11	**477.0**	392.8
Non-current liabilities		**6,295.2**	7,312.5
Total liabilities		**10,217.0**	9,783.7
Net assets		**3,580.7**	5,030.7
Equity:			
Share capital	9	**523.1**	523.4
Share premium		**875.6**	879.6
Capital redemption reserve		**49.2**	34.8
Hedge reserve		**(3.6)**	(44.2)
Retained earnings		**966.7**	2,467.4
Equity attributable to ordinary shareholders of the parent		**2,411.0**	3,861.0
Hybrid equity	9	**1,169.7**	1,169.7
Total equity		**3,580.7**	5,030.7

Loans and borrowings, deferred tax liabilities and the hedge reserve have been restated in the prior year. See Note 1.3.

Result for the year
The loss for the year attributable to ordinary shareholders dealt with in the financial statements of the Company was £639.4m (2019: £1,740.5m). This includes an exceptional loss on disposal of SSE Energy Services Group of £1,408.2m. (2019: exceptional income of £892.7m, which represents a gain from the fair value transfer of the GB domestic retail business from SSE plc to another group company, SSE Energy Services Group Limited.)

These financial statements were approved by the Board of Directors on 16 June 2020 and signed on their behalf by

Gregor Alexander
Finance Director

Richard Gillingwater
Chair

SSE plc Registered No: SC117119

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020

Statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve (restated) £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid Capital £m	Total £m
At 1 April 2019 (restated)	523.4	879.6	34.8	(44.2)	2,467.4	3,861.0	1,169.7	5,030.7
Total comprehensive income for the year	–	–	–	40.6	(555.6)	(515.0)	46.5	(468.5)
Dividends to shareholders	–	–	–	–	(948.5)	(948.5)	–	(948.5)
Scrip dividend related share issue	14.1	(14.1)	–	–	345.5	345.5	–	345.5
Distributions to Hybrid equity holders	–	–	–	–	–	–	(46.5)	(46.5)
Issue of shares	–	10.1	–	–	–	10.1	–	10.1
Share repurchase	(14.4)	–	14.4	–	(352.0)	(352.0)	–	(352.0)
Credit in respect of employee share awards	–	–	–	–	24.5	24.5	–	24.5
Investment in own shares	–	–	–	–	(14.6)	(14.6)	–	(14.6)
At 31 March 2020	**523.1**	**875.6**	**49.2**	**(3.6)**	**966.7**	**2,411.0**	**1,169.7**	**3,580.7**

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve (restated) £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid Capital £m	Total £m
At 1 April 2018 (restated)	511.5	890.3	34.8	(35.7)	1,418.6	2,819.5	1,169.7	3,989.2
Total comprehensive income for the year (restated)	–	–	–	(8.5)	1,722.2	1,713.7	46.6	1,760.3
Dividends to shareholders	–	–	–	–	(973.0)	(973.0)	–	(973.0)
Scrip dividend related share issue	11.9	(11.9)	–	–	283.1	283.1	–	283.1
Distributions to Hybrid equity holders	–	–	–	–	–	–	(46.6)	(46.6)
Issue of shares	–	1.2	–	–	–	1.2	–	1.2
Credit in respect of employee share awards	–	–	–	–	20.1	20.1	–	20.1
Investment in own shares	–	–	–	–	(3.6)	(3.6)	–	(3.6)
At 31 March 2019 (restated)	523.4	879.6	34.8	(44.2)	2,467.4	3,861.0	1,169.7	5,030.7

The hedge reserve has been restated in the prior year. See Note 1.3.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

1. Principal accounting policies
1.1 General information
SSE plc (the Company) is a company domiciled in Scotland. The address of the registered office is given on the back cover. The Company financial statements present information about the Company as a separate entity and not about the Group.

1.2 Basis of preparation
The financial statements have been prepared in accordance with FRS 101 (Reduced Disclosures) ("FRS 101") and its interpretations as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union ("adopted IFRS").

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement and related notes.

It has also taken advantage of the following disclosure exemptions available under FRS 101.
- A Cash flow statement and related notes;
- Related party disclosures;
- Disclosures in respect of capital management; and
- The effects of new but not yet effective IFRSs.

As the consolidated financial statements of SSE plc include the equivalent disclosure, the Company has also taken advantage of the exemptions, under FRS 101, available in respect of the following disclosure:
- Certain disclosures required by IFRS 13 Fair value measurement and the disclosures required by IFRS 7 Financial instrument disclosures.

The Company previously assessed that, on the basis of materiality, the disclosures required under IFRS 2 Share-based Payment should be removed. The Company has assessed that at 31 March 2020 these disclosures continue to be immaterial to the Company's financial statements.

Going concern
The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future (further details are contained in A6 Accompanying Information of the consolidated financial statements). The financial statements are therefore prepared on a going concern basis.

Basis of measurement
The financial statements of the Company are prepared on the historical cost basis except for derivative financial instruments, available-for-sale financial assets and assets of the Company pension scheme which are stated at their fair value, and liabilities of the Company pension scheme which are measured using the projected unit credit method. The Directors believe the financial statements present a true and fair view. The financial statements of the Company are presented in pounds sterling.

Critical accounting judgements and estimation uncertainty
In the process of applying the Company's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The Group's key accounting judgement and estimation areas are noted in Note 4.1 of the consolidated financial statements, with the most significant financial judgement areas as specifically discussed by the Audit Committee being highlighted separately. In particular, Note 4.1(iv), Retirement Benefit Obligations, and the related disclosures in Note 23 of the consolidated financial statements are relevant to the Company.

Significant accounting policies
The significant accounting policies applied in the preparation of these individual financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Investments
Investments in subsidiaries are carried at cost less any impairment charges.

Interests in joint arrangements and associates
Associates are those investments over which the Company has significant influence but neither control nor joint control.

The Company's joint ventures and associates are accounted for using the equity method of accounting where the joint venture and associate investments are carried at historical cost plus the Company's share of post-acquisition results, less any impairment in value. The Company recognises its share of the results of these equity-accounted operations after tax and interest in the income statement.

1. Principal accounting policies continued

1.2 Basis of preparation continued

Applicable Group accounting policies

The following significant accounting policies are consistent with those applied for the Group consolidated financial statements:

- Equity and equity-related compensation benefits (Supplementary information A1.2, page 248).
- Defined benefit pension scheme (Supplementary information A1.2, page 248).
- Taxation (Supplementary information A1.2, page 243).
- Financial instruments (Supplementary information A1 and A6, pages 249 and 260).

1.3 Prior year adjustments

Calculation of net result on cash flow hedges

During the year, it was identified that the calculation of the net result arising from cash flow hedge accounting relationships incorrectly resulted in gains or losses on the effective portion of those relationships being recognised against the hedged item (being foreign currency denominated debt), rather than recognised within the Hedge Reserve. Following a detailed review of all hedging activity, it was confirmed that this calculation error only affected a specific type of financial instruments – fixed rate cross currency swaps – and did not affect the hedge designation of these or other hedge relationships.

Whilst this restatement has no impact on the Income Statement and has limited impact on the Balance Sheet, it was assessed that there is a material impact to the Hedge Reserve. Therefore, a restatement of prior year balances has been made in accordance with IAS 8. The impact of this adjustment at 31 March 2019 is to increase Loans and Other Borrowings by £51.5m, increase deferred tax assets by £8.8m and decrease Other Comprehensive Income and the Hedge Reserve by £42.7m. The opening hedge reserve at 1 April 2018 was decreased by £46.1m and the loss on hedged items for the year ended 31 March decreased by £3.4m.

Calculation of deferred tax on Net Investment Hedge

The Company has a Net Investment Hedge which acts as a hedge against translation risk associated with the Euro denominated assets within its Airtricity investment. The net investment hedge was established following the 2008 transaction, when a deferred tax asset of £31.0m (2018: £34.5m) was recognised based on the retranslation of Euro denominated debt through retained earnings. As this asset would only be realised following disposal of the businesses, it has been derecognised by the Group with corrections required to its 31 March 2019 and 2018 balance sheets.

2. Supplementary financial information

2.1 Auditor remuneration

The amounts paid to the Company's auditor in respect of the audit of these financial statements was £0.3m (2019: £0.3m).

Amounts paid to the Company's auditor in respect of services to the Company other than the audit of the Company's financial statements have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

2.2 Employee numbers

The average number of people employed by the Company (including Executive Directors) during the year was 3 (2019: 3).

The costs associated with the employees of the Company, who are the Executive Directors of the Group, are borne by Group companies. No amounts are charged to the Company.

2.3 Directors' remuneration and interests

Information concerning Directors' remuneration, shareholdings, options, long-term incentive schemes and pensions is shown in the Remuneration Report on pages 136 to 157. No Director had, during or at the end of the year, any material interest in any other contract of significance in relation to the Group's business.

3. Investments in associates and joint ventures

	2020			2019		
	Equity £m	**Loans £m**	**Total £m**	Equity £m	Loans £m	Total £m
Share of net assets/cost						
At 1 April	**139.2**	**208.4**	**347.6**	126.5	315.5	442.0
Additions	**–**	**1.6**	**1.6**	12.7	29.2	41.9
Repayment of shareholder loans	**–**	**(13.2)**	**(13.2)**	–	(9.2)	(9.2)
Transfer to subsidiary	**(126.5)**	**–**	**(126.5)**	–	(127.1)	(127.1)
At 31 March	**12.7**	**196.8**	**209.5**	139.2	208.4	347.6

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

4. Subsidiary undertakings
Details of the Company's subsidiary undertakings are disclosed in the Accompanying Information section (A3) on page 252.

Investment in subsidiaries

	2020 £m	2019 £m
At 1 April	**2,679.6**	2,873.7
Decrease in existing investments (i)	**(566.7)**	(194.1)
At 31 March	**2,112.9**	2,679.6

(i) The overall decrease in investments held by the Company relates to the net of: the acquisition of a new Swiss holding company, Beithe AG (£126.6m;, the disposal of SSE Energy Services (£593.5m); the recognition of a provision against the carrying value of the investment in SSE Services plc (£116.8m); 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 (2020: £17.0m; 2019: £20.8m (both before tax)). The decrease in the prior year also includes the disposal of 50% of SSE Telecommunications Limited (£25.3m); the transfer of SSE Home Services Limited to the Retail business (£39.5m); and the recognition of a provision against the carrying value of the investment in SSE Services plc (£150.0m).

5. Trade and other receivables
All current and non-current trade and other receivable balances in the current and prior financial year represent amounts owed by subsidiary undertakings. At 31 March 2020 the Company assessed its exposure to expected credit losses on related party receivables under IFRS 9 and held a provision against future losses of £55.1m (2019: £49.7m).

6. Trade and other payables
All current and non-current trade and other payable balances in the current and prior financial year represent amounts due to subsidiary undertakings.

7. Taxation
Current tax liabilities

	2020 £m	2019 £m
Corporation tax asset/(liability)	**1.1**	(20.0)

Deferred taxation
The following are the deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting periods:

	Fair value gains/(losses) on derivatives £m	Retirement benefit obligations £m	Other (restated) £m	Total (restated) £m
At 31 March 2018 (Restated)	(45.2)	200.2	11.1	166.1
Charge/(credit) to income statement	(6.7)	1.6	0.4	(4.7)
Charge/(credit) to equity	(1.1)	(13.6)	0.7	(14.0)
At 31 March 2019 (Restated)	(53.0)	188.2	12.2	147.4
Charge/(credit) to income statement	**(21.0)**	**(0.1)**	**0.5**	**(20.6)**
Charge/(credit) to equity	**7.2**	**(86.6)**	**(8.4)**	**(87.8)**
At 31 March 2020	**(66.8)**	**101.5**	**4.3**	**39.0**

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:

	2020 £m	2019 £m
Deferred tax liabilities	**105.8**	200.4
Deferred tax assets	**(66.8)**	(53.0)
Net deferred tax (asset)/liability	**39.0**	147.4

The deferred tax assets/liabilities disclosed include the deferred tax relating to the Company's pension scheme liabilities.

8. Loans and borrowings

	2020 £m	2019 £m
Current		
Other short-term loans	**1,893.8**	668.4
	1,893.8	668.4
Non-current		
Loans	**5,772.2**	6,772.3
	5,772.2	6,772.3
Total loans and borrowings	**7,666.0**	7,440.7
Cash and cash equivalents	**(109.0)**	(377.2)
Unadjusted Net Debt	**7,557.0**	7,063.5
Add/(less):		
Hybrid equity (Note 9)	**1,169.7**	1,169.7
Adjusted Net Debt and Hybrids	**8,726.7**	8,233.2

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 three months or less.

8.1 Borrowing facilities

During the year to 31 March 2020, the SSE Group successfully issued its third Green Bond being a £350m, sixteen year bond with a coupon of "2.25%. This was a debut issue for Scottish Hydro Electric Transmission Ltd and was the Group's third Green Bond in three years and affirms SSE as the largest issuer of Green Bonds from the UK Corporate sector.

The Company has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into Sterling) and as at 31 March 2020 £672.4m of commercial paper was outstanding (2019: £497.7m). The Company has £1.5bn of committed bank facilities now maturing in March 2025 (£1.3bn) and November 2024 (£0.2bn) The £1.3bn committed facility has a further one year extension option which will take the maturity out to March 2026 while the £0.2bn facility has two one year extension options which will take the maturity out to November 2026. These facilities continue to provide back up to the commercial paper programme and, as at 31 March 2020 there was £75m of drawings that mature in April 2020.

Included within loans and borrowings at 31 March 2020 is £1.0bn (March 2019: £1.0bn) of hybrid debt securities issued on 16 March 2017 with an issuer first call date on 16 September 2022. The dual tranche issuance comprised £300m with a coupon of 3.625% and $900m with a coupon of 4.75%. The $900m tranche was swapped to both Euros and Sterling, bringing the all-in rate down to 2.72% and resulting in an all-in funding cost for both tranches of 3.02% per annum. Due to the instruments having a fixed redemption date, they have been accounted for as debt and are included within loans and borrowings. This is in contrast to the previous hybrid issues which have had no fixed redemption date and were accounted for as equity.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

8. Loans and borrowings continued
8.1 Borrowing facilities continued
Analysis of borrowings

	2020 Weighted average interest rate	2020 Face value £m	2020 Fair value £m	2020 Carrying amount £m	2019 Weighted average interest rate	2019 Face value £m	2019 Fair value £m	2019 Carrying amount £m
Current								
Bank Loans – non-amortising (i)	1.7%	574.9	577.8	574.8	1.5%	107.7	107.7	107.7
Other short-term loans – non-amortising	1.1%	776.2	778.4	772.4	1.4%	497.7	499.6	493.7
US Private Placement 16 April 2019	–	–	–	–	3.7%	67.0	82.0	67.0
2.00% €600m Eurobond Repayable 17 June 2020 (iii)	2.7%	546.8	548.8	546.6	–	–	–	–
Total current		**1,897.9**	**1,905.0**	**1,893.8**		672.4	689.3	668.4
Non-Current								
Bank Loans – non-amortising (i)	–	–	–	–	1.9%	574.9	579.8	574.8
US Private Placement 16 April 2022	4.3%	162.7	211.4	162.6	4.3%	162.7	202.5	162.5
US Private Placement 6 September 2023	2.9%	120.0	116.6	118.5	2.9%	120.0	120.6	118.0
US Private Placement 28 April 2023	2.8%	35.0	34.4	34.6	2.8%	35.0	35.4	34.5
US Private Placement 16 April 2024	4.4%	204.1	267.1	203.9	–	–	–	–
2.00% 600m Eurobond repayable 17 June 2020 (iii)	–	–	–	–	2.7%	542.5	555.1	541.6
4.25% Eurobond repayable 14 September 2021	4.3%	300.0	309.8	299.4	4.3%	300.0	319.7	299.0
2.375% €500m Eurobond repayable 10 February 2022 (iv)	2.4%	415.0	428.2	414.8	2.4%	415.0	439.5	414.7
5.875% Eurobond repayable 22 September 2022	5.9%	300.0	327.5	299.3	5.9%	300.0	342.4	299.1
1.75% €700m Eurobond repayable 8 September 2023 (v)	1.8%	514.6	532.1	513.9	1.8%	514.6	541.6	513.7
4.75% $900m NC5.5 Hybrid maturing 16 September 2077 (vi)	4.8%	749.2	729.7	747.5	4.8%	736.9	713.1	734.5
3.625% NC5.5 Hybrid maturing 16 September 2077	3.6%	300.0	293.2	299.3	3.6%	300.0	297.7	299.0
Between two and five years		**3,100.6**	**3,250.0**	**3,093.8**		4,001.6	4,147.4	3,991.4
Bank Loans – non-amortising (i)	1.2%	100.0	100.5	99.9	1.7%	100.0	100.8	100.0
US Private Placement 16 April 2024	–	–	–	–	4.4%	204.1	255.0	203.8
US Private Placement 8 June 2026	3.1%	64.0	63.7	63.0	3.1%	64.0	65.1	62.8
US Private Placement 6 September 2026	3.2%	247.1	265.6	243.1	3.2%	247.1	259.9	242.4
US Private Placement 6 September 2027	3.2%	35.0	34.5	34.4	3.2%	35.0	35.7	34.4
0.875% €600m Eurobond repayable 8 September 2025	0.9%	530.9	526.4	527.9	0.9%	518.1	513.7	514.5
1.375% €650m Eurobond repayable 4 September 2027	1.4%	591.4	600.9	589.8	1.4%	591.4	599.4	589.5
8.375% Eurobond repayable on 20 November 2028	8.4%	500.0	712.6	496.4	8.4%	500.0	746.9	496.0
6.25% Eurobond repayable on 27 August 2038	6.3%	350.0	501.2	347.1	6.3%	350.0	509.2	346.9
Over five years		**2,418.4**	**2,805.4**	**2,401.6**		2,609.7	3,085.7	2,590.3
Fair value adjustment (ii)				**276.8**				190.6
Total non-Current		**5,519.0**	**6,055.4**	**5,772.2**		6,611.3	7,233.1	6,772.3
TOTAL		**7,416.9**	**7,960.4**	**7,666.0**		7,283.7	7,922.4	7,440.7

(i) Balances include term loans and EIB debt and is a mixture of fixed and floating rate debt.
(ii) The fair value adjustment relates to the change in the carrying amount of the borrowings as a result of fair value hedges that are in place. The movement in the fair value adjustment is recognised in the income statement with a corresponding movement on the hedging instrument also being recognised in the income statement.
(iii) The 2.00% €600m Eurobond maturing 17 June 2020 has been partly swapped to Sterling giving an effective interest rate of 2.67%.
(iv) The 2.375% €500m Eurobond maturing 10 February 2022 has been swapped to Sterling giving an effective interest rate of 3.53%.
(v) The 1.75% €700m Eurobond maturing 8 September 2023 has been swapped to Sterling giving an effective interest rate of 3.16%.
(vi) The 4.75% $900m NC5.5 Hybrid maturing 16 September 2077 has been swapped to Euros ($605m) and Sterling ($295m) giving an effective interest rate of 2.25% and 3.29% respectively.

9. Equity

Share Capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 1 April 2018	1,023.0	511.5
Issue of shares (i)	23.9	11.9
At 31 March 2019	**1,046.9**	**523.4**
Issue of shares (i)	28.2	14.1
Share repurchases (ii)	(28.8)	(14.4)
At 31 March 2020	**1,046.3**	**523.1**

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 68.2p per ordinary share (in relation to year ended 31 March 2019) and the interim dividend of 24.0p (in relation to the current year) under the terms of the Company's scrip dividend scheme. This resulted in the issue of 19,086,291 and 9,136,089 new fully paid ordinary shares respectively (2019: 11,316,873 and 12,543,773). In addition, the Company issued 0.8m (2019: 0.1m) shares during the year under the savings-related share option schemes (all of which were settled by shares held in Treasury) for a consideration of £10.1m (2019: £1.2m).

(ii) Under the share buyback programme announced on 1 February 2019, 28.8m shares were repurchased and cancelled in the current year for a total of £352.0m (including stamp duty and commission). The nominal value of share capital repurchased and cancelled is transferred out of share capital and into the capital redemption reserve. There were no shares repurchased in the prior year.

Of the 1,046.3m shares in issue, 6.9m are held as treasury shares. These shares will be held by the Group and used to award shares to employees under the Sharesave scheme in the UK.

During the year, on behalf of the Company, the employee share trust purchased 1.1m shares for a total consideration of £14.6m (2019: 0.3m shares, consideration of £3.6m) to be held in trust for the benefit of employee share schemes. At 31 March 2020, the trust held 7.6m shares (2019: 2.8m) which had a market value of £99.3m (2019: £32.8m).

Capital redemption reserve

The capital redemption reserve comprises the value of shares redeemed or purchased by the Company from distributable profits.

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

Hybrid equity

	2020 £m	2019 £m
GBP 750m 3.875% perpetual subordinated capital securities	**748.3**	748.3
EUR 600m 2.375% perpetual subordinated capital securities	**421.4**	421.4
	1,169.7	1,169.7

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

10. Retirement Benefit Obligations
Defined Benefit Scheme
The Company has a funded final salary pension scheme ("Scottish Hydro Electric Pension Scheme") which provides defined benefits based on final pensionable pay. The scheme is subject to an independent valuation at least every three years. The future benefit obligations are valued by actuarial methods on the basis of an appropriate assessment of the relevant parameters.

Pension summary:

	Scheme type	Net actuarial loss recognised in respect of the pension asset in the Statement of Comprehensive Income		Net pension asset	
		2020 £m	2019 £m	**2020 £m**	2019 £m
Scottish Hydro Electric	Defined benefit	**(2.8)**	(38.9)	**534.2**	537.7
Net actuarial (loss)/gain		**(2.8)**	(38.9)	**534.2**	537.7

IFRIC 14 Surplus Restrictions
The value of Scottish Hydro Electric Pension Scheme assets recognised was previously impacted by the asset ceiling test which restricts the surplus that can be recognised to assets that can be recovered through future refunds or reductions in future contributions to the schemes, and may increase the value of scheme liabilities where there are minimum funding liabilities in relation to agreed contributions.

In 2016/17 the Group agreed with the trustees to the Scottish Hydro Electric pensions scheme an amendment to the scheme rules to clarify that the Company has a clear right to any surplus upon final winding up of the scheme. This amendment removes the previous restriction on recognition of any surplus. The net pension asset of the Scottish Hydro Electric Scheme at 31 March 2020 was equal to £534.2m (2019: £537.7m).

The individual pension scheme details based on the latest formal actuarial valuations are as follows:

	Scottish Hydro Electric
Latest formal actuarial valuation	31 March 2018
Valuation carried out by	Hymans Robertson
Value of assets based on valuation	£2,059.0m
Value of liabilities based on valuation	£1,902.3m
Valuation method adopted	Projected Unit
Average salary increase	RPI +1.%
Average pension increase	RPI
Value of fund assets/accrued benefits	108.2%

10.1 Pension Scheme Assumptions
The scheme has been updated to 31 March 2020 by qualified independent actuaries. The valuations have been prepared for the purposes of meeting the requirements of IAS 19. The major assumptions used by the actuaries in the scheme were:

	At 31 March 2020	At 31 March 2019
Rate of increase in pensionable salaries	**3.20%**	3.85%
Rate of increase in pension payments	**2.70%**	3.35%
Discount rate	**2.30%**	2.40%
Inflation rate	**2.70%**	3.35%

10. Retirement Benefit Obligations continued

10.1 Pension Scheme Assumptions continued

The assumptions relating to longevity underlying the pension liabilities at 31 March 2020 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 2020 Male	At 31 March 2020 Female	At 31 March 2019 Male	At 31 March 2019 Female
Currently aged 65	**23**	**24**	23	24
Currently aged 45	**24**	**26**	24	27

The impact on the scheme's liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2020		At 31 March 2019	
	Increase/ decrease in assumption	Effect on scheme liabilities	Increase/ decrease in assumption	Effect on scheme liabilities
Rate of increase in pensionable salaries	**0.1%**	**+/-0.2%**	0.1%	+/-0.2%
Rate of increase in pension payments	**0.1%**	**+/-0.9%**	0.1%	+/-1.6%
Discount rate	**0.1%**	**+/-0.9%**	0.1%	+/-1.9%
Longevity	**1 year**	**+/-1.8%**	1 year	+/-4.0%

These assumptions are considered to have the most significant impact on the scheme valuations. The reduction in sensitivity is due to the conversion of the longevity swap to buy- in during the year.

Conversion of longevity swap to asset buy-in

During the year ended 31 March 2018 the Scottish Hydro Electric scheme entered into a longevity swap covering c£800m of the scheme's liabilities related to 1,800 pensioners and 567 dependents. On 1 October 2019, the scheme converted the longevity swap to an asset buy-in, transferring the risk of volatility in the assumptions used to calculate the obligation for these members to a third party. The asset buy-in is valued under the accounting principles of IFRS 13 and is considered a Level 3 instrument in the fair value hierarchy. This is in addition to a previous buy-in completed during the year ended 31 March 2018 when c£250m of the scheme's assets and liabilities related to 617 pensioners and 190 dependents were transferred to a third party. The Group has now transferred the obligations related to all pensioners to a third party (Insurer PIC) and is now only exposed to valuation fluctuations related to active and deferred members.

10.2 Valuation of Pension Scheme

	Quoted £m	Unquoted £m	Value at 31 March 2020 £m	Quoted £m	Unquoted £m	Value at 31 March 2019 £m
Equities	**107.1**	**–**	**107.1**	128.1	–	128.1
Government bonds	**482.9**	**–**	**482.9**	1,672.8	–	1,672.8
Corporate bonds	**–**	**–**	**–**	68.8	–	68.8
Insurance contracts	**–**	**725.4**	**725.4**	–	194.4	194.4
Other investments	**530.2**	**–**	**530.2**	14.3	–	14.3
Total fair value of plan assets			**1,845.6**	1,884.0	194.4	2,078.4
Present value of defined benefit obligation			**(1,311.4)**			(1,540.7)
Surplus in the scheme			**534.2**			537.7
Deferred tax thereon (i)			**(101.5)**			(188.2)
Net pension asset			**432.7**			349.5

(i) Deferred tax is recognised at 19% (2019: 35%) on the surplus.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

10. Retirement Benefit Obligations continued
10.3 Movements in the defined benefit asset obligations and assets during the year:

	2020			2019		
	Assets £m	Obligations £m	Total £m	Assets £m	Obligations £m	Total £m
At 1 April	2,078.4	(1,540.7)	537.7	2,036.6	(1,464.5)	572.1
Included in Income Statement						
Current service cost	–	(16.8)	(16.8)	–	(18.8)	(18.8)
Past service cost	–	(0.3)	(0.3)	–	(4.6)	(4.6)
Settlements and curtailments	(21.8)	20.4	(1.4)	–	–	–
Interest income/(cost)	46.3	(34.3)	12.0	52.3	(37.0)	15.3
	24.5	(31.0)	(6.5)	52.3	(60.4)	(8.1)
Included in Other Comprehensive Income						
Actuarial (loss)/gain arising from:						
Demographic assumptions	–	12.3	12.3	–	3.8	3.8
Financial assumptions	–	103.2	103.2	–	(85.4)	(85.4)
Experience assumptions	–	56.1	56.1	–	(67.3)	(67.3)
Return on plan assets excluding interest income	(174.4)	–	(174.4)	110.0	–	110.0
	(174.4)	171.6	(2.8)	110.0	(148.9)	(38.9)
Other						
Contributions paid by the employer	5.8	–	5.8	12.6	–	12.6
Benefits Paid	(88.7)	88.7	–	(133.1)	133.1	–
	(82.9)	88.7	5.8	(120.5)	133.1	12.6
Balance at 31 March	1,845.6	(1,311.4)	534.2	2,078.4	(1,540.7)	537.7

10.4 Pension Scheme Contributions and Costs
Charges/(credits) recognised:

	2020 £m	2019 £m
Current service cost (charged to operating profit)	17.1	23.4
Settlement and curtailment losses (i)	1.4	–
	18.5	23.4
Charged/(credited) to finance costs:		
Interest from pension scheme assets	(46.3)	(52.3)
Interest on pension scheme liabilities	34.3	37.0
	(12.0)	(15.3)

(i) During the year the Group disposed of SSE Energy Services which resulted in a loss of £1.4m being recognised in the pension scheme on the transfer values of assets and liabilities transferred from the schemes to a new Ovo defined benefit scheme. The loss has been treated as exceptional and included in the overall loss on disposal of the business.

The return on Pension Scheme assets is as follows:

	2020 £m	2019 £m
(Loss)/return on Pension Scheme assets	(128.1)	162.3

Employer financed retirement benefit (EFRB) pension costs

The decrease in the year in relation EFRB was £2.4m (2019: increase of £3.6m). This is included in other provisions.

Further discussion of the pension scheme assets, liabilities, polices, risk and strategy can be found on page 232 of the Group consolidated financial statements.

11. Financial instruments

For financial reporting purposes, the Company has classified derivative financial instruments as financing derivatives. Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts. Non-hedge accounted contracts are treated as held for trading.

The derivative financial assets and (liabilities) are represented as follows:

Derivative Financial Assets	2020 £m	2019 £m
Non-current	238.7	215.7
Current	227.5	120.0
	466.2	335.7
Derivative Liabilities		
Non-current	(477.0)	(392.8)
Current	(60.4)	(62.9)
Total derivative liabilities	(537.4)	(455.7)
Net liability	(71.2)	(120.0)

Information on the Group's Financial risk management and the fair value of financial instruments is available at A6 and A7.

12. Commitments and contingencies

Guarantees, indemnities and other contingent liabilities

SSE plc has provided guarantees on behalf of subsidiary, joint venture and associated undertakings as follows:

	2020				2019
	SSE on behalf of Subsidiary £m	SSE on behalf of Joint Operations and Ventures £m	SSE on Behalf of 3rd parties £m	Total £m	Total £m
Bank Borrowing	754.7	–	–	754.7	754.6
Performance of contracts (i)	1,229.4	1,250.9	472.9	2,953.2	2,291.7

Subsidiaries have provided guarantees on behalf of the Company as follows:

	2020 £m	2019 £m
Bank borrowing	1,687.1	1,863.0

(i) Included within the performance contracts above are guarantees of £nil (2019: £137.8m) relating to discontinued operations.

During the year, SSE plc provided an unlimited guarantee on behalf of TESGL Limited, a wholly owned subsidiary of the Company, in favour of The Scottish Ministers in respect of the Scottish Non-Domestic Energy Efficiency Framework. Around £600m of guarantees have also been provided by SSE plc during year in connection with the Doggerbank Offshore Wind Farm joint venture project.

In the prior year to 31 March 2019, SSE plc provided a £467m guarantee in relation to an intragroup novation of a purchase and installation of smart meter contract as part of the reorganisation to a create a new GB domestic energy supply and services sub-group headed by SSE Energy Services Group Limited, in advance of the proposed demerger envisaged at the time.

The Company has also provided unlimited guarantees on behalf of subsidiary undertakings in relation to eight contracts in respect of performance of work and any liabilities arising. SSE Services Plc, a wholly owned subsidiary of the Company, has provided a guarantee to Group Trustee Independent Trustees in respect of Southern Electric Group of the Electricity Supply Pension Scheme in respect of funding required by the Scheme. SSE Contracting Limited, a wholly owned subsidiary, has provided a guarantee to Tay Street Lighting (Leeds) Ltd, Tay Valley Lighting (Newcastle & North Tayside) Ltd and Tay Valley Lighting (Stroke on Trent) Ltd in respect of provision and maintenance of public street lighting and illuminated traffic signage. SSE E&P (UK) Limited, a wholly owned subsidiary of the Company, has provided a guarantee to Hess Limited in respect of decommissioning liabilities. SSE E&P (UK) Limited has also provided a guarantee to Britoil Limited and Arco British Limited in respect of the acquisition of the Sean Field. SSE E&P (UK) Limited has also provided a guarantee to Perenco UK Limited in respect of a Sale and Purchase Agreement for the Minerva, Apollo and Mercury Fields. Scottish Hydro Electric Transmission Plc, a wholly owned subsidiary of the Company, has provided a guarantee to ABB Limited in connection with the use of HVDC Replica Control Panels for Caithness-Moray Project.

Where the Company enters into financial guarantee contracts to guarantee indebtedness of the other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make payment under the guarantee.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

13. Provisions

	Other £m	Total £m
At 1 April 2018 and 31 March 2019	–	–
Charged in the year	**7.0**	**7.0**
At 31 March 2020	**7.0**	**7.0**
At 31 March 2020		
Non-current	**–**	**–**
Current	**7.0**	**7.0**
	7.0	**7.0**
At 31 March 2019		
Non-current	–	–
Current	–	–
	–	–

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSE PLC

Opinion

In our opinion:

- SSE plc's Group financial statements and Parent company financial statements (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 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; 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.

We have audited the financial statements of SSE plc which comprise:

Group	Parent company
Consolidated balance sheet as at 31 March 2020	Balance sheet as at 31 March 2020
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	
Consolidated statement of changes in equity for the year then ended	
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 26 and A1 to A8 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 13 to the financial statements including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 31 to 36 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 161 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 124 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 30 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSE PLC CONTINUED

Overview of our audit approach

Key audit matters	• Impairment of certain tangible and intangible assets; • Group and Parent pension obligation; • Accounting for estimated revenue recognition; • Accounting for the disposal of Energy Services; • First year audit transition; • Impact of COVID-19, including on the Group's Going Concern Assessment
Audit scope	• We performed an audit of the complete financial information of 19 components and audit procedures on specific balances for a further 21 components. • The components where we performed full or specific audit procedures accounted for 94% of adjusted profit before tax, 92% of revenue and 87% of total assets.
Materiality	• Overall Group materiality of £48.8m which represents 5% of adjusted Profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of certain tangible and intangible assets (Impairment charged: 2020: £291.3m, 2019:£20.2m) Refer to the Audit Committee Report (page 125); Accounting policies (page 247); and Notes 7, 12 and 15 of the Consolidated Financial Statements (pages 198, 211 and 218) **Forecast-based estimate:** Certain consolidated non-current assets (tangible and intangible), being gas production assets and power stations, are at risk of impairment or impairment reversal. This is due to a number of global and national factors reducing or increasing their value in use or fair value less cost of sale, triggering an impairment assessment. There is a risk of there being undue management bias in estimating this impact of these factors. The gas production assets considered are the Great Island, Peterhead, Keadby, Medway and Marchwood gas fired power stations and the Group's exploration and production ("E&P") interests. The E&P interests are designated as held for disposal at the balance sheet date. For the power stations, the key assumptions include power prices, forecast power demand, carbon prices, discounting and operating expenditure. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows as a result of the above factors.	**Our procedures included:** **Scoping:** Testing was performed over this risk area, covering both full and specific scope components (covering four components), which represented 100% of the risk amount. We obtained management's assessment of potential impairment indicators in accordance with IAS 36 for gas production assets and powerplants. We also considered the updated valuation of any assets classified as Held for Disposal, in accordance with IFRS 5. **Audit procedures included:** We have understood management's process and methodology for assessing assets for indicators of impairment and, where applicable, we have understood management's modelling of value in use cash flows including the source of the key input assumptions. We checked the historical accuracy of management's forecasting and verified that the assumptions are consistent with those used in other areas. Using our sector experience and our specialists, we assessed unusual or unexpected trends identified within the cashflows year on year and assessed the impact on the overall forecasted position. We involved three EY specialists in our assessment: a specialist with energy industry experience; a discount rate specialist and a specialist with experience of assessing forward energy prices.	For the E&P assets, we have confirmed that the impairment charge of £291.3m recorded by management was appropriate. For the power plant assets described in this section, we are satisfied that it was appropriate for management not to recognise any impairment charge. We communicated that the pricing assumptions applied were appropriate in line with EY tracking of expected future price movements and highlighted the minimal headroom on the power station assets, and the disclosures made in the accounts at page 221 reflecting this. We are satisfied that no events have occurred that would result in previously recorded impairments being reversed. We are satisfied with the adequacy of disclosure within the financial statements.

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of certain tangible and intangible assets (2020: £291.3m, 2019: £20.2m) continued For the E&P interests assessing the fair value less costs of sale with reference to the ongoing disposal process bids brings inherent uncertainty regarding the final negotiated deal. The effect of these matters is that, as part of our risk assessment, we determined that the Group's estimated value in use, or fair value where appropriate, in respect of certain of the aforementioned assets have a high degree of estimation uncertainty, with a potential range of reasonable outcomes in aggregate greater than our materiality for the financial statements as a whole. The financial statements (Note 15) disclose the key assumptions and sensitivities performed by the Group.	We embedded modelling expertise within the audit team to assess the appropriateness of the model parameters and clerical accuracy of the models used. We applied sensitivities to management's models to evaluate headroom. **Key assumptions:** Using our sector experience and our specialists we benchmarked, where appropriate, the Directors' judgement on the key assumptions including, power prices, forecast power demand, carbon prices and, discount rates. For the E&P interests, designated as held for disposal, we obtained third party indicative bids received post year-end and subsequent correspondence and recalculated the impairment charge arising based on the fair value of the offers versus the carrying book value of the assets. **Disclosures:** We assessed the accuracy and adequacy of the disclosures in line with IAS 36 and IFRS 5, ensuring key assumptions are included and that the disclosures adequately reflect the risks inherent in the valuation of non-current assets and the impact of changes in assumptions on calculated headroom. All audit work in relation to this key audit matter was undertaken by the component audit teams, with oversight from the Group audit team.	

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSE PLC CONTINUED

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Group and Parent pension obligation (2020: £341.7m, 2019:£287.1m) Refer to the Audit Committee Report (page 125); Accounting policies (page 248); and Note 23 of the Consolidated Financial Statements (page 232). **Subjective valuation:** Small changes in the assumptions and estimates used to value the Group's and Parent's pension obligation (before deducting scheme assets) would have a significant effect on the carrying value of those pension obligations. The effect of these matters is that, as part of our risk assessment, we determined that the Group's and Parent company's pension obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (Note 4.1) disclose the estimation uncertainty identified by the Group and company.	**Scoping:** We performed audit procedures over this risk area centrally by the Group team, which covered 100% of the risk amount. **Our procedures included:** **Assessing management process:** We have understood management's process and methodology for calculating the pension liability for each scheme, including discussions with management's external actuaries, walkthrough of the processes, understanding the key inputs and the design and implementation of key controls. We performed a fully substantive audit approach rather than testing the operating effectiveness of key controls. **Assessing management experts:** We have assessed the independence, objectivity and competence of the Group's external actuaries, which included understanding of the scope of services being provided and considering the appropriateness of the qualifications of the external actuary. **Assessing source data:** We tested a sample of the membership data used by the actuaries to the Group's records. **Benchmarking assumptions:** With the support of our pension actuarial specialists, we assessed the appropriateness of the assumptions adopted by the Directors by comparing them to the expectations of our pension actuarial specialists which they had derived from broader market data. This confirmed that all assumptions fell within an appropriate range. **Disclosure:** We considered the adequacy of IAS 19 disclosures, including presentation of commitments associated with deficit recovery plans and in respect of sensitivity of the obligation to the key assumptions. All audit work in relation to this key audit matter was undertaken by the Group engagement team with assistance from our actuarial specialists.	We conclude that management's actuarial assumptions are appropriate and fall within a central range or have been deemed an appropriate assumption basis. We have noted below, for the assumptions that are assessed against a specific range, our ranges compared to management's assessment: Discount rate: 2.05% - 2.6% (SSE rate: 2.3%) RPI inflation: 2.2% - 3.0% (SSE rate: 2.7%) We are satisfied with the adequacy of disclosure within the financial statements.

Key audit matters continued

Risk

Accounting for estimated revenue recognition in (2020: £370.6m, 2019: £395.9m)

Refer to the Audit Committee Report (page 125); Accounting policies (page 241); and Note 18 of the Consolidated Financial Statements (page 224).

Subjective estimate:
78% of the unbilled revenue is recognised within the Business Energy division and is based on estimates of values and volumes of electricity and gas supplied between last meter date and year end date.

The method of estimating such revenues is complex, judgemental and significant for UK business customers and requires estimates and assumptions in relation to:

1. the volumes of electricity and gas supplied to the customers between the meter reading and year-end;
2. the value attributed to those volumes in the range of tariffs; and
3. embedded impairment risk over the unbilled revenue.

As a result of the estimation uncertainty this has been identified as a significant risk.

Our response to the risk

Scope:
Testing was performed covering 100% of this balance including one component (Business Energy), which covered 78% of the risk amount to which the significant risk is attached.

Audit methodology:
Our response to the assessed risk included understanding and testing selected IT general and application key controls, substantive audit procedures and revenue data analytics.

Tests of detail:
We agreed the opening unbilled accrued income to the closing 31 March 2019 balance sheet, agreed the volume data for customer usage of energy in the year used in the calculation to external settlement systems and agreed the volume data in relation to customer billings for the year to SSE's internal billing systems.

We have tested the unbilled unit pricing by agreeing historical pricing to sample bills, sensitising the pricing, testing a sample of billing dates from the listing to confirm billing frequency and agreeing to post year end billing prices.

We have understood and tested the historical accuracy of management's forecasting of unbilled revenue.

Analytical Review:
We set expectations as to the likely level of total unbilled revenue, and compared this with actual unbilled revenue, obtaining explanation for significant variances.

We compared the unbilled revenue estimation to benchmark expectation derived from the external settlements data combined with billing frequency and at an MPAN level from last billing date to year end. We have analysed and assessed explanations for variances arising from benchmark and the appropriateness of manual adjustments made by management.

Disclosure:
We assessed the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the estimated revenue. All audit work in relation to this key audit matter was undertaken by the component audit teams with oversight from the Group audit team.

Key observations communicated to the Audit Committee

We have performed our procedures over revenue and overall we are satisfied that the accrued revenue recognised by management in relation to unbilled revenue is within a reasonable range within Business Energy.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSE PLC CONTINUED

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting for the disposal of Energy Services (2020: £226.9m loss on disposal, 2019: £N/A) Refer to the Audit Committee Report (page 125); Accounting policies (page 244); and Notes 7 and 12 of the Consolidated Financial Statements (pages 198 and 211). **Subjective valuation:** The Energy Services business was disposed of to OVO Energy Limited on 15 January 2020,generating a loss on disposal of £226.9m. There is a significant risk in relation to the appropriate accounting for the disposal as a result of the complexity in the final negotiated deal and the split of consideration between cash and loan note consideration. The effect of these matters is that, as part of our risk assessment, we determined that the calculation of the loss arising on disposal had a high degree of valuation estimation.	**Scope:** We performed audit procedures over this risk area centrally by the Group audit team, which covered 100% of the risk amount. **Audit procedure performed:** We obtained and read the signed Share Purchase Agreement (SPA) and subsequent amendments and the Transitional Service Agreement entered into by SSE plc in relation to the disposal of Energy Services to OVO Energy Limited. We identified all key matters within these agreements that could have a potential impact on the calculation of the disposal proceeds and the resulting loss on disposal. We agreed the cash consideration received to the SPA and traced cash receipts to bank accounts. We verified that the balances that related to the entity were deconsolidated from the financial statements at the date of disposal. This included verifying that the assets and liabilities disposed of were adjusted accordingly to reflect closing adjustments in line with the SPA. We have audited material transactions within the income statement up until the date of disposal. **Key assumptions:** We identified key terms within the SPA that required adjustment to the loss on disposal calculation. We have checked that adjustments made were as prescribed in the SPA. Through the involvement of our valuation specialists, we assessed the appropriateness of the methodologies used by management to derive the fair value of the non-cash consideration of £100m (2019: £nil), including the impact of Covid-19 and its subsequent measurement at the year-end. **Disclosure:** We assessed the adequacy of the disclosures within the financial statements. All audit work in relation to this key audit matter was undertaken by the Group engagement team with assistance from our actuarial specialists.	We conclude that the accounting for the disposal of Energy Services at 31 March 2020 is appropriate. We are satisfied the valuation of the non-cash consideration falls within an appropriate valuation range of £97m – £106m. We are satisfied that the financial statements appropriately disclose this transaction.

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
First year audit transition Refer to the Audit Committee Report (page 126); and Note 1.3 of the Financial Statements (page 176). The year ended 31 March 2020 is our first as auditor of the Group. We commenced our audit planning procedures subsequent to us being formally appointed by SSE plc at their AGM on 18 July 2019. From the procedures performed during our opening balance sheet testing and interim review procedures we identified a number of prior year adjustments in relation to the Group financial statements, which are disclosed within Note 1.3. Accordingly, we amended our planned audit approach, including the refinement of our risk assessment, reassessment of materiality, and redesign of audit procedures. Given the significant involvement of the Group audit team in the audit transition activities, together with the refinements made to our initial planned audit approach, subsequent to the half year interim review findings, we consider this to be a Key Audit Matter.	Testing was performed over this risk area, covering both full and specific components (39 in total). We have performed procedures since our appointment covering initial transition activities, opening balance sheet procedures and the year end audit requirements for the assigned scope locations. **Our transition activities included:** • Establishing independence from SSE plc by exiting non-audit services which may impair or be perceived to impair our independence; • Establishing an appropriately resourced and skilled audit team, including specialists; • Holding introductory meetings with SSE plc management; • Establishing an audit approach, with specific amendment of key risks and audit focus based on interim conclusions and resulting prior year adjustments; and • Establishing an IT approach and subsequent refinements after performing additional substantive procedures to gain IT reliance. **Our opening balance sheet procedures included, but were not limited to:** • Reviewing the previous auditor's 2019 audit files and meeting with the predecessor auditor lead audit partner; • Holding a planning meeting in August 2019 at which members of SSE management briefed senior members of our Group audit on SSE's organisation; • Identifying significant risk and other audit matters to direct our specific testing of opening balances. This testing involved challenging key assumptions and estimations and reviewing the appropriateness of management's prior year conclusions; • Understanding accounting policies and historic accounting judgments by reviewing accounting policy papers prepared by management on specific accounting topics; and • Performing detailed walkthroughs of key processes.	We communicated the results of our procedures in an updated planning audit report presented to the Audit Committee in November 2019. We presented our refined audit plan to the February 2020 audit committee and provided a further update on progress against plan in April 2020. Subsequent to this, other than the 4 prior year adjustments identified throughout the initial procedures performed, we identified one other PYA in relation to Deferred Tax Liabilities. We formally confirmed our position to the Audit Committee of the completion of all procedures in May 2020.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSE PLC CONTINUED

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
First year audit transition continued	**As a result of the procedures performed, we identified six prior year adjustments at 31 March 2019 (these have been disclosed within Note 1.3). We reassessed our audit approach to reflect these errors, which included:** • We considered the root cause of the prior year adjustments and the impact on the reliance on the opening balance sheet. • The errors arose from long established custom and practice in certain areas and in response we reviewed all accounting policy papers in those areas to ensure the technical basis was appropriate. • We increased focus on the areas in which prior year errors had been identified, including increased level of senior team involvement and we reported all outcomes on these areas to the Audit Committee. • We adjusted our performance materiality to reflect 50% of Planning Materiality, as opposed to the previously planned 75% to reflect the value of errors identified and to address the risk of undetected material misstatements • Full details of the adjustments are disclosed in Note 1.3 to the accounts. Testing was performed between a mix of the component teams and the Group audit team.	

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impact of COVID-19, including on the Group's Going Concern Assessment Refer to the Audit Committee Report (page 124); and Note 1.2, Note 4.1 (ii) and A6.3 of the Consolidated Financial Statements (pages 176, 181 and 263). Since early 2020, the COVID-19 pandemic has caused significant disruption to the world's population, business and economic activity and may ultimately impact SSE's future performance and asset values. Government measures taken to contain the virus have had an impact not only on the way in which businesses operate, but also in the way in which an audit can be performed. SSE has been designated by the government as an "essential" services company and, as such, has continued to operate. However, there have been a number of impacts for the business in the current year and also on the short- to medium-term forecasts as discussed in Note 1.2 and A6.3. **Our audit focus has been on the following key areas:** • How the audit would be undertaken given the remote working restrictions and the resulting refinements to our team, approach and procedures; • Consideration of the going concern basis of preparation, focusing on forecasting ranges to reflect the impact of the COVID-19 pandemic and resulting liquidity and covenant headroom; • Consideration of the increased risks associated with the impact of COVID-19; and • The adequacy of the disclosures made in the accounts.	**Our audit procedures, which covered both full and specific components (39 in total), were as described below. They covered four key areas:** • Audit logistics • Going concern • Other audit matters • Adequacy of disclosure. Testing was performed between a mix of the component teams and the Group primary team. **Audit Logistics:** Management and EY worked proactively to agree a revised timetable to provide sufficient time for the judgements arising from COVID-19 to be considered fully, disclosures adequately assessed, and to reflect the extended time taken for management to complete the financial statement close process and to reflect the incremental time impact on completing our year end external audit fully remotely. This resulted in a four-week extension to the publication of results and the finalisation of our audit. We had already completed the half year review, audit planning procedures, control testing and some early substantive audit testing in advance of the year end for all in-scope locations on site with the SSE teams. We have performed the year-end audit fully remotely, starting from 13 April 2020. We have engaged with SSE throughout this period, using video calls, share-screen functionality, secure encrypted document exchanges and data downloads to avoid any limitation on the audit evidence required. We were alert to instances requiring physical verification of original documents and where not addressed through our pre-year end audit work we used secure encrypted data exchanges. All key meetings, such as the closing meetings and Audit Committees, were performed via video conference calls. We have refined our methods of interaction to ensure direction by the Partner in Charge throughout the audit, ensuring involvement in key calls throughout the audit both internally and with SSE management. We had a weekly senior stakeholder escalation call with the Group CFO and Partner in Charge to ensure progress was assessed robustly and audit matters arising were discussed at each meeting. Additional calls were held with the Chair of the Audit Committee to consider audit progress, timetable and matters arising.	We have completed our audit in line with our plan. We have confirmed that management's assessment of Going Concern is appropriate and concur with the Directors' assessment that there is no Material Uncertainty as there is sufficient headroom in both cash flow forecasts and covenant forecasts after significant plausible downside scenarios have been factored in. We have considered available mitigations if key assumptions were to change. We have concluded that the adjustments recognised by management in relation to COVID-19 (including updates to the expected credit loss model) are appropriate and that they reflect management's best estimate of the COVID-19 impact. We conclude that the disclosure on the impact of COVID-19, including on the Group's Going Concern assessment, is appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSE PLC CONTINUED

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impact of COVID-19, including on the Group's Going Concern Assessment continued	We increased audit team resources and increased the mix of senior audit team members in direct response to the incremental time taken to work remotely and to address the additional audit considerations arising from the impacts of COVID-19 on the financial statements. We have maintained oversight of the audit work performed by our EY Ireland component team (Airtricity) and our non-EY component team (SGN) through the use of share screen functionality to allow for the effective review of key audit evidence and also to attend closing meetings via video call. **Going Concern:** We have assessed the Going Concern assumption adopted by the Directors of SSE, which included: • We confirmed our understanding of the Going Concern process and also engaged with management early to ensure all key matters were considered in their assessment; • We have obtained management's board approved forecast cash flows and covenant calculation covering the period from the date of signing to 30 June 2021, with additional cash flow forecasts obtained up until December 2021; • We have performed reverse stress testing on management's forecasts to understand how plausible the severe downside scenarios would be to result in negative liquidity or a covenant breach. • We have assessed management's COVID-19 impact assessment on the forecasts, considering both past historical accuracy of management's forecasting against the actual impact experienced by SSE in April and May 2020; • We have reviewed management's assessment of options potentially available to the Group to reduce cash flow spend in the Going Concern period, to determine whether such actions could be effected; • We have performed a detailed review of all the facilities to assess their continued availability to the Group and to ensure completeness of covenants identified by management. We have engaged with our debt advisory specialists to support this review. We reviewed the accuracy of management's covenant forecast model, verifying inputs to board approved forecasts and facility agreement terms; • We have reviewed market data for indicators of contradictory evidence to challenge the Going Concern assessment, including review of profit warnings within the sector and review of industry analyst reports; and • We have assessed the plausibility of mitigations identified by management.	

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impact of COVID-19, including on the Group's Going Concern Assessment continued	**Other Audit Matters:** As a result of COVID-19 there have been a number of areas of the audit which have been reassessed and where increased audit focus was applied. We re-assessed materiality and identified no changes, recognising that full year results to 31 March 2020 continued to be in line with previous expectations. The key areas of increased audit risk relate to: impairment of assets as a result of lower volumes, reduced commodity prices and demand reduction (refer to impairment KAM above); Going Concern assessment as a result of reduction in demand (mentioned previously within this KAM) and counterparty credit risk as a result of negative economic trading conditions. **Our audit procedures in relation to assessing counterparty credit risk have included:** • Understanding the changes to the provision for bad and doubtful debts as a result of COVID-19; and • Assessing actual outturn in April 2020 and May 2020 compared to management's estimates. **Our audit procedures have also specifically considered** • Evaluating the impact of any lease modifications in accordance with IFRS 16 as a result of payment term changes; and • Considering whether any new onerous contracts arose under IAS 37. **Adequacy of disclosures:** We have considered whether management's additional disclosure, included within Notes 1.2, Note 4.1 (ii) and A6.3 sufficiently capture the impacts of COVID-19 on SSE plc.	

KAMs above are consistent with those reported on by KPMG in the prior year apart from:

- Removal of "Classification of Energy Services as held for sale"
  - Replaced with "Accounting for the disposal of Energy Services'
- Addition of "First year audit transition'
- Addition of "Impact of COVID-19, including on the Group's Going Concern Assessment'

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSE PLC CONTINUED

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 141 reporting components of the Group, we selected 39 components (including the Parent entity) covering entities within the UK and Ireland, which represent the principal business units within the Group. There was no change in our scoping as a result of the prior year adjustments identified given the overall coverage of components in scope, consideration of the nature of the adjustments and the coverage over the account balances affected.

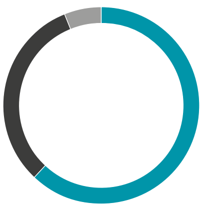
Of the 39 components selected, covering 6 business areas, we performed an audit of the complete financial information of 19 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 20 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 94% of the Group's adjusted Profit Before Tax, 92% of the Group's Revenue and 87% of the Group's Total assets. For the current year, the full scope components contributed 62% of the Group's adjusted Profit Before Tax, 91% of the Group's Revenue and 74% of the Group's Total assets. The specific scope component contributed 32% of the Group's adjusted Profit Before Tax, 1% of the Group's Revenue and 13% of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group.

Of the remaining 102 components that together represent 6% of the Group's adjusted Profit Before Tax, none are individually greater than 1.3% of the Group's adjusted Profit Before Tax. For these components, we performed other procedures, including analytical review, intercompany eliminations and obtaining audit evidence to respond to any potential risks of material misstatement to the Group financial statements.

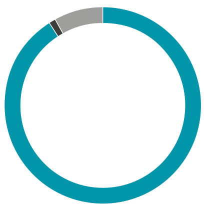
The charts below illustrate the coverage obtained from the work performed by our audit teams:

Profit before tax (or adjusted PBT measure used)



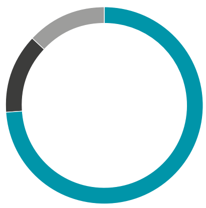
- 62% Full scope components
- 32% Specific scope components
- 6% Other procedures

Revenue



- 91% Full scope components
- 1% Specific scope components
- 8% Other procedures

Total assets



- 74% Full scope components
- 13% Specific scope components
- 13% Other procedures

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 19 full scope components, audit procedures were performed on 2 of these directly by the primary audit team. Of the 20 specific scope components, audit procedures were performed on none of these directly by the primary audit team. For the 19 full scope components and 20 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team started a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits approximately 95% of full and specific scope components, with the majority of components based at the same location. The only in audit scope components that the Senior Statutory Auditor did not visit in the current year consisted of: SSE Airtricity Energy Supply (NI) Ltd, SSE Airtricity Ltd and SGN. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in Perth and Reading. These visits involved discussing the audit approach with the component team and issues arising from their work and review of key audit working papers. The Senior Statutory auditor also attended 5 audit clearance meetings, by video call covering 18 full and 20 specific scope components. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

As a result of COVID-19, the year-end audit procedures were performed remotely, however the Senior Statutory Auditor attended video calls to close out on 19 full and 20 specific scope components in audit scope. Full details of changes to audit procedures as a result of COVID-19 are documented in our KAM above.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion. Any prior year reference relates to the assessment used by KPMG.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £48.8 million (2019: £35.1 million), which is 5% (2019: 5%) of adjusted Profit Before Tax. We believe that adjusted Profit Before Tax provides us with a consistent measure of underlying year-on-year performance as it excludes the impact of non-recurring items and items as well as recurring items (namely movement on operating and financing derivatives) which can significantly fluctuate year-on-year and do not provide a true picture of the profit benchmark that would affect the decisions of the users of the financial statements

We determined materiality for the Parent Company to be £72.5 million (2019: £15 million), which is 2% of Net Assets. The materiality has been capped at the Group materiality of £48.8 million.

Starting basis	• Profit Before Tax – £587.6m
Adjustments	• Movement on operating and financing derivatives – £114.0m • Non-Recurring Exceptional items – £178.5m • JV Tax – £82.3m
Materiality	• Totals £962.4m adjusted Profit Before Tax • Materiality of £48.8m (5% of materiality basis)

During the course of our audit, we reassessed initial materiality and reduced the Performance materiality to 50% from 75%. This is explained above within page 291 of the First year transition KAM.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £24.4m. We have set performance materiality at this percentage due to differences identified during the interim review, relating to both current year and prior year adjustments.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £4.2m to £9.3m (2019: £7m to £15m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £2.4m (2019: £2m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSE PLC CONTINUED

Other information

The other information comprises the information included in the annual report set out on pages 1 to 161,including the Strategic Report and the Directors' Report set out on pages 2 to 85 and 86 to 160 respectively, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 161 – the statement given by the Directors that they consider 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 performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on page 120 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 89 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 161, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Directors are responsible for assessing the Group and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. We also considered non-compliance of regulatory requirements, including the Office of Gas and Electricity Markets (Ofgem) and regulations levied by the UK Financial Conduct Authority and Prudential Regulatory Authority. We have spoken with the SSE head of regulation to confirm our understanding.
- We understood how SSE plc is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We verified our enquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the Group’s financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, Group management, internal audit, business area management at all full and specific scope management; and focused testing. In addition, we completed procedures to conclude on the compliance of the disclosures in the annual report and accounts with all applicable requirements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Other matters we are required to address

- We were appointed by the Company on 18 July 2019 to audit the financial statements for the year ending 31 March 2020 and subsequent financial periods.
- This is our first year audit for SSE plc, year-ending 31 March 2020.
- The non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Group or the Parent company and we remain independent of the Group and the Parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee

Use of our report

This report is made solely to the Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Hywel Ball (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
16 June 2020

Notes:
1 The maintenance and integrity of the SSE plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED SEGMENTAL STATEMENT
FOR THE YEAR ENDED 31 MARCH 2020

SSE consolidated segmental statement for year ended 31 March 2020

		Electricity Generation			Electricity Supply		Gas Supply		
Year ended 31 March 2020	Unit	Thermal 2020	Renewable 2020	Aggregate Generation Business 2020	Domestic 2020 – 9.5 months	Non-domestic 2020	Domestic 2020 – 9.5 months	Non-domestic 2020	Aggregate Supply Business 2020
Total revenue	£m	952.5	1,034.5	1,987.0	1,674.8	2,240.9	833.8	216.5	4,965.9
Revenue from sales of electricity and gas	£m	636.0	883.7	1,519.6	1,673.1	2,239.0	833.8	216.5	4,962.2
Other revenue	£m	317.0	150.8	467.8	1.7	1.9	0.0	–	3.6
Total operating costs	£m	789.2	348.1	1,137.3	1,647.5	2,248.9	845.2	226.9	4,968.5
Direct fuel costs	£m	420.0	–	420.0	555.3	907.9	355.6	137.6	1,956.4
Transportation costs	£m	102.3	111.6	213.9	380.8	543.5	248.0	59.7	1,232.0
Env & social obligation costs	£m	46.1	–	46.1	439.2	680.1	40.8	–	1,160.1
Other direct costs	£m	106.3	14.3	120.7	11.7	10.3	4.6	2.3	28.8
Indirect costs	£m	114.5	222.2	336.6	260.6	107.1	196.2	27.4	591.2
EBITDA	£m	163.8	686.4	850.1	27.2	(8.0)	(11.5)	(10.5)	(2.7)
DA	£m	46.1	189.9	236.0	23.8	0.3	15.9	0	40.1
EBIT	£m	117.7	496.5	614.1	3.4	(8.2)	(27.4)	(10.5)	(42.7)
Volume	TWh, mTherms	13.3	9.5	22.8	8.9	16.9	664.6	272.4	962.8
WACOF/E/G	£/MWh, p/th	31.5	–		62.3	53.7	53.5	50.5	
Customer numbers	'000s				3,385.0	463.5	2,271.8	75.5	6,195.8

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

Basis of preparation and disclosure notes

The Group's operating segments are those used internally by the Board to run the business and make strategic decisions. The types of products and services from which each reportable segment derives its revenues are:

Business Area	Reported Segments	Description
Continuing operations		
Transmission	Electricity Transmission	The economically regulated high voltage transmission of electricity from generating plant to the distribution network in the North of Scotland. Revenue earned from constructing, maintaining and renovating our transmission network is determined in accordance with the regulatory licence, based on an Ofgem approved revenue model and is recognised as charged to National Grid. The revenue earned from other transmission services such as generator plant connections is recognised in line with delivery of that service over the expected contractual period and at the contracted rate.
Distribution	Electricity Distribution	The economically regulated lower voltage distribution of electricity to customer premises in the North of Scotland and the South of England. Revenue earned from delivery of electricity supply to customers is recognised based on the volume of electricity distributed to those customers and the set customer tariff. The revenue earned from other distribution services such as domestic customer connections is recognised in line with delivery of that service over the expected contractual period and at the contracted rate.
	Gas Distribution	SSE's share of Scotia Gas Networks, which operates two economically regulated gas distribution networks in Scotland and the South of England. The revenue earned from transportation of natural gas to customers is recognised based on the volume of gas distributed to those customers and the set customer tariff.
Renewables	Renewables (covered by CSS)	The generation of electricity from renewable sources, such as onshore and offshore wind farms and run of river and pumped storage hydro assets in the UK and Ireland. Revenue from physical generation of electricity sold to SSE EPM is recognised as generated, based on the spot price at the time of delivery. Revenue from national support schemes (such as Renewable Obligation Certificates or the Capacity Market) may either be recognised in line with electricity being physically generated or over the contractual period, depending on the underlying performance obligation.

Basis of preparation and disclosure notes continued

Business Area	Reported Segments	Description
Thermal	Thermal Generation (covered by CSS)	The generation of electricity from thermal plant and the Group's interests in multifuel assets in the UK and Ireland. Revenue from physical generation of electricity to SSE EPM is recognised as generated, based on the spot price at the time of delivery. Revenue from national support schemes (such as the Capacity Market) and ancillary generation services may either be recognised in line with electricity being physically generated or over the contractual period, depending on the underlying performance obligation.
	Gas Storage	The operation of gas storage facilities in the UK, providing a mix of capacity products to the external gas market with excess capacity used to develop secondary trading opportunities. For capacity products, revenue from the injection and withdrawal of gas is recognised when provided, with revenue from the provision of storage services is recognised based on the number of days utilised at the contractual rate. Revenue arising on secondary trading activities is recognised as gas is injected into the network, based on the spot price at the time of delivery.
Customers	Business Energy (covered by CSS)	The supply of electricity and gas to business customers in GB. Revenue earned from the supply of energy is recognised in line with the volume delivered to the customer, based on actual and estimated volumes, and reflecting the applicable customer tariff after deductions or discounts.
	Airtricity	The supply of electricity, gas and energy related services to domestic and business customers in the Republic of Ireland and Northern Ireland. Revenue earned from the supply of energy is recognised in line with the volume delivered to the customer, based on actual and estimated volumes, and reflecting the applicable customer tariff after deductions or discounts. Revenue earned from energy related services may either be recognised over the expected contractual period or following performance of the service, depending on the underlying performance obligation.
Enterprise	Enterprise	The integrated provision of services in competitive markets for industrial and commercial customers including electrical contracting, private energy networks, lighting services and SSE's share of telecoms capacity and bandwidth. Revenue is recognised by reference to the progress towards completion of the contractual performance obligation, based on the proportion of costs incurred to date relative to total expected costs, provided the contract outcome can be assessed with reasonable certainty.
EPM & I	Energy Portfolio Management (EPM)	The optimisation of SSE's electricity, gas and other commodity requirements. Revenue from physical sales of electricity, gas and other commodities produced by SSE is recognised as supplied to either the national settlements body or the customer, based on either the spot price at the time of delivery or trade price where that trade is eligible for "own use" designation. The sale of commodity optimisation trades are presented net in cost of sales alongside purchase commodity optimisation trades.
Discontinued operations		
SSE Energy Services	SSE Energy Services (covered by CSS)	The supply of electricity and gas and the provision of energy related goods and services to domestic customers in GB. Revenue earned from the supply of energy is recognised in line with the volume delivered to the customer, based on actual and estimated volumes, and reflecting the applicable customer tariff after deductions or discounts. Revenue earned from energy related services may either be recognised over the expected contractual period or following performance of the service, depending on the underlying performance obligation.
EPM & I	Gas Production	The production and processing of gas and oil from North Sea fields. Revenue is recognised based on the production that has been delivered to the customer at the specified delivery point, at the applicable contractual market price.

SSE Energy Services (shown as a discontinued operation in the SSE plc's consolidated Financial Statements for the years ended 31 March 20 & 31 March 19) comprises SSE's household energy and related services businesses in Great Britain. SSE Energy Services was sold to Ovo Group Limited on 15 January 2020 and therefore this CSS only includes the contribution of that business until that date.

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

How the accounts are presented

The financial information presented in the CSS is based on operating activities of a GB electricity generation business ("Renewables" and "Thermal Generation" segments described above) and four GB energy supply businesses (the reported "SSE Energy Services" and "Business Energy" segments described above). The paragraphs that follow describe how SSE's "Electricity Generation", "Business Energy" (non-domestic supply) and "SSE Energy Services – Supply" (domestic supply) interact with Energy Portfolio Management (EPM), defines the revenues, costs and profits of each business and describe in more detail the transfer pricing arrangements in place for the financial year ended 31 March 2020.

CONSOLIDATED SEGMENTAL STATEMENT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

Summary
"Thermal Generation" sells electricity in respect of coal and gas generation and renewable generation and Renewable Obligation Certificates (ROCs) from wind and qualifying hydro to EPM. It also receives external income in respect of ancillary services, balancing market participation and other contractual arrangements with third parties including government. It purchases its requirement for gas, coal, oil and carbon from EPM.

Renewables sells electricity and Renewable Obligation Certificates (ROCs) from wind and qualifying hydro to EPM to EPM.

"Energy Services" sells electricity and gas to circa 5.6m domestic customer accounts in Great Britain. It procured electricity, gas and ROCs from EPM until the date of disposal on 15 January 2020. "Business Energy" sells electricity and gas to circa 0.5m business customer accounts in Great Britain and procures electricity, gas and ROCs from EPM.

EPM acts as a route to market for Renewables and Thermal Generation and as counterparty with the external market for the procurement of electricity and gas for SSE Energy Services and Business Energy. Note – EPM does not form part of the CSS.

The forward hedging policies for the Group are overseen by Energy Markets Risk Committee, whose responsibilities and roles are described on page 130 SSE Annual Report for the year ended 31 March 2020.

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

Revenue From Sales of Electricity – revenue is recognised as generated and supplied to the national settlements body. Revenue is sold to the wholesale market through EPM at either the spot price at the time of delivery, or trade price where that trade is eligible for "own use" designation. Revenue includes the sale of ROCs generated from qualifying plant to EPM. Generation volumes are the volume of power actually sold to the wholesale market.

Other Revenue – includes ancillary services, capacity income, balancing market participation and other miscellaneous income.

Direct Fuel Costs – Thermal Generation procures fuel and carbon from EPM at wholesale market prices. The cost of fuel also includes the long-term external purchase contracts and the impact of financial hedges. The WACOF (weighted average cost of fuel) calculation includes the costs of carbon emissions (which are reported in the environmental and social obligations cost line in the CSS).

Transportation Costs – include Use of System charges and market participation costs.

Environmental and Social Costs – include carbon costs (EUETS and Carbon Price Floor).

Other Direct Costs – include power purchase agreement ("PPA") costs, site costs and management charges from EPM.

Indirect Costs – include salaries and other people costs, asset maintenance, rates, corporate costs and IT charges.

Depreciation and Amortisation – the depreciation shown in the CSS is the underlying amount and excludes exceptional generation asset impairments

Thermal Generation as presented in the CSS includes revenue and operating profit for wholly owned thermal generation assets and also a proportion of turnover and operating profit in respect of joint ventures[1]. The principal joint ventures included are Seabank Power Ltd, Marchwood Power Ltd and Multifuel Energy Ltd. A full list can be found in note A3 of SSE's audited financial statements.

The Thermal Generation profitability statement bears the risks and rewards for plant performance, changes in market "spark" and "dark" (the marginal profit for generating electricity by gas and coal), changes in government and EU policy particularly surrounding emissions.

Renewables as presented in the CSS includes revenue and operating profit for wholly owned renewable generation assets and also a proportion of turnover and operating profit in respect of joint ventures, joint operations and associate generation companies[2]. The principal Joint Ventures, Joint Operations and Associates included are Beatrice Offshore Windfarm Limited, Clyde Windfarm (Scotland) Limited, Stronelairg Windfarm Limited, Dunmaglass Windfarm Limited, Walney (UK) Offshore Windfarms Ltd and Greater Gabbard Offshore Winds Ltd. A full list can be found in note A3 of SSE's audited financial statements.

The Renewables profitability statement bears the risks and rewards for plant performance and renewable generation output, changes in the power price achieved for renewable generation and the impact of weather.

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

2 The tolling arrangements that SSE has with its joint venture companies Clyde Windfarm (Scotland) Limited, Stronelairg Windfarm Limited and Dunmaglass Windfarm Limited provide SSE with contractual entitlement to 100% of the output of the wind farms. Accordingly, SSE has reported its rights to those volumes within its Renewables statistics and has also, as mandated by Ofgem, included 50% of the JV revenue in the CSS.

SSE Energy Services (Domestic)

Revenue from Sales of Electricity and Gas – revenues are the value of electricity and gas supplied to domestic customers in Great Britain during the period to 15 January 2020 and includes an estimate of the value of units supplied between the date of the last meter reading and the disposal date. Revenue is expressed net of discounts, loyalty products and Warm Home Discount (WHD) and other social tariff costs. Domestic volumes are expressed at customer meter point net of transmission and distribution losses and are based on external settlements data.

Direct Fuel Costs – SSE Energy Services does not engage in the trading of electricity and gas and procured all of its electricity and gas from EPM to the date of disposal. The method by which EPM procures energy at an arm's length arrangement on behalf of SSE Energy Services is governed by SSE Energy Services forward hedging policy. The forward trades between SSE Energy Services and EPM are priced at wholesale market prices at the time of execution and any differences in volume and reconciliation at the time of delivery is marked to the spot price on the day. WACOG (weighted average cost of gas) also includes the energy cost element of Reconciliation by Difference (RbD) and Unidentified Gas. This transfer pricing methodology reflects how SSE Energy Services actually acquired its energy. The forward hedging policies are determined by SSE Energy Service's Risk and Trading Committee. There have been no material changes in the transfer pricing policy in respect of SSE Energy Services since the CSS for the financial year ending 31 March 2019.

Transportation Costs – these are network type costs and include: electricity transmission and distribution use of system costs; gas transportation costs including the transportation element of RbD and market participation costs.

Environmental and Social Obligation Costs – relate to policies designed to modernise and decarbonise the energy system in Great Britain and include ROCs, Feed in Tariff, Energy Company Obligation (ECO), charges under the Capacity Mechanism and CfD schemes and charges in relation to "assistance for areas with high electricity distribution costs" (AAHEDC).

Other Direct Costs – include: settlement costs, wider Smart Metering costs, management charges from EPM and commissions paid to Internet Comparison Sites.

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

Depreciation and Amortisation – charges which relate to depreciation of Smart Metering Systems and other IT software. Depreciation has been included within the CSS, but due to the business being held for sale within the financial statements, no depreciation was recognised within the financial statements. This has been included as a reconciling difference in the reconciliation below.

The SSE Energy Services profit and loss account bears the risk and rewards arising from the volatility in demand for energy, caused by the weather, consumption per customer and customer churn. It is also exposed to swings in wholesale costs and the uncertainty surrounding government environmental and social schemes.

Business Energy (Non-Domestic)

Revenue from Sales of Electricity and Gas – revenues are the value of electricity and gas supplied to business customers in Great Britain during the year and includes an estimate of the value of units supplied between the date of the last meter reading and the year end. Non domestic volumes are expressed at customer meter point, net of transmission and distribution losses and are based on external settlements data.

Direct Fuel Costs – Business Energy does not engage in the trading of electricity and gas and procures all of its electricity and gas from EPM. The method by which EPM procures energy at an arm's length arrangement on behalf of Business Energy is governed by Business Energy's forward hedging policy. The forward trades between Business Energy and EPM are priced at wholesale market prices at the time of execution and any differences in volume and reconciliation at the time of delivery is marked to the spot price on the day. WACOG (weighted average cost of gas) also includes the energy cost element of Reconciliation by Difference (RbD) and Unidentified Gas. The WACOE and WACOG also consist of trades marked to wholesale prices when committed at the point of sale for fixed price customer contracts or when a customer instructs SSE to purchase energy in respect of flexi-priced contracts. This transfer pricing methodology reflects how Business Energy actually acquired its energy. There have been no material changes in the transfer pricing policy in respect of Business Energy since the CSS for the financial year ending 31 March 2019.

Transportation Costs – these are network type costs and include: electricity transmission and distribution use of system costs; gas transportation costs including the transportation element of RbD and market participation costs.

Environmental and Social Obligation Costs – relate to policies designed to modernise and decarbonise the energy system in Great Britain and include ROCs, Feed in Tariff, charges under the Capacity Mechanism and CfD schemes and charges in relation to "assistance for areas with high electricity distribution costs" (AAHEDC).

Other Direct Costs – include: settlement costs, management charges from EPM and other miscellaneous costs.

CONSOLIDATED SEGMENTAL STATEMENT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

Business Energy (Non-Domestic) continued

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

Business Energy's profit and loss account bears the risk and rewards arising from the volatility in demand for energy, caused by the weather, consumption per customer and customer churn. It is also exposed to swings in wholesale costs and the uncertainty surrounding government environmental and social schemes.

EPM

The operating profit for EPM for the financial year ended March 2019 was a loss of £284.9m. In November 2018, the Group published a Statement on SSE's Approach to Hedging, which explained the changes that will be made to the current hedging strategy to reduce the Group's exposure to variations in earnings from assets subject to volatility in energy commodity prices. The Group is currently implementing this new hedging approach and aims to have it fully in place by April 2020.

Business Functions

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

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

Key:
✓ function and P&L impacting that area;
P/L profit/losses of function recorded in that area;
F function performed in that area.

Glossary and notes

1 "Scheduling decisions" means the decision to run individual power generation assets.
2 "Responsible for interactions with the Balancing Market" means interactions with the Balancing Mechanism in electricity.
3 Hedging policy was the responsibility of the Energy Markets Risk Committee which is a sub committee of the SSE Executive Committee.
4 SSE EPM implements the hedging policy determined by the Energy Markets Risk committee on behalf of Renewables, Thermal Generation, Business Energy and SSE Energy Services.
5 "Interacts with wider market participants to buy/sell energy" means the business unit responsible for interacting with wider market participants to buy/sell energy, not the entity responsible for the buy/sell decision itself, which falls under "Responsible for implementing hedging policy/makes decisions to buy/sell energy".
6 "Matches own generation with own supply" means where there is some internal matching of generation and supply before either generation or supply interact with the wider market. The total electricity demand for Business Energy and SSE Energy Services (expressed at NBP) was 25.8TWh and the total UK Generation output was 22.8TWh (88%).
7 "Forecasts total system demand" means forecasting total system electricity demand or total system gas demand.
8 "Forecasts customer demand" means forecasting the total demand of own supply customers.
9 "Bears shape risk after initial hedge until market allows full hedge" means the business unit which bears financial risk associated with hedges made before the market allows fully shaped hedging.
10 "Bears short-term risk for variance between demand and forecast" means the business unit which bears financial risk associated with too little or too much supply for own customer demand.

Reconciliation of CSS to SSE Financial Statements 2019/20

The table below shows how the CSS reconciles with the adjusted earnings before tax in the SSE financial statements (page 188 of SSE financial statement):

Reconciliation of CSS to SSE Financial Statements	Note	Revenue £m	EBIT £m
Retail			
CSS Supply – Non-Domestic		2,457.4	(18.7)
Exceptional items	1	–	27.9
Total Retail segment in SSE Financial Statements		**2,457.4**	**9.2**
Generation			
Renewables			
CSS Renewables Electricity Generation		1,034.5	496.5
Non-GB Generation	2	117.0	70.9
JVs/Associate revenue in CSS	3	(303.4)	–
Total Renewables segment in SSE Financial Statements		**848.1**	**567.3**
Thermal			
CSS Thermal Electricity Generation		952.5	117.7
Non-GB Generation	4	216.5	35.0
JVs/Associate revenue in CSS	3	(131.4)	–
Income Reclassification (Fiddlers Ferry)	5	169.3	–
Total Generation segment in SSE Financial Statements		**1,206.9**	**152.7**
SSE Energy Services – Discontinued Operations			
CSS Supply – Domestic		2,508.54	(24.0)
Income Reclassification	6	110.5	(0.2)
Energy Related Services	7	228.6	6.3
Depreciation (Retail held for sale)	8	–	39.7
Exceptional	9	–	10.8
Total SSE Energy Services segment in Financial Statements		**2,847.6**	**32.7**

There are some differences between SSE's financial statements and the CSS. There are items which are in the financial statements and not in the CSS; and also there are items which Ofgem has requested be included in the CSS which are not in the financial statements.

Notes

1 Exceptional items relate to bad debt charges related to coronavirus, which have been classified as exceptional within SSE's financial statements.
2 Non GB Electricity Generation relates to SSE's Renewables business in the Republic of Ireland and Northern Ireland.
3 SSE applies equity accounting for its investments in JVs and Associates (which means it only includes its share of the profits/losses), in accordance with International Financial Reporting Standards (IFRS). The Ofgem mandated basis of preparation of the CSS requires that the proportionate share of revenue, costs and profits are shown in the CSS. The revenue shown in the CSS for JVs and Associates is not present in the financial statements and is therefore a reconciling item. The share of profits however are present in both CSS and financial statements, therefore no reconciliation is necessary.
4 Non GB Electricity Generation relates to SSE's Thermal business in the Republic of Ireland.
5 During the year SSE announced the closure of Fiddlers Ferry power station and from that point onwards excluded the power station from the operations included within the CSS. From that date onwards, SSE excluded all operating losses from its segmental results.
6 Reclassification of metering income for CSS.
7 SSE Energy Services business has been included in the reported profit of the segment in the financial statements of SSE, but is excluded from the CSS.
8 SSE Energy Services was held for sale within the financial statements of SSE for the period to disposal. As a result, no depreciation was charged by the Group on the assets while part of the Group.
9 Exceptional items relate to restructuring costs prior to disposal, which have been classified as exceptional within SSE's financial statements.

Adjustments to reported profit before tax

SSE focuses its internal and external reporting on "adjusted profit before tax" which excludes exceptional items, re-measurements arising from IFRS 9, depreciation on fair value uplifts and removes taxation on profits of joint ventures and associates, because this reflects the underlying profits of SSE, reflects the basis on which it is managed and avoids the volatility that arises out of IFRS 9. Therefore, these items have been excluded from the CSS.

CSS AUDIT OPINION

Opinion

We have audited the financial statements of SSE plc (the Company) for the year ended 31 March 2020, which comprise the Consolidated Segmental Statement (CSS), Basis of preparation, Reconciliation of CSS to the Annual Report of SSE plc and the related disclosure notes. The financial reporting framework that has been applied in their preparation is a special purpose framework comprising the financial reporting provisions of Ofgem's Standard condition 16B of Electricity Generation licences and Standard 19A of Electricity and Gas Supply Licences.

In our opinion, the accompanying CSS of the Company for the year ended 31 March 2020 are prepared, in all material respects, in accordance with the requirements of Standard condition 16B of Electricity Generation licences and Standard 19A of Electricity and Gas Supply Licences and the basis of preparation on pages 300 to 304.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including "*ISA (UK) 800 (Revised) Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*". Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Basis of Accounting and Restriction on Distribution and Use

We draw attention to note pages 300 to 304 to the CSS, which describes the basis of accounting. The CSS is prepared to assist the Company in complying with the financial reporting provisions of the Licences referred to above. As a result, the CSS may not be suitable for another purpose. Our report is intended solely for the Company, in accordance with our engagement letter dated 12 June 2020, and should not be distributed to or used by parties other than the Company. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Annual Report, other than the CSS and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the CSS does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the CSS, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

The Directors are responsible for the preparation of the CSS in accordance with the financial reporting provisions of Ofgem's Standard condition 16B of Electricity Generation licences and Standard 19A of Electricity and Gas Supply Licences, and for such internal control as management determines is necessary to enable the preparation of CSS that are free from material misstatement, whether due to fraud or error.

In preparing the CSS, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the CSS as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Ernst & Young LLP
Glasgow
16 June 2020

SHAREHOLDER INFORMATION

Shareholder enquiries
The Company's register of members is maintained by our appointed Registrar, Link Asset Services. Shareholders with queries relating to their shareholdings should contact Link directly:

Link Asset Services
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: 0345 143 4005
Email: SSE@linkgroup.co.uk

Financial calendar

Publication of Annual Report	9 July 2020
Q1 Trading Statement	16 July 2020
Ex-dividend date for final dividend	23 July 2020
Record date for final dividend	24 July 2020
AGM	12 August 2020
Final date for Scrip elections	21 August 2020
Payment date	18 September 2020
Notification of Close Period by	30 September 2020
Results for six months to 30 September	18 November 2020

Website
SSE has upgraded its website, www.sse.com, to improve shareholder accessibility to information about the Company and its performance. It includes a dedicated investors section where you can find electronic copies of Company reports and 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
SSE uses a dedicated news and views website (available at www.sse.com/newsandview) and Twitter (www.twitter.com/sse) to keep shareholders, investors, journalists, employees and other interested parties up-to-date with news from the Company.

Sustainable communications
SSE is seeking to implement a sustainable communications strategy which reduces the volume of paper being used in its communications with shareholders and other stakeholders. This is in line with SSE's sustainability values and approach to providing a more environmentally-friendly service. The first step in this strategy was the move away from paper dividend cheques in 2019/20 and SSE continues to encourage shareholders to use online services to manage their holding.

Through the dedicated Shareholder Portal provided by Link Registrars at www.sse-shares.com/ shareholders can:
- **Elect for electronic communications.** By joining our eCommunications Programme and choosing to receive shareholder documents electronically. Shareholders are notified by email that documents such as the Annual Report or Notice of Annual General Meeting are available on our website.
- **Update personal details.**
- **Buy and sell shares online using Link's share dealing service.**
- **Vote in advance of company general meetings.**

If you have not used this service before, you will require your Investor Code (IVC) to register. You will find this on your share certificate or on recent items of communication.

Dividends
The Company typically pays dividends twice yearly. Interim dividends are paid in March, and final dividends are paid in September once approved by shareholders at the AGM. With significant focus on payment methods for dividends in recent years, in terms of efficiency, cost and security, SSE plc made the decision that from September 2019, it would no longer be paying dividends by cheque. All dividends are now credited to a shareholder's nominated UK bank/building society account.

If you haven't already registered your UK bank/building society account details with Link Registrar or would like to amend the details on your account, you can do this by:
- logging in to the dedicated Shareholder Portal at www.sse-shares.com; or
- calling Link on 0345 143 4005 and speaking to one of the team.

If you do not have a UK bank or building society account, your dividends can be paid directly into a bank account outside of the UK using the International Payment service. Please visit http://ips.linkassetservices.com/ for further information.

Alternatively, shareholders may want to join the Scrip dividend alternative and receive future dividends in the form of additional new shares. Further details of the Scrip scheme can be found at www.sse.com/investors/dividendsandourscripscheme/. You should still complete a bank mandate to enable future dividend payments should you ever withdraw from the Scrip scheme.

Shareholders will continue to receive an annual dividend confirmation at the end of each financial year. Any shareholder who requires a separate dividend confirmation for each dividend payment should contact Link Asset Services.

Amalgamation of multiple share accounts
Many shareholders receive several copies of the Annual Report and dividend documentation who could merge their shareholdings. If you receive more than one copy of these documents you could help SSE reduce its impact on the environment and save paper by merging your accounts into one. Please contact Link Asset Services to amalgamate your accounts or visit https://sse.com/investors/shareholderservices/multipleshareaccounts/

Dissentient shareholders

Scottish and Southern Energy plc (now known as SSE plc) was formed in 1998 following the merger of Scottish Hydro Electric plc and Southern Electric plc. The terms of the offer through which the merger was effected was that for every Southern Electric plc ordinary share held, shareholders received one Scottish and Southern Energy plc (now SSE plc) ordinary share. A number of shareholders did not respond to the original merger offer, resulting in subsequent tracing communications over the following years. In 2017, more than 12 years after the formation of SSE, a complete tracing programme was initiated through the asset reunification company Capita Employee Benefits (Consulting) Limited (Capita Tracing), to locate dissentient shareholders and reunite them with their funds. The steps agreed were designed to enable the best possible outcome for dissentient shareholders and provided clear details of the actions required to claim their asset entitlement. Following the completion of all reasonable steps over £2m (in a combination of shares and accrued dividends) was returned to dissentient shareholders. As required by the Companies Act 2006, the remainder totalling over £9m was transferred to the Chancery Division of the High Court of Justice. Unclaimed monies can still be claimed through direct application to the Chancery Division of the High Court of Justice. The process for making such an application was provided to outstanding claimants and further details are provided at www.sse.com/investors/shareholderservices/southern-electric-plc-unclaimed-entitlements/.

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".

NOTES

NOTES

WORLD LAND TRUST™
www.carbonbalancedpaper.com
CBP003805

MIX
Paper from responsible sources
FSC® C141094
www.fsc.org

The outer cover of this report has been laminated with a biodegradable film. Around 20 months after composting, an additive within the film will initiate the process of oxidation.

Designed and produced by emperor
Visit us at emperor.works

For further information about SSE, please contact:

SSE plc
Corporate Affairs
Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ
UK
+44 (0)1738 456000
info@sse.com
Registered in Scotland No. 117119

sse.com

Follow the latest news from SSE
on Twitter at: twitter.com/sse

@SSE