

# Interim results

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For the six months to 30 September 2016



## Disclaimer

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

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## Definitions

These financial results for the 6 months ending 30 September 2016 are reported under IFRS, as adopted by the EU.

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

The definitions SSE uses for adjusted measures are consistently applied and can be explained as follows:

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

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

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

Note 2 to the Interim Financial Statements explains more about the basis and rationale of these adjustments including SSE's definition of Exceptional Items and Certain Re-measurements. Reconciliations of Reported to Adjusted numbers are shown in the Financial Overview section.

In preparing this financial report SSE has been mindful of the commentary issued in May 2016 by the Financial Reporting Council on the European Securities and Markets Authority's Guidelines on Alternative Performance Measures. SSE will monitor developing practice in the use of Alternative Performance Measures and will continue to prioritise this, ensuring the financial information in its results statements is clear, consistent and relevant to the users of those statements.

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# SSE plc

## Interim results for the six months to 30 September 2016

9 November 2016

This report sets out the interim results for SSE plc for the six months to 30 September 2016. It includes updates on operations and investments in its Wholesale, Networks and Retail (including Enterprise) businesses. As performance over a six month period can be variable, SSE focuses on results for the financial year as a whole, and manages its costs and its energy portfolio accordingly.

### Overview

For the six months to 30 September 2016 SSE's financial highlights are as follows (comparison with the same period in 2015 in brackets):

- Interim dividend increased by 1.9% to 27.4 pence per share
- Adjusted earnings per share fell by 25.5% to 34.2 pence, reflecting lower profits in Wholesale and Retail and an unusually high proportion of hybrid bond coupon payments made in the first half of the financial year
- Adjusted profit before tax declined by 13.3% to £475.8m, but is the second highest H1 profit before tax delivered by SSE
- Reported earnings per share increased 143% to 47.2p reflecting the cumulative impact of positive mark-to-market valuations on commodity and financial derivatives
- Reported profit before tax increased by 167% to £615.9m also reflecting the cumulative impact of positive mark-to-market valuations on commodity and financial derivatives
- Investment and capital expenditure rose 3.3% to £782.4m
- Adjusted net debt and hybrid capital increased by 7.2% in the half year to £8,995.4m as a result of the phasing of capital expenditure and movements in foreign exchange rates.

For the financial year 2016/17 as a whole, SSE expects to:

- Deliver an annual increase in the dividend that at least keeps pace with RPI inflation and which is covered in the range from around 1.2 times to around 1.4 times
- Achieve a return to growth and deliver adjusted earnings per share of at least 120 pence
- Undertake capital and investment expenditure of around £1.85bn, which would be the highest annual investment and capital expenditure by the company to date, following the decision to invest in the 225MW Stronelaig onshore wind farm – a decision which means SSE has 1GW of wind farm capacity in construction or pre-construction.

In the period to December 2017, SSE intends to:

- Use the proceeds from the sale of part of its stake in SGN (around £600m, net of transaction costs) to create value for shareholders by directing around £100m to support investment in Stronelaig and currently intends to return value to shareholders by way of an on-market share buy-back of around £500m. Thereafter, the ongoing adjusted EPS impact of the sale and the use of the proceeds should be broadly neutral.

Looking further ahead, SSE remains on course to:

- Deliver annual dividend increases that keep pace with RPI inflation
- Achieve dividend cover within a range of around 1.2 times to 1.4 times over the three years to March 2019
- Undertake capital and investment expenditure totalling almost £6bn over the four years to March 2020.

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

	Sep 16	Sep 15	Sep 14
	£m	£m	£m
<b>Adjusted Operating Profit</b>			
Wholesale	121.0	159.6	26.7
Networks	455.9	451.6	458.4
Retail	60.5	101.5	37.3
Corporate Unallocated	(0.2)	(10.8)	7.4
<b>Total adjusted operating profit</b>	<b>637.2</b>	<b>701.9</b>	<b>529.8</b>
<b>Adjusted profit before tax</b>	<b>475.8</b>	<b>548.8</b>	<b>370.3</b>
	Pence	Pence	Pence
<b>Adjusted earnings per share (EPS)</b>	<b>34.2</b>	<b>45.9</b>	<b>31.1</b>
Interim dividend per share(DPS)	27.4	26.9	26.6
	£m	£m	£m
Investment and capital expenditure	782.4	757.3	679.3
	Sep 16	Mar 16	Sep 15
Adjusted net debt and hybrid capital	8,995.4	8,395.0	7,936.8

	Sep 16	Sep 15	Sep 14
	£m	£m	£m
<b>Reported Operating Profit / (Loss)</b>			
Wholesale	266.5	(129.1)	6.5
Networks	409.7	381.5	379.6
Retail	60.5	101.5	37.3
Corporate Unallocated	(0.2)	(10.8)	7.4
<b>Total reported operating profit</b>	<b>736.5</b>	<b>343.1</b>	<b>430.8</b>
<b>Reported profit before tax</b>	<b>615.9</b>	<b>230.8</b>	<b>316.6</b>
	Pence	Pence	Pence
<b>Reported earnings per share (EPS)</b>	<b>47.2</b>	<b>19.4</b>	<b>25.8</b>
	Sep 16	Mar 16	Sep 15
	£m	£m	£m
Reported net debt	7,164.8	6,808.6	4,987.5

## Business by business profitability and performance

SSE has a balanced range of energy-related businesses and all three reportable business segments contributed adjusted operating profit during the six months to 30 September 2016:

### Wholesale

- **Energy Portfolio Management and Electricity Generation:** adjusted operating profit decreased by £18.6m, to £123.2m, mainly due to a 20.5% decrease in electricity output from renewable sources, partly offset by an improvement in the contribution from SSE's thermal generation portfolio. For the year as a whole, SSE is still expecting to report an increase in EPM and Electricity Generation operating profit; and while SSE's diverse portfolio of assets and contracts provides mitigation, the volatile conditions that have seen in recent weeks in the GB power market could have wide-ranging impacts.

Reported operating profit shows a change from a loss of (£146.9) m to a profit of £268.7m, in the main due to the relative positive performance of mark-to-market commodity derivatives between the periods.

- **Gas Production:** adjusted and reported operating profit decreased by £12m to £2.1m reflecting lower gas prices, with some improvement in profitability expected in the second half of the year due to a higher winter gas price; and
- **Gas Storage:** made an adjusted and reported operating loss of (£4.3m), compared to a profit of £3.7m for the same period last year, reflecting the continued challenges in operating conditions.

## Networks

- **Electricity Transmission:** in line with expectations for 2016/17 outlined in SSE's FY2015/16 Financial Results, adjusted and reported operating profit decreased by £6.8m to £135.6m, reflecting the phasing of capital expenditure and revenue associated with the growing asset base;
- **Electricity Distribution:** adjusted and reported operating profit rose very slightly, by £2.4m to £181.0m, with the full benefit of previous under-recoveries of revenue still expected to be reflected in the second half of the year; and
- **Gas Distribution:** SSE's share of SGN's adjusted operating profit rose by £8.7m to £139.3m, reflecting the profiling of revenue and continued good performance of the business. Reported operating profit increased by £32.6m to £93.1m due to the impact of the change in Corporation Tax rate as well as the underlying improvement performance.

## Retail

- **Energy Supply:** adjusted and reported operating profit decreased by £26.7m to £47.1m. Although adjusted and reported operating profit from supplying energy to non-domestic customers improved in the period, this was more than offset by the impact on adjusted operating profit of factors in household energy supply - lower customer account numbers in a competitive market, the costs of delivering the smart meter roll-out and rising non-energy costs for electricity customers;
- **Energy-related Services:** adjusted and reported operating profit fell by £2.6m to £8.6m, as SSE continues to invest in building scale in these businesses; and
- **Enterprise:** adjusted and reported operating profit fell by £11.7m to £4.8m reflecting continued competitive pressures.

In the Financial Statements for the six months to 30 September 2016, the only differences between adjusted operating profit and reported operating profits are in EPM and Electricity Generation and in Gas Distribution for re-measurements arising from IAS39 and the treatment of tax and interest on joint ventures and associates. There is no difference between reported and adjusted operating profit in the remaining businesses.

## Financial management

Central to the delivery of SSE's strategy and the achievement of its financial objectives is a disciplined approach to financial management, including efficient deployment of capital and investment expenditure, effective realisation of value from assets where appropriate and maintenance of a strong balance sheet. Also central to SSE's strategy is ensuring a responsible approach to tax.

### Making the right investment decisions

In the 6 months to 30 September 2016, SSE's investment totalled £782.4m before proceeds and disposals across its businesses. The Wholesale businesses accounted for around 30% of the total; the Networks businesses for around 50%; with Retail, including Enterprise, and Corporate accounting for the remaining 20%. Key strategic investments in 2016/17 include:

- progress on the Caithness-Moray electricity transmission link, the largest capital project undertaken by SSE, and investing to improve service quality for customers in Electricity and Gas

Distribution. This means the Regulated Asset Value (RAV) of SSE's five Networks companies is now on course to reach close to £9bn by 2020, net of the recent disposal of a 16.7% stake in SGN (which is consistent with the forecast of £10bn RAV by 2020 in place prior to the disposal).

- progress on the delivery SSE's wind farm projects in construction and pre-construction which, for the first time ever, stands at just over 1GW and includes both on- and offshore developments. Over the next 3 years delivery of these projects will increase SSE's total renewable energy capacity to almost 4GW.

### **Allocating capital and investment expenditure in the period up to 2020**

SSE announced in March 2016 that investment and capital expenditure was expected to be in the range of £5.5 - 6bn across the four years to March 2020. Following the decision to proceed with the construction of the 225MW Stronelaig onshore wind farm, it is now expected to be around £1.85bn in 2016/17, which would be SSE's highest-ever total in one financial year, and in 2017/18 it is currently expected to be around £1.75bn. SSE is therefore maintaining investment momentum and it is now expected that total investment and capital expenditure will be closer to £6bn in this period to 2020. Around £5bn of that is already committed, predominantly in economically-regulated electricity networks and government-mandated renewable energy projects.

The decision to proceed with Stronelaig follows a ruling in favour of the project by the Court of Session in July 2016. This is a challenging project, but the electricity output from the development is expected to qualify for Renewables Obligation Certificates. At all times SSE will continue to allocate capital in a way that is consistent with its focus on strong financial management, operational efficiency and maintaining a balanced range of businesses.

### **Realising value from assets**

On 17 October 2016, SSE announced that it had sold a 16.7% equity stake in Scotia Gas Networks Limited ('SGN') to wholly owned subsidiaries of the Abu Dhabi Investment Authority (ADIA), for a headline consideration of £621m based on an effective economic date of 1 April 2016. The sale was completed on 26 October 2016 and SSE will retain a 33.3% equity stake in SGN.

When it announced the possible sale of SGN, SSE said that should a sale be completed, it would expect to use the proceeds to return value to its shareholders or to invest to create value for shareholders, should there be the right opportunity. The development of the Stronelaig wind farm is one such opportunity for the SSE group. After meeting transaction-related costs, SSE therefore plans to: direct around £100m of the proceeds to support that investment: and to return around £500m to shareholders and currently intends to structure this by way of an on-market share buy-back, which it expects to execute by 31 December 2017. Thereafter, the impact on adjusted earnings per share following the sale and the use of sale proceeds is expected to be broadly neutral.

The gain on the disposal of the 16.7% equity stake in SGN will be treated as an exceptional item in SSE's Financial Statements for 2016/17.

### **Maintaining a strong balance sheet**

As a long-term business, SSE believes that it should maintain a strong balance sheet, illustrated by its commitment to robust ratios for retained cash flow and funds from operations/debt. SSE believes that a strong balance sheet enables it to secure funding from debt investors at competitive and efficient rates and take decisions that are focused on the long term - all of which supports the delivery of annual increases in the dividend of at least RPI inflation and the maintenance of an appropriate level of dividend cover.

In October 2016, Moody's Investors Service affirmed SSE's senior credit rating of A3, changed SSE's outlook from negative to stable and raised SSE's threshold for retained cashflow / debt ratio to 'mid teens' (previously 13%). In the same month, Standard & Poor's affirmed SSE's A-rating and negative outlook, while also raising SSE's threshold for funds from operations/debt ratio to around 23% (previously 20-23%).

## **Ensuring a responsible approach to tax**

As a large company and an essential services provider SSE believes it should contribute to the costs of the public services on which it depends. In October 2016, SSE was awarded the Fair Tax Mark for the third consecutive year. SSE remains the only FTSE 100 Company to have secured the Mark, which is the world's first independent accreditation for fair tax. It requires companies to make disclosures well beyond the current requirements of UK law, including ruling out the use of tax havens, committing to country-by-country reporting and clear, transparent statements on its tax approach. In line with this, SSE has published its first *Talking Tax* booklet, available on [sse.com](http://sse.com), aimed at giving a short and clear guide to what taxes it pays and where it pays them.

### **Richard Gillingwater, Chairman of SSE, said:**

"SSE continues to focus on the fulfilment of its core purpose of providing the energy people need in a reliable and sustainable way. In this financial year so far we have again delivered what we said we would, particularly with the sale of one third of our stake in SGN; further disciplined investment in networks and renewables; delivering high quality customer service; and the efficient operation of our assets.

"The operating environment presents some challenges, notably with changes to the UK Government and macro-economic uncertainty, with the added issue of Brexit. There have, however, been some welcome developments, particularly the UK Government's recent reforms to the Capacity Market in GB. SSE continues to engage constructively with governments and regulators to help them achieve their aims for the energy market.

"Whilst there should always be a degree of caution about interpreting half-year results, especially against a background of volatile market conditions, we have made a satisfactory start to this financial year. Looking to the challenges that lie ahead, our long-term focus will continue to be on operating our balanced range of energy businesses safely and efficiently and maintaining disciplined financial management. This long-term approach puts SSE on course to achieve our financial objective of delivering an increase in the full-year dividend at least equal to RPI inflation."



## Further Information

### Inside Information

This announcement is being disclosed in accordance with the Market Abuse Regulation (EU596/2014) and has been determined to contain inside information in line with the definition therein.

#### Investor Timetable

Ex-dividend date	19 January 2017
Record Date	20 January 2017
Final date for receipt of Scrip Elections	17 February 2017
Payment Date	17 March 2017
Q3 Trading Statement	By 31 January 2017
Notification of Close Period	By 31 March 2017
Preliminary Results for year ended 31 March 2017	17 May 2017
AGM (Perth) and Q1 Trading Statement	20 July 2017

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## Chief Executive's Statement

During 2016/17 SSE has continued to operate within a clearly-defined strategic framework which enables it to meet its long-term financial objective of annual dividend increases at least equal to RPI inflation. The fundamental strength of SSE's business remains its focus on efficiency, strong financial management and the maintenance of a balanced range of businesses in the energy sector. Across all of its activities, SSE recognises its core responsibilities to customers, and aims to put their current and future needs at the heart of its business decisions.

## Safety

Safety is the number one priority for SSE. The Total Recordable Injury Rate for employees and employees of other companies working on SSE sites was 0.25 per 100,000 hours worked in the 12-month period ending September 2016, which compares to 0.22 in the previous year. On 28 October, an employee of Bam Nuttall died at the Blackhillock substation construction site and the condolences of everyone associated with SSE continue to be extended to his family, friends and colleagues.

## Maintaining a clearly-defined strategic framework

SSE has a long-established core purpose which is to provide the energy people need in a reliable and sustainable way. To deliver this it operates under a clearly-defined strategic framework consisting of:

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

The energy sector is accustomed to a continuously evolving regulatory framework as it adapts to the changing needs and expectations of customers and of society at large. In the years ahead the energy markets in GB and Ireland will undergo further technological, regulatory and demographic changes. As these changes progress SSE believes that its strategic framework continues to be the right one. It gives SSE both the foundations and the flexibility required to provide both its customers and its shareholders with long-term value.

## Operating within a clearly-defined financial framework

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

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

- **Dividend:** SSE's financial objective is to deliver annual increases in the dividend of at least RPI inflation. This means it is able to look beyond short-term value and profit maximisation in any one year and maintain a disciplined, responsible and long-term approach to the management of, and investment in, its business activities.
- **Dividend cover:** SSE believes that its dividend per share should be covered by adjusted earnings per share at a level that is sustainable over the long term. As a result of its investment over the last five years, the majority of SSE's asset base and operating profit now relates to economically-regulated Networks and government-mandated renewable sources of energy. Over the three years to 2018/19, SSE still expects its dividend cover to range from around 1.2 times to around

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

- **Balance sheet:** As a long-term business, SSE believes that it should maintain a strong balance sheet, illustrated by its commitment to robust ratios for retained cash flow and funds from operations/debt. SSE believes that a strong balance sheet enables it to secure funding from debt investors at competitive and efficient rates and take decisions that are focused on the long term - all of which supports the delivery of annual increases in the dividend of at least RPI inflation and the maintenance of an appropriate level of dividend cover.

SSE believes that its prudent financial framework and associated disciplined approach to financial management continues to make it an attractive investment for shareholders seeking sustainable, long-term value.

## Results

SSE's main focus is on results for the financial year as a whole. On that basis, it is encouraging that SSE is able to confirm that it expects to deliver an annual increase in the dividend that at least keeps pace with RPI inflation and to achieve a return to growth and adjusted earnings per share of at least 120 pence. There are three other points that illustrate SSE's commitment to investing for the future including for the long term benefit of customers:

- At a time of greater economic uncertainty, SSE expects to invest £1.85bn across the UK and Ireland in this financial year, which will be a record for the company;
- In Wholesale, there is another record for SSE – 1,000MW of wind farm capacity under construction or pre-construction, following the decision to go ahead with the Stronelairg onshore wind farm near Fort Augustus; and
- In Networks, SSE has made good progress with the new £1.12bn Caithness-Moray electricity transmission link – a record investment by SSE in a single project.

These results represent the hard work and commitment of employees that is evident in every part of the SSE group and which is demonstrated, even when faced with major challenges, on a daily basis.

## Market context

At the same time, however, this results statement makes no secret of the challenges SSE faces, especially at a time of volatile market conditions. The markets SSE operates in are constantly changing and are subject to a number of key trends and developments, such as the legal requirement to decarbonise electricity generation; changing commodity prices; constant evolution in the regulatory framework to meet the changing expectations of customers; increasing competition across the energy value chain; and changes in technology and the way energy is produced, distributed and consumed. As a result, the energy industry is accustomed to a changing operating environment and SSE seeks to manage this by engaging constructively and collaboratively with elected representatives, policy-makers, regulators and other key stakeholders in all of the jurisdictions in which it operates.

Some of the issues affecting SSE's operations and investments included:

- **Changes made by the UK Government to design of the GB Capacity Market:** the changes announced earlier this year are intended to help the UK Government, National Grid and Ofgem deliver their responsibilities for maintaining security of electricity supply. The changes made to the functioning of the auctions, and the introduction of an auction in January 2017 for delivery in 2017/18, are welcomed. It should lead to a more effective mechanism that supports the economics of existing thermal generation plant and may create opportunities for new gas-fired generation which can replace coal-fired generation in the GB market.

- **The publication by the Competition and Markets Authority (CMA) of its Final Decision on Remedies:** this concluded a thorough two-year investigation into the supply and acquisition of energy in GB. The package of 30 remedies announced in June 2016 is extensive and primarily affects how households and small businesses interact with the energy supply market. The remedies will now be implemented by the industry, working with the regulator. They, alongside other regulatory changes such as the major investments being undertaken in smart metering and faster switching times can, in time, provide the basis of a solid foundation in what is a dynamic, competitive and changing retail energy market. It is a market in which SSE expects active political and regulatory interest to continue, however, and SSE continues to engage actively with all relevant stakeholders.
- **The result of the UK's referendum on its membership of the EU:** the economic impacts since the referendum result on 23 June 2016 have included a decline in the value of Sterling and uncertainty about future financing by the European Investment Bank. Some economists are forecasting higher rates of RPI inflation; the majority of SSE's operating profit, however, is derived from activities with an RPI link. Politically, the Scottish Government has also published a *Consultation on a Draft Referendum Bill*, setting out proposals for the rules governing a possible referendum on independence for Scotland, in which it said that – as in 2014 – it would seek the agreement of the UK Parliament by way of a so-called Section 30 Order before any referendum took place. At this stage these events should not impact significantly on SSE's existing operations and investments. There may also be changes to the functioning of the GB and Ireland energy markets as a result of changes to the UK – EU energy relationship. In September, SSE wrote to the Secretary of State for Business, Energy and Industrial Strategy and the Secretary of State for Leaving the European Union outlining its considerations on the investment climate, security of supply and the impacts on energy customers in Northern Ireland (see [sse.com](http://sse.com)). It continues to engage closely with the UK and Irish Governments, the devolved administrations in Scotland, Wales, and Northern Ireland and associated regulators, to represent the interests of its customers, shareholders and other stakeholders as the UK's relationship with the EU changes.

Looking further ahead, it is welcome and encouraging that the UK Government accepted the advice of the Committee on Climate Change to set the fifth carbon budget for the period 2028-32, to limit annual UK greenhouse gas emissions to an average 57% below 1990 levels.

In all, while there is a degree of uncertainty about aspects of the operating environment, decisions such as those relating to the Capacity Market are welcome. A regulatory settlement that is based on the outcomes of the CMA inquiry should also provide a solid foundation for future of the retail market, although political and regulatory focus on it is continuing.

## Earning profits in a responsible way

A company's values are the bedrock of how it operates. SSE provides people with an essential service and it has therefore sought to embed a responsible approach into its business conduct. SSE continues to take significant steps to achieve enhanced social, economic and environmental impacts. In addition to this statement SSE has published an *Interim Sustainability Statement*, full details are available at [sse.com/being-responsible](http://sse.com/being-responsible).

## Conclusion

SSE is a business that invests and operates for the long-term. Whilst the markets it operates in are changing, and present challenges, the fundamental strength of SSE's business is its focus on operational efficiency, disciplined investments, strong financial management and the maintenance of a balanced range of energy businesses. This positions SSE well for the future and it remains committed to providing long-term value for its customers and its shareholders.

SSE has delivered what it said it would over the first six months of this financial year. It is on course to achieve its financial objective in 2016/17 of an increase in the full-year dividend, at least equal to RPI inflation. Furthermore, SSE is continuing to target annual increases in the dividend, in line with RPI inflation, in subsequent years, supported by dividend cover which is sustainable.

## Group Financial Overview

Key Financial Metrics	Sep 16 £m	Sep 15 £m	Sep 14 £m
<b>Adjusted Operating Profit</b>	<b>637.2</b>	<b>701.9</b>	<b>529.8</b>
Adjusted Net Finance Costs	(161.4)	(153.1)	(159.5)
<b>Adjusted Profit before Tax</b>	<b>475.8</b>	<b>548.8</b>	<b>370.3</b>
Adjusted Current Tax Charge	(57.1)	(80.2)	(55.6)
Adjusted Profit after Tax	418.7	468.6	314.7
Less: hybrid coupon payments	(73.9)	(12.5)	(11.7)
<b>Adjusted Profit After Tax attributable to ordinary shareholders</b>	<b>344.8</b>	<b>456.1</b>	<b>303.0</b>
<b>Adjusted EPS – pence</b>	<b>34.2</b>	<b>45.9</b>	<b>31.1</b>
Interim Dividend – pence	27.4	26.9	26.6
Number of shares for basic/reported and adjusted EPS (million)	1,008.0	993.8	975.7
Shares in issue at 30 September (m)	1,017.0	1,003.8	986.8

	Sep 16 £m	Sep 15 £m	Sep 14 £m
<b>Reported Operating Profit</b>	<b>736.5</b>	<b>343.1</b>	<b>430.8</b>
Reported Net Finance Costs	(120.6)	(112.3)	(114.2)
<b>Reported Profit before Tax</b>	<b>615.9</b>	<b>230.8</b>	<b>316.6</b>
Reported Current Tax Charge	(65.8)	(25.6)	(53.6)
<b>Reported Profit after Tax</b>	<b>550.1</b>	<b>205.2</b>	<b>263.0</b>
Less: hybrid coupon payments	(73.9)	(12.5)	(11.7)
<b>Reported Profit After Tax attributable to ordinary shareholders<sup>1</sup></b>	<b>476.2</b>	<b>192.7</b>	<b>251.3</b>
<b>Reported EPS- pence</b>	<b>47.2</b>	<b>19.4</b>	<b>25.8</b>

<sup>1</sup>After distributions to hybrid capital holders

Adjusted Operating Profit by Segment	Sep 16 £m	Sep 15 £m	Sep 14 £m
EPM and Electricity Generation	123.2	141.8	11.8
Gas Production	2.1	14.1	13.3
Gas Storage	(4.3)	3.7	1.6
<b>Wholesale</b>	<b>121.0</b>	<b>159.6</b>	<b>26.7</b>
Electricity Transmission	135.6	142.4	98.9
Electricity Distribution	181.0	178.6	215.7
SGN (SSE's 50% share) reducing to 33% from 26 Oct 2016	139.3	130.6	143.8
<b>Networks</b>	<b>455.9</b>	<b>451.6</b>	<b>458.4</b>
Energy Supply	47.1	73.8	(16.9)
Energy related services	8.6	11.2	11.3
Enterprise	4.8	16.5	42.9
<b>Retail</b>	<b>60.5</b>	<b>101.5</b>	<b>37.3</b>
Corporate Unallocated	(0.2)	(10.8)	7.4
<b>Total Adjusted Operating Profit</b>	<b>637.2</b>	<b>701.9</b>	<b>529.8</b>

<b>Reported Operating Profit by Segment</b>	<b>Sep 16 £m</b>	<b>Sep 15 £m</b>	<b>Sep 14 £m</b>
EPM and Electricity Generation	268.7	(146.9)	(8.4)
Gas Production	2.1	14.1	13.3
Gas Storage	(4.3)	3.7	1.6
<b>Wholesale</b>	<b>266.5</b>	<b>(129.1)</b>	<b>6.5</b>
Electricity Transmission	135.6	142.4	98.9
Electricity Distribution	181.0	178.6	215.7
SGN (SSE's 50% share) reducing to 33% from 26 Oct 2016	93.1	60.5	65.0
<b>Networks</b>	<b>409.7</b>	<b>381.5</b>	<b>379.6</b>
Energy Supply	47.1	73.8	(16.9)
Energy Related Services	8.6	11.2	11.3
Enterprise	4.8	16.5	42.9
<b>Retail</b>	<b>60.5</b>	<b>101.5</b>	<b>37.3</b>
Corporate Unallocated	(0.2)	(10.8)	7.4
<b>Total Reported Operating Profit</b>	<b>736.5</b>	<b>343.1</b>	<b>430.8</b>

A reconciliation of adjusted operating profit by segment to reported operating profit by segment can be found in Note 5 (b) to the accounts.

<b>Operating Profit</b>	<b>Sep 16 £m</b>	<b>Sep 15 £m</b>	<b>Sep 14 £m</b>
Adjusted Operating Profit	637.2	701.9	529.8
Movement on derivatives	162.7	(273.8)	(8.3)
Exceptional items	-	(2.2)	-
Share of JVs and Associate interest and tax	<b>(63.4)</b>	<b>(82.8)</b>	<b>(90.7)</b>
<b>Reported Operating Profit</b>	<b>736.5</b>	<b>343.1</b>	<b>430.8</b>

<b>Profit before Tax</b>	<b>Sep 16 £m</b>	<b>Sep 15 £m</b>	<b>Sep 14 £m</b>
<b>Adjusted Profit before Tax</b>	<b>475.8</b>	<b>548.8</b>	<b>370.3</b>
Movement on derivatives (IAS 39)	142.6	(284.5)	(17.3)
Exceptional items	-	(2.2)	-
Interest on net pension liabilities (IAS19R)	(6.1)	(11.3)	(14.3)
Share of JV/ Associates tax	3.6	(20.0)	(22.1)
<b>Reported Profit before Tax</b>	<b>615.9</b>	<b>230.8</b>	<b>316.6</b>

<b>Tax</b>	<b>Sep 16 £m</b>	<b>Sep 15 £m</b>	<b>Sep 14 £m</b>
<b>Adjusted current tax charge</b>	<b>57.1</b>	<b>80.2</b>	<b>55.6</b>
Add/(less)			
Share of JV/Associates tax	3.6	(20.0)	(22.1)
Deferred tax including share of JV and Associates	28.5	28.9	24.3
Tax on exceptional items/certain re-measurements	(23.4)	(63.5)	(4.2)
<b>Reported tax charge /(credit)</b>	<b>65.8</b>	<b>25.6</b>	<b>53.6</b>
Effective current tax rate based on adjusted profit before tax	12.0%	14.6%	15.0%

<b>Investment and Capex Summary</b>	<b>Sep 16 Share %</b>	<b>Sep 16 £m</b>	<b>Sep 15 £m</b>
Thermal Generation	8.0%	62.6	45.1
Renewable Generation	16.1%	125.7	169.2
Gas Storage	0%	0.2	3.2
Gas Production	5.9%	46.3	9.6
<b>Total Wholesale</b>	<b>30.0%</b>	<b>234.8</b>	<b>227.1</b>
Electricity Transmission	34.4%	269.3	289.3
Electricity Distribution	14.3%	111.6	113.2
<b>Total Networks</b>	<b>48.7%</b>	<b>380.9</b>	<b>402.5</b>
Energy Supply and Related Services	11.1%	86.8	70.5
Enterprise	3.0%	23.1	12.7
<b>Total Retail</b>	<b>14.1%</b>	<b>109.9</b>	<b>83.2</b>
Other	7.2%	56.8	44.5
<b>Total investment and capital expenditure</b>	<b>100.0%</b>	<b>782.4</b>	<b>757.3</b>

<b>Debt metrics</b>	<b>Sep 16 £m</b>	<b>Mar 16 £m</b>	<b>Sep 15 £m</b>
<b>Adjusted net debt and hybrid capital (£m)</b>	<b>(8,995.4)</b>	<b>(8,395.0)</b>	<b>(7,936.8)</b>
Average debt maturity (years)	8.8	8.9	9.4
Adjusted interest cover (excluding SGN) times	4.1	5.2	5.7
Adjusted interest cover (including SGN) times	3.9	4.7	4.9
Average interest rate for the period (excluding JV/assoc. interest and hybrid coupon)	3.67%	3.73%	3.96%
Average cost of debt at period end (including hybrid coupon)	4.20%	4.14%	4.31%

<b>Adjusted Net Debt and Hybrid Capital</b>	<b>Sep 16 £m</b>	<b>Mar 16 £m</b>	<b>Sep 15 £m</b>
<b>Adjusted net debt and hybrid capital</b>	<b>(8,995.4)</b>	<b>(8,395.0)</b>	<b>(7,936.8)</b>
Less: hybrid capital	2,209.7	2,209.7	3,371.1
<b>Adjusted net debt</b>	<b>(6,785.7)</b>	<b>(6,185.3)</b>	<b>(4,565.7)</b>
Less: outstanding liquid funds	(88.5)	(121.8)	(113.3)
Add: finance leases	(290.6)	(300.8)	(308.5)
Less: non-recourse Clyde debt	-	(200.7)	-
<b>Reported net debt</b>	<b>(7,164.8)</b>	<b>(6,808.6)</b>	<b>(4,987.5)</b>

<b>Net finance costs</b>	<b>Sep 16</b>	<b>Sep 15</b>	<b>Sep 14</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Adjusted net finance costs</b>	<b>161.4</b>	<b>153.1</b>	<b>159.5</b>
add/(less):			
Movement on financing derivatives (IAS 39)	20.2	11.3	9.7
Share of JV/Associates interest	(67.1)	(63.4)	(69.3)
Interest on net pension liabilities (IAS 19R)	6.1	11.3	14.3
<b>Reported net finance costs</b>	<b>120.6</b>	<b>112.3</b>	<b>114.2</b>
<b>Adjusted net finance costs</b>	<b>161.4</b>	<b>153.1</b>	<b>159.5</b>
Add/(less):			
Finance lease interest	(16.5)	(16.2)	(17.1)
Notional interest arising on discounted provisions	(7.4)	(6.9)	(5.3)
Hybrid coupon payment	73.9	12.5	11.7
Adjusted finance costs for interest cover calculation	211.4	142.5	148.8

<b>SSE Principal Sources of debt funding</b>	<b>Sep 16</b>	<b>Mar 16</b>	<b>Sep 15</b>
Bonds	46%	45%	41%
Hybrid capital securities	25%	25%	35%
European investment bank loans	12%	8%	8%
US private placement	11%	5%	5%
Index –linked debt, long term project finance and other loans	6%	17%	11%
% of total SSE borrowings secured at a fixed rate	88.3%	87.1%	85.2%

<b>Rating Agency</b>	<b>Rating</b>	<b>Criteria</b>	<b>Date of Issue</b>
Moody's	A3 Stable outlook	Mid teens% RCF / Net Debt	3 October 2016
Standard and Poor's	A- Negative outlook	23% FFO/Net Debt	26 October 2016

<b>Contributing to employees' pension schemes – IAS 19 R</b>	<b>Sep 16 £m</b>	<b>Sep 15 £m</b>	<b>Sep 14 £m</b>
Net pension scheme liabilities recognised in the balance sheet before deferred tax	676.1	388.3	644.4
Employer cash contributions Scottish Hydro Electric scheme	19.7	24.0	31.5
Deficit repair contribution included above	7.0	14.8	14.8
Employer cash contributions Southern Electric scheme	40.0	34.9	49.5
Deficit repair contribution included above	22.5	23.5	29.1

Additional information on employee pension schemes can be found in Note 17 to the accounts.



<b>SGN contribution to SSE</b>	<b>Sep 16 £m</b>	<b>Sep 15 £m</b>	<b>Sep 14 £m</b>
SSE 50% share of SGN Net Debt (excluding shareholder loans) reducing to 33% from 26 Oct 2016	1,784	1,755	1,715
SGN net finance costs included as part of SSE net Finance costs	41.5	43.1	46.0
SGN contribution to SSE's adjusted profit before tax	97.8	87.5	97.8

## Group Financial Review

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

## Earnings, Dividends and Dividend Cover

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

The Board is recommending an interim dividend of 27.4 p per share, to which a Scrip alternative is offered, compared with 26.9p in the previous year, an increase of 1.9 %.

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

### Earnings Per Share

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

SSE's adjusted EPS measure has been calculated consistently and provides an important and meaningful measure of underlying financial performance. In adjusting for exceptional items and certain re-measurements, adjusted EPS reflects SSE's internal performance management, avoids the volatility associated with mark-to-market IAS 39 re-measurements and means that items deemed to be exceptional due to their nature and scale do not distort the presentation of SSE's underlying results.

In the six months to 30 September 2016, SSE's adjusted earnings per share decreased 25.5% compared to the same period last year to 34.2 pence. In addition to the factors influencing adjusted profit before tax, adjusted earnings per share reflects an unusually high proportion of the hybrid bond interest payment in the first six months. Reported EPS was 47.2p, compared to 19.4p for the same period last year, reflecting the cumulative impact of positive mark- to- market valuations on commodity and financial derivatives.

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

### Focusing on Dividend Cover

As a result of its investment over the last five years, the majority of SSE's asset base and operating profit now relates to economically-regulated Networks and government-mandated renewable sources of energy. Over the three years to 2018/19, SSE still expects its dividend cover to range from around 1.2 times to around 1.4 times, based on dividend increases that at least keep pace with

RPI inflation. SSE maintains a long term target for dividend cover of above 1.4 times and closer to 1.5 times, based on dividend increases which at least keep pace with RPI inflation.

## **Delivering adjusted profit before tax in 2016/17**

Adjusted profit before tax fell 13.3%, from £548.8m to £475.8m in the six months to 30 September 2016. SSE's Wholesale, Networks and Retail (including Enterprise) segments were profitable. Nevertheless, SSE's objective is not to maximise profit in any one year but to earn a sustainable level of profit over the medium term.

Over 2016/17 SSE's actual level of adjusted profit before tax will be determined largely by a range of factors that apply in its market-based businesses, in which energy portfolio management is a major influence, including:

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

### **Reported Profit Before Tax**

Reported profit before tax increased by 167%. This is mainly due to the effects of fair value (or mark-to market) movements on derivatives as measured on 30 September 2016. The SSE group enters into forward purchase contracts (for power, gas and other commodities) to meet the future demands of its Energy Supply business and to optimise the value of its Generation and other Wholesale assets. Some of these contracts are determined to be derivative financial instruments under IAS 39 and as such are required to be recorded at their fair value. The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments. The Group will recognise the underlying value of these contracts as the relevant commodity is delivered, which will predominantly be within the subsequent 12 to 18 months. Conversely, commodity contracts that are not determined to be derivative financial instruments under IAS 39 are accounted for as 'own use' contracts, the cost of which is recognised on delivery of the underlying commodity.

The favourable movement on derivatives under IAS39 of £141.9m arose partly from an increase in the fair value of forward commodity purchase contracts. The fair value of such contracts is derived by comparing the contractual delivery price against the prevailing market forward price at the balance sheet date. The position at 30 September 2016, primarily electricity and gas, was a liability of £202.2m compared to a liability on similar contracts at 31 March 2016 of £364.3m.

Partly offsetting this was a net adverse movement on the fair valuation of interest and currency derivatives of £20.2m. This movement was driven by interest rate swaps moving further 'out of the money' due to falling interest rates £74.2m, offset by the movement on forward currency contracts and cross currency swaps as a result of Sterling weakening against all major currencies £54m. SSE also reports these fair value re-measurements separately as they do not represent underlying business performance during the financial year. The effect of the contracts will be recorded in adjusted profit measures when the transactions are settled.

## Investment and Capital Expenditure

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

### Investing efficiently in energy assets that the UK and Ireland need in 2016/17

SSE invests in a balanced range of businesses across the energy sector and invests only in projects for which returns are expected to be clearly greater than the cost of capital. All projects complement SSE's existing portfolio of assets and are governed and executed in an efficient manner and in line with SSE's commitment to strong financial management.

In the six months to 30 September 2016 SSE's investment and capital expenditure totalled £782.4m. This included:

- **A major investment programme in electricity networks:** the switching on of the first section of an overhead link between Knocknagael and Kintore represented a key milestone in the Caithness-Moray electricity transmission link project. The project is the largest capital project ever undertaken by SSE and is on schedule for completion in 2018. This investment, alongside continued upgrading of the electricity distribution network to meet the changing needs of customers, will further increase the total Regulated Asset Value (RAV) of SSE's networks businesses;
- **Further investment in renewable energy in GB and Ireland:** progress was made to increase SSE's renewable energy portfolio in GB with projects to be delivered through the Renewables Obligation (RO), which also applies in Northern Ireland, Contracts for Difference (CfD) and Renewable Energy Feed in Tariff 2 in Ireland. Progress has been made at projects including the 173 MW Clyde Extension; the Beatrice offshore wind farm (SSE share 235MW); and Galway Wind Park (SSE share 120MW), which is the largest wind farm in Ireland; and progress has also been made with regard to the Stronelaig onshore wind farm (225MW), which SSE has decided to construct with a view to accreditation under the RO. These projects, along with further onshore wind projects in construction or pre-construction, will add just over 1GW to SSE's renewable energy portfolio, taking SSE's total renewable energy capacity to almost 4GW;
- **Fulfilling a regulatory obligation to install smart meters:** SSE made further progress with its regulatory obligation to offer smart meters to all Energy Supply customers. At 31 October 2016 SSE had installed over 340,000 smart meters in customers' homes. Post installation, SSE's meters will transfer to a contracted Meter Asset Provider, therefore SSE's investment and capital expenditure excludes the capital cost of installation and meter assets. Subject to the delivery timetable of the critical central infrastructure, and other GB-wide technical constraints affecting the progress of smart metering, SSE intends to ramp up its rollout significantly over 2017/18.

SSE announced in March 2016 that investment and capital expenditure was expected to be in the range of £5.5 - 6bn across the four years to March 2020. Following the decision to proceed with the construction of the 225MW Stronelaig onshore wind farm, it is now expected to be around £1.85bn in 2016/17, which would be SSE's highest-ever total in one financial year, and in 2017/18 it is currently expected to be around £1.75bn.

SSE is therefore maintaining investment momentum and it is now expected that total investment and capital expenditure will be closer to £6bn in this period to 2020. Around £5bn of that is already committed, predominantly in economically-regulated electricity networks and government-mandated renewable energy projects.

### Completing the disposal of over £1bn of non-core assets to support future investment

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

investment. The programme is almost complete and over the period from 2014 has secured disposal proceeds and debt reduction totalling over £1.1 bn. This excludes the sale of a 16.7% stake in SGN.

## **Financial management and balance sheet**

### **Keeping SSE well-financed**

As a long-term business, SSE believes that it should maintain a strong balance sheet, illustrated by its commitment to robust ratios for retained cash flow and funds from operations/debt. SSE believes that a strong balance sheet enables it to secure funding from debt investors at competitive and efficient rates and take decisions that are focused on the long term - all of which supports the delivery of annual increases in the dividend of at least RPI inflation and the maintenance of an appropriate level of dividend cover. In October 2016, Moody's Investors Service affirmed SSE's senior credit rating of A3, changed SSE's outlook from negative to stable and raised SSE's threshold for retained cash flow/debt ratio to 'mid teens' (previously 13%). In the same month, Standard & Poor's affirmed SSE's A-rating and negative outlook, while also raising SSE's threshold for funds from operations/debt ratio to 23% (previously 20-23%).

SSE has a long-standing commitment to maintaining financial discipline and diversity of funding sources and to moving quickly to select financial options that are consistent with this, including issuing new bonds and loans.

### **Maintaining a prudent treasury policy following the EU referendum**

SSE's treasury policy is designed to be prudent and flexible. In line with that, cash from operations is first used to finance maintenance capital expenditure and then dividend payments, with further growth capital expenditure and investment 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 30 September 2016, 88.3% of SSE's borrowings were at fixed rates.

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

Transactional foreign exchange risk arises in respect of: procurement contracts; fuel and carbon purchasing; commodity hedging and energy 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 therefore all its major project capex requirements are hedged, including the recently approved Stronelairg. Translational foreign exchange risk arises in respect of overseas investments, and hedging in respect of such exposures is determined as appropriate to the circumstances on a case-by-case basis. Overall, while SSE has reviewed its treasury policy following the result of the EU Referendum, it has identified no need for change at this time.

### **Managing net debt and maintaining cash flow**

SSE's adjusted net debt and hybrid capital was £9.0bn at 30 September 2016, compared with £8.40bn on 31 March in 2016 and £7.94bn on 30 September 2015. The level of net debt and hybrid capital reflects SSE's ongoing investment programme and in the six months to 30 September 2016 includes an increase in net debt as a result of macro economic factors, in particular exchange rates, which increased SSE debt during the period by around £271m. Adjusted net debt and hybrid capital is expected remain flat at around £9.0bn on 31 March 2017, dependant on factors ranging from working capital to the timing of the use of the SGN proceeds.

Adjusted net debt excludes finance leases and includes outstanding liquid funds that relate to wholesale energy transactions. Hybrid capital is accounted for as equity within the Financial Statements but has been included within SSE's 'Adjusted net debt and hybrid capital' to aid comparability. A reconciliation of adjusted net debt and hybrid capital to reported net debt is provided in the table headed Adjusted Net Debt and Hybrid Capital.

Reported net debt has increased due to the Group's ongoing capital expenditure programme along with the impact of movements in foreign exchange rates.

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

SSE's objective is to maintain a reasonable range of debt maturities. Its average debt maturity, excluding hybrid securities, at 30 September 2016 was 8.8 years, compared with 8.9 years at 31 March 2016.

SSE's debt structure remains strong, with around £6.5bn of medium/long term borrowings in the form of issued bonds, European Investment Bank debt and other loans.

The balance of SSE's adjusted net debt is financed with short-term bank debt. SSE's adjusted net debt includes cash and cash equivalents totalling £257.9m. Around £1.1bn of medium-term borrowings will mature in the period to March 2018.

### **Operating a Scrip Dividend Scheme**

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

The Scrip dividend take-up in August 2016 (relating to the final dividend for the year to 31 March 2016) resulted in a reduction in cash dividend funding of £142.6m, with 9.4 million new ordinary shares, fully paid, being issued.

This means that the cumulative cash dividend saving or additional equity capital resulting from the introduction of SSE's Scrip Dividend Scheme in 2010 now stands at £1,194m and has resulted in the issue of 87.1 million Ordinary shares.

### **Managing net finance costs**

SSE believes adjusted net finance costs provide the most useful measure of performance and a reconciliation of adjusted and reported net finance costs is provided in the table headed Net Finance Costs. SSE's adjusted net finance costs in the 6 months to 30 September 2016 were £161.4m, compared to £153.1m for the same period in 2015; and reported net finance costs were £120.6m, compared to £112.3m. Reconciling items between adjusted and reported net finance costs in the six months to 30 September 2016 are similar to last year, with the increase in both adjusted and reported net finance costs attributable to the higher level of debt.

Coupon payments relating to hybrid capital are presented as distributions to other equity holders and are reflected within adjusted earnings per share when paid. The schedule for SSE's hybrid bond interest payments has changed to reflect the most recently issued hybrid bonds, with the result that payments are higher in the H1, but will be lower for 2016/17 as a whole. Hybrid coupon payments in the six months to 30 September 2016 were £73.9m (compared to £12.5m in the same period last year) and in 2016/17 as a whole, are expected to be c.£120m (compared to £124.6m last year)

## **Tax**

SSE believes it should pay its fair share of tax, and its policy is to operate within both the letter and the spirit of the law at all times. Its primary objective from a tax perspective is to be compliant with all tax legislation requirements. This includes making timely and accurate returns which reflect SSE's fiscal obligation to Government whilst, at the same time, recognising all legislative concessions and reliefs.

SSE strives to minimise its total tax liability within the framework of legislative reliefs but does not take an aggressive stance in its interpretation of tax legislation. SSE does not use artificial tax avoidance schemes or tax havens to reduce the Group's tax liabilities.

Central to its Tax Policy is the maintenance and development of a strong working relationship with HMRC and other treasuries based on trust and cooperation. As a consequence, SSE strives to be regarded as a low risk and responsible taxpayer. In October it published *Talking Tax 2016*, summarising its approach to tax matters (see [sse.com](http://sse.com)).

## Group Financial Overview - Conclusion and Priorities

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

- Delivery of an annual increase in the dividend that at least keep pace with RPI inflation;
- A return to growth and adjusted earnings per share of at least 120p;
- Maintaining dividend cover in a range from around 1.2 times to around 1.4 times, and in each of the years to 2018/19 also, based on dividend increases that at least keep pace with RPI inflation;
- Continued disciplined investment in a balanced range of energy related assets and delivering the projects within the established investment programme, especially in economically-regulated Networks and government-mandated renewables;
- Maintaining a strong balance sheet, with a commitment to robust ratios for retained cash flow and funds from operations/debt; and
- Appropriate use of the SGN proceeds, a process which could continue until the end of 2017.

## WHOLESALE

### Wholesale Key Performance Indicators

	Sep 16	Sep 15
<b>Energy Portfolio Management (EPM) and Electricity Generation</b>		
EPM and Generation adjusted operating profit - £m	123.2	141.8
EPM and Generation reported operating profit/(loss) - £m	268.7	(146.9)
EPM and Generation capital expenditure and investment - £m	188.3	214.3
<b>GENERATION</b>		
Gas- and oil-fired generation capacity (GB) – MW	4,013	3,961
Gas- and oil-fired generation capacity (Ire) – MW	1,292	1,292
Coal-fired generation capacity – MW	1,995	2,519
Waste to Energy capacity - (MW)	34	34
<b>Total thermal generation capacity – MW</b>	<b>7,334</b>	<b>7,806</b>
Conventional hydro capacity (GB) – MW	1,150	1,150
Onshore wind capacity (GB) – MW	900	1,008
Onshore wind capacity (NI) – MW	88	88
Onshore wind capacity (ROI) – MW	456	456
Offshore wind capacity (GB) – MW	344	354
Dedicated biomass capacity (GB) – MW	37	37
<b>Total renewable generation capacity – MW</b>	<b>2,975</b>	<b>3,093</b>
<b>Pumped storage capacity (GB) – MW</b>	<b>300</b>	<b>300</b>
<b>Total electricity generation capacity (GB and Ire) – MW</b>	<b>10,609</b>	<b>11,199</b>
Renewable capacity qualifying for ROCs – MW	c.1,750	c.1,900
Gas- and oil-fired (inc. CHP) output (GB) – GWh	6,639	3,634
Gas- and oil-fired output (Ire) – GWh	1,428	1,015
Coal-fired (inc. biomass co-firing) output – GWh	2	605
<b>Total thermal generation – GWh</b>	<b>8,069</b>	<b>5,254</b>
Conventional hydro output – GWh	1,234	1,590
Onshore wind output GB – GWh	708	1,011
Onshore wind output NI – GWh	87	94
Onshore wind output ROI – GWh	471	548
Offshore wind output – GWh	488	535
Biomass output GB – GWh	38	27
<b>Total renewable generation – GWh</b>	<b>3,026</b>	<b>3,805</b>
<b>Pumped storage output – GWh</b>	<b>123</b>	<b>105</b>
<b>Total Generation output all plant – GWh</b>	<b>11,218</b>	<b>9,164</b>

Note 1: Capacity is wholly-owned and share of joint ventures.

Note 2: Output is electricity from power stations in which SSE has an ownership interest (output based on SSE's contractual share).

Note 3: Capacity includes 1,180MW at Peterhead (while TEC is 400MW)

Note 4: Keadby TEC increased by 20MW to 755MW and Medway TEC increased by 35MW to 735MW from 1 April 2016.

Note 4: 2016 Capacity excludes Ferrybridge which ceased operation on 31 March 2016, a reduction of 524MW.

Note 5: Wind output excludes 58GWh of constrained off generation in HY2016/17 and 112GWh in HY2015/16

Note 6: Onshore wind capacity and output at Sep 16 excludes 175MW related to the Clyde disposal in March 16

Note 7: Waste to Energy GWh not included above as contracted to third party

Note 8: Slough Heat & Power Biomass Plant's financial results are reported within SSE Enterprise. Capacity and output included above.



	Sep 16	Sep 15
<b>GAS PRODUCTION</b>		
Gas production adjusted and reported operating profit - £m	2.1	14.1
Gas production– m therms	314.5	191.3
Gas production– mm boe	5.11	3.11
Liquids production – mm boe	0.47	0.03
Gas production capital investment – £m	46.3	9.6
<b>GAS STORAGE</b>		
Gas storage adjusted and reported operating (loss)/profit - £m	(4.3)	3.7
Gas storage customer nominations met - %	100	100
Gas storage capital investment - £m	0.2	3.2

### Sustainably sourcing and producing energy

SSE's Wholesale segment consists of three business areas: Energy Portfolio Management (EPM) and Electricity Generation; Gas Storage; and Gas Production. It makes a sustainable contribution to the fulfilment of SSE's core purpose and achievement of its financial goals through excellence in the flexible provision, storage and delivery of energy and related services for customers in wholesale energy markets in Great Britain and Ireland. This is achieved through the maintenance of a diverse portfolio of assets, contracts and innovative energy solutions; and the ability to respond quickly and effectively to changing market conditions and opportunities.

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

SSE remains committed to enhancing the transparency in the financial reporting and performance management of its operating segments. Accordingly, the presentation of the results for SSE's Wholesale businesses in its Financial Statements continues to be kept under review.

### Financial performance in Wholesale

During the six months to 30 September 2016 total adjusted operating profit in Wholesale was £121.0m compared to £159.6m in the same period last year. The primary drivers relating to operating profit are as follows:

- **Energy Portfolio Management and Electricity Generation:** adjusted operating profit decreased by £18.6m, to £123.2m mainly due to a 20.5% decrease in electricity output from renewable sources, partly offset by an improvement in the economics of SSE's thermal generation portfolio. For the year as a whole, SSE is still expecting to report an increase in EPM and Electricity generation operating profit; and while SSE's diverse portfolio of assets and contracts provides mitigation, the volatile conditions we have seen in recent weeks in the GB power market could have wide-ranging impacts.

Reported operating profit shows an increase from a loss of (£146.9)m to a profit of £268.7m, in the main due to the relative positive performance of its marked-to-market operating derivatives between the periods.

- **Gas Production:** operating profit (adjusted and reported) decreased by £12m to £2.1m, reflecting lower gas prices, with some improvement in profitability expected in the second half of the year due to a higher winter gas price.
- **Gas Storage:** made an adjusted operating loss (adjusted and reported) of (£4.3m), compared to a profit of £3.7m for the same period last year, reflecting the continued challenges in operating conditions.



## Energy Portfolio Management (EPM)

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

### Maintaining a diverse portfolio of energy assets and contracts

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

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

## Generation – Overview

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

The Generation division's principal objective is to safely, efficiently and reliably maintain and operate a diverse generation portfolio, which includes a significant amount of renewable energy capacity, across the UK and Ireland.

## Generation – Great Britain (renewables)

### Operating SSE's renewable generation capacity

Output of electricity from renewable sources decreased in the first half of 2016/17, compared to the same period in 2015/16 (3,026GWh compared to 3,805GWh). The primary driver for this differential was the weather; put simply there was lower rainfall and less windy conditions in the first half of 2016/17 across Great Britain than in the same period last year. Overall renewable capacity also reduced slightly, from 3,093MW to 2,975MW, following the sale of 49.9% of Clyde wind farm in March 2016. Availability of the renewable portfolio remained high throughout the period.

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

### Developing renewable energy schemes onshore

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

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

- **Dunmaglass (94MW)** – the project is now exporting electricity and is scheduled for completion in the Spring of 2017.
- **Clyde Extension (173MW)** – turbine erection is now under way and the project is expected to be fully operational in 2017.

- **Bhlaraidh (108MW)** – turbine erection is now under way and the project is expected to be fully operational in 2017.

SSE also has one onshore wind project in pre-construction which it expects to qualify for the GB RO:

- **Stronelairg (225MW)** – The Judicial Review appeal was upheld by the Court of Session in July 2016. Although this is a challenging project, SSE intends to proceed with the construction of the project and expects to secure accreditation under the Renewables Obligation.

SSE also has onshore wind farm projects in development which, if developed, will not qualify for the RO:

- **Viking** (with consent) (up to 457MW – SSE share 50%) – SSE, with its Joint Venture partner, has continued to develop this project. In order to progress further it requires State Aid clearance from the European Commission and confirmation that Remote Islands Wind projects will be eligible to participate in forthcoming CfD auctions.
- **Strathy South** (in planning) (up to 133MW) – Objections were examined fully at a Public Local Inquiry in 2015 and it is awaiting a consent decision from Scottish Ministers.
- **Gordonbush Extension** (in planning) (up to 32MW) – Highland Council did not object to the planning application and it is awaiting a consent decision from Scottish Ministers.

Future development options for later onshore wind projects are being explored in light of recent changes to the UK's policy and regulatory framework.

### Offshore wind projects in development

SSE's offshore work and resources are focused on the **Beatrice offshore wind farm (588MW – SSE share 40%)** in the outer Moray Firth. The £2.6bn project reached financial close in May 2016 and is progressing in accordance with the terms of the Investment Contract awarded to it by the UK government in 2014. SSE's Joint Venture partners on the project are Copenhagen Infrastructure Partners (CIP) (35%) and SDIC Power (25%).

The wind farm is being developed with a tier 1 supply chain comprising Subsea 7, Siemens Wind and a consortium of Nexans and Siemens Transmission and Distribution Ltd. Onshore construction is under way, offshore construction is planned to commence in 2017, and the project is expected to be fully operational in 2019.

In addition to Beatrice, SSE has an interest in two further offshore wind farm developments: **Seagreen** (up to 3,500MW – a 50:50 partnership with Fluor Limited); and **Forewind** (up to 4,800MW – a four-way partnership with RWE Innogy, Statoil and Statkraft). The first phase of Seagreen (up to 1,050MW) was subject to a judicial review in the Court of Session which found in favour of the petitioner, RSPB, in July 2016. The Seagreen partners will work with the Scottish Government to progress an appeal of this judgement. Forewind has consent for four separate 1,200MW projects in the Dogger Bank Zone, and the four Joint Venture partner organisations will agree the best route forward for each.

### Future development opportunities

SSE will continue to focus on opportunities for the development, construction and commissioning of onshore and offshore wind farm capacity in the UK and Ireland, consistent with its commitment to efficiency in investment decision-making. Looking further ahead, it is seeking to build opportunities to add to its portfolio of wind farms in these two countries.

SSE will, however, always consider opportunities to extend, in a careful and measured way, its established interests in, knowledge of and skills related to onshore wind energy. With this in mind, other jurisdictions may be considered if they play to SSE's strengths, add to its balanced range of energy businesses and can deliver long-term growth for shareholders.

## Generation – Great Britain (thermal)

### Market developments with an impact on SSE

In line with its responsibilities for security of supply, National Grid published its Winter Outlook Report in October 2016 and stated that it expects there to be sufficient generation and interconnector imports to meet demand throughout winter 2016/17. It also stated that it is confident it has the right tools in place to help it balance the system.

Equally, Ofgem has consistently maintained that during the period to 2018/19 it expects electricity generation capacity margins to be lower than they have been historically due to weak market economics and the closure of older plant.

The UK Government, together with Ofgem and National Grid (as the System Operator), has decided to address the issue of capacity margins in two ways:

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

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

In October 2016 the UK Government revised the previously published parameters for the next round of Capacity Market auctions to:

- 53.6GW in the supplementary auction for delivery in 2017/18; and
- 51.7GW in the auction for delivery in 2020/21 (with an additional 600MW in the associated year-ahead auction). In line with the Government's announced intention to procure more capacity, this target is higher than for last year's equivalent auction.

SSE has prequalified 5,898MW and 7,025MW respectively of its generation portfolio for the upcoming auctions. This includes all of its thermal power stations.

### Making the case for the Carbon Price Floor

SSE believes that putting a price on carbon emissions, through the UK's Carbon Price Floor, is a critical part of the UK's energy policy and is one of the most important policy tools the government has to help industry continue to deliver reliable and lower carbon electricity cost-effectively. The Carbon Price Floor arrangements are in place until April 2021. SSE has publicly supported the extension of the Carbon Price Floor beyond that.

### Operating SSE's thermal power stations

SSE's power generation assets operate in complex markets. They derive revenue from a number of sources, including a variety of contracts, and operate in the context of wider energy portfolio management decisions. Amongst other things, this means changes in 'spark' or 'dark spreads' may not always be reflected in the financial performance of generation plant. In addition, and as in any other market, the revenue they are able to earn is influenced by the extent and timing of the demand for their core product of electricity, the output of electricity from a range of sources, including renewables, and the position of other market participants and the operation of their plant.

Market conditions for thermal generation continued to be challenging during the first six months of 2016/17. The continued expansion of renewable sources of renewable and reducing customer demand has impacted the profitability of all thermal assets. The closure of older coal-fired power

stations and movements in commodity prices has led to an increase in gas-fired generation output relative to coal and to the same period in 2015/16. This has been reflected in SSE's own portfolio as well as the wider market. This trend looks set to continue and it is therefore anticipated that gas-fired power stations will play an increasingly important role in the GB electricity system in the coming years.

### **Maintaining and operating a portfolio of gas-fired power stations**

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

- **Medway (735MW wholly owned)** has capacity obligations for 2018/19 and 2019/20.
- **Keadby (755MW wholly owned)** has capacity obligations for 2018/19 and 2019/20.
- **Peterhead (1,180MW wholly owned)** Up to 400MW can operate in the market. It has a Supplemental Balancing Reserve (SBR) contract to provide support services to National Grid for this winter and a one year voltage control contract until the end of March 2017.
- **Seabank (1,164MW)** and **Marchwood (840MW)** SSE has a 50% stake in each of these gas-fired power stations, which have both taken on capacity obligations for 2018/19 and 2019/20.

### **Maintaining and operating coal-fired power stations**

SSE operates one wholly-owned coal-fired power station, at Fiddler's Ferry (Cheshire, 1,995MW). In March 2016 Fiddler's Ferry successfully secured a contract to provide ancillary services to National Grid. The one-year contract, which ends on 1 April 2017, covers one of the three available units at the site. It was secured following SSE's response to an invitation to tender issued by National Grid. In addition, one unit at the station will provide SBR services to National Grid for the winter of 2016/17.

### **Developing new gas-fired generation options**

SSE supports recent plans from the UK Government to encourage investment in new gas-fired generation. SSE will continue to develop options for new stations, including Keadby 2 in Lincolnshire, which has prequalified for the December 2016 Capacity Market auction. Abernedd, in Port Talbot, was not prequalified but SSE submitted an application to BEIS in August 2016 to vary the planning consent to allow an OCGT station of up to 299MW.

SSE's Wholesale business intends to respond to the formal invitation to tender for providing a new energy solution for Shetland.

### **Investing for the future through 'multi-fuel'**

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

Multifuel Energy Ltd (MEL) (the SSE and Wheelabrator Technologies Inc. 50:50 joint venture) operates a 68MW multi-fuel generation facility known as Ferrybridge Multifuel 1 (FM1) in Knottingley, West Yorkshire. The station has taken on capacity obligations for 2018/19 and 2019/20 and has pre-qualified for the 2017/18 and 2020/21 Capacity Market auctions.

Construction has commenced at SSE's Ferrybridge Multifuel 2 (FM2) project after the Final Investment Decision was taken in June 2016. The project is being built next to the FM1 facility. The completed plant will be able to generate around 70MW of electricity, enough to power around 170,000 homes. It has prequalified for the 2020/21 Capacity Market auction.

## **Generation – Ireland**

### **Producing electricity for Ireland's Single Electricity Market (SEM)**

SSE is the third largest electricity generator by capacity in the all-island Single Electricity Market (SEM). It owns and operates 1,836MW of generation capacity, of which 544MW is from renewable

sources. This makes SSE the largest wind energy generator in the SEM. The company also trades across the interconnectors between Ireland and GB.

In the six months to 30 September 2016, SSE's 464MW Great Island CCGT unit (grid connection capacity set at 431MW) exported 1.4TWh of electricity, up 41% on the same period in 2015. The improved generation performance was due to increased power demand and prevailing market conditions, including the improved position of gas plant relative to other generation types.

On 30 September 2016 Ireland's national grid operator EirGrid announced that the 500MW East West Interconnector (EWIC) between Ireland and GB had gone out of commission due to a fault that occurred during annual maintenance. EirGrid estimates a return to service by the end of February 2017.

### **Delivering and developing new capacity for electricity generation**

Construction of the two-phase 174MW (SSE share 120MW) Galway Wind Park project is ongoing and it is due to be commissioned by the end of 2017. The project will qualify for REFIT II support. In Northern Ireland, construction of both the Tievenameenta (35MW) and Slieve Divena II (18MW) onshore wind farms is progressing well. Both projects will be operational in 2017, meeting the criteria for Northern Ireland's RO grace period.

SSE continues to advance its planned Doraville wind farm development (up to 115MW), a planning application for which is currently before Northern Ireland's Department for Infrastructure. This project, if developed, will not qualify for the RO.

### **Engaging in the I-SEM reform process**

Reform of the SEM to comply with the EU Electricity Target Model continues, with regulators in Ireland and Northern Ireland progressing the Integrated SEM (I-SEM) project due for introduction by the end of 2017. In July, regulators said they considered it very unlikely that the UK decision to leave the EU would have any significant impact on I-SEM programme delivery. In addition, the UK Prime Minister has advised the Northern Ireland First Minister that resolving the SEM will be a priority for the UK Government. For its part SSE continues to be fully involved in all stages of the ongoing new market design and implementation process.

## **Gas Production**

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

### **Producing from UK Continental Shelf assets**

Total output in the six months to 30 September 2016 was 314.5 million therms (5.11 mmboe) of gas and 0.47mmboe of liquids, compared with 191.3 million therms of gas (3.11 mmboe) and 0.03 mmboe in the same period last year. This rise in production was due to the start up of the Laggan field in February 2016, although there has also been a natural decline in output from existing fields. The Greater Laggan Area acquisition is expected to mean SSE's average annual volumes of gas and liquids produced will be at a higher level than those it reported in previous years, with a forecast average production of around 500million therms (8.1mmboe) of gas and 0.85mmboe of liquids per year in the five years to March 2021.

### **Delivering security in Gas Production**

SSE has a 20% interest in the four gas fields and surrounding exploration acreage approximately 125km north west of the Shetland Islands, collectively known as the Greater Laggan Area; and a 20% interest in the new Shetland Gas Plant. Total E&P UK Limited is the operator of, and owns a 60% stake in, these assets. The remaining 20% is owned by DONG Energy.

Gas production started in February 2016 from the Laggan field and in August 2016 from the Tormore field which have reached peak production of up to 90,000 boe a day. This will help to secure energy for SSE's customers and help meet the needs of SSE's gas-fired power stations, contributing to security of electricity supply. The nearby Edradour and Glenlivet fields are expected to start

production in 2017 and 2018 respectively and should keep production at peak rates through to 2020.

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

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

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

## Gas Storage

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

Both of SSE's storage sites have continued to operate to meet the needs of their customers through the first half of 2016/17, with the Hornsea (Atwick) site returning to service following its extended outage commenced in 2015/16:

- **Hornsea (Atwick)** again met 100% of customer nominations with the site 47% available through the period except in instances of planned maintenance. The site was 76% available in the last three months to 30 September 2016, following the return to service of the site earlier in the year, delivering over 90% availability by the end of the period;
- **Aldbrough** met 100% of customer nominations and was 98% available through the six months to September 2016 except in instances of planned maintenance.

Alongside the requirement to continue to ensure the highest standards of asset management are maintained, SSE continues to respond to the difficult trading conditions with its overall aim to provide valuable flexibility and hedging services to its customers and hence the wider UK gas market, while managing its profitability and being well positioned to take advantage of future market developments.

### Responding to market conditions for Gas Storage

The economic environment for gas storage continued to be extremely challenging in the first six months of 2016/17. The value of traditional gas storage services has experienced further decline, although this has been partially off-set by a series of new, innovative services which SSE has introduced during the period.

Given the scale of the economic challenge, a further business review of the Hornsea (Atwick) site has recently been concluded. As a result SSE has decided to mothball two of its nine Atwick caverns (representing c. 20% of storage capacity) through long term suspension, rather than progress the investment required to return these to commercial service. This follows the decision at the end of 2014/15 to mothball the older withdrawal plant at Atwick.

This latest decision reflects the inevitable outcome of the current market conditions which exist in spite of the relatively low levels of gas storage capacity currently available to the UK market.

The economic challenges facing UK onshore gas storage operators have been further exacerbated by the recent announcement of the proposed business rates listing for the period 2017 to 2022 and the consultation process on the associated transitional arrangements. The latter has particularly

significant consequences as it all but removes any early relief from the recent doubling of business rates across the industry.

## **Wholesale – Conclusion and Priorities**

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

Wholesale priorities in 2016/17 and beyond include:

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



## NETWORKS

### Networks Key Performance Indicators

	Sep 16	Sep 15
<b>ELECTRICITY TRANSMISSION</b>		
Transmission adjusted and reported operating profit - £m	135.6	142.4
Regulated Asset Value (RAV) - £m	2,522	2,009
Capital expenditure - £m	269.3	289.3
<b>ELECTRICITY DISTRIBUTION</b>		
Electricity distribution adjusted and reported operating profit - £m	181.0	178.6
Regulated Asset Value (RAV) - £m	3,209	3,133
Capital expenditure - £m	111.6	113.2
Electricity Distributed TWh	18.1	18.3
Customer minutes lost (SHEPD) average per customer	27	24
Customer minutes lost (SEPD) average per customer	23	21
Customer interruptions (SHEPD) per 100 customers	34	31
Customer interruptions (SEPD) per 100 customers	26	24
<b>SCOTIA GAS NETWORKS</b>		
SGN adjusted operating profit (SSE's share) - £m	139.3	130.6
SGN reported operating profit (SSE's share) £(m)	93.1	60.5
Regulated Asset Value (SSE's share) - £m based on 50% shareholding	2,555	2,477
Capital and replacement expenditure (SSE's share)- £m	84.5	79.9
Uncontrolled gas escapes attended within one hour %	98.7	98.6
SGN gas mains replaced – km	457	484

### Owning, operating and investing in Networks

SSE is the only energy company in the UK to be involved in electricity transmission, electricity distribution and gas distribution. Its five economically-regulated energy network companies consist of a 100% ownership of Scottish Hydro Electric Transmission (SHE Transmission), Scottish Hydro Electric Power Distribution (SHEPD) and Southern Electric Power Distribution (SEPD) and, since 26 October 2016, a 33.3% stake in both Scotland Gas Networks and Southern Gas Networks (SGN).

SSE's interests in economically-regulated energy networks support the delivery of a balanced range of assets, operational efficiency disciplined investment. The RAV of SSE's five existing Networks companies is now on course to reach close to £9bn by 2020, net of the recent disposal of a 16.7% stake in SGN (this is consistent with the forecast of £10bn RAV by 2020 in place prior to the disposal).

Through Price Controls, Ofgem sets the framework through which network companies can earn index-linked revenue through charges levied on users to cover costs and earn a return on regulated assets. While the RII Price Control mechanism is complex, it provides for revenue to be strongly linked to the delivery of customer-focused commitments, against which performance is measured and can be rewarded or penalised.

These economically-regulated, lower-risk businesses provide relative predictability and stability for SSE and balance its activities in the competitive Wholesale and Retail markets. While the overall shape of the networks may evolve, as the recent expansion of electricity transmission and sale of part of a stake in SGN show, they remain core to SSE's strategy in the short, medium and long-term and contribute significantly to its ability to deliver annual dividend increases.



## **Adopting a clear and distinctive identity through Scottish and Southern Electricity Networks**

In September 2016, SSE's three electricity networks businesses adopted a common trading name as Scottish and Southern Electricity Networks (SSEN). This new name and an accompanying rebranding process were developed following extensive engagement with customers, employees and other stakeholders.

This change responds to the operating environment under the RIIO price controls which incentivises all network operators to engage effectively with their customers and stakeholders in developing and implementing their business plans. SSEN believes that adopting a clearer, simpler and more distinctive identity will help to deliver improved accountability to the communities it serves, supporting its performance against key incentives.

## **Putting stakeholders at the heart of decision-making**

Scottish and Southern Electricity Networks is also establishing a Stakeholder Advisory Panel to work alongside its Board to help scrutinise business performance and effectiveness in meeting its commitments under the RIIO-T1 and RIIO-ED1 price controls. The Panel will consist of a Chair and up to eight people, who are being recruited to reflect a broad range of external interests, skills, knowledge and experience. Through its work, the panel will bring stakeholder insight and challenge to SSEN's decision-making at the highest level, helping to drive improvement in key processes and outcomes for customers.

## **Financial performance in Networks**

During the 6 months to 30 September 2016, total adjusted operating profit in Networks was £455.9m, compared to £451.6m in the same period last year, with the principal movements as follows:

- **Electricity Transmission:** in line with expectations for 2016/17 outlined in SSE's FY2015/16 Financial Results, adjusted and reported operating profit decreased by £6.8m to £135.6m reflecting the phasing of capital expenditure and revenue associated with the growing asset base;
- **Electricity Distribution:** adjusted and reported operating profit rose very slightly, by £2.4m to £181.0m, with the full benefit of previous under-recoveries of revenue still expected to be reflected in the second half of the year; and
- **Gas Distribution:** SSE's share of SGN's adjusted operating profit rose by £8.7m to £139.3m, reflecting the profiling of revenue and continued good performance of the business. Reported operating profit has increased by £32.6m to £93.1m due to the impact of the change in Corporation Tax rate, as well as the underlying improvement in performance.

## **Electricity Transmission**

Scottish and Southern Electricity Networks, operating under licence as Scottish Hydro Electric Transmission plc, is responsible for maintaining and investing in the electricity transmission network in the north of Scotland.

## **Delivering a major programme of investment**

Since the start of the RIIO T1 price control in 2013, Scottish and Southern Electricity Networks' capital investment in its transmission network has totalled £1.66bn. With its committed pipeline of investment, it expects to increase its RAV from £2.3bn as at September 2016 to around £3bn by March 2018.

Good progress continues to be made with the delivery of SSEN's flagship Caithness-Moray transmission link which, with an agreed value of £1,118m (2013/14 prices), is its largest single investment to date. In September 2016, the first part of the new Blackhillock substation, near Keith, was energised on schedule. Manufacture of the subsea cable has now been completed and a specialised cable-laying vessel is due to install this on the Moray Firth seabed during 2017. The

Caithness-Moray reinforcement as a whole remains on course to be commissioned by the end of 2018.

Following successful energisation of the 220km Beaulieu-Denny overhead line replacement, SSEN has been engaging with Ofgem regarding recovery of efficiently incurred costs.

### **Connecting new sources of generation**

SSEN's delivery of these projects and other strategic investment in its transmission network has played an essential part in facilitating the rapid growth of low carbon electricity generation within its licence area. In the past decade it has enabled the connection of over 2GW of additional installed capacity, bringing the total connected generation capacity to 4,258MW.

As well as delivering major projects to reinforce the core network, it is responsible for providing transmission connections to generators' major onshore sites at 132 kilovolts and above. In the six months to September 2016, it has connected an additional 231MW of installed capacity. Further connection projects currently in construction will connect a further 473MW.

During the first half of the year, 25 new or modified connection offers were provided within the required period.

### **Fulfilling responsibilities for potential island links**

Scottish and Southern Electricity Networks is committed to bringing forward its advanced proposals for new transmission links to the Scottish Islands if they are required. The development of these links remains subject to the ability of island generators to commit to their projects, which is widely recognised to be dependent on confirmation by the UK Government of their eligibility to participate in a future Contracts for Difference (CfD) auction and EU State Aid clearance for this policy support. SSEN continues to engage with affected stakeholders in order to progress the development of the links in anticipation of developer commitment. It is in a position to submit 'Needs Cases' to Ofgem for the Western Isles and Shetland in 2017 if the circumstances allow.

### **Operating a rapidly growing network**

The main purpose of Scottish and Southern Electricity Networks' significant investment in its network under its RIIO-T1 business plan is to facilitate the transmission of rapidly growing volumes of renewable energy safely and securely to customers. It is recognised that the efficient and flexible operation of its expanded network will play a crucial role in its success in the remainder of the current price control and beyond.

SSEN has therefore established a dedicated and experienced team within its transmission business to deliver operational excellence, including improved asset management and timely preparation for the introduction of new types of plant and technology. During this period of rapid change, including commissioning of substantial new assets and connection of large volumes of renewable generation capacity, SSEN has provided a highly reliable network. This is recognised through the Energy Not Supplied incentive under which SSEN can be rewarded or penalised for network performance. Full incentive was achieved in 2015/16 and this performance has been sustained during the current year.

### **Innovating to sustain operational success**

To support the successful integration of new High Voltage Direct Current (HVDC) infrastructure on its own network and elsewhere in Great Britain, Scottish and Southern Electricity Networks is leading the development of the National HVDC Centre in Cumbernauld via Ofgem's Electricity Network Innovation Competition. The centre will allow engineers to replicate the complexities of the future transmission system in real time, using powerful computer simulators. This initiative will support early development of efficient operational strategies and enable potential risks to be identified and addressed. Construction of the centre began in August 2016 and is due for completion during 2017.

## **Adapting to policy and regulatory change**

Scottish and Southern Electricity Networks continues to engage constructively with Ofgem and the Department for Business, Energy and Industrial Strategy (BEIS) in relation to the development of the regime for Extending Competition in onshore Transmission (ECIT).

The delivery of competition poses some potential risks to future growth and revenue, but also opportunities. SSEN believes the experience it has gained both in-house and with its supply chain means that it is well placed to participate in competitive delivery arrangements once the regime is implemented. Through its engagement, SSEN aims to ensure that its most advanced development projects can be delivered in a timely way under the existing framework. In the longer term, it is working to ensure that future arrangements developed under the ECIT project will deliver the transmission infrastructure required in a way that supports the UK Government's policy objectives, delivers value for end consumers and achieves a fair and reasonable return to investors.

## **Working with stakeholders**

Under the RIIO-T1 price control, transmission owners such as Scottish and Southern Electricity Networks are encouraged to be more responsive to changing stakeholder needs, with financial incentives based on performance in this area. The views of stakeholders have played a key part in SSEN's success in electricity transmission under the current price control period and will remain central to its future business plans.

Stakeholders have played a major part in the development of SSEN's Visual Impact of Scottish Transmission Assets (VISTA) policy, which seeks to mitigate the impacts of existing transmission infrastructure in National Parks and National Scenic Areas. In August, SSEN received Ofgem approval for its proposed approach and expects to make its first funding application under the policy in 2017.

SSEN has also responded to stakeholders' interest in its supply chain and the economic and social contribution that its investments make. Modelling of its £1.1bn Caithness-Moray investment has shown that around £640m of expenditure has been, or will be, made with UK-based suppliers or contractors. Through continuing work with its supply chain and with stakeholders, SSEN is committed to using the outputs of this modelling to maximise the direct benefits that its activities can bring to local economies.

## **Electricity Distribution**

Scottish and Southern Electricity Networks is responsible for maintaining the electricity distribution networks that supply over 3.7million homes and businesses, operating under licence as Scottish Hydro Electric Power Distribution (SHEPD) in the north of Scotland and as Southern Electric Power Distribution (SEPD) in central southern England.

Under the RIIO ED1 price control, SSEN's performance is assessed against the commitments made in its business plan and this drives the revenue which is earned. The key areas addressed by the business plan are network availability and reliability; social obligations; safety; environmental impact; connections; and customer satisfaction. Each of these areas of focus has the current and future needs of customers at its heart.

On 7 November 2016 Ofgem announced that it had accepted legally binding commitments from SSEN to improve services needed for competitors to connect customers to its distribution network, following a Competition Act investigation. As a result of accepting the commitments, Ofgem has closed its investigation into SSEN.

## **Putting customers first**

The focus on operational excellence has continued to see strong gains made in customer service, which will ultimately support improving performance against the incentives built into RIIO ED1.

The most financially significant of these incentives are the two measures of loss of electricity supply: Customer Interruptions (CIs) and Customer Minutes Lost (CMLs). Despite more challenging weather conditions in the spring and summer of 2016, compared with 2015, SSEN's continued adoption of

the 'restore first, repair second' method has helped SSEN's CIs and CMLs to remain relatively low. SSEN's commitment to minimising the occurrence and duration of customer interruptions saw the CML at 27 minutes in Scotland and 23 minutes in England per customer; and CIs at 34 per 100 customers in Scotland and 26 per 100 customers in England. While the figures are a marginal increase compared with the same period in 2016, they continue to reflect SSEN's strong performance and its committed service to its customers.

The regionalised model introduced across SSEN's distribution business last year again responds to the price control. It has created greater responsibility and decision-making at a regional level, driving further innovation, responsiveness to stakeholders and improvements in performance against business plan commitments.

Further investment in network resilience, including additional automation, targeted tree cutting and other innovations, means that SSEN is on track to achieve the performance it has targeted for incentive income during RII0 ED1.

### **Fulfilling obligations in respect of Shetland**

In May 2016, Scottish and Southern Electricity Networks issued businesses and organisations a formal invitation to tender for providing a new energy solution for Shetland. SSEN is continuing to work closely with Ofgem, its independent auditor and specialist consultants. Proposals will be subject to detailed assessment and modelling, with the final recommendation to Ofgem also subject to consultation.

### **Improving through innovation**

Scottish and Southern Electricity Networks' commitment to innovation in the electricity networks industry is helping to drive down costs and to increase engagement with customers, while supporting the transition to a low-carbon economy.

The innovation projects are funded through Ofgem's incentive schemes, which are designed to help Britain's electricity networks adapt to technological change and achieve greater efficiency.

For example, a new project, called Smart EV, has been launched to invite stakeholder views to help secure a standardised industry-wide agreement for the connection, charging and control of electric vehicles. This follows on from the success of the My Electric Avenue project. In addition, SSEN's use of LiDAR aerial surveys to reduce inspection costs for asset and vegetation management is the first at scale deployment of LiDAR by any UK Distribution Network Operator as part of normal business, and is expected to result in a reduction in disruption to customers.

Work is also continuing to establish SSEN's first Constraint Managed Zones (CMZs) on its network. The CMZs will ensure that security of supply is achieved for sections of the network through the use of load variation techniques, such as Demand Side Response, Energy Storage and stand-by generators.

### **Engaging stakeholders in decision making**

Stakeholders continue to play a key role in the decision making process for Scottish and Southern Electricity Networks, shaping the way it serves its customers during the current price control and beyond.

Engagement has been continuing in the development of a new approach to the management of SSEN's submarine distribution cables, which supply electricity to 59 island communities in Scotland. A recently developed Cost Benefit Analysis tool is now being used, alongside further detailed consultation with local stakeholders, to bring forward licence applications for the replacement of eight cables.

SSEN continues to work with Comhairle nan Eilean Siar (Western Isles Council) and other stakeholders to explore the available options around current network restrictions in the Western Isles. The steering group continues to meet and is working on solutions that may enable additional renewable energy generation to be accommodated.

## **Supporting resilient communities**

As incentivised under both price controls, Scottish and Southern Electricity Networks understands the importance of community engagement in its operations and customer-facing activities and the need to prioritise customers with additional vulnerability.

The second round of awards from SSEN's £1.3m Resilient Communities Fund, which was established to support local communities in their preparation for and response to emergencies, was made in the first half of 2016/17. SSEN has pledged to continue this fund with one third of SSEN's Stakeholder Incentive award under RIIO-T1 and RIIO-ED1 assigned to the fund each year. For 2017/18 this will result in £300,000 in funding being made available to community groups in each network area.

Following the success of its 2015/16 Winter Ready campaign, SSEN will build upon the customer communications improvements achieved, including advertising on TV, radio and digital channels. The campaign will promote the services it provides for customers, including those who may need extra help during a power cut via its Priority Service Register.

## **SGN**

SGN manages the network that distributes natural and green gas to 5.9 million homes and businesses across Scotland and the south of England. In line with its equity holding, SSE historically received 50% of the distributable earnings from SGN Ltd. This reduced to 33.3% following completion of the part disposal to ADIA and SSE will continue to provide SGN with some back office support which is managed via a service agreement.

### **Working with the Gas Distribution Price Control**

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

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

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

In terms of operational performance and safety, 98.7% of uncontrolled gas escapes reported by the public were attended within one hour of notification, exceeding Ofgem's 97% standard.

## **Networks – Conclusion and Priorities**

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

### **Networks priorities for 2016/17 and beyond**

SSE's Networks businesses' priorities in 2016/17 and beyond are to:

- operate safely and meet all compliance requirements;
- provide an excellent service to all customers who rely on its networks;
- deliver required outputs while maintaining tight controls over expenditure;
- deliver every customer connection to quoted cost, time and budget;

- develop and maintain effective stakeholder relationships; and
- progress innovations that improve network reliability, efficiency and customer service.

## RETAIL (including Enterprise)

### Retail (including Enterprise) Key Performance Indicators

	Sep 16	Sep 15
<b>Energy Supply</b>		
<b>Energy Supply adjusted and reported operating profit - £m</b>	<b>47.1</b>	<b>73.8</b>
Capital expenditure (Energy Supply and Energy Related Services) - £m	86.8	70.5
Electricity customer accounts (GB domestic) – m	4.11	4.27
Gas customer accounts (GB domestic) – m	2.76	2.88
Energy customers (GB business sites) – m	0.47	0.46
All-Island energy market customers (Ire) – m	0.79	0.80
<b>Total energy customer accounts (GB, Ire) – m</b>	<b>8.13</b>	<b>8.41</b>
Electricity supplied household average (GB) – kWh	1,544	1,577
Gas supplied household average (GB) – th	111	115
Household/small business aged debt (GB, Ireland) - £m	120.3	128.3
Bad debt expense (GB, Ireland) - £m	27.0	26.8
Customer complaints to third parties (GB) <sup>1</sup>	703	792
<small>1 Ombudsman: Energy Services and Citizens Advice</small>		
<b>Energy Related Services</b>		
<b>Energy Related Services adjusted and reported operating profit- £m</b>	<b>8.6</b>	<b>11.2</b>
Home Services customer accounts (GB) – m	0.44	0.38
Meters read – m	5.6	5.4
Supply customers' bills based on actual reading %	95.3	95.5
Smart Meters installed	over 310,000	Over 100,000
<b>Enterprise</b>		
<b>Enterprise adjusted and reported operating profit - £m</b>	<b>4.8</b>	<b>16.5</b>
Capital expenditure - £m	23.1	12.7
SSE Contracting Order Book - £m	161	148

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

SSE is one of the largest energy suppliers in the competitive markets in Great Britain and Ireland. At 30 September 2016 it supplied electricity and gas to 8.13 million household and business accounts. It also provides other related products and services, including telephone, broadband and boiler care, to 0.44 million household and business customers. The Retail segment includes the Enterprise business which provides energy services to meet the needs of businesses and public sector organisations in a reliable and sustainable way. Taken together, these businesses provide balance to the SSE group and demonstrate SSE's commitment to efficient operations and industry-leading customer service.

In the context of the rapidly evolving and challenging competitive environment in which its Retail businesses operate, SSE has embarked on a transition from commodity provider towards its vision of becoming a market-leading retailer of energy and essential services, by digitalising and diversifying its business, and consistently excelling in customer service. As part of this strategy, it continues to focus on addressing the decline in its energy customer account numbers while investing in the expansion of its non-energy businesses.

## Financial performance in Retail and Enterprise

During the six months to 30 September 2016, total adjusted operating profit in Retail fell by 40% to £60.5m, with the principal movements as follows:

- **Energy Supply:** adjusted and reported operating profit overall decreased, by £26.7m to £47.1m. While adjusted operating profit from supplying energy to non-domestic customers improved in the period, this was more than offset by the impact on the adjusted operating profit in domestic energy supply of lower customer account numbers in a competitive market, the costs of delivering the smart meter roll-out and rising non-energy costs for electricity customers;
- **Energy-related Services:** adjusted and reported operating profit fell by £2.6m to £8.6m, as SSE continues to invest in building scale in these businesses; and
- **Enterprise:** adjusted and reported operating profit fell by £11.7m to £4.8m, reflecting continued competitive pressures.

## Publishing Consolidated Segmental Statements for 2015/16

In July 2016, SSE published its annual Consolidated Segmental Statement (CSS), setting out the revenues, costs and profits or losses of businesses in its Wholesale and Retail segments.

The CSS for 2015/16 showed that SSE's profit margin (before tax) from supplying electricity and gas to households in Great Britain was relatively flat at 6.2%, compared with 6% in 2014/15. Within this, SSE's CSS also highlighted an increasing divergence between electricity and gas margins, primarily due to cumulative costs associated with the long-term upgrade of the country's electricity system that began around a decade ago and which is continuing in the interests of ensuring that customers benefit from a secure and lower-carbon energy system. These costs are levied more heavily against electricity.

## Implementing the Competition and Markets Authority's remedies

SSE engaged constructively with the Competition and Markets Authority (CMA) throughout its two-year investigation into the energy markets in Great Britain. Since a market investigation was first proposed in March 2014, SSE has argued that energy markets in Great Britain are generally well-functioning and competitive; while recognising the benefits of reforms that are in the interests of customers.

Now, after two years of thorough scrutiny of what is an ever-changing and dynamic GB energy market, the end product of the CMA investigation is a substantial package of reforms, announced in June 2016, that will help deliver meaningful changes for customers. These reforms will be delivered in the course of a crowded implementation timetable between now and April 2018, and include many interventions that will be delivered in 2017, such as the prepayment tariff cap which will come into effect in April.

This is a challenging set of measures; however, SSE recognises that as a whole they should help drive the energy market forward to deliver for customers. SSE will continue to engage constructively as it undertakes the substantial implementation work in the months ahead. It is also mindful, however, that there remains considerable political interest in energy supply markets and that the sector will continue to be subject to scrutiny and, possibly, further intervention. SSE will therefore continue to engage actively and constructively with the UK Government as it develops and takes forward its policies with regard to energy retail.

## Energy Supply and Energy Related Services

### Treating customers fairly

Underpinning SSE's approach to the provision of both energy and energy-related services is the principle of treating customers fairly. This is central to the decisions SSE takes both at Executive Committee and Board level, as documented in its annual Treating Customers Fairly Statement, published in August each year, including 2016. This means actively addressing any issues that arise



relating to the quality of the service provided, as well as looking for ways to improve service quality in the future.

In its 2016 TCF Statement, SSE set out a series of measures it will be taking to help ensure it delivers better outcomes for customers, including further training for its customer-facing employees.

SSE continues to lead the industry in regular assessments published by independent third parties:

- In September 2016, SSE achieved the best ever performance in the Citizens Advice Energy Supplier Performance Report with a score of 22.5 complaints per 100,000 customers. This score is almost 800 times better than the worst performing supplier and 10 times better than the average performance among the five other largest suppliers. SSE has been ranked number one in this league table every single quarter bar one since it was first published in 2011.
- The Ombudsman for Energy Services reported that for the period April to June 2016 the ratio of complaints from SSE customers was the lowest of all eleven suppliers covered, including the largest independent suppliers, with 4.4 complaints per 100,000 customers.
- In September 2016, Ofgem published its biennial survey on energy supplier complaint handling performance. Though this highlighted areas for improvement across the board, SSE was the best performing supplier in the poll, with the highest level of satisfied complainants in the industry and of those who found it easy to register a complaint.

### **Supplying energy to customers across Great Britain and Ireland**

SSE appreciates that customers rely on its core products of electricity and gas to power and heat their homes in order to live safely and comfortably, and is therefore committed to keeping energy prices as low as possible. SSE aims to protect its customers from short-term price volatility and as a result has not increased standard prices for three years, having also reduced prices three times during that period.

In the 6 months to 30 September 2016, SSE's energy customer accounts in Great Britain and Ireland fell from 8.21 million to 8.14 million, which represents the smallest net decrease in SSE's customer account numbers since 2013 and reflects a slow down in the net losses in the first half of the year. During this period, SSE has also successfully competed for over 350,000 new customer accounts across both Energy Supply and Energy Related Services, demonstrating it can compete on products, service and value, as well as highlighting the challenging nature of the operating environment. Looking ahead, SSE aims to achieve the right mix of investment in digitalising customer service while also managing cost efficiency.

SSE is continuing to work to address the decline in customer numbers it has experienced in recent years and, as set out in its Annual Report 2016, is aiming to reduce significantly the rate of customer losses. The markets for energy supply in GB and Ireland both continue to be intensely competitive. In GB, for example, political, regulatory and market factors are all contributing to the rapid growth of new market entrants and increasing levels of customer engagement in the market, meaning there are now more than 40 suppliers operating in the GB market alone. At the same time the regulatory environment in which SSE operates is changing following the conclusions of the CMA inquiry, and with continuing government and regulatory focus; many of the changes are designed to unlock innovation in the market and drive further customer engagement and switching.

Against this backdrop, SSE is adapting and competing by offering a range of market-leading deals through a diverse mix of channels. At the same time, SSE is seeking to develop stronger, more enduring customer relationships by investing in high-quality customer service, offering a broader range of products in the home and a programme of rewards that recognise the value of customer loyalty.

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

SSE firmly believes that its strategy of becoming a market-leading retailer of energy and essential services, by digitalising and diversifying its business, and consistently leading in customer service, is

the right response to an increasingly competitive, challenging and rapidly evolving market, and one which will enable it to leverage its strong competencies in customer service and efficient operations.

It continues to make progress in the delivery of this strategy, with developments in the first half of the year including:

- the launch of market-leading boiler cover propositions as it moves closer to completing the national expansion of its Home Services business;
- introduction of a range of market-leading, well subscribed tariffs in energy and broadband to attract new customers;
- the deployment of resources into its customer-facing operations to deliver on its service ambitions;
- a successful pilot of its smart prepayment solution, to be rolled out later this year;
- delivery of further operational efficiencies across the Retail business; and
- further work to scope out partners and solutions for possible improvements to back-end systems to ensure that SSE is able to meet the future needs of customers.

In terms of allocating resources to back-end systems and customer-facing services, SSE takes a rigorous approach to identifying the right priorities, based on its overall capacity to execute change successfully for the benefit of customers.

At the same time, SSE continues to invest in its brand, having become the flagship sponsor of the ITV national weather and the first major sponsor of women's football in Scotland, complementing existing sponsorships in sport and entertainment to ensure SSE not only appeals to customers but is able to offer additional value and rewards in areas that interest them.

### **Meeting customers' need for energy**

With average UK temperatures during the first six months of the year one degree Celsius warmer than the same period in the previous year, gas consumption fell by approximately 3% relative to the same period in 2015. Indeed, five of the six months to 30 September 2016 recorded higher than average temperatures. This highlights that consumption can vary considerably year-on-year based on weather conditions; the longer-term trend is that customers are using less energy as a result of structural, technological and behavioural energy efficiency. On a weather-corrected basis, domestic consumption fell by 1.1% for electricity and 1.8% for gas relative to the first half of 2015/16.

### **Helping vulnerable customers through inclusive provision**

SSE recognises that as an essential service provider, it must be both sensitive and flexible in how it deals with customers. With that goal in mind, in August 2016 SSE became the first energy supplier in Great Britain to commit to achieving the British Standard for Inclusive Service Provision. This represents the gold standard in recognising and catering for vulnerability in all its forms and SSE is currently working towards achieving this accreditation by 2018.

This builds on the additional training SSE has provided to customer-facing staff in areas like mental health and, specifically, dementia, to ensure its advisers are equipped to provide the best possible support.

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

- The Warm Home Discount (WHD) scheme enables qualifying pensioners and vulnerable customers to receive help with their fuel bills in the form of a yearly £140 rebate. This year's scheme was delayed slightly due to regulations being laid later than usual and will run from July 2016 to the end of May 2017. While this will mean SSE's spend will be reported across two financial years, SSE expects to provide equivalent levels of support to customers through this revised period.

- SSE's Priority Assistance Fund providing additional support to low income and vulnerable customers, including debt relief, free energy efficiency advice, and help with bespoke payment arrangements.
- SSE offers a free Careline priority service, dedicated to helping customers who are elderly, disabled or have special medical needs.
- SSE has identified and referred over 1,600 customers for Benefits Entitlement Checks with over £680,000 of additional support made available to customers at an average of more than £3,000 per customer.

In line with its licence condition, between the start of October and the end of March (or longer if the weather is unseasonably cold), SSE has a no-disconnection policy covering all household customers.

Overall total debt levels continue to reduce, with aged debt falling by 6.2%. This partly reflects lower prices and falling consumption, but is also due to SSE's efforts to engage constructively and understandingly with customers in arrears as early as possible, making sure support is provided and payment plans are manageable.

In July 2016, Ofgem launched an investigation into historic issues relating to SSE customers with debts being moved onto prepayment meters. Ofgem has been clear, however, that the opening of this investigation does not imply any findings of non-compliance and SSE is engaging constructively with Ofgem's investigation.

### **Rolling out smart meters to customers across Great Britain**

SSE's metering business still undertakes meter reading operations and meter operator work in all parts of Great Britain; however it is continuing to undergo a transformation through the smart meter roll-out.

SSE believes strongly in the potential for the national roll-out of smart meters to transform the relationship between customers, their energy usage and their supplier in the coming years. Capitalising on this opportunity is fundamental to the strategy of its Retail business.

Doing so requires a roll-out which is both cost-effective and customer-centric, not only installing the meters efficiently but also engaging customers with the technology so that the benefits outweigh the costs to customers. SSE has continued to ramp up its capacity and delivery of smart meters and, as of 31 October 2016, SSE had installed more than 340,000 smart meters. So far, overall customer feedback on their experience of the installation has been positive.

In its 2015/16 Annual Report, SSE described 2016/17 is a pivotal year for the smart programme, with the central communications infrastructure provided by the Data Communications Company (DCC), which will enable suppliers to build up to mass deployment, due to be delivered after significant delays. SSE also stated that any further delays to the DCC's delivery must be reflected in the overall programme timetable to avoid any negative impacts for customers.

Unfortunately, delays to delivery of the DCC's infrastructure have continued, with both outstanding releases now beyond all contingency agreed by the then Secretary of State in March 2015. Combined with a range of other outstanding constraints, this is undermining confidence in the programme and compressing the window in which suppliers can roll out the enduring solution at scale, driving up costs and creating challenges for the industry. It is therefore SSE's view that a reconsideration of the delivery timetable is urgently required in order to protect customers and ensure benefits are delivered; smart meters are a means to an end, not an end in themselves. With that in mind, SSE believes that government's commitment to the offer of a smart meter to all by 2020 should be honoured, but with a flexible and pragmatic approach that recognises constraints and does not require suppliers to jeopardise cost and experience for customers in pursuit of taking all reasonable steps to install smart meters.

## **Doing more for business energy customers**

Business Energy performed strongly in the first half of 2016/17, driven by a continued focus on meeting business customer's core energy needs, ongoing efforts to control operating costs and an enhanced proactive approach to its key customers and partners.

Over the last six months, SSE Business Energy adapted the way in which it engages with customers, and is evolving their service, in order to offer a customer service commitment. Business Energy has continued to build its offering in the commercial sector and has launched a new 100% renewable energy proposition known as 'SSE Green'.

For Business Energy's micro business customers, SSE has continued its emphasis on Treating Customers Fairly by relaunching its TCF statement and establishing a Performance team to focus on operational excellence by driving continuous improvement. Third Party Intermediaries (TPIs) remain an important channel for Business Energy growth and SSE continues to provide ongoing support to its TPIs by providing access to its industry experts via sales channels, engagement sessions and regular industry updates. Business Energy were recently rated the best supplier for TPIs in a study by Cornwall Energy.

Key to the continued success of Business Energy is a willingness to listen to customers, review processes and act on what customers are saying. At the same time, SSE remains focused on giving business customers direct access to people who will support and work in partnership with them throughout the lifetime of their contract. Looking forward, Finlay McCutcheon has recently taken over as the new Director of Business Energy, and will be looking to take Business Energy to the next level of delivery for customers, partners and shareholders.

## **Supplying energy and energy-related services to customers in Ireland.**

SSE Airtricity is the second largest provider of energy and related services in Ireland (ROI) and Northern Ireland (NI), and the only energy supply brand to operate in all of the competitive gas and electricity markets across the island. At 30 September 2016, SSE Airtricity supplied electricity and natural gas to 0.79 million household and business customer accounts in ROI and NI, representing a 17% share of the total combined gas and electricity markets in which it operates.

While market conditions remain highly competitive in both markets, SSE Airtricity is seeing a return to growth, in particular in Ireland where internet comparison sites are emerging as a popular consumer channel. In Northern Ireland's regulated natural gas market in Greater Belfast, where SSE Airtricity is the incumbent supplier, the company is continuing to show modest growth.

SSE Airtricity has continued to enhance its customer service offering for both domestic and business customers and, in line with its commitment to being a 'digital-first' supplier, a dedicated Digital Services team has been established to manage several new digital service channels, including webchat, online forums and social media. These digital channels now account for 15% of all inbound customer contacts.

In NI, SSE Airtricity reduced its regulated natural gas prices by 10% from 1 April 2016, and its household electricity prices by the same level from 1 June 2016. In ROI, the company reduced both its electricity and natural gas prices by 5% with effect from 1 August 2016.

## **Enterprise**

### **Shaping SSE Enterprise for the future**

SSE Enterprise was formed in 2014 and now incorporates five of SSE's businesses: Contracting, Rail, Slough Heat and Power, Telecoms and Utilities, supported by centralised sales and project delivery teams. As a multi-disciplined engineering services partner for businesses, SSE Enterprise provides energy services to meet the needs of businesses and public sector organisations in a reliable and sustainable way.

With a significant self-delivery capability, SSE Enterprise:

- designs, builds, maintains and operates complex mechanical and electrical engineering infrastructure;
- provides industry-leading telecoms connectivity and data centre services, meeting the connectivity and communication needs of businesses with bespoke solutions; and
- designs builds, maintains and operates electricity, gas, water, heat and cooling networks for commercial and residential developments.

To take the business forward in the next phase of its development, Neil Kirkby, currently Managing Director of Global Power Networks at Balfour Beatty, will join SSE in January 2017 as its Managing Director.

### **Setting the right priorities for SSE Enterprise**

The energy needs and expectations of private sector companies and public sector organisations are becoming increasingly sophisticated, with growing requirements for effective energy management and robust energy and utility infrastructure. In addition, those customers are increasingly seeking integrated and bespoke solutions to meet their energy and utility needs. This changing landscape will inform the SSE Enterprise strategy going forward.

### **Laying the foundations for future growth**

During 2016/17, despite continued competitive pressures, SSE Enterprise made some progress in laying the foundations to deliver future growth.

- SSE Enterprise Telecoms has continued to grow its network, unbundling 33 additional BT exchanges, increasing telecoms coverage by 50,000 postcodes nationwide; further expanding its network in London; and connecting a further three data centres, bringing the total number of connected data centres to 74. New clients include Capita, NATS, Mitsubishi UFJ Financial Group Inc. (MUFG) and Imperial College.
- SSE Enterprise Contracting is placing a greater emphasis on sales and major projects and a new regional-based structure more aligned to customers' needs and adaptive to an evolving marketplace. The team has recently designed and installed the electrical charging infrastructure network for London's first large-scale, zero emission, single deck bus fleet based at Waterloo Station.
- SSE Enterprise Utilities' new Heat Networks division has doubled its team over the last year in anticipation of further expansion and now operates 13 low carbon heat networks across the country. SSE Heat Networks has been selected a preferred bidder for one of the UK's largest regeneration projects, Barking Riverside, a 443-acre brown-site development for 10,800 new homes for London.
- SSE Enterprise Rail is making determined steps to deliver a first class service for existing clients and actively tendering for a significant amount of work with Network Rail as well as other major operators. It has successfully won bids to design and deliver Liverpool Street Station's new Switch Panels and Distribution Board and to construct five new Signal Equipment Rooms for the London Underground.
- Slough Heat and Power continues to establish itself within the SSE Enterprise function, growing its electricity networks to meet increased customer demand and trialling progressive technologies to develop its distinctive proposition for the Slough Trading Estate.

### **Retail (including Enterprise) – Conclusion and Priorities**

SSE's Energy Supply, Energy-Related Services and Enterprise businesses operate in competitive markets and are each focused on the changing energy and related services needs of household, commercial and public sector customers. This means maintaining a clear focus on delivering the

propositions and services that customers want and need is vital. Put simply, the core requirement of these businesses is to put the current and future needs of customers at the heart of everything they do.

**Key priorities for the remainder of 2016/17 and beyond**

- further stabilisation of domestic energy customer numbers through enhanced sales and retention activities, as well as through realising SSE's customer service ambition;
- accelerating diversification through completing the national expansion of Home Services and continued growth in broadband and telephone;
- taking the smart opportunity by optimising deployment of smart meters and developing and launching compelling smart-enabled customer propositions;
- continuing to improve the customer experience and deliver operational efficiencies by further digitalising the business and moving towards an operating model capable of meeting the future needs of customers;
- delivering continuing investment and growth in energy supply to commercial and public sector organisations; and
- taking forward the reform and development of the SSE Enterprise business, following the appointment of a new Managing Director, who will take up his post in January 2017.

## SSE financial results explained

### **Why do SSE have “adjusted” numbers for Profit Before Tax (PBT), Profit After Tax (PAT), Earnings Per Share (EPS) and Net Debt and Hybrid Capital?**

SSE's financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs). SSE applies the use of a number of adjusted accounting measures throughout the Annual Report and Financial Statements in order to present the underlying performance of the Group to the users of the statements in a consistent and meaningful manner. Further detail on the basis of presentation is included in note 2 to the Financial Statements.

The adjustments made by SSE can be explained as follows:

#### **1. Exceptional Items**

Exceptional charges or credits are considered unusual by nature or scale and of such significance that separate disclosure is required for the underlying performance of the Group to be properly understood. Further explanation of the rationale for deciding whether an item is exceptional is included at Note 2 of the Financial Statements.

#### **2. Movements on derivatives ('certain re-measurements')**

The Group enters into forward contracts to buy (or sell) electricity, gas and other commodities to meet the future demand requirements of its Energy Supply business or to optimise the value of its Wholesale assets. Certain of these contracts are determined to be derivative financial instruments under IAS 39 and as such are required to be recorded at their fair value. Changes in the fair value of those commodity contracts designated as IAS 39 financial instruments are reflected in the income statement (as part of 'certain re-measurements'). The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments. The Group will recognise the underlying value of these contracts as the relevant commodity is delivered, which will predominately be within the subsequent 12 to 18 months. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts. The re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category also includes income statement movement on financing derivatives such as interest rate swaps and forward currency contracts.

#### **3. Interest on net pension liabilities – IAS 19R**

The Group's interest charges relating to defined benefit pension schemes are derived from the net liabilities of the schemes as valued under IAS 19R. This will mean that the charge recognised in any given year will be dependent on the impact of actuarial assumptions such as inflation and discount rates. To avoid income statement volatility derived from this basis of measurement the Group excludes these from its adjusted profit measures.

#### **4. Tax and interest on JVs and Associates**

The Group is required to report profit before interest and tax ('operating profit') including its share of the profit after tax of its equity-accounted joint ventures and associates. However, for internal performance management purposes and for consistency of treatment, SSE reports its adjusted operating profit before its share of the interest and tax on joint ventures and associates.

#### **5. Deferred tax**

In line with its long standing approach, SSE adjusts for deferred tax when arriving at adjusted profit after tax and its adjusted effective rate of tax. SSE believes consistency of presentation is essential for investors and other users of its statements and does not therefore believe that changing these measures would result in improved clarity or transparency.

#### **6. Hybrid capital securities**

The characteristics of hybrid capital securities mean they qualify for recognition as equity rather than debt under IFRSs. Consequently, their coupon payments are presented as dividends to other equity holders rather than within finance costs. Consequently the coupon payments are not included in SSE's adjusted PBT 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.

#### **7. Finance leases**

SSE's reported loans and borrowings include finance lease liabilities, most significantly in relation to its tolling contract with Marchwood Power Limited. The Group excludes these liabilities from its adjusted net debt and hybrid capital measure to better reflect the Group's funding position.

#### **8. Outstanding liquid funds and other short-term loans**

Outstanding liquid funds are SSE cash balances held by counterparties as collateral at the year end. SSE includes these as cash until they are utilised. Loans with a maturity of less than three months are also included in this adjustment.

#### **9. Capital expenditure and investment**

This metric represents the capital invested by the Group in projects that are anticipated to provide a return on investment over future years and is consistent with internally applied metrics. 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 the source of funding to the vehicle through either loans or equity. The Group does not include project-funded ventures in this metric.



# Consolidated Income Statement

for the period 1 April 2016 to 30 September 2016

		2016			2015		
		Before exceptional items and certain re- measure- ments	Exceptional items and certain re- measure- ments (note 6)	Total	Before exceptional items and certain re- measure- ments	Exceptional items and certain re- measure- ments (note 6)	Total
	Note	£m	£m	£m	£m	£m	£m
Revenue	5	11,262.8	-	11,262.8	13,831.5	-	13,831.5
Cost of sales		(10,049.0)	162.1	(9,886.9)	(12,608.2)	(317.7)	(12,925.9)
Gross profit / (loss)		1,213.8	162.1	1,375.9	1,223.3	(317.7)	905.6
Operating costs		(763.7)	-	(763.7)	(682.3)	-	(682.3)
Other operating income		24.5	-	24.5	0.8	39.3	40.1
Operating profit / (loss) before joint ventures and associates		474.6	162.1	636.7	541.8	(278.4)	263.4
Joint ventures and associates:		-	-				
Share of operating profit		162.6	-	162.6	160.1	-	160.1
Share of interest		(67.1)	-	(67.1)	(63.4)	-	(63.4)
Share of movement on derivatives		-	0.7	0.7	-	3.0	3.0
Share of tax		(19.5)	23.1	3.6	(19.4)	(0.6)	(20.0)
Share of profit on joint ventures and associates		76.0	23.8	99.8	77.3	2.4	79.7
Operating profit / (loss)	5	550.6	185.9	736.5	619.1	(276.0)	343.1
Finance income	7	60.5	-	60.5	47.6	-	47.6
Finance costs	7	(160.9)	(20.2)	(181.1)	(148.6)	(11.3)	(159.9)
Profit / (loss) before taxation		450.2	165.7	615.9	518.1	(287.3)	230.8
Taxation	8	(89.2)	23.4	(65.8)	(89.1)	63.5	(25.6)
Profit / (loss) for the period		361.0	189.1	550.1	429.0	(223.8)	205.2
Attributable to:							
Ordinary shareholders of the parent		287.1	189.1	476.2	416.5	(223.8)	192.7
Other equity holders		73.9	-	73.9	12.5	-	12.5
Basic earnings per share (pence)	10			47.2			19.4
Diluted earnings per share (pence)	10			47.2			19.3

The accompanying notes are an integral part of this interim statement.

# Consolidated Income Statement

for the year ended 31 March 2016

		Before exceptional items and certain re-measure- ments	Exceptional items and certain re- measure- ments (note 6)	Total
	Note	£m	£m	£m
<b>Revenue</b>	5	28,781.3	-	28,781.3
Cost of sales		(25,859.4)	(644.5)	(26,503.9)
<b>Gross profit / (loss)</b>		2,921.9	(644.5)	2,277.4
Operating costs		(1,449.8)	(334.0)	(1,783.8)
Other operating income		29.4	57.6	87.0
<b>Operating profit / (loss) before joint ventures and associates</b>		1,501.5	(920.9)	580.6
Joint ventures and associates:				
Share of operating profit		322.9	-	322.9
Share of interest		(126.8)	-	(126.8)
Share of movement on derivatives		-	2.3	2.3
Share of tax		(39.9)	46.3	6.4
<b>Share of profit on joint ventures and associates</b>		156.2	48.6	204.8
<b>Operating profit / (loss)</b>	5	1,657.7	(872.3)	785.4
Finance income	7	101.8	-	101.8
Finance costs	7	(308.2)	14.3	(293.9)
<b>Profit / (loss) before taxation</b>		1,451.3	(858.0)	593.3
Taxation	8	(280.6)	272.5	(8.1)
<b>Profit / (loss) for the year</b>		1,170.7	(585.5)	585.2
<b>Attributable to:</b>				
Ordinary shareholders of the parent		1,046.1	(585.5)	460.6
Other equity holders		124.6	-	124.6
Basic earnings per share (pence)	10			46.1
Diluted earnings per share (pence)	10			46.0

# Consolidated Statement of Other Comprehensive Income

for the period 1 April 2016 to 30 September 2016

Year ended 31 March 2016 £m		Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m
585.2	<b>Profit for the period</b>	<b>550.1</b>	205.2
	<b>Other comprehensive income:</b>		
	<i>Items that will not be reclassified to profit or loss:</i>		
254.3	Actuarial (losses)/gains on retirement benefit schemes	(302.6)	260.3
(58.9)	Taxation on actuarial losses/(gains) on defined benefit pension schemes	48.1	(52.1)
195.4		(254.5)	208.2
94.8	Share of joint ventures actuarial (losses)/gains on retirement benefit schemes	(104.2)	(25.6)
(18.4)	Share of joint ventures taxation of actuarial losses/(gains) on retirement benefit schemes	17.4	5.1
76.4		(86.8)	(20.5)
	<i>Items that will be reclassified subsequently to profit or loss:</i>		
79.4	Gains on effective portion of cash flow hedges	21.3	20.6
4.7	Transferred to assets and liabilities on cash flow hedges	15.5	(1.5)
(15.1)	Taxation on cashflow hedges	(4.0)	(4.1)
69.0		32.8	15.0
4.7	Share of joint ventures and associates (loss)/gains on effective portion of cash flow hedges	(15.0)	7.5
(0.8)	Share of joint ventures and associates taxation on cashflow hedges	2.0	(1.5)
3.9		(13.0)	6.0
(8.4)	Losses on revaluation of available for sale investments, net of taxation	-	-
85.1	Exchange gain on translation of foreign operations	76.0	21.4
(40.7)	Loss on net investment hedge	(45.0)	(14.8)
7.3	Taxation on net investment hedge	8.1	3.0
51.7		39.1	9.6
388.0	<b>Other comprehensive (loss)/income, net of taxation</b>	<b>(282.4)</b>	218.3
973.2	<b>Total comprehensive income for the period</b>	<b>267.7</b>	423.5
	<b>Attributable to:</b>		
848.6	Ordinary shareholders of the parent	193.8	411.0
124.6	Other equity holders	73.9	12.5
973.2		267.7	423.5

# Consolidated Balance Sheet

as at 30 September 2016

At 31 March 2016			At 30 September 2016	At 30 September 2015
£m		Note	£m	£m
<b>Assets</b>				
12,525.0	Property, plant and equipment		<b>12,377.1</b>	11,752.3
-	Biological assets		-	1.8
	Intangible assets:			
609.9	Goodwill		<b>617.6</b>	600.4
249.5	Other intangible assets		<b>334.2</b>	185.3
1,045.1	Equity investments in joint ventures and associates		<b>837.8</b>	963.5
591.6	Loans to joint ventures and associates		<b>733.9</b>	544.3
16.7	Other investments		<b>16.5</b>	26.4
512.0	Deferred tax assets		<b>289.0</b>	250.1
537.7	Derivative financial assets	16	<b>760.0</b>	582.0
<b>16,087.5</b>	<b>Non-current assets</b>		<b>15,966.1</b>	14,906.1
500.1	Other intangible assets		<b>167.6</b>	198.8
215.4	Inventories		<b>220.5</b>	339.1
3,274.3	Trade and other receivables		<b>2,472.9</b>	3,332.3
360.2	Cash and cash equivalents		<b>257.9</b>	1,678.4
1,615.0	Derivative financial assets	16	<b>1,934.9</b>	2,051.8
134.2	Current assets held for sale	12	<b>406.5</b>	97.7
<b>6,099.2</b>	<b>Current assets</b>		<b>5,460.3</b>	7,698.1
<b>22,186.7</b>	<b>Total assets</b>		<b>21,426.4</b>	22,604.2
<b>Liabilities</b>				
923.3	Loans and other borrowings	13	<b>338.8</b>	734.3
4,184.4	Trade and other payables		<b>3,343.4</b>	3,960.8
298.2	Current tax liabilities		<b>320.2</b>	307.9
94.0	Provisions		<b>71.3</b>	111.6
1,783.8	Derivative financial liabilities	16	<b>1,814.5</b>	2,496.3
115.0	Liabilities held for sale	12	<b>111.4</b>	0.3
<b>7,398.7</b>	<b>Current liabilities</b>		<b>5,999.6</b>	7,611.2
6,245.5	Loans and other borrowings	13	<b>7,083.9</b>	5,931.6
917.5	Deferred tax liabilities		<b>584.4</b>	694.9
452.4	Trade and other payables		<b>491.4</b>	476.7
703.3	Provisions		<b>699.7</b>	393.9
394.8	Retirement benefit obligations	17	<b>676.1</b>	388.3
857.5	Derivative financial liabilities	16	<b>987.4</b>	1,067.7
<b>9,571.0</b>	<b>Non-current liabilities</b>		<b>10,522.9</b>	8,953.1
<b>16,969.7</b>	<b>Total liabilities</b>		<b>16,522.5</b>	16,564.3
<b>5,217.0</b>	<b>Net assets</b>		<b>4,903.9</b>	6,039.9
<b>Equity:</b>				
503.8	Share capital	15	<b>508.5</b>	501.9
880.4	Share premium		<b>876.6</b>	858.4
22.0	Capital redemption reserve		<b>22.0</b>	22.0
(2.2)	Hedge reserve		<b>17.6</b>	(51.1)
(17.8)	Translation reserve		<b>21.3</b>	(59.9)
1,598.6	Retained earnings		<b>1,248.2</b>	1,397.5
<b>2,984.8</b>	<b>Equity attributable to ordinary shareholders of the parent</b>		<b>2,694.2</b>	2,668.8
2,209.7	Hybrid capital	14	<b>2,209.7</b>	3,371.1
<b>5,194.5</b>	<b>Total equity attributable to equity holders of the parent</b>		<b>4,903.9</b>	6,039.9
22.5	Non-controlling interests		-	-
<b>5,217.0</b>	<b>Total equity</b>		<b>4,903.9</b>	6,039.9

## Consolidated Statement of Changes in Equity

for the period 1 April 2016 to 30 September 2016

Statement of changes in equity	Share capital	Share premium account	Capital redemption reserve	Hedge reserve	Translation reserve	Retained earnings	Total attributable to ordinary shareholders	Hybrid capital	Total	Non-controlling interest	Total Equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2016	503.8	880.4	22.0	(2.2)	(17.8)	1,598.6	2,984.8	2,209.7	5,194.5	22.5	5,217.0
Profit for the period	-	-	-	-	-	476.2	476.2	73.9	550.1	-	550.1
Other comprehensive income	-	-	-	32.8	39.1	(254.5)	(182.6)	-	(182.6)	-	(182.6)
Share of joint ventures and associates other comprehensive income	-	-	-	(13.0)	-	(86.8)	(99.8)	-	(99.8)	-	(99.8)
Total comprehensive income for the period	-	-	-	19.8	39.1	134.9	193.8	73.9	267.7	-	267.7
Dividends to shareholders	-	-	-	-	-	(629.5)	(629.5)	-	(629.5)	-	(629.5)
Scrip dividend related share issue	4.7	(4.7)	-	-	-	142.6	142.6	-	142.6	-	142.6
Distributions to hybrid capital holders	-	-	-	-	-	-	-	(73.9)	(73.9)	-	(73.9)
Issue of shares	-	0.9	-	-	-	-	0.9	-	0.9	-	0.9
Credit in respect of employee share awards	-	-	-	-	-	6.6	6.6	-	6.6	-	6.6
Investment in own shares	-	-	-	-	-	(5.0)	(5.0)	-	(5.0)	-	(5.0)
Non controlling interest (i)	-	-	-	-	-	-	-	-	-	(22.5)	(22.5)
<b>At 30 September 2016</b>	<b>508.5</b>	<b>876.6</b>	<b>22.0</b>	<b>17.6</b>	<b>21.3</b>	<b>1,248.2</b>	<b>2,694.2</b>	<b>2,209.7</b>	<b>4,903.9</b>	<b>-</b>	<b>4,903.9</b>

Statement of changes in equity	Share capital	Share premium account	Capital redemption reserve	Hedge reserve	Translation reserve	Retained earnings	Total attributable to ordinary shareholders	Hybrid capital	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2015	496.5	862.7	22.0	(72.1)	(69.5)	1,469.8	2,709.4	3,371.1	6,080.5
Profit for the period	-	-	-	-	-	192.7	192.7	12.5	205.2
Other comprehensive income	-	-	-	15.0	9.6	208.2	232.8	-	232.8
Share of joint ventures and associates other comprehensive income	-	-	-	6.0	-	(20.5)	(14.5)	-	(14.5)
Total comprehensive income for the period	-	-	-	21.0	9.6	380.4	411.0	12.5	423.5
Dividends to shareholders	-	-	-	-	-	(613.5)	(613.5)	-	(613.5)
Scrip dividend related share issue	5.3	(5.3)	-	-	-	159.5	159.5	-	159.5
Distributions to hybrid capital holders	-	-	-	-	-	-	-	(12.5)	(12.5)
Issue of shares	0.1	1.0	-	-	-	-	1.1	-	1.1
Credit in respect of employee share awards	-	-	-	-	-	8.7	8.7	-	8.7
Investment in own shares	-	-	-	-	-	(7.4)	(7.4)	-	(7.4)
<b>At 30 September 2015</b>	<b>501.9</b>	<b>858.4</b>	<b>22.0</b>	<b>(51.1)</b>	<b>(59.9)</b>	<b>1,397.5</b>	<b>2,668.8</b>	<b>3,371.1</b>	<b>6,039.9</b>

(i) This represents the reclassification of the non-controlling interest in Clyde Windfarm (Scotland) Limited which is now accounted as a joint venture (see Note 4.2(v)).

# Consolidated Statement of Changes in Equity

for the year ended 31 March 2016

Statement of changes in equity	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid capital £m	Total equity attributable to equity holders of the parent £m	Non-controlling interest £m	Total Equity £m
At 1 April 2015	496.5	862.7	22.0	(72.1)	(69.5)	1,469.8	2,709.4	3,371.1	6,080.5	-	6,080.5
Profit for the year	-	-	-	-	-	460.6	460.6	124.6	585.2	-	585.2
Other comprehensive income	-	-	-	69.0	51.7	187.0	307.7	-	307.7	-	307.7
Share of joint ventures and associates other comprehensive income	-	-	-	3.9	-	76.4	80.3	-	80.3	-	80.3
Total comprehensive income for the year	-	-	-	72.9	51.7	724.0	848.6	124.6	973.2	-	973.2
Dividends to shareholders	-	-	-	-	-	(884.0)	(884.0)	-	(884.0)	-	(884.0)
Scrip dividend related share issue	5.9	(5.9)	-	-	-	175.8	175.8	-	175.8	-	175.8
Distributions to hybrid capital holders	-	-	-	-	-	-	-	(124.6)	(124.6)	-	(124.6)
Issue of shares	1.4	23.6	-	-	-	-	25.0	-	25.0	-	25.0
Redemption of hybrid capital	-	-	-	-	-	(8.5)	(8.5)	(1,161.4)	(1,169.9)	-	(1,169.9)
Credit in respect of employee share awards	-	-	-	-	-	13.5	13.5	-	13.5	-	13.5
Investment in own shares	-	-	-	-	-	(11.1)	(11.1)	-	(11.1)	-	(11.1)
Disposal of non-controlling interest in Clyde Windfarm	-	-	-	-	-	138.6	138.6	-	138.6	-	138.6
Non controlling interest (i)	-	-	-	(3.0)	-	(19.5)	(22.5)	-	(22.5)	22.5	-
At 31 March 2016	503.8	880.4	22.0	(2.2)	(17.8)	1,598.6	2,984.8	2,209.7	5,194.5	22.5	5,217.0

(i) This represents the recognition of the non-controlling interest in Clyde Windfarm (Scotland) Limited, the Group's share in which is now accounted as a joint venture (see Note 4.2(v)).

## Consolidated Cash Flow Statement

for the period 1 April 2016 to 30 September 2016

Year ended 31 March 2016 £m		Note	Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m
2,112.1	<b>Cash generated from operations before working capital movements</b>	11	<b>794.3</b>	800.4
44.0	Decrease/(increase) in inventories		(5.1)	3.2
1,098.5	Decrease in receivables		760.1	1,290.7
(879.5)	Decrease in payables		(344.0)	(964.2)
(55.7)	Decrease in provisions		(23.2)	(31.7)
<b>2,319.4</b>	<b>Cash generated from operations</b>		<b>1,182.1</b>	1,098.4
130.9	Dividends received from joint ventures and associates		20.8	17.5
101.8	Interest received		60.5	47.6
(254.1)	Interest paid		(126.9)	(125.4)
(125.5)	Income taxes paid		(63.3)	(84.9)
(13.6)	Payment for consortium relief		-	(0.2)
<b>2,158.9</b>	<b>Net cash from operating activities</b>		<b>1,073.2</b>	953.0
	<b>Cash flows from investing activities</b>			
(1,495.4)	Purchase of property, plant and equipment		(741.1)	(682.8)
(444.8)	Purchase of other intangible assets		(158.3)	(146.3)
16.1	Deferred income received		0.8	-
312.4	Proceeds from disposals	12	76.2	10.1
(50.5)	Loans to joint ventures and associates		(15.6)	(38.5)
(669.0)	Purchase of businesses and subsidiaries		-	-
18.3	Loans and equity repaid by joint ventures		48.9	10.9
(9.8)	Investment in joint ventures and associates		(0.7)	(2.9)
(0.2)	Increase in other investments		-	-
<b>(2,322.9)</b>	<b>Net cash from investing activities</b>		<b>(789.8)</b>	(849.5)
	<b>Cash flows from financing activities</b>			
25.0	Proceeds from issue of share capital		0.9	1.1
(708.2)	Dividends paid to shareholders of the parent		(486.9)	(454.0)
(1,161.4)	Redemption of hybrid capital		-	-
(124.6)	Hybrid capital dividend payments		(73.9)	(12.5)
(11.1)	Employee share awards share purchase		(5.0)	(7.4)
1,070.1	New borrowings		1,089.5	541.1
(77.7)	Repayment of borrowings		(910.3)	(5.5)
<b>(987.9)</b>	<b>Net cash from financing activities</b>		<b>(385.7)</b>	62.8
<b>(1,151.9)</b>	<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(102.3)</b>	166.3
1,512.1	Cash and cash equivalents at the start of period		360.2	1,512.1
<b>(1,151.9)</b>	<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(102.3)</b>	166.3
<b>360.2</b>	<b>Cash and cash equivalents at the end of period</b>		<b>257.9</b>	1,678.4

# Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

## 1. Condensed Financial Statements

SSE plc (the Company) is a company domiciled in Scotland. The condensed interim statements comprise those of the Company and its subsidiaries (together referred to as the Group).

The financial information set out in these condensed interim statements does not constitute the Group's statutory accounts for the periods ended 30 September 2016, 31 March 2016 or 30 September 2015 within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2016, which were prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS), have been reported on by the Group's auditors and delivered to the Registrar of Companies. The financial information set out in these interim statements has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 Interim Financial Reporting as adopted by the EU.

The report of the auditor was (i) unqualified (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under section 498 (2) or (3) of the Companies Act 2006. The interim financial information is unaudited but has been formally reviewed by the auditor and its report to the Company is set out on page 77.

These interim statements were authorised by the Board on 8 November 2016.

## 2. Basis of preparation

These condensed interim statements for the period to 30 September 2016 and the comparative information for the period to 30 September 2015 have been prepared applying the accounting policies and presentation used in the Group's consolidated financial statements for the year ended 31 March 2016.

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The financial information has therefore been prepared on a going concern basis.

The Group applies the use of adjusted accounting measures throughout these statements. These measures enable the Directors to present the underlying performance of the Group and its segments to the users of the statements in a consistent and meaningful manner. The adjustments applied and certain terms such as 'adjusted operating profit', 'adjusted EPS' and 'adjusted net debt and hybrid capital' are not defined under IFRS and are explained in more detail below.

### (i) Adjusted measures

The Directors assess the performance of the Group and its reportable segments based on 'adjusted measures'. These measures are used for internal performance management and are believed to be appropriate for explaining underlying performance to users of the accounts. These measures are also deemed the most useful for the ordinary shareholders of the Company and for other stakeholders.

The performance of the reportable segments is reported based on adjusted profit before interest and tax ('adjusted operating profit'). This is reconciled to reported profit before interest and tax by adding back exceptional items and certain re-measurements (see (ii) below) and after the removal of interest and taxation on profits from equity-accounted joint ventures and associates.

The performance of the Group is reported based on adjusted profit before tax which excludes exceptional items and certain re-measurements (see below), the net interest costs associated with defined benefit schemes and taxation on profits from equity-accounted joint ventures and associates. The interest costs removed are non-cash and are subject to variation based on actuarial valuations of scheme liabilities.

The Group's key performance measure is adjusted earnings per share (EPS), which is based on basic earnings per share before exceptional items and certain re-measurements (see below), the net interest costs associated with defined benefit schemes and after the removal of deferred taxation.

The financial statements also include an 'adjusted net debt and hybrid capital' measure. This presents financing information on the basis used for internal liquidity risk management. This measure excludes obligations due under finance leases and includes cash held as collateral on commodity trading exchanges. 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.

### (ii) Exceptional items and certain re-measurements

Exceptional items are those charges or credits that are considered unusual by nature and scale and of such significance that separate disclosure is required for the financial statements to be properly understood. The trigger events for exceptional items will tend to be non-recurring although exceptional charges may impact the same asset class or segment over time. Market conditions that have deteriorated significantly over time will only be captured to the extent observable at the balance sheet date. Examples of items that may be considered exceptional include material asset or business impairment charges, business restructuring costs, significant gains or losses on disposal of assets and businesses and contractual settlements following significant disputes and claims. The Directors consider that any gain or loss on disposal of greater than £30.0m would be disclosed as being exceptional by nature of its scale. Other gains or losses on disposal below this level may be considered to be exceptional by reference to specific circumstances which will be explained on a case-by-case basis.



# Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

## 2. Basis of preparation (continued)

### (ii) 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. This excludes commodity contracts not treated as financial instruments under IAS 39 where held for the Group's own use requirements which are not recorded until the underlying commodity is delivered.

### (iii) Other additional disclosures

As permitted by IAS 1 'Presentation of financial statements', the Group's income statement discloses additional information in respect of joint ventures and associates, exceptional items and certain re-measurements to aid understanding of the Group's financial performance and to present results clearly and consistently.

## 3. Summary of significant new accounting policies and reporting changes

In the period, the Group has adopted the amendments to IFRS 11 'Accounting for acquisitions of interests in joint operations' which were effective on 1 January 2016. These clarify that the acquisition of an interest in a joint operation will be accounted for in accordance with IFRS 3 Business Combinations. Adopting this standard has not had an impact on these financial statements.

The following issued standards have not yet been adopted by the Group:

- i) IFRS 15 'Revenue from contracts with customers' is effective on 1 January 2018 (and thus to the Group from 1 April 2018), subject to European Union (EU) endorsement;
- ii) IFRS 16 'Leases' is effective on 1 January 2019 (1 April 2019 to the Group), subject to EU endorsement;
- iii) IFRS 9 'Financial instruments' which will be effective on 1 January 2018 (1 April 2018 to the Group), subject to EU endorsement.

The Group has commenced initial assessment of the impact of these standards on the consolidated financial statements. However, at this stage, it is not yet practicable to quantify the impact these standards will have. The assessment of IFRS 15 will consider matters such as bundled goods and services, the allocation of transaction price to performance obligations, treatment of customer acquisition costs and contracts with variable consideration. The assessment of IFRS 16 will require, with certain exceptions, obligations associated with contracts currently designated as operating leases to be recognised on balance sheet as lease liabilities. The definition of a lease has also been modified which may impact which contracts the Group accounts for as leases. Further comment will be provided on the Group's assessment of these matters in the financial statements for the year to 31 March 2017.

In addition to these, there are a number of other amendments and annual improvement project recommendations that are not yet effective but which have been endorsed by the EU. These are not anticipated to have a material impact on the Group's consolidated financial statements.

## 4. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The Group's key accounting judgement and estimation areas are noted with the most Significant Financial Judgement areas as specifically discussed by the Audit Committee being highlighted separately.

### 4.1 Significant Financial Judgements – Estimation Uncertainties

The preparation of these Financial Statements has specifically considered the following Significant Financial Judgements all of which are areas of estimation uncertainty.

#### (i) Impairment testing and valuation of certain Non-Current Assets – Estimation Uncertainty

The Group annually 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. In conducting its reviews, the Group makes judgements and estimates in considering the recoverable amount of the respective assets or cash-generating units (CGUs). The specific assets under review in the period ended 30 September 2016 are goodwill, thermal power generation assets, wind farm CGUs, gas storage assets and exploration and production (E&P) assets. As permitted by IAS 34 Interim Financial Reporting, the Group has focused on reviewing the key changes in estimates and assumptions as applied in the preparation of the financial statements to 31 March 2016.

Changes to the estimates and assumptions on factors such as regulation and legislation changes, power, gas, carbon and other commodity prices, volatility of gas prices, plant running regimes and load factors, expected 2P reserves, discount rates and other inputs could impact the assessed recoverable value of assets and CGUs and consequently impact the Group's income statement and balance sheet.

## Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

### 4. Critical accounting judgements and key sources of estimation uncertainty

#### 4.1 Significant Financial Judgements – Estimation Uncertainties (continued)

##### (ii) Revenue recognition – estimated energy consumption – Estimation Uncertainty

Revenue from Retail energy supply activities includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. This estimation will comprise of values for billed revenue in relation to consumption from unread meters based on estimated consumption taking account of various factors including usage patterns and weather trends (disclosed as trade receivables) and for unbilled revenue (disclosed as accrued income). The volume of unbilled electricity or gas is calculated by assessing a number of factors such as externally notified aggregated volumes supplied to customers, amounts billed to customers and other adjustments. Unbilled income is calculated by applying the tariffs relevant to the customer type to the calculated volume of electricity or gas. This estimation methodology is subject to an internal corroboration process that provides support for the judgements made by management. This process requires the comparison of calculated unbilled volumes to a benchmark measure of unbilled volumes which is derived using independently verified data and by assessing historical weather-adjusted consumption patterns and actual meter data that is used in industry reconciliation processes for total consumption by supplier. This aspect of the corroboration process, which requires a comparison of the estimated supplied quantity of electricity or gas that is deemed to have been delivered to customers and the aggregate supplied quantity of electricity or gas applicable to the Group's customers that is measured by industry system operators, is a key judgement. The assessment of electricity unbilled revenue is further influenced by the impact on national settlements data of feed-in-tariff supported volumes and spill from solar PV generation. The experience of the Group is that the industry estimated supplied quantities in gas have historically been higher than actual metered supply. To take account of this, the Group applies a further judgement, being a percentage reduction to unbilled consumption volume, to the measurement of its unbilled revenue in the financial statements. It is expected that this judgement will become less critical as the industry transitions to smart meter technology.

##### (iii) Valuation of trade receivables – Estimation Uncertainty

The basis of determining the provisions for bad and doubtful debts is explained at Note 16 of the financial statements in the section on credit risk and aged debt. While the provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to the income statement.

##### (iv) Retirement benefits – Estimation Uncertainty

The assumptions in relation to the cost of providing post-retirement benefits during the period are based on the Group's best estimates and are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the level of the retirement benefit obligation recorded and the cost to the Group of administering the schemes. The value of scheme assets are impacted by the asset ceiling test which (a) restricts the surplus that can be recognised to assets that can be recovered fully through refunds and (b) may increase the value of scheme liabilities where there are minimum funding liabilities in relation to agreed contributions. Further detail on the estimation basis is contained in Note 17 of the financial statements.

#### 4.2 Other key accounting judgements

Other key accounting judgements applied in the preparation of these Financial Statements include the following:

##### (i) Business Combinations and acquisitions – Accounting Judgement

Business combinations and acquisitions require a fair value exercise to be undertaken to allocate the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a certain extent, on management's judgement. The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of this purchase price to the identifiable assets and liabilities with any unallocated portion being recorded as goodwill. There were no business combinations in the period.

##### (ii) Energy Company Obligation (ECO) costs – Accounting Judgement

The Energy Company Obligation ('ECO') legislation, in force since 1 January 2013, requires qualifying energy suppliers such as the Group's Energy Supply business, to meet defined targets by providing measures to improve the energy efficiency of and level of carbon emissions from UK domestic households. Delivery of the measures is required by 31 March 2017. As the Group is not technically obligated to deliver the measures until 31 March 2017, the costs of ECO are recorded when measures are delivered or other qualifying expenditure has been incurred.

##### (iii) Metering contracts

Following the disposal of smart meter assets to Meter Fit 10 Limited in the period (see Note 12), the Group has entered into an agreement for the provision of meter asset provider (MAP) services with that company. The Group has assessed that this arrangement, in common with all similar arrangements, is not a lease because other parties take 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.

## Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

### 4. Critical accounting judgements and key sources of estimation uncertainty (continued)

#### 4.2 Other key accounting judgements (continued).

##### (iv) Treatment of disputes and claims – Accounting Judgement

The Group is exposed to the risk of litigation, regulatory judgements and contractual disputes through the course of its normal operations. The Group considers each instance separately in accordance with legal advice and will provide or disclose information as deemed appropriate. Changes in the assumptions around the likelihood of an outflow of economic resources or the estimation of any obligation would change the values recognised in the financial statements

##### (v) Consolidation of interest in Clyde Windfarm (Scotland) Limited– Accounting Judgement

In the prior financial year, the Group completed the sale of 49.9% of the equity in Clyde Windfarm (Scotland) Limited ('Clyde'). Details of this transaction are included at Note 12. The Group is providing project and contract management services for and 100% of the funding for the construction of the 172.8MW extension of the wind farm. As part of this arrangement, the Group had retained a casting vote over the engineering, procurement and construction of the extension and certain rights over the construction of the extension. Under IFRS 10 Consolidated Financial Statements, the extension was considered to be a 'relevant activity' which significantly affects the future returns from Clyde. The rights retained by the Group were therefore concluded to confer power to control the relevant activities of Clyde to the Group. As a consequence, this entity was fully consolidated into the Group's financial statements at 31 March 2016. This meant that the gain on the transaction in that financial year was recorded in equity and the co-venturers' ownership share was represented as a non-controlling interest.

On 13 May 2016, the Group agreed to waive those contractual rights which gave rise to the judgement that power to control the relevant activities existed over Clyde. All other contractual arrangements remain in place. As a consequence, the Group has since accounted for its interest in Clyde as that of an investment in an equity-accounted joint venture. One of the impacts of the change to the consolidation basis was to remove the equivalent to the £200.7m of non-recourse borrowings held by Clyde at 31 March 2016 from the Group's consolidated balance sheet. In addition, the Group's interest in the entity is expected to remain that of an equity-accounted joint venture following completion of the extension construction project. At 31 March 2016, the £200.7m debt item had been excluded from the Group's 'adjusted net debt and hybrid capital' measure.

#### 4.3 Other areas of estimation uncertainty

##### (i) Provisions and contingencies

The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37. Provisions are calculated based on estimations. The evaluation of the likelihood of the contingent events has required best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseeable developments, this likelihood could alter.

##### (ii) Decommissioning costs

The estimated cost of decommissioning at the end of the useful lives of certain property, plant and equipment assets is reviewed periodically and has been reassessed in the year to 31 March 2016. Decommissioning costs in relation to gas exploration and production assets are based on expected lives of the fields and costs of decommissioning. Provision is made for the estimated discounted cost of decommissioning at the balance sheet date. The dates for settlement of future decommissioning costs are uncertain and are currently expected to be incurred predominantly between 2017 and 2040.

##### (iii) Gas and liquids reserves

The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production depreciation of producing gas and liquids property, plant and equipment. This is also a significant input estimate to the associated impairment and decommissioning calculations. The impact of a change in estimated proven and probable reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If proven and probable reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

## Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

### 5. Segmental information

The Group's operating segments are those used internally by the Board to run the business and make strategic decisions. The Group's main businesses and operating segments are the **Networks** business, comprising Electricity Distribution, Electricity Transmission and Gas Distribution; the **Retail** business, comprising Energy Supply, Enterprise and Energy-related Services; and **Wholesale**, comprising Energy Portfolio Management and Electricity Generation, Gas Storage and Gas Production.

The types of products and services from which each reportable segment derives its revenues are:

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

The 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 IAS 39, 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.

## Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

### 5. Segmental information (continued)

#### (a) Revenue by segment

	Six months ended 30 September 2016			Six months ended 30 September 2015		
	External revenue	Intra-segment revenue	Total revenue	External revenue	Intra-segment revenue	Total revenue
	£m	£m	£m	£m	£m	£m
<b>Networks</b>						
Electricity Distribution	367.4	114.8	482.2	316.9	113.3	430.2
Electricity Transmission	179.4	-	179.4	179.5	-	179.5
	546.8	114.8	661.6	496.4	113.3	609.7
<b>Retail</b>						
Energy Supply	3,043.6	47.4	3,091.0	3,125.9	46.2	3,172.1
Enterprise	190.8	46.1	236.9	205.4	72.3	277.7
Energy-related Services	39.6	62.6	102.2	58.7	54.3	113.0
	3,274.0	156.1	3,430.1	3,390.0	172.8	3,562.8
<b>Wholesale</b>						
Energy Portfolio Management and Electricity Generation	7,374.2	1,287.2	8,661.4	9,892.3	1,476.4	11,368.7
Gas Storage	7.6	126.9	134.5	2.8	100.3	103.1
Gas Production	16.6	108.1	124.7	0.9	79.4	80.3
	7,398.4	1,522.2	8,920.6	9,896.0	1,656.1	11,552.1
Corporate unallocated	43.6	120.9	164.5	49.1	112.0	161.1
<b>Total</b>	11,262.8	1,914.0	13,176.8	13,831.5	2,054.2	15,885.7

Revenue from the Group's investment in Scotia Gas Networks Limited, the Group's share being £279.8m (2015 - £262.7m, March 2016 - £549.8m) is not recorded in the revenue line in the income statement

	Year ended 31 March 2016		Total revenue
	External revenue	Intra-segment revenue	
	£m	£m	£m
<b>Networks</b>			
Electricity Distribution	689.0	243.6	932.6
Electricity Transmission	367.9	-	367.9
	1,056.9	243.6	1,300.5
<b>Retail</b>			
Energy Supply	7,548.3	83.2	7,631.5
Enterprise	455.1	96.6	551.7
Energy-related Services	118.2	112.9	231.1
	8,121.6	292.7	8,414.3
<b>Wholesale</b>			
Energy Portfolio Management and Electricity Generation	19,525.3	3,780.6	23,305.9
Gas Storage	5.7	214.3	220.0
Gas Production	2.2	144.9	147.1
	19,533.2	4,139.8	23,673.0
Corporate unallocated	69.6	258.9	328.5
<b>Total</b>	28,781.3	4,935.0	33,716.3

# Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

## 5. Segmental information (continue)

### (b) Operating profit by segment

	Six months ended 30 September 2016				Total £m
	Adjusted operating profit reported to the Board £m	Joint Venture/ Associate share of interest and tax (i) £m	Before exceptional items and certain re- measurements £m	Exceptional items and certain re- measurements £m	
<b>Networks</b>					
Electricity Distribution	181.0	-	181.0	-	181.0
Electricity Transmission	135.6	-	135.6	-	135.6
Gas Distribution	139.3	(70.0)	69.3	23.8	93.1
	455.9	(70.0)	385.9	23.8	409.7
<b>Retail</b>					
Energy Supply	47.1	-	47.1	-	47.1
Enterprise	4.8	-	4.8	-	4.8
Energy-related Services	8.6	-	8.6	-	8.6
	60.5	-	60.5	-	60.5
<b>Wholesale</b>					
Energy Portfolio Management and Electricity Generation	123.2	(16.6)	106.6	162.1	268.7
Gas Storage	(4.3)	-	(4.3)	-	(4.3)
Gas Production	2.1	-	2.1	-	2.1
	121.0	(16.6)	104.4	162.1	266.5
Corporate unallocated	(0.2)	-	(0.2)	-	(0.2)
<b>Total</b>	<b>637.2</b>	<b>(86.6)</b>	<b>550.6</b>	<b>185.9</b>	<b>736.5</b>

	Six months ended 30 September 2015				Total £m
	Adjusted operating profit reported to the Board £m	Joint Venture/ Associate share of interest and tax (i) £m	Before exceptional items and certain re- measurements £m	Exceptional items and certain re- measurements £m	
<b>Networks</b>					
Electricity Distribution	178.6	-	178.6	-	178.6
Electricity Transmission	142.4	-	142.4	-	142.4
Gas Distribution	130.6	(72.5)	58.1	2.4	60.5
	451.6	(72.5)	379.1	2.4	381.5
<b>Retail</b>					
Energy Supply	73.8	-	73.8	-	73.8
Enterprise	16.5	-	16.5	-	16.5
Energy-related Services	11.2	-	11.2	-	11.2
	101.5	-	101.5	-	101.5
<b>Wholesale</b>					
Energy Portfolio Management and Electricity Generation	141.8	(10.3)	131.5	(278.4)	(146.9)
Gas Storage	3.7	-	3.7	-	3.7
Gas Production	14.1	-	14.1	-	14.1
	159.6	(10.3)	149.3	(278.4)	(129.1)
Corporate unallocated	(10.8)	-	(10.8)	-	(10.8)
<b>Total</b>	<b>701.9</b>	<b>(82.8)</b>	<b>619.1</b>	<b>(276.0)</b>	<b>343.1</b>

## Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

### 5. Segmental information (continued)

#### (b) Operating profit by segment (continued)

	Year ended 31 March 2016				Total
	Adjusted operating profit reported to the Board	Joint Venture/ Associate share of interest and tax (i)	Before exceptional items and certain re-measurements	Exceptional items and certain re-measurements	
	£m	£m	£m	£m	£m
<b>Networks</b>					
Electricity Distribution	370.7	-	370.7	-	370.7
Electricity Transmission	287.2	-	287.2	-	287.2
Gas Distribution	268.7	(142.0)	126.7	48.6	175.3
	926.6	(142.0)	784.6	48.6	833.2
<b>Retail</b>					
Energy Supply	398.9	-	398.9	-	398.9
Enterprise	40.9	-	40.9	-	40.9
Energy-related Services	15.4	-	15.4	(17.8)	(2.4)
	455.2	-	455.2	(17.8)	437.4
<b>Wholesale</b>					
Energy Portfolio Management and Electricity Generation	436.3	(24.7)	411.6	(586.4)	(174.8)
Gas Storage	4.0	-	4.0	(150.9)	(146.9)
Gas Production	2.2	-	2.2	(161.8)	(159.6)
	442.5	(24.7)	417.8	(899.1)	(481.3)
Corporate unallocated	0.1	-	0.1	(4.0)	(3.9)
<b>Total</b>	1,824.4	(166.7)	1,657.7	(872.3)	785.4

(i) The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives and tax from joint ventures and associates and after adjusting for exceptional items and certain re-measurements (note 6). The share of Scotia Gas Networks Limited interest includes loan stock interest payable to the consortium shareholders. The Group has accounted for its 50% share of this, £11.5m (2015 - £13.2m, March 2016 - £24.3m), as finance income (note 7).

# Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

## 6. Exceptional items and certain re-measurements

Year ended 31 March 2016 £m		Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m
	<b>Exceptional items (i)</b>		
(892.5)	Asset impairments and related charges	-	(25.3)
(54.9)	Provisions for restructuring and other liabilities	-	(16.2)
(947.4)		-	(41.5)
57.6	Net gains on disposals of businesses and other assets	-	39.3
(889.8)		-	(2.2)
46.7	Share of effect of change in UK corporation tax on deferred tax liabilities and assets of associate and joint venture investments	23.2	-
(843.1)	<b>Total exceptional items</b>	23.2	(2.2)
	<b>Certain re-measurements (ii)</b>		
(31.1)	Movement on operating derivatives	162.1	(276.2)
14.3	Movement on financing derivatives	(20.2)	(11.3)
1.9	Share of movement on derivatives in jointly controlled entities (net of tax)	0.6	2.4
(14.9)		142.5	(285.1)
(858.0)	Exceptional items before taxation	165.7	(287.3)
	<b>Taxation (iii)</b>		
41.5	Effect of change in UK corporation tax rate on deferred tax assets and liabilities	51.8	-
227.6	Taxation on other exceptional items	-	8.3
269.1		51.8	8.3
3.4	Taxation on certain re-measurements	(28.4)	55.2
272.5	<b>Taxation</b>	23.4	63.5
(585.5)	<b>Exceptional items after taxation</b>	189.1	(223.8)

Exceptional items are disclosed across the following categories within the income statement:

Year ended 31 March 2016 £m		Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m
	<b>Cost of sales:</b>		
(287.0)	Coal-fired Generation related provisions and charges	-	(41.5)
(326.4)	Gas-fired Generation related charges	-	-
(31.1)	Movement on operating derivatives (note 16)	162.1	(276.2)
(644.5)		162.1	(317.7)
	<b>Operating costs:</b>		
(161.8)	Gas Production (E&P) related charges	-	-
(150.9)	Gas Storage related charges	-	-
(21.3)	Other exceptional provisions and charges	-	-
(334.0)		-	-
	<b>Operating income:</b>		
57.6	Net gains on disposals of businesses and other assets	-	39.3
	<b>Joint ventures and associates:</b>		
46.7	Effect of change in UK corporation tax on deferred tax liabilities and assets	23.2	-
1.9	Movement on derivatives (net of tax)	0.6	2.4
48.6		23.8	2.4
(872.3)	<b>Operating profit/(loss)</b>	185.9	(276.0)
	<b>Finance costs</b>		
14.3	Movement on financing derivatives (note 16)	(20.2)	(11.3)
(858.0)	<b>Profit/(loss) before taxation</b>	165.7	(287.3)

### (i) Exceptional items

In the previous financial year, a number of exceptional charges and credits were recognised following impairment reviews and disposal transactions. Details of those exceptional items are noted. Other than the impact of the change in UK corporation tax rates noted at (iii), below, no exceptional charges or credits have been recorded in the period to 30 September 2016.



## Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

### 6. Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

#### Exceptional items and certain re-measurements (continued)

##### (i) Exceptional items (continued)

(i) Coal-fired Generation. On 20 May 2015, the Group announced that operations at Ferrybridge would cease at 31 March 2016 and consequently exceptional charges of £72.0m were recognised (£41.5m recognised at 30 September 2015). On 30 March 2016, the Group announced that operations at Fiddler's Ferry would continue and that SSE would enter 'all or part of' the capacity at Fiddler's Ferry into any 2017/18 Capacity Market auction. Despite this, further exceptional charges were recognised totalling £215.0m.

(ii) Gas-fired Generation. Following the failure of Peterhead Power Station to win a capacity contract under the Capacity Market Auction for 2019/20 and the announcement, on 25 November 2015, that the UK Government was withdrawing funding support for the proposed carbon capture and storage project at Peterhead Power Station, exceptional charges of £129.3m have been recognised in relation to the assets at the site. In addition, further impairment charges of £197.1m in relation to the Group's other main Gas-fired Generation plants in Great Britain (Medway, Keadby and Marchwood) were recognised.

(iii) Gas Production. Impairment of the Group's Gas Exploration and Production assets in the North Sea has been recognised predominately due to declining wholesale gas prices. The exceptional charges recognised include (£121.2m) related to the impairment of Greater Laggan field assets and other E&P assets at Sean, Lomond, Bacton and ECA (£40.6m).

(iv) Gas Storage. Current and forecast demand for gas storage in Great Britain continued to be impacted by reduced short term price volatility and seasonal spreads in the wholesale gas market. Exceptional charges of £150.9m have been recognised in relation to both the group's assets Hornsea (Atwick) and Aldbrough.

(v) Other charges. Other exceptional charges of £21.3m were recognised in relation to impairment of system development projects, restructuring charges and exit costs associated with the strategic exit from certain non-core activities.

The Group recognised £57.6m of exceptional net credits arising from the disposal of three onshore wind development sites to Blue Energy (£39.3m) and the disposal of its interest in the Galloper offshore wind development (£18.3m).

##### (ii) Certain re-measurements

The Group enters into forward commodity purchase contracts to meet the future demands of its Energy Supply business and to optimise the value of its Generation and other Wholesale assets. Certain of these contracts are determined to be derivative financial instruments under IAS 39 and as such are required to be recorded at their fair value. Changes in the fair value of those commodity contracts designated as IAS 39 financial instruments are reflected in the income statement (as part of 'certain re-measurements').

The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments. The Group will recognise the underlying value of these contracts as the relevant commodity is delivered, which will predominately be within the subsequent 12 to 18 months. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts. The re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category also includes income statement movement on financing derivatives (and hedged items) as described in Note 16.

##### (iii) Change in UK corporation tax rates

The Finance (no.2) Act 2016 which received royal assent on 15 September 2016 enacted a Corporation tax rate of 17% from 1 April 2020, this adds to the Finance (No.2) Act 2015 (substantively enacted in the prior financial period), which enacted a rate of 19% (currently 20%) from 1 April 2017. As the Finance (no.2) Act 2016 has been substantively enacted it has the effect of reducing the Group's deferred tax liability by £98.2m, including the impact of changes recognised in the statement of other comprehensive income (£46.4m).

# Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

## 7. Net finance costs

Year ended 31 March 2016		Six months ended 30 September 2016	Six months ended 30 September 2015
£m		£m	£m
	<b>Finance income:</b>		
4.7	Interest income from short term deposits	1.0	4.7
9.0	Foreign exchange translation of monetary assets and liabilities	19.8	-
	Other interest receivable:		
24.3	Scotia Gas Networks loan stock	11.5	13.2
18.8	Other joint ventures and associates	16.4	19.5
45.0	Other receivable	11.8	10.2
88.1		39.7	42.9
101.8	<b>Total finance income</b>	60.5	47.6
	<b>Finance costs:</b>		
(27.9)	Bank loans and overdrafts	(15.9)	(12.8)
(257.1)	Other loans and charges	(134.0)	(133.6)
(20.4)	Interest on net pension scheme liabilities	(6.7)	(10.3)
(15.7)	Notional interest arising on discounted provisions	(7.4)	(1.7)
(34.7)	Finance lease charges	(16.5)	(16.2)
47.6	Less: interest capitalised	19.6	26.0
(308.2)	<b>Total finance costs</b>	(160.9)	(148.6)
14.3	Movement on financing derivatives and exceptional items	(20.2)	(11.3)
(192.1)	<b>Net finance costs</b>	(120.6)	(112.3)
	Presented as:		
101.8	Finance income	60.5	47.6
(293.9)	Finance costs	(181.1)	(159.9)
(192.1)	<b>Net finance costs</b>	(120.6)	(112.3)

Adjusted net finance costs are arrived at after the following adjustments:

Year ended 31 March 2016		Six months ended 30 September 2016	Six months ended 30 September 2015
£m		£m	£m
(192.1)	Net finance costs	(120.6)	(112.3)
	(add)/less:		
	Share of interest from joint ventures and associates:		
(24.3)	Scotia Gas Networks loan stock	(11.5)	(13.2)
(102.5)	Other jointly controlled entities and associates	(55.6)	(50.2)
(126.8)		(67.1)	(63.4)
20.4	Interest on pension scheme liabilities	6.7	10.3
1.9	<b>Share of interest on net pension liabilities in joint ventures</b>	(0.6)	1.0
(14.3)	Movement on financing derivatives (note 16)	20.2	11.3
(310.9)	<b>Adjusted net finance costs</b>	(161.4)	(153.1)
15.7	Notional interest arising on discounted provisions	7.4	6.9
34.7	Finance lease charges	16.5	16.2
(124.6)	Hybrid coupon payment	(73.9)	(12.5)
(385.1)	<b>Adjusted net finance costs for interest cover calculations</b>	(211.4)	(142.5)

## Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

### 8. Taxation

The income tax expense reflects the anticipated effective rate of tax on profits before taxation for the Group for the year ending 31 March 2017, taking account of the movement in the deferred tax provision in the period so far as it relates to items recognised in the income statement. The reported tax rate on the profit before tax before exceptional items and certain re-measurements is 19.8% (2015 – 17.2%, March 2016 – 19.3%). The reported tax rate on the profit before tax after exceptional items, including the effect of changes in tax rate, and certain re-measurements was 10.6% (2015 – 11.1%, March 2016 – 1.4%).

The total adjusted effective rate of tax on profits before taxation excluding exceptional items, certain re-measurements, deferred tax associated with interest on net pension liabilities under IAS 19R and adjusted for tax on associates and jointly controlled entities for the period can be represented as follows:

Year ended 31 March 2016		Six months ended 30 September 2016	Six months ended 30 September 2015
	<b>Adjusted effective rate:</b>		
12.8%	Current tax	12.0%	14.6%
8.8%	Deferred tax	6.0%	5.1%
21.6%		18.0%	19.7%

### 9. Dividends

#### Ordinary dividends

Year ended 31 March 2016	Settled via scrip £m	Pence per ordinary share		Six months ended 30 September 2016	Settled via scrip £m	Pence per ordinary share	Six months ended 30 September 2015	Settled via scrip £m	Pence per ordinary share
Total £m	£m			Total £m	£m		Total £m	£m	
-	-	-	Final – year ended 31 March 2016	629.5	142.6	62.5	-	-	-
270.5	16.3	26.9	Interim – year ended 31 March 2016	-	-	-	-	-	-
613.5	159.5	61.8	Final – year ended 31 March 2015	-	-	-	613.5	159.5	61.8
884.0	175.8			629.5	142.6		613.5	159.5	

The final dividend of 62.5p per ordinary share declared in the financial year ended 31 March 2016 (2015 – 61.8p) was approved at the Annual General Meeting on 21 July 2016 and was paid to shareholders on 23 September 2016. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the interim cash dividend under the terms of the Company's scrip dividend scheme.

An interim dividend of 27.4p per ordinary share (2015 – 26.9p) has been proposed and is due to be paid on 17 March 2017 to those shareholders on the SSE plc share register on 20 January 2017. The proposed interim dividend has not been included as a liability in these financial statements. A scrip dividend will be offered as an alternative.

# Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

## 10. Earnings per share

### Basic earnings per share

The calculation of basic earnings per share at 30 September 2016 is based on the net profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period ended 30 September 2016. All earnings are from continuing operations.

### Adjusted earnings per share

Adjusted earnings per share has been calculated by excluding the charge for deferred tax, the interest on net pension liabilities under IAS 19R and the impact of exceptional items and certain re-measurements.

Year ended 31 March 2016			Six months ended 30 September 2016			Six months ended 30 September 2015	
Earnings £m	per share pence		Earnings £m	per share pence		Earnings £m	per share pence
460.6	46.1	<b>Basic</b>	<b>476.2</b>	<b>47.2</b>		192.7	19.4
585.5	58.5	Exceptional items and certain re-measurements (note 6)	<b>(189.1)</b>	<b>(18.7)</b>		223.8	22.5
1,046.1	104.6	Basic excluding exceptional items and certain re-measurements	<b>287.1</b>	<b>28.5</b>		416.5	41.9
		<i>Adjusted for:</i>					
20.4	2.0	Interest on net pension scheme liabilities (note 7)	<b>6.7</b>	<b>0.7</b>		10.3	1.0
1.9	0.2	Share of interest on net pension liabilities in joint venture (note 7)	<b>(0.6)</b>	<b>(0.1)</b>		1.0	0.1
121.3	12.1	Deferred tax	<b>24.6</b>	<b>2.4</b>		29.6	3.0
5.8	0.6	Deferred tax from share of joint ventures	<b>27.0</b>	<b>2.7</b>		(1.3)	(0.1)
1,195.5	119.5	<b>Adjusted</b>	<b>344.8</b>	<b>34.2</b>		456.1	45.9
460.6	46.1	<b>Basic</b>	<b>476.2</b>	<b>47.2</b>		192.7	19.4
-	(0.1)	Dilutive effect of convertible debt and share options	-	-		-	(0.1)
460.6	46.0	<b>Diluted</b>	<b>476.2</b>	<b>47.2</b>		192.7	19.3

The weighted average number of shares used in each is as follows:

Year ended 31 March 2016			Six months ended 30 September 2016			Six months ended 30 September 2015	
Number of shares (millions)			Number of shares (millions)			Number of shares (millions)	
1,000.0	For basic and adjusted earnings per share		<b>1,008.0</b>			993.8	
1.2	Effect of exercise of share options		<b>1.7</b>			2.6	
1,001.2			<b>1,009.7</b>			996.4	

# Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

## 11. Notes to the Consolidated Cash Flow Statement

### (a) Reconciliation of Group operating profit to cash generated from operations

Year ended 31 March 2016		Six months ended 30 September 2016	Six months ended 30 September 2015
£m		£m	£m
585.2	Profit for the period/year	550.1	205.2
	Add back:		
8.1	Taxation	65.8	25.6
192.1	Net finance costs	120.6	112.3
785.4	<b>Operating profit</b>	736.5	343.1
(204.8)	Less: share of profit of ventures and associates	(99.8)	(79.7)
580.6	Operating profit before joint ventures and associates	636.7	263.4
	Add/(less):		
31.1	Movement on operating derivatives	(162.1)	276.2
(35.9)	Pension service charges net of contributions paid	(28.0)	(26.3)
889.8	Exceptional charges	-	2.2
676.8	Depreciation of assets	369.1	323.6
2.3	Amortisation and impairment of intangible assets	1.2	1.5
6.7	Other fixed asset impairments	-	-
(7.8)	Release of provisions	-	-
(17.9)	Release of deferred income	(9.3)	(8.9)
16.5	Charge in respect of employee share awards (before tax)	6.6	8.7
(30.1)	(Profit)/loss on disposal of assets, investments and businesses	(19.9)	(40.0)
2,112.1	<b>Cash generated from operations before working capital movements</b>	794.3	800.4

### (b) Reconciliation of net increase in cash and cash equivalents to movement in adjusted net debt and hybrid capital

Year ended 31 March 2016		Six months ended 30 September 2016	Six months ended 30 September 2015
£m		£m	£m
(1,151.9)	Increase/(Decrease) in cash and cash equivalents	(102.3)	166.3
	(Add)/less:		
1,161.4	Redemption of hybrid capital	-	-
(1,070.1)	New borrowings	(1,089.5)	(541.1)
77.7	Repayment of borrowings	910.3	5.5
(94.8)	Non cash movement on borrowings	(84.9)	(41.0)
50.1	(Decrease)/increase in cash held as collateral and other short term loans	(33.3)	41.6
200.7	Balances due to partners in Clyde Windfarm (Scotland) Limited	(200.7)	-
(826.9)	<b>Movement in adjusted net debt and hybrid capital</b>	(600.4)	(368.7)

Other movement on borrowings includes non-cash revaluation of fair value items, exchange movements and accretion of index-linked bonds and minimum payments under finance leases. Cash held as collateral refers to amounts deposited on commodity trading exchanges which are reported within trade and other receivables on the face of the balance sheet. The balances due to partners in Clyde Windfarm (Scotland) were no longer included in reported borrowings from 13 May 2016 following change in consolidation basis as described at Note 4.2(v) with the movement being shown in repayment of borrowings.

# Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

## 12. Acquisitions, disposals and held for sale

### Significant disposals

On 21 January 2016, the company sold a 10% share in Beatrice Offshore Windfarm Limited to CI Beatrice I Limited and CI Beatrice II Limited split equally between the two entities for total consideration of £32.7m of which £22.2m was deferred. The deferred element of the consideration was contingent on certain events occurring after the balance sheet date. Following confirmation of those events, in May 2016, the Group received cash of £32.7m which also included an element of deferred consideration associated with a prior divestment (£10.5m). The Group consequently recognised a £20.3m gain on disposal in the current year. This gain was deemed not to be exceptional due to the value not meeting the Group's stated criteria (see Note 2(ii)).

On 26 May 2016, the Group disposed of £43.5m of smart meter assets to Meter Fit 10 Limited for cash consideration equal to book value resulting in nil gain/(loss) on disposal and entered into a contract with the purchaser for meter asset services. The assets disposed were held for sale at 31 March 2016.

In the period to 30 September 2015, the Group sold and recognised a gain on the disposal of three onshore wind development sites (98MW) to Blue Energy of £39.3m based on deferred and cash consideration of £52.4m. In addition the company also received £0.7m for sales of property assets, resulting in nil gain/ (loss) on disposal.

In the financial year to 31 March 2016, in addition to the disposals noted in the period to 30 September 2015, the Group also sold its stake in the Galloper Offshore Windfarm Limited to its co-venture partner RWE Innogy for cash consideration of £18.3m recording an exceptional gain of the same amount. This was deemed exceptional due to the investment having previously being impaired following the March 2014 announcement on the Group's offshore investment strategy. The Group also sold a 49.9% stake in its wholly owned operational 349.6MW Clyde Wind Farm to for total cash consideration of £339.2 million. The stake held by the co-investors was deemed at 31 March 2016 to be that of a non-controlling interest which necessitated that the £128.6m gain on the part disposal was recognised directly in equity instead of in the income statement. However, following the waiver by the Group on 13 May 2016 of certain contractual entitlements, the Group's ongoing interest in the wind farm vehicle is that of a joint venture equity holder. Further detail on this key financial judgement is included at Note 4.2(v).

### Held for sale assets

A number of assets and liabilities associated with activities are deemed available for immediate sale and have been separately presented on the face of the balance sheet at 30 September 2016. The assets have been stated at their fair value less costs to sell.

March 2016 £m		Networks 2016 £m	Enterprise 2016 £m	Total September 2016 £m	Total September 2015 £m
-	Property plant and equipment	-	-	-	47.4
27.9	Other intangible	-	-	-	10.3
-	Equity investments in joint ventures and associates	214.4	-	214.4	-
-	Loans to joint ventures and associates	89.1	-	89.1	-
27.9	<b>Non-current assets</b>	<b>303.5</b>	<b>-</b>	<b>303.5</b>	<b>57.7</b>
106.3	Trade and other receivables	-	103.0	103.0	40.0
106.3	<b>Current assets</b>	<b>-</b>	<b>103.0</b>	<b>103.0</b>	<b>40.0</b>
134.2	<b>Total assets</b>	<b>303.5</b>	<b>103.0</b>	<b>406.5</b>	<b>97.7</b>
(11.2)	Trade and other payables	-	(6.6)	(6.6)	-
(5.9)	Provisions	-	-	-	-
(17.1)	<b>Current liabilities</b>	<b>-</b>	<b>(6.6)</b>	<b>(6.6)</b>	<b>-</b>
(97.9)	Loans and borrowings	-	(104.8)	(104.8)	-
-	Deferred tax liabilities	-	-	-	(0.3)
(97.9)	<b>Non-current liabilities</b>	<b>-</b>	<b>(104.8)</b>	<b>(104.8)</b>	<b>(0.3)</b>
(115.0)	<b>Total liabilities</b>	<b>-</b>	<b>(111.4)</b>	<b>(111.4)</b>	<b>(0.3)</b>
19.2	<b>Net assets/(liabilities)</b>	<b>303.5</b>	<b>(8.4)</b>	<b>295.1</b>	<b>97.4</b>

The Enterprise assets and liabilities identified as held for sale at 30 September 2016 relate to the group's three remaining UK PFI street lighting companies. On 21 July 2016 the Group announced it had signed a sale and purchase agreement with DIF Infrastructure IV for the equity interest in these companies. The sale process for these transactions is expected to be completed in the second half of the financial year.

## Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

### 12. Acquisitions, disposals and held for sale (continued)

#### Held for sale assets (continued)

The networks assets in the table relate to the group's 16.7% equity stake in Scotia Gas Networks (SGN). On 17 October 2016, the Group announced it had entered into an agreement to sell this stake to wholly owned subsidiaries of the Abu Dhabi Investment Authority (ADIA), for a headline consideration, before costs and adjustments, of £621.0m. Cash proceeds were received on 26 October 2016 and following the divestment, the Group will retain a 33.3% equity stake in SGN. The contribution to the Group's results in the periods reported in this statement from the divested 16.7% stake is set out below.

Year ended 31 March 2016 £m		Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m
89.7	Share of operating profit	46.5	43.6
(36.7)	Share of interest	(17.5)	(19.1)
0.8	Share of movement on derivatives	0.2	1.0
4.7	Share of tax	1.8	(5.3)
<b>58.5</b>	<b>Share of profit on joint ventures and associates</b>	<b>31.0</b>	<b>20.2</b>
<b>26.4</b>	<b>Share of other comprehensive income/(loss)</b>	<b>(31.4)</b>	<b>(4.8)</b>

#### Total disposals

The following table summarises all businesses and assets disposed of during the financial year including the significant disposals referred to above. The table differentiates the disposals of previously 'held for sale' assets and businesses from other disposals which include other assets and investments disposed of as part of the normal course of business.

March 2016 £m		September 2016 £m	September 2015 £m
	Net proceeds of disposal		
137.0	- Previously held for sale	43.5	52.4
175.4	- Not held for sale	-	0.7
-	- Receipt of deferred consideration on Beatrice divestment	32.7	-
	Less: Deferred consideration		
-	- Previously held for sale	-	(43.0)
<b>312.4</b>	<b>Proceeds of disposal per cash flow statement</b>	<b>76.2</b>	<b>10.1</b>
200.7	Cash from Clyde Windfarm (Scotland) Ltd transaction recorded as new borrowings (i)	-	-
<b>513.1</b>	<b>Total cash proceeds</b>	<b>76.2</b>	<b>10.1</b>

(i) prior to change in designation at 13 May 2016 (see note 4.2(v))

## Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

### 13. Loans and other borrowings

March 2016 £m		September 2016 £m	September 2015 £m
	<b>Current</b>		
898.8	Other short-term loans	313.5	712.6
24.5	Obligations under finance leases	25.3	21.7
923.3		338.8	734.3
	<b>Non current</b>		
5,969.2	Loans	6,818.6	5,644.8
276.3	Obligations under finance leases	265.3	286.8
6,245.5		7,083.9	5,931.6
7,168.8	<b>Total loans and borrowings</b>	7,422.7	6,665.9
(360.2)	Cash and cash equivalents	(257.9)	(1,678.4)
6,808.6	<b>Unadjusted net debt</b>	7,164.8	4,987.5
	<i>Add/(less):</i>		
2,209.7	Hybrid capital (note 14)	2,209.7	3,371.1
(300.8)	Obligations under finance leases	(290.6)	(308.5)
(121.8)	Cash held as collateral	(88.5)	(113.3)
(200.7)	Balances due to partners in Clyde Windfarm (Scotland) Limited	-	-
8,395.0	<b>Adjusted Net Debt and Hybrid Capital</b>	8,995.4	7,936.8

SSE's adjusted net debt and hybrid capital was £9.0bn at 30 September 2016, compared with £8.4bn on 31 March in 2016 and £7.9bn on 30 September 2015. The level of net debt and hybrid capital reflects SSE's ongoing investment programme and, in the six months to 30 September 2016, includes an increase related to exchange rate movements following the Brexit vote, which had the impact of increasing the value of SSE's foreign denominated borrowings by £270.7m.

Proceeds of £501.0m from the US Private Placement arranged in March 16 were received in over the course of the six months to 30 September 2016. The £300m EIB bank facility signed in March 16 was fully drawn on 20 May 2016 as a 10 year fixed rate term loan at a rate of 2.076%. The US private placement and EIB facility were used to repay £700m of maturing floating rate term loans during the period. One year extension options relating to the £1.5bn of committed facilities were invoked in the period with the facilities now maturing in July 2021 (£1.3bn) and November 2021 (£200m).

Adjusted net debt and hybrid capital is stated after removing obligations on finance leases and cash held as collateral in line with the Group's presentation basis which is explained at Note 2(i). Cash held as collateral refers to amounts deposited on commodity trading exchanges which are reported within Trade and other receivables on the face of the balance sheet.

In addition the Group has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into Sterling). The Group has £1.5bn (September 2015 - £1.5bn) of committed credit facilities in place, maturing in November 2021 (£200m) and July 2021 (£1.3bn). At 30 September 2016, £1.2bn of these facilities remains undrawn.



# Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

## 14. Hybrid Capital

March 2016		September 2016	September 2015
£m	Perpetual subordinated capital securities	£m	£m
427.2	USD 700m 5.625% perpetual subordinated capital securities (i)	427.2	427.2
598.2	EUR 750m 5.625% perpetual subordinated capital securities (i)	598.2	598.2
748.3	GBP 750m 3.875% perpetual subordinated capital securities (ii)	748.3	748.3
436.0	EUR 600m 2.375% perpetual subordinated capital securities (ii)	436.0	436.0
-	GBP 750m 5.453% perpetual subordinated capital securities (iii)	-	744.5
-	EUR 500m 5.025% perpetual subordinated capital securities (iii)	-	416.9
2,209.7		2,209.7	3,371.1

The purpose of the outstanding hybrid capital bonds issues is to strengthen SSE's capital base and complement other sources of finance. Further commentary is provided in the Capital Management section in Note 16.

### (i) 18 September 2012 €750m and US\$700m Hybrid Capital Bonds

Each bond has no fixed redemption date but the Company may, at its sole discretion, redeem all, but not part, of these capital securities at their principal amount. The date for the discretionary redemption of the capital issued on 18 September 2012 is 1 October 2017 and every five years thereafter.

For the €750m capital issued on 18 September 2012, coupon payments are expected to be made annually in arrears on 1 October in each year. For the US\$700m capital issued on 18 September 2012, coupon payments are expected to be made bi-annually in arrears on 1 April and 1 October each year.

### (ii) 10 March 2015 £750m and €600m hybrid Capital Bonds

On 10 March 2015, the Company issued £750m and €600m hybrid capital bonds with no fixed redemption date, but the Company may, at its sole discretion, redeem all, but not part, of the capital securities at their principal amount. The date for the first potential discretionary redemption of the £750m hybrid capital bond is 10 September 2020 and then these can occur every 5 years thereafter. The date for the first discretionary redemption of the €600m hybrid capital bond is 1 April 2021 and then these can occur every 5 years thereafter.

For the £750m capital issued the first coupon payment was made on 10 September 2016 and then annually in arrears thereafter, and for the €600m capital issued on 10 March 2016, the first coupon payment was made on 1 April 2016 and then annually in arrears thereafter.

### (iii) 20 September 2010 £750m and €500m Hybrid Capital Bonds

On 1 October 2015 the company redeemed the £750m and €500m hybrid capital bonds issued on 20 September 2010. The redemption was funded by the proceeds of the £750m and €600m hybrid capital bonds issued on 10 March 2015.

### (iv) Coupon Payments

In relation to the \$700m hybrid capital bond, coupon payments of £11.5m (2015 - £12.4m) were made on 1 April 2016 and of £11.8m (2015 - £12.5m) on 1 October 2016. In relation to the €750m hybrid capital bond a coupon payment of £33.6m (2015 - £36.2m) was made on 1 October 2016.

The hybrid capital bonds issued on 10 March 2015 were both issued with long first coupon payment dates, for the €600m hybrid capital bond a first coupon payment of £18.6m was paid on 1 April 2016 and for the £750m hybrid capital bond a first coupon payment of £43.8m was paid on 10 September 2016.

The coupon payments in the six month period to 30 September 2016 consequently totalled £73.9m with a further £45.4m being paid on 1 October 2016.

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.

# Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

## 15. Share capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 1 April 2016	1,007.6	503.8
Issue of shares	9.4	4.7
<b>At 30 September 2016</b>	<b>1,017.0</b>	<b>508.5</b>

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.

Shareholders were able to elect to receive ordinary shares in place of the final dividend for the year to 31 March 2016 of 62.5p (61.8p – September 2015 in relation to the final dividend for the year to 31 March 2015; 26.9p – March 2016, in relation to the interim dividend for the year to 31 March 2016) per ordinary share under the terms of the Company's scrip dividend scheme. This resulted in the issue of 9,395,092 (September 2015 – 10,600,639, March 2016 – 1,172,973) new fully paid ordinary shares.

The Company issued 0.1m shares (2015 – 0.2m, March 2016 – 2.8m) during the period under the savings-related share option schemes, and discretionary share option schemes for a consideration of £0.9m (2015 – £1.1m, March 2016 – £25.0m).

During the period, on behalf of the Company, the employee share trust purchased 0.3 million shares (2015 – 0.4 million, March 2016 – 0.8 million) for a consideration of £5.0m (2015 – £7.4m, March 2016 – £11.1m) to be held in trust for the benefit of employee share schemes.

## 16. Capital and Financial Risk Management

### Capital management

The Board's policy is to maintain a strong balance sheet and credit rating so as to support investor counterparty and market confidence and to underpin future development of the business. The Group's credit ratings are also important in maintaining an efficient cost of capital and in determining collateral requirements throughout the Group. Based on latest assessment, the Group's long term credit rating was A- negative outlook for Standard & Poor's, and was A3 stable outlook for Moody's. Further detail of the capital management objectives, policies and procedures are included in the 'Financial management and balance sheet' section of the Strategy and Finance section of this report.

The maintenance of a medium-term corporate model is a key control in monitoring the development of the Group's capital structure, and allows for detailed scenarios and sensitivity testing. Key ratios drawn from this analysis underpin regular updates to the Board and include the ratios used by the rating agencies in assessing the Group's credit ratings.

The Group has the option to purchase its own shares on the market; the timing of these purchases depends on market prices and economic conditions. The use of share buy-backs shall be implemented if the Directors believe that doing so would be in the best interests of shareholders. Following the disposal of 16.7% of the group's stake in Scotia Gas Networks, this method of returning capital to shareholders could have the advantage of offsetting the earnings per share (EPS) reduction resulting from the potential disposal and reducing the total dividend outflow in future years.

The Group's debt requirements are principally met through issuing bonds denominated in Sterling and Euros as well as private placements and medium term bank loans including those with the European Investment Bank. In addition the Group has issued hybrid capital securities which bring together features of both debt and equity, are perpetual and subordinate to all senior creditors. The Group has £1.5bn of committed bank facilities which relate to the Group's revolving credit and bilateral facilities that can be accessed at short notice for use in managing the Group's short term funding requirements; however, these committed facilities remain undrawn for the majority of the time.

The Group'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 this capital management approach during the period.

### Financial risk management

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Risk and Trading Committee, which reports to the Executive Committee, comprises the two Executive Directors and senior managers from the Energy Portfolio Management, Generation, Retail, Corporate and Finance functions. Its specific remit is to support the Group's risk management responsibilities by reviewing the strategic, market, credit, operational and liquidity risks and exposures that arise from the Group's energy portfolio management, generation, energy supply and treasury operations. The membership and deliberations of the Risk and Trading Committee are designed to ensure strict business separation requirements are maintained. The specific financial risks which involve the use of financial instruments are the Group's commodity, currency, credit, liquidity and interest rate risks.

## Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

### 16. Capital and Financial Risk Management (continued)

#### Financial risk management

Exposure to the commodity, currency and interest rate risks referred to 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 period remain as stated in the Group's financial statements at March 2016.

In the six months to 30 September 2016, the Group continued to be exposed to difficult economic conditions. In reference to credit risk, the impairment provision for credit losses remained at the same level as March 2016. The Group has continued to commit significant internal resource to managing credit risk in the period.

The Group's policy in relation to liquidity risk continues to be to ensure, in so 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 its reputation. Further detail is noted under 'capital management' above.

For financial reporting purposes, the Group has classified derivative financial instruments into two categories, operating derivatives and financing derivatives. Operating derivatives relate to qualifying commodity contracts which includes certain contracts for electricity, gas, oil, coal and carbon. Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts. Non-hedge accounted contracts are treated as held for trading.

The net movement reflected in the interim income statement can be summarised thus:

Year ended 31 March 2016 £m		Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m
	<b>Operating derivatives</b>		
(1,375.4)	Total result on operating derivatives (i)	(501.6)	(1,253.7)
1,344.3	Less: amounts settled (ii)	663.7	977.5
(31.1)	<b>Movement in unrealised derivatives</b>	162.1	(276.2)
	<b>Financing derivatives (and hedged items)</b>		
(214.9)	Total result on financing derivatives (i)	8.6	(97.6)
229.2	Less: amounts settled (ii)	(28.8)	86.3
14.3	<b>Movement in unrealised derivatives</b>	(20.2)	(11.3)
(16.8)	<b>Total</b>	141.9	(287.5)

(i) Total result on derivatives (and hedged items) 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 period represent the result on derivatives transacted which have matured or been delivered and have been included within the total result on derivatives.

# Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

## 16. Capital and Financial Risk Management (continued)

### Financial risk management (continued)

The fair values of the primary financial assets and liabilities of the Group together with their carrying values are as follows:

March 2016		September 2016		September 2015	
Carrying Value £m	Fair Value £m	Carrying Value £m	Fair Value £m	Carrying Value £m	Fair Value £m
<b>Financial Assets</b>					
<b>Current</b>					
1,966.8	1,966.8	1,555.6	1,555.6	2,265.7	2,265.7
23.7	23.7	16.6	16.6	69.9	69.9
121.8	121.8				
360.2	360.2	88.5	88.5	113.3	113.3
1,615.0	1,615.0	257.9	257.9	1,678.4	1,678.4
4,087.5	4,087.5	1,934.9	1,934.9	2,051.8	2,051.8
		3,853.5	3,853.5	6,179.1	6,179.1
<b>Non-current</b>					
9.9	9.9	9.7	9.7	11.2	11.2
591.6	591.6	733.9	733.9	544.3	544.3
537.7	537.7	760.0	760.0	582.0	582.0
1,139.2	1,139.2	1,503.6	1,503.6	1,137.5	1,137.5
5,226.7	5,226.7	5,357.1	5,357.1	7,316.6	7,316.6
<b>Financial Liabilities</b>					
<b>Current</b>					
(1,868.3)	(1,868.3)	(1,477.4)	(1,477.4)	(2,767.5)	(2,767.5)
(898.8)	(900.6)	(313.5)	(315.8)	(712.6)	(714.2)
(24.5)	(24.5)	(25.3)	(25.3)	(21.7)	(21.7)
(1,783.8)	(1,783.8)	(1,814.5)	(1,814.5)	(2,496.3)	(2,496.3)
(4,575.4)	(4,577.2)	(3,630.7)	(3,633.0)	(5,998.1)	(5,999.7)
<b>Non-current</b>					
(5,969.2)	(6,889.9)	(6,818.6)	(8,038.2)	(5,644.8)	(6,510.7)
(276.3)	(276.3)	(265.3)	(265.3)	(286.8)	(286.8)
(857.5)	(857.5)	(987.4)	(987.4)	(1,067.7)	(1,067.7)
(7,103.0)	(8,023.7)	(8,071.3)	(9,290.9)	(6,999.3)	(7,865.2)
(11,678.4)	(12,600.9)	(11,702.0)	(12,923.9)	(12,997.4)	(13,864.9)
(6,451.7)	(7,374.2)	(6,344.9)	(7,566.8)	(5,680.8)	(6,548.3)
<b>Net financial liabilities</b>					

### 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.

	September 2016				September 2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial Assets</b>								
Energy derivatives	525.1	1,609.7	-	2,134.8	1,174.8	1,296.1	-	2,470.9
Interest rate derivatives	-	486.1	-	486.1	-	142.5	-	142.5
Foreign exchange derivatives	-	74.0	-	74.0	-	20.4	-	20.4
Equity investments	-	16.5	-	16.5	-	26.4	-	26.4
	525.1	2,186.3	-	2,711.4	1,174.8	1,485.4	-	2,660.2
<b>Financial Liabilities</b>								
Energy derivatives	(458.8)	(1,878.2)	-	(2,337.0)	(1,248.4)	(1,832.0)	-	(3,080.4)
Interest rate derivatives	-	(464.6)	-	(464.6)	-	(442.1)	-	(442.1)
Foreign exchange derivatives	-	(0.3)	-	(0.3)	-	(41.5)	-	(41.5)
Loans and borrowings	-	307.5	-	307.5	-	(30.2)	-	(30.2)
	(458.8)	(2,035.6)	-	(2,494.4)	(1,248.4)	(2,345.8)	-	(3,594.2)

There were no significant transfers out of level 1 into level 2 and out of level 2 into level 1 during the 6 months ended 30 September 2016.

# Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

## 16. Capital and Financial Risk Management (continued)

### Financial risk management (continued)

#### Fair Value Hierarchy (continued)

	March 2016			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>Financial Assets</b>				
Energy derivatives	378.7	1,475.3	-	1,854.0
Interest rate derivatives	-	238.1	-	238.1
Foreign exchange derivatives	-	60.6	-	60.6
Equity Investments	-	25.1	-	25.1
	<b>378.7</b>	<b>1,799.1</b>	<b>-</b>	<b>2,177.8</b>
<b>Financial Liabilities</b>				
Energy derivatives	(436.7)	(1,781.6)	-	(2,218.3)
Interest rate derivatives	-	(415.5)	-	(415.5)
Foreign exchange derivatives	-	(7.5)	-	(7.5)
Loans and borrowings	-	81.8	-	81.8
	<b>(436.7)</b>	<b>(2,122.8)</b>	<b>-</b>	<b>(2,559.5)</b>

There were no significant transfers out of level 1 into level 2 and out of level 2 into level 1 during the year ended 31 March 2016.

## 17. 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 Scottish Hydro Electric Scheme's valuation was completed on 30 September 2016. The Group also has an Employer Financed Retirement Benefit scheme and a Group Personal Pension Plan, details of which were provided in the Group's Financial Statements to 31 March 2016.

#### Summary of Defined Benefit Pension Schemes:

Movement recognised in the SoCI	Pension (liability)/asset	Movement recognised in respect of the pension liability in the SoCI		Pension (liability)/asset	
March 2016	March 2016	September 2016	September 2015	September 2016	September 2015
£m	£m	£m	£m	£m	£m
191.3	272.7	(222.5)	176.7	59.3	262.2
112.5	(404.8)	(347.3)	134.1	(735.4)	(390.1)
303.8	(132.1)	(569.8)	310.8	(676.1)	(127.9)
(49.5)	(262.7)	267.2	(50.5)	-	(260.4)
254.3	(394.8)	(302.6)	260.3	(676.1)	(388.3)

The net pension liability of £676.1m (2015 - £388.3m, March 2016 - £394.8m) reported at 30 September 2016 is subject to an adjustment in relation to the 'asset ceiling test' prescribed by IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. Due to the relative valuation of the contributions payable to the scheme against the maximum economic value of benefits due in respect of future service, no restriction on the surplus was recognised at 30 September 2016. The IFRIC 14 restriction at 31 March 2016 was £262.7m and at 30 September 2015 was £260.4m.

The major assumptions used by the actuaries in both schemes were:

March 2016		September 2016	September 2015
4.1%	Rate of increase in pensionable salaries	4.2%	4.2%
3.1%	Rate of increase in pension payments	3.2%	3.2%
3.6%	Discount rate	2.3%	3.8%
3.1%	Inflation rate	3.2%	3.2%

## Notes on the Condensed Interim Statements

for the period 1 April 2016 to 30 September 2016

### 18. Capital Commitments

March 2016 £m		September 2016 £m	September 2015 £m
	Capital Expenditure		
898.4	Contracted for but not provided	959.6	1,138.2

### 19. Related Party Transactions

The following trading transactions took place during the period 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 joint control or significant influence over.

	Sale of goods and services Sep 2016 £m	Purchase of goods and services Sep 2016 £m	Amounts owed from Sep 2016 £m	Amounts owed to Sep 2016 £m	Sale of goods and services Sep 2015 £m	Purchase of goods and services Sep 2015 £m	Amounts owed from Sep 2015 £m	Amounts owed to Sep 2015 £m
<b>Equity accounted joint ventures:</b>								
Scotia Gas Networks Ltd	22.1	(78.4)	10.1	0.9	25.8	(78.4)	14.8	-
Seabank Power Ltd	2.5	(59.3)	-	8.4	7.2	(60.0)	1.9	12.6
Marchwood Power Ltd	9.7	(72.8)	2.9	17.9	8.1	(56.2)	2.5	6.7
Clyde Windfarm (Scotland) Ltd	2.8	-	0.5	-	-	-	-	-
Other Joint Ventures	3.5	-	4.1	-	4.4	-	3.8	-
<b>Associates</b>	<b>0.6</b>	<b>(23.9)</b>	<b>3.9</b>	<b>4.0</b>	<b>0.3</b>	<b>(23.8)</b>	<b>2.0</b>	<b>-</b>

The Group's gas supply activity incurs gas distribution charges from Scotia Gas Networks while the Group also provides services to Scotia Gas Networks in the form of a management service agreement for corporate services and stock procurement services. 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. The amounts outstanding are trading balances, are unsecured and will be settled in cash. The transactions with Clyde Windfarm (Scotland) Limited relate to contracts for the provisions of energy under power purchase agreements, and the build of an extension to the existing operating wind farm. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

### 20. Seasonality of operations

Certain activities of the Group are affected by weather and temperature conditions and seasonal market price fluctuations. As a result of this, the amounts reported for the interim period may not be indicative of the amounts that will be reported for the full year due to seasonal fluctuations in customer demand for gas, electricity and services, the impact of weather on demand, renewable generation output and commodity prices, market changes in commodity prices and changes in retail tariffs. In Networks, the volumes of electricity and gas distributed or transmitted across network assets are dependent on levels of customer demand which are generally higher in winter months. In Retail, notable seasonal effects include the impact on customer demand of warmer temperatures in the first half of the financial year. In Wholesale, there is the impact of lower customer demand on commodity prices, the weather impact on renewable generation such as hydro and wind and other seasonal effects. The impact of temperature on customer demand for gas is more volatile than the equivalent demand for electricity.

### 21. Post Balance Sheet Events

On 17 October 2016, SSE plc announced it had entered into an agreement to sell a 16.7% equity stake in Scotia Gas Networks Limited ('SGN') to wholly owned subsidiaries of the Abu Dhabi Investment Authority (ADIA), for a headline consideration, before costs and adjustments, of £621.0m based on an effective economic date of 1 April 2016. The transaction was completed on 26 October with the consideration being settled in cash. The sale follows a review announced by SSE in May 2016. SSE will retain a 33.3% equity stake in SGN.

1 **Statement of director’s responsibilities in respect of the condensed**  
2 **interim financial statements**

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We confirm that to the best of our knowledge:

- i) the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- ii) the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

For and on behalf of the Board

Alistair Phillips-Davies Chief Executive	Gregor Alexander Finance Director
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19  
20 London  
21 8 November 2016

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## Independent review report to SSE plc

### Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2016 which comprises the Consolidated and Condensed Income Statement, the Consolidated and Condensed Statement of Comprehensive Income, the Consolidated and Condensed Balance Sheet, the Consolidated and Condensed Statement of Changes in Equity, the Consolidated and Condensed Cash Flow Statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

### Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

### Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

**William Meredith**

**for and on behalf of KPMG LLP**

*Chartered Accountants*

319 St Vincent Street

Glasgow

G2 5AS

8 November 2016