FULL-YEAR RESULTS

FOR THE 12 MONTHS TO 31 MARCH 2017

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 year ending 31 March 2017 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 are explained in the Alternative Performance Measures section before the Summary Financial Statements.

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
Preliminary results for the year to 31 March 2017

17 May 2017

This report sets out the preliminary results for SSE plc for the year to 31 March 2017. It includes updates on operations and investments in its Wholesale, Networks and Retail (including Enterprise) businesses.

Overview of 2016/17

Financial highlights for the year to 31 March 2017 are as follows. Comparisons are with the previous year unless otherwise stated:

- Recommended full-year dividend up 2.1% to 91.3p;
- Adjusted earnings per share up 5.2% to 125.7p;
- Adjusted dividend cover towards top of expected range at 1.38 times;
- Adjusted operating profit up 2.7% to £1,874.0m;
- Adjusted profit before tax up 2.1% to £1,545.9m;
- Adjusted profit after tax up 6.1% to £1,268.9m;
- Net exceptional charge of £8.2m (net charges of £374.6m offset by £366.4m from the gain on sale of SGN stake and the revaluation of SSE's Clyde wind farm investment);
- Investment and capital and investment expenditure up 6.6% to £1.7bn;
- Adjusted net debt and hybrid capital up 1.1% to £8.5bn at 31 March 2017;and
- On market share buy backs totalling £131m in the period to 31 March 2017, plus an additional £65m in April 2017.

Reported results for 2016/17 are significantly higher than those for 2015/16 due to the impact on reported profit before tax of the significant exceptional charges incurred in 2015/16. These related mainly to the write down of wholesale generation, gas storage and production assets in 2015/16 compared to the gain on sale of a stake in SGN plus lower asset write downs in 2016/17. This together with the relative movement in mark to market valuations on forward purchase contracts for commodities over both years (which at March 2017 were still 'out of the money') contributed to a net reported gain before tax of £247.5m in 2016/17 compared to a loss before tax on those items of (£904.3m) in 2015/16.

This swing is explained in more detail in the relevant sections throughout this report and is the main driver for:

- Reported profit before tax increasing to £1,776.6m in 2016/17 compared to a £593.3m in 2015/16, due to the movement in non-recurring exceptional items; and
- Reported earnings per share increasing to 158.4p in 2016/17 compared to 46.1p in 2015/16, again due to the movement in non-recurring exceptional items.

Outlook for 2017/18

For the 2017/18 financial year, SSE is:

- Targeting an annual increase in the full-year dividend that is at least equal to RPI inflation ;
- Working to keep dividend cover within the expected range of around 1.2- 1.4 times, although it is likely to be towards the bottom of it, as stated in SSE's Notification of Pre Close Statement on 30 March 2017, which also means adjusted earnings per share is likely to be lower than it was in 2016/17; and

- Expecting to invest around £1.7bn in building, owning and operating assets, with around two thirds of this in electricity networks and renewable energy.

As stated on 30 March, the level of dividend cover is subject to the ongoing factors that influence earnings in SSE's market-based businesses.

Outlook to 2020

Looking further ahead, over the three years to March 2020, SSE is:

- Targeting delivery of annual dividend increases that at least keep pace with RPI inflation;
- Working towards achievement of dividend cover within a range of around 1.2 times to 1.4 times;
- Focusing on progress in its capital and investment expenditure totalling around £6bn across the four years to 2020, mainly in electricity networks and renewable energy;
- Targeting an increased RAV of its economically-regulated networks businesses, to close to £9bn;
- Targeting an increased amount of renewable capacity, including pumped storage, to 4.3GW; and
- Working to deliver enhanced customers experience of retail energy markets through the installation of smart meters and the provision of digital services.

As stated on 30 March, the level of dividend cover is subject to the ongoing factors that influence earnings in SSE's market-based businesses, and is also subject to material change in sector regulation.

Note: The definitions SSE uses for adjusted measures are consistently applied and are explained in the Alternative Performance Measures section of this document, before the Summary Financial Statements.

SSE's financial performance in 2016/17 at-a-glance

	Mar 17	Mar 16	Mar 15
Adjusted Operating Profit	**£m**	**£m**	**£m**
Wholesale	514.6	442.5	473.8
Networks	936.5	926.6	936.8
Retail	422.3	455.2	456.8
Corporate Unallocated	0.6	0.1	14.0
Total adjusted operating profit	**1,874.0**	**1,824.4**	**1,881.4**
Adjusted profit before tax	**1,545.9**	**1,513.5**	**1,564.7**
	Pence	**Pence**	**Pence**
Adjusted earnings per share (EPS)	**125.7**	**119.5**	**124.1**
Full-year dividend per share (DPS)	91.3	89.4	88.4
	£m	**£m**	**£m**
Investment and capital expenditure (adjusted)	1,726.2	1,618.7	1,475.3
	Mar 17	**Sep 16**	**Mar 16**
Adjusted net debt and hybrid capital	8,483.0	8,995.4	8,395.0

	Mar 17	Mar 16	Mar 15
Reported Operating Profit / (Loss)	**£m**	**£m**	**£m**
Wholesale	498.2	(481.3)	(301.2)
Networks	848.8	833.2	805.0
Retail	309.6	437.4	468.5
Corporate Unallocated	283.9	(3.9)	13.6
Total reported operating profit	**1,940.5**	**785.4**	**985.9**
Reported profit before tax	**1,776.6**	**593.3**	**735.2**
	Pence	**Pence**	**Pence**
Reported/basic earnings per share (EPS)	**158.4**	**46.1**	**55.3**
	Mar 17	**Sep 16**	**Mar 16**
	£m	**£m**	**£m**
Unadjusted net debt	6,655.4	7,164.8	6,808.6

Earning a profit from SSE's businesses

SSE has a balanced range of energy-related businesses and all three reportable business segments contributed adjusted operating profit in the year to 31 March 2017, as set out above. Comparisons are with the previous two financial years, but it should be noted that movements may also reflect the cumulative impact of issues arising, or decisions taken, in earlier financial years. SSE's objective is not to maximise profit in any one year but to earn a sustainable level of profit over the medium-term.

WHOLESALE

Energy Portfolio Management and Electricity Generation: adjusted operating profit increased to £501.2m in 2016/17 compared to £436.3m in 2015/16, despite lower renewable energy output, due to improved financial performance in thermal generation and Energy Portfolio Management.

Gas Production: adjusted operating profit increased to £26.4m in 2016/17, compared to £2.2m the previous year, due to an increase in production, as additional West of Shetland fields came on line, and to improved winter gas prices compared to the previous year.

Gas Storage: an adjusted operating loss of £13.0m was recorded in 2016/17, compared to an adjusted operating profit of £4.0m the previous year, reflecting sustained challenging market conditions.

Reported Wholesale operating profit: reported operating profit for the Wholesale segment was £498.2m compared to an operating loss of £481.3m in 2015/16. This improvement was due to the recognition in the previous year of £868m of exceptional charges relating to thermal generation plants, gas storage facilities and gas production fields. In 2016/17, net exceptional charges were significantly lower and included a gain on revaluation of the SSE's share of Clyde wind farm. In addition, marked-to-market derivatives were significantly less out of the money at March 2017 than at March 2016.

NETWORKS

Electricity Transmission: as expected, adjusted operating profit decreased to £263.7m in 2016/17, from £287.2m in 2015/16, reflecting the phasing of capital expenditure and revenue associated with the growing asset base.

Electricity Distribution: adjusted operating profit rose to £433.4m in 2016/17, from £370.7m in 2015/16, reflecting additional income as a result of the £38m under recovery of revenue from 2014/15, as outlined in customer charges published in December 2015 for 2016/17. In 2016/17 around £35m of DPCR losses incentive income was also received, with a final instalment of £15m due in 2017/18.

Gas Distribution: SSE's share of SGN's adjusted operating profit fell to £239.4m in 2016/17, from £268.7m the previous year, mainly due to SSE's partial equity disposal in October 2016 and partly to the phasing of regulatory revenue and the obligation to share outperformance with customers, which is part of the RIIO Price Control. The impact on operating profit of the part disposal is estimated as being £37m.

Reported Networks operating profit: reported operating profit for Electricity Transmission and Distribution is the same as adjusted operating profit. SSE's share of SGN's reported operating profit fell to £151.7m, compared to £175.3m in the previous year. This is in line with the movement in adjusted operating profit and, in addition, reflects the change in SSE's share of SGN's interest and tax.

RETAIL

Energy Supply: adjusted operating profit across Energy Supply as a whole reduced slightly, to £389.5m, in 2016/17, compared to £398.9m in 2015/16. Within this, in GB household supply, increases in non- energy costs, the impact of the household gas tariff reduction in March 2016 and falling customer numbers were offset by the impact of reduced wholesale energy costs and slightly increased average consumption, leading to a small overall increase in adjusted operating profit. Over 2016/17 SSE's annual operating profit margin per dual fuel household customer in GB was around 6.9% (compared to 6.2% in 2015/16). Business Energy profits decreased in 2016/17, reflecting an increase in non-commodity costs and a decrease in volumes supplied.

An improvement in estimation confidence in relation to the judgemental measurement of unbilled energy has enabled an additional £60m of revenue to be recognised in the year. This is split between household energy (£14m) and business energy (£46m).

In 2016/17, £27.5m of the bad debt provision was released, with the majority being allocated against a reduction in aged debt.

Energy-related services: adjusted operating profit increased slightly to £16.1m in 2016/17, compared to £15.4m in 2015/16. There was a reduction in revenue streams in the heritage metering business

and continued investment in building scale in the customer-facing broadband and telecoms businesses.

Enterprise: adjusted and reported operating profit fell to £16.7m in 2016/17, from £40.9m in 2015/16, reflecting challenging conditions in a competitive environment, particularly in Contracting, which was loss making in the year. Enterprise is now in a key phase of development with the recent appointment of a new Managing Director.

Reported Retail operating profit: reported operating profit for the Retail segment was £309.6m compared to £437.4m in 2015/16. The reduction was due to exceptional impairments in the year, particularly the impairment of technology developments projects, principally relating to an Energy Supply customer billing system which is no longer being progressed. The reduction in reported operating profit also reflected the write off of goodwill associated with the acquisition of the Energy Solutions Group in the Enterprise business.

Corporate Unallocated: Adjusted operating profit increased by £0.5m to £0.6m in 2016/17. Reported Corporate Unallocated operating profit includes the £307.3m gain on sale in relation to SSE's part disposal of a 16.7% stake in SGN offset by impairment costs in relation to IT technology development resulting in a reported operating profit of £283.9m in 2016/17 compared to a loss of (£3.9m) in 2015/16.

Investing to create long-term value

In the year to 31 March 2017, SSE's investment and capital expenditure totalled £1.7bn. Economically-regulated electricity networks accounted for 46% of this spend and renewable energy mandated by government obligations and targets accounted for 21%. Investment and capital expenditure included:

- progressing the Caithness-Moray electricity transmission link, the largest capital project ever undertaken by SSE, and investing in customer service and innovation in Electricity Distribution. This investment further increased the RAV in Electricity Transmission and Distribution, and the total RAV of SSE's networks businesses is well placed to reach around £9bn by 2020; and
- expanding SSE's renewable energy portfolio, with 34MW of new onshore wind farm capacity commissioned during 2016/17 and with a further 992MW of on and off-shore wind farm capacity in construction. These capital investment projects are expected to take SSE's total renewable energy capacity to 4.3GW (including pumped storage) by March 2020.

Investment and capital expenditure remains on course to be around £6bn across the four years from April 2016 to March 2020; in 2017/18 it is expected to be around £1.7bn and in 2018/19 it is currently expected to be around a similar level. Around two thirds of this investment and capital expenditure is expected to be in electricity networks and renewable sources of energy.

Final investment decisions in building new assets will be determined by the need to secure returns that are clearly greater than the cost of capital, enhance earnings and support the delivery of annual dividend increases that at least keep pace with RPI inflation.

Contributing to the UK and Irish economies

SSE's contribution to UK Gross Domestic Product in 2016/17 totalled £9.3bn, taking the total for the last five years to over £46bn. In Ireland, it was €779m in 2016/17. This data is provided by PwC who have undertaken SSE's economic contribution analysis for every financial year since 2014/15.

Financial outlook for SSE

SSE continues to fulfil its core purpose of providing the energy people need in a reliable and sustainable way, with clearly-defined and long-term strategic and financial frameworks which are built around the efficient operation of, and disciplined investment in, a balanced range of businesses across the energy sectors of Great Britain and Ireland.

SSE believes that the quality of its operations, assets and investment opportunities means it can continue to deliver a full-year dividend that at least keeps pace with RPI inflation in 2017/18 and in the subsequent years.

As set out in its Notification of Close Period Statement on 30 March 2017, SSE currently anticipates a number of items that will have an impact on the operating profit earned by its Networks businesses, including SGN, which is therefore expected to be around £150m lower in 2017/18 than it was in 2016/17 - or £100m on a like for like basis before including the impact of the SGN divestment.

This and other challenges, such as a lower than expected clearing price in the 2017 Capacity Market Year-Ahead Auction, mean that, subject to the factors that affect profit in its market-based businesses, SSE continues to expect that its dividend cover for 2017/18 will be within, but towards the bottom of, the expected range of around 1.2 times to around 1.4 times. This clearly means that adjusted earnings per share in 2017/18 is expected to be lower than it was in 2016/17. The dividend cover range is based on dividend increases that at least keep pace with RPI inflation, which SSE is continuing to target for 2017/18 and the subsequent years.

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. Subject to the factors that affect profit in its market-based businesses, and material changes to sector regulation, SSE expects its dividend cover could range from around 1.2 times to around 1.4 times over the three years to 2019/20, based on dividend increases that at least keep pace with RPI inflation.

Richard Gillingwater, Chairman of SSE, said:

"The operating environment has presented a number of complex challenges to manage, but SSE is a resilient business with a clearly defined and long-term strategic framework comprising operational efficiency, disciplined investment in new assets and a balanced range of energy businesses. The complex challenges continue, but this strategy puts the company in good stead for the future and SSE is committed to delivering for its customers and its investors alike in the years ahead; and that means the Board is committed to continuing to meet SSE's first financial objective of annual dividend growth of at least RPI inflation in the years ahead."

Alistair Phillips-Davies, Chief Executive of SSE, said:

"We have been clear for some time that 2017/18 presents challenges, and the need to engage constructively with a new UK government as it takes forward energy policy will be a key priority for the year ahead and beyond. SSE will continue to focus on securing maximum value from our portfolio of Wholesale assets, achieving further efficiencies and customer service improvements in our Networks businesses, responding positively to evolution and change in our Retail markets and creating long-term value through investment of around £1.7bn in new assets in 2017/18.

"Across the SSE group, we will continue to take the decisions necessary to secure the right outcomes for customers and investors. With a strong and growing asset base, and significant index-linked revenues, we remain committed to delivering annual dividend growth that at least keeps pace with inflation, and to working towards ensuring that dividend cover remains within the expected range."

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

Annual report on sse.com/investors	20 June 2017
AGM (Perth) and Q1 Trading Statement	20 July 2017
Ex-dividend date	27 July 2017
Record date	28 July 2017
Final date for receipt of Scrip Elections	25 August 2017
Payment Date	22 September 2017
Notification of Close Period	by 30 September 2017
Results for six months to 30 September 2017	9 November 2017

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Chief Executive's Statement

In 2016/17, SSE achieved its first financial objective of an annual dividend increase that is at least equal to RPI inflation. This is the 18th consecutive year in which SSE has increased its dividend in this way. With a long-term strategic framework built around operational efficiency, disciplined investment in building, owning and operating assets and a balanced range of energy businesses, SSE is focused on creating long-term value in a changing sector.

Overall, this strategic framework enables SSE to be resilient and to achieve solid performance in a challenging, changing and competitive energy sector, all with the backdrop of significant change, exemplified by the UK's forthcoming exit from the European Union. It also enables SSE to have clear strategic priorities to 2020 and beyond, and these include: efficiency and cost control in operations, progress with the investment programme in new assets; and meeting the current and future needs of energy customers.

Focusing on safety

Safety is a core SSE value, and its number one priority. SSE's Total Recordable Injury Rate for employees and employees of other companies working on SSE sites was 0.22 per 100,000 hours worked in the 12 month period ending 31 March 2017, compared with 0.23 over the same period to March 2016.

This was, however, overshadowed by the very sad death of a contractor employee while working on an SSE transmission project, which affected greatly everyone who works with SSE. SSE is committed to maintaining and reinforcing a 'if it's not safe, we don't do it' culture throughout its operations.

Providing long-term value

SSE seeks to provide long-term value for its customers, shareholders and the wider society of which it is part. The 2016/17 financial year saw important progress in many areas, with SSE delivering key commitments such as the major progress in constructing new wind farm capacity, the major progress also on the new Caithness Moray transmission link and the successful sale of a stake in SGN.

The maintenance of a long-term approach requires SSE to evolve and adapt, and that's what lay behind the decision to review the value of SSE's equity stake in SGN, and then to complete a sale. SSE intends to use around £500m of the proceeds from the 16.7% equity stake divestment in SGN to return value to shareholders by way of an on-market share buy-back to be completed by the end of 2017; and around £100m to support investment in the Stronelairg onshore wind farm.

In March 2017, SSE completed the sale of its equity holdings in PFI street lighting programmes. This marked the completion of the business disposals programme announced in March 2014, which secured financial benefits totalling over £1.1bn. This, along with the sale of the stake in SGN, confirms that timely disposals to create value for shareholders will always be an option for SSE, especially where they help to simplify and streamline the SSE group.

More broadly, SSE works to a strategic framework which outlines not only what it does, but how the company does it:

- Efficient operations that put the safety of people first and the current and future needs of customers at the heart of everything SSE does;
- Disciplined investment in building, owning and operating assets that complement SSE's business and secure returns which are clearly greater than the cost of capital and enhance adjusted earnings per share; and
- A balanced business that operates and invests in both economically-regulated and market-based energy-related assets and businesses to avoid over-exposure to any single part of the energy sector.

The financial objective of this strategic framework is to increase annually the dividend payable to shareholders, by at least RPI inflation. This strategic framework and financial objective enables SSE to maintain a disciplined, responsible and long-term approach to its business activities.

Adapting to a changing sector

The energy markets in GB and Ireland are undergoing significant change, due to factors including changing customer expectations, the emergence of low-carbon technologies and the evolving priorities of public policy makers and regulators. To succeed in the future SSE will have to evolve and adapt, as it has in the past, in order to maximise the opportunities from change, as well as mitigating any risks.

SSE is working to ensure it can successfully adapt to change, illustrated by progress being made across all of its businesses:

- In **Wholesale**, it is partnering with Siemens and Mitsubishi UK at the Hunterston wind turbine test facility to develop wind turbines that are larger, more efficient and capable of supporting offshore wind projects in deeper waters, such as the Beatrice offshore wind farm.
- In **Networks**, SSE's Electricity Distribution business has led the sector in trialling more active network management to prepare it for an increasingly distributed and flexible energy system; and its Electricity Transmission business has developed and opened a new National HVDC Centre, the first of its kind in the UK, to test and de-risk the use of high voltage direct current on the electricity network in Great Britain.
- In **Retail**, SSE is contributing to the transformation of energy supply through installation of smart meters and development of new digital services and has become the first energy supplier in the GB market to commit to achieving the British Standard for Inclusive Service Provision.

There are significant opportunities for SSE to invest in building, owning and operating new assets in the years ahead and for its businesses to play a central role in the continuing evolution of energy and related services provision in the UK and Ireland. So while the changes in the energy sector pose challenges, they also provide opportunities. In the past, SSE has taken the operational, financial and investment decisions required to adapt to a changing sector, and will do so again if that is the right thing to do.

All of this means that SSE remains well-placed to deliver for the benefit of customers and investors. SSE is a business focused on what energy customers require, providing the assets they depend on and the services they need. While managing risk, its focus is on identifying the opportunities, using its track record in operational efficiency, investment discipline and financial management.

Dealing with political uncertainty

Uncertainty and change in the energy sector is not confined to technology and customer expectations. In March 2017 the UK government notified the European Council of its intention to leave the EU; around the same time the Scottish Parliament voted in favour of seeking a so-called Section 30 order from the UK Parliament for a second referendum on Scottish independence before the UK leaves the EU; and in April 2017 the UK Parliament voted in favour of a general election in June 2017.

Politics, regulation and compliance represent one of SSE's principal risks. Whilst these events do not present an immediate risk to how SSE serves its customers or the progress of its investment programme, the level of risk could increase if, as a result of political developments there were to be a prolonged period of legislative or regulatory uncertainty or negative material change in sector regulation.

SSE continues to advocate for as much stability in the operating environment as can be achieved. It supports a stable UK carbon price, a continued commitment to cost-effective renewable energy, an evolving role for electricity distribution networks and the retention of competition at the heart of

retail energy supply. It will continue to engage constructively with governments and regulators in the jurisdictions in which it operates and act decisively in response to political and regulatory change affecting the energy sector where required.

Nevertheless, SSE's balanced business model is designed, amongst other things, to provide underlying resilience when there is regulatory uncertainty. In responding to such uncertainty, SSE engages constructively with governments and regulators. It actively assesses the potential impacts of any regulatory changes and will take practical steps to maximise opportunities and mitigate risks; and will be transparent in its disclosures, when necessary.

Maintaining a culture built on values

It is well-known that public trust in large business is low. People in SSE work to a consistent and clear set of values. It is also why paying an accredited Living Wage to both direct and indirect employees, using local providers of goods and services in large capital projects where possible and acting as a fair and responsible tax-payer, including attaining the Fair Tax Mark for transparent disclosures for three successive years, are all integral to SSE's strategy.

Focusing on strategic priorities in 2017/18

The energy markets in GB and Ireland are undergoing significant change, and regulation and politics continue to loom large over the sector. There will be significant challenges in 2017/18, but SSE is committed to delivering annual dividend growth that at least keeps pace with inflation, and to working towards ensuring that dividend cover for the year remains within the expected range of 1.2 to 1.4 times, albeit towards the bottom of it.

SSE's strategic framework makes it a resilient business and it will continue to focus on delivering against the key features of its strategic framework:

- The safe and efficient operation of assets and providing the energy products and services that customers rely on;
- The disciplined investment in new assets, or the upgrading of existing assets, to support and maintain the balance of the business;
- Constructive engagement with regulators and legislators to advocate for clarity and stability in the regulatory framework for all business segments.

In addition, SSE is embracing change in each of its businesses, adapting them to the emerging political, economic, social and technological requirements of customers and of society as a whole. This helps ensure that SSE remains a resilient and long-term business. While the operating environment may be uncertain and changeable, SSE's focus on investing in longer term assets which creates long-term value for shareholders and customers is consistent and clear.

Group Financial Overview

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

Key Adjusted Financial Metrics	Mar 17 £m	Mar 16 £m	Mar 15 £m
Adjusted Operating Profit	**1,874.0**	**1,824.4**	**1,881.4**
Adjusted Net Finance Costs	**(328.1)**	(310.9)	(316.7)
Adjusted Profit before Tax	**1,545.9**	**1,513.5**	**1,564.7**
Adjusted Current Tax Charge	(157.7)	(193.4)	(224.8)
Adjusted Profit after Tax	**1,388.2**	**1,320.1**	**1,339.9**
Less: hybrid equity coupon payments	(119.3)	(124.6)	(121.3)
Adjusted Profit After Tax attributable to ordinary shareholders	**1,268.9**	**1,195.5**	**1,218.6**
Adjusted EPS – pence	**125.7**	**119.5**	**124.1**
Number of shares for basic/reported and adjusted EPS (million)	**1,009.7**	1,000.0	981.8
Shares in issue at 31 March (m)	**1,015.6**	1,007.6	993.0

Key Reported Financial Metrics	Mar 17 £m	Mar 16 £m	Mar 15 £m
Reported Operating Profit	**1,940.5**	**785.4**	**985.9**
Reported Net Finance Costs	(163.9)	(192.1)	(250.7)
Reported Profit before Tax	**1,776.6**	**593.3**	**735.2**
Reported Tax Charge	(57.8)	(8.1)	(70.8)
Reported Profit after Tax	**1,718.8**	**585.2**	**664.4**
Less: hybrid equity coupon payments	(119.3)	(124.6)	(121.3)
Reported Profit After Tax attributable to ordinary shareholders[1]	**1,599.5**	**460.6**	**543.1**
Reported EPS- pence	**158.4**	**46.1**	**55.3**
[1]After distributions to hybrid capital holders			
Dividend per Share	**Mar 17 £m**	**Mar 16 £m**	**Mar 15 £m**
Interim Dividend pence	27.4	26.9	26.6
Final Dividend pence	63.9	62.5	61.8
Full Year Dividend pence	91.3	89.4	88.4
Increase %	2.1%	1.1%	2.0%
Dividend Cover times / SSE's adjusted EPS	1.38 x	1.34 x	1.40 x

Adjusted Operating Profit by Segment	Mar 17 £m	Mar 16 £m	Mar 15 £m
EPM and Electricity Generation	501.2	436.3	433.3
Gas Production	26.4	2.2	36.6
Gas Storage	(13.0)	4.0	3.9
Wholesale	**514.6**	**442.5**	**473.8**
Electricity Transmission	263.7	287.2	184.1
Electricity Distribution	433.4	370.7	467.7
SGN (SSE's 50% share reducing to 33% from 26 Oct 2016)	239.4	268.7	285.0
Networks	**936.5**	**926.6**	**936.8**
Energy Supply	389.5	398.9	368.7
Energy related services	16.1	15.4	17.7
Enterprise	16.7	40.9	70.4
Retail	**422.3**	**455.2**	**456.8**
Corporate Unallocated	0.6	0.1	14.0
Total Adjusted Operating Profit	**1,874.0**	**1,824.4**	**1,881.4**

Reported Operating Profit by Segment	Mar 17 £m	Mar 16 £m	Mar 15 £m
EPM and Electricity Generation	736.1.	(174.8)	(71.8)
Gas Production	(201.1)	(159.6)	(69.4)
Gas Storage	(36.8)	(146.9)	(160.0)
Wholesale	**498.2**	**(481.3)**	**(301.2)**
Electricity Transmission	263.7	287.2	184.1
Electricity Distribution	433.4	370.7	467.7
SGN (SSE's 50% share) reduced to 33% from 26 Oct 2016	151.7	175.3	153.2
Networks	**848.8**	**833.2**	**805.0**
Energy Supply	313.2	398.9	334.5
Energy Related Services	(20.3)	(2.4)	33.3
Enterprise	16.7	40.9	100.7
Retail	**309.6**	**437.4**	**468.5**
Corporate Unallocated	283.9	(3.9)	13.6
Total Reported Operating Profit	**1,940.5**	**785.4**	**985.9**

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

Operating Profit Reconciliation	Mar 17 £m	Mar 16 £m	Mar 15 £m
Adjusted Operating Profit	1,874.0	1,824.4	1,881.4
Movement on derivatives	203.1	(28.8)	(61.1)
Exceptional items	(8.2)	(889.8)	(674.6)
Share of JVs and Associate interest and tax	(128.4)	(120.4)	(159.8)
Reported Operating Profit	1,940.5	785.4	985.9
Profit before Tax Reconciliation	**Mar 17 £m**	**Mar 16 £m**	**Mar 15 £m**
Adjusted Profit before Tax	**1,545.9**	**1,513.5**	**1,564.7**
Movement on derivatives (IAS 39)	255.7	(14.5)	(105.3)
Exceptional items	(8.2)	(889.8)	(674.6)
Interest on net pension liabilities (IAS19R)	(3.1)	(22.3)	(14.0)
Share of JVs and Associates tax	(13.7)	6.4	(35.6)
Reported Profit before Tax	1,776.6	593.3	735.2

Tax	Mar 17 £m	Mar 16 £m	Mar 15 £m
Adjusted current tax charge	**157.7**	**193.4**	**224.8**
Add/(less)			
Share of JVs and Associates tax	(13.7)	6.4	(35.6)
Deferred tax including share of JV and Associates	19.8	80.8	82.0
Tax on exceptional items and certain re-measurements	(106.0)	(272.5)	(200.4)
Reported tax charge	57.8	8.1	70.8
Effective current tax rate based on adjusted profit before tax	10.2%	12.8%	14.4%
Total UK taxes paid including taxes on profits, property taxes, environmental taxes and employment taxes	385.0	453.9	506.2

Investment and Capex Summary (adjusted)	Mar 17 Share %	Mar 17 £m	Mar 16 £m
Thermal Generation	6.3	108.6	90.8
Renewable Generation	21.2	366.4	291.8
Gas Storage	-	0.2	14.0
Gas Production	4.2	72.9	56.1
Total Wholesale	**31.7**	**548.1**	**452.7**
Electricity Transmission	29.3	505.0	573.4
Electricity Distribution	16.5	284.7	258.3
Total Networks	**45.8**	**789.7**	**831.7**
Energy Supply and Related Services	10.7	184.3	169.0
Enterprise	3.4	58.7	48.5
Total Retail	**14.1**	**243.0**	**217.5**
Other	8.4	145.4	116.8
Total investment and capital expenditure (adjusted)	**100%**	**1,726.2**	**1,618.7**

Debt metrics	Mar 17	Mar 16	Mar 15
	£m	£m	£m
Adjusted net debt and hybrids (£m)	**(8,483.0)**	**(8,395.0)**	**(7,568.1)**
Average debt maturity (years)	8.8	8.9	9.9
Adjusted interest cover (excluding SGN) times	6.0	5.2	5.3
Adjusted interest cover (including SGN) times	4.7	4.7	4.8
Average interest rate for the period (excluding JV/assoc. interest and all hybrid coupon payments)	3.66%	3.73%	4.21%
Average cost of debt at period end (including all hybrid coupon payments)	4.10%	3.95%	4.55%

Adjusted Net Debt and Hybrids Reconciliation	Mar 17 £m	Mar 16 £m	Mar 15 £m
Adjusted net debt and hybrids	**(8,483.0)**	**(8,395.0)**	**(7,568.1)**
Less: hybrid equity	2,209.7	2,209.7	3,371.1
Adjusted net debt and hybrid debt	**(6,273.3)**	**(6,185.3)**	**(4,197.0)**
Less: outstanding liquid funds	(105.2)	(121.8)	(71.7)
Add: finance leases	(276.9)	(300.8)	(319.7)
Less: non-recourse Clyde debt	**-**	**(200.7)**	**-**
Unadjusted net debt and hybrid debt	**(6,655.4)**	**(6,808.6)**	**(4,588.4)**

Net finance costs Reconciliation	Mar 17	Mar 16	Mar 15
	£m	£m	£m
Adjusted net finance costs	**328.1**	**310.9**	**316.7**
add/(less):			
Movement on financing derivatives (IAS 39)	(52.6)	(14.3)	44.2
Share of JV and Associates interest	(114.7)	(126.8)	(124.2)
Interest on pension asset / (liabilities) (IAS 19R)	3.1	22.3	14.0
Reported net finance costs	163.9	192.1	250.7
Adjusted net finance costs	**328.1**	**310.9**	**316.7**
Add/(less):			
Finance lease interest	(33.1)	(34.7)	(34.2)
Notional interest arising on discounted provisions	(14.2)	(15.7)	(14.0)
Hybrid equity coupon payment	119.3	124.6	121.3
Adjusted finance costs for interest cover calculation	400.1	385.1	389.8

SSE Principal Sources of debt funding	Mar 17	Mar 16	Mar 15
Bonds	41%	45%	38%
Hybrid debt and equity securities	33%	25%	37%
European investment bank loans	11%	8%	8%
US private placement	10%	5%	5%
Index –linked debt, long term project finance and other loans	5%	17%	12%
% of total SSE borrowings secured at a fixed rate	91%	87%	83%

Rating Agency	Rating	Criteria	Date of Issue
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

Contributing to employees' pension schemes – IAS 19 R	Mar 17 £m	Mar 16 £m	Mar 15 £m
Net pension scheme asset/ (liabilities) recognised in the balance sheet before deferred tax	70.5	(394.8)	(664.6)
Employer cash contributions Scottish Hydro Electric scheme	36.2	33.7	57.6
Deficit repair contribution included above	14.0	14.8	29.5
Employer cash contributions Southern Electric scheme	76.3	68.3	92.0
Deficit repair contribution included above	41.2	44.6	58.5

Additional information on employee pension schemes can be found in Note 13 to the accounts.

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

Focusing on delivering dividend increases that at least keep pace with inflation

The Board is recommending a final dividend of 63.9p per share, to which a Scrip alternative is offered, compared with 62.5p in the previous year, an increase of 2.2%. This will make a full-year dividend of 91.3p per share which is: an increase of 2.1% compared with 2015/16, which is in line with RPI inflation; and covered 1.38 times by SSE's adjusted earnings per share.

SSE believes that its strategic framework, opportunities for growth and the extent to which its revenues in Wholesale and Networks are index-linked mean it can deliver a full-year dividend increase that at least keeps pace with RPI inflation in 2017/18 and in the subsequent years (measured against the average annual rate of RPI inflation across each of the 12 months to March).

Focusing on adjusted earnings per share and dividend cover

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. For more detail on these and other adjusted items please refer to the Adjusted Performance Measures section of this report.

In 2016/17, SSE's adjusted earnings per share increased by 5.2%, to 125.7 pence, which was ahead of the target of at least 120 pence. Reported EPS was 158.4p, compared to 46.1p in the previous year. The extent of this increase is predominantly explained by the impact on reported earnings of the significant exceptional charges incurred in the previous year and the relative movement in mark to market valuations on derivative contracts over both years.

As stated in its Notification of Close Period Statement on 30 March 2017, SSE is working to keep dividend cover within the expected range of around 1.2 to around 1.4 times in 2017/18, although it is likely to be towards the bottom of it, which also means adjusted earnings per share is likely to be lower than it was in 2016/17.

SSE believes that its dividend should be covered by adjusted earnings per share at a level that is sustainable over time; and it believes that sustainability is based on the quality of the operations and assets from which earnings are derived and the longer-term financial outlook.

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, and largely index-linked, Networks and government-mandated renewable sources of energy. Subject to the range of factors that apply in its market-based businesses (see below), and to material political or regulatory change, SSE is working towards achievement of dividend cover a within a range of around 1.2 times to around 1.4 times over the three years to 2019/20, based on dividend increases that at least keep pace with RPI inflation, and to be towards the bottom of that range in 2017/18.

Delivering adjusted profit before tax in 2016/17 and 2017/18

Adjusted profit before tax increased by 2.1%, from £1,513.5m to £1,545.9m during 2016/17. 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 2017/18, SSE's actual level of adjusted profit before tax will be determined largely by the range of factors set out in previous years that continue to 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.

Summarising the impact of Movements on Derivatives

SSE 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. SSE 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. It will recognise the underlying value of these contracts as the relevant commodity is delivered, which will predominantly be within the subsequent 12 to 36 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 £201.0m arose partly from an improvement in the fair value of forward commodity purchase contracts and the unwinding of contracts in 2016/17. The fair value of such contracts is derived by comparing the contractual delivery price against the prevailing market forward price at the balance sheet date. The position at 31 March 2017, primarily electricity and gas, was a liability of £163.3m compared to a liability on similar contracts at 31 March 2016 of £364.3m.

Complementing this was a positive movement on the fair valuation of interest and currency derivatives of £52.6m. This movement is primarily due to the impact of the aftermath of the EU referendum on cross currency swaps and forward currency contracts. SSE also reports these fair value re-measurements separately as these do not represent underlying business performance during the financial year. The effect of the contracts will be recorded in adjusted profit measures when the transactions are settled.

Exceptional Items

In the year to 31 March 2017, SSE recognised a net exceptional charge of £8.2m before tax. The following table provides a summary of the key components making up the net charge position:

Total net charges by asset class	Property, Plant & Equipment £m	Gains/(losses) on disposals £m	Total £m
SGN gain on sale	-	307.3	307.3
Clyde fair value uplift	-	59.1	59.1
Thermal Generation	31.6		31.6
Gas Production	(227.5)		(227.5)
Gas Storage	(23.8)		23.8
Retail and technology development	(120.3)		120.3
Other	(34.6)		34.6
Total exceptional (charge)/gain	**(374.6)**	**366.4**	**(8.2)**
By Segment			
Wholesale	(237.9)	59.1	(178.8)
Retail	(112.7)		(112.7)
Corporate	(24.0)	307.3	283.3
Total	(374.6)	366.4	(8.2)

For a full description of the net exceptional charge see note 6 of the financial statements.

The Clyde fair value uplift of £59.1m relates to the deconsolidation, in May 2016, following a change to the shareholders' agreement, of SSE's investment in Clyde Windfarm (Scotland) Limited ('Clyde'). It is therefore now an equity-accounted joint venture. This change in accounting treatment required the investment to be fair valued and the revaluation to be recorded in the income statement. This has been recorded as an exceptional credit due to both its quantum and the non-recurring nature of the item.

The thermal generation credit reflects a reversal of previously impaired coal inventory, resulting from the unexpected improvement in winter 2016/17 'dark spreads', partially offset by impairments at SSE's oil burning stations at Rhode and Tawnaghmor in the Republic of Ireland due to their age and future competitive prospects.

The impairment charges recognised for Gas Production assets are mainly driven by the latest independent Reserves Report, which takes account of all technical and economic variables, and estimates a significant reduction in the Proven and Probable (2P) reserves in the Greater Laggan Area assets that is only partially offset by an increase in those of SSE's mature asset base in the Southern North Sea. In addition, an impairment charge has been recognised in relation to Bacton field assets, predominantly related to higher than previously assessed decommissioning costs. The Gas Storage asset impairment relates to higher anticipated decommissioning costs.

The exceptional charges for Retail and other technology developments reflect impairments of capitalised costs following the decision taken to cease development of a replacement customer service and billing system and related technology development projects.

The Other exceptional charges are primarily the impairment of goodwill associated with the purchase of the Energy Solutions Group and offsetting changes in provisions relating to disputes and claims.

Reported Profit Before Tax and Earnings Per Share

Reported results for 2016/17 are significantly higher than those for 2015/16 due to the impact on reported profit before tax of the significant exceptional charges incurred in 2015/16. These related mainly to the write down of wholesale generation, gas storage and production assets in 2015/16

compared to the gain on sale of a stake in SGN plus lower asset write downs in 2016/17. This together with the relative movement in mark to market valuations on forward purchase contracts for commodities over both years (which at March 2017 were still 'out of the money') contributed to a net reported gain before tax of £247.5m in 2016/17 compared to a loss before tax on those items of (£904.3m) in 2015/16.

This swing is explained in more detail in the relevant sections throughout this report and is the main driver for:

- Reported profit before tax increasing to £1,776.6m in 2016/17 compared to a £593.3m in 2015/16, due to the movement in non-recurring exceptional items; and
- Reported earnings per share increasing to 158.4p in 2016/17 compared to 46.1p in 2015/16, again due to the movement in non-recurring exceptional items.

Investment and Capital Expenditure

Central to SSE's strategic framework is efficient and disciplined investment in building a balanced range of economically-regulated and market-based energy assets that it also generally owns and operates. 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 and invests only in assets 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.

During 2016/17, SSE's investment and capital expenditure totalled £1,726.2m. 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 Clyde Extension (173MW); Stronelairg (225MW); the Beatrice offshore wind farm (SSE share 235MW); and Galway Wind Park (SSE share 120MW), which is the largest wind farm in Ireland. These projects, along with further onshore wind projects in construction or pre-construction and the recently delivered Tievenameenta (34MW) wind farm, will add just over 1GW to SSE's renewable energy portfolio, taking SSE's total renewable energy capacity 4.3GW including pumped storage;

In addition, SSE is fulfilling a regulatory obligation to install smart meters for its Energy Supply customers. At 31 March 2017 SSE had installed over 500,000 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 is maintaining investment momentum, with capital and investment expenditure of around £1.7bn planned for 2017/18, similar levels currently expected for 2018/19 and around £6bn as a whole over the four years to 2020. Around £5bn of that is already committed, predominantly in building, owning and operating economically-regulated electricity networks and government-mandated renewable energy projects. The revenue derived from those assets is generally index-linked.

Simplifying and re-shaping the SSE group

As part of its long-standing strategic commitment to efficiency and disciplined investment, SSE is maintaining the significant downward pressure on its operating costs that it started in 2014.

Also 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 – all in the interests of simplifying and re-shaping the SSE group. The sale in March 2017 of its equity holding in the last of 11 PFI streetlighting contracts means the programme is now complete, and over the period between 2014 and 2017 SSE secured disposal proceeds and debt reduction as a result of this value programme totalling over £1.1bn.

The sale in October 2016 of a 16.7% stake in SGN for £621m is in addition to the £1.1bn received as a result of the value programme launched in 2014; but the SGN stake sale and the value programme both demonstrate that timely disposals to create value for shareholders should always be an option for SSE where they help to simplify and streamline the SSE group.

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 of '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. In line with this, in March 2017, it successfully issued £1.03bn of Hybrid debt. The dual tranche issue comprised £300m with a coupon of 3.625% and $900m with a coupon of 4.75%. The $900m tranche has been swapped back to both Euros and Sterling, bringing the all-in rate down to 2.72% and resulting in an all-in funding cost for both tranches to SSE of 3.02% per annum. The intent is to use the proceeds to replace SSE's hybrid issued in 2012 (at an all-in rate of 5.6%), which has an issuer first call date on 1 October 2017. This will result in an annualised cash saving of around £26m from 2018/19. The combined hybrid coupon and hybrid interest payments in 2017/18 are expected to be £128m falling to around £80m in 2018/19. The new £1.03bn Hybrids have a fixed redemption date and are therefore debt accounted and included within Loans and Other Borrowings while the existing £2.2bn of Hybrids are perpetual instruments and are therefore equity accounted.

SSE has confirmed that the criteria applied by the Rating Agencies, Moody's and Standard and Poor's, will result in broadly the same value of hybrid equity treatment as that of previous years.

During the year the £300m Scottish Hydro Electric Transmission plc facility with the European Investment Bank was drawn into a 10 year fixed rate term loan at a rate of 2.076% while a new

£200m facility with the European Investment Bank was secured. The new facility is split evenly between SSE plc and Scottish Hydro Electric Transmission plc and will be drawn during 2017/18 at which point it will convert to 10 year term loans. The first of the one year extension options on the £1.5bn of bank facilities was exercised in 2016 meaning these facilities now mature in 2021 while the second one year option is likely to be exercised during 2017 which will take these maturities to 2022.

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 in 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 31 March 2017, 91% 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. This means that all its major project capex requirements are hedged, including the Stronelairg wind farm that was approved in 2016. Translational foreign exchange risk arises in respect of overseas investments, hedging in respect of such exposures is determined as appropriate to the circumstances on a case-by-case basis. Overall, while SSE has kept its treasury policy under review following the result of the EU Referendum, it has so far identified no need for change.

Managing net debt and maintaining cash flow

SSE's adjusted net debt and hybrid capital was £8.5bn at 31 March 2017, compared with £9.0bn at 30 September 2016 and £8.4bn on 31 March 2016. The overall level of net debt and hybrid capital reflects SSE's ongoing investment programme however it also includes an accounting increase of around £212m as a result of fair value adjustments. The fair value adjustment relates to marked-to-market movements on cross currency swaps and floating rate swaps that are classed as fair value hedges under IFRS and as a result of Sterling weakness and lower interest rates during 2016/17 these have become more 'in the money' to SSE therefore increasing the net debt position. This accounting movement in debt is offset by an equivalent movement in derivative financial liabilities held on SSE's balance sheet.

Adjusted net debt and hybrids at 31 March 2017 also includes £369m of the £500m proceeds identified for the share buy back from the sale of a 16.7% stake in SGN. Of this, £65m was deployed during the irrevocable, non-discretionary programme that continued during the close period from 1 April 2017 which means as at 17 May 2017 SSE has directed £196m towards the buy back, re-purchasing around 13.4m shares. It still expects the process to be completed by the end of December 2017. Adjusted net debt and hybrids is forecast to be around £9.5bn at March 2018.

Adjusted net debt excludes finance leases and includes outstanding liquid funds that relate to wholesale energy transactions.

As noted above SSE's existing £2.2bn of hybrid equity is accounted for as equity within the Financial Statements but, as in previous years, has been included within SSE's 'Adjusted net debt and hybrid capital' to aid comparability. SSE's new £1.03bn of hybrid debt issued during 2016/17 is treated as

debt. 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, due to the different accounting treatments, only the £2.2bn of hybrid equity is part of that reconciliation.

The level of reported net debt also reflects SSE'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 31 March 2017 was 8.8 years, compared with 8.9 years at 31 March 2016.

SSE's debt structure remains strong, with around £8.7bn of medium/long term borrowings in the form of issued bonds, European Investment Bank debt and other loans. This includes £1.03bn of hybrid equity with their first call date on 2 October 2017, which it is intended will be redeemed using the proceeds of the most recent hybrid issuance.

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 £1.4bn and around £1.2bn of medium-term borrowings which will mature in the period to March 2018, including the hybrid bonds mentioned above.

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; and
- In **February 2017** (relating to the interim dividend for 2016/17) resulted in a reduction in cash dividend funding of £95.3m, with 6.3m 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 £1,289m and has resulted in the issue of 93.4 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 2016/17 were £328.1m, compared to £310.9m in 2015/16 reflecting the increase in net debt in the year. Reported net finance costs were £163.9m, compared to £192.1m. This reduction reflects a positive movement in finance derivatives of £52.6m in 2016/17 compared to £14.3m in 2015/16.

The coupon payments relating to the existing £2.2bn hybrid equity are presented as distributions to other equity holders and are reflected within adjusted earnings per share when paid. In 2016/17 these totalled £119.3m, compared to £124.6m in the previous year. The coupon payments on the new £1.03bn hybrid debt issuance are treated as finance costs under IFRS and were £1.3m in 2016/17.

Tax

SSE is one of the UK's biggest taxpayers, and in the survey published in November 2016 was ranked 14th out of the 100 Group of Companies in 2016 in terms of taxes paid. In the year to 31 March 2017, SSE paid £385.0m of taxes on profits, property taxes, environmental taxes, and employment taxes in

the UK, compared with £453.9m in the previous year. Total taxes paid in 2016/17 were lower than the previous year, primarily due to:

- reduced taxable profits from Gas Production as a result of lower gas prices and capital allowances from the Greater Laggan acquisition in 2015/16;
- the reduction in the Petroleum Revenue Tax rate to 0% from 1 January 2016;
- a one-off Land & Buildings Transaction Tax liability in 2015/16 on the Greater Laggan acquisition; and
- lower Climate Change Levy liabilities through reduced coal consumption.

SSE also paid €16.5 million of taxes in the Republic of Ireland, being the only country outside of the UK in which it has any trading operations.

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

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

For reasons already stated above, SSE's focus is on adjusted profit before tax, and in line with that, SSE believes that the adjusted current tax charge on that profit is the tax measure that best reflects underlying performance. SSE's adjusted current tax rate, based on adjusted profit before tax, is 10.2%, as compared with 12.8% in 2015/16 on the same basis.

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

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 2017/18 and beyond. Its financial priorities for 2017/18 as a whole include:

- Delivering an annual increase in the dividend that at least keep pace with RPI inflation;
- Maintaining dividend cover in a range from around 1.2 times to around 1.4 times, albeit towards the bottom of it;
- Continuing a disciplined approach to investment in building, owning and operating a balanced range of energy related assets and delivering assets within the established investment programme, especially in economically-regulated Networks and government-mandated renewables;
- Maintaining a strong balance sheet, with robust ratios for retained cash flow and funds from operations/debt; and
- Completing deployment of the SGN stake sale proceeds by way of the on market share buy back, a process which could continue until the end of 2017.

WHOLESALE

Wholesale Key Performance Indicators

Energy Portfolio Management (EPM) and Electricity Generation	Mar 17	Mar 16
EPM and Generation adjusted operating profit - £m	501.2	436.3
EPM and Generation reported operating profit/(loss) - £m	736.1	(174.8)
EPM and Generation capital expenditure and investment - £m	475.0	382.6
GENERATION CAPACITY - MW		
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	1,995
Multi-fuel capacity - (MW)	34	34
Total thermal generation capacity – MW	**7,334**	**7,282**
Pumped storage capacity (GB) – MW	300	300
Conventional hydro capacity (GB) – MW	1,150	1,150
Onshore wind capacity (GB) – MW	900	900
Onshore wind capacity (NI) – MW	122	88
Onshore wind capacity (ROI) – MW	456	456
Offshore wind capacity (GB) – MW	344	344
Biomass capacity (GB) – MW	37	37
Total renewable generation capacity (inc. pumped storage) – MW	**3,309**	**3,275**
Total electricity generation capacity (GB and Ire) – MW	**10,643**	**10,557**
Renewable capacity qualifying for ROCs - MW	c1,850	c1,800
GENERATION OUTPUT - GWh		
Gas- and oil-fired (inc. CHP) output (GB) – GWh	14,977	10,160
Gas- and oil-fired output (Ire) – GWh	2,463	1,780
Coal-fired (inc. biomass co-firing) output – GWh	901	6,141
Total thermal generation – GWh	**18,341**	**18,081**
Pumped storage output – GWh	**233**	**252**
Conventional hydro output – GWh	3,101	4,074
Onshore wind output GB – GWh	1,895	2,439
Onshore wind output NI – GWh	251	235
Onshore wind output ROI – GWh	1,211	1,308
Offshore wind output – GWh	1,172	1,312
Biomass output GB – GWh	92	75
Total renewable generation (inc. pumped storage) – GWh	**7,955**	**9,695**
Total Generation output all plant – GWh	**26,296**	**27,776**

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 and is due to reduce to be zero from 1 April 2018)
Note 4: Keadby TEC increased by 20MW to 755MW and Medway TEC increased by 35MW to 735MW from 1 April 2016.
Note 4: Wind output excludes 309GWh of constrained off generation in 2016/17 and 387GWh in 2015/16
Note 5: Onshore wind capacity and output at March17 excludes 175MW related to the Clyde disposal in March 16
Note 6: Waste to Energy GWh not included above as contracted to third party
Note 7: Slough Heat & Power Biomass Plant's financial results are reported within SSE Enterprise. Capacity and output included above.

	Mar 17	Mar 16
GAS PRODUCTION		
Gas production adjusted operating profit - £m	26.4	2.2
Gas production reported operating profit/(loss) - £m	(201.1)	(159.6)
Gas production – M therms	618	403
Gas production – Mboe	10.21	6.55
Liquids production – Mboe	1.05	0.13
Gas production capital investment – £m	72.9	56.1
Total net proven and probable reserves (2P) bn therms	2.5	3.6
Total net proven and probable reserves (2P) Mboe	43	59
GAS STORAGE		
Gas storage adjusted and reported operating (loss)/profit - £m	(13.0)	4.0
Gas storage reported operating profit/(loss) - £m	(36.8)	(146.9)
Gas storage customer nominations met - %	100	100
Gas storage capital investment - £m	-	0.2

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.

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 of assets, contracts and investment opportunities in the context of a changing market, spreading risk in order to deliver returns in varied and challenging conditions.

Financial performance in Wholesale

During the year to 31 March 2017 total adjusted operating profit in Wholesale was £514.6m compared to £442.5m in the previous year. The primary drivers relating to operating profit are as follows:

- **Energy Portfolio Management and Electricity Generation:** adjusted operating profit increased to £501.2m in 2016/17 compared to £436.3m in 2015/16, despite lower renewable energy output, due to improved financial performance in thermal generation and Energy Portfolio Management;
- **Gas Production:** adjusted operating profit increased to £26.4m in 2016/17, compared to £2.2m the previous year, due to an increase in production as additional West of Shetland fields came on line and improved winter gas prices compared to the previous year;
- **Gas Storage:** an adjusted operating loss of £13.0m was recorded in 2016/17, compared to an adjusted operating profit of £4.0m the previous year, reflecting sustained challenging market conditions;
- **Reported Wholesale Operating Profit:** reported operating profit for the Wholesale segment was £498.2m compared to an operating loss of (£481.3m) in 2015/16. This improvement was due to the recognition in the previous year of £868m of exceptional charges relating to thermal generation plants, gas storage facilities and gas production fields. In 2016/17, net exceptional charges were significantly lower and included a gain on revaluation of the SSE's Clyde wind farm

following part disposal. In addition, marked -to-market derivatives were significantly less 'out of the money' at March 2017 than at March 2016.

Energy Portfolio Management (EPM)

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.

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.

Energy Generation (Renewables)

Summarising performance in 2016/17

Output of electricity from renewable sources, including pumped storage decreased in 2016/17, compared to the previous year (8.0TWh compared to 9.7TWh). The primary driver for this differential was the weather; put simply there was lower rainfall and less windy conditions in 2016/17 than in the previous year. Overall renewable energy capacity including, conventional hydro and pumped storage, increased, from 3,275MW to 3,309MW with the delivery of the 34MW Tievenameenta onshore wind farm in Northern Ireland which entered commercial operation in February 2017. Availability of the renewable energy portfolio to generate electricity remained high throughout the period.

Onshore Wind

SSE continues to operate under the policy support regime for renewable generation capacity in the UK, currently delivered through the Renewables Obligation (RO) (which also applies in Northern Ireland); and the Contracts for Difference (CfD) mechanism. In Ireland support is provided via REFIT 2.

SSE has four onshore wind projects under construction which will qualify for the GB or NI RO:

- **Dunmaglass (94MW)** – the project is now in the final stages of construction and is scheduled for completion by summer 2017.
- **Clyde Extension (173MW)** – turbine erection is advanced and the project is expected to be fully operational by autumn 2017.
- **Bhlaraidh (108MW)** – turbine erection is advanced and the project is expected to be fully operational in late 2017.
- **Slieve Divena 2 (19MW)** - construction of this project in Co. Tyrone is progressing well and is expected to be fully operational in summer 2017.

SSE expects a fifth onshore wind project under construction to qualify for the GB RO:

- **Stronelairg (225MW)** – The Judicial Review appeal was upheld by the Court of Session in July 2016. Full construction in now under way and is expected to be completed in 2018.

SSE has two onshore wind projects under construction which will qualify for ROI REFIT 2 support:

- **Galway Wind Park (SSE Share 120MW) –** construction of this two-phase project totalling 174MW, making it Ireland's largest onshore wind farm, is due to be completed by autumn 2017.
- **Leanamore (18MW)** – a new addition is in Co. Kerry where construction is under way and is expected to be completed by the end of 2017.

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

SSE is continuing to advance its planning application for the Doraville development in Northern Ireland. In March 2017, it confirmed a new design layout which includes a reduction in turbine numbers and a change in turbine specification to optimise generation to 119MW.

Offshore Wind

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%). Both onshore and offshore construction are now under way and the project is expected to be fully operational in 2019.

SSE has an interest in two further offshore wind farm developments: **Seagreen** (Phase one up to 1050MW, a 50:50 partnership with Fluor Limited); and **Forewind** (up to 4,800MW). Seagreen was subject to a judicial review in the Court of Session which found in favour of the petitioner, RSPB, in July 2016. This decision was appealed in February 2017. On 16 May 2017, the Court of Session ruled in favour of developers and the Scottish government. Forewind has consent for four separate 1,200MW projects in the Dogger Bank Zone. In March 2017 SSE and Statoil agreed to acquire Statkraft's stake in the consortium, taking their share to 37.5% each with Innogy holding the other 25%. The three Joint Venture partner organisations will agree the best route forward for the projects.

Energy Generation (Thermal)

Protecting capacity margins

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), addressed this issue through the implementation of the Capacity Market. SSE supports the Capacity Market as the best way to deliver security of supply at the lowest cost to consumers. It also supports the UK Government's recent changes which have strengthened the Capacity Market by creating a more level playing field between participants.

In December 2016 the UK Government procured a revised figure of 52.4GW in the auction for delivery in 2020/21. SSE pre-qualified 7,033MW of capacity and of this 3,239MW successfully secured agreements worth £72.9m.

In January 2017 the UK Government procured 54.4GW in a supplementary auction for delivery in 2017/18. SSE pre-qualified 5,898MW of capacity and of this 4,451MW successfully secured agreements worth £30.9m.

To secure the revenue arising from the Capacity Market, providers of generating capacity must produce electricity when the system requires it; failure to do so will result in penalties being levied.

Managing developments regarding thermal 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 from 2017 through to 2021.
- **Keadby (755MW wholly owned)** has capacity obligations from 2017 through to 2021.
- **Peterhead (1,180MW wholly owned)** Up to 400MW can operate in the market, currently has a voltage control contract with National Grid until 30 September 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 from 2017 through to 2021.

SSE supports the UK Government policy to encourage investment in new gas-fired generation. It will continue to take a disciplined approach to developing options for new stations, including Keadby 2 in Lincolnshire and Abernedd in Port Talbot. SSE submitted an application to BEIS in August 2016 to vary the Abernedd planning consent to allow an OCGT station of up to 299MW.

SSE announced in February 2017 that it was undertaking a review of future options for Peterhead Power Station in Aberdeenshire. The station's location means it is required to pay significantly higher Transmission Entry Capacity (TEC) costs than other power stations on the electricity system. This puts it at a disadvantage in the Capacity Market auction and it has failed to secure a contract in any of the auctions to date. TEC has been reduced to zero from 1 April 2018 as a risk mitigation measure to avoid a substantial cancellation charge which would have applied if TEC had been cancelled later in the year. Should the review and engagement with stakeholders conclude that the station has an enduring future SSE will reapply for TEC and, subject to receiving a satisfactory offer from National Grid, reinstate it. SSE is considering all possible options for the site during the review, which is expected to be concluded in the coming months.

SSE operates one wholly-owned **coal-fired** power station, at Fiddler's Ferry (Cheshire, 1,995MW). The station provided ancillary services to National Grid in a one-year contract secured by tender which ended on 1 April 2017. Fiddler's Ferry has capacity obligations for three of the four units from 2017 through to 2019.

In the 12 months to 31 March 2017, SSE's 464MW Great Island CCGT station in **Ireland (grid connection capacity set at 431MW)** exported 2.4TWh of electricity, up 40% on the previous year. 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.

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 multifuel generation facility known as Ferrybridge Multifuel 1 (FM1) in Knottingley, West Yorkshire. FM1 has now processed over 1 million tonnes of fuel and the station has taken on capacity obligations from 2017 through to 2021.

Construction is well under way 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, and is expected to be in operation from 2019. SSE currently owns 100% of Ferrybridge MFE 2 Limited but has a contractual agreement, subject to various contingent matters, to dispose of 50% of the share capital of the company to the joint venture partner of the initial multi fuel facility. This transaction is anticipated to take place within the next year.

Gas Production

Developments in 2016/17

SSE's gas production portfolio comprises stakes in mature assets in Easington and Bacton Catchment Areas in the Southern North Sea as well as equity in new fields in the Greater Laggan Area which are located to the West of Shetland. Total output in 2016/17 was 618 million therms (10.2 mmboe) of gas and 1.0 mmboe of liquids, compared with 403 million therms of gas (6.6 mmboe) and 0.1 mmboe of liquids in 2015/16. This significant rise in production was primarily due to the ramp up of output from the newly commissioned fields in the Greater Laggan Area partially offset by the natural decline in output from the more mature fields in Easington and Bacton Areas.

In the Greater Laggan Area, gas production started in 2016 from the Laggan and Tormore fields with production rates peaking at up to 90,000 boe a day. The nearby Edradour and Glenlivet fields are both expected to start production by the end of 2017 helping to maintain production at peak rates during 2018.

Following a technical review of SSE's gas asset portfolio conducted by SSE's independent reserves auditors, the economically recoverable, Proven plus Probable (2P) Reserves in SSE's gas production portfolio of assets were assessed as being 2.5bn therms at 31 March 2017 compared to 3.6bn therms at 31 March 2016. As well as the production in the year, this movement in estimated reserves reflects a significant reduction in the estimated 2P reserves in the Greater Laggan Area assets that is only partially offset by an increase in those of SSE's mature asset base in the Southern North Sea. The reduction in the estimated Greater Laggan Area 2P reserves resulted in an exceptional impairment of £180.5m at the year end. While this is clearly disappointing, movement in the technical assessment of 2P reserves is a well-known occurrence in the Gas Production business. Therefore, further reassessments will be expected in relation to these relatively new fields. For the Greater Laggan Area fields, the movement in the reserves position reflects current best, but early stage, understanding of the fields, where it now appears there is greater compartmentalisation of gas than expected, which it is assessed, will require some further capital investment to extract. Consequently, this also means that the level of Contingent Reserves (2C) has increased compared to March 2016.

Despite reduced estimated 2P reserves, these gas production assets are still an important long term asset and are expected to make an important contribution to EBITDA with SSE's average annual volumes of gas and liquids produced expected to average around 500million therms (8.1mmboe) of gas per year in the three years to March 2020. Thereafter, on current reserve estimates, production is expected to decline to minimal levels by 2025.

Gas Storage

Both of SSE's storage sites have continued to operate to meet the needs of their customers through 2016/17, following the return to service of the Hornsea (Atwick) site earlier in the year:

- Hornsea (Atwick) met 100% of customer nominations with the site 86% available through the second half of the year, except in instances of planned maintenance.
- Aldbrough met 100% of customer nominations and delivered a record 98% availability, except in instances of planned maintenance, throughout the year.

Alongside the under-pinning requirements to ensure the highest standards of safety and 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 in the UK continued to be extremely challenging in 2016/17. SSE's response to these conditions has combined strict financial discipline regarding managing expenditure with innovative development of new products to meet the evolving needs of customers.

The decision to mothball two of the Atwick caverns, along with a continued focus on reducing operating costs reflects the first element of this response with good progress being made on the cavern mothballing project since its announcement. The commercialisation of further new products during the year, along with the sale of 100% of the Hornsea (Atwick) site capacity through the recent auction, reflects the second element of SSE's response.

SSE remains committed to working with UK government departments to ensure the critical role of UK storage in relation to security of supply and stability of gas price is maintained despite the current threats to the viability of the already low storage levels operating in the UK when compared to Europe.

Wholesale – Conclusion and Priorities

In addition to their first priority of safety, SSE's Wholesale businesses aim to create sustainable long-term value through the responsible production, storage and provision of energy and related services for energy customers; ongoing rigour in optimising its portfolio of existing assets and contracts; and developing new options for building, owning and operating assets and delivering those in construction.

Wholesale priorities for 2017/18 and beyond

SSE's Wholesale businesses' priorities in 2017/18 and beyond are to:

- maintain and operate efficiently and reliably its generation portfolio across the UK and Ireland;
- deliver new assets in construction and develop new opportunities to build, own and operate assets in the future;
- secure a stable and predictable supply of energy to meet SSE's requirements;
- secure value, where appropriate, through the risk-managed trading of energy-related commodities.
- ensure efficient delivery of gas from the offshore gas fields in which SSE has a shared ownership.
- safely, efficiently and reliably operate and maintain SSE's gas storage facilities, and ensure they are available for use by its customers.

NETWORKS

Networks Key Performance Indicators

	Mar 17	Mar 16
ELECTRICITY TRANSMISSION		
Transmission adjusted and reported operating profit - £m	263.7	287.2
Regulated Asset Value (RAV) - £m	2,685	2,287
Capital expenditure - £m	505.0	573.4
ELECTRICITY DISTRIBUTION		
Electricity distribution adjusted and reported operating profit - £m	433.4	370.7
Regulated Asset Value (RAV) - £m	3,246	3,157
Capital expenditure - £m	284.7	258.3
Electricity Distributed TWh	39.3	39.5
Customer minutes lost (SHEPD) average per customer	60	55
Customer minutes lost (SEPD) average per customer	43	41
Customer interruptions (SHEPD) per 100 customers	68	66
Customer interruptions (SEPD) per 100 customers	48	47
SCOTIA GAS NETWORKS SSE's 50% share reducing to 33% from 26 Oct 2016		
SGN adjusted operating profit (SSE's share) - £m	239.4	268.7
SGN reported operating profit (SSE's share) - £m	151.7	175.3
Regulated Asset Value - £m	1,748	2,513
Uncontrolled gas escapes attended within one hour %	98.7	98.5
SGN gas mains replaced – km	457	960

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 maintenance of a balanced range of assets, operational efficiency and disciplined investment. The RAV (Regulatory Asset Value) of SSE's five existing Networks companies is now on course to reach close to £9bn by 2020, which is net of the disposal of a 16.7% stake in SGN in October 2016. (This remains consistent with the forecast of £10bn RAV by 2020 which was in place prior to the SGN 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 RIIO Price Control framework 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 are core to SSE's strategy in the short, medium and long-term and

contribute significantly to its ability to deliver annual dividend increases that at least keep pace with RPI inflation.

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 has established an independent 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 consists of a Chair and six members, recruited to reflect a broad range of external interests, skills, knowledge and experience. Through its work, the Panel brings 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 year to 31 March 2017, total adjusted operating profit in Networks was £936.5m, compared to £926.6m in the previous year, with the principal movements as follows:

Electricity Transmission: as expected, adjusted operating profit decreased to £263.7m in 2016/17, from £287.2m in 2015/16, reflecting the phasing of capital expenditure and revenue associated with the growing asset base;

Electricity Distribution: adjusted operating profit rose to £433.4m in 2016/17, from £370.7m in 2015/16, reflecting additional income as a result of the £38m under recovery of revenue from 2014/15, as outlined in customer charges published in December 2015 for 2016/17. In 2016/17, around £35m of DPCR losses incentive income was also received, with a final instalment of £15m due in 2017/18;

Gas Distribution: SSE's share of SGN's adjusted operating profit fell to £239.4m in 2016/17, from £268.7m the previous year, mainly due to SSE's partial equity disposal in October 2016 and partly to the phasing of regulatory revenue and the obligation to share outperformance with customers, which is part of the RIIO Price Control. The impact on operating profit of the part disposal is estimated as being £37m; and

Reported Networks Operating Profit: reported operating profit for Electricity Transmission and Distribution is the same as adjusted operating profit. SSE's share of SGN's reported operating profit fell to £151.7m, compared to £175.3m. This is in line with the movement in adjusted operating profit and in addition reflects the change in SSE's share of SGN's interest and tax.

The £307.3m gain on sale of the SGN stake is reflected in Corporate Unallocated reported operating profit.

Financial Outlook – 2017/18

As previously highlighted in its Notification of Close Period in March 2017, in 2017/18 SSE currently anticipates that its Networks' operating profit, including SGN, will be around £100m lower than in 2016/17, on a like-for-like basis (£150m on an absolute basis) as a result of the following:

- base revenue in Electricity Transmission is expected to decrease by around £40m compared with 2016/17 mainly due to the phasing of capital expenditure on significant projects and the resulting impact on regulatory revenue. Base revenue is then expected to return to 2016/17 levels for the subsequent three years, although depreciation charges are also expected to increase as a result of continued investment;
- Electricity Distribution revenue in 2016/17 included an additional £38m that was 'under-recovered' from 2014/15. The under recovery from 2015/16, recoverable in 2017/18 was significantly lower, at approximately £5m. As mentioned above, around £35m of DPCR losses incentive income was also received in 2016/17, with a final instalment of £15m due in 2017/18; and
- changes in the Gas Distribution revenue earned by SGN are likely to have the effect of reducing its operating profit contribution to SSE by around £20m, after taking account of SSE's sale of a 16.7% stake in the business.

The Electricity Distribution revenue position for 2016/17 is being finalised and is expected to be an over-recovery of around £10m and will be reflected in lower revenue in 2018/19.

Electricity Transmission

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

Maintaining a track record of delivering a major programme of investment

Since the start of the RIIO T1 price control in 2013, SSEN's capital investment in its transmission network has totalled close to £1.9bn, playing a pivotal role in providing the supporting infrastructure to facilitate the UK's transition to a low carbon economy. With its committed pipeline of investment, it expects to increase its RAV from £2.69bn as at March 2017 to over £3bn by March 2018.

Good progress continues to be made with the delivery of SSEN's flagship Caithness-Moray transmission link, which remains on schedule to be delivered on time and within allowed spend. With an agreed allowance of £1,118m (2013/14 prices), the project is the largest single investment undertaken by the SSE group to date.

A number of key onshore enabling works related to the project were completed in 2016/17, including the first part of the new Blackhillock Substation, which was successfully energised in September 2016; and the first element of the northern part of the project, which was successfully energised at Dounreay Substation in March 2017.

The manufacture of the subsea cable is now complete and work to clear the seabed of rocks and boulders was successfully completed in March 2017. Work has begun to create a trench on the Moray Firth seabed in advance of the subsea cable installation, which is due to be installed by a specialised cable-laying vessel during 2017. The Caithness-Moray reinforcement remains on course to be commissioned by the end of 2018.

Recovering the costs of Beauly-Denny

Following the successful energisation of the 220km Beauly-Denny overhead line replacement in November 2015, SSEN engaged with Ofgem regarding the recovery of efficiently incurred costs. In January 2017, Ofgem determined that the full £58.8m (2009/10 prices) of additional costs were efficient and will allow £27.8m to be included as an Asset Value Adjustment Event, with the additional revenue stream starting in 2017/18. The remaining £31m will be recovered at the end of the RIIO-T1 period in 2021/22.

Delivering a record year for connecting new sources of renewable generation

In advance of the closure of the Renewables Obligations Scheme, there has been an increased demand for SSEN to provide connections to its transmission network for renewable energy developers.

In total, including that connected at distribution level, SSEN connected over 500MW of renewable electricity to its transmission network in 2016/17, the highest combined capacity to connect to the north of Scotland transmission network in a single year since electricity privatisation.

SSEN's delivery of these projects and other strategic investments has played an essential part in facilitating the rapid growth of renewable energy within its licence area, bringing the total connected generation capacity supported by its transmission network, including that connected at distribution level, to over 5GW, of which over 4.5GW is from low carbon renewable sources.

SSEN expects to connect a significant number of new renewable energy projects to its transmission network throughout the remainder of this Price Control to March 2021, subject to those renewable projects reaching financial close.

Fulfilling responsibilities for potential island links

SSEN remains fully committed to bringing forward proposals for new transmission links to the Scottish Islands. A UK Government consultation on the treatment of non-mainland GB onshore wind projects took place during 2016/17 and SSEN continues to await the outcome of the consultation and subsequent developer commitment before it will be in a position to submit a 'Needs Cases' to Ofgem for the Western Isles and Shetland. SSEN continues to engage with affected stakeholders in order to progress the development of the links in anticipation of the consultation outcome.

Adapting to policy and regulatory change

SSEN continues to engage constructively with Ofgem in relation to the development of the regime for Extending Competition in onshore Transmission (ECIT). Whilst it is not yet clear when ECIT might be implemented, the introduction of competition poses some potential risks to future growth and revenue, but also presents opportunities. With a strong track record for connecting renewables on time and within budget, 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.

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, SSEN led the development of the National HVDC Centre in Cumbernauld via Ofgem's Electricity Network Innovation Competition. The centre, which formally opened in April 2017, allows engineers to replicate the complexities of the future transmission system in real time, using powerful computer simulators to enable potential risks to be identified and addressed.

Innovation continues to play a key role in meeting the needs of customers, with SSEN utilising ACCC (Aluminium Conductor Composite Core) Monte Carlo conductor for the first time on its network to provide the connection for the combined Bienneun (Blue Energy, 108.8MW) and Bhlaraidh (SSE Renewables, 108MW) wind farms. This innovative technology enabled SSEN to reduce costs and timescales whilst also mitigating the visual and environmental impact of the connection by the use of reconductoring and strengthening of the existing 132kV steel towers which dispensed with the need for the erection of new additional trident wood poles. SSEN expects to deploy this innovative technology on a number of other projects in the years ahead.

Working with stakeholders

Under the RIIO-T1 price control, Transmission Owners 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 2016, SSEN received Ofgem approval for its proposed approach and expects to set out a series of proposed projects to take forward for funding from Ofgem later in 2017.

Operating a rapidly growing network

SSEN's first priority is to provide a safe and reliable supply of electricity to the communities its transmission network serves. SSEN has 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 the current period of rapid growth in transmission development, including commissioning of substantial new assets and connection of large volumes of renewable generation capacity, SSEN has maintained an impressive reliability of over 99.9%.

Looking ahead to the next Price Control

SSEN is at the midpoint of the RIIO-T1 price control which ends March 2021 and is now starting to develop its business plan for the next price control period. During 2017/18 SSEN will undertake a period of engagement and consultation with key external stakeholders, including the Stakeholder Advisory Panel, to help shape and influence its future business plan commitments.

Electricity Distribution

Scottish and Southern Electricity Networks (SSEN), operating as Scottish Hydro Electric Power Distribution (SHEPD) and Southern Electric Power Distribution (SEPD) under licence, is responsible for maintaining the electricity distribution networks supplying over 3.7 million homes and businesses across central southern England and north of the central belt of Scotland, the Mull of Kintyre and the Scottish islands.

Delivering for customers

Now in the second year of the RIIO-ED1 price control, SSEN's electricity distribution business continues to adapt to the regulatory framework and has delivered significant changes to its operations, processes and standards to ensure the needs of its customers remain at the forefront of decision making.

The outcomes of the incentive based framework within which SSEN operates are increasingly dependent on customer opinion and feedback. Financial performance is reflected against: the Interruption Incentive Scheme; Ofgem Customer Satisfaction Measures; Incentive in Connections Engagement; Complaints Performance and Stakeholder Engagement and Customer Vulnerability.

By making the concerted effort to focus on its people and its processes, SSEN has made significant changes to ensure it is meeting its customers' needs and delivering against the measures as set by the RIIO ED1 price control. This has ensured it is able to deliver outputs aligned to the expectations of its customers, stakeholders and the regulator while delivering a fair financial return to investors.

Keeping the lights on

As part of RIIO-ED1, SSEN is incentivised on its performance against the loss of electricity supply through the recording of Customer Interruptions (CI) and Customers Minutes Lost (CML), which include both planned and unplanned supply interruptions.

During 2016/17, Customer Interruptions rose to 68 (SHEPD; 66 in 15/16) and 48 (SEPD; 47 in 15/16) per 100 customers. Customer Minutes Lost rose to 60 minutes (SHEPD; 55 in 15/16) and 43 minutes

(SEPD; 41 in 15/16) per customer. Despite this marginal rise in both CI and CML metrics, SSEN continues to outperform the pre-determined targets set by Ofgem.

When planned outages, which serve to improve network reliability, are excluded, both CI and CMLs decreased in comparison to 2015/16 in the SHEPD licence area, highlighting an improved performance in restoring power in fault situations. Despite an increase in extra-high voltage (EHV) faults in the SEPD licence area, performance improved in the high voltage (HV) and low voltage (LV) networks reflecting an increased investment in automation schemes and the implementation of improved business processes prioritising customer restoration.

SSEN's commitment to providing a safe and secure electricity supply and to minimise unplanned interruptions requires a continuous programme of investment in the network. During 2016/17, SSEN's programme of network investment included reinforcements, upgrades to automation and tree cutting. The success of the programme is providing an improved service for customers as well as a fair return for SSEN through the incentive mechanism.

The regional operations model, now in its second year, continues to deliver benefits in operational efficiency and in the improved service SSEN provides to its customers and communities. This includes faster response times thanks to a focus on speed of fault restoration and targeting investment in key circuits to improve network reliability.

Increasing customer satisfaction

In 2016/17 SSEN made significant improvements to its customer service processes and in the way it engages and communicates with its customers. This has increased customer awareness of SSEN and has helped to improve broad measure incentive performance across the business.

By improving customer contact experience, including the use of proactive outbound calls, performance against the RIIO-ED1 customer satisfaction measure increased significantly, from £1.6m (2015/16) to £2.75m (2016/17). Complaints performance also rose, with SSEN resolving 78% of complaints within 24 hours (65% in 2015/16) and 98% within 31 days (95% in 2015/16), resulting in no incentive penalty (potential -£3.1m). This improved performance will feed into SSEN's regulated income in 2018/19.

Ahead of winter 2016/17, SSEN delivered an awareness campaign, including advertising on TV, radio and digital outputs. The campaign promoted the new single emergency power cut number 105; what to do during a storm; and to promote the services it provides for customers, including those who may need extra help through SSEN's Priority Service Register. This was followed up by a customer communication delivered to all 3.7m customers in its two distribution areas in January 2017. As well as driving a general increase in awareness of SSEN, these measures have resulted in a three-fold increase in sign-ups to SSEN's Priority Service Register.

Protecting vulnerable customers

SSEN delivered a number of initiatives in 2016/17 to help protect its most vulnerable customers and seek to improve performance in the Stakeholder Engagement and Consumer Vulnerability incentive.

In November 2016 SSEN became the first network operator to meet the requirements of the British Standard Inclusive Service Provision (ISP) BS18477:2010 for two years in a row. The achievement outlines the critical procedures to ensure inclusive services are available and accessible to all customers equally, regardless of their personal circumstances.

In 2016/17, SSEN created a vulnerability mapping portal, which provides it with detailed demographic information about its communities. The bespoke tool allows SSEN to make informed decisions about assistance during power cuts, planned supply interruptions and where to promote its Priority Service Register.

Preparing for a new, flexible energy system

In their joint Call for Evidence in November 2016, BEIS and Ofgem put forward their view on the transition from the traditional Distribution Network Operator model to a prominent Distributed System Operator (DSO) role. SSEN believes this transition will meet the needs of a flexible and de-carbonised electricity system, serving to protect customers' interests whilst ensuring the network remains resilient and affordable.

In 2016/17 SSEN's innovation projects provided some significant findings, which will ultimately inform this transition:

- The New Thames Valley Vision project explored a number of innovative methods, including network monitoring, battery storage and thermal storage. This was done to anticipate and manage the growth of new technologies connecting to the electricity network, including electric vehicles, heat pumps and solar panels. Its findings detail how network reinforcement can be avoided by the use of smart technologies, such as Active Network Management.
- Following the My Electric Avenue project, which identified the impact of electric vehicles on the electricity network; SSEN has taken these findings and launched a new project – Smart EV. The aim of the project is to create and collaborate with other DNOs, National Grid, DECC and Ofgem on an industry-accepted solution for managing future EV charging, in the form of an Engineering Recommendation. This will help DNOs protect the LV network and allow EVs to connect to networks.
- The Shetland-based Northern Isles New Energy Solutions (NINES) project allowed SSEN to use large and small scale energy storage solutions and new monitoring and control systems, to deliver an Active Network Management (ANM) solution on the islands. It allowed for a 200% increase in renewable energy contribution on Shetland by helping to manage grid constraints more efficiently in real time. The project's findings can be modelled across the wider-GB electricity network and they will play a vital role in it adapting to a flexible and de-carbonised electricity system.

SSEN's innovation projects are designed to help anticipate and prepare the electricity network operators for future energy scenarios. It continues to deploy technologies, such as Constrained Managed Zones and LiDAR technology, at a business-as-usual level to develop a system that is transparent, reliable and affordable.

SSEN will continue to engage with industry, policy-makers and the regulator in support of a phased approach to the DSO transition whereby impacts can be carefully reviewed and the best interests of customers maintained.

Making progress on a new energy solution for Shetland

The Shetland isles are not connected to the GB Main Island Transmission System and all Shetland's energy needs are met from a range of generation sources located on the islands, underpinned by the existing Lerwick Power Station. As Lerwick Power Station is reaching the end of its operational life, SSEN is conducting a competitive tender to secure the future of Shetland's electricity supply. This process will identify the most economic and efficient solution to meet Shetland's needs, as required by the energy regulator Ofgem. SSEN expects to appoint a preferred bidder in the summer of 2017 and, following a consultation by Ofgem, contracts are expected to be signed in late 2017.

Adapting to National Marine Plan in submarine cable replacement programme

The implementation of Scotland's National Marine Plan has introduced a number of changes to Marine Planning Policy which may have implications for the way in which subsea cables are installed within Scotland's waters. The Marine Plan now includes a clear preference for burial or protection as opposed to the approach successfully adopted by SSEN over many decades of surface laying its subsea cables.

SSEN has developed a Cost Benefit Analysis methodology to support each subsea cable licence application to Marine Scotland. The CBA is designed to ensure that all stakeholder views are considered and factored into the proposed installation method and that any additional costs are justified through a robust economic and evidenced based analysis.

SSEN expects to submit its first application to Marine Scotland under the new marine planning regime, supported by the output of its CBA methodology, in the summer of 2017.

SGN

SGN manages the networks distributing natural and green gas to 5.9 million homes and businesses across Scotland and the south of England and is currently building a third distribution network comprising around 700km of new gas pipelines in the west of Northern Ireland where some 40,000 customers will be able to connect to mains natural gas for the first time. In line with its reduced equity holding, SSE now receives 33.3% of the distributable earnings from SGN Ltd while, through a managed service agreement, continues to provide the same level of back-office support.

With the current Gas Distribution Price Control passing its mid-point review with no material changes from Ofgem, SGN continues to focus on delivering all its outputs under the RIIO framework. It is also focused on maximizing regulatory incentives while the focus of its innovation programme is to ensure gas has a secure future in the UK energy mix. At the same time, the management team ensures all its operations are run safely and efficiently providing customers with a safe and reliable gas network. SGN has invested significantly across the business, driving the implementation of innovative technology for the of benefit customers, the gas industry as a whole and the environment in which it operates, achieving several industry firsts.

Continued investment enables SGN to deliver a safe and reliable network for customers; minimise its impact on the environment; engage with and communicate its work to stakeholders and; deliver new customer-driven initiatives to help reduce fuel poverty and increase awareness of Carbon Monoxide dangers. SGN is committed to developing its workforce, driving diversity and inclusion throughout the company while building even stronger relationships within the diverse geographic and demographic communities it serves.

SGN has embedded a 'One SGN' ethos throughout the company resulting in outstanding customer satisfaction scores (UK No.1 GDN in 2016/17), and a reduction in the number of complaints (60% reduction overall since 2013). In terms of operational performance and safety, SGN has again exceeded the regulator's 97% emergency standard of attending uncontrolled public reported gas escapes within one hour.

Networks – Conclusion and Priorities

In addition to their first priority of safety, SSE's economically-regulated Networks businesses play a crucial role in the provision of energy in Scotland and southern England, delivering value for money for customers and a fair return for investors. SSE will work, in 2017/18 and beyond, to ensure it continues to meet the needs of customers and earn returns for shareholders through focusing on the current and future needs of customers, disciplined investment and innovation and excellence in delivery, creating a stable platform for future growth.

Networks priorities for 2017/18 and beyond

SSE's Networks businesses' priorities in 2017/18 and beyond are to:

- operate safely and meet all compliance requirements;
- provide an excellent service to all customers who rely on their networks and related services;
- deliver required outputs while maintaining tight controls over expenditure;
- maintain good progress in the safe delivery of new assets;
- progress innovations that will improve network reliability, efficiency and customer service and inform industry-wide improvements; and
- develop and maintain effective stakeholder relationships and conduct constructive engagement with regulators and legislators, advocating clarity and stability in the regulatory framework.

RETAIL (including Enterprise)

Retail (including Enterprise) Key Performance Indicators

	Mar 17	Mar 16
Energy Supply		
Energy Supply adjusted operating profit - £m	**389.5**	**398.9**
Energy Supply reported operating profit - £m	313.2	398.9
Capital expenditure (Energy Supply and Energy Related Services) - £m	184.3	169.0
Electricity customer accounts (GB domestic) – m	4.06	4.16
Gas customer accounts (GB domestic) – m	2.70	2.79
Energy customers (GB business sites) – m	0.45	0.47
All-Island energy market customers (Ire) – m	0.79	0.79
Total energy customer accounts (GB, Ire) – m	**8.00**	**8.21**
Electricity supplied household average (GB) – kWh	3,793	3,763
Gas supplied household average (GB) – th	440	426
Household/small business aged debt (GB, Ireland) - £m	80.2	103.2
Bad debt expense (GB, Ireland) - £m	47.9	44.0
Customer complaints to third parties (GB)[1]	1,322	1,416
1 Ombudsman: Energy Services and Citizens Advice		
Energy Related Services		
Energy Related Services adjusted operating profit- £m	**16.1**	**15.4**
Energy Related Services reported operating profit - £m	(20.3)	(2.4)
Home Services customer accounts (GB) – m	0.47	0.40
Supply customers' bills based on actual reading %	95.5	95.1
Smart Meters installed	Over 500,000	Over 180,000
Enterprise		
Enterprise adjusted and reported operating profit - £m	**16.7**	**40.9**
Capital expenditure - £m	58.7	48.5
SSE Heat network customer accounts	Over 6,500	Over 5,000

Supplying energy and essential services across Great Britain and Ireland

SSE is one of the largest energy suppliers operating in the competitive energy markets in Great Britain and Ireland. At 31 March 2017 it supplied electricity and gas to 8 million household and business accounts. It also provides other related products and services, including telephone, broadband and boiler care, to 0.5 million household and business customers. The Retail segment includes the Enterprise business which provides energy-related services to meet the needs of businesses and public sector organisations in a reliable and sustainable way. Taken together, these businesses contribute balance to the SSE group and demonstrate SSE's commitment to efficient operations and industry-leading customer service.

The rapidly evolving and increasingly competitive market for energy and related services presents a number of challenges for traditional energy supply business models and they must evolve and adapt in order to be sustainable in the medium to longer term. SSE has already made significant progress in its transformation from commodity provider towards becoming a retailer of energy and essential services, by digitalising and diversifying its business, and consistently leading the sector in customer service. This strategy is designed to help improve SSE's ability to retain its valued customers, offset the impact of the continued reduction in household energy demand and ensure it is well positioned

to capitalise on market developments in energy and related services in the short, medium and long term.

Financial performance in Retail

During the 12 months to 31 March 2017, total adjusted operating profit in Retail including Enterprise fell by 7.2% to £422.3m, the principal movements were as follows:

Energy Supply: adjusted operating profit across Energy Supply as a whole reduced slightly, to £389.5m, in 2016/17, compared to £398.9m in 2015/16. Within this, in GB household supply, increases in non- energy costs, the impact of the household gas tariff reduction in March 2016 and falling customer numbers were offset by the impact of reduced wholesale energy costs and slightly increased average consumption, leading to a small overall increase in adjusted operating profit. Business Energy profits decreased in 2016/17, reflecting an increase in non-commodity costs and a decrease in volumes supplied.

An improvement in estimation confidence in relation to the judgemental measurement of unbilled energy has enabled an additional £60m of revenue to be recognised in the year. This is split between household energy (£14m) and business energy (£46m).

In 2016/17, £27.5m of the bad debt provision was released, with the majority being allocated against a reduction in aged debt.

Energy-related services: adjusted operating profit increased slightly to £16.1m in 2016/17, compared to £15.4m in 2015/16, reflecting a reduction in revenue streams in the heritage metering business and continued investment in building scale in the customer-facing broadband and telecoms businesses;

Enterprise: adjusted and reported operating profit fell to £16.7m in 2016/17, from £40.9m in 2015/16, reflecting challenging conditions in a competitive environment, particularly in Contracting which was loss making in the year. Enterprise is now in a key phase of development with the recent appointment of a new Managing Director.

Reported Retail Operating Profit: reported operating profit for the Retail segment was £309.6m compared to £437.4m, the reduction was due to exceptional impairments in the year particularly the impairment of technology developments projects, principally relating to an Energy Supply customer billing system which is no longer being progressed. The reduction in reported operating profit also reflected the impairment of goodwill in the acquisition of the Energy Solutions Group in the Enterprise business.

In line with its licence condition, SSE will publish by July 2017 a Consolidated Segmental Statement (CSS) setting out the revenues, costs and profits or losses of businesses in its Wholesale and Retail segments in Great Britain for 2016/17. The CSS will be fully reconciled to SSE's published financial statements and reviewed by SSE's auditors, KPMG. It is expected to show that SSE's operating profit margin from supplying electricity and gas to British households was 6.9% in 2016/17, compared with 6.2% in 2015/16. SSE has previously highlighted a divergence between gas and electricity margins due to the increasing costs associated with vital policies designed to modernise and decarbonise Britain's energy infrastructure, which are levied predominantly against electricity. This divergence is expected to continue in the 2016/17 CSS, with margins becoming more balanced across fuels in 2017/18 following the changes to household electricity prices from 28 April 2017, detailed below.

Risks

Managing political, compliance and regulatory risk

SSE recognises that energy is an essential service and that customers rely on its core products of electricity and gas to power and heat their homes in order to live safely and comfortably. SSE is mindful that there remains considerable, and legitimate, political interest in energy supply markets, exemplified by the UK general election campaign. The sector will continue to be subject to scrutiny

and possible intervention by the new UK government. As ever, SSE's approach will be to engage actively and constructively with that government as it develops and takes forward its policies, as well as continuing its own efforts to engage and reward SSE customers; however, SSE would caution against potential unintended consequences of any proposed intervention in what is a rapidly changing and increasingly competitive market.

It therefore believes that further energy supply market reforms should be subject to substantive consultation to ensure that any such reforms are well-founded, supported by objective analysis and introduced in a way that benefits all customers and supports the functioning of an effective and sustainable energy supply market. SSE will participate fully and constructively in any such consultation process that takes place after the general election.

One issue that has been extensively debated in the course of the UK general election campaign is the possible introduction of a 'cap' on the energy prices paid by customers on standard variable tariffs (SVTs). As at 31 March 2017, of its 6.76 million GB domestic customer accounts, 4.76 million could be impacted by this. While the outcome of the general election won't be known until 9 June it appears likely that any price cap would be would be set by Ofgem, which regulated retail energy prices until 2002. The key features of any price cap are its core objective, the expected role of competition in the market featuring a cap, the methodology used for setting the cap, the frequency with which it is reviewed, the extent of any regional variations, its implications for other administered features of energy supply and its duration. The impact of a price cap on any energy supplier can only be fully determined once all of those features are clear and once that supplier has considered its strategy in response, covering the products and services it wishes to offer in a market featuring a price cap, and the cost base it is willing to sustain in order to do so.

Until the facts are known, the uncertainty around a possible price cap would clearly add to the risk for SSE and other energy suppliers and add to the volume of regulatory changes that need to be addressed and implemented and the significant consequences for finances.

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, and there are now more than 50 suppliers operating in the GB market alone. In addition, efforts to simplify the switching process for customers mean that, according to Energy UK data, more than 500,000 customers switched electricity supplier in March 2017, an increase of 13% on the March 2016. SSE is responding to this competition by investing in retention, taking additional steps to engage and reward its customers, and redoubling efforts to digitalise and diversify its Retail business.

Focusing on energy affordability

Affordability of energy is vitally important but must be balanced against the need to decarbonise and ensure the reliability of Britain's energy system. The cost of vital government programmes designed to achieve these aims by upgrading Britain's ageing energy infrastructure are predominantly levied against electricity customers; as a result, SSE regrettably had to take the difficult decision to increase electricity prices by an average of 14.9%, or 6.9% across a typical dual fuel bill, from 28 April. However, this was SSE's first price increase for three and a half years and, with gas prices held at previous levels, the typical dual fuel bill remains cheaper than in November 2013. Without this increase, SSE would have been supplying electricity at a financial loss.

However, SSE recognises the impact higher energy costs can have on customers, particularly the most vulnerable. With that in mind it is continuing work to deliver efficiencies across its business to mitigate the impact of rising costs and launched a new £5 million fund providing additional financial support for those who need it most, particularly those who rely on electricity for their heating. An update on progress in administering this fund will be provided in SSE's interim results statement for 2017/18.

Development and change: moving towards a smarter market

The energy sector in Great Britain is undergoing a radical transformation, in particular through the digitalisation of key infrastructure and services. Customer expectations and behaviours continue to evolve and this will mean energy suppliers must meet their needs differently if they are to be sustainable. This risk also presents an opportunity to enhance service levels, drive further engagement and reduce costs, and SSE has continued to invest in enhancing and digitalising its front-end, customer-facing systems to manage this risk and realise these benefits.

However, these investments need to be balanced against SSE's other key risks, particularly affordability; with this in mind SSE confirmed in January 2017 that it would not be replacing its billing system at this point in time, focusing instead on improvements to customer-facing systems and channels.

The underlying infrastructure is also being digitalised through the smart meter roll-out and SSE views this as a unique opportunity to transform the relationship between customers, their energy supplier and the energy they use. However, in order to take this opportunity SSE is focused on delivering its obligations in a way that is cost-effective and customer-centric, to maximise the net benefits for customers. As of 31 March 2017 it had installed over half a million smart meters.

Delays to delivery of critical central infrastructure including the Data Communications Company (DCC) have, however, impacted on the industry's ability to make progress and compressed the timetable for delivery. As with any infrastructure programme with dependencies and of this complexity and scale, there continue to be challenges associated with SSE's obligations under the smart meter roll out but SSE is working hard to mitigate the risks to delivery. SSE continues to maintain a constructive dialogue with its key partners and stakeholders including BEIS, Ofgem, Citizens Advice and Smart Energy GB, in order to raise concerns and share learnings as the roll-out progresses.

Progress in Energy Supply and Energy-related Services

SSE Retail has a long-standing strategy to respond to these and other risks by becoming a market-leading retailer of energy and essential services, by digitalising, diversifying and aiming for high levels of customer service. This approach will enable SSE to build stronger, more enduring customer relationships based on engagement, service and value.

Owing to ongoing competitive pressures, in the 12 months to 31 March 2017, SSE's energy customer accounts in Great Britain and Ireland fell from 8.21 million to 8 million. While any loss of customers is disappointing, this represents the smallest decline in SSE's customer numbers since 2013, due to the impact of efforts to improve retention and attract more new customers to SSE.

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 in the early part of 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.

In addition to the £5 million fund set up to provide extra financial assistance to vulnerable customers following SSE's household energy price increase from 28 April, SSE helps vulnerable customers manage their energy costs in a number of enduring ways:

- Through the Warm Home Discount scheme, as of 31 March 2017 SSE had allocated over 275,000 £140 rebates; by the end of the scheme year on 31 May 2017, SSE expects to spend around £46.4m, helping over 300,000 customers in total;

- SSE's customer service advisers proactively identified and referred over 5000 customers for benefit entitlement checks during the year, with more than 2700 customers successfully completing the check, resulting in an average increase in income of more than £3,200 a year per customer.
- SSE's Priority Assistance Fund provides additional support to low income and vulnerable customers, including debt relief, free energy efficiency advice, and help with bespoke payment arrangements.
- It also offers a free Careline priority service, dedicated to helping customers who are elderly, disabled or have special medical needs.
- In line with its licence, 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. In addition, SSE is a member of Safety Net, which is an additional voluntary commitment overseen by Energy UK. This commits signatory suppliers to never knowingly disconnect vulnerable customers at any time.

Particularly in the context of rising prices, SSE aims to engage constructively and understandingly with customers in arrears as early as possible, making sure support is provided for those struggling with their energy costs and that payment plans are manageable.

Maintaining high standards in customer service

As outlined in its Treating Customers Fairly Statement, published in August 2016, SSE works hard to maintain the standards and quality of service that customers expect: listening to customers, making it easy for customers to deal with them, looking after customers when they need extra help and putting things right if there's a problem. SSE maintained a strong position in the Citizens Advice Energy Supplier Performance Report through the course of 2016/17, setting a new record in June with a complaints score of just 22.5 per 100,000 customers for the quarter, down from 47.7 at the same point in 2015/16. SSE ended the year with an even better score of 20.5 and aims to maintain high standards in 2017/18 in the new, more holistic energy supplier customer service comparison tool, which has superseded the Supplier Performance Report.

Diversifying through energy-related services

As part of efforts to further diversify its Retail business, SSE expanded its customer base in energy-related services including boiler cover, electrical wiring and home broadband and telephone to 0.5m. Critically, SSE has now completed work enabling it to offer its boiler servicing, repair and cover and electrical wiring cover to all customers across Great Britain for the first time. The national offer got off to a strong start helped by a range of value-for-money offers, including free boiler recovery for SSE energy customers. Meanwhile, SSE's white label partnership with M&S Energy is also offering M&S Home Services. SSE is already seeing the retention benefits of providing customers with a broader range of services and will continue efforts to cross-sell other home and essential services to add more value for its energy customers in 2017/18.

Doing more for customers

SSE is clear that its business is built on its customers and that, for its Retail business to be sustainable in the long term, it must have active, informed and engaged relationships with them. In February 2017, SSE published a report, 'Doing more for our customers', setting out what it is doing to build and sustain those customer relationships.

As well as providing fair prices and high-quality customer service, SSE believes in rewarding its customers' loyalty – recognising that they have chosen SSE from the 50-plus other suppliers competing for their custom. During 2016 SSE introduced a range of offers targeted exclusively at loyal SSE customers including a free 'boiler rescue' potentially worth over £300 where customers subsequently sign up to boiler cover and an innovative 'no-ties' broadband offer.

SSE also aims to engage and reward its customers through the things that they enjoy most, so the SSE Reward programme engages customers by offering early access to tickets and money-can't-buy experiences at some of Britain's biggest entertainment venues.

Meeting the needs of business customers

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

Over the year, SSE Business Energy has adapted the way in which it engages with customers, offering a customer service commitment which was recognised by Citizens Advice as the best performing non-domestic energy provider at handling complaints from small business customers. Business Energy continued to build its offering in the commercial sector and launched a new 100% renewable energy proposition known as 'SSE Green'.

For micro business customers, SSE continued its emphasis on Treating Customers Fairly (TCF) 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.

Supplying energy and essential services across Ireland

SSE Airtricity is the second largest provider of energy and related services in Ireland (ROI) and Northern Ireland (NI), and the only energy retailer to operate in all of the competitive gas and electricity markets across the island. At 31 March 2017, 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.

SSE Airtricity's focus is on excelling in customer service as a key differentiator in what are highly competitive, price-driven markets. The company's focus on using digitised platforms to enable customers to self-serve using their choice of device at times that suit them is another key differentiator, with 73% of all customer interactions completed via digital channels.

This continuous drive to deliver excellent customer experience has received extensive external recognition. In November, SSE Airtricity was named Customer Contact Centre of the Year by CCMA Ireland, and in March the company won awards for Best Customer Service and Best Online Service from leading internet comparison site Bonkers.ie. In October, SSE Airtricity was named the top electricity provider for business customer satisfaction in the Commission for Energy Regulation's (CER) Consumer Survey Report, receiving an overall satisfaction rating of 91% from SMEs.

In late 2016, SSE Airtricity acquired 50 per cent of Fusion Heating Ltd., a leading energy services contractor in NI. The acquisition enhances SSE Airtricity's retail energy offering, and further progresses the company's diversification to become a retailer of essential services across the island.

On 31 March 2017, SSE Airtricity increased its regulated natural gas prices in NI by 7.6% for home and small business customers. The increase was examined and approved by the Utility Regulator and is the first increase in the company's prices since April 2013. The change follows a four-year period during which SSE Airtricity either held or reduced its standard gas prices in the regulated market, including a 10% reduction from 1 April 2016.

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

Delivering an efficient and reliable service

SSE Enterprise provides multi-disciplined utility services for industrial, commercial and public sector customers across the UK. Its five businesses comprising Telecoms, Utilities, Rail, Contracting and Slough Heat and Power, serve a broad client base with a collective focus on delivering efficient, reliable and bespoke solutions to meet individual client needs.

While the financial performance in the last year reflects the challenging markets SSE Enterprise operates in, the business has established strong foundations for future profitability with a number of stable revenue streams delivering favourably. The contracting business did not deliver as expected, however a process of transformation is underway to refine the operating model in an effort to drive further efficiency and sustainable growth.

Renewing the focus and direction for SSE Enterprise

SSE Enterprise has a renewed focus under the stewardship of its new Managing Director, and several strategic appointments to the wider leadership team are targeting leaner operations and improved business development and execution capabilities. The business is anticipated to become more efficient and competitive going forward across a range of sectors whilst continuing to deliver innovative solutions to meet the evolving needs of its customers. SSE Enterprise is building a business that's fit for the future and has made progress in 2016/17 with specific activity detailed below:

- **SSE Enterprise Telecoms** has secured important new clients and continued to grow its network, extending its high bandwidth fibre broadband services. The business continues to connect major UK commercial datacentres, providing direct customer access to a majority of the leading suppliers of Cloud based business services. It has also invested in developing its London City fibre network to connect key new commercial buildings.
- **SSE Enterprise Rail** delivered a strong performance this year. Safety performance was optimal, and the business grew with the team focused on winning work with new clients and associated business streams including significant contract wins with Network Rail and Transport for London.
- **SSE Enterprise Utilities** now serve almost 7,000 customers connected to low carbon heat networks across the UK, and over 13,000 connected to water networks. With over 400 electrical networks contracted, and managing around 178,000 gas connections, it is firmly established as a market leader in multi-utilities, with ambitious plans for growth in both existing and new markets.
- **Slough Heat and Power** has further established itself within the Enterprise business and delivered its highest ever profit in 2016/17. Consistent and focused stakeholder engagement with key customers has allowed the business to optimise electricity demand forecasting. It is also in the process of doubling its electricity import capacity from the main grid to the Slough Heat and Power network.
- **SSE Enterprise Contracting** had a difficult year but has reinforced its commitment to accelerate critical growth. The business has recently attracted new and significant contract wins with considerable opportunities in the pipeline. A new leadership team is in place to maximise these opportunities in 2017/18.

Retail (including Enterprise) – Conclusion and Priorities

In addition to their first priority of safety, SSE's Energy Supply, Energy-Related Services and Enterprise business continue to operate in challenging competitive markets and are each focused on adapting to meet the changing energy needs of household, commercial and public sector customers. This means maintaining a clear focus on delivering the propositions and services that customers need, while actively managing key risks and leveraging SSE's core strengths.

Key priorities for 2017/18 and beyond

SSE's Retail priorities in 2017/18 and beyond are to:

- retain and gain domestic and business energy customer accounts, minimising losses where possible;
- actively manage key risks, in particular by responding positively to challenges from political and regulatory stakeholders following the General Election;
- continue to build on SSE's strong culture of customer service in both GB and Ireland with new products and services;
- take the smart opportunity by optimising the mass deployment of smart meters and developing and launching compelling smart-enabled customer propositions;
- continue to deliver operational efficiencies by further digitalising the business and moving towards an operating model capable of meeting the future needs of customers; and
- re-focus the Enterprise business so it has the strongest possible foundations for future growth.

Alternative Performance Measures

When assessing, discussing and measuring the Group's financial performance, management refer to measures used for internal performance management. These measures are not defined or specified under International Financial Reporting Standards (IFRS) and as such are considered to be Alternative Performance Measures ("APMs"). By their nature, APMs are not uniformly applied by all preparers including other participants in the Group's industry. Accordingly APMs used by the Group may not be comparable to other companies within the Group's industry.

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Purpose

APMs are used by management to aid comparison and assess historical performance against internal performance benchmarks and across reporting periods. These measures provide an ongoing and consistent basis to assess performance by excluding items that are materially non-recurring, uncontrollable or exceptional. These measures can be classified in terms of their key financial characteristics:

- Profit measures allow management to assess and benchmark underlying business performance during the year. They are primarily used by operational management to measure operating profit contribution and are also used by the Board to assess performance against business plan.
- Capital measures allow management to track and assess the progress of the Group's significant ongoing investment in capital assets and projects against their investment cases, including the expected timing of their operational deployment.
- Debt measures allow management to record and monitor both operating cash generation and the Group's ongoing financing and liquidity position.

The following table explains the key APMs applied by the Group and referred to in these statements:

Group APM	Purpose	Closest Equivalent IFRS measure	Adjustments to reconcile to primary financial statements
Adjusted Operating Profit	Profit measure	Operating Profit	• Movement on operating and financing derivatives ('certain remeasurements') • Exceptional items • Share of joint ventures and associates interest and tax
Adjusted Profit Before Tax	Profit measure	Profit before tax	• Movement on operating and financing derivatives ('certain remeasurements') • Exceptional items • Interest on net pension assets/liabilities (IAS 19R) • Share of joint ventures and associates tax

Adjusted net finance costs	Profit measure	Net finance costs	• Movement on financing derivatives • Share of joint ventures and associates interest • Interest on net pension assets/liabilities (IAS 19R)
Adjusted Current Tax Charge	Profit measure	Tax charge	• Share of joint ventures and associates tax • Deferred tax including share of joint ventures and associates • Tax on exceptional items and certain re-measurement
Adjusted earnings per share	Profit measure	Earnings per share	• Exceptional items • Movements on Derivatives ('certain re-measurements') • Interest on net pension assets/liabilities (IAS 19R) • Deferred tax including share of joint ventures and associates
Adjusted Net Debt and Hybrid Capital	Debt measure	Unadjusted net debt	• Hybrid capital • Outstanding liquid funds • Finance leases • Non-recourse Clyde debt
Investment and Capital expenditure (adjusted)	Capital measure	Capital additions to Intangible Assets and Property, Plant and Equipment	• Other expenditure • Customer funded additions (IFRIC 18) • Allowances and certificates • Disposed additions • Joint ventures and associates additions

Rationale for adjustments

Adjustments to Profit Measure

1 Movement on operating and financing derivatives ('certain re-measurements')

This adjustment can be split between operating and financing derivatives.

Operating derivatives are where 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 due to the volatility that can arise. 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.

Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts entered into by the Group to manage its banking and liquidity

requirements as well as risk management relating to interest rate and foreign exchange exposures. Changes in the fair value of those financing derivatives are reflected in the income statement (as part of 'certain re-measurements').The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments.

The re-measurements arising from operating and financing derivatives, and the tax effects thereof, are disclosed separately to aid understanding of the underlying performance of the Group.

2 Exceptional Items

Exceptional charges or credits, and the tax effects thereof, are considered unusual by nature or scale and of such significance that separate disclosure is required for the underlying performance of the Group to be properly understood. Further explanation of the rationale for deciding whether an item is exceptional is included in Note 3 of the Financial Statements.

3 Share of joint ventures and associates interest and tax

This adjustment can be split between the share of interest and the share of tax.

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 profit measures before its share of the interest and/or tax on joint ventures and associates.

4 Interest on net pension assets/liabilities (IAS 19R)

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

5 Deferred tax

The Group adjusts for deferred tax when arriving at adjusted profit after tax and its adjusted effective rate of tax. Given deferred tax arises as a result of potential future tax credits or charges, and is therefore unrelated to the current period tax charge or payments made, the Group excludes these from its adjusted profit measures.

Adjustments to Debt measure

6 Hybrid capital

The characteristics of hybrid capital securities mean they qualify for recognition as equity rather than debt under IFRSs. Consequently, their coupon payments are presented within dividends rather than within finance costs. As a result, 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 to better reflect the Group's funding position.

7 Outstanding liquid funds

Outstanding liquid funds are SSE cash balances held by counterparties as collateral at the year end. SSE includes these as cash until they are utilised. Loans with a maturity of less than three months are also included in this adjustment. The Group includes this adjustment in order to better reflect the immediate cash resources it has access, which in turn better reflects the Group's funding position.

8 Finance leases

SSE's reported loans and borrowings include finance lease liabilities, most significantly in relation to its tolling contract with Marchwood Power Limited, which are not directly related to the external

financing of the Group. The Group excludes these liabilities from its adjusted net debt and hybrid capital measure to better reflect the Group's underlying funding position with its primary sources of capital.

9 Non-recourse Clyde debt

At 31 March 2016, prior to the change in consolidation treatment for the venture, an adjustment was made to exclude non-recourse debt associated with Clyde Windfarm (Scotland) Limited. Further explanation of the rationale is included in Note 4.2(iii).

Adjustments to Capex Measure

10 Other expenditure

Other expenditure primarily represents subsequently derecognised development expenditure which is excluded to better reflect the Group's ongoing capital position.

11 Customer funded additions. Customer funded additions represents additions to electricity and other networks funded by customer contributions and accounted for under IFRIC 18. Given this is directly funded by customers, this has been excluded to better reflect the Group's underlying investment position.

12 Allowances and certificates

Allowances and certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs) and are not included in the Group's Capital Expenditure and Investment alternative performance measure to better reflect the Group's investment in enduring operational assets.

13 Disposed additions

Disposed additions represents capital additions related to smart meter installations which were subsequently disposed to the Meter Fit 2 Limited (see Note 10). This has been excluded to better reflect the Group's net capital investment.

14 Joint ventures and associates additions

Joint ventures and associates additions represent funding provided to joint venture arrangements in relation to capital expenditure projects. This has been included to better reflect the Group's use of directly funded equity-accounted vehicles to grow the Group's asset base. Project finance raised directly by the Group's joint ventures and associates is not included in this adjustment.

The table below reconciles the adjusted performance measures to the reported measure of the Group.

	March 2017 £m	March 2016 £m	March 2015 £m
Adjusted operating profit	**1,874.0**	1,824.4	1,881.4
Adjusted net finance costs	**(328.1)**	(310.9)	(316.7)
Adjusted profit before tax (PBT)	**1,545.9**	1,513.5	1,564.7
Adjusted current tax charge	(157.7)	(193.4)	(224.8)
Adjusted profit after tax (PAT)	**1,388.2**	1,320.1	1,339.9
Hybrid coupon paid	(119.3)	(124.6)	(121.3)
Adjusted profit after tax attributable to ordinary shareholders for EPS	**1,268.9**	1,195.5	1,218.6
Number of shares for EPS	1,009.7	1,000.0	981.8
Adjusted Earnings per Share	**125.7**	119.5	124.1
Adjusted operating profit	1,874.0	1,824.4	1,881.4
Movement on operating and financing derivatives	203.1	(28.8)	(61.1)
Exceptional items	(8.2)	(889.8)	(674.6)
Share of joint ventures and associates interest and tax	(128.4)	(120.4)	(159.8)
Reported Operating Profit	**1,940.5**	785.4	985.9
Adjusted Profit Before Tax PBT	1,545.9	1,513.5	1,564.7
Movement on operating and financing derivatives	255.7	(14.5)	(105.3)
Exceptional items	(8.2)	(889.8)	(674.6)
Interest on net pension assets/liabilities	(3.1)	(22.3)	(14.0)
Share of joint ventures and associates tax	(13.7)	6.4	(35.6)
Reported profit before tax	**1,776.6**	593.3	735.2
Adjusted net finance costs	**328.1**	310.9	316.7
Movement on financing derivatives	(52.6)	(14.3)	44.2
Share of joint ventures and associates interest	(114.7)	(126.8)	(124.2)
Interest on net pension assets/liabilities	3.1	22.3	14.0
Reported net finance costs	**163.9**	192.1	250.7
Adjusted current tax charge	157.7	193.4	224.8
Share of joint ventures and associates tax	(13.7)	6.4	(35.6)
Deferred tax including share of joint ventures and associates	19.8	80.8	82.0
Tax on exceptional items and certain re-measurement	(106.0)	(272.5)	(200.4)
Reported tax charge	**57.8**	8.1	70.8
Adjusted Net Debt and Hybrid Capital	**(8,483.0)**	(8,395.0)	(7,568.1)
Hybrid Capital	2,209.7	2,209.7	3,371.1
Adjusted Net Debt	**(6,273.3)**	(6,185.3)	(4,197.0)
Outstanding liquid funds	(105.2)	(121.8)	(71.7)
Finance leases	(276.9)	(300.8)	(319.7)
Non-recourse Clyde debt	-	(200.7)	-
Unadjusted net debt	**(6,655.4)**	(6,808.6)	(4,588.4)
Investment and Capital expenditure (adjusted)	1,726.2	1,618.7	1,475.3

Other expenditure	4.2	6.9	(24.5)
Customer funded additions	112.8	88.3	89.8
Allowances and certificates	633.5	580.4	441.8
Disposed additions	15.6	-	-
Joint ventures and associates additions	(105.0)	(46.2)	(85.6)
Additions to Intangible Assets and Property, Plant and Equipment	2,387.3	2,248.1	1,896.8
Additions to Intangible Assets	779.5	713.1	527.6
Additions to Property, Plant and Equipment	1,607.8	1,535.0	1,369.2
Additions to Intangible Assets and Property, Plant and Equipment	2,387.3	2,248.1	1,896.8

Summary Financial Statements

Consolidated Income Statement

for the year ended 31 March 2017

	Note	2017 Before exceptional items and certain re-measurements £m	2017 Exceptional items and certain re-measurements (note 6) £m	2017 Total £m	2016 Before exceptional items and certain re-measurements £m	2016 Exceptional items and certain re-measurements (note 6) £m	2016 Total £m
Revenue	5	**29,037.9**	**-**	**29,037.9**	28,781.3	-	28,781.3
Cost of sales		**(25,794.5)**	**232.6**	**(25,561.9)**	(25,859.4)	(644.5)	(26,503.9)
Gross profit		**3,243.4**	**232.6**	**3,476.0**	2,921.9	(644.5)	2,277.4
Operating costs		**(1,707.3)**	**(406.2)**	**(2,113.5)**	(1,449.8)	(334.0)	(1,783.8)
Other operating income		**24.2**	**366.4**	**390.6**	29.4	57.6	87.0
Operating profit before joint ventures and associates		**1,560.3**	**192.8**	**1,753.1**	1,501.5	(920.9)	580.6
Joint ventures and associates:							
Share of operating profit / (loss)		**313.7**	**-**	**313.7**	322.9	-	322.9
Share of interest		**(114.7)**	**-**	**(114.7)**	(126.8)	-	(126.8)
Share of movement on derivatives		**-**	**2.1**	**2.1**	-	2.3	2.3
Share of tax		**(32.8)**	**19.1**	**(13.7)**	(39.9)	46.3	6.4
Share of profit on joint ventures and associates		**166.2**	**21.2**	**187.4**	156.2	48.6	204.8
Operating profit	5	**1,726.5**	**214.0**	**1,940.5**	1,657.7	(872.3)	785.4
Finance income	7	**93.7**	**-**	**93.7**	101.8	-	101.8
Finance costs	7	**(310.2)**	**52.6**	**(257.6)**	(308.2)	14.3	(293.9)
Profit before taxation		**1,510.0**	**266.6**	**1,776.6**	1,451.3	(858.0)	593.3
Taxation	8	**(163.8)**	**106.0**	**(57.8)**	(280.6)	272.5	(8.1)
Profit for the year		**1,346.2**	**372.6**	**1,718.8**	1,170.7	(585.5)	585.2
Attributable to:							
Ordinary shareholders of the parent		**1,226.9**	**372.6**	**1,599.5**	1,046.1	(585.5)	460.6
Other equity holders		**119.3**	**-**	**119.3**	124.6	-	124.6
Earnings per share							
Basic earnings per share (pence)	9			**158.4**			46.1
Diluted earnings per share (pence)	9			**158.2**			46.0
Dividends							
Interim dividend paid per share (pence)	9			**27.4**			26.9
Proposed final dividend per share (pence)	9			**63.9**			62.5
				91.3			89.4

The accompanying notes are an integral part of the financial information in this announcement.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2017

	2017	2016
	£m	£m
Profit for the year	**1,718.8**	585.2
Other comprehensive income:		
Items that will be reclassified subsequently to profit or loss:		
Losses on revaluation of available for sale investments, net of taxation	**-**	(8.4)
Net gains on cash flow hedges	**14.9**	79.4
Transferred to assets and liabilities on cash flow hedges	**10.6**	4.7
Taxation on cashflow hedges	**(2.8)**	(15.1)
	22.7	69.0
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	**(6.0)**	3.9
Exchange difference on translation of foreign operations	**74.1**	85.1
Loss on net investment hedge net of taxation	**(22.5)**	(33.4)
	68.3	116.2
Items that will not be reclassified to profit or loss:		
Actuarial gain on retirement benefit schemes, net of taxation	**252.5**	195.4
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	**(56.4)**	76.4
	196.1	271.8
Other comprehensive gain, net of taxation	**264.4**	388.0
Total comprehensive income for the period	**1,983.2**	973.2
Attributable to:		
Ordinary shareholders of the parent	**1,863.9**	848.6
Other equity holders	**119.3**	124.6
	1,983.2	973.2

Consolidated Balance Sheet

as at 31 March 2017

	Note	**2017**	2016
		£m	£m
Assets			
Property, plant and equipment		**12,622.2**	12,525.0
Goodwill and other intangible assets		**760.4**	859.4
Equity investments in associates and joint ventures		**985.8**	1,045.1
Loans to associates and joint ventures		**788.4**	591.6
Other investments		**12.5**	16.7
Deferred tax assets		**322.3**	512.0
Derivative financial assets		**528.3**	537.7
Retirement benefit assets	13	**525.4**	-
Non-current assets		**16,545.3**	16,087.5
Intangible assets		**580.7**	500.1
Inventories		**269.1**	215.4
Trade and other receivables		**3,754.4**	3,274.3
Cash and cash equivalents		**1,427.0**	360.2
Derivative financial assets		**1,269.5**	1,615.0
Current assets held for sale	10	**70.4**	134.2
Current assets		**7,371.1**	6,099.2
Total assets		**23,916.4**	22,186.7
Liabilities			
Loans and other borrowings	11	**142.4**	923.3
Trade and other payables		**4,923.5**	4,184.4
Current tax liabilities		**294.8**	298.2
Provisions		**39.7**	94.0
Derivative financial liabilities		**1,153.2**	1,783.8
Liabilities held for sale	10	**1.4**	115.0
Current liabilities		**6,555.0**	7,398.7
Loans and other borrowings	11	**7,940.0**	6,245.5
Deferred tax liabilities		**788.9**	917.5
Trade and other payables		**437.4**	452.4
Provisions		**764.5**	703.3
Retirement benefit obligations	13	**454.9**	394.8
Derivative financial liabilities		**703.2**	857.5
Non-current liabilities		**11,088.9**	9,571.0
Total liabilities		**17,643.9**	16,969.7
Net assets		**6,272.5**	5,217.0
Equity			
Share capital	12	**507.8**	503.8
Share premium		**885.7**	880.4
Capital redemption reserve		**26.5**	22.0
Hedge reserve		**14.5**	(2.2)
Translation reserve		**33.8**	(17.8)
Retained earnings		**2,594.5**	1,598.6
Equity attributable to ordinary shareholders of the parent		**4,062.8**	2,984.8
Hybrid equity	12	**2,209.7**	2,209.7
Total equity attributable to equity holders of the parent		**6,272.5**	5,194.5
Non-controlling interests		**-**	22.5
Total equity		**6,272.5**	5,217.0

The accompanying notes are an integral part of the financial information in this announcement

Consolidated Statement of Changes in Equity

for the year ended 31 March 2017

	Share capital £m	Share premium £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid equity £m	Total equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £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**
Total comprehensive income for the year	-	-	-	16.7	51.6	1,795.6	**1,863.9**	119.3	**1,983.2**	-	**1,983.2**
Dividends to shareholders	-	-	-	-	-	(906.6)	**(906.6)**	-	**(906.6)**	-	**(906.6)**
Scrip dividend related share issue	7.9	(7.9)	-	-	-	237.9	**237.9**	-	**237.9**	-	**237.9**
Distributions to Hybrid equity holders	-	-	-	-	-	-	-	(119.3)	**(119.3)**	-	**(119.3)**
Issue of shares	0.6	13.2	-	-	-	-	**13.8**	-	**13.8**	-	**13.8**
Share repurchase	(4.5)	-	4.5	-	-	(131.5)	**(131.5)**	-	**(131.5)**	-	**(131.5)**
Credit in respect of employee share awards	-	-	-	-	-	13.1	**13.1**	-	**13.1**	-	**13.1**
Investment in own shares	-	-	-	-	-	(12.6)	**(12.6)**	-	**(12.6)**	-	**(12.6)**
Non-controlling interest (i)	-	-	-	-	-	-	-	-	**-**	(22.5)	**(22.5)**
At 31 March 2017	**507.8**	**885.7**	**26.5**	**14.5**	**33.8**	**2,594.5**	**4,062.8**	**2,209.7**	**6,272.5**	**-**	**6,272.5**

Statement of changes in equity	Share capital £m	Share premium £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid equity £m	Total equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
At 1 April 2015	496.5	862.7	22.0	(72.1)	(69.5)	1,469.8	2,709.4	3,371.1	6,080.5	-	6,080.5
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 equity holders	-	-	-	-	-	-	-	(124.6)	(124.6)	-	(124.6)
Issue of shares	1.4	23.6	-	-	-	-	25.0	-	25.0	-	25.0
Redemption of Hybrid equity	-	-	-	-	-	(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 and de-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(iii)).

Consolidated Cash Flow Statement

for the year ended 31 March 2017

	Note	**2017 £m**	2016 £m
Operating profit	5	**1,940.5**	785.4
Less share of profit of joint ventures and associates		**(187.4)**	(204.8)
Operating profit before jointly controlled entities and associates		**1,753.1**	580.6
Pension service charges less contributions paid		**(48.0)**	(35.9)
Movement on operating derivatives		**(201.0)**	31.1
Depreciation, amortisation and impairments		**1,135.0**	1,633.1
Charge in respect of employee share awards (before tax)		**16.2**	16.5
Profit on disposal of assets and businesses		**(391.0)**	(87.6)
Release of provisions		**(17.6)**	(7.8)
Release of deferred income		**(18.0)**	(17.9)
Cash generated from operations before working capital movements		**2,228.7**	2,112.1
Decrease in inventories		**8.6**	44.0
(Increase)/decrease in receivables		**(541.9)**	1,098.5
Increase/(decrease) in payables		**1,093.1**	(879.5)
Decrease in provisions		**(53.8)**	(55.7)
Cash generated from operations		**2,734.7**	2,319.4
Dividends received from investments		**123.4**	130.9
Interest paid		**(178.5)**	(152.3)
Taxes paid		**(98.5)**	(139.1)
Net cash from operating activities		**2,581.1**	2,158.9
Purchase of property, plant and equipment		**(1,621.1)**	(1,495.4)
Purchase of other intangible assets		**(595.4)**	(444.8)
Deferred income received		**36.9**	16.1
Proceeds from disposals	10	**739.3**	312.4
Loans and equity provided to joint ventures and associates		**(105.0)**	(60.3)
Purchase of businesses and subsidiaries		**(15.8)**	(669.0)
Loans and equity repaid by joint ventures		**73.4**	18.3
Increase in other investments		**(0.2)**	(0.2)
Net cash from investing activities		**(1,487.9)**	(2,322.9)
Proceeds from issue of share capital		**13.8**	25.0
Dividends paid to company's equity holders	9	**(668.7)**	(708.2)
Redemption of Hybrid equity		**-**	(1,161.4)
Hybrid equity dividend payments	12	**(119.3)**	(124.6)
Employee share awards share purchase		**(12.6)**	(11.1)
New borrowings		**1,842.5**	1,070.1
Repayment of borrowings		**(950.6)**	(77.7)
Repurchase of own shares	12	**(131.5)**	-
Net cash from financing activities		**(26.4)**	(987.9)
Net increase/(decrease) in cash and cash equivalents		**1,066.8**	(1,151.9)
Cash and cash equivalents at the start of year		**360.2**	1,512.1
Net increase/(decrease) in cash and cash equivalents		**1,066.8**	(1,151.9)
Cash and cash equivalents at the end of year		**1,427.0**	360.2

The accompanying notes are an integral part of these financial statements.

Notes to the Preliminary Statement

for the year ended 31 March 2017

1. Financial Information

The financial information set out in this announcement does not constitute the Group's consolidated financial statement for the years ended 31 March 2017 or 2016, but is derived from those accounts. Consolidated financial statements for the year ended 31 March 2016 were delivered to the Registrar of Companies, and those for the year ended 31 March 2017 will be delivered in due course. The auditors have reported on those accounts and their reports were (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. This preliminary announcement was authorised by the Board on 16 May 2017.

2. Basis of preparation and presentation

2.1 Basis of preparation

The financial information set out in this announcement has been extracted from the consolidated financial statements of SSE plc for the year ended 31 March 2017. These consolidated financial statements were prepared under the historical cost convention, excepting certain assets and liabilities stated at fair value and in accordance with International Financial Reporting Standards and their interpretations, as adopted by the European Union (adopted IFRS). This consolidated financial information has been prepared on the basis of accounting policies consistent with those applied in the consolidated financial statements for the year ended 31 March 2016 unless expressly stated otherwise. All issued standards, amendments and interpretations of adopted IFRS that require to be adopted for the first time in these financial statements have been applied by the Group in the current year and have not had a material impact on the financial statements. 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 financial statements are presented in Pounds Sterling.

2.2 Basis of presentation

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', 'investment and capital expenditure' and 'adjusted net debt and hybrid equity' are not defined under IFRS and are explained in more detail below.

3. Adjusted accounting measures

3.1 Adjusted measures

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

The performance of the reportable segments is reported based on adjusted profit before interest and tax ('adjusted operating profit'). This is reconciled to reported profit before interest and tax by adding back exceptional items and certain re-measurements (see Note 3.2 below) 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. Adjusted profit after tax is presented on a basis consistent with adjusted EPS except for the exclusion of payments to holders of hybrid equity.

The financial statements also include an 'adjusted net debt and hybrid equity' measure. This presents financing information on the basis used for internal liquidity risk management. This measure excludes obligations due under finance leases and includes cash held as collateral on commodity trading exchanges and other short term loans. At 31 March 2016, prior to the change in consolidation treatment for the venture, this measure excluded non-recourse debt associated with Clyde Windfarm (Scotland) Limited (see Note 4.2(iii)). 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.

Notes to the Preliminary Statement

for the year ended 31 March 2017

3 Adjusted accounting measures (continued)

3.1 Adjusted measures (continued)

Finally, the financial statements include an 'investment and capital expenditure' measure. This metric represents the capital invested by the Group in projects that are anticipated to provide a return on investment over future years and is consistent with internally applied metrics. This therefore includes capital additions to Property, Plant and Equipment and Intangible Assets and also the Group's funding of joint venture and associates capital projects. The Group has considered it appropriate to report these values both internally and externally in this manner due to its use of equity-accounted investment vehicles to grow the Group's asset base, where the Group is providing the source of funding to the vehicle through either loans or equity. The Group does not include project-funded ventures in this metric. In addition, the Group excludes from this metric additions to its Property, Plant and Equipment funded by Customer Contributions and additions to Intangible Assets associated with Allowances and Certificates. As with 'adjusted earnings per share', this measure is considered to be of particular relevance to the ordinary shareholders of the Group as well as other stakeholders and interested parties.

Reconciliations from reported measures to adjusted measures along with further description of the rationale for those adjustments are included in the Alternative Performance Measures section at pages 48 to 53 before the Summary Financial Statements.

3.2 Exceptional items and certain re-measurements

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

Certain re-measurements are re-measurements arising on certain commodity, interest rate and currency contracts which are accounted for as held for trading or as fair value hedges in accordance with the Group's policy for such financial instruments. The amounts shown in the before exceptionals and certain re-measurements results for these contracts is the amount settled in the year as disclosed in note 14. 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.

3.3 Other additional disclosures

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

4. Accounting judgements and estimation uncertainty

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

4.1 Significant Financial Judgements – Estimation Uncertainties

The preparation of the Group's 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 reviews the carrying amounts of its goodwill, other intangible assets and specific property, plant and equipment assets to determine whether any impairment of the carrying value of those assets requires to be recorded. The specific assets under review in the year ended 31 March 2017 are goodwill, intangible development assets and specific property, plant and equipment assets related to gas production, retail and technology development, gas storage, thermal power generation and wind power generation. In conducting its reviews, the Group makes judgements and estimates in considering both the level of cash generating unit (CGU) at which common assets such as goodwill are assessed against, as well as the estimates and assumptions behind the calculation of recoverable amount of the respective assets or CGUs.

During the year, the Group performed a review of its CGUs based on the Group operating structure and economic characteristics of similar assets. The review resulted in two CGUs – GB Wind and Ireland Wind – being combined into a Wind Generation CGU. The other CGUs were unchanged following this review.

4 Accounting judgements and estimation uncertainty (continued)

4.1 Significant Financial Judgements – Estimation Uncertainties (continued)

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

(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 i) 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 ii) 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 from national settlements bodies, amounts billed to customers and other adjustments.

Unbilled revenue is therefore calculated by applying the tariffs associated with estimated customers to the calculated volume of electricity or gas consumed. 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 estimated electricity or gas supplied of national settlements data or, for electricity only, feed-in-tariff supported volumes and spill from solar PV generation.

The Group's policy is to recognise unbilled revenue only where the economic benefits are expected to flow to the Group. As a result, the judgements applied, and the assumptions underpinning the judgements, are considered to be appropriate. Change in these assumptions would have an impact on the amount of revenue recognised in any given period. In the year, in relation to electricity, the Group has been able to resolve a number of long-standing issues relating to the quality of grid supply point metering and national settlements data. As a result, while significant estimation uncertainty remains, the aggregate level of non-half-hourly and half-hourly volume associated with such factors has reduced in the year. This improvement in confidence in estimation has enabled an additional revenue amount of c. £60m (1.1% of unbilled energy income) to be recognised in the year. In relation to unbilled gas revenue estimation, the experience of the Group is that the industry estimated supplied quantities of gas consumed have historically been higher than actual metered supply. To take account of this, the Group has applied 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 Group's exposure to credit risk, and therefore the basis of determining the provisions for bad and doubtful debts, is controlled by individual business units operating in accordance with Group polices and procedures. Generally, for significant contracts, individual business units enter into contracts or agreements with counterparties having investment grade credit ratings only, or where suitable collateral or other security has been provided. Counterparty credit validation is undertaken prior to contractual commitment. 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 benefit obligations – Estimation Uncertainty

The assumptions in relation to the cost of providing post-retirement benefits during the period are based on the Group's best estimates and are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the level of the retirement benefit obligation recorded and the cost to the Group of administering the schemes.

Notes to the Preliminary Statement

for the year ended 31 March 2017

4 Accounting judgements and estimation uncertainty (continued)

4.2 Other key accounting judgements

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

(i) Business Combinations and acquisitions – Accounting Judgement

Business combinations and acquisitions require a fair value exercise to be undertaken to allocate the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a certain extent, on management's judgement. The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of this purchase price to the identifiable assets and liabilities with any unallocated portion being recorded as goodwill. Business combinations are disclosed in Note 10.

(ii) 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.

(iii) Consolidation of interest in investments and trading arrangements – Accounting Judgement

Judgement is often required in assessing the level of control held by the Group in its investments or trading arrangements. Depending on the balance of facts and circumstances in each case, the Group may either have control, joint control or significant influence over the entity or arrangement. Where the Group has joint control of an arrangement, judgement is also required to assess whether the arrangement is a joint operation or a joint venture.

Clyde Windfarm (Scotland) Limited

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 10. As part of the Group providing project and contract management services for and 100% of the funding for the construction of the 172.8MW extension of the wind farm, the Group had retained rights around the engineering, procurement and construction of the extension and 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 as a subsidiary at 31 March 2016.

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 remained 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 and from the Group's 'adjusted net debt and Hybrid equity' measure. The principal adjustments made to reflect the change in consolidation basis on the date control was lost are noted below, and comprise the derecognition of the consolidated subsidiary balances, the reclassification of borrowings as loans to joint ventures, and the recognition of an equity investment in a joint venture at fair value as required by IFRS 10 'Consolidated Financial Statements'. Subsequent increases in loan, share of profits and other reserves as part of the normal course of business are also noted, giving a bridge to the recognised position at 31 March 2017.

The Group retains a 51% equity stake in Clyde at 31 March 2017 and the Group's interest in the entity is expected to remain that of an equity-accounted joint venture following completion of the extension. On completion of the extension project, the Group expects to convert the loans provided relating to the extension to equity and will consequently hold an increased stake in the venture at that point.

Following the loss of control the Group recognised a fair value uplift of £51.9m in respect of its share in Clyde. This has been recognised as an exceptional credit in the current year

4 Accounting judgements and estimation uncertainty (continued)

4.2 Other key accounting judgements (continued)

	Consolidation entries for control of Clyde at conversion date £m	Derecognition as subsidiary and recognition as joint venture £m	Fair value uplift of equity interest under IFRS 10 £m	Increase in loan, share of profits and other reserves £m	Consolidation entries for joint control of Clyde at 31 March 2017 £m
Property, plant & equipment	637.0	(637.0)	-	-	-
Equity investments in joint ventures and associates	-	85.1	59.1	3.6	**147.8**
Loans to joint ventures and associates	-	264.9	-	78.3	**343.2**
Non current assets	637.0	(287.0)	59.1	81.9	**491.0**
Current assets	45.9	(45.9)	-	-	**-**
Current liabilities[1]	(378.6)	113.7	-	(78.3)	**(343.2)**
Loans and borrowings	(200.7)	200.7	-	-	**-**
Non current liabilities	(200.7)	200.7	-	-	**-**
Net assets	103.6	(18.5)	59.1	3.6	**147.8**

[1] *Closing current liabilities represents the cash paid by parent companies to Clyde Windfarm (Scotland) Limited as loans.*

Other arrangements

Beatrice Offshore Windfarm Limited has been deemed a joint venture in the current and previous year as following review of the shareholders agreement it has been assessed that the Group does not have rights to the assets, nor obligations for the liabilities, relating to the company. The Group holds a 40% equity stake at 31 March 2017.

The Group's interest in Greater Gabbard Offshore Winds Limited is that of a joint operation designed to provide output to the parties sharing control. The liabilities of the arrangement are principally met by the parties through the contracts for the output of the wind farm.

(iv) Lease classification for Smart Meter contracts – Accounting Judgement

Following the disposal of smart meter assets to Meter Fit 10 Limited in the period (see Note 10), the Group has entered into an agreement for the provision of meter asset provider (MAP) services with that company. During the year, the Group also entered into a framework agreement with a joint venture company, Maple Topco Limited, to provide MAP services for further tranches of smart meter deployment.

The Group has assessed that both arrangements, in common with all similar arrangements, do not contain leases due to other parties taking a significant amount of the output from the meters and due to the Group being unable to control either the operation or the physical access to the meters.

(v) Pension scheme surplus restrictions – Accounting Judgement

At 31 March 2016, the value of scheme assets recognised were impacted by the asset ceiling test which (a) restricts the surplus that could be recognised to assets that can be recovered through future refunds or reductions in future contributions to the schemes and (b) may increase the value of scheme liabilities where there are minimum funding liabilities in relation to agreed contributions. IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" clarifies that future refunds may be recognised in the assessment of the asset ceiling if the sponsoring entity has an unconditional right to a refund in certain circumstances.

During the financial year, the rules of the Scottish Hydro Electric Pension Scheme ('SHEPS') were amended whereby the Group's rights to any surplus upon final winding up of the scheme were clarified. This presented a change in circumstances in that the 'asset ceiling' restriction to the SHEPS surplus is no longer applicable.

4 Accounting judgements and estimation uncertainty (continued)

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 2017. Decommissioning costs in relation to gas exploration and production assets are periodically agreed with the field Operators and reflect the latest expected economic production lives of the fields. Provision is made for the estimated discounted cost of decommissioning at the balance sheet date. The dates for settlement of future decommissioning costs are uncertain, particularly for gas exploration and production assets where reassessment of gas and liquids reserves can lengthen or shorten the field life as well as the upward and downward movement in commodity prices and operating costs, but are currently expected to be incurred predominantly between 2017 and 2040.

(iii) Gas and liquids reserves

The volume and production profile 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 estimation of gas and liquid reserves is subject to change between reporting periods, following the review and updating of inputs such as regional activity, geological data, reservoir performance data, well drilling activity, commodity prices and production costs. Proven and probable (2P) reserves, and other reserve classifications, can both increase and decrease following assessment of the inputs.

The estimates of gas and liquid reserves are formally reviewed on an annual basis using an Independent Reserves Auditor, and 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 an immediate write-down (impairment) of the asset's book value or a higher future depreciation expense.

Notes to the Preliminary Statement

for the year ended 31 March 2017

5. Segmental information

The Group's operating segments are those used internally by the Board to run the business and make strategic decisions. The types of products and services from which each reportable segment derives its revenues are:

Business Area	Reported Segments	Description
Networks	Electricity Distribution	The economically regulated lower voltage distribution of electricity to customer premises in the North of Scotland and the South of England
	Electricity Transmission	The economically regulated high voltage transmission of electricity from generating plant to the distribution network in the North of Scotland
	Gas Distribution	SSE's share of Scotia Gas Networks, which operates two economically regulated gas distribution networks in Scotland and the South of England
Retail	Energy Supply	The supply of electricity and gas to residential and business customers in the UK and Ireland
	Enterprise	The integrated provision of services in competitive markets for industrial and commercial customers including electrical contracting, private energy networks, lighting services and telecoms capacity and bandwidth
	Energy-related Services	The provision of energy-related goods and services to customers in the UK including meter reading and installation, boiler maintenance and installation and domestic telecoms and broadband services
Wholesale	Energy Portfolio Management (EPM) 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.

Analysis of revenue and operating profit by segment is provided below. All revenue and profit before taxation arise from operations within the UK and Ireland.

(i) Revenue by segment

	External revenue 2017 £m	**Intra-segment revenue 2017 £m**	**Total revenue 2017 £m**	External revenue 2016 £m	Intra-segment revenue 2016 £m	Total revenue 2016 £m
Networks						
Electricity Distribution	**814.8**	**259.7**	**1,074.5**	689.0	243.6	932.6
Electricity Transmission	**358.2**	**0.2**	**358.4**	367.9	-	367.9
	1,173.0	**259.9**	**1,432.9**	1,056.9	243.6	1,300.5
Retail						
Energy Supply	**7,252.5**	**102.1**	**7,354.6**	7,548.3	83.2	7,631.5
Enterprise	**371.6**	**99.5**	**471.1**	455.1	96.6	551.7
Energy-related Services	**119.9**	**151.0**	**270.9**	118.2	112.9	231.1
	7,744.0	**352.6**	**8,096.6**	8,121.6	292.7	8,414.3
Wholesale						
EPM and Electricity Generation	**20,009.5**	**3,198.9**	**23,208.4**	19,525.3	3,780.6	23,305.9
Gas Storage	**13.5**	**280.4**	**293.9**	5.7	214.3	220.0
Gas Production	**35.5**	**235.4**	**270.9**	2.2	144.9	147.1
	20,058.5	**3,714.7**	**23,773.2**	19,533.2	4,139.8	23,673.0
Corporate unallocated	**62.4**	**273.9**	**336.3**	69.6	258.9	328.5
Total	**29,037.9**	**4,601.1**	**33,639.0**	28,781.3	4,935.0	33,716.3

Notes to the Preliminary Statement

for the year ended 31 March 2017

5 Segmental information (continued)

(i) Revenue by segment (continued)

Revenue within Energy Portfolio Management and Electricity Generation includes revenues from generation plant output and the gross value of all wholesale commodity sales including settled physical and financial trades. These are entered into to optimise the performance of the generation plants and to manage the Group's commodity risk exposure. Purchase trades are included in cost of sales.

Revenue from the Group's investment in Scotia Gas Networks SSE share being £486.7m (2016 – £549.8m) is not recorded in the revenue line in the income statement.

Revenue by geographical location is as follows:

	2017 £m	2016 £m
UK	**28,291.3**	28,035.4
Ireland	**746.6**	745.9
	29,037.9	28,781.3

(ii) Operating profit/(loss) by segment

			2017		
	Adjusted operating profit reported to the Board £m	JV/ Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	**Total £m**
Networks					
Electricity Distribution	433.4	-	433.4	-	**433.4**
Electricity Transmission	263.7	-	263.7	-	**263.7**
Gas Distribution	239.4	(108.9)	130.5	21.2	**151.7**
	936.5	**(108.9)**	**827.6**	**21.2**	**848.8**
Retail					
Energy Supply	389.5	-	389.5	(76.3)	**313.2**
Enterprise	16.7	-	16.7	-	**16.7**
Energy-related Services	16.1	-	16.1	(36.4)	**(20.3)**
	422.3	**-**	**422.3**	**(112.7)**	**309.6**
Wholesale					
EPM and Electricity Generation	501.2	(38.6)	462.6	273.5	**736.1**
Gas Storage	(13.0)	-	(13.0)	(23.8)	**(36.8)**
Gas Production	26.4	-	26.4	(227.5)	**(201.1)**
	514.6	**(38.6)**	**476.0**	**22.2**	**498.2**
Corporate unallocated	**0.6**	**-**	**0.6**	**283.3**	**283.9**
Total	**1,874.0**	**(147.5)**	**1,726.5**	**214.0**	**1,940.5**

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for the year ended 31 March 2017

5 Segmental information (continued)

(ii) Operating profit/(loss) by segment (continued)

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

i) The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives and tax from joint ventures and associates and after adjusting for exceptional items (see Note 6). The share of Scotia Gas Networks Limited interest includes loan stock interest payable to the consortium shareholders (included in Gas Distribution). The Group has accounted for its 33% share of this, £12.7m (2016 - 50% share; £24.3m), as finance income (Note 7).

The Group's share of operating profit from joint ventures and associates has been recognised in the Energy Portfolio Management and Electricity Generation segment other than that for Scotia Gas Networks Limited, which is recorded in Gas Distribution.

Notes to the Preliminary Statement

for the year ended 31 March 2017

6. Exceptional items and certain re-measurements

	2017 £m	2016 £m
Exceptional items		
Asset impairments and related charges and credits	**(376.4)**	(892.5)
Provisions for restructuring and other liabilities	**1.8**	(54.9)
	(374.6)	(947.4)
Net gains on disposals of businesses and other assets	**307.3**	57.6
Fair value uplift on loss of control of Clyde	**59.1**	-
	(8.2)	(889.8)
Share of effect of change in UK corporation tax on deferred tax liabilities and assets of associate and joint venture investments	**19.5**	46.7
Total exceptional items	**11.3**	(843.1)
Certain re-measurements		
Movement on operating derivatives (note 14)	**201.0**	(31.1)
Movement on financing derivatives (note 14)	**52.6**	14.3
Share of movement on derivatives in jointly controlled entities (net of tax)	**1.7**	1.9
Total certain re-measurements	**255.3**	(14.9)
Exceptional items and certain re-measurements before taxation	**266.6**	(858.0)
Taxation		
Effect of change in UK corporation tax rate on deferred tax liabilities and assets	**35.4**	41.5
Taxation on other exceptional items	**118.7**	227.6
	154.1	269.1
Taxation on certain re-measurements	**(48.1)**	3.4
Taxation	**106.0**	272.5
Exceptional items after certain re-measurements after taxation	**372.6**	(585.5)

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

	2017 £m	2016 £m
Cost of sales:		
Thermal Generation related charges	**31.6**	(613.4)
Movement on operating derivatives (note 14)	**201.0**	(31.1)
	232.6	(644.5)
Operating costs:		
Gas Production related charges	**(227.5)**	(161.8)
Gas Storage related charges	**(23.8)**	(150.9)
Retail and technology development related charges	**(120.3)**	-
Other exceptional provisions and charges	**(34.6)**	(21.3)
	(406.2)	(334.0)
Operating income:		
Net gains on disposals of businesses and other assets	**307.3**	57.6
Fair value uplift on loss of control of Clyde	**59.1**	-
	366.4	57.6
Joint ventures and associates:		
Effect of change in UK corporation tax rate on deferred tax liabilities and assets	**19.5**	46.7
Share of movement on derivatives in jointly controlled entities (net of tax)	**1.7**	1.9
	21.2	48.6
Operating profit/(loss)	**214.0**	(872.3)
Finance costs		
Movement on financing derivatives (note 14)	**52.6**	14.3
Profit/(loss) before taxation	**266.6**	(858.0)

Notes to the Preliminary Statement

for the year ended 31 March 2017

6 Exceptional items and certain re-measurements (continued)

6.1 Exceptional items

In the year to 31 March 2017, the Group recognised a net exceptional charge of £8.2m. This consisted of asset impairment and related charges totalling £376.4m, net exceptional credits for provisions of £1.8m, net exceptional gains on disposal of £307.3m (2016: £57.6m) and net fair value uplift following loss of control of Clyde, £59.1m (2016: £nil). The £307.3m gain on the part disposal of the Group's stake in Scotia Gas Networks is commented upon at Note 10.

The net exceptional charges excluding gains on disposal recognised can be summarised as follows:

	Property, Plant & Equipment	Goodwill & Other Intangibles	Inventories	Provisions & other charges	**Total**
	£m	£m	£m	£m	**£m**
Gas Production (i)	244.3	(20.0)	-	3.2	**227.5**
Retail and technology development (ii)	42.2	78.1	-	-	**120.3**
Gas Storage(iii)	23.8	-	-	-	**23.8**
Thermal Generation (iv)	30.7	-	(62.3)	-	**(31.6)**
Other (v)	12.0	36.4	-	(13.8)	**34.6**
	353.0	**94.5**	**(62.3)**	**(10.6)**	**374.6**

i) Gas Production. Significant impairment charges associated with the Group's North Sea Gas Production assets have been recognised in 2016/17. An exceptional charge of £180.5m has been recognised in relation to the Greater Laggan field following a reduction in the independently assessed quantity of available proved and probable (2P) hydrocarbon resources. This reserves re-assessment considered the reserves recognisable under likely production and took into account reserve shrinkage and contingent resource increases. In addition, an impairment charge of £63.8m has been recognised in relation to Bacton field assets, predominantly as a result of higher than previously assessed decommissioning costs for the field which were deemed to be irrecoverable through the remaining economic life. Against these charges, an exceptional credit of £20.0m has been recognised in relation to previously impaired intangible development assets in the Greater Laggan development area. This followed the identification of additional prospective resources for that development which, on a risk adjusted basis, has resulted in the reversal of prior year exceptional charges. The exceptional charges recognised in 2016/17 primarily relate to revised assessments of economic reserves as opposed to the market price driven impairment charges recognised in 2015/16. Following these charges and credit and the utilisation of field resources in the year, the residual value of the Group's gas production assets is £679.8m.

ii) Retail and other technology developments. During the year the Group decided to cease the development of its replacement customer service and billing system. As a result of this strategic decision, all amounts capitalised in relation to the development of the system and related software and hardware have been impaired with the resulting impact being recognised as an exceptional charge of £83.1m. At the same time, the Group conducted a detailed review of related technology development projects and identified a further £37.2m of projects development which would be discontinued. Due to the significant nature of this assessment, a combined charge of £120.3m has been recognised. These impairment charges are recognised against both intangible development projects (£78.1m) and property, plant and equipment (£42.2m).

iii) Gas Storage. During the course of the year management revised their assessment of the anticipated decommissioning costs associated with the Aldbrough and Atwick Gas Storage sites. This concluded that an additional decommissioning provision of £23.8m was required. Due to the ongoing issues at the plants and in common with previous assessments of those facilities, the consequential increase in asset values has been impaired. The carrying value of Gas Storage assets at 31 March 2017 is £19.6m, with a discounted decommissioning provision of £41.9m.

iv) Thermal Generation. As part of the Group's impact assessment of the imminent changes to the Integrated Single Electricity Market (I-SEM) on the island of Ireland, it reassessed the value-in-use of its thermal generation portfolio in Ireland. This review concluded that the Group's oil burning stations at Rhode and Tawnaghmor were impaired due to their age and future competitive prospects. The impairment for these assets amounted to £30.7m. The residual value of thermal plants in Ireland is £384.4m. In its financial statements to March 2016, the Group recognised significant impairments relating to the Fiddlers Ferry power station due to ongoing uncertainty relating to its future operations despite the success in securing a contract to provide ancillary capacity services for one year to March 2017. In the financial year to March 2017 the plant was able to operate more than projected due to positive dark spread margins being available in winter 2016/17. As a result of this unexpected running, the plant has been able to utilise the coal stocks it had previously impaired and has consequently reversed its previous impairment of inventory creating an exceptional credit of £62.3m in 2016/17. However, in the context of the low settlement price in the January 2017 capacity auction for coal plants for 2017/18, the future prospects for the plant remain uncertain and consequently the net book value of Fiddler's Ferry remains £nil. The carrying value of GB gas-fired power stations at 31 March 2017 was £181.2m.

v) Other. Following reassessment of The Energy Services Group ('ESG)'s deployment within SSE, the Group has concluded that an impairment adjustment against the goodwill recognised on acquisition of £36.4m is necessary. In addition, the Group has assessed its position in relation to various legal claims and disputes. Consequently, a number of exceptional charges (£18.2m) and credits (£20.0m) have been recognised. These have been classified as exceptional due to their previous recognition as such in previous financial years or based on their characteristics. The net impact of these items is an exceptional credit of £1.8m.

Notes to the Preliminary Statement

for the year ended 31 March 2017

6 Exceptional items and certain re-measurements (continued)

6.1 Exceptional items (continued)

31 March 2016

In the previous financial year, the Group recognised exceptional charges arising from and related to asset impairments amounting to £892.5m and provisions of £54.9m. The exceptional charges recognised can be summarised as follows:

	Property, Plant & Equipment £m	Goodwill & Other Intangibles £m	Inventories £m	Other charges £m	Total Impairment related £m	Provisions £m	Total charges £m
Coal Generation	67.6	-	87.9	83.2	238.7	48.3	287.0
Gas Generation	302.5	2.2	3.7	18.0	326.4	-	326.4
Gas Production	125.0	27.2	-	9.6	161.8	-	161.8
Gas Storage	150.9	-	-	-	150.9	-	150.9
Other	-	11.2	-	3.5	14.7	6.6	21.3
	646.0	40.6	91.6	114.3	892.5	54.9	947.4

In 2015/16, the Group announced the closure of Ferrybridge and highlighted significant uncertainty in relation to ongoing operations at Fiddlers Ferry. These consequently gave rise to impairment and other charges totalling £287.0m. As noted, the 2016/17 operational performance at Fiddler's Ferry outturn was more positive than previously anticipated and gave rise to certain impairment reversals. The Group's gas-fired generation plants at Peterhead, Medway and Marchwood were impaired in 2015/16 due to difficult economic conditions and factors such as the withdrawal of support for the proposed carbon capture and storage project at Peterhead. More broadly, no observable recovery in "spark spread" margins were forecast. In total, impairment and other charges of £326.4m were recognised in relation to gas generation. No further deterioration in the values of GB gas plants was observed in the financial year to 31 March 2017. In 2015/16, impairment charges totalling £161.8m were recognised in relation to the Group's Gas Exploration and Production assets in the North Sea, predominately due to declining wholesale gas prices. The exceptionals charges recognised included an element (£121.2m) relating to the impairment of Greater Laggan field assets acquired at 28 October 2016 which reflected the impact of the decline in expected long term gas prices between the acquisition date and the financial year end. The group's gas storage assets at Hornsea (Atwick) and Aldbrough saw reduced short term price volatility and seasonal spreads in the wholesale gas market, which created exceptional charges relating to plant value.

31 March 2015

In the year to 31 March 2015, the Group recognised exceptional charges arising from and related to asset impairments amounting to £667.5m and provisions of £56.0m. The exceptional charges recognised can be summarised as follows:

	Property, Plant & Equipment £m	Goodwill & Other Intangibles £m	Inventories £m	Other charges £m	Total Impairment related £m	Provisions £m	Total charges £m
Coal Generation	222.7	-	41.0	45.8	309.5	4.0	313.5
Gas Generation	14.9	51.5	-	-	66.4	10.0	76.4
Gas Production	61.9	44.1	-	0.1	106.1	-	106.1
Gas Storage	162.4	-	-	-	162.4	1.5	163.9
Other	16.9	-	-	6.2	23.1	40.5	63.6
	478.8	95.6	41.0	52.1	667.5	56.0	723.5

The impairments of Coal generation plants followed the 31 July 2015 fire at Ferrybridge and the inability of both units at Ferrybridge and one unit at Fiddler's Ferry to secure agreements to provide capacity under the auction process run by DECC in December 2015. The impairments of Gas generation plants predominately related to development sites at Abernedd and Seabank. The impairments of Gas Production assets related to the impact of declining wholesale prices on the Group's Sean, ECA and Lomond fields. The charges associated with Gas Storage followed the strategic review of the Group's operations in that segment the results of which were announced on 26 March 2016. The other charges mainly relate to asset impairments, other charges in non-core businesses and provisions for certain disputes and claims. The exceptional disposal gains recorded related to the sale of seven street lighting PFI companies to Equitix (£38.0m), the Group's share of the dividend from the Environmental Energy Fund's disposal of its stake in Anesco (£19.6m) and the gain on disposal of non-core retail assets (£17.2m).

6 Exceptional items and certain re-measurements (continued)

6.2 Certain re-measurements

The Group enters into forward commodity purchase (and sales) contracts to meet the future demand requirements of its Energy Supply business and to optimise the value of its Generation and other Wholesale assets. Certain of these contracts are determined to be derivative financial instruments under IAS 39 and as such are required to be recorded at their fair value. Changes in the fair value of those commodity contracts designated as IAS 39 financial instruments are reflected in the income statement (as part of 'certain re-measurements'). The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments. The Group will recognise the underlying value of these contracts as the relevant commodity is delivered, which will predominately be within the subsequent 12 to 18 months. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts. The re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category also includes the income statement movement on financing derivatives (and hedged items) as described in note 14.

6.3 Change in UK corporation tax rates

Finance (No.2) Act 2015 which received royal assent on 18 November 2015 enacted a corporation tax rate of 19% (currently 20%) from 1 April 2017, and a rate of 18% from 1 April 2020. A further change to reduce the rate of corporation tax to 17% from 1 April 2020 was announced in Finance Act 2016, as this change was enacted on 15 September 2016 it has the effect of reducing the Group's deferred tax liabilities by £34.6m including the impact of changes recognised in the statement of other comprehensive income.

Finance Act 2016 announced a reduction in the rate of Supplementary Charge on ring-fenced profits to 10% (previously 20%) with effect from 1 January 2016. As this change was substantively enacted on 15 September 2016 it has the effect of reducing the Group's deferred tax liabilities by £0.8m.

The Group has separately recognised the tax effect of the exceptional items and certain re-measurements summarised above.

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for the year ended 31 March 2017

7. Finance income and costs

	2017			2016		
	Before Exceptional items and certain re-measurements £m	**Exceptional items and certain re-measurements £m**	**Total £m**	Before Exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Finance income:						
Interest income from short term deposits	**1.8**	**-**	**1.8**	4.7	-	4.7
Foreign exchange translation of monetary assets and liabilities	**20.5**	**-**	**20.5**	9.0	-	9.0
Other interest receivable:						
Scotia Gas Networks loan stock	**12.7**	**-**	**12.7**	24.3	-	24.3
Other joint ventures and associates	**33.2**	**-**	**33.2**	18.8	-	18.8
Other receivable	**25.5**	**-**	**25.5**	45.0	-	45.0
	71.4	**-**	**71.4**	88.1	-	88.1
Total finance income	**93.7**	**-**	**93.7**	101.8	-	101.8
Finance costs:						
Bank loans and overdrafts	**(28.9)**	**-**	**(28.9)**	(27.9)	-	(27.9)
Other loans and charges	**(275.4)**	**-**	**(275.4)**	(257.1)	-	(257.1)
Interest on pension scheme liabilities (I)	**(4.0)**	**-**	**(4.0)**	(20.4)	-	(20.4)
Notional interest arising on discounted provisions	**(14.2)**	**-**	**(14.2)**	(15.7)	-	(15.7)
Finance lease charges	**(33.1)**	**-**	**(33.1)**	(34.7)	-	(34.7)
Less: interest capitalised (II)	**45.4**	**-**	**45.4**	47.6	-	47.6
Total finance costs	**(310.2)**	**-**	**(310.2)**	(308.2)	-	(308.2)
Changes in fair value of financing derivative assets or liabilities at fair value through profit or loss	**-**	**52.6**	**52.6**	-	14.3	14.3
Net finance costs	**(216.5)**	**52.6**	**(163.9)**	(206.4)	14.3	(192.1)
Presented as:						
Finance income	**93.7**	**-**	**93.7**	101.8	-	101.8
Finance costs	**(310.2)**	**52.6**	**(257.6)**	(308.2)	14.3	(293.9)
Net finance costs	**(216.5)**	**52.6**	**(163.9)**	(206.4)	14.3	(192.1)

i) The interest on net pension liabilities for the year ended 31 March 2017 of £4.0m (2016 - £20.4m) represents the respective charges under IAS 19R.

ii) The capitalisation rate applied in determining the amount of borrowing costs to capitalise in the period was 4.23% (2016 – 4.24%).

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

	2017 £m	2016 £m
Net finance costs	**(163.9)**	(192.1)
(add)/less:		
Share of interest from joint ventures and associates:		
Scotia Gas Networks loan stock	**(12.7)**	(24.3)
Other joint ventures and associates	**(102.0)**	(102.5)
	(114.7)	(126.8)
Interest on pension scheme liabilities	**4.0**	20.4
Share of interest on net pension liabilities in joint ventures	**(0.9)**	1.9
Movement on financing derivatives (Note 14)	**(52.6)**	(14.3)
Adjusted net finance costs	**(328.1)**	(310.9)
Notional interest arising on discounted provisions	**14.2**	15.7
Finance lease charges	**33.1**	34.7
Hybrid coupon payment (Note 12)	**(119.3)**	(124.6)
Adjusted net finance costs for interest cover calculations	**(400.1)**	(385.1)

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for the year ended 31 March 2017

8. Taxation

Analysis of charge recognised in the income statement

	Before Exceptional items and certain re-measure-ments	**Exceptional items and certain re-measure-ments**	**2017**	Before Exceptional items and certain re-measure-ments	Exceptional items and certain re-measure-ments	2016
	£m	**£m**	**£m**	£m	£m	£m
Current tax						
UK corporation tax	**188.0**	**(1.5)**	**186.5**	180.5	(44.2)	136.3
Adjustments in respect of previous years	**(61.1)**	**(9.0)**	**(70.1)**	(21.2)	-	(21.2)
Total current tax	**126.9**	**(10.5)**	**116.4**	159.3	(44.2)	115.1
Deferred tax						
Current year	**11.8**	**(60.1)**	**(48.3)**	74.9	(186.8)	(111.9)
Effect of change in tax rate	**-**	**(35.4)**	**(35.4)**	-	(41.5)	(41.5)
Losses carried forward recognised	**86.4**	**-**	**86.4**	-	-	-
Adjustments in respect of previous years	**(61.3)**	**-**	**(61.3)**	46.4	-	46.4
Total deferred tax	**36.9**	**(95.5)**	**(58.6)**	121.3	(228.3)	(107.0)
Total taxation charge	**163.8**	**(106.0)**	**57.8**	280.6	(272.5)	8.1

Adjusted current tax charge

The adjusted current tax charge is arrived at after the following adjustments:

	2017	**2017**	2016	2016
	£m	**%**	£m	%
Group tax charge and effective rate	**57.8**	**3.6**	8.1	2.1
Add: reported deferred tax credit and effective rate	**58.6**	**3.7**	107.0	27.5
Current tax charge and effective rate	**116.4**	**7.3**	115.1	29.6
Effect of adjusting items (see below)	**-**	**0.2**	-	(22.0)
Current tax charge and effective rate on adjusted basis	**116.4**	**7.5**	115.1	7.6
add/(less):				
Share of current tax from joint ventures and associates	**30.8**	**2.0**	34.1	2.3
Current tax on exceptional items	**10.5**	**0.7**	44.2	2.9
Adjusted current tax charge and effective rate	**157.7**	**10.2**	193.4	12.8

The adjusted effective rate is based on adjusted profit before tax being:

	2017	2016
		£m
Profit before tax	**1,776.6**	593.3
Add/(less):		
Exceptional items and certain re-measurements	**(266.6)**	858.0
Share of tax from joint ventures/associates before exceptional items and certain re-measurements	**32.8**	39.9
Interest on pension scheme liabilities	**4.0**	20.4
Share of interest on net pension liabilities in jointly controlled entities and associates	**(0.9)**	1.9
Adjusted profit before tax	**1,545.9**	1,513.5

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9. Dividends

9.1 Ordinary dividends

	Year ended 31 March 2017 Total £m	**Settled via scrip £m**	**Pence per ordinary share**	Year ended 31 March 2016 Total £m	Settled via scrip £m	Pence per ordinary share
Interim – year ended 31 March 2017	**277.1**	**95.3**	**27.4**	-	-	-
Final – year ended 31 March 2016	**629.5**	**142.6**	**62.5**	-	-	-
Interim – year ended 31 March 2016	**-**	**-**	**-**	270.5	16.3	26.9
Final – year ended 31 March 2015	**-**	**-**	**-**	613.5	159.5	61.8
	906.6	**237.9**		884.0	175.8	

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 cash dividend under the terms of the Company's scrip dividend scheme.

An interim dividend of 27.4p per ordinary share (2016 – 26.9p) was declared and paid on 17 March 2017 to those shareholders on the SSE plc share register on 20 January 2017. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the interim cash dividend under the terms of the Company's scrip dividend scheme.

The proposed final dividend of 63.9p per ordinary share based on the number of issued ordinary shares at 31 March 2017 is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. Based on shares in issue at 31 March 2017, this would equate to a final dividend of £649.0m.

9.2 Earnings per Share

(i) Basic earnings per share

The calculation of basic earnings per ordinary share at 31 March 2017 is based on the net profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 March 2017. All earnings are from continuing operations.

(ii) Adjusted earnings per share

Adjusted earnings per share has been calculated by excluding the charge for deferred tax, interest on net pension liabilities under IAS 19R and the impact of exceptional items and certain re-measurements (Note 6).

	Year ended 31 March 2017 Earnings £m	**Year ended 31 March 2017 Earnings per share pence**	Year ended 31 March 2016 Earnings £m	Year ended 31 March 2016 Earnings per share pence
Basic	**1,599.5**	**158.4**	460.6	46.1
Exceptional items and certain re-measurements (Note 6)	**(372.6)**	**(36.9)**	585.5	58.5
Basic excluding exceptional items and certain re-measurements	**1,226.9**	**121.5**	1,046.1	104.6
Adjusted for:				
Interest on net pension scheme liabilities (Note 7)	**4.0**	**0.4**	20.4	2.0
Share of interest on net pension scheme liabilities in joint venture (Note 7)	**(0.9)**	**(0.1)**	1.9	0.2
Deferred tax (Note 8)	**36.9**	**3.7**	121.3	12.1
Deferred tax from share of joint ventures and associates	**2.0**	**0.2**	5.8	0.6
Adjusted	**1,268.9**	**125.7**	1,195.5	119.5
Basic	**1,599.5**	**158.4**	460.6	46.1
Dilutive effect of outstanding share options	**-**	**(0.2)**	-	(0.1)
Diluted	**1,599.5**	**158.2**	460.6	46.0

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9 Dividends (continued)

9.2 Earnings per share (continued)

(ii) Adjusted earnings per share (continued)

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

	31 March 2017 Number of shares (millions)	31 March 2016 Number of shares (millions)
For basic and adjusted earnings per share	**1,009.7**	1,000.0
Effect of exercise of share options	**1.4**	1.2
For diluted earnings per share	**1,011.1**	1,001.2

9.3 Dividend cover

The Group's adjusted dividend cover metric is calculated by comparing adjusted earnings per share to the projected dividend per share payable to ordinary shareholders.

	2017 Earnings per share (pence)	**2017 Dividend per share (pence)**	**2017 Dividend Cover (times)**	2016 Earning per share (pence)	2016 Dividend per share (pence)	2016 Dividend cover (times)
Reported	**158.4**	**91.3**	**1.74**	46.1	89.4	0.51
Adjusted	**125.7**	**91.3**	**1.38**	119.5	89.4	1.34

10. Acquisitions, disposals and held-for-sale assets

10.1 Acquisitions

The Group increased its share in the Dogger Bank Offshore Wind development on 24 March 2017 following the acquisition of an additional 12.5% stake from former consortium partner Statkraft for consideration of £15.8m. This takes SSE's share of the project to 37.5%. Following this the Group reversed a previous impairment of £10.7m in respect of the project within other intangible assets. The Dogger Bank offshore wind development comprises four projects which are located in the North Sea off the east coast of England and has a potential generating capacity of up to 4,800MW. Due to the development being assessed as being a joint operation, the purchase price has been wholly allocated against intangible development assets.

10.2 Disposals

(i) Significant disposals

On 26 October 2016, the Group completed the disposal of a 16.7% equity stake in Scotia Gas Networks (SGN) to wholly owned subsidiaries of the Abu Dhabi Investment Authority (ADIA). After transaction costs and adjustments, cash consideration received was £615.1m and an exceptional gain on sale of £307.3m was recognised on disposal. Following the divestment, the Group will retain a 33.3% equity stake in SGN. These assets were not held for sale at 31 March 2016. The disposed 16.7% stake of SGN sold contributed £34.2m to the Group's reported profits in the current financial year.

(ii) Other 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 £31.7m of which £21.2m 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 net cash proceeds of £31.7m 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 was deemed not to be exceptional due to the value being below the Group's stated criteria for such items (see Note 3.2).

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, at the same time, entered into a contract with the purchaser for meter asset services. The assets disposed were held for sale at 31 March 2016.

On 30 March 2017, the Group completed the disposal of its stake in three Lighting Services PFI joint ventures in Leeds, Stoke and Newcastle to DIF Infra 4 UK Limited for net consideration of £40.4m, resulting in a gain on sale of £2.3m. This was deemed not to be exceptional due to the value being below the Group's stated criteria for such items (see Note 3.2). This disposal reduced the Group's reported net debt by £129.4m. These assets were held for sale at 31 March 2016.

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10 Acquisitions, disposals and held-for-sale assets (continued)

10.3 Disposal reconciliation

The following table summarises all businesses and assets disposed of during the financial year, including those not previously 'held for sale' and including other assets and investments disposed of as part of the normal course of business and which are noted in the relevant respective notes to the financial statements.

	Held for sale at March 2017	2017 Not Held for Sale at March 2017	2017 Total	2016 Total
Net assets disposed:	**£m**	**£m**	**£m**	£m
Property, plant and equipment	-	15.5	15.5	44.3
Intangible and biological assets	43.5	-	43.5	11.7
Investments – joint venture and other	-	326.9	326.9	-
Trade and other receivables	104.5	1.3	105.8	1.4
Trade and other payables	(0.9)	(6.4)	(7.3)	28.8
Provisions	16.2	-	16.2	-
Loans and borrowings	(90.4)	-	(90.4)	-
Net assets	72.9	337.3	410.2	86.2
Proceeds of disposal:				
Consideration	213.4	672.6	886.0	542.2
Debt reduction	(129.4)	-	(129.4)	(23.5)
Non-recourse loan (i)	-	-	-	(200.7)
Costs of disposal	(6.1)	(5.6)	(11.7)	(5.6)
Provisions	(2.8)	-	(2.8)	-
Net proceeds	75.1	667.0	742.1	312.4
				-
Gain on disposal after provisions	2.2	329.7	331.9	226.2
Presentation:				
Equity	-	-	-	138.6
Income statement exceptional credit	-	307.3	307.3	57.6
Income statement non exceptional credit	2.2	22.4	24.6	30.0

	2017 £m	2016 £m
Net proceeds of disposal	742.1	312.4
Provisions	(2.8)	-
Proceeds of disposal per cash flow statement	739.3	312.4
Cash from Clyde transaction recorded as New Borrowings in cash flow statement	-	200.7
Total cash proceeds	739.3	513.1

The debt reduction items £129.4m (2016- £23.5m) are associated with the disposal of PFI Lighting Services companies.

(i) Due to the consolidation, at 31 March 2016, of Clyde Windfarm (Scotland) Limited, the Group required to recognise £200.7m of non-recourse borrowings due from Clyde to other shareholders. Consequently, this balance was excluded from adjusted net debt and hybrids at that date with cash proceeds from the Clyde transaction being presented gross. The change in consolidation status of Clyde from 13 May 2016 means that this presentation is not applicable to the 31 March 2017. Further commentary is provided at Note 4.2 (iii).

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for the year ended 31 March 2017

10 Acquisitions, disposals and held-for-sale assets (continued)

10.4 Held-for-sale assets and liabilities

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 31 March 2017. The assets have been stated at their fair value less costs to sell.

The assets and liabilities classified as held for sale, and the comparative balances at 31 March 2017, are as follows:

	2017	2016
	£m	£m
Property plant and equipment	**63.6**	-
Other intangible	**-**	27.9
Derivative financial assets	**2.7**	-
Non-current assets	**66.3**	27.9
Trade and other receivables	**-**	106.3
Derivative financial assets	**4.1**	-
Current assets	**4.1**	106.3
Total assets	**70.4**	134.2
Loans and borrowings	**-**	(11.2)
Trade and other payables	**-**	(5.9)
Current liabilities	**-**	(17.1)
Loans and borrowings	**-**	(97.9)
Deferred tax liabilities	**(1.4)**	-
Non-current liabilities	**(1.4)**	(97.9)
Total liabilities	**(1.4)**	(115.0)
Net assets	**69.0**	19.2

The Group has recognised £14.3m of operating wind farm assets as held for sale at 31 March 2017. The other held for sale items relate to 50% of the assets and liabilities of Ferrybridge MFE 2 Limited. This subsidiary is responsible for the development of a 70MW multi fuel power plant situated close to the Group's operating multi fuel joint venture at Ferrybridge. SSE currently owns 100% of Ferrybridge MFE 2 Limited but has a contractual agreement, subject to various contingent matters, to dispose of 50% of the share capital of the company to the joint venture partner of the initial multi fuel facility. This transaction is anticipated to take place within the next year.

The aggregated pre-tax profit contribution of the held for sale assets and businesses in the year to 31 March 2017 was £nil (2016: £1.8m).

During the prior items held for sale related to the remaining streetlighting activities of the group, these assets were sold during March 2017. Other assets held for sale were smart meter assets, these were sold to Meter Fit 10 Limited in April 2016.

10.5 Acquisitions and disposals in the previous year

(i) Acquisitions in the previous year

On 28 October 2016, the Group through its wholly owned subsidiary, SSE E&P UK Limited, acquired a 20% interest in the four gas fields known as the Greater Laggan Area, along with a 20% interest in the Shetland Gas Terminal, from Total E&P UK Limited. The cash consideration paid for the business was £669.0m.

Notes to the Preliminary Statement

for the year ended 31 March 2017

10 Acquisitions, disposals and held-for-sale assets (continued)

10.6 Disposals in the previous year

On 29 October 2015, the Group agreed to sell its shareholding in Galloper Wind Farm to its co-venturer RWE Innogy for cash consideration of £18.3m. The gain on the disposal of £18.3m was recorded as an exceptional item. On 28 May 2015, the Group also agreed to sell three onshore wind development sites (Cour, Blackcraig, Whiteside Hill, 98MW) to Blue Energy. Total consideration for these assets was £52.4m. Consequently, an exceptional gain on disposal of £39.3m was recorded.

On 18 March 2016, the Group sold a 49.9% stake in its wholly owned operational 349.6MW Clyde Wind Farm to Greencoat UK Wind Holdco Limited ("UKW") and GLIL Corporate Holdings Limited("GLIL") for cash consideration of £339.2 million after costs. At 31 March 2016, the stake held by the co-investors was deemed to be that of a non-controlling interest in an entity under the Group's control .This key accounting judgement is explained at note 4.2 (iii). The consequence of that judgement was that the gain recorded on disposal of £138.6m was recognised directly in equity instead of in the income statement and the non-recourse to SSE loans in the entity required to be recorded on the Group balance sheet. Following amendments to the shareholders agreements between SSE, UKW and GLIL on 13 May 2016, SSE changed it's accounting of Clyde Windfarm to an equity accounted joint venture.

11. Sources of finance

11.1 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 in the Group and to underpin future development of the business. The Group's credit ratings are also important in maintaining an efficient cost of capital and in determining collateral requirements throughout the Group. As at 31 March 2017, the Group's long term credit rating was A- negative outlook for Standard & Poor's and A3 stable outlook for Moody's.

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

The Group has the option to purchase its own shares from the market. The timing of these purchases will depend on market prices and economic conditions. As part of the utilisation of the proceeds from its disposal of a 16.7% stake in Scotia Gas Networks, the Group had announced on 11 November 2016 that it would commence a discretionary programme to purchase its shares for cancellation or to be held in treasury. This programme commenced on 11 November 2016 and is due to complete no later than 31 December 2017. The aggregate purchase price of all shares acquired under the programme will be no greater than £500.0m and no more than 100,759,681 shares. The purpose of the programme is to reduce the share capital of the Company. As at 31 March 2017, the Group had completed the on-market repurchase and cancellation of 8.9million of its shares in the period to 31 March 2017 for total cash outlay of £131.5m. See further detail within Note 12.

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 the financial year the group received £501m relating to a US private placement which was signed ahead of the 31 March 2016 year end. Also during the financial year, the Group issued hybrid securities which bring together features of both debt and equity of £1.0bn. As these securities have a fixed redemption date these are accounted for as debt. The securities are different from the hybrid securities previously issued which were perpetual and subordinate to all senior creditors and which are accounted for as equity.The Group currently has £1.7bn of committed bank facilities of which £1.5bn relates 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 remaining £0.2bn relates to a new EIB facility that was signed in March 17 with a 12 month drawing period that, once drawn, will convert to being a 10 year term loan. The Group's capital comprises:

	2017	2016
	£m	£m
Total borrowings (excluding finance leases)	**7,805.5**	6,868.0
Less : Cash and cash equivalents	**(1,427.0)**	(360.2)
Net debt (excluding hybrid equity)	**6,378.5**	6,507.8
Hybrid equity	**2,209.7**	2,209.7
Cash held as collateral and other short term loans	**(105.2)**	(121.8)
Balances due to non-controlling interest partners in Clyde Windfarm (Scotland) Ltd	**-**	(200.7)
Adjusted Net Debt and Hybrids	**8,483.0**	8,395.0
Equity attributable to shareholders of the parent	**4,062.8**	2,984.8
Total capital excluding finance leases	**12,545.8**	11,379.8

In summary, the Group's intent is to balance returns to shareholders between current returns through dividends and long-term capital investment for growth. In doing so, the Group will maintain its capital discipline and will continue to operate within the current economic environment prudently. There were no changes to the Group's capital management approach during the year.

Notes to the Preliminary Statement

for the year ended 31 March 2017

11 Sources of finance (continued)

11.2 Loans and borrowings

	2017 £m	2016 £m
Current		
Other short-term loans	**118.8**	898.8
Obligations under finance leases	**23.6**	24.5
	142.4	923.3
Non current		
Loans	**7,686.7**	5,969.2
Obligations under finance leases	**253.3**	276.3
	7,940.0	6,245.5
Total loans and borrowings	**8,082.4**	7,168.8
Add:		
Cash and cash equivalents	**(1,427.0)**	(360.2)
Unadjusted Net Debt	**6,655.4**	6,808.6
Add/(less):		
Hybrid equity (Note 12)	**2,209.7**	2,209.7
Obligations under finance leases	**(276.9)**	(300.8)
Cash held as collateral and other short term loans	**(105.2)**	(121.8)
Balances due to non-controlling interest partners in Clyde Windfarm (Scotland) Limited	**-**	(200.7)
Adjusted Net Debt and Hybrid Capital	**8,483.0**	8,395.0

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and short term highly liquid investments with a maturity of six months or less. The cash and cash equivalents are higher year on year due to the early refinancing of £1.0bn Hybrids in October 17.

Borrowing facilities

The Group has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into sterling) and as at 31 March 2017 no commercial paper was outstanding (2016 - £198.8m). During the year the Group extended its existing £1.5bn revolving credit and bilateral facilities by invoking the one year extension options with the facilities now maturing in August 2021 (£1.3bn) and November 2021 (£0.2bn). These facilities continue to provide back up to the commercial paper programme and, as at 31 March 2017, they were undrawn. The Group has a further £200m facility available with the European Investment Bank which will be fully drawn during 2017 when it will become a 10 year term loan.

Hybrid Debt

On 16 March 2017, the Group issued £1.0bn of new hybrid debt securities. Those hybrid equity securities have an issuer first call date on 1 October 2017 and are able to be redeemed at the Group's discretion. This dual tranche issue comprises £300m with a coupon of 3.625% and $900m with a coupon of 4.75%. The $900m tranche has been swapped back to both Euros and Sterling, bringing the all-in rate down to 2.72% and resulting in an all-in funding cost for both tranches to SSE of 3.02% per annum. This compares favourably to the all-in funding cost of 4.02% achieved on SSE's most recent Hybrid equity securities issued in 2015. The intent is to use the proceeds to replace SSE's hybrid issued in 2012 (at an all-in rate of 5.6%), which has an issuer first call date on 1 October 2017. Due to the hybrids having a fixed redemption date, they have been accounted for as a debt item and are included within Loans and Other Borrowings in the table above. This is in contrast to the previous Hybrid issues which have no fixed redemption date and are accounted for as Equity, see Note 12.

Notes to the Preliminary Statement

for the year ended 31 March 2017

12. Equity

12.1 Share capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 31 March 2016	1,007.6	503.8
Issue of shares (i)	16.9	8.5
Shares repurchased (ii)	(8.9)	(4.5)
At 31 March 2017	**1,015.6**	**507.8**

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

i. Shareholders were able to elect to receive ordinary shares in place of the final dividend of 62.5p per ordinary share (in relation to year ended 31 March 2016) and the interim dividend of 27.4p (in relation to the current year) under the terms of the Company's scrip dividend scheme. This resulted in the issue of 9,395,092 and 6,324,986 new fully paid ordinary shares respectively (2016: 10,600,639 and 1,172,973). In addition, the Company issued 1.2m (2016 – 2.8m) shares during the year under the savings-related share option schemes for a consideration of £13.8m (2016 - £25.0m)

ii. During the current financial year the company began a programme of share repurchases 8.9m shares were repurchased for total consideration of £131.5m. The programme was announced on 11 November 2016 and the Group plan to continue this activity until December 2017. The nominal value of share capital repurchased and cancelled is transferred out of share capital and into the capital redemption reserve.

During the year, on behalf of the Company, the employee share trust purchased 0.8m shares for a total consideration of £12.6m (2016 – 0.8m shares, consideration of £11.1m). At 31 March 2017, the trust held 2.9m shares (2016 – 3.0m) which had a market value of £42.5m (2016 - £45.5m).

12.2 Hybrid Equity

	2017 £m	2016 £m
USD 700m 5.625% perpetual subordinated capital securities	**427.2**	427.2
EUR 750m 5.625% perpetual subordinated capital securities	**598.2**	598.2
GBP 750m 3.875% perpetual subordinated capital securities	**748.3**	748.3
EUR 600m 2.375% perpetual subordinated capital securities	**436.0**	436.0
	2,209.7	2,209.7

(i) 18 September 2012 €750m and US$700m Hybrid Equity 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. The Group anticipate that proceeds from the 16 March 2017 issuance of hybrid debt securities will be utilised in the discretionary redemption of both 2012 bonds.

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 Equity Bonds

On 10 March 2016, the Company issued £750m and €600m hybrid equity 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 equity 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 equity bond is 1 April 2021 and then these can occur every 5 years thereafter. The purpose of the outstanding issues was to strengthen SSE's capital base and fund the Group's ongoing capital investment and acquisitions.

For the £750m hybrid equity bond issued on 10 March 2015 the first coupon payment was made on 10 September 2016 and are expected to be made annually in arrears thereafter, and for the €600m hybrid equity bond issued on 10 March 2015, the first coupon payment was made on 1 April 2016 and expected to be made annually in arrears thereafter.

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12 Equity (continued)

(iii) Coupon Payments

Coupon payments in relation to the $700m hybrid equity bond were paid on 1 April 2016 and 1 October 2016 totalling £23.3m (2016 - £24.9m). A coupon payment of £33.6m (2016 - £36.2m) in relation to the €750m hybrid equity bond was paid on 1 October 2016.

For the €600m hybrid equity bond the first coupon payment of £18.6m was paid on 1 April 2016 and for the £750m hybrid equity bond the first coupon payment of £43.8m was paid on 10 September 2016, both were for first long coupon periods from 10 March 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.

13. Retirement Benefit Obligations

13.1 Valuation of combined Pension Schemes

	Long- term rate of return expected at 31 March 2017 %	**Value at 31 March 2017 £m**	Long- term rate of return expected at 31 March 2016 %	Value at 31 March 2016 £m
Equities	**5.5**	**1,203.9**	5.5	1,049.6
Government bonds	**0.0**	**1,079.9**	1.2	1,001.7
Corporate bonds	**2.7**	**1,288.6**	3.0	1,069.7
Insurance contracts	**2.7**	**221.3**	-	-
Other investments	**3.4**	**591.9**	1.7	581.9
Total fair value of plan assets		**4,385.6**		3,702.9
Present value of defined benefit obligation		**(4,315.1)**		(3,835.0)
Pension asset/(liability) before IFRIC 14		**70.5**		(132.1)
IFRIC 14 liability (i)		**-**		(262.7)
Surplus/(deficit) in the schemes		**70.5**		(394.8)
Deferred tax thereon (ii)		**(106.6)**		71.0
Net pension liability (iii)		**(36.1)**		(323.8)

(i) The IFRIC 14 adjustment represents the restriction on the Group's ability to recognises scheme surplus under the 'asset ceiling' test. The application of this adjustment changed in the current year following a change to scheme rules (see note 4.2(v)).
(ii) Deferred tax rate of 35% applied to pension surpluses, whilst 17% applied to pension deficits.
(iii) The two pensions schemes of the group, Scottish Hydro Electric pension scheme and the Southern Electric pension scheme are in individual in net asset and liability positions respectively, and as such these positions have been presented separately on the balance sheet, see below

	Balance Sheet presentation 2017 £m	Balance sheet presentation 2016 £m
Retirement benefit asset	**525.4**	-
Retirement benefit liability	**(454.9)**	(394.8)
Net pension asset/(liability)	**70.5**	(394.8)

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13 Retirement Benefit Obligations (continued)

Movements in the defined benefit asset obligations and assets during the year:

	2017			2016		
		Obligations			Obligations	
	Assets	**(i)**	**Total**	Assets	(i)	Total
	£m	**£m**	**£m**	£m	£m	£m
at 1 April	**3,702.9**	**(3,835.0)**	**(132.1)**	3,751.0	(4,209.1)	(458.1)
Included in Income Statement						
Current service cost	**-**	**(50.9)**	**(50.9)**	-	(61.8)	(61.8)
Past service cost	**-**	**(13.6)**	**(13.6)**	-	(4.3)	(4.3)
Interest income/(cost)	**130.9**	**(134.9)**	**(4.0)**	121.2	(134.9)	(13.7)
	130.9	**(199.4)**	**(68.5)**	121.2	(201.0)	(79.8)
Included in Other Comprehensive Income						
Actuarial (loss)/gain arising from:						
Demographic assumptions	**-**	**259.6**	**259.6**	-	48.0	48.0
Financial assumptions	**-**	**(807.9)**	**(807.9)**	-	277.4	277.4
Experience assumptions	**-**	**31.4**	**31.4**	-	101.5	101.5
Return on plan assets excluding interest income	**675.5**	**-**	**675.5**	(123.1)	-	(123.1)
	675.5	**(516.9)**	**158.6**	(123.1)	426.9	303.8
Other						
Contributions paid by the employer	**112.5**	**-**	**112.5**	102.0	-	102.0
Scheme participants contributions	**0.2**	**(0.2)**	**-**	0.3	(0.3)	-
Benefits paid	**(236.4)**	**236.4**	**-**	(148.5)	148.5	-
	(123.7)	**236.2**	**112.5**	(46.2)	148.2	102.0
Balance at 31 March	**4,385.6**	**(4,315.1)**	**70.5**	3,702.9	(3,835.0)	(132.1)

I) The IFRIC 14 adjustment represents the restriction on the Group's ability to recognises scheme surplus under the 'asset ceiling' test. The application of this adjustment changed in the current year following a change to scheme rules (see note 4.2(v)).

Charges / (credits) recognised:

	2017	2016
	£m	£m
Current service cost (charged to operating profit)	**64.5**	66.1
	64.5	66.1
(Credited)/charged to finance costs:		
Interest on pension scheme assets	**(130.9)**	(121.2)
Interest on pension scheme liabilities	**134.9**	134.9
IFRIC 14 impact on net interest	**-**	6.7
	4.0	20.4

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14. Financial risk management

14.1 Financial risk management

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Risk Committee in the Wholesale and Retail divisions, both of, which report directly to the Executive Committee 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 Risk Committee's of Wholesale and Retail are designed to ensure strict business separation requirements are maintained.

The Group's policies for risk management are established to identify the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies, and the systems used to monitor activities, are reviewed regularly by the Risk Committee's in Wholesale and Retail.

Exposure to the commodity, currency and interest rate risks noted arise in the normal course of the Group's business and derivative financial instruments are entered into to hedge exposure to these risks. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below .

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:

	2017	2016
	£m	£m
Operating derivatives		
Total result on operating derivatives (i)	**(438.6)**	(1,375.4)
Less: amounts settled (ii)	**639.6**	1,344.3
Movement in unrealised derivatives	**201.0**	(31.1)
Financing derivatives (and hedged items)		
Total result on financing derivatives (i)	**(136.3)**	(214.9)
Less: amounts settled (ii)	**188.9**	229.2
Movement in unrealised derivatives	**52.6**	14.3
Net income statement impact	**253.6**	(16.8)

(i) Total result on derivatives in the income statement represents the total amounts (charged) or credited to the income statement in respect of operating and financial derivatives.
(ii) Amounts settled in the year represent the result on derivatives transacted which have matured or been delivered and have been included within the total result on derivatives.

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for the year ended 31 March 2017

14 Financial risk management (continued)

14.2 Fair Value Hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from unadjusted quoted market prices for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

Financial Assets	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Energy derivatives	335.9	943.9	-	**1,279.8**
Interest rate derivatives	-	471.8	-	**471.8**
Foreign exchange derivatives	-	46.2	-	**46.2**
Equity investments	-	12.5	-	**12.5**
	335.9	**1,474.4**	**-**	**1,810.3**
Financial Liabilities				
Energy derivatives	(341.9)	(1,101.2)	-	**(1,443.1)**
Interest rate derivatives	-	(403.5)	-	**(403.5)**
Foreign exchange derivatives	-	(9.8)	-	**(9.8)**
Loans and Borrowings	-	257.4	-	**257.4**
	(341.9)	**(1,257.1)**	**-**	**(1,599.0)**

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 2017.

15. Capital commitments

	2017 £m	2016 £m
Capital expenditure:		
Contracted for but not provided	**949.0**	898.4

Contracted for, but not provided capital commitments, include the fixed contracted costs of the Group's major capital projects. In practice, contractual variations may arise on the final settlement of these contractual costs.

Notes to the Preliminary Statement

for the year ended 31 March 2017

16. Related party transactions

The following transactions took place during the year between the Group and entities which are related to the Group but which are not members of the Group. Related parties are defined as those in which the Group has control, joint control or significant influence over.

Joint ventures:	**2017 Sale of goods and services £m**	**2017 Purchase Of goods and services £m**	**2017 Amounts owed from £m**	**2017 Amounts owed to £m**	2016 Sale of goods and services £m	2016 Purchase of goods and services £m	2016 Amounts owed from £m	2016 Amounts owed to £m
Seabank Power Ltd	**11.0**	**(134.0)**	**0.1**	**17.0**	13.7	(125.8)	-	18.2
Marchwood Power Ltd	**16.8**	**(144.5)**	**0.5**	**12.6**	12.7	(108.7)	0.1	15.5
Scotia Gas Networks Ltd	**45.5**	**(158.0)**	**0.9**	**0.9**	46.3	(155.8)	15.9	0.9
Clyde Windfarm (Scotland) Ltd	**5.7**	**(0.1)**	**-**	**11.1**	-	-	-	-
Other Joint Ventures	**10.4**	**-**	**2.3**	**-**	8.1	(1.2)	8.4	-
Associates	**1.4**	**(53.4)**	**3.6**	**3.9**	0.5	(59.7)	2.4	3.9

The transactions with Seabank Power Limited and Marchwood Power Limited relate to the contracts for the provision of energy or the tolling of energy under power purchase arrangements. Scotia Gas Networks Limited has operated the gas distribution networks in Scotland and the South of England from 1 June 2005. The Group's gas supply activity incurs gas distribution charges while the Group also provides services to Scotia Gas Networks in the form of a management service agreement for corporate services, stock procurement services and the provision of the capital expenditure on the development of front office management information systems.

The amounts outstanding are trading balances, are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.