

CHAIRMAN'S CORPORATE GOVERNANCE STATEMENT

Dear Shareholder,

It has been another year in which the prevailing market and policy trends in the UK and Ireland energy sector have formed the backdrop to many of the Board's discussions, and in which the matters considered by the Board have been wide-ranging, interesting, and challenging at times. As highlighted within the Strategic Report, it has been a period of renewal for SSE, and a time in which the Board has maintained focus on the long-term priorities for the Group. Our strategic considerations have centred on SSE's core strengths and delivering against our firm commitment to create value for shareholders and society through the sustainable decisions we take. In line with our responsibilities as a Board, we also recognise the need to listen and adapt to the changing needs of stakeholders that SSE interacts and relies upon, and who are affected by its operations. In recognition of the importance of this area, we have endeavoured to further enhance our reporting surrounding the breadth of stakeholder engagement which currently takes place, and this, along with details of the issues which are recognised by the Board as material to each of SSE's key stakeholder groups, are covered on page 116.

In November 2017, we announced a proposed demerger of SSE's household energy and services business in Great Britain (now named SSE Energy Services), and immediate combination of that business with innogy SE's subsidiary npower to form a new independent UK-based group. Following this transaction, the SSE Group of businesses will have a renewed focus on creating value through the development, ownership and operation of energy and related infrastructure and services. The Board recognises that these decisions will result in a period of change for SSE, however believes they remain consistent with the need to respond to the changing sector in order to best support all of our stakeholders. They also align with, and are a natural build on, SSE's core competencies – areas which were considered through the strategic agenda in respect of a platform for future growth. To ensure that all deliberations in respect of the above proposal were balanced and reflective of our purpose and values to maintain sustainable operations, appropriate time was spent understanding the potential impact, now and in the longer term, for those stakeholders who are likely to be affected by the decision.

This was achieved through a dedicated project team and considered reporting to the Board, as well as appropriate challenge and support from the Board. Further insight into some of these matters can be found in the dedicated Case Study on pages 100 to 101.

Whilst the planned SSE Energy Services transaction was a key decision during the period, focus on our primary role – to ensure the successful leadership of the Group and its current businesses – has remained central to the Board agenda. Through monitoring and assessing business performance, opportunities and challenges, within each of Wholesale, Networks, Retail and Enterprise, and considering progress in respect of SSE's established long-term capital investment programme, we have sought to ensure that each business is well positioned to prepare SSE for the future. Discussions have been cognisant of the need for balanced and sustainable operations, which will allow SSE to continue to serve in the public interest and remunerate the investment made by our shareholders. This commitment has been demonstrated in the year through efficient and disciplined capital investment of around £1.5bn, a large proportion of which was invested in regulated electricity networks infrastructure and renewable generation, and delivery of adjusted earnings per share ahead of expectations at the start of the year. More detail of specific Board activity and focus areas for 2017/18 are set out on pages 95 to 96.

Taking the right decisions and ensuring that SSE does the right thing by its shareholders, employees, customers and wider society are well recognised facets of SSE's culture, and attitudes which are supported through a firm commitment to high standards of corporate governance. During the year, we have continued to engage on cultural issues at all levels throughout the Group, in order to deepen our understanding of how the values, standards and processes agreed and demonstrated at a senior level are embedded and perceived by the greater workforce, and in turn drive employee behaviour. As always, direct engagement with employees from across all areas of the business and within a vast range of roles, is considered invaluable and one of the many highlights of the Board calendar. Insights gained from a number of these engagements can be found on pages 97, 98 and 104 of the report that follows.

In addition to the activities which allow us to personally observe and gauge the visible aspects of SSE's culture, the work of the Board Committees is central to ensuring that there is appropriate alignment between our culture, core values, purpose and strategy. During the year, the work of the Audit Committee has continued to provide assurance surrounding: the integrity of our financial reporting; the relationships with the External Auditor and Internal Audit function; and the risk management and internal control environment. A particularly positive report in 2017/18 was the continued and increased use of SSE's dedicated whistleblowing line, SafeCall. Further details of SSE's approach to, creating a culture in which employees feel able to speak up, responding to wrongdoing and supporting those who do the right thing is set out on page 85. In line with the processes that preserve the independence of the external audit relationship, we have also received updates in respect of the forward-looking work relating to the planned tender of this contract, which will be led by the Audit Committee in 2018/19.

The remit of the Safety, Health and Advisory Committee was reviewed during the year, and following agreement of the Board, will now provide sharper focus to SSE's commitment to being a responsible company, that makes good decisions for the long term, and a positive contribution to the communities and societies of which it is part. Details of this change can be found on pages 118 to 119.



THE UK CORPORATE GOVERNANCE CODE

Through the Listing Rules, the UK Corporate Governance Code (the 'Code') underpins the overarching Corporate Governance Framework for premium listed companies within the UK. The Code is published by the Financial Reporting Council (FRC) and is available to view on their website.

It contains principles and provisions which set out standards of good practice in relation to Board leadership, effectiveness, accountability, relations with shareholders and remuneration, and this Directors' Report is structured accordingly.

Each year, through this Directors' Report, we describe how we have applied the Main Principles of the Code and in line with its 'comply or explain' model we detail any departures from its specific provisions. For 2017/18 we are reporting against the 2016 version of the Code and confirm full compliance with its provisions.

During the year, the Board engaged with the FRC's public consultation surrounding the proposed revisions to the Code and is supportive of the approach to refresh the existing framework given the wide societal impact and greater corporate responsibility

of large organisations today. Many of the initiatives which have been considered by the FRC – including those in relation to: corporate culture; diversity; strengthening the stakeholder voice; and adopting appropriate remuneration structures – are areas in which the Board is already committed to providing focus and upholding high standards of corporate governance. We hope that this is evidenced through both the Directors' and Strategic Reports, and welcome the integration of relevant guiding standards into the Code's highly regarded framework.

The Remuneration Committee agenda continued to apply focus to the key matters of Company and individual Executive Director performance, and the consideration of appropriate targets for 2018 and beyond. Whilst specific engagement between the Committee Chair and a group of employee representatives, including trade unions, also took place in the period. Discussions covered a wide range of topics including the executive pay landscape, and will form a regular part of ongoing engagement with the wider workforce going forward. In recognition of the potential impact of the planned SSE Energy Services transaction on our current employee share plans, work was also initiated in respect of their review. Details of the above are set out in the Committee's respective report on pages 120 to 137.

Board culture is monitored on an ongoing basis, with high quality and transparent Board procedures being recognised as key to supporting effective performance. Formal assessment of which is conducted through our well-established annual evaluation process, which in 2017/18, was again internally-led. This will be followed by an external evaluation in 2018/19. As with previous years, we report against progress made in the period and provide details of actions agreed for the coming year, which can be found on pages 102 to 103.

In recognition of the many attributes of an effective Board, significant focus has also been given to our own composition and the diversity this represents. Through the annual evaluation process, the work of the Nomination Committee, and investor feedback, we have reviewed and challenged where appropriate: our succession plans; the skills and knowledge required by the Board; and relevant external developments,

including the recommendations of the Hampton-Alexander and Parker Reviews and the proposed revisions to the Code. Notable outputs from this work included a revised Board Diversity Policy and ambitions for female representation in senior roles, both of which are discussed within the Nomination Committee Report on pages 105 to 108.

Relevant findings have also been used to inform plans for future Board refreshment and to assess areas in which we may wish to enhance our capabilities. The potential benefits which increased sector experience would bring to our considerations was identified in the Board evaluation, and I am extremely pleased to confirm that we welcomed two new appointments to the Board in the year. Martin Pibworth joined us as an Executive Director on 1 September 2017 and Tony Cocker joined as a non-Executive Director on 1 May 2018. Both Martin and Tony possess a depth of operational knowledge and I'm sure they will bring excellent sector oversight and valuable perspectives to the Board. Full details of the process which was used for each of the above appointments can be found on page 106 within the Nomination Committee Report, and information surrounding the relevant induction programmes is set out on page 104.

In addition to these appointments, further changes to membership have taken place, with Katie Bickerstaffe having stepped down from the Board on 30 April 2018 following her appointment as Chief Executive Designate of the new combined independent retail company. As announced on 24 May 2018, Jeremy Beeton will also be stepping down as a non-Executive Director, and this will follow the conclusion of the AGM on 19 July 2018. Katie and Jeremy each have almost seven years of service, and on behalf of the Board, I would like to thank them both for their contribution to SSE

and wish them well in all future endeavours. As a result of the above, changes to Committee membership have also been agreed by the Board as follows. Sue Bruce became Chair of the Remuneration Committee on 1 May 2018, following her joining as a member on 1 December 2017, and Helen Mahy will become Chair of the Safety, Health and Environment Advisory Committee when Jeremy ceases in the role. All of the above changes were made upon the recommendation of the Nomination Committee.

I hope you find the information which follows in this Directors' Report informative and interesting.



Richard Gillingwater CBE
Chairman
24 May 2018

Documents available on sse.com

- SSE's Articles of Association
- Schedule of Matters Reserved for the Board
- Non-Executive Letters of Appointment
- Terms of Reference for the Board Committees
- Board Diversity Policy
- Non-Audit Services Policy