

INTERIM RESULTS

FOR THE SIX MONTHS TO 30 SEPTEMBER 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 six months to 30 September 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 Condensed Interim 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.

Table of Contents

Overview of the 6 months to 30 September 2017	1
Outlook	1
SSE's financial performance in six months to 30 September 17 at-a-glance.....	3
Earning a profit from SSE's businesses	3
Investing to create long-term value.....	5
Chief Executive's Statement	7
Safety is our number one priority	7
Achieving our financial objective	7
A changing operating environment brings challenges and opportunities.....	7
Adapting to a changing energy system	8
Maintaining a culture built on values	9
Focusing on strategic priorities in 2017/18	10
Group financial overview	11
Group financial review	15
Earnings, dividends and dividend cover	15
Investment and capital expenditure	17
Financial management and balance sheet	18
Tax	21
Group Financial Overview - Conclusion and Priorities.....	21
WHOLESALE	22
Wholesale Key Performance Indicators.....	22
Financial performance in Wholesale	23
Energy Portfolio Management (EPM)	24
Electricity Generation (Renewables)	24
Electricity Generation (Thermal).....	26
Gas Production.....	28
Gas Storage	28
Wholesale – Conclusion and Priorities	28
NETWORKS.....	30
Networks Key Performance Indicators	30
Financial performance in Networks.....	31
Electricity Transmission	32
Electricity Distribution	34
SGN	36
Networks – Conclusion and Priorities.....	37
RETAIL (including Enterprise).....	38
Retail (including Enterprise) Key Performance Indicators	38
Supplying energy and essential services across Great Britain and Ireland.....	38
Financial performance in Retail	39
Adapting to a changing market.....	39
Progress in Energy Supply	40
Energy Related Services	42
Enterprise.....	43
Retail (including Enterprise) – Conclusion and Priorities.....	44
Condensed Interim Statements	45
Consolidated Income Statement	50
Consolidated Income Statement	51
Consolidated Statement of Other Comprehensive Income.....	52
Consolidated Balance Sheet.....	53
Consolidated Statement of Changes in Equity.....	54
Consolidated Statement of Changes in Equity.....	55
Consolidated Cash Flow Statement	56

SSE plc

Interim results for the six months to 30 September 2017

8 November 2017

This report sets out the interim results for SSE plc for the six months to 30 September 2017. It includes updates on operations and investments in its Wholesale, Networks and Retail (including Enterprise) businesses. As performance over a six month period can be variable, SSE focuses on results for the financial year as a whole, and manages its businesses accordingly.

SSE is also issuing a statement on its household energy supply and services business in Great Britain, and this Interim Results Statement should be read in conjunction with that.

Overview of the 6 months to 30 September 2017

As expected and in line with SSE's Notification of Closed Period statement published on 27 September 2017, SSE's financial headlines for the six months to 30 September 2017 are as follows: (comparisons are with the same period in 2016 unless otherwise stated):

- Interim dividend up 3.6% to 28.4p;
- Adjusted earnings per share down 8.8 % to 31.2p;
- Adjusted operating profit down 8.0% to £586.2m;
- Adjusted profit before tax down 13.9% to £409.6m;
- Investment and capital expenditure was slightly lower at £779.5m;
- Adjusted net debt and hybrid capital increased by 9.0% to £9.2bn in the six months to 30 September 2017;
- On market share buy backs totalling £270.5m were made in the six months to 30 September 2017, following £131.5m of share buy backs in the previous financial year;
- Reported operating profit down 30.9% to £549.4m;
- Reported profit before tax down 40.4% to £402.2m; and
- Reported earnings per share down 43.9% to 29.8p.

The above results for the six months to 30 September 2017 are consistent with SSE's previously-stated expectation that adjusted earnings per share for 2017/18 and other financial results would be lower than 2016/17. This is mainly due to the phasing of capital expenditure on significant Transmission projects and the resulting impact on regulatory revenue, along with a reduced share of SGN earnings due to the part disposal in October 2016.

Outlook

For the 2017/18 financial year as a whole, SSE is:

- Expecting to report full year earnings per share at a level which is at least in line with the current consensus of sector analysts' forecasts of 116p (based on SSE compiled estimates from 18 analysts as at 1 November 2017);
- 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 this range, as stated in SSE's Notification of Pre Close Statement on 30 March 2017, and again in its full year 2016/17 Results; and
- Expecting to invest around £1.7bn in building, owning and operating assets, with around two thirds of this in electricity networks and renewable sources of energy.

Looking further ahead, SSE is currently:

- Targeting delivery of annual dividend increases that at least keep pace with RPI inflation (see also today's further announcement regarding SSE's GB household retail business – extract below);
- 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, up from £8bn at September 2017;
- Targeting an increased amount of renewable capacity, including pumped storage, of 4.3GW, up from 3.7GW at September 2017, which should then be capable of generating around 12TWh of electricity in a typical year*; and
- Working to deliver enhanced customer experience of retail energy markets through the installation of smart meters and the provision of digital services.

As previously communicated, 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 Condensed Interim Statements

**Assumes SSE's share of Clyde windfarm remains at 65%*

Extract from RNS announcement (8 November 2017)– proposed transaction regarding SSE's GB household retail business

SSE's commitment to remunerating shareholders

The Board of SSE is and will remain committed to remunerating shareholders' investment through the payment of dividends. It is continuing to target an increase in the full-year dividend for 2017/18 of at least RPI inflation, with an annual increase of at least RPI inflation also being targeted for 2018/19.

Thereafter, SSE's dividend and dividend policy will reflect the quality and nature of its assets and operations, the earnings derived from them and the longer-term financial outlook. Excluding household energy supply and services in GB, and based on its financial results for the three years to March 2017, around 80% of SSE's operating profit related to economically-regulated networks and government-mandated renewable sources of energy; and much of that is also index-linked. Following the demerger, therefore, SSE expects that its target for annual increases in the dividend per share will be at least RPI inflation.

More detail on this will be set out by the time the shareholder circular in respect of the Transaction is published. The Transaction will have no material impact on SSE's ability to meet its debt service obligations.

The dividend policy of MergeCo will be a matter for its board but it is expected that the quality of its business and the opportunity to secure efficiencies should enable an attractive and fair return on investment in MergeCo, following the Transaction.

SSE's financial performance in six months to 30 September 17 at-a-glance

	Sep 17	Sep 16	Sep 15
	£m	£m	£m
Adjusted operating profit			
Wholesale	159.9	121.0	159.6
Networks	355.1	455.9	451.6
Retail	70.3	60.5	101.5
Corporate unallocated	0.9	(0.2)	(10.8)
Total adjusted operating profit	586.2	637.2	701.9
Adjusted profit before tax	409.6	475.8	548.8
	Pence	Pence	Pence
Adjusted earnings per share (EPS)	31.2	34.2	45.9
Interim dividend per share (DPS)	28.4	27.4	26.9
	£m	£m	£m
Investment and capital expenditure (adjusted)	779.5	782.4	757.3
	Sep 17	Mar 17	Sep 16
Adjusted net debt and hybrid capital	9,245.8	8,483.0	8,995.4

	Sep 17	Sep 16 (restated)	Sep 15
	£m	£m	£m
Reported operating profit / (loss)			
Wholesale	169.1	325.6	(129.1)
Networks	309.1	409.7	381.5
Retail	70.3	60.5	101.5
Corporate unallocated	0.9	(0.2)	(10.8)
Total reported operating profit	549.4	795.6	343.1
Reported profit before tax	402.2	675.0	230.8
	Pence	Pence	Pence
Reported/basic earnings per share (EPS)	29.8	53.1	19.4
	Sep 17	Mar 17	Sep 16
	£m	£m	£m
Unadjusted net debt	7,338.3	6,655.4	7,164.8

Sep 16 figures restated to include the Clyde windfarm fair value uplift of £59.1m as an exceptional item. See Note 4.2 (iii) within the Condensed Interim Statements

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 six months to 30 September 2017, as set out above. Comparisons in these tables are with the six months to September in the previous two 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.

Adjusted operating profits in SSE's business segments during the six months to 30 September 2017 are as follows (comparisons below are with the same six months in 2016 unless otherwise stated):

WHOLESALE

Energy Portfolio Management and Electricity Generation: adjusted operating profit increased to £160.7m compared to £123.2m. This reflects improved financial performance and higher output from both renewable and gas-fired generation, partially offset by the end of the ancillary services contract for Fiddler's Ferry power station.

Gas Production: adjusted and reported operating profit increased to £4.5m, compared to £2.1m, mainly due to a higher achieved average gas price which benefited earnings in the six months to 30 September 2017, partly offset by lower production volumes and the write-off of costs associated with an exploration well.

Gas Storage: an adjusted and reported operating loss of £5.3m was recorded, compared to an adjusted operating loss of £4.3m, as challenging market conditions continue.

Reported Wholesale operating profit: decreased from £325.6m (restated) to £169.1m as a result of operating derivative gains of £162.1m in 2016/17 compared to £21.4m in 2017/18. The prior year operating profit also includes an accounting fair value uplift of £59.1m in relation to the Clyde wind farm.

NETWORKS

As previously highlighted, SSE anticipates that its Networks' operating profit in 2017/18, including SGN, will be around £150m lower than in 2016/17, on an absolute basis. This reflects the impact of the SGN partial equity disposal in October 2016 and phasing of returns in the regulatory Price Control mechanisms in Transmission and Distribution resulting in expected full year reductions in operating profit of: around £70m for SGN; £60m for Transmission; and £20m for Distribution. During the six months to 30 September 2017, total adjusted operating profit in Networks was £355.1m, compared to £455.9m in the same period last year.

Adjusted operating profits and the principal movements in Networks business segments during the six months to 30 September 2017 are as follows; comparisons are with the six months to 30 September 2016 unless otherwise stated:

Electricity Transmission: as expected, adjusted and reported operating profit decreased to £97.9m from £135.6m, mainly due to the phasing of capital expenditure on significant projects and the resulting impact on regulatory revenue as well as the impact of the sharing of previous years' total expenditure (totex) underspends with customers.

Electricity Distribution: adjusted and reported operating profit was slightly down at £176.0m compared to £181.0m, reflecting that while revenues have increased in line with the growing RAV, these have been partially offset in the current year by the expected net reduction in other factors which contribute to the overall Price Control calculation, including those in the table below:

	FY2016/17	FY2017/18	FY2018/19
Revenue under/over recovery from 2yr previous	+ £38m under-recovered from 2014/15	+£5m under-recovered from 2015/16	- c.£10m over-recovered from 2016/17
DPCR Losses incentive income	+£35m	+£15m	-

There are several factors which contribute to RIIO Price Control earnings which can be found on the Ofgem website in the Transmission and Distribution Licence, Price Control Financial Handbook and Price Control Financial Model.

Gas Distribution: SSE's share of SGN's adjusted operating profit fell to £81.2m from £139.3m mainly due to SSE's partial equity disposal (16.7%) in October 2016, as well as the phasing of regulatory revenue and the sharing of out-performance with customers, which is part of the RIIO Price Control. The impact on operating profit of the part disposal in the full financial year 2017/18 is estimated at £55m and is almost fully reflected in the six months to 30 September 2017, given the timing of the disposal.

Reported Networks operating profit: decreased to £309.1m compared to £409.7m primarily for the same reasons given above. In addition, SGN had an exceptional gain in prior year of £23.0m due to the impact of a change in corporation tax rate.

RETAIL

Energy Supply: adjusted and reported operating profit across Energy Supply as a whole remained broadly flat at £46.7m compared to £47.1m. Within this, GB household energy supply was again loss making in the first half, in line with demand seasonality. Results were impacted by reduced customer numbers and the Pre-Payment Meter (PPM) price cap, offset by a continued focus on efficiency and costs.

Energy-related services: adjusted and reported operating profit showed an encouraging start, to the financial year increasing to £11.4m, compared to £8.6m, as the customer facing telecoms business sees the benefits of previous customer acquisitions, alongside efficiency improvements.

Enterprise: also showed improved performance with adjusted and reported operating profit increasing to £12.2m from £4.8m, mainly due to improved business performance and a reduced cost base providing a leaner platform for growth.

Reported Retail operating profit: was the same as adjusted operating profit in the six months to 30 September for both 2017 and 2016.

Corporate Unallocated: Adjusted and reported operating profit increased to £0.9m from a loss of £0.2m.

Investing to create long-term value

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.

In the six months to 30 September 2017, SSE's adjusted investment and capital expenditure totalled £779.5m. Economically regulated electricity networks accounted for 47.4% of this spend and renewable energy in support of government obligations and targets accounted for 22.4%. Investment and capital expenditure included:

- further progress of 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
- the delivery of 405MW of new onshore wind farm capacity commissioned during the six months to 30 September with a further 591MW 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 (up from 3.7GW at September 2017); enabling SSE to generate around 12TWh of electricity from renewable sources in a typical year*.

**Assumes SSE's share of Clyde windfarm remains at 65%*

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 delivery of the dividend.

Richard Gillingwater, Chairman of SSE, said:

“The operating environment continues to present a number of complex challenges to manage, with significant political and regulatory intervention an ongoing feature of the energy sector. SSE is focused, resilient and adaptable and those qualities continue to stand the company in good stead in responding to such interventions and other key changes. The Board has been and remains committed to taking the decisions necessary to secure the right outcomes for customers and for investors. In line with this, our priorities for the rest of this financial year are clear. For customers, it’s energy provision that meets their current and future needs; for investors, its annual growth in the dividend that keeps pace with inflation.”

Further Information

Investor Timetable

Interim Ex-dividend date	18 January 2018
Record date	19 January 2018
Final date for receipt of Scrip Elections	16 February 2018
Interim dividend payment date	16 March 2018
Q3 Trading Statement	By 31 January 2018
Notification of Close Period	By 31 March 2018
Preliminary Results for year ended 31 March 2018	Friday 25 May 2018
AGM (Perth) and Q1 Trading Statement	19 July 2018
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Webcast facility

You can join the webcast by visiting www.sse.com and following the link on the homepage or investor pages.

Conference call 9am UK time

UK free phone: 0800 279 5004	US free phone: 1877 280 1254
UK local: +44(0)20 3427 1905	US local : +1646 254 3365

When asked please provide confirmation code: **5682399**

For access to the live and on demand webcast from mobile devices please use the following link:
<https://edge.media-server.com/m6/p/jwroj2qh>

Online information

News releases and announcements are made available on SSE’s website at www.sse.com. You can also follow the latest news from SSE at [www.twitter.com/sse](https://twitter.com/sse).

Chief Executive's Statement

SSE has made an encouraging start to the financial year. Whilst factors such as the weather mean there is always a note of caution around results for six-month periods, SSE is on course to deliver a 19th successive increase to the annual dividend payable to shareholders, that is at least equal to RPI inflation. In a changing, increasingly competitive and, at times, politically volatile energy market, SSE remains a resilient and diverse business, which gives it an ability to identify opportunities for investment and growth and adapt as the market changes. These first half results reiterate SSE's commitment to creating value for shareholders, and meeting the needs of our customers and other stakeholders over the long-term.

Safety is our number one priority

The safety of the people who work on behalf of SSE is our number one priority. SSE's Total Recordable Injury Rate for employees and employees of other companies working on SSE sites was 0.19 per 100,000 hours worked in a rolling 12-month period to 30 September 2017, compared with 0.25 over the same period in 2016. There are positive aspects to this performance, but there are additional challenges over the autumn and winter period and SSE remains committed to its guiding principle that if it's not safe we don't do it.

Achieving our financial objective

SSE seeks to provide long-term value for its customers, shareholders and the wider society of which it is part. In the first six months of this financial year, SSE has continued to focus performance on its strategic framework:

- Efficient operations that prioritise the safety of employees and contractors, and meet the needs of energy customers;
- Disciplined investment and capital expenditure in projects and assets which enhance earnings over the long-term, as part of a programme to invest around £6bn across the four years to 2020; and
- Retaining, operating, and investing in, a balanced range of energy businesses to prevent SSE being over-exposed to any single part of the sector in Great Britain and Ireland.

The financial objective of SSE's existing strategic framework is to increase annually the dividend payable to shareholders, by at least RPI inflation, and ensuring that dividend cover for the year is within the expected range of around 1.2 to 1.4 times.

SSE's dividend commitment to our shareholders, focus on efficiently meeting the expectations of energy customers and investing in assets that enhance earnings and bring balance to the group of businesses remains unchanged. This is because SSE's strategic framework and financial objective enable it to have both a long-term approach to its business activities and the ability to continue to find opportunities for growth in, and adapt to, an increasingly competitive and changing market.

A changing operating environment brings challenges and opportunities

At present, the energy markets in GB and Ireland have two dominant trends: firstly, they are undergoing significant change, due to competition, decentralisation of energy, changing customer expectations and the increased penetration – and falling costs - of intermittent low-carbon generation and storage. Secondly, these markets are also affected by the political and regulatory landscape, which can at times be uncertain as the energy system evolves. This is illustrated by the UK government's publication of draft legislation to 'cap' household energy bills.

The political context is unclear and energy issues are complex, as Professor Dieter Helm's review of the cost of energy demonstrates. In different ways, these trends affect each of SSE's businesses. Overall, it means that SSE must adapt to these changes with a view to mitigating the risks and identifying the opportunities for growth.

Adapting to a changing energy system

The energy system is changing rapidly due to a number of factors, not least the increased penetration and falling costs of low-carbon technologies. Quite how the market will change, and what opportunities and risks will arise for SSE is not certain, but SSE is taking the following steps:

- **Preparing its operations for a period of system change.** For example, SSE's Electricity Distribution business has taken significant steps to prepare for a more decentralised energy system including: leading the sector in trialling Active Network Management on the Scottish remote islands (Orkney has been home to the UK's first 'smart grid' since 2009); running trials to consider the impact, and growth opportunities, of low-emission vehicles on the existing network; and, being part of the ENA's Open Networks Project working with Ofgem, grid operators and government to consider the most efficient way to transition to Distribution System Operators to facilitate a more flexible energy system. It has published a document on this, *Supporting a smarter electricity system*, on [ssen.co.uk](https://www.ssen.co.uk).
- **Actively seeking to create opportunities in a changing market.** SSE's Wholesale business, for example, is partnering with Siemens and Mitsubishi UK to develop wind turbines that are larger, cost-effective, more efficient and capable of supporting offshore wind projects in deeper waters, such as the Beatrice offshore wind farm. At a time of significant change in offshore wind, SSE is focused on the delivery of potential projects at Seagreen and Dogger Bank, and is committed to preparing effectively for future competitive auctions for capacity to build offshore wind farms; it is also actively maintaining potential opportunities in onshore wind.
- **Structuring the business to better identify opportunities from change.** The Enterprise business has been under new leadership since January 2017 and provides energy and related services to meet the needs of industrial, commercial and public sector customers. This business is well placed to identify new opportunities in telecoms, heat networks and decentralised energy, and its progress in these markets adds balance and diversity to the SSE Group.

Operating in a politicised sector

As a privatised utility, SSE's external operating environment is also at times challenging due to uncertainties in the political, regulatory and public policy landscape. The energy sector, in particular the cost of energy, will always be inherently politicised due to the costs borne by households and businesses and the level of regulatory and governmental powers in the sector. These costs are under scrutiny in all parts of the sector.

For this reason, SSE seeks to be a constructive partner to government, political parties and the regulators. It always seeks to engage and does so openly and in the spirit of collaboration to understand, inform, interpret and respond to future policy changes. In a politicised sector SSE is:

- **Engaging openly with Ofgem and BEIS' Smart Systems Plan.** This programme is intended to alter the functioning of the system to create a flexible and responsive energy system. Engagement in the programme through consultation, dialogue and industry collaboration can ensure that SSE is able to identify opportunities as the energy system becomes smarter and more flexible. The involvement of SSEN, our electricity networks business, in the Open Networks Project is central to this.
- **Adopting a constructive approach to discussions with all political parties.** As a privatised utility – and one listed on the London Stock Exchange – SSE readily acknowledges it has obligations and responsibilities to its customers, stakeholders and the society it is part of. It therefore seeks to be constructive and collaborative in dialogue with policy makers. For example, SSE will seek to maintain discussions with the UK Labour Party about its proposals to reconsider the ownership structure of the UK's energy networks, were it to form a future government. The privatisation of the GB energy networks has not only reduced customer network costs, it has also encouraged significant investment, and as a result, customers benefit from a more resilient network with reductions in the prevalence and duration of power outages. In its discussions SSE acknowledges its obligations and that is why it recognises that issues such as tax transparency, high quality

customer service, effective stakeholder engagement in decision making and a commitment to invest in the future of our energy system have to be at the heart of its business.

- **Monitoring closely how the Brexit process could impact SSE's core markets.** The implications for the energy sector of the UK's negotiations to leave the European Union remain unclear. There are financial implications to manage, such as currency hedging for large capital projects, and when the UK leaves the EU there may be a divergence in the regulatory and compliance regime that SSE must understand and respond to. However, the UK's exit from the EU does not present an immediate risk to how SSE serves its customers or the progress of its £6bn investment programme from 2016-20. SSE has a dedicated internal resource committed to analysing the opportunities and risks from Brexit. It also engages with the UK and Irish governments and in doing so advocates for stability in the operating environment and a commitment to the central pillars of RIIO and the Electricity Market Reform in GB - namely a stable regulatory regime for energy networks; a stable UK carbon price; and a continued commitment to cost-effective renewable energy. Each of these frameworks is within the gift of the UK Government and regulators.

In this changing – and at times challenging – operating context there may be significant opportunities for SSE, principally in investing in new and existing assets that provide low-carbon energy and the network infrastructure to support it. Understanding and engaging in these debates will be central to SSE's work. In all this, SSE has demonstrated an ability to respond to market change and realise opportunities and will continue to take the operational, financial and investment decisions required to adapt as aspects of the sector evolve.

Maintaining a culture built on values

Public trust in large business needs to be restored and that is why SSE works hard to meet the governance, sustainability and societal expectations that customers and stakeholders place upon it. People in SSE work to a clear set of values and there is acknowledgement of the obligations SSE has.

Governance

Following the appointment of Martin Pibworth as Wholesale Director of SSE plc on 1 August 2017, the Board now comprises the Chairman, six non-Executive Directors and three Executive Directors. SSE has considered the twelve key actions and delivery mechanisms for governance reform as set out in the Department for Business, Energy and Industrial Strategy Response to the Green Paper. The Board welcomes the opportunity for further consultation on the detail when the Financial Reporting Council consults on amendments to the UK Corporate Governance Code.

Being a responsible company

SSE provides people with an essential service and therefore recognises that it has a responsibility to reach for higher business standards as a result. It is publishing a more detailed update of its sustainability performance in its Half Year Sustainability Statement, alongside this Interim Results Statement.

Carbon reporting and climate resilience

In response to important questions raised to us by our stakeholders, SSE published its *Post Paris* report in July 2017, analysing the Company's long-term resilience to different pathways designed to avoid dangerous climate change. In August 2017 SSE issued its inaugural Green Bond, the largest UK green bond to date, in order to support its strategy to respond to the climate change imperative. In late October 2017, SSE's performance in the annual CDP carbon disclosure survey was rated 'B'.

Fair Tax Mark

In October 2017, SSE was awarded the Fair Tax Mark for the fourth year in a row, cementing its long-term commitment to play fair by tax. SSE remains the only FTSE 100 company to have been accredited by the Fair Tax Mark. To meet this criteria, SSE is transparent about its tax affairs in a way that goes well beyond the current requirements of UK company law. SSE has ruled out the use of tax havens, commits to country-by-country reporting and seeks to make clear, transparent statements on its tax strategy. SSE has also published its second *Talking Tax* booklet aimed at giving a short, clear and easy to read guide to what taxes it pays and where it pays them.

Gender pay gap reporting

SSE has become the first FTSE 100 company to publish its gender pay gap in line with the government's new Gender Pay Gap Reporting requirements, well in advance of the 4 April 2018 deadline. This is the second year in a row that SSE has published these figures, having voluntarily reported its gender pay gap statistics last year before it became mandatory.

Inclusion and diversity

In September 2017, SSE published its first *Valuing Difference* report and launched its Inclusion Strategy for 2017-20, building on the 'IN, ON, UP' elements of its strategy to date. SSE is committed to long-term change and will nurture the principles of inclusion at every level of its operation to ensure that the organisation succeeds in the future.

These steps, alongside the detail published in the Half Year Sustainability Statement, demonstrate SSE's ongoing commitment to manage closely the external impacts of its core business activities.

Focusing on strategic priorities in 2017/18

SSE has made an encouraging start to the financial year and is on course to meet its first financial objective for 2017/18 of annual dividend growth that at least keeps pace with RPI inflation. The operating environment brings challenges, opportunities and change, including through potential government and Parliamentary intervention; however, SSE remains a business that has balance and resilience so is not overly reliant on one part of the sector. It has also demonstrated an ability to adapt to new opportunities and identify options for growth.

In the remainder of this financial year and beyond, SSE will:

- Continue to focus on efficiency in its operations, ensuring safety across its activities and meeting the needs of energy customers;
- Progress its programme of capital and investment expenditure in new or existing assets, primarily focused on regulated energy networks and government-mandated renewables, to enhance future earnings; and
- Maintain constructive engagement with regulators and legislators to further the shared interests they have with SSE and energy customers.

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 Condensed Interim Statements.

Key adjusted financial metrics	Sep 17 £m	Sep 16 £m	Sep 15 £m
Adjusted operating profit	586.2	637.2	701.9
Adjusted net finance costs	(176.6)	(161.4)	(153.1)
<i>Hybrid debt accounted coupon payments included above</i>	<i>(15.3)</i>	<i>n/a</i>	<i>n/a</i>
Adjusted profit before tax	409.6	475.8	548.8
Adjusted current tax charge	(38.0)	(57.1)	(80.2)
Adjusted profit after tax	371.6	418.7	468.6
Less: hybrid equity coupon payments	(57.4)	(73.9)	(12.5)
Adjusted profit after tax attributable to ordinary shareholders	314.2	344.8	456.1
Adjusted EPS – pence	31.2	34.2	45.9
Number of shares for basic/reported and adjusted EPS (million)	1,005.3	1,008.0	993.8
Shares in issue at 30 September (m)	1,022.5	1,017.0	1,003.8

Key reported financial metrics	Sep 17	Sep 16 (restated)	Sep 15
Reported operating profit	549.4	795.6	343.1
Reported net finance costs	(147.2)	(120.6)	(112.3)
<i>Hybrid debt accounted coupon payments included above</i>	<i>(15.0)</i>	<i>n/a</i>	<i>n/a</i>
Reported profit before tax	402.2	675.0	230.8
Reported tax charge	(45.0)	(65.8)	(25.6)
Reported profit after tax	357.2	609.2	205.2
Less: hybrid equity coupon payments	(57.4)	(73.9)	(12.5)
Reported profit after tax attributable to ordinary shareholders¹	299.8	535.3	192.7
Reported EPS – pence	29.8	53.1	19.4
¹ After distributions to hybrid capital holders			

Restated to include the Clyde fair value uplift of £59.1m as an exceptional item. See Note 4.2 (iii) within the Condensed Interim Statements

Dividend per share	Sep 17	Mar 17	Mar 16
Interim dividend pence	28.4	27.4	26.9
Final dividend pence		63.9	62.5
Full year dividend pence		91.3	89.4
Full year increase %		2.1%	1.1%
Dividend cover times / SSE's adjusted EPS		1.38	1.34

Adjusted operating profit by segment	Sep 17 £m	Sep 16 £m	Sep 15 £m
EPM and Electricity Generation	160.7	123.2	141.8
Gas Production	4.5	2.1	14.1
Gas Storage	(5.3)	(4.3)	3.7
Wholesale	159.9	121.0	159.6
Electricity Transmission	97.9	135.6	142.4
Electricity Distribution	176.0	181.0	178.6
SGN (SSE's 50% share reducing to 33% from 26 Oct 2016)	81.2	139.3	130.6
Networks	355.1	455.9	451.6
Energy Supply	46.7	47.1	73.8
Energy Related Services	11.4	8.6	11.2
Enterprise	12.2	4.8	16.5
Retail	70.3	60.5	101.5
Corporate unallocated	0.9	(0.2)	(10.8)
Total adjusted operating profit	586.2	637.2	701.9

Reported operating profit by segment	Sep 17 £m	Sep 16 £m (restated)	Sep 15 £m
EPM and Electricity Generation	169.9	327.8	(146.9)
Gas Production	4.5	2.1	14.1
Gas Storage	(5.3)	(4.3)	3.7
Wholesale	169.1	325.6	(129.1)
Electricity Transmission	97.9	135.6	142.4
Electricity Distribution	176.0	181.0	178.6
SGN (SSE's 50% share) reduced to 33% from 26 Oct 2016	35.2	93.1	60.5
Networks	309.1	409.7	381.5
Energy Supply	46.7	47.1	73.8
Energy Related Services	11.4	8.6	11.2
Enterprise	12.2	4.8	16.5
Retail	70.3	60.5	101.5
Corporate unallocated	0.9	(0.2)	(10.8)
Total reported operating profit	549.4	795.6	343.1

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

Reconciliations of adjusted performance measures to the reported measure of the Group can be found in the Alternative Performance Measure section of this document.

Restated to include the Clyde fair value uplift of £59.1m as an exceptional item. See Note 4.2 (iii) within the Condensed Interim Statements

Investment and capex summary (adjusted)	Sep 17 Share %	Sep 17 £m	Sep 16 £m	Sep 15 £m
Thermal Generation	6.2%	48.3	62.6	45.1
Renewable Generation	22.4%	174.4	125.7	169.2
Gas Storage	0.1%	0.5	0.2	3.2
Gas Production	4.6%	36.0	46.3	9.6
Total Wholesale	33.3%	259.2	234.8	227.1
Electricity Transmission	29.7%	231.4	269.3	289.3
Electricity Distribution	17.7%	138.0	111.6	113.2
Total Networks	47.4%	369.4	380.9	402.5
Energy Supply and Related Services	8.9%	69.8	86.8	70.5
Enterprise	3.4%	26.5	23.1	12.7
Total Retail	12.3%	96.3	109.9	83.2
Other	7.0%	54.6	56.8	44.5
Total investment and capex (adjusted)	100%	779.5	782.4	757.3

Debt metrics	Sep 17	Mar 17	Sep 16
	£m	£m	£m
Adjusted net debt and hybrids (£m)	(9,245.8)	(8,483.0)	(8,995.4)
Average debt maturity (years)	8.2	8.8	8.8
Adjusted interest cover(excluding SGN) times	2.9	6.0	3.1
Adjusted interest cover(including SGN) times	2.8	4.7	3.0
Average interest rate for the period (excluding JV/assoc. interest and all hybrid coupon payments)	3.62%	3.66%	3.67%
Average cost of debt at period end (including all hybrid coupon payments)	3.97%	4.10%	4.20%

Net finance costs reconciliation	Sep 17	Sep 16	Sep 15
	£m	£m	£m
Adjusted net finance costs	176.6	161.4	153.1
<i>Hybrid debt accounted coupon payments included above</i>	<i>(15.0)</i>	<i>n/a</i>	<i>n/a</i>
Add/(less):			
Finance lease interest	(15.4)	(16.5)	(16.2)
Notional interest arising on discounted provisions	(8.1)	(7.4)	(6.9)
Hybrid equity coupon payment	57.4	73.9	12.5
Adjusted finance costs for interest cover calculation	210.5	211.4	142.5

SSE principal sources of debt funding	Sep 17	Mar 17	Sep 16
Bonds	45%	41%	46%
Hybrid debt and equity securities	32%	33%	25%
European investment bank loans	10%	11%	12%
US private placement	9%	10%	11%
Index –linked debt, long term project finance and other loans	5%	5%	6%
% of total SSE borrowings secured at a fixed rate	92%	91%	88%

Rating Agency	Rating	Criteria	Date of Issue
Moody's	A3 Stable outlook	Mid teens% RCF / Net Debt	23 August 2017
Standard and Poor's	A- Stable outlook	23% FFO/Net Debt	9 August 2017

Contributing to employees' pension schemes – IAS 19 R	Sep 17 £m	Sep 16 £m	Sep 15 £m
Net pension scheme asset/ (liabilities) recognised in the balance sheet before deferred tax	163.3	(676.1)	(388.3)
Employer cash contributions Scottish Hydro Electric scheme	15.3	19.7	24.0
Deficit repair contribution included above	7.0	7.0	14.8
Employer cash contributions Southern Electric scheme	36.4	40.0	34.9
Deficit repair contribution included above	22.9	22.5	23.5

Additional information on employee pension schemes can be found in Note17 to the Condensed Interim Statements.

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 adjusted earnings per share

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

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.

As expected and previously communicated, in the six months to 30 September 2017, SSE's adjusted earnings per share decreased by 8.8%, to 31.2 p, mainly due to the phasing of capital expenditure on significant Transmission projects and the resulting impact on regulatory revenue, along with a reduced share of SGN earnings due to the part disposal in October 2016.

Reported earnings per share decreased 43.8% to 29.8p as a result of the exceptional items and certain re-measurements noted below in the prior year.

Keeping the dividend at a level that is sustainable

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 recent and continuing investment, 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 within a range of around 1.2 times to around 1.4 times. As also previously communicated, SSE expects dividend cover to be towards the bottom of that range in 2017/18.

The Board is recommending an interim dividend of 28.4p per share, to which a Scrip alternative is offered, compared with 27.4p in the previous year, an increase of 3.6%.

Delivering adjusted profit before tax

SSE's objective is not to maximise profit in any one year but to earn a sustainable level of profit over the medium term. While SSE's Wholesale, Networks and Retail (including Enterprise) segments were profitable in the six months to 30 September 2017, adjusted profit before tax decreased by 13.9% from £475.8m to £409.6m.

Over 2017/18 as a whole, and beyond, 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 this output;
- the output from its gas production assets and the price achieved for this output;
- the impact of any material changes in public policy and the regulatory framework; and
- the actual and underlying level of customers' energy consumption.

Movements on derivatives and exceptional items

The accounting treatment of exceptional items and movements on derivatives explain much of the difference between SSE's reported and adjusted accounting measures.

Summarising the impact of movements on derivatives

SSE enters into forward contracts to buy and sell 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.

In the period to 30 September 2017, there was a £21.4m gain on operating derivatives under IAS39 due to an improvement in the fair value of forward commodity purchase contracts and the unwinding of contracts in 2017/18. The fair value of such contracts is derived by comparing the contractual delivery price to the prevailing market forward price at the balance sheet date. The position at 30 September 2017, primarily consisting of electricity and gas, was a liability of £141.9m compared to a liability on similar contracts of £163.3m at 31 March 2017.

Offsetting the gains recognised in the operating derivatives were losses on the fair value of interest and currency derivatives of £24.0m in the period. 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 item: reversal of previous Dogger Bank impairment

On 1 September 2017, the Group confirmed the formation of a 50:50 joint venture with Statoil to progress three of the four consented c. 1.2GW offshore wind projects in the Dogger Bank area. As a result of the formation of the JV and the renewed commitment to the project, the Group has reversed a previous impairment charge of £7.9m. The reversal of impairment, while not exceptional by size, has been recognised as an exceptional credit as it was originally charged within the 2013/14 impairment of SSE's offshore wind portfolio, which was treated as exceptional at the time.

Reported profit before tax and earnings per share

Reported profit before tax declined by 40.4% to £402.2m, largely due to the reduction in Networks earnings explained above; the remaining decrease in reported earnings is also due to the exceptional fair value gains on operating derivatives and an accounting fair value uplift on the Clyde windfarm in the prior year.

The impact of this also means that reported earnings per share decreased 43.9% to 29.8p.

Investment and capital expenditure

Central to SSE's strategic framework is efficient and disciplined investment in building a balanced range of economically regulated, government-mandated 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; focused on securing returns that are clearly greater than the cost of capital and which support adjusted earnings per share; 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 2017/18

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

In the six months to 30 September 2017, SSE's investment and capital expenditure totalled £779.5m. This included:

- A major investment programme in electricity networks with good progress being made on both the construction of the Caithness-Moray electricity transmission link and the Stronelairg wind farm connection. These Transmission investments continue alongside the upgrading of the electricity distribution network; which in the six months to September 2017 included spend in the Bicester, Iwer-Yiewsley, Cowes-Wootton Common and Ironbridge areas. This strategic investment will both meet the changing needs of customers and further increase the total Regulated Asset Value (RAV) of SSE's networks businesses;
- Further investment in renewable energy in GB and Ireland with the delivery of 405MW of onshore windfarms including Clyde Extension (173MW) and the Galway Wind Park (SSE share 120MW). A further 591MW of on and offshore wind farm capacity is currently in construction, including the offshore Beatrice windfarm (SSE share 235 MW). This renewable generation supports the delivery of government climate change targets and is being delivered through either the Renewables Obligation or Contracts for Difference in GB and Northern Ireland or the Renewable Energy Feed in Tariff 2 in Ireland. These capital investment projects are expected to take SSE's total renewable energy capacity to 4.3GW (including pumped storage) by March 2020 (up from 3.7GW at September 2017); helping SSE to generate around 12TWh of electricity from renewable sources in a typical year.*

**Assumes SSE's share of Clyde windfarm remains at 65%*

In addition, SSE is fulfilling a regulatory obligation to install smart meters for its Energy Supply customers. At 30 September 2017, SSE had around 625,000 smart meters on supply in customers' homes. Post installation, SSE's meters will transfer to a contracted Meter Asset Provider and SSE's investment and capital expenditure therefore excludes the capital cost of installation and meter assets.

SSE is maintaining investment momentum with capital and investment expenditure of around £1.7bn still expected for 2017/18, with 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.

SSE's principal joint ventures and associates

SSE's financial results include contributions from equity interests in joint ventures ("JVs") and associates. The details of the most significant of these are included in the table below.

SSE principal JVs and associates	Asset type	SSE holding	Accounting treatment in SSE's adjusted performance measures	Shareholder loans as at 30 Sep 2017
Seabank Power	1,140MW CCGT	50%	Equity accounted	no loans outstanding
Marchwood Power	840MW CCGT	50%	Equity accounted	£85m
Clyde Windfarm	522MW onshore windfarm	65%	Equity accounted	£372m (inc. £85m held for sale)
Walney (UK) Offshore Windfarm	367MW offshore windfarm	25.1%	Equity accounted	no loans outstanding
Seagreen	Phase 1 up to 1,050MW	50%	Equity accounted	£14m
Dogger Bank	Up to 3,600MW	50%	Equity accounted	£43m
Scotia Gas Networks	Gas Distribution Network	33.3%	Equity accounted	£178m
Ferrybridge MFE	68MW	50%	Equity accounted	£135m
Ferrybridge MFE2	70MW	50%	Equity accounted	£66m
Beatrice	588MW offshore windfarm	40%	Equity accounted	Project financed

Greater Gabbard, a 504MW offshore windfarm (SSE share 50%) is proportionally consolidated and is reported as a Joint Operation with no loans outstanding.

Financial management and balance sheet

Keeping SSE well-financed

As a long-term business, SSE believes that it should maintain a strong balance sheet and has a long history of financial strength and discipline 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. In August 2017, Moody's Investors Service re-affirmed SSE's senior credit rating of A3, stable outlook. In the same month, Standard & Poor's affirmed SSE's A-rating and moved to a stable outlook. While they are not fundamental to it, these ratings help illustrate the quality and resilience of SSE.

Issuing SSE's inaugural Green Bond

SSE has a long-standing commitment to maintaining financial discipline and diversity of funding sources and to moving quickly to select financial options that are consistent with this, including issuing new bonds and loans. In line with this, in September 2017, SSE successfully issued its inaugural Green Bond, an eight year €600m bond with a coupon of 0.875% and an all in cost of 0.98%. The Bond was almost 3 times oversubscribed and had significant interest from Green only funds. It also represents the lowest coupon ever achieved by SSE.

This issuance will help SSE to take a leading role in supporting the transition towards a low carbon future, through its plans to continue to invest in renewable energy, and reaffirm its position as a leader in renewable sources of energy.

Focusing on effective financial management

In June 2017, SSE exercised the second, and last, one-year extension option on the £1.3bn revolving credit facility meaning that this now matures in July 2022. The £200m bilateral facility has a similar extension option and this was exercised in October 2017 meaning that it now matures in November 2022. The £200m EIB facility that was signed in March 2017 has a one year availability period and it is intended to draw this facility in the second half of the year when it will become a 10 year term loan.

The proceeds from the £1.0bn of Hybrid debt issued in March 2017, at an all-in rate of 3.02% per annum, were used on 2 October 2017 to redeem the Hybrids issued in 2012, at an all-in rate of 5.6%, which had their first call date on that date. This will result in annualised cash savings 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 £77m in 2018/19 as the full benefit of the replacement hybrid's lower coupon rate is realised. The new £1.0bn Hybrids have a fixed redemption date and are therefore debt accounted and included within Loans and Other Borrowings, while the existing £2.2bn (£1.2bn following October 17 redemption) of Hybrids are perpetual instruments and are therefore accounted for as part of equity.

A table noting the expected amounts, timing and accounting treatment of coupon payments is shown below.

Hybrid coupon payments	16/17		17/18		18/19	
	HYa	FYa	HYa	FYe	HYe	FYe
Total equity (cash) accounted	£73.9m	£119.3m	£57.4m	£98m	£46m	£46m
Total debt (accrual) accounted	-	£1.3m	£15.3m	£30m	£15m	£30m
Total hybrid coupon	£73.9m	£120.6m	£72.4m	£128m	£61m	£76m

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.

Maintaining a prudent treasury policy

SSE's treasury policy is designed to be prudent and flexible. In line with that, cash from operations is first used to finance 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 30 September 2017, 92% 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. SSE has kept its recently issued €600m Green Bond in Euros and has swapped €400m of the 2% June 2020 bond to Sterling increasing the all in cost of that portion of the €600m bond to 2.99%. This allows SSE to maintain the correct overall level of Euro debt to match SSE's Euro assets in the Republic of Ireland under a net investment hedge.

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

SSE's policy is to hedge any material transactional foreign exchange risks through the use of forward currency purchases and/or financial instruments. Translational foreign exchange risk arises in respect of overseas investments, hedging in respect of such exposures is determined as appropriate to the circumstances on a case-by-case basis. 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 £9.2bn as at 30 September 2017, compared with £8.5bn at 31 March 2017 and £9.0bn on 30 September 2016 and is forecast to be around £9.3bn at March 2018.

The overall level of net debt and hybrid capital reflects SSE's ongoing investment programme; however, it also includes an accounting decrease of around £100m 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. As a result of Sterling strength against the Dollar and higher interest rates during the six months to September 2017 these have become less 'in the money' to SSE therefore decreasing 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 30 September 2017 also includes £100m of the £500m proceeds identified for the share buy back from the sale of a 16.7% stake in SGN. As at 1 November 2017, SSE had directed just over £400m towards the buy back, including stamp duty and commission, re-purchasing around 27.4m shares. It still expects the process to be completed by the end of December 2017.

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 bonds are accounted for as equity within the Financial Statements but, as in previous years, have been included within SSE's 'Adjusted net debt and hybrid capital' to aid comparability. SSE's new £1.0bn 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 in the Alternative Performance Measures section of this statement.

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 30 September 2017 was 8.2 years, compared with 8.8 years at 30 September 2016.

SSE's debt structure remains strong, and on 30 September 2017, it had around £9.2bn of medium/long term borrowings in the form of issued bonds, European Investment Bank debt, hybrid securities and other loans.

The balance of SSE's adjusted net debt is financed with short-term bank debt. At 30 September 2017, SSE's adjusted net debt includes cash and cash equivalents totalling £1.2bn and around £1.1bn of medium-term borrowings maturing in the six months to March 2018. This included £1.0bn of hybrid equity, which had a first call date on 2 October 2017 and was redeemed using the proceeds of the most recent hybrid issuance.

Refinancing over the Mid Term

The Hybrid equity issued in March 2017 and the Green Bond issued in September 2017 mean that SSE has fully covered its refinancing risk for the 2017/18 financial year, with the next significant refinancing now due in October 2018 when SSE will redeem its £500m/5% coupon bond. Following on from that, the next significant refinancing does not occur until 2020/21 when SSE will redeem its €600m/2% coupon bond in June 2020. The next Hybrid equity first call date is in September 2020, in respect of the £750m/3.875% coupon equity accounted Hybrid.

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 2017 (relating to the final dividend for the year to 31 March 2017) was 50%, compared to the average 25% over the last 8 years, resulting in a reduction in cash dividend funding of £324.5m, with 23.5 million new ordinary shares, fully paid, being issued. SSE will continue to review its use of the scrip dividend as a useful source of funding.

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 Adjusted Performance Measures section of this report. SSE's adjusted net finance costs in six months to 30 September 2017 were £176.6m, compared to £161.4m in the same six months in 2016, reflecting the fact that while SSE's average interest rate has decreased along with SSE's share of SGN interest costs, the quantum of debt has increased. Reported net finance costs were £147.2m, compared to £120.6m, again reflecting the increase in debt, at a lower average coupon.

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. The coupon payments on the new £1.0bn hybrid debt issuance are treated as finance costs under IFRS.

Tax

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 for 2017/18, based on adjusted profit before tax, is forecast to be 9.3%, as compared with 10.2% in 2016/17 on the same basis.

In October 2017, SSE published Talking Tax 2017, summarising its approach to tax matters (see sse.com).

Group Financial Overview - Conclusion and Priorities

SSE's 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 end of this range;
- 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 renewable sources of energy; and
- Maintaining a strong balance sheet, with robust ratios for retained cash flow and funds from operations/debt.

WHOLESALE

Wholesale Key Performance Indicators

	Sep 17	Sep 16
Energy Portfolio Management (EPM) and Electricity Generation		
EPM and Generation adjusted operating profit - £m	160.7	123.2
EPM and Generation reported operating profit/(loss) - £m	169.9	327.8
EPM and Generation capital expenditure and investment - £m	222.7	188.3
GENERATION CAPACITY – MW		
Gas- and oil-fired generation capacity (GB) – MW	4,013	4,013
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	7,334
Pumped storage capacity (GB) – MW	300	300
Conventional hydro capacity (GB) – MW	1,150	1,150
Onshore wind capacity (GB) – MW	1,150	900
Onshore wind capacity (NI) – MW	141	88
Onshore wind capacity (ROI) – MW	576	456
Offshore wind capacity (GB) – MW	344	344
Biomass capacity (GB) – MW	37	37
Total renewable generation capacity (inc. pumped storage) – MW	3,698	3,275
Total electricity generation capacity (GB and Ire) – MW	11,032	10,609
Renewable capacity qualifying for ROCs – MW	c.2,000	c.1,750
GENERATION OUTPUT – GWh		
Gas- and oil-fired (inc. CHP) output (GB) – GWh	9,187	6,639
Gas- and oil-fired output (Ire) – GWh	1,402	1,428
Coal-fired (inc. biomass co-firing) output – GWh	71	2
Total thermal generation – GWh	10,660	8,069
Pumped storage output – GWh	132	123
Conventional hydro output – GWh	1,132	1,234
Onshore wind output GB – GWh	1,012	708
Onshore wind output NI – GWh	154	87
Onshore wind output ROI – GWh	589	471
Offshore wind output – GWh	437	488
Biomass output GB – GWh	40	38
Total renewable generation (inc. pumped storage) – GWh	3,496	3,149
Total Generation output all plant – GWh	14,156	11,218

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: Wind output excludes 137GWh of constrained off generation in HY2017/18 and 58GWh in HY2016/17.

Note 4: Onshore wind capacity and output at Sept 17 reflects 439MW of additional capacity which came on line during the year to 30 September 2017, net of the 5% Clyde disposal in August 17 and the Port of Tilbury sale in June 17. See reconciliation table

Note 5: Waste to Energy GWh not included above as contracted to third party

Note 6: Slough Heat & Power Biomass Plant's financial results are reported within SSE Enterprise. Capacity and output included above.

	Sep 17	Sep 16
GAS PRODUCTION		
Gas production adjusted operating profit - £m	4.5	2.1
Gas production reported operating profit/(loss) - £m	4.5	2.1
Gas production— M therms	254.9	314.5
Gas production— Mboe	4.21	5.11
Liquids production – Mboe	0.38	0.47
Gas production capital investment – £m	36.0	46.3
GAS STORAGE		
Gas storage adjusted and reported operating profit/(loss) - £m	(5.3)	(4.3)
Gas storage reported operating profit/(loss) - £m	(5.3)	(4.3)
Gas storage customer nominations met - %	100	100
Gas storage capital investment - £m	0.5	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 provision of energy, capacity, flexibility 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.

SSE believes that putting a meaningful price on carbon emissions is a critical part of the UK's energy policy and is one of the most important policy tools the government has to help industry continue to deliver reliable and lower carbon electricity cost-effectively. The extension of the UK's Carbon Price Floor beyond April 2021 is dependent on government decisions in the next Budget and has interactions with UK's future participation in the EU Emissions Trading Scheme.

Financial performance in Wholesale

During the six months to 30 September 2017, total adjusted operating profit in Wholesale was £159.9m compared to £121.0m in the same period last year.

Adjusted operating profits and the principal movements in Wholesale's business segments during the six months to 30 September 2017 are as follows; comparisons are with the six months to 30 September 2016 unless otherwise stated:

Energy Portfolio Management and Electricity Generation: adjusted operating profit increased to £160.7m compared to £123.2m. This reflects improved financial performance and higher output from both renewable and gas-fired generation, partially offset by the end of the ancillary services contract for Fiddler's Ferry power station.

Gas Production: adjusted and reported operating profit increased to £4.5m, compared to £2.1m, mainly due to a higher average achieved gas price which benefitted earnings in the six months to 30 September 2017, partly offset by lower production volumes and the write-off of costs associated with an exploration well.

Gas Storage: an adjusted and reported operating loss of £5.3m was recorded, compared to an adjusted operating loss of £4.3m, as challenging market conditions continue.

Reported Wholesale operating profit: decreased from £325.6m (restated) to £169.1m as a result of operating derivative gains of £162.1m in 2016/17 compared to £21.4m in 2017/18. The prior year operating profit also includes an accounting fair value uplift of £59.1m in relation to the Clyde windfarm.

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.

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.

As the electricity system changes to integrate intermittent, inflexible and distributed forms of generation alongside conventional plant, EPM's ability to realise the value of flexibility within SSE's portfolio is increasingly important.

Electricity Generation (Renewables)

Delivering renewable sources of energy

Output of electricity from renewable sources, including pumped storage increased in the first half of 2017/18, compared to the same period in the previous year (3.5TWh compared to 3.1TWh). Onshore wind generation increased partly due to new windfarms coming on line and partly due to wind speeds returning to average levels. Offshore wind was down slightly as certain assets underwent maintenance over the summer period. Hydro generation was down due to lower storage levels at the start of the year, although the flexibility in generation means that much of the hydro generation can be run to meet peak demands and offer generation to the electricity balancing mechanism.

Overall net renewable energy capacity including conventional hydro and pumped storage, increased from 3,275MW to 3,698MW in the 12 months to 30 September 2017. The progress of SSE's onshore and offshore wind farm developments in that time is summarised below:

Windfarm	Status	Generation Type	Location	Policy Support Scheme	Net capacity change (MW)	As at	SSE Renewable Capacity (MW)
SSE Total Renewable Capacity as at 30 September 2016							3,275
Tievenameenta	Delivered	onshore wind	NI	RO	34	Feb-2017	3,309
Port of Tilbury	Disposal	onshore wind	GB	RO	-9	Jun-2017	3,300
Slieve Divena 2	Delivered	onshore wind	ROI	REFIT 2	19	Jun-2017	3,319
Dunmaglass	Delivered	onshore wind	GB	RO	94	Aug-2017	3,413
Galway	Delivered	onshore wind	ROI	REFIT 2	120	Sep-17	3,533
Clyde extension *reflecting SSE's stake increasing from 50% to 70%	Delivered	onshore wind	GB	RO	191 (173 MW constructed + 18MW per JV agreement)*	Sep-17	3,724
Clyde	5% Part disposal	onshore wind	GB	RO	-26	Sep-17	3,698
SSE Total Renewable Capacity as at 30 Sept 2017							3,698
Bhlaraidh	Delivered	onshore wind	GB	RO	110	Oct-2017	3,834
Leanamore	In Construction	onshore wind	GB	RO	18	Early 2018	3,852
Stronelairg	In Construction	onshore wind	GB	RO	228	2018	4,080
Beatrice	In Construction	offshore wind	GB	CfD	235	2019	4,315
SSEs expected Total Renewable Capacity by 2020 <i>*Assumes SSE's share of Clyde windfarm remains at 65%</i>							4,315

Opportunities in onshore wind

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.

Future development options for onshore wind projects are being explored in light of the UK's current policy and regulatory framework. The Irish Government issued a consultation in September 2017 on the design of a new renewable electricity support scheme.

In October 2017, the UK Government announced it intends to allow wind projects on the remote islands of Scotland to compete in the next Contracts for Difference auction alongside other less established technologies, subject to State Aid clearance from the European Commission. SSE, with its joint venture partner, Viking Energy Shetland LLP, who represent the interests of the Shetland community in large scale wind farm development in Shetland, will look to progress their consented Viking Wind Farm (up to 457MW – SSE share 50%).

Opportunities in offshore wind

SSE continues to focus its offshore work and resources on the **Beatrice offshore wind farm (588MW – SSE share 40%)** in the outer Moray Firth (see table above). 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 well under way and the project is expected to be fully operational in 2019, contributing around 1,000GWh annually (SSE's share).

SSE has an interest in two further offshore wind farm developments. The first is **Dogger Bank (up to 3.6GW)**, a 50:50 joint venture formed with Statoil, following the exit of innogy from the former Forewind consortium. Under the new partnership, SSE and Statoil will work to progress three projects in the Dogger Bank zone: Creyke Beck A, Creyke Beck B and Teesside A. This includes continuing to assess the outcome of the most recent auction for Contracts for Difference.

The second development is **Seagreen** (Phase One up to 1050MW), a 50:50 partnership with Fluor Limited. Seagreen's consent 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 by Scottish Ministers. In May 2017, the Inner House of the Court of Session overturned the ruling and reinstated the consents. The RSPB subsequently applied directly to the UK Supreme Court for leave to appeal against the Inner House's decision. SSE awaits the Supreme Court's decision.

In October 2017, the UK Government announced that £557m will be available for future Contracts for Difference auctions for less established technologies, including offshore wind. The next auction will take place in Spring 2019.

Hydro

SSE's hydro portfolio continued to perform well in the half year, contributing flexible output to the UK electricity system via the wholesale and balancing markets as well as providing ancillary services. Pumped hydro and conventional hydro can function in effect as large-scale batteries, storing excess electricity until it is required to meet demand. In particular, the hydro stations at Sloy, Errochty, Glendoe and Fasnakyle, which have a combined capacity of over 400MW, can contribute a fast and flexible response to the electricity system.

Electricity Generation (Thermal)

Providing reliable capacity

The UK Government, together with Ofgem and National Grid (as the System Operator), introduced the Capacity Market in 2014 to encourage new investment and to ensure the UK has enough electricity generation capacity to meet peak demand.

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 £31m.

SSE has also previously secured capacity market agreements worth:

- £85m for delivery in 2018/19;
- £57m for delivery in 2019/20; and
- £73m for delivery in 2020/21.

Capacity market income is received monthly with contract years running from October to September. To secure the revenue arising from the Capacity Market, capacity providers must produce electricity or reduce demand when the system requires it; failure to do so will result in penalties being levied.

In July 2017, the UK Government announced it would procure 50.1GW in the T-4 auction for delivery in 2021/22. The T-1 auction for delivery in 2018/19 will procure 6GW. SSE has submitted pre-qualification applications for both upcoming auctions planned to start on 6 February 2018 and 30 Jan 2018, respectively.

Managing developments regarding thermal power stations

SSE's thermal assets produced over 10TWh in the half year to 30 September 2017, compared to 8TWh in the same period last year, the majority of which came from gas-fired generation.

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)** has no capacity obligations to date.
- **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.

A sixth gas-fired power station, **Great Island (464MW)**, participates in the Single Electricity Market in Ireland.

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 the Keadby 2 CCGT in Lincolnshire.

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 has been required to pay significantly higher Transmission Entry Capacity (TEC) costs than other power stations on the electricity system. In September 2017, Ofgem approved SSE's CUSC modification proposal, CMP 268, which is due to become effective from 1st April 2018 and which should result in lower TEC costs for the station. If CMP 268 is in practice adopted, SSE intends to continue to operate Peterhead Power Station at 1,180MW after 1 April 2018.

SSE operates one wholly owned **coal-fired** power station, at Fiddler's Ferry (Cheshire, 1,995MW), which has capacity obligations for three of its four units from 2017 through to 2019. Preparation for the safe demolition of Ferrybridge 'C' is under way.

Investing for the future through 'multifuel'

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 energy 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 1.3 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 and is expected to be in operation from 2019. In September 2017, SSE completed the disposal of 50% of the share capital of the company to Wheelabrator Technologies of the initial multi fuel facility.

Gas Production

Producing from UK Continental Shelf assets

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 the six months to 30 September 2017 was 254.9million therms (4.21 mmboe) of gas and 0.38 mmboe of liquids, compared with 314.5 million therms of gas (5.11 mmboe) and 0.47 mmboe of liquids for the same period in 2016. This decline in production was primarily due to the natural decline of the fields and the summer maintenance programme.

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 started production ahead of schedule in August 2017, albeit the Glenlivet field is still commissioning and is expected to reach full production before the calendar year end. The production for full year 2017/18 is expected to be weighted to the second half, with the delivery of certain projects and the full commissioning of the Glenlivet field scheduled for completion before the calendar year end.

As previously reported in SSE's Full Year Results 2016/17, as at 31 March 2017, the economically recoverable, Proven plus Probable (2P) Reserves in SSE's gas production portfolio of assets were assessed as being 2.5bn therms. This technical review is carried out annually by SSE's independent reserves auditors with movements in the technical assessment of 2P reserves a well-known occurrence in the Gas Production business and further reassessments are expected in relation to these relatively new fields.

These are important long term gas production assets which are expected to make a key contribution to EBITDA. SSE's annual volumes of gas and liquids produced are 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 forecast 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 in the first half of 2017/18, following the return to service of the Atwick (Hornsea) site earlier in the year:

Alongside the under-pinning requirement 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 cost base 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 the first half of 2017/18. 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.

SSE remains committed to working with UK government departments and the Regulator to ensure that 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, particularly with the recent closure of UK gas storage assets.

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; and
- 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

	Sep 17	Sep 16
ELECTRICITY TRANSMISSION		
Transmission adjusted and reported operating profit - £m	97.9	135.6
Regulated Asset Value (RAV) - £m	2,907	2,522
Capital expenditure - £m	231.4	269.3
ELECTRICITY DISTRIBUTION		
Electricity distribution adjusted and reported operating profit - £m	176.0	181.0
Regulated Asset Value (RAV) - £m	3,355	3,209
Capital expenditure - £m	138.0	111.6
Electricity Distributed TWh	17.7	18.1
Customer minutes lost (SHEPD) average per customer	23	27
Customer minutes lost (SEPD) average per customer	22	23
Customer interruptions (SHEPD) per 100 customers	25	34
Customer interruptions (SEPD) per 100 customers	27	26
SCOTIA GAS NETWORKS		
SGN adjusted operating profit (SSE's share) - £m	81.2	139.3
SGN reported operating profit (SSE's share) - £m	35.2	93.1
Regulated Asset Value - £m (SSE's share) - £m	1,790	2,555
Uncontrolled gas escapes attended within one hour %	98.6	98.7
SGN gas mains replaced – km	420	457

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 a 33.3% stake in both Scotland Gas Networks and Southern Gas Networks (SGN). Its electricity networks businesses are collectively known as Scottish and Southern Electricity Networks (SSEN).

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.

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 market-based parts of the energy sector. While the overall shape of the networks continues to evolve - as the recent expansion of electricity transmission, the transition to a Distribution System Operator (DSO) and the sale of part of a stake in SGN demonstrate - they are core to SSE's strategy in the short, medium and long-term and contribute significantly to its commitment to the payment of dividends to shareholders.

Responding to Ofgem's open letter on RIIO-2

In July 2017, Ofgem published an open letter on the regulatory framework for the next Price Control periods, which for SSE will run from April 2021 for its electricity transmission and gas distribution businesses; and from April 2023 for its two electricity distribution businesses.

The current RIIO framework is designed to ensure that the revenue that network owners can earn is closely linked to performance and is realising significant and material benefits to GB energy customers and stakeholders, from increasing levels of network reliability and service, to the transformational role networks are playing in the transition to a low carbon economy.

The RIIO framework provides a powerful incentive mechanism to encourage efficiency measures, whereby high performing companies are permitted to earn returns greater than the cost of capital, providing a fair return on investment for shareholders who have provided the necessary funding to allow network companies to invest in the key national infrastructure and to support the transition to a low carbon economy. The current eight-year price control period provides stability for long term planning, supply chain development and investment in communities, which is crucial given the long term nature of network investment planning.

The RIIO framework and regulatory process has a strong track record of setting price controls that deliver for customers and stakeholders alike. SSEN does not believe the current regulatory framework requires material change and is broadly supportive of the RIIO model and the incentives based regulation that measures performance in respect of the outputs delivered for customers.

Putting stakeholders at the heart of decision making

SSEN continues to place its customers and stakeholders at the forefront of its decision making. Its independent Stakeholder Advisory Panel is now firmly established and working alongside its Board, providing key external input to help scrutinise business performance and effectiveness in meeting SSEN's 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.

Financial performance in Networks

As previously highlighted, SSE anticipates that its Networks' operating profit in 2017/18, including SGN, will be around £150m lower than in 2016/17, on an absolute basis. This reflects the impact of the SGN partial equity disposal and phasing of returns in the Price Control mechanisms in Transmission and Distribution resulting in expected full year reductions in operating profit of around £70m for SGN; £60m for Transmission; and £20m for Distribution. During the six months to 30 September 2017, total adjusted operating profit in Networks was £355.1m, compared to £455.9m in the same period last year.

Adjusted operating profits and the principal movements in Networks business segments during the six months to 30 September 2017 are as follows (comparisons are with the six months to 30 September 2016 unless otherwise stated):

Electricity Transmission: as expected, adjusted and reported operating profit decreased to £97.9m from £135.6m, mainly due to the phasing of capital expenditure on significant projects and the resulting impact on regulatory revenue as well as the impact of the sharing of previous years' total expenditure (totex) underspends with customers.

Electricity Distribution: adjusted and reported operating profit was slightly down at £176.0m compared to £181.0m, reflecting the fact that while revenues have increased in line with the growing RAV, these have been partially offset in the current year by the expected net reduction in other factors which contribute to the overall Price Control calculation, including those in the table below:

	FY2016/17	FY2017/18	FY2018/19
Under/over recovery from 2 yr. previous FY	+ £38m under-recovered from 2014/15	+£5m under-recovered from 2015/16	- c.£10m over-recovered from 2016/17
DPCR Losses incentive income	+£35m	+£15m	-

There are several factors which contribute to RIIO Price Control earnings which can be found on the Ofgem website in the Transmission and Distribution Licence, Price Control Financial Handbook and Price Control Financial Model.

Gas Distribution: SSE's share of SGN's adjusted operating profit fell to £81.2m from £139.3m mainly due to SSE's partial equity disposal (16.7%) in October 2016, as well as the phasing of regulatory revenue and the sharing of out-performance with customers, which is part of the RIIO Price Control. The impact on operating profit of the part disposal in the full financial year 2017/18 is estimated at £55m and is almost fully reflected in the six months to 30 September 2017, given the timing of the disposal.

Reported Networks operating profit: decreased to £309.1m compared to £409.7m primarily for the reasons given above. In addition, SGN had an exceptional gain in prior year of £23.0m due to the change in corporation tax rate.

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 April 2013, SSEN's capital investment in its transmission network has totalled over £2bn, and continues to play a pivotal role in providing the key national infrastructure to facilitate the UK's transition to a low carbon economy. With its committed pipeline of investment, SSEN expects to increase its RAV to around £3.6bn by the end of the RIIO T1 price control in March 2021.

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

The majority of key onshore enabling works related to the project have now been completed; including the successful energisation of the Thurso South section in July 2017. The installation of the subsea cable is now well under way and is on track to be completed during the first six months of 2018. The Caithness-Moray reinforcement remains on course to be commissioned and energised by the end of 2018.

Reviewing transmission performance

SSEN has undertaken a review of its transmission business performance under the RIIO-ET1 transmission price control settlement, in particular the expenditure and outputs in relation to the Strategic Wider Works mechanism. The review was conducted in line with SSEN's responsibilities as a network owner to operate reasonably, prudently and efficiently.

As a result of this review, SSEN has identified £65.1m of forecast regulatory allowances which will either no longer be required or claimed. This consists of £58.3m of allowances associated with the Caithness-Moray project, currently in construction (mentioned above), and an additional £6.8m of expenditure to date related to landowner wayleave compensation which will now not be recovered from customers.

SSEN has discussed its proposal with the regulator and expects Ofgem to consult on a resultant adjustment in its RIIO-ET1 TOTEX allowance through the Price Control financial model. This outcome,

once implemented, is expected to reduce projected revenues from SSEN's transmission business by £9.1m during FY2020/21. The adjustment will also mean that the RAV of SSEN's transmission business will be £26m lower than previously projected levels.

The outcome of this proposed adjustment does not impact on the delivery of regulatory outputs for the Caithness-Moray project and, providing SSEN delivers these outputs on time, an ex-post efficiency review is not expected. This is in line with Ofgem's previously stated policy on the handling of Strategic Wider Works projects.

Enabling the transition to a low carbon economy

SSEN's strategic priority for the RIIO-T1 period has been enabling the transition to a low carbon economy through building the transmission infrastructure necessary to connect and transport renewable energy in the north of Scotland.

Since the beginning of the current Price Control period in April 2013, the installed renewable electricity generation capacity connected to SSEN's transmission network in the north of Scotland has grown significantly, from 3.3GW to over 5GW today, contributing significantly to Government renewable and climate change targets as the UK continues to transition to a low carbon economy.

Despite recent changes in the policy framework underpinning investment in low carbon electricity generation, in particular the closure of the Renewables Obligation (RO) in March 2017, renewable electricity generation capacity supported by SSEN's transmission network is forecast to grow to over 6GW by the end of the current Price Control period.

In the second half of 2017/18, the main generation assets due to connect to SSEN's transmission network are Stronelairst wind farm (228MW); and Aberdeen Offshore Windfarm (92MW).

Fulfilling responsibilities for potential island links

SSEN remains fully committed to bringing forward proposals for new transmission links to the Scottish Islands, and in October 2017, the UK Government, as part of its Clean Growth Strategy announcement, announced that it intends to include island onshore wind in the next Contracts for Difference auction in Spring 2019.

SSEN welcomes this development for its island onshore wind customers and continues to engage with developers, Ofgem, Government and other stakeholders to take forward proposals to provide transmission connections to the Scottish Island groups in a timely manner, as soon as developer commitment and regulatory approval is confirmed.

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 remains unclear when the legislation to take forward ECIT might be implemented, in its recent consultation on the Needs Case for National Grid's Hinkley Seabank project, published on 30 August 2017, Ofgem reaffirmed its commitment to introduce competition for the delivery of new, separable and high value transmission assets.

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 as the delivery partner of choice once the regime is implemented.

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 the connection of large volumes of renewable generation capacity, SSEN has maintained an impressive reliability of over 99.9%, with faults reducing by over a third on a five year average. In the first six months of 2017/18 there have been no transmission faults affecting SSEN's demand customers, with SSEN currently on track to achieve 100% for the Energy Not Supplied incentive.

As part of its increasing focus on operational excellence, SSEN is taking forward a number of refurbishment programmes to renew its existing assets. This includes a refurbishment programme for the Fort Augustus - Fort William overhead line which began in August 2017 and is expected to complete in summer 2020. The work will involve replacing the existing conductors with new, innovative technology, which will be twice as strong as the existing conductors, 70% lighter and able to carry twice the amount of power, improving efficiency and reliability for our customers as well as providing additional capacity to support new forms of electricity generation.

Planning for the next Price Control

With the current price control now passed its mid-point, SSEN has started to gather evidence to support the development of its next business plan for the price control period from April 2021 onwards.

As part of this process, SSEN is undertaking various reviews of its transmission area in the North of Scotland to understand future energy scenarios and help deliver a resilient, pro-active, adaptable and efficient future network for its customers.

Through this initial research and engagement with key stakeholders, SSEN has identified a divergence in the trend of energy demand requirements for its industrial and commercial customers when compared to the GB average. This research has shown that industrial and commercial electricity consumption has increased in SSEN's transmission area by over 13% in the last decade, in contrast to a 7% decline seen across GB as a whole. Further work is required to fully understand the reasons behind this and whether this is forecast to continue from April 2021 when next price control is scheduled to begin.

SSEN has also started to engage with its generation customers to understand potential onshore wind repowering scenarios as existing onshore wind farms start to approach the end of their current renewable policy support mechanisms, predominately the Renewables Obligation. This work and the energy trends research will inform a North of Scotland Future Energy Scenarios paper due to be published for consultation later this year, helping build the evidence base to underpin SSEN's next transmission business plan.

Throughout the second half of 2017/18, SSEN will undertake further engagement and consultation with a range of key external stakeholders including its Stakeholder Advisory Panel: to help shape and influence its future business plan commitments; to help understand and prepare for the specific requirements of its transmission network from April 2021 onwards; and to ensure SSEN continues to deliver value for money services that consumers want and need.

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 third 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.

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

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 a 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.

In the six months to 30 September 2017, Customer Interruptions decreased to 25 in Scotland (34 in HY16/17) and rose slightly to 27 in England (26 in HY16/17) per 100 customers. Average Customer Minutes Lost decreased to 23 minutes in Scotland (27 in HY16/17) and decreased to 22 minutes in England (23 in HY16/17).

SSEN's continued adoption of the 'restore first, repair second' method has helped deliver another strong performance for its customers and continues to outperform the pre-determined targets set by Ofgem.

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. In the six months to 30 September 2017, SSEN's programme of network investment included reinforcements, upgrades to automation and tree cutting, as well as investments in new innovative technologies.

Investing in innovation to improve network reliability

In July 2017, SSEN was awarded £2m as a discretionary award from Ofgem for its Tier 1 innovation projects. The award, the highest amount awarded to any Distribution Network Operator (DNO) group, was based on the performance of SSEN's portfolio of innovation projects under Low Carbon Networks (LCN) funding between 2010 and 2015.

SSEN continues to invest in innovative technologies to help improve the service to its customers and also improve operational efficiency. This includes an initial investment of £255,000 in new power cut detection technology, which will help engineers locate the source of underground cable faults much quicker, minimising the duration of power cuts and in some cases even stopping them happening altogether.

TOUCAN - Thermal imaging Of Underground Cable Networks – is a new hand-held technology which during initial trials has shown signs of significant benefits, allowing operatives to quickly locate and identify faults with precision, eliminating ambiguity of location and minimising potential disruption to SSEN's customers and the electricity network.

Innovation continues to play a key role in the development and improvement of the service provided to SSEN's customers, at the same time improving operational efficiency and delivering shareholder value by improving SSEN performance against its reliability incentives.

Protecting vulnerable customers

SSEN remains fully committed to protecting its vulnerable customers and ensuring suitable support is provided to its Priority Services Register (PSR) Customers during network outages.

One of its greatest challenges is identifying those customers who are eligible for its PSR and SSEN continues to look at innovative ways of reaching these customers, from its vulnerability mapping portal, which provides detailed demographic information about its communities, which SSEN is now using to directly target eligible groups of customers across its regions, to partnerships with third party organisations, such as its link up with Home Energy Scotland, to help identify SSEN's hard to reach vulnerable customers.

Throughout the second half of 2017/18, SSEN will maintain a clear focus on identifying and supporting its vulnerable customers, particularly as the winter season approaches and potential impact on electricity supplies of seasonal stormy weather.

Responding to Ofgem's proposed ICE penalty

In August, Ofgem published a consultation setting out proposed financial penalties, as part of the Incentive on Connection Engagement, across all electricity DNOs for failing to meet minimum expectations when dealing with customers who request new electricity connections. Following the subsequent consultation on the proposed penalties and the robust set of evidence provided in SSEN's consultation response, Ofgem announced in October that it no longer intended to impose a penalty on SSEN. Over recent years, SSEN has made significant changes and improvements to its connections process, informed by the needs and expectations of customers, and remains fully committed to further improve its connections service based on the needs and expectations of customers.

Setting out a customer focused DSO strategy

SSEN has published its DSO strategy, *Supporting a Smarter Electricity System*, alongside this statement, setting out the five key principles it believes should underpin the transition to a smart, flexible electricity system: working for all customers, ensuring cost efficiency, market neutrality, removing barriers to local solutions and adopting an approach of learning by doing.

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.

A proposed new energy solution for Shetland

The Shetland Islands are not currently 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 was instructed by Ofgem to conduct a competitive tender to find an economic and efficient solution to meet the future electricity demand requirements of Shetland's homes and businesses.

Based on the bids received, a joint venture project from National Grid Shetland Link Interconnector Holdings Ltd and partner Aggreko UK Ltd was recommended to Ofgem in May 2017 and SSEN now awaits the outcome of Ofgem's subsequent consultation.

SGN

Scotia Gas Networks (SGN) manages the gas networks distributing natural and green gas to 5.9 million homes and businesses across Scotland, the south of England and now Northern Ireland. In-line with its equity holding, SSE is entitled to receive 33.3% of SGN's distributed earnings.

By leading the way on innovation and putting its customers at the heart of its operations, SGN looks to meet customer expectations by exceeding its commitments under the RIIO Price Control. This is done while ensuring it runs a safe, efficient and reliable gas network. SGN has marked the mid-point of the current eight-year price control with a strong performance providing value for shareholders and customers through the regulatory sharing mechanism. SGN's investment programme is a key element of this and, within overall total cost allowances for the regulatory period of over £4.6bn

(2012/13 prices), Ofgem has allowed around £2.8bn to cover new capital investment and to manage the risks relating to SGN's existing assets.

For the start of this financial year SGN continues to deliver a high standard of customer service with its Scotland gas network currently number one out of eight for customer satisfaction and its southern network ranked fourth, achieving scores in excess of nine out of ten for the first time. In terms of operational performance and safety, 98.6% of uncontrolled gas escapes reported by the public were attended within one hour of notification, exceeding Ofgem's 97% standard.

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 and enhancing DSO capability;
- 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

	Sep 17	Sep 16
Energy Supply		
Energy Supply adjusted and reported operating profit - £m	46.7	47.1
Capital expenditure (Energy Supply and Energy Related Services) - £m	69.8	86.8
Electricity customer accounts (GB domestic) – m	3.90	4.11
Gas customer accounts (GB domestic) – m	2.58	2.76
Energy customers (GB business sites) – m	0.47	0.47
All-Island energy market customers (Ire) – m	0.77	0.79
Total energy customer accounts (GB, Ire) – m	7.72	8.13
Electricity supplied household average (GB) – kWh	1,542	1,544
Gas supplied household average (GB) – th	105	111
Household/small business aged debt (GB, Ireland) - £m	108.6	120.3
Bad debt expense (GB, Ireland) - £m	24.1	27.0
Customer complaints to third parties (GB) ¹	847	703
<small>1 Ombudsman: Energy Services and Citizens Advice</small>		
Energy Related Services		
Energy Related Services adjusted and reported operating profit- £m	11.4	8.6
Energy Related Services customer accounts (GB) – m	0.46	0.44
Smart Meters on supply	around 625,000	over 310,000
Enterprise		
Enterprise adjusted and reported operating profit - £m	12.2	4.8
Capital expenditure - £m	26.5	23.1
SSE Heat network customer accounts	Over 7,500	Over 6,000
SSE Water network customer accounts	Over 15,000	Over 12,500
SSE out of are electricity networks	428	401

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 30 September 2017, it supplied electricity and gas to 7.72 million household and business accounts. It also provides other related products and services through its **SSE Energy Related Services** division including telephone, broadband and boiler care to 0.46 million household and business customers.

SSE Business Energy (included above) provides energy to businesses, the public sector and other organisations; and the **SSE Enterprise** business, which provides energy-related and telecoms services to meet the needs of businesses and public sector organisations. Taken together, these B2B businesses contribute balance to the SSE Group and demonstrate SSE's commitment to efficient operations and industry leading customer service.

In the six months since 31 March 2017, SSE Retail has undergone a change in leadership with the departure of Will Morris, SSE's Managing Director of Retail, who left SSE after five years to pursue new opportunities. While the longer-term Retail leadership structure is reviewed, the responsibilities of Managing Director have been shared between two new co-Heads, who step into expanded roles:

Stephen Forbes, who has been appointed Chief Commercial Officer, and Tony Keeling, who had been appointed Chief Operating Officer.

Financial performance in Retail

During the six months to 30 September 2017, total adjusted operating profit across the Retail and Enterprise division was £70.3m compared to £60.5m in the same period last year.

Adjusted operating profits and the principal movements in Retail's business segments during the six months to 30 September 2017 are as follows; comparisons are with the six months to 30 September 2016 unless otherwise stated:

Energy Supply: adjusted and reported operating profit across Energy Supply as a whole remained broadly flat at £46.7m compared to £47.1m. Within this, GB household energy supply was again loss making in the first half, in line with demand seasonality. Results were impacted by reduced customer numbers and the Pre-Payment Meter (PPM) price cap, offset by a continued focus on efficiency and costs.

Energy related services: adjusted and reported operating profit showed an encouraging start to the financial year, increasing to £11.4m, compared to £8.6m, as the customer facing telecoms business sees the benefits of previous customer acquisitions, alongside efficiency improvements.

Enterprise: also showed improved performance with adjusted and reported operating profit increasing to £12.2m from £4.8m, mainly due to improved business performance and a reduced cost base providing a more effective platform for growth.

Reported Retail operating profit: was the same as adjusted operating profit in the six months to 30 September for both 2017 and 2016.

Adapting to a changing market

As a provider of an essential service, SSE's operations in the GB energy supply market are subject to considerable, and legitimate, political interest.

Standard Variable Tariffs (SVTs)

Following the publication of the CMA Final Report in June 2016, there has been political debate about the future role of SVTs in the market and the differential to the cheapest deals suppliers offer. As of 30 September, the annual differential between SSE's SVT and cheapest Fixed tariff was £57, based on Ofgem's average consumption estimates.

Having listened carefully to the public and political debate around the role of SVTs in the GB energy market, SSE is committed to building on the significant progress that has been made to date in engaging customers and supporting them to make active, informed decisions around their energy tariff and supplier. Enabled by the recent rule changes announced by Ofgem, from the early part of next financial year SSE will no longer automatically roll customers onto the SVT once they have come to the end of their fixed term contracts. Instead, SSE intends to move customers onto an equivalent or cheaper fixed term tariff, which would fix prices for 12 months with no exit fees. As is customary now, each year SSE will proactively communicate with all customers coming to the end of their fixed term tariffs to prompt them to consider which energy tariff is most suitable for their needs. This decision will effectively introduce an annual engagement prompt for these customers. We anticipate these changes, along with continued efforts to engage customers with proactive communications, will accelerate the reduction in the number of SSE customers on SVTs.

Regulatory and political intervention on tariffs

In October 2017, the UK Government published a draft Bill that, if enacted, would mandate Ofgem to cap prices for GB customers on SVTs. This policy intervention is currently undergoing pre-legislative scrutiny and the stated intention is that a price cap would come into force in January 2019. As of 30 September 2017, of its 6.5 million GB domestic customer accounts, SSE has 2.7 million electricity

accounts on SVTs and 1.8 million gas accounts on SVTs which could be impacted by the Government's proposed broader cap.

Furthermore, Ofgem is consulting on its proposals to extend the existing Pre-Payment Meter safeguard tariff to customers in receipt of the Warm Home Discount (WHD). As final WHD customer numbers are only known at the end of each scheme year, it is difficult to forecast how many customers could be impacted by this. However, in the year to March 2017, SSE had 0.3m customers who were in receipt of the Warm Home Discount, around 70% of which were on the SVT and not supplied through a Pre-Payment Meter.

How these issues develop is currently unclear. As ever, SSE's approach will be to engage constructively with the UK Government, Ofgem and other stakeholders as these regulatory and public policy changes are progressed. Through its engagement, SSE will seek to emphasise that competition not price caps best serves customers' long term interests. SSE also remains committed to identifying solutions that contribute towards positive, sustainable outcomes for customers and, in particular, vulnerable consumers.

SSE will also highlight the importance of ensuring any whole of market price caps are set using a methodology that accurately reflects the cost of supplying energy. It would not be appropriate to simply extend the current Pre-Payment Meter safeguard tariff methodology to a wider group of customers. SSE continues to believe that any price cap must be time-limited and applicable to all suppliers operating in the GB market to avoid unintended consequences for customers and competition.

Progress in Energy Supply

Owing to ongoing competitive pressures, in the six months to September 2017, SSE's energy customer accounts in Great Britain and Ireland fell from 8.00 million to 7.72million. SSE Retail has a long-standing strategy to respond to increased competition in the market by investing in retention, taking additional steps to engage and reward its customers, aiming for high levels of customer service, delivering efficiencies, and redoubling efforts to digitalise and diversify the business. This approach will enable the development of stronger, more enduring customer relationships based on engagement, service and value.

During the six months to 30 September 2017, SSE has continued its efforts to deliver sustainable reductions in operating costs through digitalisation and, specifically, back office process automation. This has already proved effective in reducing the manual handling by customer service agents of routine data processing, for example, with the associated reduction in cost and risk from this activity. Having successfully proved the case, SSE will now accelerate its use of back office automation, while also moving towards deployment of AI-enabled webchat facilities at the front end to provide quicker resolution of simpler customer service issues and free up its dedicated customer service team to focus on resolving more complex customer problems.

Moving towards a smarter market

The energy sector in Great Britain is undergoing a radical transformation, in particular through the digitalisation of the underlying infrastructure through the smart meter programme. SSE views the smart meter rollout as a unique opportunity to transform the relationship between customers, their energy supplier and the energy they use. SSE's focus remains on delivering its obligations in a way that is cost effective and customer centric, to maximise the net benefits for customers.

SSE has continued to make good progress, increasing the recruitment of installers in order to continue to support the transition to mass smart meter deployment. As of 30 September 2017, SSE had around 625,000 smart meters on supply and, to date, customer feedback on their experience of the installation has been positive. A multi-channel communication strategy has been put in place to help drive customer demand while an online smart meter booking system has been established to make it easier for customers to book appointments. In accordance with the UK Government's proposal to end SMETS1 delivery from July 2018, SSE is also preparing to transition from SMETS1 to SMETS2 meters.

The programme is now reaching a critical juncture. Delays to the delivery of the enabling central infrastructure, including the Data Communications Company (DCC), have compressed the timetable for delivery and impacted the industry's ability to make progress. In parallel, media attention around the costs and safety of the programme has negatively impacted customer sentiment towards smart meters and the ability of suppliers to generate demand. 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 rollout but SSE is working hard to mitigate any risks to delivery. As the roll-out progresses, SSE continues to build an evidence base to support its concerns and encourage pragmatic and flexible decision-making around the programme.

Helping vulnerable customers

SSE recognises the impact higher energy costs can have on customers, particularly the most vulnerable. With that in mind, alongside its electricity price rise in March 2017, SSE introduced a new £5m Customer Support Fund, intended to provide additional assistance for customers who need it most, particularly those who rely on electricity to heat their homes. In the six months from March 2017, SSE has distributed £767,000 of this fund to help over 1,000 customers, all of whom are on a low income with children, or of pensionable age. With the onset of winter, energy costs can be felt most acutely and so SSE will distribute the remaining £4.23m to vulnerable customers who are struggling with debt.

In addition, SSE helps vulnerable customers manage their energy costs in a number of ways:

- Through the Warm Home Discount scheme - as of 30 September 2017, SSE had allocated over 214,000 rebates at £140 each and by the end of the scheme year on 31 March 2018, SSE expects to spend over £46m, helping over 290,000 customers.
- In the Benefit Entitlement Scheme (BEC) Year 6 ending early May 17; SSE's customer service advisers proactively identified and referred over 4,000 customers for benefit entitlement checks, with more than 2,300 customers successfully completing the check, resulting in an average increase in income of more than £2,700 a year per customer. Good progress has been made delivering this year's scheme and to date SSE's customer service advisers have proactively identified and referred over 700 customers for a Benefit Entitlement Check.
- 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 obligation, 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.
- SSE aims to engage constructively and sympathetically 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 2017, SSE works hard to maintain high standards and quality of service, not just because customers expect it in an increasingly competitive GB retail market, but also because it is the right thing to do. Notable highlights of progress include:

- SSE has changed its customer service opening hours following a review. Phone lines are now open until 10pm Monday to Friday and until 6pm on Saturdays, making it easier for customers to make contact. SSE has also reviewed its complaints handling process and has

made improvements to ensure complaints are escalated earlier and that the root causes of common themed complaints are addressed.

- SSE has improved its websites and digital platforms to make it easier for customers to manage their account online by streamlining the process for setting up accounts, changing tariffs or booking smart meter installations.
- Good progress is being made in working towards achieving the British Standard for Inclusive Service Provision in the early part of 2018. This accreditation represents the gold standard in recognising and catering for vulnerability in all its forms.

These innovations have resulted in direct improvements in SSE's customer service and between April – June 2017, SSE outperformed 17 of the largest energy suppliers to be ranked first for customer service in Citizens Advice's new, more holistic comparison tool. SSE is proud of its sector-leading customer service and aims to build on these high standards throughout the remainder of 2017/18.

Energy Related Services

Diversifying through energy related services

As part of efforts to further diversify its customer base, SSE provides energy related services, including boiler cover, electrical wiring and home broadband and telephone, to 0.46m customers. Over the last six months, SSE Home Services Limited has become authorised and regulated by the Financial Conduct Authority, allowing it to expand its business by offering innovative insurance based propositions to customers. SSE is already seeing the retention benefits of providing customers with these broader range of services and will continue efforts to cross-sell other home and essential services to add more value for its energy customers.

Business Energy

Meeting the needs of business customers

Business Energy continues to focus on meeting business customers' core energy needs with efforts concentrated on controlling operating costs while offering an enhanced proactive approach to its key customers and partners.

Business Energy continued to be recognised for its customer service commitment, ranking highly in the Citizens Advice league table that scores non-domestic energy providers on how well they handle complaints from small business customers. Business Energy has continued to build its offering in the commercial sector, including its 100% renewable energy proposition known as 'SSE Green'.

Business Energy has mobilised its Smart Meter programme in preparation for the rollout of meter installations to eligible business customers, which will begin in Summer 2018. 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

In Ireland's all-island energy market, SSE's retail arm SSE Airtricity is the second largest provider of energy and related services across the Republic of Ireland (ROI) and Northern Ireland (NI), and the only retail energy brand to operate in each of the competitive gas and electricity markets across the island.

At 30 September 2017, SSE Airtricity supplied electricity and natural gas to 0.77 million household and business customer accounts in ROI and NI, reflecting a fall in customer numbers due to increased competitive pressures, particularly in electricity markets.

In Home Energy, the company has launched new retention products to reward customer loyalty as well as innovations designed to continually deliver high standards in customer experience. These include a new Easypay subscription option giving customers an easy way to pay for essential Home Services on their energy bill, convenient self-serve options that allow customers to order associated energy products and services from their online energy account, and the introduction of a new video chat customer service channel.

In NI, SSE Airtricity increased its household electricity prices by 7.5% from 1 October 2017 while in ROI electricity prices increased by 5.6% from 1 November 2017. These were the first such increases in both markets since 2013 and were as a result of increases in the cost of supply including wholesale and regulated networks costs.

In Business Energy, customer load has increased by 21% since 31 March 2017, while the company's Eco team has facilitated energy efficiency initiatives that are saving businesses almost 45GWh of primary energy annually. SSE's Energy Portfolio Management (EPM) team is leading preparations for the introduction of the new Integrated Single Electricity Market (I-SEM) next year. This team is providing a competitive route to market for other generators.

Enterprise

A forward facing business delivering long term growth

SSE Enterprise is a group of businesses that provides energy and telecoms services to industrial, commercial and public sector customers across the UK. Its four main business areas are: Contracting, Utilities, Telecoms and Rail. It has undergone a period of efficiency savings to compete effectively in its target markets.

There is a pipeline of encouraging opportunities which the four Enterprise business streams are well placed to compete in. These include: bigger and better opportunities in mechanical and electrical engineering, energy storage and distributed energy for clients, electric vehicle infrastructure, fibre networks, 5G infrastructure, and rail power and communications infrastructure.

To ensure Enterprise is a growth driver for the SSE Group it aims to:

- Focus on growth in its existing core markets;
- Develop larger projects which give longer term visibility of earnings and build on the strengths of the company's diverse business areas and multi utility capabilities;
- Develop further the capacity of the business to 'build, own and operate', (and finance) assets; and
- Focus on providing innovative solutions to meet the changing needs of customers.

Performance summary of four business streams

Contracting

A substantial cost reduction process has been undertaken in SSE Enterprise Contracting to increase efficiency which has already improved the underlying profitability of the business. It has a clear focus on mechanical and electrical work as well as high voltage activity, which is generating margin improvement. There are larger scale opportunities in the pipeline based on a focused approach to market segments and key customers.

Utilities

SSE Enterprise Utilities is aiming to be a leader in utility infrastructure and distributed energy networks. It is looking to increase the size and scale of the energy assets and networks it currently builds, owns and operates as distributed energy becomes a larger presence in the market. The business is assessing the electric vehicle market, which is set to grow significantly, and is actively involved in the installation and power supply of EV infrastructure. Enterprise Utilities has also grown its customer numbers for District Heating, Water and Out of Area Electricity Networks because it is servicing the connection needs of customers on a number of new flagship developments and making further connections each year as these projects are progressed. Slough Heat and Power continues to be focused on the growth of its electrical private network.

Telecoms

SSE Enterprise Telecoms continues to accelerate new network development to help bring major UK data centres "on net" and expand its commercial footprint throughout the UK, especially on key strategic routes. It is winning long term core network agreements with new clients in the banking, transportation and service provider markets. In Ireland, SSE is part of a consortium which has submitted a 'Detailed Solution' as part of a competitive bid process for the National Broadband Plan, being carried out by the Irish State. The company has similar ambitions to develop its proposition for rural broadband rollout in Scotland.

Rail

SSE Enterprise Rail continues its healthy growth trajectory in terms of size of business. The business has ambitions to become a 'supplier of choice' for Network Rail in the delivery of multidisciplinary rail projects, and it is well placed to win bids in major projects such as HS2. It is also increasing its focus on potential asset ownership in the energy and communications space.

Retail (including Enterprise) – Conclusion and Priorities

In addition to their first priority of safety, SSE's Energy Supply, Energy-Related Services and Enterprise businesses 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:

- actively manage the implementation of proposed intervention in the GB energy supply market, in particular, by responding positively to the views of political, regulatory and consumer stakeholders;
- retain and gain domestic and business customer accounts, minimising losses where possible;
- continue to build on SSE's strong culture of customer service in both GB and Ireland with new products and services;
- continue to make progress in delivering smart meters to customers and ensure readiness to transition from SMETS1 to SMETS2;
- 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.

Condensed Interim Statements

Alternative Performance Measures

When assessing, discussing and measuring the Group's financial performance, management refer to measures used for internal performance management. These measures are not defined or specified under International Financial Reporting Standards (IFRS) and as such are considered to be Alternative Performance Measures ("APMs").

By their nature, APMs are not uniformly applied by all preparers including other participants in the Group's industry. Accordingly, APMs used by the Group may not be comparable to other companies within the Group's industry.

Purpose

APMs are used by management to aid comparison and assess historical performance against internal performance benchmarks and across reporting periods. There has been no change to the adjustments applied by management in calculating the alternative performance measures. 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	<ul style="list-style-type: none"> • Movement on operating and financing derivatives ('certain re-measurements') • Exceptional items • Share of joint ventures and associates interest and tax
Adjusted profit before tax	Profit measure	Profit before tax	<ul style="list-style-type: none"> • Movement on operating and financing derivatives ('certain re-measurements') • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Hybrid capital • Outstanding liquid funds • Finance leases
Investment and capital expenditure (adjusted)	Capital measure	Capital additions to Intangible Assets and Property, Plant and Equipment	<ul style="list-style-type: none"> • 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 designated between operating and financing derivatives.

Operating derivatives are contracts where the Group enters into forward commitments or options 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 on revaluation. The Group will recognise the underlying value of these contracts as the relevant commodity is delivered, which will predominantly be within the subsequent 12 to 36 months. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts and are consequently not recorded until the commodity is delivered and the contract is settled.

Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts entered into by the Group to manage its banking and liquidity requirements as well as risk management relating to interest rate and foreign exchange exposures. Changes in the fair value of those financing derivatives are reflected in the income statement (as part of 'certain re-measurements'). The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments.

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

2 Exceptional Items

Exceptional charges or credits, and the tax effects thereof, are considered unusual by nature or scale and of such significance that separate disclosure is required for the underlying performance of the Group to be properly understood. Further explanation for the classification of an item as exceptional is included in Note 2 (iii).

3 Share of joint ventures and associates interest and tax

This adjustment can be split between the Group's share of interest and the Group's share of tax arising from its investments in equity accounted joint ventures and associates.

The Group is required to report profit before interest and tax ('operating profit') including its share of the profit after tax of its equity accounted joint ventures and associates. However, for internal performance management purposes and for consistency of treatment, SSE reports its 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 certain hybrid capital securities mean they qualify for recognition as equity rather than debt under IFRS. Consequently, their coupon payments are presented within dividends rather than within finance costs. As a result, the coupon payments are not included in SSE's adjusted profit before tax measure. In order to present total funding provided from sources other than ordinary shareholders, SSE presents its adjusted net debt measure inclusive of hybrid capital to better reflect the Group's funding position.

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 to which 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.

Adjustments to Capex Measure

9 Other expenditure

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

10 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.

11 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.

12 Additions subsequently disposed

Additions subsequently disposed in the current period represent capital additions related to Ferrybridge MFE2 Limited which were subsequently disposed to Wheelabrator Technologies Inc. (see Note 11). In the year ended 31 March 2017 the Group had invested in capital additions related to smart meter installations which were subsequently disposed to Meter Fit 2 Limited.

13 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 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		September 2017	September 2016 ⁽ⁱ⁾	September 2015
£m		£m	£m	£m
1,874.0	Adjusted operating profit	586.2	637.2	701.9
(328.1)	Adjusted net finance costs	(176.6)	(161.4)	(153.1)
1,545.9	Adjusted profit before tax (PBT)	409.6	475.8	548.8
(157.7)	Adjusted current tax charge	(38.0)	(57.1)	(80.2)
1,388.2	Adjusted profit after tax (PAT)	371.6	418.7	468.6
(119.3)	Hybrid coupon paid	(57.4)	(73.9)	(12.5)
1,268.9	Adjusted profit after tax attributable to ordinary shareholders for earnings per share (EPS)	314.2	344.8	456.1
1,009.7	Number of shares for EPS	1,005.3	1,008.0	993.8
125.7	Adjusted Earnings per Share	31.2	34.2	45.9
1,874.0	Adjusted operating profit	586.2	637.2	701.9
203.1	Movement on operating and joint venture financing derivatives	23.5	162.7	(273.8)
(8.2)	Exceptional items	7.9	59.1	(2.2)
(128.4)	Share of joint ventures and associates interest and tax	(68.2)	(63.4)	(82.8)
1,940.5	Reported operating profit	549.4	795.6	343.1
1,545.9	Adjusted PBT	409.6	475.8	548.8
255.7	Movement on operating and financing derivatives	(0.5)	142.6	(284.5)
(8.2)	Exceptional items	7.9	59.1	(2.2)
(3.1)	Interest on net pension assets/liabilities	1.2	(6.1)	(11.3)
(13.7)	Share of joint ventures and associates tax	(16.0)	3.6	(20.0)
1,776.6	Reported profit before tax	402.2	675.0	230.8
328.1	Adjusted net finance costs	176.6	161.4	153.1
(52.6)	Movement on financing derivatives	24.0	20.2	11.3
(114.7)	Share of joint ventures and associates interest	(52.2)	(67.1)	(63.4)
3.1	Interest on net pension assets/liabilities	(1.2)	6.1	11.3
163.9	Reported net finance costs	147.2	120.6	112.3
157.7	Adjusted current tax charge	38.0	57.1	80.2
(13.7)	Share of joint ventures and associates tax	(16.0)	3.6	(20.0)
19.8	Deferred tax including share of joint ventures and associates	21.9	28.5	28.9
(106.0)	Tax on exceptional items and certain re-measurement	1.1	(23.4)	(63.5)
57.8	Reported tax charge	45.0	65.8	25.6
(8,483.0)	Adjusted net debt and hybrid capital	(9,245.8)	(8,995.4)	(7,936.8)
2,209.7	Hybrid equity	2,209.7	2,209.7	3,371.1
(6,273.3)	Adjusted net debt	(7,036.1)	(6,785.7)	(4,565.7)
(105.2)	Outstanding liquid funds	(36.7)	(88.5)	(113.3)
(276.9)	Finance leases	(265.5)	(290.6)	(308.5)
(6,655.4)	Unadjusted net debt	(7,338.3)	(7,164.8)	(4,987.5)

1,726.2	Investment and Capital expenditure (adjusted)	779.5	782.4	757.3
4.2	Other expenditure	-	-	(0.6)
112.8	Customer funded additions (IFRIC18)	31.7	48.1	34.0
633.5	Allowances and certificates	225.2	170.1	191.4
15.6	Additions subsequently disposed	29.9	15.6	-
(105.0)	Joint ventures and associates additions	(44.8)	(42.5)	(33.7)
Capital additions to Intangible Assets and Property, Plant and				
2,387.3	Equipment	1,021.5	973.7	948.4
779.5	Capital additions to Intangible Assets	250.8	262.5	245.1
1,607.8	Capital additions to Property, Plant and Equipment	770.7	711.2	703.3
Capital additions to Intangible Assets and Property, Plant and				
2,387.3	Equipment	1,021.5	973.7	948.4

(i) Restated to include the Clyde fair value uplift of £59.1m as an exceptional item. See note 4.2 (iii)

for the period 1 April 2017 to 30 September 2017

(i) Restated to include the Clyde fair value uplift of £59.1m as an exceptional item. See note 4.2 (iii)

50

Consolidated Income Statement

for the year ended 31 March 2017

	Note	Before exceptional items and certain re- measure- ments £m	Exceptional items and certain re- measure- ments (note 6) £m	Total £m
Revenue	5	29,037.9	-	29,037.9
Cost of sales		(25,794.5)	232.6	(25,561.9)
Gross profit		3,243.4	232.6	3,476.0
Operating costs		(1,707.3)	(406.2)	(2,113.5)
Other operating income		24.2	366.4	390.6
Operating profit before joint ventures and associates		1,560.3	192.8	1,753.1
Joint ventures and associates:				
Share of operating profit		313.7	-	313.7
Share of interest		(114.7)	-	(114.7)
Share of movement on derivatives		-	2.1	2.1
Share of tax		(32.8)	19.1	(13.7)
Share of profit on joint ventures and associates		166.2	21.2	187.4
Operating profit	5	1,726.5	214.0	1,940.5
Finance income	7	93.7	-	93.7
Finance costs	7	(310.2)	52.6	(257.6)
Profit before taxation		1,510.0	266.6	1,776.6
Taxation	8	(163.8)	106.0	(57.8)
Profit for the year		1,346.2	372.6	1,718.8
Attributable to:				
Ordinary shareholders of the parent		1,226.9	372.6	1,599.5
Other equity holders		119.3	-	119.3
Basic earnings per share (pence)	10			158.4
Diluted earnings per share (pence)	10			158.2

Consolidated Statement of Other Comprehensive Income

for the period 1 April 2017 to 30 September 2017

Year ended 31 March 2017 £m		Six months ended 30 September 2017 £m	(Restated) Six months ended 30 September 2016 ⁽ⁱ⁾ £m
1,718.8	Profit for the period	357.2	609.2
	Other comprehensive income:		
	<i>Items that will be reclassified subsequently to profit or loss:</i>		
14.9	Net (losses)/gains on cash flow hedges	(9.4)	21.3
10.6	Transferred to assets and liabilities on cash flow hedges	4.7	15.5
(2.8)	Taxation on cash flow hedges	1.6	(4.0)
22.7		(3.1)	32.8
(6.0)	Share of joint ventures and associates income/(loss) on joint ventures and associates, net of taxation	3.0	(13.0)
74.1	Exchange difference on translation of foreign operations	36.4	76.0
(22.5)	Loss on net investment hedge, net of taxation	(21.8)	(36.9)
68.3		14.5	58.9
	<i>Items that will not be reclassified to profit or loss:</i>		
252.5	Actuarial gains/(losses) on retirement benefit schemes, net of taxation	64.1	(254.5)
(56.4)	Share of joint ventures actuarial gains/(losses) on retirement benefit schemes, net of taxation	13.0	(86.8)
196.1		77.1	(341.3)
264.4	Other comprehensive income/(loss), net of taxation	91.6	(282.4)
1,983.2	Total comprehensive income for the period	448.8	326.8
	Attributable to:		
1,863.9	Ordinary shareholders of the parent	391.4	252.9
119.3	Other equity holders	57.4	73.9
1,983.2		448.8	326.8

(i) Restated to include the Clyde fair value uplift of £59.1m as an exceptional item. See note 4.2 (iii)

Consolidated Balance Sheet

as at 30 September 2017

At 31 March 2017 £m			At 30 September 2017 £m	(Restated) At 30 September 2016 ⁽ⁱ⁾ £m
	Note			
Assets				
12,622.2		Property, plant and equipment	12,977.1	12,377.1
760.4		Goodwill and other intangible assets	725.9	951.8
985.8		Equity investments in joint ventures and associates ⁽ⁱ⁾	983.9	896.9
788.4		Loans to joint ventures and associates	825.0	733.9
12.5		Other investments	11.5	16.5
322.3		Deferred tax assets	304.7	289.0
528.3	16	Derivative financial assets	515.7	760.0
525.4	17	Retirement benefit assets	514.1	59.3
16,545.3		Non-current assets	16,857.9	16,084.5
580.7		Other intangible assets	271.8	167.6
269.1		Inventories	284.0	220.5
3,754.4		Trade and other receivables	2,594.0	2,472.9
1,427.0		Cash and cash equivalents	1,199.6	257.9
1,269.5	16	Derivative financial assets	1,037.4	1,934.9
70.4	11	Current assets held for sale	130.2	406.5
7,371.1		Current assets	5,517.0	5,460.3
23,916.4		Total assets	22,374.9	21,544.8
Liabilities				
142.4	13	Loans and other borrowings	134.5	338.8
4,923.5		Trade and other payables	3,375.4	3,343.4
294.8		Current tax liabilities	253.3	320.2
39.7		Provisions	30.3	71.3
1,153.2	16	Derivative financial liabilities	1,025.0	1,814.5
1.4	11	Liabilities held for sale	-	111.4
6,555.0		Current liabilities	4,818.5	5,999.6
7,940.0	13	Loans and other borrowings	8,403.4	7,083.9
788.9		Deferred tax liabilities	802.2	584.4
437.4		Trade and other payables	465.3	491.4
764.5		Provisions	765.9	699.7
454.9	17	Retirement benefit obligations	350.8	735.4
703.2	16	Derivative financial liabilities	693.3	987.4
11,088.9		Non-current liabilities	11,480.9	10,582.2
17,643.9		Total liabilities	16,299.4	16,581.8
6,272.5		Net assets	6,075.5	4,963.0
Equity:				
507.8	15	Share capital	511.3	508.5
885.7		Share premium	875.0	876.6
26.5		Capital redemption reserve	34.8	22.0
14.5		Hedge reserve	14.4	17.6
33.8		Translation reserve	48.4	21.3
2,594.5		Retained earnings	2,381.9	1,307.3
4,062.8		Equity attributable to ordinary shareholders of the parent	3,865.8	2,753.3
2,209.7	14	Hybrid equity	2,209.7	2,209.7
6,272.5		Total equity attributable to equity holders of the parent	6,075.5	4,963.0

(i) Restated to include the Clyde fair value uplift of £59.1m as an exceptional item. See note 4.2 (iii)

Consolidated Statement of Changes in Equity

for the period 1 April 2017 to 30 September 2017

Statement of changes in equity	Share capital	Share premium account	Capital redemption reserve	Hedge reserve	Translation reserve	Retained earnings	Total attributable to ordinary shareholders	Hybrid equity	Total Equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2017	507.8	885.7	26.5	14.5	33.8	2,594.5	4,062.8	2,209.7	6,272.5
Total comprehensive income for the period	-	-	-	(0.1)	14.6	376.9	391.4	57.4	448.8
Dividends to shareholders	-	-	-	-	-	(638.3)	(638.3)	-	(638.3)
Scrip dividend related share issue	11.8	(11.8)	-	-	-	324.5	324.5	-	324.5
Distributions to hybrid equity holders	-	-	-	-	-	-	-	(57.4)	(57.4)
Issue of shares	-	1.1	-	-	-	-	1.1	-	1.1
Share repurchase	(8.3)	-	8.3	-	-	(270.5)	(270.5)	-	(270.5)
Credit in respect of employee share awards	-	-	-	-	-	7.4	7.4	-	7.4
Investment in own shares	-	-	-	-	-	(12.6)	(12.6)	-	(12.6)
At 30 September 2017	511.3	875.0	34.8	14.4	48.4	2,381.9	3,865.8	2,209.7	6,075.5

Statement of changes in equity	Share capital	Share premium account	Capital redemption reserve	Hedge reserve	Translation reserve	(Restated) Retained earnings ⁽ⁱ⁾	Total attributable to ordinary shareholders	Hybrid equity	Total	Non-controlling interest	Total Equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2016	503.8	880.4	22.0	(2.2)	(17.8)	1,598.6	2,984.8	2,209.7	5,194.5	22.5	5,217.0
Total comprehensive income for the period ⁽ⁱ⁾	-	-	-	19.8	39.1	194.0	252.9	73.9	326.8	-	326.8
Dividends to shareholders	-	-	-	-	-	(629.5)	(629.5)	-	(629.5)	-	(629.5)
Scrip dividend related share issue	4.7	(4.7)	-	-	-	142.6	142.6	-	142.6	-	142.6
Distributions to hybrid equity holders	-	-	-	-	-	-	-	(73.9)	(73.9)	-	(73.9)
Issue of shares	-	0.9	-	-	-	-	0.9	-	0.9	-	0.9
Credit in respect of employee share awards	-	-	-	-	-	6.6	6.6	-	6.6	-	6.6
Investment in own shares	-	-	-	-	-	(5.0)	(5.0)	-	(5.0)	-	(5.0)
Non-controlling interest ⁽ⁱⁱ⁾	-	-	-	-	-	-	-	-	-	(22.5)	(22.5)
At 30 September 2016	508.5	876.6	22.0	17.6	21.3	1,307.3	2,753.3	2,209.7	4,963.0	-	4,963.0

(i) Restated to include the Clyde fair value uplift of £59.1m as an exceptional item. See note 4.2 (iii)

(ii) This represents the non-controlling interest in Clyde Windfarm (Scotland) Limited which is now accounted as a joint venture.

Consolidated Statement of Changes in Equity

for the year ended 31 March 2017

Statement of changes in equity	Share capital	Share premium account	Capital redemption reserve	Hedge reserve	Translation reserve	Retained earnings	Total attributable to ordinary shareholders	Hybrid equity	Total equity attributable to equity holders of the parent	Non- controlling interest	Total Equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2016	503.8	880.4	22.0	(2.2)	(17.8)	1,598.6	2,984.8	2,209.7	5,194.5	22.5	5,217.0
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

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

Consolidated Cash Flow Statement

for the period 1 April 2017 to 30 September 2017

Year Ended 31 March 2017 ⁽ⁱⁱⁱ⁾	Note	(Restated)	
		Six months ended 30 September 2017	Six months ended 30 September 2016 ^{(i), (ii)}
£m		£m	£m
1,940.5	Operating profit	549.4	795.6
(187.4)	Less share of profit of joint ventures and associates	(58.9)	(99.8)
1,753.1	Operating profit before jointly controlled entities and associates	490.5	695.8
(48.0)	Pension service charges less contributions paid	(18.1)	(28.0)
(201.0)	Movement on operating derivatives	(21.4)	(162.1)
1,135.0	Depreciation, amortisation, write downs and impairments	363.2	370.3
16.2	Charge in respect of employee share awards (before tax)	7.4	6.6
(391.0)	(Profit) on disposal of assets and businesses ⁽ⁱ⁾	(33.7)	(79.0)
(17.6)	Release of provisions	-	-
(18.0)	Release of deferred income	(9.6)	(9.3)
2,228.7	Cash generated from operations before working capital movements	778.3	794.3
8.6	(Increase)/decrease in inventories	(14.9)	(5.1)
(541.9)	Decrease in receivables	1,159.9	760.1
644.0	(Decrease)/increases in payables	(1,177.9)	(410.0)
(53.8)	(Decrease) in provisions	(14.3)	(23.2)
2,285.6	Cash generated from operations	731.1	1,116.1
123.4	Dividends received from joint ventures and associates	42.3	20.8
(178.5)	Interest paid	(72.8)	(66.4)
(98.5)	Taxes paid	(63.7)	(63.3)
2,132.0	Net cash from operating activities	636.9	1,007.2
(1,621.1)	Purchase of property, plant and equipment	(804.0)	(741.1)
(146.3)	Purchase of other intangible assets	(25.7)	(92.3)
36.9	Deferred income received	6.4	0.8
739.3	Proceeds from disposals	120.7	76.2
(105.0)	Loans to joint ventures and associates	(86.7)	(15.6)
(15.8)	Purchase of businesses and subsidiaries	-	-
73.4	Loans and equity repaid by joint ventures	60.5	48.9
-	Investment in joint ventures and associates	-	(0.7)
(0.2)	Increase in other investments	(0.2)	-
(1,038.8)	Net cash from investing activities	(729.0)	(723.8)
13.8	Proceeds from issue of share capital	1.1	0.9
(668.7)	Dividends paid to the Company's equity holders	(313.8)	(486.9)
(119.3)	Hybrid capital dividend payments	(57.4)	(73.9)
(12.6)	Employee share awards share purchase	(12.6)	(5.0)
1,842.5	New borrowings	553.0	1,089.5
(950.6)	Repayment of borrowings	(35.1)	(910.3)
(131.5)	Repurchase of own shares	(270.5)	-
(26.4)	Net cash from financing activities	(135.3)	(385.7)
1,066.8	Net (decrease)/increase in cash and cash equivalents	(227.4)	(102.3)
360.2	Cash and cash equivalents at the start of period	1,427.0	360.2
1,066.8	Net (decrease)/increase in cash and cash equivalents	(227.4)	(102.3)
1,427.0	Cash and cash equivalents at the end of period	1,199.6	257.9

(i) Restated to include the Clyde fair value uplift of £59.1m as an exceptional item. See note 4.2 (iii).

(ii) Re-presented to reclassify the purchase of carbon allowances and renewable obligation certificates from investing to operating activities.

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

1. Condensed Financial Statements

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

The financial information set out in these condensed interim statements does not constitute the Group's statutory accounts for the periods ended 30 September 2017, 31 March 2017 or 30 September 2016 within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2017, which were prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS), have been reported on by the Group's auditors and delivered to the Registrar of Companies. The financial information set out in these interim statements has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 Interim Financial Reporting as adopted by the EU.

The report of the auditor was (i) unqualified (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under section 498 (2) or (3) of the Companies Act 2006. The interim financial information is unaudited but has been formally reviewed by the auditor and its report to the Company is set out on page 79.

These interim statements were authorised by the Board on 7 November 2017.

2. Basis of preparation

These condensed interim statements for the period to 30 September 2017 and the comparative information for the period to 30 September 2016 have been prepared applying the accounting policies and presentation used in the Group's consolidated financial statements for the year ended 31 March 2017.

(i) Going concern

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. These interim statements are therefore prepared on a going concern basis.

(ii) Alternative performance measures

The Directors assess the performance of the Group and its reportable segments based on 'alternative performance 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 2. (iii) 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 interim statements also include an 'adjusted net debt and hybrid capital' measure. This presents financing information on the basis used for internal liquidity risk management. This measure excludes obligations due under finance leases and includes cash held as collateral on commodity trading exchanges. The measure represents the capital owed to investors, lenders and equity holders other than the ordinary shareholders. As with 'adjusted earnings per share', this measure is considered to be of particular relevance to the ordinary shareholders of the Group as well as other stakeholders and interested parties.

Finally, the interim 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 direct funding of joint venture and associate 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 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 part of particular relevance to the ordinary shareholder of the Group as well as other stakeholders and interested parties.

Reconciliations from the 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 45 to 49.

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

2. Basis of preparation (continued)

(iii) 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 arise 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 exceptional items and certain re-measurements results for these contracts is the amount settled in the period. This excludes commodity contracts not treated as financial instruments under IAS39 where held for the Group's own use requirements which are not recorded until the underlying commodity is delivered.

(iv) 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.

As part of the current year implementation of IAS 7 – Disclosure Initiative – a general review of cash flow classifications was performed. As a result, cash flows arising from purchases of carbon allowances and renewable obligation certificates have been reclassified from Investing Activities to Operating Activities in line with common industry practice.

3. Summary of significant new accounting policies and reporting changes

In the period, the Group has adopted the amendments to IAS 7: 'Statement of cash flows'; IAS 12: 'Income taxes'; and 'Annual Improvement Project 2014-2016', which are subject to European Union (EU) endorsement, given that endorsement is expected to be given during 2017. Adopting these amendments has not had a material impact on these financial statements.

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

- i) IFRS 9 'Financial instruments' which will be effective from 1 January 2018 (and thus to the Group from 1 April 2018);
- ii) IFRS 15 'Revenue from contracts with customers' which will be effective from 1 January 2018 (1 April 2018 to the Group);
- iii) IFRS 16 'Leases' which will be effective from 1 January 2019 (1 April 2019 to the Group), subject to EU endorsement; and
- iv) IFRS 17 'Insurance contracts' which will be effective from 1 January 2021 (1 April 2021 to the Group), subject to EU endorsement.

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

Detailed disclosure of the progress on the projects to oversee the implementation of IFRS 9 and IFRS 15 was provided in Notes 2.1 and 2.2 of the Group's consolidated Financial Statements for the year ended 31 March 2017. No material changes on the expected conclusions from the assessments and the adoption and implementation of the standards have arisen in the six months to 30 September 2017. The Group therefore remains in the process of confirming the changes required to existing accounting policies, and will provide disclosure of any financial impacts identified in the Group's consolidated Financial Statements for the year ended 31 March 2018.

IFRS 16 'Leases' replaces IAS 17 'Leases' and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Group anticipates that adoption is likely to result in the majority of arrangements currently accounted for as operating leases being recognised on the Consolidated Balance Sheet as right-of-use assets and lease liabilities. The Group has commenced initial assessment of the impact of this standard on the consolidated financial statements, however at this stage it is not yet practicable to quantify the impact these standards will have. The Group has no plans for early adoption of IFRS 16.

IFRS 17 'Insurance contracts' was issued in May 2017, replaces IFRS 4 'Insurance Contracts' and sets out the requirements that a company should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. It is not expected that adoption of this standard will have an impact on the Group's consolidated financial statements.

4. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The Group's key accounting judgement and estimation areas are noted below.

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

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

4.1 Significant financial judgements – estimation uncertainties

The preparation of these Financial Statements has specifically considered the following significant financial judgements, all of which are areas of estimation uncertainty.

(i) Impairment testing and valuation of certain non-current assets – estimation uncertainty

The Group 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. At 30 September 2017, the Group has reviewed goodwill, intangible development assets and specific property, plant and equipment assets related to gas production, gas storage, thermal power generation and wind power generation for indicators of impairment arising since the last formal review performed at 31 March 2017. In conducting its reviews, the Group makes judgements and estimates in considering the recoverable amount of the respective assets or cash-generating units (CGUs).

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

(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, amounts billed to customers and other adjustments.

Unbilled revenue is calculated by applying the tariffs relevant to the customer type to the calculated volume of electricity or gas. This estimation methodology is subject to an internal corroboration process that provides support for the judgements made by management. This process requires the comparison of calculated unbilled volumes to a 'benchmark' measure of unbilled volumes which is derived using independently verified data and by assessing historical weather adjusted consumption patterns and actual meter data that is used in industry reconciliation processes for total consumption by supplier. This aspect of the corroboration process, which requires a comparison of the estimated supplied quantity of electricity or gas that is deemed to have been delivered to customers and the aggregate supplied quantity of electricity or gas applicable to the Group's customers that is measured by industry system operators, is a key judgement. The assessment of electricity unbilled revenue is further influenced by the impact on national settlements data, or for electricity only, feed-in-tariff supported volumes and spill from solar PV generation. In relation to unbilled gas revenue estimation, the experience of the Group is that the industry estimated supplied quantities in gas have historically been higher than actual metered supply. To take account of this, the Group applies a further judgement, being a percentage reduction to unbilled consumption volume, to the measurement of its unbilled revenue in the financial statements. It is expected that this judgement will become less critical as the industry transitions to smart meter technology.

(iii) Retirement benefits – estimation uncertainty

The assumptions in relation to the cost of providing post-retirement benefits during the period are based on the Group's best estimates and are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the level of the retirement benefit obligation recorded and the cost to the Group of administering the schemes. Further detail on the calculation basis and key assumptions used is disclosed in Note 17 of these interim statements.

4.2 Other key accounting judgements

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

(i) Business combinations and acquisitions – accounting judgement

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

(ii) 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.

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

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

4.2 Other key accounting judgements (continued)

(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 joint venture.

Restatement of interest in Clyde Windfarm (Scotland) Limited

On 13 May 2016 the Group relinquished contractual rights which were deemed to give control over the relevant activities of the Clyde Windfarm development. The Group held 50.1% of the equity in Clyde Windfarm (Scotland) Limited following a sale transaction during 2015/16, but due to the contractual arrangement between the equity investors, did not retain control of the venture.

At the point the Group relinquished control, the Group disposed of 100% of its investment in subsidiary and acquired an investment in joint venture which was recognised at cost in the 30 September 2016 interim statement. Under IFRS 3 business combinations the acquisition of the investment in joint venture should have been recognised at fair value. In its 31 March 2017 annual report and accounts the Group recognised a fair value uplift in the value of its equity interest of £59.1m on its acquisition of its stake in the Clyde Windfarm (Scotland) Limited joint venture. Within this interim statement, the Group has accordingly restated the comparative period to include this fair value uplift. The following financial statement line items have been restated at 30 September 2016 to adjust for the recognition of this fair value uplift:

Consolidated income statement and statement of other comprehensive income for the period ended 30 September 2016

	As previously reported £m	Adjustment £m	As restated £m
Others	525.6	-	525.6
Other operating income	24.5	59.1	83.6
Profit for the period	550.1	59.1	609.2
Total comprehensive income	267.7	59.1	326.8
Attributable to:			
Ordinary shareholders of the parent	476.2	59.1	535.3
Other equity holders	73.9	-	73.9
Basic earnings per share (pence)	47.2	5.9	53.1
Diluted earnings per share (pence)	47.2	5.8	53.0

The adjustment above results in a corresponding increase of £59.1m to 'Equity investments in joint ventures and associates' and 'Retained earnings' within the consolidated balance sheet as at 30 September 2016.

There is no impact on the total operating, investing or financing cash flows for the period ended 30 September 2016.

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 in place and fluctuation in commodity prices and operating costs can lengthen or shorten the field life, but are currently expected to be incurred predominantly between 2017 and 2040.

(iii) Valuation of trade receivables

The basis of determining the provisions for bad and doubtful debts is explained within the Accompanying Information section A6 at pages 176 to 184 of the 31 March 2017 financial statements. 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.

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

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

4.3 Other areas of estimation uncertainty (continued)

(iv) Gas and liquids reserves

The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production depreciation of producing gas and liquids property, plant and equipment. This is also a significant input estimate to the associated impairment and decommissioning calculations. The 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. 2P reserves, and other classifications out-with 2P, 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.

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, operating profit, assets and other items by segment is provided below. All revenue and profit before taxation arise from operations within the UK and Ireland.

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

5. Segmental information (continued)

(a) Revenue by segment

	Six months ended 30 September 2017			Six months ended 30 September 2016		
	External revenue	Intra-segment revenue ⁽ⁱ⁾	Total revenue	External revenue	Intra-segment revenue ⁽ⁱ⁾	Total revenue
	£m	£m	£m	£m	£m	£m
Networks						
Electricity Distribution	354.9	109.2	464.1	367.4	114.8	482.2
Electricity Transmission	162.1	-	162.1	179.4	-	179.4
	517.0	109.2	626.2	546.8	114.8	661.6
Retail						
Energy Supply	2,920.2	60.1	2,980.3	3,043.6	47.4	3,091.0
Enterprise	206.9	48.6	255.5	190.8	46.1	236.9
Energy-related Services	54.8	70.2	125.0	39.6	62.6	102.2
	3,181.9	178.9	3,360.8	3,274.0	156.1	3,430.1
Wholesale						
EPM and Electricity Generation	8,430.7	1,194.0	9,624.7	7,374.2	1,287.2	8,661.4
Gas Storage	5.0	147.3	152.3	7.6	126.9	134.5
Gas Production	12.4	103.5	115.9	16.6	108.1	124.7
	8,448.1	1,444.8	9,892.9	7,398.4	1,522.2	8,920.6
Corporate unallocated	37.1	130.2	167.3	43.6	120.9	164.5
Total	12,184.1	1,863.1	14,047.2	11,262.8	1,914.0	13,176.8

	Year ended 31 March 2017		
	External revenue	Intra-segment revenue ⁽ⁱ⁾	Total revenue
	£m	£m	£m
Networks			
Electricity Distribution	814.8	259.7	1,074.5
Electricity Transmission	358.2	0.2	358.4
	1,173.0	259.9	1,432.9
Retail			
Energy Supply	7,252.5	102.1	7,354.6
Enterprise	371.6	99.5	471.1
Energy-related Services	119.9	151.0	270.9
	7,744.0	352.6	8,096.6
Wholesale			
EPM and Electricity Generation	20,009.5	3,198.9	23,208.4
Gas Storage	13.5	280.4	293.9
Gas Production	35.5	235.4	270.9
	20,058.5	3,714.7	23,773.2
Corporate unallocated	62.4	273.9	336.3
Total	29,037.9	4,601.1	33,639.0

(i) Revenue from the Group's investment in Scotia Gas Networks Limited, the Group's share being £194.7m (2016 - £279.8m, March 2017 - £486.7m) is not recorded in the revenue line in the income statement

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

5. Segmental information (continued)

(b) Operating profit by segment

	Six months ended 30 September 2017					Six months ended 30 September 2016				
	Adjusted operating profit reported to the Board £m	Joint Venture/ Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m	Adjusted operating profit reported to the Board £m	Joint Venture/ Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements ⁽ⁱⁱ⁾ £m	Total £m
Networks										
Electricity	176.0	-	176.0	-	176.0	181.0	-	181.0	-	181.0
Distribution										
Electricity	97.9	-	97.9	-	97.9	135.6	-	135.6	-	135.6
Transmission										
Gas	81.2	(47.7)	33.5	1.7	35.2	139.3	(70.0)	69.3	23.8	93.1
Distribution										
	355.1	(47.7)	307.4	1.7	309.1	455.9	(70.0)	385.9	23.8	409.7
Retail										
Energy Supply	46.7	-	46.7	-	46.7	47.1	-	47.1	-	47.1
Enterprise	12.2	-	12.2	-	12.2	4.8	-	4.8	-	4.8
Energy-related Services	11.4	-	11.4	-	11.4	8.6	-	8.6	-	8.6
	70.3	-	70.3	-	70.3	60.5	-	60.5	-	60.5
Wholesale										
EPM and Electricity Generation	160.7	(20.1)	140.6	29.3	169.9	123.2	(16.6)	106.6	221.2	327.8
Gas Storage	(5.3)	-	(5.3)	-	(5.3)	(4.3)	-	(4.3)	-	(4.3)
Gas Production	4.5	-	4.5	-	4.5	2.1	-	2.1	-	2.1
	159.9	(20.1)	139.8	29.3	169.1	121.0	(16.6)	104.4	221.2	325.6
Corporate unallocated	0.9	-	0.9	-	0.9	(0.2)	-	(0.2)	-	(0.2)
Total	586.2	(67.8)	518.4	31.0	549.4	637.2	(86.6)	550.6	245.0	795.6

(i) The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives and tax from joint ventures and associates and after adjusting for exceptional items and certain re-measurements (note 6). The share of Scotia Gas Networks Limited interest includes loan stock interest payable to the consortium shareholders. The Group has accounted for its 33% share of this, £7.7m (2016 – 50% share; £11.5m, March 2017 – 33% share; £12.7m), as finance income (note 7).

(ii) Restated to include the Clyde fair value uplift of £59.1m as an exceptional item. See note 4.2 (iii).

	Year ended 31 March 2017				
	Adjusted operating profit reported to the Board £m	Joint Venture/ Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	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

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

6. Exceptional items and certain re-measurements

Year ended 31 March 2017 £m		Six months ended 30 September 2017 £m	(Restated) Six months ended 30 September 2016 ⁽ⁱ⁾ £m
	Exceptional items (note 6.1)		
(376.4)	Asset impairments and related charges	7.9	-
1.8	Provisions for restructuring and other liabilities	-	-
(374.6)		7.9	-
307.3	Net gains on disposals of businesses and other assets	-	-
59.1	Fair value uplift on loss of control of Clyde (Note 4.2 (iii))	-	59.1
(8.2)		7.9	59.1
19.5	Share of effect of change in UK corporation tax on deferred tax liabilities and assets of associate and joint venture investments	-	23.2
11.3	Total exceptional items	7.9	82.3
	Certain re-measurements (note 6.2)		
201.0	Movement on operating derivatives	21.4	162.1
52.6	Movement on financing derivatives	(24.0)	(20.2)
1.7	Share of movement on derivatives in jointly controlled entities (net of tax)	1.7	0.6
255.3		(0.9)	142.5
266.6	Exceptional items before taxation	7.0	224.8
	Taxation		
35.4	Effect of change in UK corporation tax rate on deferred tax assets and liabilities	-	51.8
118.7	Taxation on other exceptional items	(1.5)	-
154.1		(1.5)	51.8
(48.1)	Taxation on certain re-measurements	0.4	(28.4)
106.0	Taxation	(1.1)	23.4
372.6	Exceptional items after taxation	5.9	248.2

(i) Restated to include the Clyde fair value uplift of £59.1m. See note 4.2 (iii)

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

Year ended 31 March 2017 £m		Six months ended 30 September 2017 £m	(Restated) Six months ended 30 September 2016 ⁽ⁱ⁾ £m
	Cost of sales:		
31.6	Thermal Generation	-	-
201.0	Movement on operating derivatives (note 16)	21.4	162.1
232.6		21.4	162.1
	Operating costs:		
(227.5)	Gas Production (E&P) related charges	-	-
(23.8)	Gas Storage related charges	-	-
(120.3)	Retail and technology development related charges	-	-
(34.6)	Other exceptional provisions and charges	7.9	-
(406.2)		7.9	-
	Operating income:		
307.3	Net gains on disposals of businesses and other assets	-	-
59.1	Fair value uplift on loss of control	-	59.1
366.4		-	59.1
	Joint ventures and associates:		
19.5	Effect of change in UK corporation tax on deferred tax liabilities and assets	-	23.2
1.7	Movement on derivatives (net of tax)	1.7	0.6
21.2		1.7	23.8
214.0	Operating profit	31.0	245.0
	Finance costs		
52.6	Movement on financing derivatives (note 16)	(24.0)	(20.2)
266.6	Profit before taxation	7.0	224.8

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

(i) Restated to include the Clyde fair value uplift of £59.1m. See note 4.2 (iii).

6. Exceptional items and certain re-measurements (continued)

6.1 Exceptional items

Reversal of previous Dogger Bank impairment

On 1 September 2017 the Group confirmed the formation of a 50:50 joint venture with Statoil to progress three of the four consented c. 1.2GW offshore wind projects in the Dogger Bank area. As a result of the formation of the JV and the renewed commitment to the project, the Group has reversed a previous impairment charge of £7.9m. The reversal of impairment, while not exceptional by size, has been recognised as an exceptional credit as it was originally charged within the 2013/14 impairment of SSE's offshore wind portfolio, which was treated as exceptional at the time.

Exceptional items recognised in the previous financial year

In the previous financial year, a number of exceptional charges and credits were recognised following impairment reviews and disposal transactions. Details of those exceptional items are noted. No exceptional charges or credits have been recorded in the period to 30 September 2016.

(i) **Gas production** - Significant impairment charges associated with the Group's North Sea gas production assets were recognised in the year ended 31 March 2017. An exceptional charge of £180.5m was recognised in relation to the Greater Laggan field following a reduction in the independently assessed quantity of proven and probable (2P) hydrocarbon reserves. In addition, an impairment charge of £63.8m was recognised in relation to the Bacton field assets, predominantly as a result of higher than previously assessed decommissioning costs, which were deemed to be irrecoverable during its remaining economic life. Offsetting these impairment charges was an exceptional credit of £20.0m in relation to previously impaired intangible development assets in the Greater Laggan development area, which were written back following the identification of additional prospective resources in the area.

(ii) **Retail and other technology developments** - In the year ended 31 March 2017 the Group decided to cease 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 were impaired. This resulted in an exceptional impairment charge of £83.1m being recognised in the year. At the same time the Group conducted a detailed review of related technology development projects and identified a further £37.2m of development costs within projects that would be discontinued. These impairments were recognised against both intangible development projects (£78.1m) and property, plant and equipment (£42.2m).

(iii) **Gas storage** - During the year ended 31 March 2017 management revised their estimate of the decommissioning costs of the Aldbrough and Atwick gas storage sites. This resulted in an additional decommissioning provision of £23.8m being recognised. The associated increase in decommissioning asset was impaired due to the ongoing issues at the plants, in common with previous assessments of those facilities.

(iii) **Thermal generation** - As part of the Group's impact assessment of the changes to the Integrated Single Electricity Market (I-SEM) on the island of Ireland, the Group impaired its oil burning stations at Rhode and Tawnaghmor by £30.7m in total. In the year to 31 March 2017 the Fiddlers Ferry power station was operational more than expected due to the securing of a contract to provide ancillary capacity services for a year to March 2017 in addition to positive dark spread margins in that period. As a result of the unexpected running, the plant was able to utilise previously impaired coal stocks and reversed a previous inventory impairment of £62.3m.

(iv) **Other** - Following reassessment of The Energy Services Group's ('ESG') deployment within SSE, the Group concluded that an impairment adjustment of £36.4m was necessary against the goodwill recognised on acquisition. In addition, the Group assessed its position in relation to various legal claims and disputes. Consequently, a number of exceptional charges (£18.2m) and credits (£20.0m) were recognised. These were classified as exceptional as they were previously recognised as such within the financial statements, or based on their characteristics. The net impact of those items was an exceptional credit of £1.8m.

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 36 months. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts. The re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category also includes income statement movement on financing derivatives (and hedged items) as described in Note 16.

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

7. Net finance costs

Year ended 31 March 2017 £m		Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m
	Finance income:		
1.8	Interest income from short term deposits	5.1	1.0
20.5	Foreign exchange translation of monetary assets and liabilities	-	19.8
	Other interest receivable:		
12.7	Scotia Gas Networks loan stock	7.7	11.5
33.2	Other joint ventures and associates	18.2	16.4
25.5	Other receivable	13.6	11.8
71.4		39.5	39.7
93.7	Total finance income	44.6	60.5
	Finance costs:		
(28.9)	Bank loans and overdrafts	(13.0)	(15.9)
(275.4)	Other loans and charges	(156.0)	(134.0)
(4.0)	Interest on net pension scheme assets/(liabilities)	1.2	(6.7)
(14.2)	Notional interest arising on discounted provisions	(8.1)	(7.4)
(33.1)	Finance lease charges	(15.4)	(16.5)
45.4	Less: interest capitalised	23.5	19.6
(310.2)	Total finance costs	(167.8)	(160.9)
52.6	Changes in fair value of financing derivative assets or liabilities at fair value through profit or loss	(24.0)	(20.2)
(163.9)	Net finance costs	(147.2)	(120.6)
	Presented as:		
93.7	Finance income	44.6	60.5
(257.6)	Finance costs	(191.8)	(181.1)
(163.9)	Net finance costs	(147.2)	(120.6)

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

Year ended 31 March 2017 £m		Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m
(163.9)	Net finance costs	(147.2)	(120.6)
	(add)/less:		
	Share of interest from joint ventures and associates:		
(12.7)	Scotia Gas Networks loan stock	(7.7)	(11.5)
(102.0)	Other jointly controlled entities and associates	(44.5)	(55.6)
(114.7)		(52.2)	(67.1)
3.1	Interest on pension scheme (assets)/liabilities	(1.2)	6.1
(52.6)	Movement on financing derivatives (note 16)	24.0	20.2
(328.1)	Adjusted net finance costs	(176.6)	(161.4)
14.2	Notional interest arising on discounted provisions	8.1	7.4
33.1	Finance lease charges	15.4	16.5
(119.3)	Hybrid coupon payment	(57.4)	(73.9)
(400.1)	Adjusted net finance costs for interest cover calculations	(210.5)	(211.4)

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

8. Taxation

The income tax expense reflects the anticipated effective rate of tax on profits before taxation for the Group for the year ending 31 March 2018, taking account of the movement in the deferred tax provision in the period so far as it relates to items recognised in the income statement. The reported tax rate on the profit before tax before exceptional items and certain re-measurements is 11.1% (2016 – 19.8%, March 2017 – 10.8%). The reported tax rate on the profit before tax after exceptional items, including the effect of changes in tax rate, and certain re-measurements was 11.2% (2016 – 9.7%⁽ⁱ⁾, March 2017 – 3.3%).

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

Year ended 31 March 2017		Six months ended 30 September 2017	Six months ended 30 September 2016
	Adjusted effective rate:		
	10.2% Current tax	9.3%	12.0%
	2.7% Deferred tax	5.2%	6.0%
	<u>12.9%</u>	<u>14.5%</u>	<u>18.0%</u>

(i) Restated to include the Clyde fair value uplift of £59.1m as an exceptional item. See note 4.2 (iii).

9. Dividends

Ordinary dividends

Year ended 31 March 2017			Six months ended 30 September 2017			Six months ended 30 September 2016		
Total £m	Settled via scrip £m	Pence per ordinary share	Total £m	Settled via scrip £m	Pence per ordinary share	Total £m	Settled via scrip £m	Pence per ordinary share
-	-	-	638.3	324.5	63.9	-	-	-
		Final – year ended 31 March 2017						
277.1	95.3	27.4	-	-	-	-	-	-
		Interim – year ended 31 March 2017						
629.5	142.6	62.5	-	-	-	629.5	142.6	62.5
		Final – year ended 31 March 2016						
<u>906.6</u>	<u>237.9</u>		<u>638.3</u>	<u>324.5</u>		<u>629.5</u>	<u>142.6</u>	

The final dividend of 63.9p per ordinary share declared in the financial year ended 31 March 2017 (2016 – 62.5p) was approved at the Annual General Meeting on 20 July 2017 and was paid to shareholders on 22 September 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.

An interim dividend of 28.4p per ordinary share (2016 – 27.4p) has been proposed and is due to be paid on 16 March 2018 to those shareholders on the SSE plc share register on 18 January 2018. The proposed interim dividend has not been included as a liability in these financial statements. A scrip dividend will be offered as an alternative.

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

10. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 September 2017 is based on the net profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period ended 30 September 2017. All earnings are from continuing operations.

Adjusted earnings per share

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

Year ended 31 March 2017			Six months ended 30 September 2017		(Restated) Six months ended 30 September 2016	
Earnings £m	Earnings per share pence		Earnings £m	Earnings per share pence	Earnings ⁽ⁱ⁾ £m	Earnings ⁽ⁱ⁾ per share pence
1,599.5	158.4	Basic	299.8	29.8	535.3	53.1
(372.6)	(36.9)	Exceptional items and certain re-measurements (note 6)	(5.9)	(0.6)	(248.2)	(24.6)
1,226.9	121.5	Basic excluding exceptional items and certain re-measurements	293.9	29.2	287.1	28.5
4.0	0.4	<i>Adjusted for:</i> Interest on net pension scheme liabilities (note 7)	(1.2)	(0.1)	6.7	0.7
(0.9)	(0.1)	Share of interest on net pension liabilities in joint venture	-	-	(0.6)	(0.1)
36.9	3.7	Deferred tax	21.9	2.2	24.6	2.4
2.0	0.2	Deferred tax from share of joint ventures and associates	(0.4)	(0.1)	27.0	2.7
1,268.9	125.7	Adjusted	314.2	31.2	344.8	34.2
1,599.5	158.4	Basic	299.8	29.8	535.3	53.1
-	(0.2)	Dilutive effect of convertible debt and share options	-	-	-	(0.1)
1,599.5	158.2	Diluted	299.8	29.8	535.3	53.0

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

Year ended 31 March 2017			Six months ended 30 September 2017	Six months ended 30 September 2016
Number of shares (millions)			Number of shares (millions)	Number of shares (millions)
1,009.7	For basic and adjusted earnings per share		1,005.3	1,008.0
1.4	Effect of exercise of share options		1.5	1.7
1,011.1			1,006.8	1,009.7

(i) Restated to include the Clyde fair value uplift of £59.1m as an exceptional item. See note 4.2 (iii)

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

11. Acquisitions, disposals and held for sale

Significant disposals

Clyde windfarm - On 28 August 2017 the Clyde Extension windfarm, comprising 54 turbines generating an additional 172.8MW, reached its Commercial Operation Date. In March 2016, SSE announced the initial sale of 49.9% of Clyde Windfarm (Scotland) Limited ("Clyde") equating to 349.6MW of the existing operational wind farm. It was agreed between the partners that when Commercial Operation began, the equity stake in Clyde jointly owned by Greencoat UK Wind Plc ("UKW") and GLIL Infrastructure LLP ("GLIL") would be diluted from 49.9% to 30%, with the Group retaining 70%. Due to the contractual agreement between the parties, the Group assessed that dilution did not give rise to a change in control, therefore Clyde remains an equity accounted joint venture.

On 4 September 2017 the Group completed the disposal of a further 5.0% equity stake in Clyde to the existing joint venture partners for consideration of £67.8m, recognising a gain on sale of £24.0m. At 30 September 2017, the Group's shareholding in Clyde was therefore 65% with UKW and GLIL jointly owning 35%.

As part of that disposal agreement, UKW and GLIL also have the option to buy a further 14.9% of Clyde, equating to 77.8MW, for a cash consideration of £202.2 million, before costs. This option can be exercised between 1 April 2018 and 30 June 2018 and would result in SSE's equity share in Clyde reducing to 50.1% with UKW and GLIL owning the remaining 49.9%. As a result, 14.9% of the Group's investment in Clyde has been presented as held for sale within these Interim Statements.

Ferrybridge MFE2 - On 7 September 2017, the Group disposed of a 50% equity stake in its subsidiary Ferrybridge MFE2 Limited to Wheelabrator Technologies Inc. for consideration of £62.5m, recognising nil gain/(loss) on disposal. The Group disposed of a subsidiary on the date it lost control and acquired a joint venture which it then recognised at fair value under the principles of both IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements'. A gain of £6.7m was recognised on acquisition of the joint venture following the fair value assessment. The Group's 50% interest in Ferrybridge MFE2 was classified as held for sale at 31 March 2017.

Prior period disposals

In the period to 30 September 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.

In the financial year to 31 March 2017, in addition to the disposal noted in the period to 30 September 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). Cash consideration of £615.1m was received and an exceptional gain on sale of £307.3m was recognised on disposal. In May 2016, the Group also recognised a £20.3m gain on disposal of 10% of Beatrice Offshore Windfarm Limited for consideration of £31.7m to joint venture partners CI Beatrice I Limited and CI Beatrice II Limited.

On 30 March 2017 the Group completed the disposal of its stake in three Tay Valley Streetlighting 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 £2.2m.

Held for sale assets

A number of assets and liabilities associated with activities are deemed available for immediate sale and have been separately presented on the face of the balance sheet at 30 September 2017. The assets have been stated at the lower of cost or fair value less costs to sell.

March 2017 £m		September 2017 £m	September 2016 £m
63.6	Property plant and equipment	-	-
-	Equity investments in joint ventures and associates	44.9	214.4
-	Loans to joint ventures and associates	85.3	89.1
2.7	Derivative financial assets	-	-
66.3	Non-current assets	130.2	303.5
-	Trade and other receivables	-	103.0
4.1	Derivative financial assets	-	-
4.1	Current assets	-	103.0
70.4	Total assets	130.2	406.5
-	Trade and other payables	-	(6.6)
-	Current liabilities	-	(6.6)
-	Loans and borrowings	-	(104.8)
(1.4)	Deferred tax liabilities	-	-
(1.4)	Non-current liabilities	-	(104.8)
(1.4)	Total liabilities	-	(111.4)
69.0	Net assets	130.2	295.1

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

11. Acquisitions, disposals and held for sale (continued)

Held for sale assets (continued)

The assets and liabilities classified as held for sale at 30 September 2017 are the Group's 14.9% equity interest in Clyde Windfarm (Scotland) Limited (see 'Significant Disposals'). The joint venture partners Greencoat UK Wind Holdco Limited and GLIL Corporate Holdings Limited have a non-transferrable option to purchase a further 14.9% equity stake in the joint venture for consideration of £202.2m between 1 April 2018 and 30 June 2018.

At 31 March 2017, the Group classified 50% of its share of Ferrybridge MFE2 Limited assets and liabilities as held for sale. The Group's 50% share was disposed on 7 September 2017.

The assets and liabilities identified as held for sale at 30 September 2016 relate to the Group's 16.7% equity stake in Scotia Gas Networks (SGN), which was sold to the Abu Dhabi Investment Authority (AIDA) on 26 October 2016 for headline consideration of £621.0m, in addition to the Group's investment in three remaining UK PFI street lighting companies. The sale of the Group's stake in the Tay Valley streetlighting projects to DIF Infra 4 UK Limited for consideration of £40.4m was completed on 30 March 2017, resulting in a gain on sale of £2.2m.

Total disposals

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

March 2017 £m		September 2017 £m	September 2016 £m
	Net proceeds of disposal		
75.1	- Previously held for sale	62.5	43.5
667.0	- Not held for sale	58.2	-
-	- Receipt of deferred consideration on Beatrice divestment	-	32.7
(2.8)	Provisions	-	-
739.3	Total cash proceeds	120.7	76.2

12. Sources of finance

Capital management

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

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

The Group has the option to purchase its own shares on the market; the timing of these purchases depends on market prices and economic conditions. The use of share buy-backs shall be implemented if the Directors believe that doing so would be in the best interests of shareholders. Following the disposal of 16.7% of the Group's stake in Scotia Gas Networks last year, this method of returning capital to shareholders could have the advantage of offsetting the earnings per share (EPS) reduction resulting from the disposal and reducing the total dividend outflow in future years. Under the share buyback programme announced on 11 November 2016, 16.7m shares were repurchased and cancelled in the six months to 30 September 2017 for a total consideration of £245.5m with a further 1.8m repurchased and held in treasury for a total consideration of £25.0m (2016 – nil; March 2017 – 8.9m shares repurchased and cancelled for a total consideration of £131.5m).

The Group's debt requirements are principally met through issuing bonds denominated in Sterling and Euros as well as private placements and medium term bank loans including those with the European Investment Bank. In addition, the Group has issued hybrid capital securities which bring together features of both debt and equity, are perpetual and subordinate to all senior creditors. The Group has £1.7bn of committed bank facilities which relate to the Group's revolving credit, bilateral facility and EIB facility. £1.5bn of these facilities can be accessed at short notice for use in managing the Group's short term funding requirements; however, these committed facilities remain undrawn for the majority of the time. The remaining £200m EIB facility will be drawn before 31 March 2018 when it will become a 10 year term loan.

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

12. Sources of Finance (continued)

Capital management (continued)

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

March 2017 £m		September 2017 £m	September 2016 £m
7,805.5	Total borrowings (excluding finance leases)	8,272.4	7,132.1
(1,427.0)	Less: Cash and cash equivalents	(1,199.6)	(257.9)
6,378.5	Net debt (excluding hybrid equity)	7,072.8	6,874.2
2,209.7	Hybrid equity	2,209.7	2,209.7
(105.2)	Cash held as collateral and other short-term loans	(36.7)	(88.5)
8,483.0	Adjusted net debt and hybrids	9,245.8	8,995.4
4,062.8	Equity attributable to shareholders of the parent	3,865.8	2,753.3
12,545.8	Total capital excluding finance leases	13,111.6	11,748.7

13. Loans and other borrowings

March 2017 £m		September 2017 £m	September 2016 £m
	Current		
118.8	Other short-term loans	106.0	313.5
23.6	Obligations under finance leases	28.5	25.3
142.4		134.5	338.8
	Non current		
7,686.7	Loans	8,166.4	6,818.6
253.3	Obligations under finance leases	237.0	265.3
7,940.0		8,403.4	7,083.9
8,082.4	Total loans and borrowings	8,537.9	7,422.7
(1,427.0)	Cash and cash equivalents	(1,199.6)	(257.9)
6,655.4	Unadjusted net debt	7,338.3	7,164.8
	<i>Add/(less):</i>		
2,209.7	Hybrid equity (note 14)	2,209.7	2,209.7
(276.9)	Obligations under finance leases	(265.5)	(290.6)
(105.2)	Cash held as collateral	(36.7)	(88.5)
8,483.0	Adjusted Net Debt and Hybrid Capital	9,245.8	8,995.4

SSE's adjusted net debt and hybrid capital was £9.2bn at 30 September 2017, compared with £8.5bn on 31 March 2017 and £9.0bn on 30 September 2016. The increase in net debt and hybrid capital reflects SSE's ongoing investment programme.

In September 2017, SSE issued an inaugural Green Bond - an 8 year €600m Euro Bond with a coupon of 0.875% and an all in cost of 0.98%. The total Bond will be denominated in euros to be used as a net investment hedge against the Group's assets in the Republic of Ireland. In order to maintain the correct level of euro denominated debt against the Republic of Ireland assets, €400m of the 2% June 2020 Bond was swapped to Sterling prior to issuance of the bond which increased the all in cost of that portion of the €600m bond to 2.99%.

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

In addition, the Group has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into Sterling). The Group has £1.7bn (September 2016 - £1.5bn) of committed credit facilities in place. During the six months to September 2017 SSE exercised the second, and last, one year extension option on the £1.3bn revolving credit facility meaning this will mature in July 2022. The £200m bilateral facility has a similar extension option and this has been exercised in October 2017 meaning this will mature in November 2022. The £200m EIB facility that was signed in March 2017 has a one year availability period and it is SSE's intention to draw that facility in the second half of the year when it will become a 10 year term loan. At 30 September 2017, all of these facilities were undrawn.

Included within loans and borrowings at 30 September 2017 is £1.0bn (2016 - nil, March 2017 - £1.0bn) of hybrid debt securities issued on 16 March 2017 with an issuer first call date on 16 September 2022. The dual tranche issuance comprised £300m with a coupon of 3.625% and £900m with a coupon of 4.75%. The £900m tranche was swapped to both Euros and Sterling, bringing the all-in rate down to 2.72% and resulting in an all-in funding cost for both tranches of 3.02% per annum. The purpose of these instruments is to use the proceeds to replace SSE's hybrid equity instruments issued in 2012 (at an all-in rate of 5.6%) which has an issuer call date on 1 October

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

13. Loans and other borrowings (continued)

2017 (see Note 14 (i)). Due to the instruments having a fixed redemption date, they have been accounted for as debt and are included within loans and borrowings. This is in contrast to the previous hybrid issues which have had no fixed redemption date and were accounted for as equity.

14. Hybrid Equity

March 2017		September 2017	September 2016
£m	Perpetual subordinated capital securities	£m	£m
427.2	USD 700m 5.625% perpetual subordinated capital securities (i)	427.2	427.2
598.2	EUR 750m 5.625% perpetual subordinated capital securities (i)	598.2	598.2
748.3	GBP 750m 3.875% perpetual subordinated capital securities (ii)	748.3	748.3
436.0	EUR 600m 2.375% perpetual subordinated capital securities (ii)	436.0	436.0
<u>2,209.7</u>		<u>2,209.7</u>	<u>2,209.7</u>

The purpose of the SSE's hybrid capital programme is to strengthen SSE's capital base and complement other sources of finance. Further commentary is provided in the Capital Management section of Note 12.

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

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

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

On 2 October 2017, following the period end date, the Group redeemed all of the capital securities at their principal amount. The funding has been replaced by a debt accounted £1.0bn instrument issued on 16 March 2017 (see Note 13).

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

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

For the £750m capital issued coupon payments are made annually on 10 September, and for the €600m capital issued coupon payments are made annually on 1 April.

(iii) Coupon Payments

In relation to the \$700m hybrid capital bond, coupon payments of £10.7m (2016 - £11.5m) were made on 1 April 2017 and of £10.5m (2016 - £11.8m) on 2 October 2017. In relation to the €750m hybrid capital bond a coupon payment of £30.6m (2016 - £33.6m) was made on 2 October 2017.

In relation to the €600m hybrid capital bond a coupon payment of £17.6m (2016 - £18.6m) was paid on 1 April 2017 and for the £750m hybrid capital bond a coupon payment of £29.1m (2016 - £43.8m) was paid on 10 September 2017.

The coupon payments in the six month period to 30 September 2017 consequently totalled £57.4m (2016 - £73.9m) with a further £41.1m (2016 - £45.4m) being paid on 2 October 2017.

The Company has the option to defer coupon payments on the bonds on any relevant payment date, as long as a dividend on the ordinary shares has not been declared. Deferred coupons shall be satisfied only in the following circumstances, all of which occur at the sole option of the Company:

-- redemption; or

-- dividend payment on ordinary shares.

Interest will accrue on any deferred coupon.

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

15. Share capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 1 April 2017	1,015.6	507.8
Issue of shares	23.6	11.8
Shares repurchased and cancelled	(16.7)	(8.3)
At 30 September 2017	1,022.5	511.3

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

Shareholders were able to elect to receive ordinary shares in place of the final dividend for the year to 31 March 2017 of 63.9p (2016 – 62.5p in relation to the final dividend for the year to 31 March 2016; 27.4p – March 2017, in relation to the interim dividend for the year to 31 March 2017) per ordinary share under the terms of the Company's scrip dividend scheme. This resulted in the issue of 23,497,675 (September 2016 – 9,395,092, March 2017 – 6,324,986) new fully paid ordinary shares.

In addition, the Company issued 0.1m shares (2016 – 0.1m, March 2017 – 1.2m) during the period under the savings-related share option schemes, and discretionary share option schemes for a consideration of £1.1m (2016 – £0.9m, March 2017 – £13.8m).

Under the share buyback programme announced on 11 November 2016, 16.7m shares were repurchased and cancelled in the six months to 30 September 2017 for a total consideration of £245.5m (2016 – nil; March 2017 – 8.9m shares repurchased for a total consideration of £131.5m).

As part of the same share buyback programme the Group has purchased 1.8m shares (2016 – nil, 31 March 2017 – nil) for total consideration of £25.0m in the six months to 30 September 2017 to be retained as treasury shares. These shares will be held by the Group and used to award shares to employees under the Sharesave scheme in the UK.

In total, since the announcement of the £500m share buyback scheme on 11 November 2016, the Group has purchased 27.4m shares for consideration of £402.0m.

During the period, on behalf of the Company, the employee share trust purchased 0.9 million shares (2016 – 0.3 million, March 2017 – 0.8 million) for a consideration of £12.6m (2016 – £5.0m, March 2017 – £12.6m) to be held in trust for the benefit of employee share schemes.

16. Financial Risk Management

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Risk Committees in the Wholesale and Retail businesses, both of which report directly to the Executive Committee, 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 and energy supply operations. The Risk Committees of Wholesale and Retail are designed to ensure strict business separation requirements are maintained. In addition the Group's Tax and Treasury committee has oversight of the Group's credit exposures and reports directly to the Finance Director.

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 Group's Risk Committees.

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 period remain as stated in the Group's financial statements at March 2017.

In the six months to 30 September 2017, the Group continued to be exposed to difficult economic conditions. In reference to credit risk, the impairment provision for credit losses remained at the same level as March 2017. The Group has continued to commit significant internal resource to managing credit risk in the period.

The Group's policy in relation to liquidity risk continues to be to ensure, in so far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. Further detail is noted in the Group's financial statements at March 2017.

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

for the period 1 April 2017 to 30 September 2017

16. Financial Risk Management (continued)

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

Year ended 31 March 2017 £m		Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m
	Operating derivatives		
(438.6)	Total result on operating derivatives (i)	(293.6)	(501.6)
639.6	Less: amounts settled (ii)	315.0	663.7
201.0	Movement in unrealised derivatives	21.4	162.1
	Financing derivatives (and hedged items)		
(136.3)	Total result on financing derivatives (i)	(213.1)	8.6
188.9	Less: amounts settled (ii)	189.1	(28.8)
52.6	Movement in unrealised derivatives	(24.0)	(20.2)
253.6	Net income statement impact	(2.6)	141.9

(i) Total result on derivatives (and hedged items) in the income statement represents the total amounts (charged) or credited to the income statement in respect of operating and financial derivatives.

(ii) Amounts settled in the period represent the result on derivatives transacted which have matured or been delivered and have been included within the total result on derivatives.

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

March 2017			September 2017		September 2016	
Carrying value £m	Fair value £m		Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
		Financial Assets				
		Current				
2,598.6	2,598.6	Trade receivables	1,820.6	1,820.6	1,555.6	1,555.6
16.6	16.6	Other receivables	16.5	16.5	16.6	16.6
105.2	105.2	Cash collateral and other short term loans	36.7	36.7	88.5	88.5
1,427.0	1,427.0	Cash and cash equivalents	1,199.6	1,199.6	257.9	257.9
1,269.5	1,269.5	Derivative financial assets	1,037.4	1,037.4	1,934.9	1,934.9
5,416.9	5,416.9		4,110.8	4,110.8	3,853.5	3,853.5
		Non-current				
9.6	9.6	Unquoted equity investments	9.6	9.6	9.7	9.7
788.4	788.4	Loans to associates and jointly controlled entities	825.0	825.0	733.9	733.9
528.3	528.3	Derivative financial assets	515.7	515.7	760.0	760.0
1,326.3	1,326.3		1,350.3	1,350.3	1,503.6	1,503.6
6,743.2	6,743.2		5,461.1	5,461.1	5,357.1	5,357.1
		Financial Liabilities				
		Current				
(2,606.7)	(2,606.7)	Trade payables	(1,571.3)	(1,571.3)	(1,477.4)	(1,477.4)
(118.8)	(122.3)	Bank loans commercial paper and overdrafts	(106.0)	(106.0)	(313.5)	(315.8)
(23.6)	(23.6)	Finance lease liabilities	(28.5)	(28.5)	(25.3)	(25.3)
(1,153.2)	(1,153.2)	Derivative financial liabilities	(1,025.0)	(1,025.0)	(1,814.5)	(1,814.5)
(3,902.3)	(3,905.8)		(2,730.8)	(2,730.8)	(3,630.7)	(3,633.0)
		Non-current				
(7,686.7)	(8,876.5)	Loans and borrowings	(8,166.4)	(9,297.4)	(6,818.6)	(8,038.2)
(253.3)	(253.3)	Finance lease liabilities	(237.0)	(237.0)	(265.3)	(265.3)
(703.2)	(703.2)	Derivative financial liabilities	(693.3)	(693.3)	(987.4)	(987.4)
(8,643.2)	(9,833.0)		(9,096.7)	(10,227.7)	(8,071.3)	(9,290.9)
(12,545.5)	(13,738.8)		(11,827.5)	(12,958.5)	(11,702.0)	(12,923.9)
(5,802.3)	(6,995.6)	Net financial liabilities	(6,366.4)	(7,497.4)	(6,344.9)	(7,566.8)

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

16. Financial Risk Management (continued)

Fair Value Hierarchy

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

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

	September 2017				September 2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial Assets								
Energy derivatives	369.9	768.7	-	1,138.6	525.1	1,609.7	-	2,134.8
Interest rate derivatives	-	380.6	-	380.6	-	486.1	-	486.1
Foreign exchange derivatives	-	33.8	-	33.8	-	74.0	-	74.0
Equity investments	-	11.5	-	11.5	-	16.5	-	16.5
	369.9	1,194.6	-	1,564.5	525.1	2,186.3	-	2,711.4
Financial Liabilities								
Energy derivatives	(353.2)	(927.3)	-	(1,280.5)	(458.8)	(1,878.2)	-	(2,337.0)
Interest rate derivatives	-	(435.8)	-	(435.8)	-	(464.6)	-	(464.6)
Foreign exchange derivatives	-	(1.9)	-	(1.9)	-	(0.3)	-	(0.3)
Loans and borrowings	-	156.0	-	156.0	-	307.5	-	307.5
	(353.2)	(1,209.0)	-	(1,562.2)	(458.8)	(2,035.6)	-	(2,494.4)

There were no significant transfers out of level 1 into level 2 and out of level 2 into level 1 during the 6 months ended 30 September 2017, nor in the 6 months ended 30 September 2016.

	March 2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial Assets				
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.

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

17. Retirement Benefit Obligations

Defined Benefit Schemes

The Group has two funded final salary pension schemes which provide defined benefits based on final pensionable pay which are subject to independent valuations at least every three years. The Group also has an Employer Financed Retirement Benefit scheme and a Group Personal Pension Plan, details of which were provided in the Group's Financial Statements to 31 March 2017.

Summary of Defined Benefit Pension Schemes:

Movement recognised in the SoCI March 2017 £m	Pension asset March 2017 £m		Movement recognised in respect of the pension liability in the SoCI		Pension asset/(liability)	
			September 2017 £m	September 2016 £m	September 2017 £m	September 2016 £m
235.4	525.4	Scottish Hydro Electric Pension Scheme	(17.0)	(222.5)	514.1	59.3
(76.8)	(454.9)	Southern Electric Pension Scheme	90.5	(347.3)	(350.8)	(735.4)
158.6	70.5		73.5	(569.8)	163.3	(676.1)
262.7	-	IFRIC 14 adjustment	-	267.2	-	-
421.3	70.5	Net actuarial gain/(loss) and combined asset/(liability)	73.5	(302.6)	163.3	(676.1)

During the prior financial year, the Group agreed with the trustees to the Scottish Hydro Electric pensions scheme an amendment to the scheme rules to clarify that SSE Plc, as operator of the scheme, has a clear right to any surplus on the winding up of the scheme. Under IFRIC14, this amendment to the scheme rules removed the restriction on recognising any surplus. The net pension asset of £163.3m (2016 - £676.1m liability, March 2017 - £70.5m asset) reported at 30 September 2017 includes the recognition of a £514.1m (2016 - £59.3m, March 2017 - £525.4m) asset in the Scottish Hydro Electric pensions scheme. The major assumptions used by the actuaries in both schemes were:

March 2017			September 2017		September 2016
4.3%	Rate of increase in pensionable salaries		4.3%		4.2%
3.3%	Rate of increase in pension payments		3.3%		3.2%
2.7%	Discount rate		2.8%		2.3%
3.3%	Inflation rate		3.3%		3.2%

The assumptions relating to longevity underlying the pension liabilities are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions, equivalent to future longevity for members in normal health at age 65, are as follows:

March 2017			September 2017		September 2016	
Male	Female		Male	Female	Male	Female
Scottish Hydro Electric Pension Scheme						
23	24	Currently aged 65	23	24	26	26
25	28	Currently aged 45	25	28	29	29
Southern Electric Pension Scheme						
23	25	Currently aged 65	23	25	24	26
25	27	Currently aged 45	25	27	26	28

During the period the Scottish Hydro Electric Pensions Scheme entered into a longevity swap covering c£800m of scheme liabilities to reduce its exposure to longevity risk. The swap covers 1,800 current pensioners and 567 dependents and reduces the Group's exposure to volatility in the longevity assumption. It is expected that the Group will benefit from future reductions in minimum contributions to the scheme as a result of the swap.

18. Capital Commitments

March 2017			September 2017		September 2016
£m			£m		£m
949.0		Capital Expenditure Contracted for but not provided	616.0		959.6

Notes on the Condensed Interim Statements

for the period 1 April 2017 to 30 September 2017

19. Related Party Transactions

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

	Sale of goods and services Sep 2017	Purchase of goods and services Sep 2017	Amounts owed from Sep 2017	Amounts owed to Sep 2017	Sale of goods and services Sep 2016	Purchase of goods and services Sep 2016	Amounts owed from Sep 2016	Amounts owed to Sep 2016
Equity accounted joint ventures:	£m	£m	£m	£m	£m	£m	£m	£m
Scotia Gas Networks Ltd	24.9	(59.4)	0.8	-	22.1	(78.4)	10.1	0.9
Seabank Power Ltd	6.0	(88.0)	0.1	22.2	2.5	(59.3)	-	8.4
Marchwood Power Ltd	5.4	(74.9)	0.9	14.2	9.7	(72.8)	2.9	17.9
Clyde Windfarm (Scotland) Ltd	2.5	(43.2)	1.1	24.0	2.8	-	0.5	-
Other Joint Ventures	5.8	-	2.3	-	3.5	-	4.1	-
Associates	1.4	(26.5)	3.0	7.3	0.6	(23.9)	3.9	4.0

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

In addition to the above trading transactions the Group was owed the following loans from its principal joint ventures and associates: Scotia Gas Networks £177.8m (2016 - £266.8m, March 2017 - £177.8m), Multifuel Energy Limited £201.8m (2016 - £144.9m, March 2017 - £144.0m), Marchwood Power Limited £85.2m (2016 - £97.4m, March 2017 - £90.3m) and Clyde Windfarm (Scotland) Limited £372.1m (2016 - £272.1m, March 2017 - £343.2m).

20. Seasonality of operations

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

21. Post Balance Sheet Events

On 2 October 2017, the Group redeemed the September 2012 €750m and US\$700m hybrid capital bonds following the successful issuance of £1.0bn of hybrid debt instruments in March 2017 (see Note 13). The total all-in cost of the hybrid capital bonds redeemed on 2 October 2017 was 5.6% per annum, compared to 3.02% of the hybrid debt instruments.

Statement of director's responsibilities in respect of the condensed interim financial statements

We confirm that to the best of our knowledge:

i) the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;

ii) the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

For and on behalf of the Board

Alistair Phillips-Davies
Chief Executive

Gregor Alexander
Finance Director

London
7 November 2017

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 which comprises Consolidated and Condensed Income Statement, the Consolidated and Condensed Statement of Comprehensive Income, the Consolidated and Condensed Balance Sheet, the Consolidated and Condensed Statement of Changes in Equity, the Consolidated and Condensed Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

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

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

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

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

William Meredith

for and on behalf of KPMG LLP

Chartered Accountants

319 St Vincent Street

Glasgow

G2 5AS

7 November 2017