



Half-year Sustainability Statement

November 2016

Introduction

Sustainability reporting across large companies is reforming and developing at a fast pace, and it is clear that investors and other stakeholders expect increasing transparency on sustainability issues. As a result, SSE is publishing a Half-year Sustainability Statement, alongside its Interim Results Statement for the six months to 30 September 2016, to provide a progress update on SSE's sustainability performance since April 2016.

SSE welcomes feedback on this report and other sustainability performance information, which can be provided to sustainability@sse.com.

Latest developments

Since April 2016, there have been a number of market, economic and political developments, which present challenges to SSE's business, including:

- the outcome of the UK's referendum on membership of the EU on 23 June and the political and economic events that have followed or are set to follow;
- the decision in June by the UK Government to accept the fifth carbon budget for 2028-32; and
- the Competition and Markets Authority's (CMA) Final Decision on Remedies for the GB energy market published in June.

Against this backdrop, there are a number of trends and factors that affect SSE's ability to meet its sustainability objectives. Those objectives are outlined in SSE's Responsible House with the contemporary influences affecting each objective outlined below:

Emerging trends

Responsible Society Member:

A heightened public focus on business conduct, reinforced by the new UK Prime Minister, with an expectation for business to improve its conduct and its contribution to society.

Responsible Service Provider:

Increasing regulatory scrutiny of both network and retail companies' service provision to energy customers, especially those who are most vulnerable.

Responsible Operator:

A significant increase in investor dialogue and information requests regarding SSE's actions and disclosure on the risks and opportunities associated with climate change.

Responsible Developer:

The financial year 2016/17 is on course to represent the highest annual level of capital expenditure for SSE, highlighting the requirement to be a responsible developer.

Responsible Buyer:

There is increasing examination of the way in which large companies are responding to the requirements of the Modern Slavery Act in the UK.

Responsible Employer:

Increased scrutiny on employers on the linked issues of diversity, inequality, and skills shortages, with regulation on gender pay gap likely to be in place by April 2017.

Responsible Society Member

The conduct of large businesses continues to be under the public spotlight. SSE welcomes that increased scrutiny and has taken the opportunity to articulate more formally what it believes to be the core relationship between it and the society it serves and of which it is part.

Key developments since April 2016

Paying a fair share of tax

In October 2016 SSE achieved the Fair Tax Mark for the third consecutive year and remains the only FTSE 100 company to have achieved the accreditation. In the same month it also published its [Talking Tax 2016](#) booklet, which provides enhanced transparency around SSE's tax affairs for 2015/16 and presents SSE's tax strategy in detail, in line with the requirements of the UK Government's Finance Act 2016.

SSE's tax contribution 2015/16

Total tax contribution



£867.3m

Total tax contribution in the UK

€53.8m

Total tax contribution in Ireland

Taxes paid



£453.9m

Taxes paid to the UK Government

€15.2m

Taxes paid to the Irish Government



Taxes collected

£413.4m

Collected on behalf of the UK Government

€38.6m

Collected on behalf of the Irish Government

Priorities going forward

Over the second half of the financial year, SSE will focus on:

- Continuing to enhance transparency around its tax affairs and working to raise the profile of Fair Tax Mark through taking an active part in national debates on the matter.
- Completing an updated analysis of its total contribution to the economies of the UK and Ireland, to be published in May 2017.
- Opening its Pitlochry Dam Visitor Centre, in Perthshire, in early 2017, to promote the social and industrial heritage of hydro electricity, promote renewable electricity and signal the importance of biodiversity.

Responsible Service Provider

With an increasing regulatory focus on the way that network and retail companies support vulnerable energy customers, SSE is putting improved measures in place to ensure that it provides a truly inclusive service across its businesses.

Key developments since April 2016

Treating customers fairly in Retail

In August 2016, SSE published its annual [Treating Customers Fairly \(TCF\) statement](#), which sets out the actions that have been, and are being, taken to deliver fair treatment for SSE's retail customers. The statement includes SSE's commitment to achieve the British Standard for Inclusive Service Provision (BS18477) – the gold standard in recognising and catering for vulnerability in all its forms.

Improving service for vulnerable networks customers

In October 2016, Ofgem published the results of the Distribution Stakeholder Engagement and Consumer Vulnerability Incentive Scheme for 2015/16. Whilst the re-named Scottish and Southern Electricity Networks (SSEN) Distribution improved its score from the previous year, its performance relative to other distribution companies was disappointing. To improve performance, SSEN Distribution has been taking a number of steps, including appointing new Customer Relationship Managers since April, to drive improvements in the way SSE engages with customers, and establishing a Stakeholder Advisory Panel for its Distribution and Transmission businesses to provide a challenging review of its business plans.

Helping customers in Ireland go green

In August 2016, SSE Airtricity was certified by the Commission for Energy Regulation as a supplier of 100% renewable energy in 2015 to its home and business customers¹. The company supplied 5.3 TWh² of renewable sourced energy to its customers in the same period, making SSE Airtricity the largest provider of 100% green energy in Ireland, and abating over 2 million tonnes³ of CO₂ emissions on the island.

Priorities going forward

Over the second half of the financial year, SSE will focus on:

- Putting service improvements in place to meet the BSi standards in its Retail business, including more training time for customer service staff and creating an Extra Help Team to give customers additional support.
- Achieving an enhanced understanding of what vulnerability means for electricity distribution customers. Scottish and Southern Electricity Networks (SSEN) will make use of the results of a Knowledge Transfer Partnership with the University of Dundee, which looked at understanding how consumers cope in the event of a power cut. SSEN Distribution has further commissioned the University to develop a methodology which will help it to define and measure 'vulnerability' in its network areas.

¹100% renewable energy based on Fuel Mix Disclosure and CO₂ Emissions for 2015, published by the Commission for Energy Regulation (CER), August 2016.

²Total TWh supplied to homes and businesses based on Electricity Market Share by MWh published by the Commission for Energy Regulation (CER) in Retail Market Reports for the periods Q1-Q4 2015.

³ Quoted CO₂ emissions abated based on Average CO₂ Emissions (t/MWh) in 2015 in the All-Island Single Electricity Market, and published by the CER in its Fuel Mix Disclosure and CO₂ Emissions for 2015, August 2016.

Responsible Operator

The 2015 Paris Agreement on climate change is proving to be a pivotal moment in stimulating additional investor interest into company strategies for managing climate change risks and opportunities. Requests by over 800 companies through CDP (formerly the Carbon Disclosure Project) as well as international coalitions at AGMs this year highlight the increasing significance of climate change risks to institutional investors.

Key developments since April 2016

UK policy on climate change

The Paris Agreement has created a long-term global direction for tackling climate change. In the UK, the Government set its own unilateral carbon reduction target of 80% by 2050 on 1990 levels through the Climate Change Act 2008. In June, the UK Government accepted the advice of the Committee on Climate Change to set the fifth carbon budget (which aims to reduce UK GHG emissions in 2030 by 57% relative to 1990). While agreement on the fifth carbon budget is very welcome, SSE believes that a commitment to carbon pricing through the 2020s is also needed.

Responding to the challenge of climate change

Risks and opportunities to SSE's business from climate change

Climate change, and the imperative to decarbonise energy systems, creates both risks and opportunities for SSE. In response to a heightened awareness from investors, SSE is considering the way in which climate change is best reflected in its assessment of the Group Principal Risks. It will report on the outcome of this in its next Annual and Sustainability Reports.

In the meantime, the key risks and opportunities relating to climate change for SSE are defined as:

- **Political and regulatory intervention:** Policy intervention can provide long-term signals to investors, creating a stable environment that drives investment in low carbon technology at the same time as securing electricity supplies at an affordable cost. However, if policy intervention is unstable or has unintended consequences, it can create uncertainty and reduce the appetite for investment.
- **Physical effects of climate change:** Changes in weather patterns as a result of climate change can impact SSE's operations. For example, extreme weather events can cause interruption to electricity supplies to Networks customers; equally, an increase in rainfall and windy conditions can increase the output of SSE's hydro electric and wind farm assets.
- **Market uncertainties:** A range of uncertainties driven by the drive to respond to climate change, include volatility in commodity prices, transformational technological change and changes in patterns of consumer behaviour. These all pose potential risks and opportunities to SSE's business.
- **International developments:** While the Paris Agreement on Climate Change provides an important global signal of consensus on the scale of ambition to tackle climate change, the detail of how that will be delivered is yet to be determined in full. Furthermore, the UK's contribution within that context is also yet to be determined.

Taking action on climate change

To respond to these risks and opportunities SSE has taken the following steps in the period since April 2016:

Advocacy: Promoting a credible and stable long-term price on carbon remains SSE's primary advocacy priority. SSE believes a fair price for carbon that reflects its environmental cost is the most effective way of delivering secure, low carbon energy supplies at lowest cost. In particular SSE seeks:

- A commitment from the UK Government to maintain the CPF up to 2021 and beyond and at least at the current carbon price support level to cost effectively decarbonise the GB electricity system.
- An increased EU greenhouse gas target through a tightened EU ETS to contribute to closing the global emissions gap with the objective of keeping global average temperature changes to well below 2°C of pre-industrial levels, and pursue efforts towards 1.5°C as agreed in the Paris Agreement.

In pursuit of these objectives in the past six months, SSE has had continuing engagement with government officials, the Committee on Climate Change, and a number of climate and environmental campaign groups. It also published an open letter in the Financial Times in September. Furthermore, in its submission to government on the implication of the UK's exit from the EU, SSE highlighted the benefits of clear signals that the UK will work towards the ambitions agreed in Paris in December 2015.

Investment in renewable generation: In the first six months of financial year 2016/17, SSE invested just over £125m in renewable generation and is a leading renewable energy generator across the UK and Ireland with 2,975 MW of renewable generation capacity (excluding 300MW of pumped storage).

Transparency: In October 2016, SSE was awarded an A- rating by CDP for its efforts to reduce carbon emissions in financial year 2015/16. SSE has been responding to the CDP Climate Change Results since its inception and makes its responses to the survey publically available.

Research and development: SSE and its consortium partners have secured almost £5.9m of funding in low carbon projects in the first half of 2016/17. The focus of these projects have been on customer innovations, including lower carbon heating solutions, energy efficient projects and community level demand management.

Operational emissions reduction: SSE reports its GHG emissions in its end of year annual statements. It remains focussed on reducing the carbon intensity of its overall electricity generation by 50 percent between 2006 and 2020 and has a long-standing objective to transition from a mix of coal, gas and renewables to gas and renewable sources of energy.

Priorities going forward

Over the second half of the financial year, SSE will focus on:

- The construction and consideration of different climate scenarios that will establish the resilience of its business over the long-term, in particular focusing on a 2°C and a 1.5°C global temperature change target.
- The reinforcement of the importance of carbon pricing both at an UK and European level.

Responsible Developer

In the first six months of financial year 2016/17 SSE's capital expenditure was £782.4m. Following a decision to proceed with Stronelairg wind farm, SSE expects to invest around £1.85bn in 2016/17, across all of its businesses. This would represent SSE's highest level of capital expenditure in any given financial year. The imperative for SSE to be a responsible developer is greater than it has ever been.

Key developments since April 2016

Progressing SSE's largest capital project

The £1.1bn Caithness-Moray transmission link project reached an important milestone in September with the energisation of the first section of the line. In August, SSE published a [study](#) highlighting the most material economic and social impacts of the development, which includes an estimated £643.5m to be spent with UK-based suppliers and contractors throughout the project.

Continuing investment in renewable energy

SSE's renewable developments play a key role in reducing the carbon intensity of its generation portfolio. SSE has a number of projects in development, including the Stronelairg onshore wind farm development in the highlands of Scotland (225MW). Following the ruling in favour of the project from the Court of Session in July, the project would be expected to secure accreditation under the Renewables Obligation and a decision has been taken to proceed with the project. For the first time ever, SSE has more than 1,000MW of wind farm capacity in construction or pre-construction.

Decarbonising the heat system

In June, SSE published a [report](#) quantifying the social, environmental and economic impacts of installing a retrofit district heating system at the Wyndford Estate in Maryhill, Glasgow. Key findings revealed a 62% reduction in carbon emissions; residents feeling warmer and more satisfied with their heating; and £10m added to the UK economy as a result of the installation. As SSE continues efforts to decarbonise the heat sector, it believes district heating will play a leading role. SSE has doubled its heat networks team in the past 12 months to meet demand and anticipated expansion.

Priorities going forward

Over the second half of the financial year, SSE will focus on:

- Progressing a sustainability impact study for the £2.6bn Beatrice offshore wind farm, in which SSE has a 40% stake.
- Engaging with stakeholders on the sustainability impacts of submarine electricity cables and recognising the external cost of these impacts by internalising the cost in the investment appraisal process.

Responsible Buyer

In the last financial year SSE published its first Modern Slavery statement. Since then, there has been significant interest in how large companies are responding to the new Modern Slavery Act and its requirements.

Key developments since April 2016

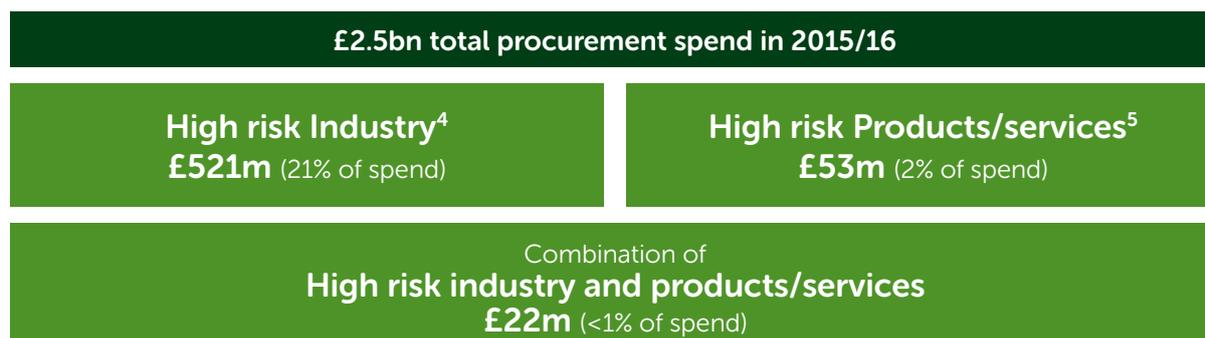
Addressing modern slavery

In April 2016, SSE published its first [Modern Slavery Statement](#). Since then, SSE has taken steps to address modern slavery and human trafficking in its business and supply chains including:

- Forming a Human Rights Advisory Group, consisting of procurement and sustainability professionals;
- Requiring any decisions on modern slavery to be approved by the Board; and
- Undertaking a risk assessment of its Tier one supplier spend in 2015/16 (excluding energy trading activities).

Risk assessing SSE's Tier one suppliers

The risk assessment of SSE's Tier one supplier spend in 2015/16 involved a review of the industries, products and geographical areas that SSE buys from. A risk rating, from low to high risk, was assigned to every SSE purchase, which was based on the rankings used by the US Department of Labour Standards and other good practice guides.



⁴ for example forestry, computer manufacturing, catering etc.

⁵ for example tree cutting and hire of sea going vessels.

Over 99% of total procurement spend in 2015/16 was in Europe, USA and Canada. Purchases were made directly from only three Tier one suppliers in high risk countries – China, India and the Philippines.



Priorities going forward

Over the second half of the financial year, SSE will focus on:

- Working with the category and business managers responsible for the high risk contracts to raise awareness of modern slavery issues.
- Introducing modern slavery training for procurement professionals.
- Risk assessing other areas of its business that may be at risk of modern slavery.

Responsible Employer

In its 2015/16 Sustainability Report, SSE developed its human capital reporting including the early publication of its gender pay gap to make it clear to both its employees and shareholders the strategic underpinning of its human capital strategy. The recruitment, retention and development of a diverse, skilled and engaged workforce is central to SSE's business priorities in the short- and medium-term.

Key developments since April 2016

Diversity and inclusion

As outlined in its 2015/16 report, SSE's strategy to close the gender pay gap deliberately targets a broader range of non-traditional entrants into the company. This may actually have the short-term effect of making the gender pay gap greater; nevertheless, it is clear SSE must attract more women, people from Black, Asian and Minority Ethnic communities and more people from a wider range of social backgrounds.

In the six months since April, SSE has developed three core programmes further in order to support this:

- Supporting the expansion of the Career Ready Programme from Glasgow and Perth to Cardiff, and engaging in further discussions on wider expansion.
- The Barnardo's Works programme continues, with 19 new recruits in the past six months.
- Entering into a three year partnership with Teach First in May – an organisation working towards ending educational inequality.

In recognition of a decade of working with Barnardo's on its youth employability programme, Barnardo's Works, SSE was awarded Large Employer of the Year at the Employment Related Services Association (ERSA) 2016 Employability Awards in July.

Creating the Right Place to Work

In June, SSE Airtricity was named the Right Place to Work (Small/Medium) at the 2016 Irish News Workplace and Employment Awards in Northern Ireland. The award was made as a result of the company's corporate social responsibility initiatives in the region, including its Community Fund, Regional Scholarship, and 'Be the Difference' employee volunteering scheme, which has a high level of employee participation.

Priorities going forward

Over the second half of the financial year, SSE will focus on:

- The continuation of efforts and initiatives to make SSE more attractive to non traditional recruits.
- Three years since SSE calculated the total Human Capital value, the process for undertaking an economic assessment of its Human Capital value as of 31 March 2017 will be established.
- Continuing to ensure that SSE's sponsorship activities support its inclusion and diversity objectives.

Do no harm

SSE understands that corporate sustainability must be about the positive creation of additional economic, social and environmental value. Underpinning this concept must be a relentless focus to ensure that everyone in SSE is safe and complies with the laws and regulations that govern the energy sector.

Key developments since April 2016

Safety

Safety is a number one priority for SSE and it continues to make progress across a wide range of safety priorities.

This year there has been a particular focus on improving safety performance related to driving and contractor safety. This has led to an improvement in driving performance, with 8 Class 1, accountable, Road Traffic Collisions in the first half of 2016, compared to 16 in the same period last year. Unfortunately, despite the fact SSE's safety statistics show that safety performance is stable, 55 people were still injured working for SSE (as an employee or a contractor) in the six months from 1 April to 30 September 2016.

In October SSE received the sad news that a contractor working on its Blackhillock substation project was fatally injured during an incident on site. A thorough investigation is taking place. In the meantime, SSE is working closely with the contractor's employer, as they liaise with the HSE and police. Contractor safety is one of SSE's enduring safety goals and this dreadful event reminds everyone associated with the company that it needs to continue to work hard with contractors to ensure that everyone goes home safe every day.

Doing the right thing

In September, SSE published its new code of business conduct: 'Doing the right thing - A guide to ethical business conduct for SSE employees'. SSE became a subscriber to the Institute of Business Ethics early in 2016, with the new Code reflecting the Institute's advice and guidance. The guide provides the basis from which SSE employees are guided in terms of ethical business behaviour. The main principles of the guide are speaking up, doing no harm, trading fairly, respecting each other and being open and accountable.

Priorities going forward

Over the second half of the financial year, SSE will focus on:

- Developing new, longer-term plans for supporting its safety culture and practices.
- Further work to be undertaken to implement the new code of ethics, including: reviewing the internal training programmes supporting ethical issues and an internal communications campaign to promote SSE's anonymous whistleblowing line, supported by the publication of key statistics.