

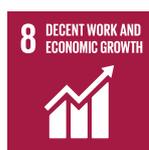
HALF-YEAR SUSTAINABILITY STATEMENT

FOR THE SIX MONTHS TO 30 SEPTEMBER 2018

This statement outlines SSE's sustainability performance and initiatives undertaken during the first half of the 2018/19 financial year. Action SSE is undertaking to support the low-carbon transition is detailed, along with progress on wider sustainability initiatives and disclosure.

SSE's approach is to be open and transparent to stakeholders about its sustainability performance, even if that means disclosing weak performance in some areas. Stakeholder scrutiny and accountability are powerful agents for change and improvement. By working to improve its sustainability impacts, SSE aims to create value both for shareholders and for society as a whole.

SSE believes the UN Sustainable Development Goals (SDGs) – 17 global goals aimed at ending poverty, extreme inequality, and climate change by 2030 – provide the most appropriate framework to consider how its business impacts upon the outside world. SSE has reassessed the following SDGs as being highly material to its business, listed in order of materiality. The impacts described in this statement contribute to these four SDGs.



SSE actively encourages feedback from stakeholders on the content of this report. Please get in touch by emailing sustainability@sse.com.

SUPPORTING THE LOW-CARBON TRANSITION

The global consensus that resulted from the 2015 Paris Agreement has played a key role in putting climate change and the low-carbon transition firmly on the agenda for businesses, investors, governments and consumers. The most recent International Panel on Climate Change assessment report released in October 2018, highlighting the urgent need to address climate change, has acted to reinforce this.

A focus on clean growth in the UK and Ireland presents opportunities for SSE as a leading generator and developer of renewable energy. SSE's vision is to be a leading energy provider in a low-carbon world. It has a well-defined strategy to support the low-carbon transition, which includes investing heavily in renewable generation and enabling more renewable generation to connect to the electricity network.

At 30 September 2018, SSE's total renewable generation capacity was around 3.7GW. Furthermore, a total of 6GW of renewable generation is now connected to SSE's electricity networks in the north of Scotland.

In addition to this, SSE has committed to a new carbon intensity ambition for 2030: to reduce the carbon intensity of the electricity it generates by 50% by 2030, based on 2018 levels. This builds on the 50% reduction in carbon intensity already achieved since 2006.

50%
BY 2030

SSE aims to reduce the carbon intensity of its electricity production by 50% by 2030, based on 2018 levels

CARBON INTENSITY OF GENERATION OUTPUT

SSE discloses its carbon performance on an annual basis. Now, for the first time, SSE is disclosing the carbon intensity of its generation output for the first six months of the financial year.

The first six months of the 2018/19 financial year have been dominated by two factors: relatively dry, still weather during the period, at the same time as persistently high wholesale gas prices. These factors have impacted SSE's generation output within the first six months of the financial year – with lower renewable energy output, and a switch from gas generation output towards coal due to price differentials between these fuels.

SSE's carbon intensity is determined by two factors: its total generation output and the total carbon emissions arising from this activity.

Comparing the first half of this financial year with the same period in 2017/18, SSE's total generation

output fell by nearly 2%. SSE's renewable generation output was around 5% lower between these periods.

Despite the reduction in total generation output, SSE's total generation carbon emissions in this period rose due to the change in thermal generation output mix: while gas-fired generation output decreased, more carbon-intensive coal-fired output generation increased. However, coal-fired generation accounted for just 2.5% of total generation output.

These two factors combined led to an increase in the carbon intensity of SSE's electricity generation from 294gCO₂/kWh in the first half of the 2017/18 financial year to 316gCO₂/kWh in the same period in 2018/19.

Despite this short-term increase, SSE remains firmly committed to achieve its 2030 carbon

intensity ambition and realising its vision of being a leading energy provider in a low-carbon world. SSE does not expect the achievement of this target to be linear. In meeting its previous carbon target (to reduce the carbon intensity of electricity generated by 50% by 2020, compared to 2006 levels) early in 2017, there were several years where the carbon intensity increased. However, the overall trend has been clear, the carbon intensity of electricity generated has undergone a highly significant reduction since the outset of SSE's low-carbon strategy.

SSE's capital and investment expenditure in renewable energy projects over the past decade, in conjunction with its future pipeline of renewable developments, will continue to make an important contribution to meeting SSE's own ambitions as well as the UK and Ireland's decarbonisation targets.

	Unit	1 April to 30 September 2018	1 April to 30 September 2017
Total renewable generation output (inc. pumped storage)	GWh	3,313	3,496
Total thermal generation output	GWh	10,587	10,660
Total generation output	GWh	13,900	14,156
Generation carbon emissions	000s tCO ₂	4,359	4,168
Carbon intensity of electricity generation*	gCO ₂ /kWh	316	294

A DECADE OF CLEAN GROWTH

In July, SSE published 'A decade of clean growth: SSE's contribution to the onshore wind revolution'. The report documents the substantial expansion of SSE's onshore wind portfolio since 2008, which has increased three-fold to almost 2GW as of September 2018, and the £3.9bn of value added to the UK and Irish economies as a result of this growth. Of SSE's total committed spend in onshore wind, it was estimated that 66% was, or is expected to be, spent in the UK or Ireland. It was also calculated that SSE's onshore wind portfolio has avoided around 13.4m tCO₂e from being emitted over the ten-year study period and that in 2017/18, these projects generated enough electricity to supply more than 1.35m homes in the UK and Ireland.



£3.9BN

ADDED TO THE UK AND IRISH ECONOMIES FROM THE GROWTH OF SSE'S ONSHORE WIND PORTFOLIO BETWEEN 2008 AND 2018

SECOND GREEN BOND ISSUED

Financing from investors is crucial for the transition to a low-carbon world, and Green Bonds could continue to play a growing role in enabling this. Following on from the launch of its inaugural Green Bond in 2017, the largest ever issued by a UK company, SSE successfully issued its second Green Bond in September 2018. The new nine-year €650m bond is due to mature in September 2025. The proceeds from SSE's Green Bonds have been allocated to financing part of SSE's portfolio of eligible projects of onshore wind farms in the UK and Ireland, and the Caithness Moray transmission project which will transport renewable electricity from the north of Scotland to areas of demand in the south.

FUTURE ENERGY SCENARIOS

To help inform what investments may be needed to meet future requirements of the electricity transmission network in the north of Scotland, SSE's transmission business, Scottish Hydro Electric Transmission (SHE Transmission), has undertaken work to understand the potential future energy developments across its network.

There is a growing role of scenarios in managing climate-related risks and opportunities. SHE Transmission undertook extensive consultation with a broad range of stakeholders to develop a range of credible and evidence-based future energy scenarios specific to the north of Scotland. Three scenarios were created, forecasting varying degrees of decarbonisation, the details of which were published in SHE Transmission's 'North of Scotland Future Energy Scenarios' report in August 2018. All scenarios showed an increase of renewable energy connecting to the network by 2025/26. Creating these scenarios helps the business manage risks and opportunities, and supports planning for a lower carbon electricity transmission network. The public disclosure of these scenarios also makes an important contribution to stakeholders' understanding of their own resilience to climate-related risks and opportunities.



ONGOING COMMITMENT TO OFFSHORE WIND

Offshore wind is one of the key technologies the UK and Ireland need to help the transition to a low-carbon economy, and will drive new economic growth by supporting businesses and creating jobs. SSE has proven its ability to deliver and operate offshore wind projects. It has been a leading player in the offshore wind industry in the UK for over a decade: involved in Walney Offshore Wind Farm (SSE share – 25.1%); the development, construction and operation of Greater Gabbard Offshore Wind Farm (SSE share – 50%); and currently leading the development and construction of Beatrice Offshore Wind Farm (SSE share – 40%), which now has 33 of 84 turbines installed and exporting power to the grid, and the project is on track for completion in Spring 2019.

SSE currently has a consented offshore wind development pipeline totalling 3.3GW – the largest of any company in the UK, which is the largest offshore wind market in the world. This pipeline includes: Seagreen (Phase 1 up to 1,050MW) (SSE share – 100%), Dogger Bank (up to 3.6GW) (SSE share 50%) and Arklow Bank Wind Park Phase II (520MW) (SSE share – 100%) in Ireland. SSE remains focused on progressing Seagreen and Dogger Bank projects for the next UK Contracts for Difference (CfD) auction expected in May 2019.

3.3GW

PIPELINE OF CONSENTED OFFSHORE WIND DEVELOPMENTS



WIDER SUSTAINABILITY INITIATIVES AND DISCLOSURE

SSE's sustainability impacts and ambitions go beyond its contribution to the low-carbon transition; its activities have wider social, economic and environmental impacts as well. Through considering its sustainability impacts in its widest sense, SSE seeks to create and share as much value as possible with society as a whole. SSE continues to demonstrate innovation and openness in its approach to sustainability reporting and disclosure. Details of SSE's sustainability initiatives and its sustainability reports, can be found online at [sse.com/beingresponsible](https://www.sse.com/beingresponsible).

FIVE YEARS OF FAIR TAX AND THE LIVING WAGE



SSE's Fair Tax Mark and Living Wage accreditations are the flagship initiatives of its approach to sustainability and responsible business practice.

SSE has been awarded the Fair Tax Mark accreditation for the fifth year in a row. The Fair Tax Mark is the world's first independent accreditation for responsible tax practices that go well beyond the current requirements of UK company law. SSE also published its third 'Talking Tax' report which aims to give a clear and easy-to-follow guide to what taxes it pays and where.

September 2018 marked the five-year anniversary of SSE becoming – at the time – the biggest Living Wage accredited employer in the UK. SSE remains an active member of the Scottish business leadership group for the Living Wage and used its fifth anniversary celebration to recommit to the real Living Wage for the long-term.

SIGNATORY TO THE UNGC



In August 2018, SSE became an official signatory to the United Nations Global Compact (UNGC), the world's leading sustainability initiative. The UNGC calls on companies to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and to advance societal goals. Since becoming a signatory, SSE has actively engaged with the UNGC UK Network.

SHE TRANSMISSION SUSTAINABILITY REPORT

For the first time, in August 2018, SHE Transmission published an annual Sustainability Report. It provides an update on progress against SHE Transmission's Sustainability Strategy, which was developed in consultation with key stakeholders earlier in the year.

CDP CLIMATE CHANGE, WATER AND FOREST



On behalf of over 650 investors with US\$87 trillion in assets, CDP request information from companies on how they are managing key areas of environmental performance. In the first half of the 2018/19 financial year, SSE responded to all three of the CDP programmes – Climate Change, Water and Forests. This marks SSE's ninth year of responding to the Climate Change programme, but the first year for Forests. Scores will be available in the coming months.

COMMUNITY INVESTMENT

SSE's '2017/18 Community Investment Review' was published in August 2018 and documents every award made from SSE's 29 wind farm community benefit funds in Great Britain from 1 April 2017 to 31 March 2018. The report showed that in 2017/18, the funds awarded just under £5.2m to community and charitable groups, supporting a total of 463 projects.

WORKFORCE DISCLOSURE INITIATIVE



The Workforce Disclosure Initiative (WDI) brings investors together to request comparable workforce data from companies via an annual survey. More than 100 investors, with over \$12 trillion of assets under management, now back the WDI to call for transparency from companies on how they manage direct and supply chain workforce issues. SSE has now submitted its disclosure for the first full year of the WDI, following on from its participation in the pilot year of the project in 2017 and its role in helping to launch the report on findings from the pilot survey in May 2018.

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