

## REMUNERATION COMMITTEE REPORT

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### Dear Shareholder,

Having joined the Remuneration Committee in December last year and recently taken on the role of chair I am pleased to introduce the Directors' Remuneration Report for the year ended 31 March 2018. On behalf of the Board, I would like to thank Katie Bickerstaffe for her significant contribution as a member of the Committee from 2011 and as Committee chair since 2015.

The objective of the Directors' Remuneration Report for 2017/18 is to set out in a simple and transparent way how SSE pays its Directors (both Executive and non-Executive); the decisions made on their pay and how much they received in relation to 2017/18. The report also describes how this links to the Company's purpose and strategy; how the Remuneration Committee works, and how it has taken into account the perspectives of SSE's stakeholders.

### Linking Executive Directors' remuneration with SSE's purpose and strategy

Our remuneration policy is designed to be **sustainable** and **simple** and is facilitated by diligent and effective **stewardship** that is vital to the delivery of SSE's core purpose of responsibly providing energy and related services and our strategy of creating value for shareholders and society.

A **sustainable** approach to executive pay that is consistent with SSE's wider commitment to being a responsible employer is central to the remuneration policy. Fairness is a central pillar of the policy – fairness to Executive Directors in recognition of the extent of their responsibilities, and fairness relative to the rest of the SSE team whose shared talent, skills and values contribute to SSE's success.

As the Chairman mentions in his introduction to this Annual Report, SSE is committed to

being transparent in the way it does business. To this end, and mindful of ongoing public debate about executive pay, the Committee strives to keep remuneration arrangements clear, consistent and **simple** to enable effective stakeholder scrutiny. The extent of their responsibilities means Executive Directors are well paid but the remuneration policy is designed to, among other things, ensure they are not overpaid.

The provision of energy and related services needed now and in the future is, by definition, a long-term commitment that requires long-term **stewardship**. A remuneration policy that offers fair reward for the leadership, expertise and strategic decision-making required in a challenging market is critical to SSE's future success. Equally, Executive Directors are expected to demonstrate commitment by building and maintaining a personal shareholding in the business.

SSE seeks to create lasting value for all of its **stakeholders** from developing, operating and owning energy and related infrastructure and services in a sustainable way. As noted above, delivery of this is wholly dependent on the shared talent, skills and values of people throughout SSE. It is the Committee's belief that those skills and values are best fostered by the stewardship made possible by an effective remuneration policy.

As part of our commitment to transparency, we have again voluntarily disclosed a Chief Executive pay ratio (see page 131) and have provided detailed disclosure on the gender pay gap (see our Sustainability Report) and the measures we are taking as a Company to address this issue over the long-term. In keeping with previous practice, as Committee chair, I will continue to meet with representatives of SSE's recognised trade unions. Meetings held by my predecessor have covered a range of business issues including executive pay and how the

### Members and meetings

Members	Independent non-Executive Director	Member since	Attended/scheduled
Katie Bickerstaffe (Committee Chairman) <sup>1</sup>	Yes	2011	3/3
Jeremy Beeton <sup>2</sup>	Yes	2014	2/3
Sue Bruce <sup>3</sup>	Yes	2018	1/1
Crawford Gillies	Yes	2015	3/3
Richard Gillingwater	N/A	2007	3/3

The Company Secretary is Secretary to the Remuneration Committee.

- 1 Katie Bickerstaffe stepped down as Chair of the Remuneration Committee on 30 April 2018 in line with her stepping down from the Board.
- 2 Jeremy Beeton was unable to attend the Committee meeting in March 2018 due to illness.
- 3 Sue Bruce became a member of the Remuneration Committee on 1 December 2017 and assumed the position of Chair on 1 May 2018 when Katie Bickerstaffe stepped down from the role.



Committee operates, such discussions will continue in the foreseeable future and the feedback will inform the thinking of the Committee and the approach it takes. Using these additional reference points in a broader view of pay and employment conditions is as important to us, as is the use of external benchmark data when setting executive pay levels.

As part of its responsibilities, the Committee continues to review the remuneration policy to ensure it remains appropriate for the business and is at the forefront of developments in good corporate governance. With this in mind, the Committee undertook a risk assessment exercise during the year to identify and evaluate the risks inherent in our Directors' Remuneration Policy (see page 136 for details).

In December last year the previous Chair and I held discussions with the Investment Association to discuss SSE's approach to pay in line with their own particular guidance. The Committee has also been following the wide range of investor guidance that has been released in the last 12 months and the consultation process for the UK Government's Green Paper on Corporate Governance. We accept that this may have an impact on UK market practice over time. We will seek to implement a number of the suggestions that we believe have merit. The Committee does not however believe it is appropriate to make material changes to the policy at this stage. The Committee will consider the policy later this year against a backdrop of changes to the organisation, and will consult with shareholders thereafter, well in advance of the policy vote at next year's AGM.

### Performance related pay out-turns in 2017/18

SSE delivered against its key metrics with dividend per share, annual earnings per share, customer performance and cashflow all at or ahead of target.

- Annual Incentive Plan (AIP): The out-turn under the Annual Incentive Plan (AIP) was determined against a set of financial, strategic and personal targets set at the beginning of the year. This resulted in an outcome of 78% of the maximum opportunity. We have set out details of SSE's performance against the AIP measures and targets on page 125.
- Performance Share Plan (PSP): For PSP awards granted in 2015, which are due to vest following the end of the 2017/18 financial period, measurement of performance over the three-year period resulted in an out-turn of 30% of the maximum opportunity.

### Implementation of pay policy 2018/19

The Committee agreed to base salary increases for the Executive Directors of 3% which are in line with, or just below, those provided to the wider SSE workforce.

### Looking ahead

In light of SSE's strategy, and its focus on creating value for shareholders and society, and the proposed changes in the SSE Group, the Committee intends to spend time during 2018/19 considering how we can operate remuneration policy more effectively, taking account of the current debates and guidance on executive pay.

Delivery of SSE's strategy is dependent upon the shared talent, skills and values of people throughout SSE and remuneration policy must reflect that. It must also support SSE's desire to be a company for which people want to work, in which people want to invest, from which people want to buy and with which people want to partner.

I look forward to consulting with our largest shareholders on our new Directors' Remuneration Policy. In the meantime, I would welcome any feedback or comments on this Report. We will continue to endeavour to report remuneration matters with clarity and transparency and would welcome any suggestions on how we can add to those qualities in the future.



**Dame Sue Bruce DBE**

Chairman of the Remuneration Committee  
24 May 2018

## SUMMARY OF THE COMMITTEE'S ACTIVITIES DURING THE YEAR

- Review of Executive Directors' performance
- Review of Committee advisor's performance
- Analysis of UK regulatory and market practice
- Board engagement with SSE employees and recognised trade unions
- Appointment of new Executive Director
- De-merger share plan considerations
- Risk assessment in respect of remuneration policy
- Setting performance metrics and targets for 2018/19

## A SNAPSHOT OF SSE'S APPROACH TO PAY

### Remuneration principles and strategy



### A summary of our pay policy in action SSE's performance in 2017/18

	Element	Max	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
<b>Fixed pay</b>	Salary	Set with reference to pay increases for the wider employee base	Salary paid					
	Benefits	Market competitive	Benefits paid					
	Pension	Final salary and top up	Pension accrual					
<b>Variable pay – at risk</b>	Annual Incentive Plan (AIP)	CEO 150% of salary FD and WD 130% of salary 67% cash/33% career shares		AIP cash paid			Award vests	
	Performance Share Plan (PSP)	CEO 200% of salary FD and WD 175% of salary 2 Year holding period	PSP awards granted			PSP awards vest		Holding period ends
<b>Additional governance</b>	Share ownership requirement	200% of salary	Share ownership requirement					
	Recovery and withholding	All incentives	Clawback: misstatement, serious misconduct, error in calculation Malus: misstatement, misconduct, serious reputational damage, error in calculation					
	Post-employment	Career shares	Holding requirement for career shares until one year after cessation of employment					

Adjusted EPS  
**121.1P**

Adjusted PBT  
**£1,453.2M**

Investment and capital expenditure  
**£1,503.0M**

#### Meeting our objectives

- SSE achieved its first financial objective of a recommended annual dividend increase of at least RPI inflation.
- SSE's financial performance as measured by adjusted earnings per share was ahead of expectations at the start of the financial year.
- SSE continued to make good progress in its programme of capital investment, focused mainly on electricity networks and additional new renewable energy.
- SSE demonstrated effective financial management, including the issue of its inaugural Green Bond in September 2017.
- SSE adopted a new Safety value definition – *If it's not safe, we don't do it* – as a prelude to a sustained programme of employee engagement and focus around safety.
- SSE demonstrated strategic decision-making with the plan to demerge the SSE Energy Services business and focus the Group on energy assets and related infrastructure and services, subject to approvals.

DPS  
**94.7P**

Contribution to UK economy  
**£8.6BN**

Total Recordable Injury Rate  
**0.2 PER 100,000 HOURS WORKED**

Total carbon emissions  
**21,609,000 TONNES**

Networks Regulated Asset Value  
**£8.3BN**

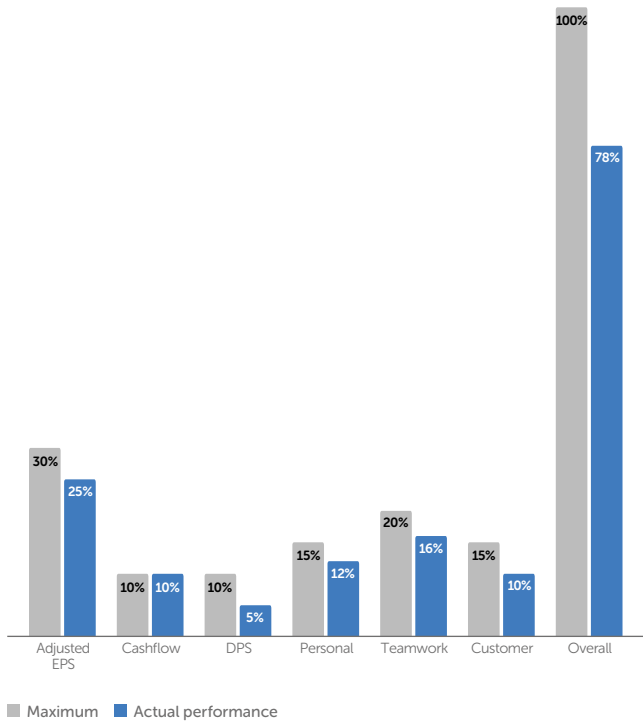
Total Renewable Energy Capacity  
**3,826MW**

See performance against our strategy on pages 26 and 27.

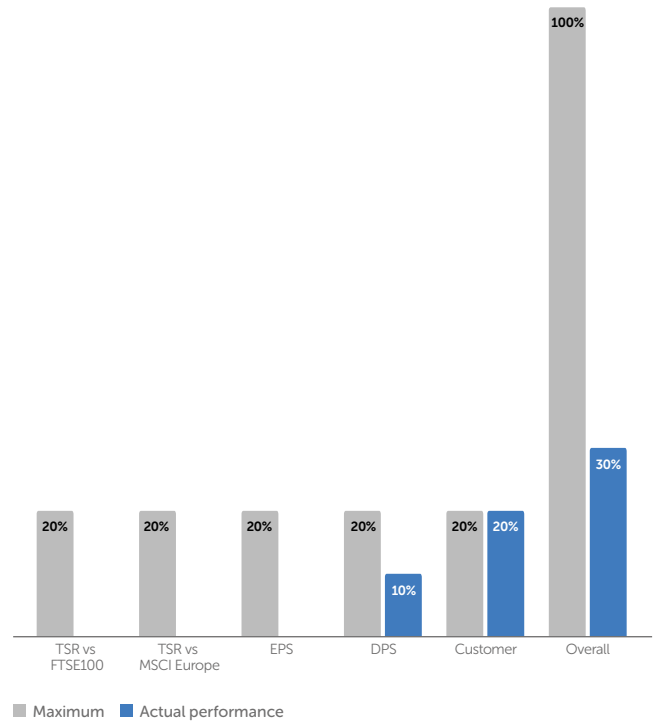
# PERFORMANCE OUTCOMES

## Summary of AIP and PSP performance

Annual Incentive Plan (AIP) performance

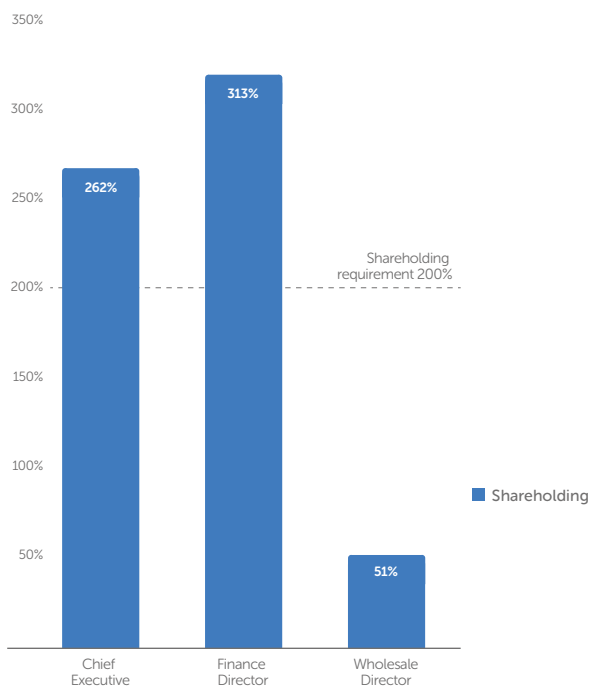


Performance Share Plan (PSP) performance

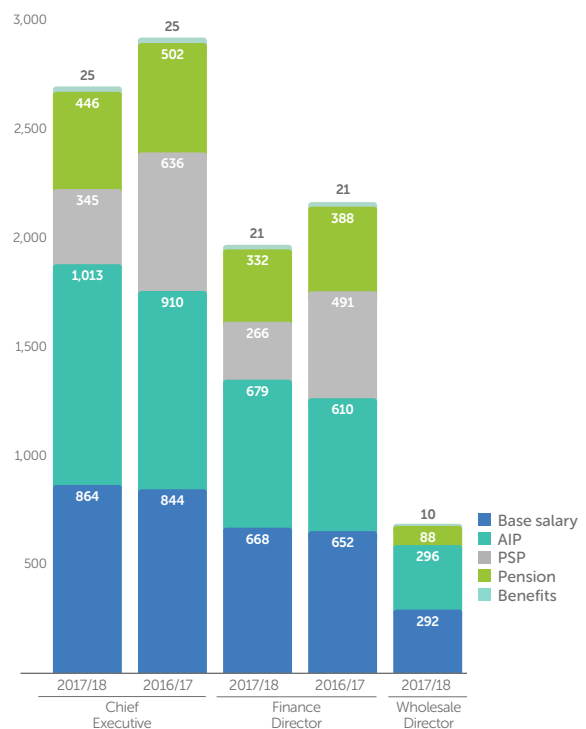


## Remuneration outcomes

Shareholding requirement



Single total figure of remuneration (£000s)



## ANNUAL REPORT ON REMUNERATION

### 1. Single total figure of remuneration (audited)

The table below shows the single total figure of remuneration for each director for financial years ending 31 March 2017 and 2018:

		Alistair Phillips-Davies		Gregor Alexander		Martin Pibworth <sup>7</sup>	Total	
		2017/18 £000s	2016/17 £000s	2017/18 £000s	2016/17 £000s	2017/18 £000s	2017/18 £000s	2016/17 £000s
Fixed Pay	Base salary <sup>1</sup>	864	844	668	652	292		
	Benefits <sup>2</sup>	25	25	21	21	10		
	Pension <sup>3</sup>	446	502	332	388	88		
Variable Pay	AIP <sup>4</sup>	1,013	910	679	610	296		
	PSP <sup>5</sup>	345	636	266	491	0		
<b>Totals<sup>6</sup></b>		<b>2,693</b>	<b>2,917</b>	<b>1,966</b>	<b>2,162</b>	<b>686</b>	<b>5,344</b>	<b>5,079</b>

- SSE offers all employees a range of voluntary benefits some of which operate under a salary sacrifice arrangement. The salaries shown above are reported before any such adjustments are made.
- Benefits relate to company car, Share Incentive Plan company contributions and medical benefits. These benefits are non-pensionable.
- The pension value represents the cash value of pension accrued over one year x a multiple of 20 (less director contributions) in line with statutory reporting requirements.
- The AIP figures above show the full value of the award before 33% was deferred in shares.
- The PSP figures for 2017 have been readjusted in line with statutory reporting requirements, following last year's report to show the actual value upon vesting. The estimated value shown in the table for 2018 is based on the average share price in the three months to 31 March 2018 of 1,253.88p, as required by the reporting regulations. The award remains subject to service until May 2018 and so the prior year comparative will be restated in next year's report to show the actual value on vesting, as is required by the regulations.
- Directors have not received any other items in the nature of remuneration other than as disclosed in the table.
- Martin Pibworth was appointed to the Board on 1 September 2017 on a salary of £500,000. The figures above show his remuneration pro-rata from this date, including his AIP but excluding his PSP award granted in 2015 which vests on the same basis as the other Executive Directors and is worth £121,964.

#### Rationale for 2018 single total figure of remuneration

As indicated on page 127 and shown in specific detail in the following sections, failure to meet the threshold performance conditions for relative total shareholder return measures has resulted in a reduced out-turn of the Performance Share Plan (PSP). Therefore, there is a year-on-year decrease for the Chief Executive and Finance Director in the above table. In this context, the Committee is satisfied that the total single figure outcomes are appropriate.

#### Base salary

The salaries shown in the table reflect a 2017/18 salary, effective from 1 April 2017 to 31 March 2018, of £864,362 for the Chief Executive and £668,082 for the Finance Director. This represented an increase of 2.4% from the previous year, which was in line with the average performance-based salary increase for the wider SSE employee population.

The Wholesale Director was appointed to the Board on a salary of £500,000 on 1 September 2017, a level which the Committee felt was appropriate relative to the other Executive Directors and in line with our below market philosophy.

#### Benefits

Benefits are provided at an appropriate level taking into account market practice at similar sized companies and the level of benefits provided for other employees in the Company. Core benefits include car allowance, private medical insurance and health screening. The Executive Directors participate in the Company's all-employee share schemes on the same terms as other employees.

#### Pension

The Chief Executive and Finance Director are members of the Southern Electric Pension Scheme and the Scottish Hydro Electric Pension Scheme respectively, and their plan membership predates their Board appointments. These are both funded final salary pension schemes and the terms of these schemes apply equally to all members. The Directors' service contracts provide for a possible maximum pension of two thirds final salary from the age of 60. In relation to Executive Directors who are subject to the scheme-specific salary cap (which mirrors the provisions of the previous HMRC cap arrangements) the Company provides top-up (unfunded) arrangements which are designed to provide an equivalent pension on retirement from the age of 60 to that which they would have earned had they not been subject to the salary cap. From 1 April 2017 pensionable earnings increases were capped at RPI +1%. These are legacy arrangements and would not be used for any new external appointments.

The Chief Executive and Finance Director, in common with all other employees who joined at the same time, have the following pension provisions relating to leaving the Company: for retirement through ill-health an unreduced pension based on service to expected retirement is paid; in the event of any reorganisation or redundancy an unreduced accrued pension is paid to a member who is aged 50 or above, with at least five years' service or, for a member who has not yet reached that age, it will be payable with effect from 50; and from the age of 55, a scheme member is entitled to leave the Company and receive a pension, reduced for early payment, unless the Company gives consent and funds this pension on an unreduced basis.

Dependent on the circumstances surrounding the departure of the Executive Director and financial health of the Company at the time, the Committee's policy is to give consideration to a cash commutation of the unfunded unapproved retirement benefit (UURB) pension at the time of leaving. Any cash commutation will limit SSE's liability, taking into account valuations provided by independent actuarial advisors, and will be calculated on what was judged to be a cost neutral basis to SSE.

The Wholesale Director, who has been with SSE since 1998, was already in receipt of a pension allowance of 30% of salary and this remains unchanged. His arrangements are consistent with the approach used for other members of the Group Executive Committee, who have elected to receive a cash allowance in lieu of accruing future pension benefits. Prior to the cash allowance arrangement he was a member of the Scottish Hydro Electric Pension Scheme although he stopped accruing any further pension on 1 April 2016.

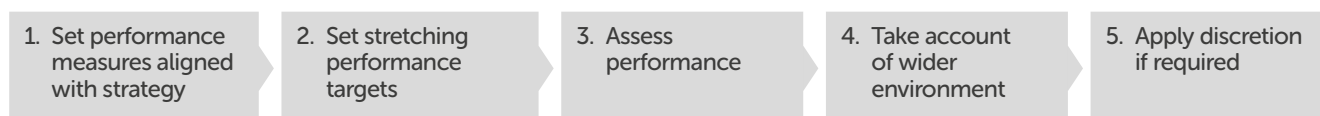
The table below details pension accrued for each of the Executive Directors as at 31 March 2018 and 2017.

	Accrued pension as at 31 March 2018 £000s	Accrued pension as at 31 March 2017 £000s
Alistair Phillips-Davies	408	381
Gregor Alexander	377	356
Martin Pibworth <sup>1</sup>	0	0

<sup>1</sup> Martin Pibworth receives an allowance in lieu of a pension contribution of 30% of salary.

## Annual Incentive Plan and Performance Share Plan

In setting targets and assessing performance, the following process is used for both the AIP and PSP:

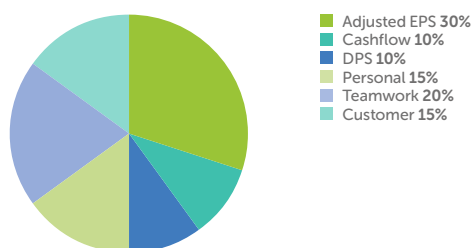


### 2017/18 Annual Incentive Plan

#### 1. Set performance measures aligned with strategy

AIP requires broad performance across a number of financial metrics (Adjusted EPS, DPS Growth and Cashflow) and non-financial metrics (Customer, Teamworking and Personal) weighted as shown below:

AIP performance measures



#### 2. Set stretching performance targets

The financial performance targets were set at the start of the financial year taking into account internal financial plans, external consensus where it exists and the expected impact of identified opportunities and threats to the business in the context of wider economic conditions. The performance target range is set on a realistic basis but requiring true outperformance for Executive Directors to achieve the maximum. The Remuneration Committee has a history of setting challenging targets, evidenced by the average AIP payout over the previous five years of 66%.

#### 3. Assess performance

The table below shows how performance measures are linked to strategy and how performance was ultimately delivered.

AIP	Performance measure						TOTAL
	ADJUSTED EPS	CASHFLOW	DPS	PERSONAL	TEAMWORK	CUSTOMER	
Link to strategy	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	Simple Sustainable Stakeholders	Simple Sustainable Stewardship Stakeholders	Simple Sustainable Stewardship Stakeholders	Simple Sustainable Stewardship Stakeholders	
Rationale	Underlying measure of financial performance	Retained cashflow/net debt	Return on investment through payment of dividends	To reflect those activities which go beyond the normal responsibilities of the role	Reflects the culture of the business to value colleagues and enjoy working together	Meeting customers' needs is at the core of the business	
Weighting	30%	10%	10%	15%	20%	15%	
Threshold	112p	13%	RPI				
Max	126p	14%	RPI+2%				
<b>Outcome</b>	<b>121.1p</b>	<b>16.5%</b>	<b>94.7p</b>		See next section		
Performance	84%	100%	50%	80%	81%	65%	
<b>Out-turn (% of max)</b>	<b>25%</b>	<b>10%</b>	<b>5%</b>	<b>12%</b>	<b>16%</b>	<b>10%</b>	<b>78%</b>

## ANNUAL REPORT ON REMUNERATION CONTINUED

### 3. Assess performance *continued*

When setting non-financial measures and targets, the Committee ensures they are specific, measurable, attainable, relevant and timely ("SMART" objectives). By their nature, some objectives require a more subjective assessment than others and this is done by the Committee following the input from the wider Board and other Board Committees as appropriate. The Committee is committed to providing as much retrospective detail of the measures as possible, setting out clearly the decision making process and the levels of attainment achieved, but mindful that any information which could be considered commercially sensitive cannot be disclosed.

The tables below provide detail on each of the non-financial measures and the assessment of performance against each one.

MEASURE	FACTORS TO BE ASSESSED	SUMMARY PERFORMANCE EVIDENCE	ASSESSMENT	OUTCOME (% OF MAX)	
<b>Personal</b>	<b>Chief Executive</b>	Safety, Financial, People Development, Succession, Stakeholder Management, Strategy and Growth	Good financial performance with EPS ahead of expectations, strategic plan developed and agreed by Board.	✓✓	80%
	<b>Finance Director</b>	Safety, Financial, People Development, Transformation, Corporate Function Performance, Succession	Good financial performance with EPS ahead of expectations, delivery of 2-year efficiency programme, excellent fundraising drive.	✓✓	80%
	<b>Wholesale Director</b>	Safety, Financial, People Development, Succession, Business Development, Asset Management	Good financial performance with EPS ahead of expectations, construction and project delivery ahead of budget.	✓✓	80%
MEASURE	FACTORS TO BE ASSESSED	SUMMARY PERFORMANCE EVIDENCE	ASSESSMENT	OUTCOME (% OF MAX)	
<b>Customer</b>	<b>Retail</b> – A range of measures including customer complaints and satisfaction	Leading the large energy suppliers for complaints in the Citizens Advice Supplier Rating and a leading performer in the wider supplier group of 28. Second among the leading suppliers in the uSwitch survey.	✓✓	75%	
	<b>Networks</b> – A range of measures including customer interruptions and customer minutes lost	Year-on-year improvements across most metrics and average ranking position maintained.	✓	55%	
			<b>Total</b>	<b>65%</b>	
<b>Teamwork</b>	<b>Safety</b> – Total Recordable Injury Rate (TRIR) and Accident Frequency Rate (AFR)	TRIR and AFR improved by 5% and 10% respectively.	✓✓	80%	
	<b>Service</b> – Various external Retail ranking surveys and Networks customer performance measures	See Customer table above.	✓✓	65%	
	<b>Efficiency</b> – Controllable costs	Significant efficiency gains incorporated into business budgets with controllable costs also below the budget agreed by the Board. Ratio of retained cashflow to debt 16.5%	✓✓✓	85%	
	<b>Sustainability</b> – Performance in various indices	Ranked top in FTSE 350 for 'inclusive job growth' by the Good Economy and 4th most influential company on climate policy out of 250 largest listed industrial companies by Influence Map. Improved MSCI ESG Rating to AAA and launched UK's largest ever green bond. Ranked 8th in the FTSE 100 for sustainability reporting performance by Carbon Clear.	✓✓✓	90%	
	<b>Excellence</b> – Progress of key capital projects, gender diversity	Strong progress on major construction projects in Wholesale. External awards for Innovation in Networks. Adoption of plans and goals for increasing proportion of women in leadership roles in SSE. Ranked highest in the utilities industry in the FTSE Women on Boards Leadership Index Series. Compliance with the BS 18477 Inclusive Service Provision standard achieved by SSEN and SSE's Retail business.	✓✓	80%	
	<b>Teamworking</b> – Employee Engagement	SSE named in the Bloomberg Gender-Equality Index and ranked top in the FTSE in the Good Economy Job Ratings Index which measures the creation of sustainable jobs. Excellent Teamwork displayed during exceptionally adverse weather in March with strong discretionary commitment from a wide range of employees, working in challenging conditions to ensure both restoration of customers' supply, maintaining customer service communication lines and support for vulnerable customers.	✓✓✓	85%	
			<b>Total</b>	<b>81%</b>	

x= Below expectation

✓= Met expectation

✓✓= Exceeded expectation

✓✓✓= Far exceeded expectation

AIP earned for each of the Executive Directors is shown in the table below. The total award is made up of 67% cash and 33% which is deferred into shares for three years which are then retained until a year after stepping down from the Board.

	Maximum potential (% of salary)	AIP earned	AIP cash <sup>2</sup>	AIP deferred <sup>2</sup>
Alistair Phillips-Davies	150%	1,013,248	£678,876	£334,372
Gregor Alexander	130%	678,738	£454,754	£223,984
Martin Pibworth <sup>1</sup>	130%	296,319	£198,534	£97,785

1 Martin Pibworth was eligible for the AIP for the period of time he served as an Executive Director. His AIP payment is pro-rata to reflect the seven months since his appointment to the Board. He was eligible for a separate bonus arrangement for the five months he served as a member of the company's Group Executive Committee.

2 Both the cash and deferred element are subject to clawback provisions.

#### 4. Take account of wider environment

The Remuneration Committee believes that the range of measures used in the AIP ensures that performance is assessed using a balanced approach, without undue focus on a single metric which could be achieved at the expense of wider initiatives. Given the performance noted above and wider operational achievements noted in the Strategic Report on pages 26 and 27 the Committee is comfortable that the AIP outcomes represent a fair reward for performance delivered.

#### 5. Apply discretion if required

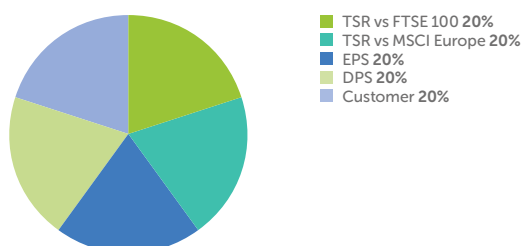
In 2016/17, the Remuneration Committee applied its discretion and made a downward adjustment to the Executive Directors' AIP award after taking into account overall performance during the year. For 2017/18, no adjustment has been made.

### 2017/18 Performance Share Plan

#### 1. Set performance measures aligned with strategy

PSP performance measures encourage strong financial, customer, share price and dividend performance over a three year performance period. The measures and their weightings are shown below:

PSP



#### 2. Set stretching performance targets

The performance target range for PSP are set each year to ensure they are stretching and represent value creation for shareholders.

#### 3. Assess performance

The vesting of shares under the PSP is subject to the performance measures and targets shown in the table below which also details the actual out-turn for the 2015 PSP award vesting this year.

PSP	Performance measure					TOTAL
	TSR V FTSE 100	TSR V MSCI EUROPE	EPS GROWTH	DPS GROWTH	CUSTOMER FUTURES RANKING	
Link to strategy	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	Simple Sustainable Stakeholders	Simple Stewardship Stakeholders	
Rationale	Relative measure of financial performance	Relative measure of financial performance	Underlying measure of financial performance	Return on investment through payment of dividends	Meeting customers needs is at core of our business	
Weighting	20%	20%	20%	20%	20%	
Threshold	50th percentile	50th percentile	RPI	RPI	Rank 2	
Max	75th percentile	75th percentile	RPI +10%	RPI +5%	Rank 1	
<b>Outcome</b>	<b>Below threshold</b>	<b>Below threshold</b>	<b>Below threshold</b>	<b>RPI</b>	<b>Rank 1</b>	
Performance	0%	0%	0%	50%	100%	
<b>Out-turn (% of max)</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>30%</b>

## ANNUAL REPORT ON REMUNERATION CONTINUED

### 4. Take account of wider environment

The performance outcomes noted on the previous page are in line with strong customer and dividend performance over the three year performance period. Relative TSR performance, reflecting in part the share price performance over the period, is below median when compared with both the FTSE 100 and the MSCI European utilities comparator group. Adjusted EPS was also below RPI. Based on the outcomes noted above, the value attributed to each Executive Director in respect of PSP is set out in the table below:

	Awards available (% of salary)	Awards available (number of shares)	Additional awards in respect of accrued dividends	Total number of shares vesting	Estimated value of awards vesting <sup>1</sup>
Alistair Phillips-Davies	150%	76,138	15,502	27,492	344,717
Gregor Alexander	150%	58,848	11,981	21,249	266,433

1 The estimated value of the awards vesting has been calculated on the same basis as the PSP value in the single figure table on page 124.

### 5. Apply discretion if required

The Committee is satisfied that the level of vesting is fair reward for the performance delivered.

### Other remuneration disclosures

Fees paid to non-Executive Directors during 2017/18 were as follows:

Non-Executive Directors	Fees £000s	
	2017/18	2016/17
Jeremy Beeton	80	74
Katie Bickerstaffe	85	78
Sue Bruce	68	63
Crawford Gillies	85	76
Richard Gillingwater CBE	377	369
Peter Lynas	85	79
Helen Mahy	68	63
Totals	848	802

## Share interests and share awards (audited)

### Directors' share interests

The table below shows the share interests of the Executive and non-Executive Directors at 31 March 2018.

Director	*Shareholding as a % of salary (Actual/% met)	Number of shares			Number of options		Shares owned outright at 31 March 2017
		Shares owned outright at 31 March 2018	Interests in shares, awarded without performance conditions at 31 March 2018	Interests in shares, awarded subject to performance conditions at 31 March 2018	Interests in share options, awarded without performance conditions at 31 March 2018	Interests in share options, awarded subject to performance conditions at 31 March 2018	
Alistair Phillips-Davies	262% (200% – met)	177,768	34,859	295,698	2,458	–	150,239
Gregor Alexander	313% (200% – met)	163,928	24,874	207,337	2,399	–	142,277
Martin Pibworth <sup>1</sup>	51% (200% below requirement)	20,132	39,426	68,885	2,458	–	–
Jeremy Beeton		4,534	–	–	–	–	4,240
Katie Bickerstaffe		6,433	–	–	–	–	6,433
Sue Bruce		2,484	–	–	–	–	2,484
Crawford Gillies		5,000	–	–	–	–	5,000
Richard Gillingwater		2,000	–	–	–	–	2,000
Peter Lynas		2,000	–	–	–	–	2,000
Helen Mahy		2,027	–	–	–	–	2,027

\* Shareholding requirement: Executive Directors – 200% of salary, non-Executive Directors – minimum 2,000 shares.

<sup>1</sup> Martin Pibworth was appointed to the Board on 1 September 2017 and will build up his shareholding in the short to medium term. Price used to calculate shareholding requirement as % of salary as at 29/03/18 £12.76.

### Directors' Long-term Incentive Plan interests

#### Awards granted in the year

The tables below detail deferred bonus and PSP awards granted to Executive Directors during 2017.

#### Deferred Bonus awards granted 27 July 2017

Recipient	Award	Date of grant	Shares granted	Market value on date of award	Face value
Alistair Phillips-Davies	Conditional award	26/06/17	20,068	£15.07	£302,425
Gregor Alexander	Conditional award	26/06/17	13,442	£15.07	£202,571

The Deferred Bonus granted in 2017 is equal to 25% of the AIP earned in 2016/17. It is also subject to continued employment to the third anniversary of the date of grant. There is a further holding requirement until one year after cessation of employment.

#### PSP awards granted in 2017

Recipient	Award	Date of grant	Shares granted	Market value on date of award	Face value
Alistair Phillips-Davies	Conditional award	26/06/2017	115,479	£15.07	£1,740,269
Gregor Alexander	Conditional award	26/06/2017	78,099	£15.07	£1,176,952

Alistair Phillips-Davies was granted an award equal to 200% of base salary.

Gregor Alexander was granted an award equal to 175% of base salary.

Performance is measured over three years to 31/03/20 subject to the performance conditions as described on page 136.

## ANNUAL REPORT ON REMUNERATION CONTINUED

### Directors' Long-term Incentive Plan interests

The table below details the Executive Directors' Long-term Incentive Plan interests.

	Share plan	Date of award	Normal exercise period (or vesting date)	No. of shares under award as at 1 April 2017	Option exercise price	Additional shares awarded during the year	No. of shares lapsed during the year	No. of shares realised during the year	No. of shares under award at 31 March 2018
Alistair Phillips-Davies	DBP 2006 <sup>2</sup>	26/06/2014	26/06/2017	7,330				7,330 <sup>6</sup>	
	DBP 2006 <sup>2</sup>	25/06/2015	25/06/2018	7,931					7,931
	DBP 2016 <sup>2</sup>	27/07/2016	27/07/2019	6,860					6,860
	DBP 2016 <sup>2</sup>	26/06/2017	26/06/2020			20,068 <sup>5</sup>			20,068
	PSP <sup>1</sup>	26/06/2014	26/06/2017	78,155			42,564	35,591 <sup>6</sup>	
	PSP <sup>1</sup>	25/06/2015	25/06/2018	76,138					76,138
	PSP <sup>1</sup>	27/07/2016	27/07/2019	104,081					104,081
	PSP <sup>1</sup>	26/06/2017	26/06/2020			115,479 <sup>5</sup>			115,479
	Sharesave	29/06/2012	01/10/2017–31/03/18	1,408	1,065p		1,408		
	Sharesave	02/07/14	01/10/2019–31/03/20	1,202	1,247p				1,202
Gregor Alexander	DBP 2006 <sup>2</sup>	26/06/2014	26/06/2017	5,992				5,992 <sup>6</sup>	
	DBP 2006 <sup>2</sup>	25/06/2015	25/06/2018	6,130					6,130
	DBP 2016 <sup>2</sup>	27/07/2016	27/07/2019	5,302					5,302
	DBP 2016 <sup>2</sup>	26/06/2017	26/06/2020			13,442 <sup>5</sup>			13,442
	PSP <sup>1</sup>	26/06/2014	26/06/2017	60,408			32,899	27,510 <sup>6</sup>	
	PSP <sup>1</sup>	25/06/2015	25/06/2018	58,848					58,848
	PSP <sup>1</sup>	27/07/2016	27/07/2019	70,390					70,390
	PSP <sup>1</sup>	26/06/2017	26/06/2020			78,099 <sup>5</sup>			78,099
	Sharesave	02/07/2014	01/10/2019–31/03/20	2,213	1,247p				2,213
	Sharesave	03/07/2015	01/10/20–31/03/21	186	1,288p				186
Martin Pibworth	DBP 2006 <sup>2</sup>	25/06/2015	25/06/2018	4,328					4,328
	DBP 2006 <sup>2</sup>	27/07/2016	27/07/2019	4,383					4,383
	DBP 2016 <sup>2</sup>	26/06/2017	26/06/2020			5,715 <sup>5</sup>			5,715
	PSP <sup>1</sup>	25/06/2015	25/06/2018	26,940					26,940
	LSP <sup>3</sup>	27/07/2016	27/07/2019	18,534					18,534
	LSP <sup>3</sup>	26/06/2017	26/06/2020			23,411 <sup>5</sup>			23,411
	Retention Award <sup>4</sup>	12/01/2017	12/01/2020	25,000					25,000
	Sharesave	02/07/2014	01/10/2019–31/03/20	1,202	1,247p				1,202
	Sharesave	06/07/2017	01/10/2022–31/03/23		1,194p	1,256			1,256

Shares which are released under the DBP 2006 and PSP attract additional shares in respect of the notional reinvestment of dividends. In addition to the shares released under the DBP 2006 and PSP, as indicated in the table above, the following shares were realised arising from such notional reinvestment of dividends:

Gregor Alexander received 6,372 shares and Alistair Phillips-Davies received 8,181 shares.

1 The performance conditions applicable to awards under the PSP are described on page 136. The 2014 award under the PSP vested at 45.54%.

2 25% of annual bonus payable to Executive Directors and Senior Managers is satisfied as a conditional award of shares under the DBP 2006 and DBP 2016. Vesting of shares under the DBP 2006 is dependent on continued service over a three year period. In view of the linkage to annual bonus, no further performance condition applies to the vesting of DBP 2006 awards.

3 The Leadership Share Plan (LSP) is a long-term incentive award granted to senior managers as deferred shares for three years before vesting subject to performance conditions.

4 Awards granted as Retention Share Awards prior to his appointment as an Executive Director.

5 The market value of a share on the date on which these awards were made was 1,507p.

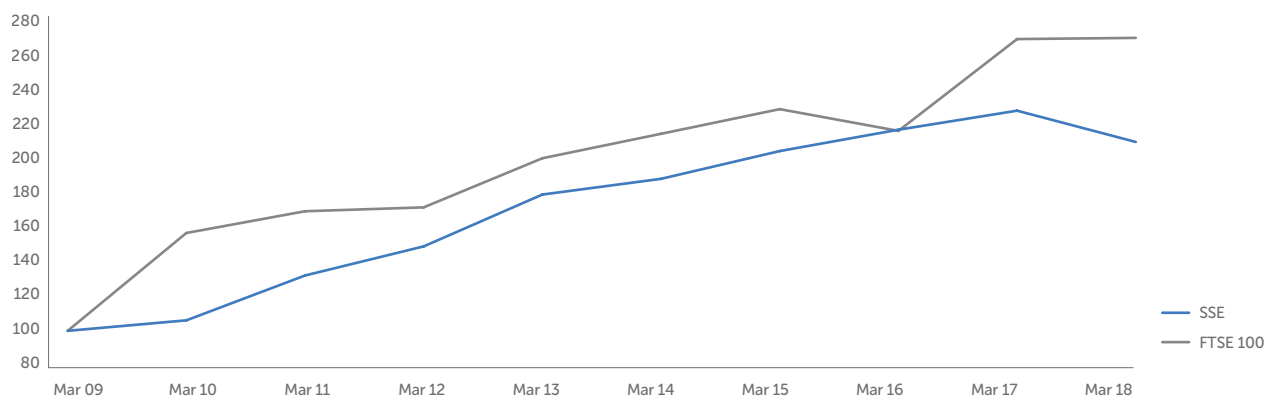
6 The market value of a share on the date on which these awards were realised was 1,507p.

The closing market price of shares at 29 March 2018 was 1,276p and the range for the year was 1,182p to 1,551p. Awards granted during the year were granted under the DBP 2016, PSP, LSP and Retention Share Awards. The aggregate amount of gains made by the Directors on the exercise of share options and realisation of awards during the year was £1,367,263 (2017: £126,791).

## 2. Historical remuneration disclosures

### Change in Chief Executive total remuneration

The graph below shows SSE TSR performance over time relative to FTSE 100 performance.



The table below shows the Chief Executive's annual remuneration since 2010.

Directors	Single total figure of remuneration <sup>1</sup> (£'000)	Annual variable element award <sup>2</sup> (% of maximum)	Long-term incentive vesting <sup>3</sup> (% of maximum)	Application of discretion
2018 (Alistair Phillips-Davies)	2,693	78	30	
2017 (Alistair Phillips-Davies)	2,917	72	46	Downward discretion applied to AIP
2016 (Alistair Phillips-Davies)	1,696	54	0	
2015 (Alistair Phillips-Davies)	2,311	64	0	
2014 (Alistair Phillips-Davies)	2,546	63	22	
2013 (Ian Marchant)	2,241	0	53	Chief Executive waived AIP
2012 (Ian Marchant)	1,214	25	0	Downward discretion applied to AIP
2011 (Ian Marchant)	1,686	60	0	
2010 (Ian Marchant)	1,795	59	16	

1 The single total figure of remuneration is calculated on the same basis as the 'single total figure of remuneration' table on page 124.

2 The annual variable element award (AIP) is the figure shown on page 125, and reflected in the 'single total figure of remuneration table' on page 124.

3 The long-term incentive (PSP) vesting is the figure shown on page 127, and reflected in the 'single total figure of remuneration table' on page 124.

### Alignment of Directors' remuneration policy with pay across the wider workforce

The table below shows how the Chief Executive's earnings compare to those of all employees expressed as a ratio over three years.

	Chief Executive earnings <sup>1</sup> £	Average SSE earnings <sup>2</sup> £	Pay ratio £
2017/18	2,693,000	43,144	62:1
2016/17	2,917,000	40,723	72:1
2015/16	1,696,000	39,990	42:1

1 The Chief Executive's earnings are calculated on the same basis as the single total figure of remuneration table shown on page 124.

2 Average employee earnings are based on staffing costs calculated on the same basis as Note 8.1 of the accounts, excluding social security costs.

The movement in the pay ratio from 2015/16 to 2016/17 is explained largely by the increase in Chief Executive's earnings in 2017 as a result of improved performance (through AIP and PSP) and the 2016 increase to the maximum AIP level by 50%.

Conversely, the narrowing of the pay ratio from 2016/17 to 2017/18 is as a result of slightly lower PSP performance and a reduced figure for the Chief Executive's pension as shown in the single total figure of remuneration table on page 124. In addition, average SSE earnings increased by 6% and the Chief Executive's single total figure of remuneration went down by 8%.

## ANNUAL REPORT ON REMUNERATION CONTINUED

### Relative importance of the spend on pay

The table below indicates how the earnings of Executive Directors compare with other financial dispersals. The movement in Executive Directors' earnings in 2018 is explained by the appointment of the Wholesale Director in 2017 which increased the number of Executive Directors from two to three.

	2016 £m	2017 £m	2018 £m
Executive Directors' earnings <sup>1</sup>	3.0	5.1	5.3
Dividends to shareholders	884.0	906.6	926.1
Capital and investment expenditure	1,618.7	1,726.2	1,503.0
Total UK taxes paid (profits, property, environment and employment taxes) <sup>2</sup>	453.9	385.0	484.1
Staff costs <sup>3</sup>	916.2	939.3	981.1

1 Calculated on the same basis as the 'single total figure of remuneration' table on page 124.

2 Includes corporation tax, employers' National Insurance contributions and business rates.

3 Staff costs for all employees, as per Note 8.1 of the accounts, excluding Executive Directors.

For every £1 spent on Executive Directors' earnings by SSE in 2017/18, £91 was paid in tax, £185 was spent on employee costs and £284 was spent on capital and investment expenditure. In addition, £175 was made in dividend payments to shareholders for every £1 spend on Executive Directors' earnings.

### 3. Governance

#### External appointments

Executive Directors are able to accept a non-Executive appointment outside the Company with the consent of the Board, as such appointments can enhance their experience and value to the Company. Any fees received are retained by the Director. Gregor Alexander was a non-Executive Director with Stagecoach Group plc during 2017 and received £60,000 in fees. Gregor Alexander is also Chairman of Scotia Gas Networks and receives no additional fees for this.

#### Payments for loss of office and payments to past Directors

There were no payments for loss of office or to former Directors during the year.

#### Advice to the Committee

The Chief Executive, the Director of Human Resources and Head of Reward advised the Committee on certain remuneration matters for the Executive Directors and senior executives although they were not present for any discussions on their own remuneration.

The Director of Human Resources and Head of Reward advised on HR strategy and the application of HR policies across the wider organisation.

FIT Remuneration Consultants LLP (FIT) provided a range of information to the Committee which included market data drawn from published surveys, governance developments and their application to the Company, advice on remuneration disclosures and regulations and comparator group pay. FIT received fees of £67,918 in relation to their work for the Committee, calculated on a time and materials basis. FIT are founding members of, and adhere to, the Remuneration Consultants' Group Code of Conduct. The Code defines the roles of consultants, including the requirement to have due regard to the organisation's strategy, financial situation, pay philosophy, the Board's statutory duties and the views of investors and other stakeholders. The Committee reviews the advisers' performance annually to determine that it is satisfied with the quality, relevance, objectivity and independence of advice being provided. FIT provides no other services to the Company.

Morgan Stanley and Co International Plc provided analysis on comparator performance, but did not receive fees specifically for these services as they are retained as SSE's brokers.

Freshfields LLP also provided advice on legal matters, such as share plan rules, during the year.

#### Evaluation

Through the internal Board evaluation process which was carried out during the year, it was confirmed that the Remuneration Committee continued to operate effectively. Details of the wider annual evaluation process are set out on pages 102 and 103.

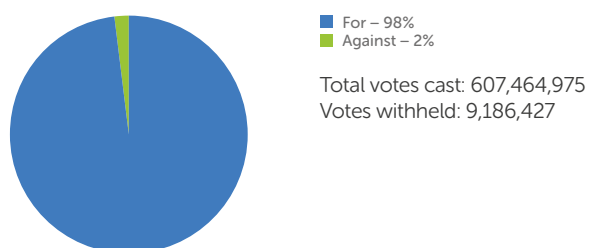
## Risk assessment

During the course of the year, the Committee undertook a remuneration risk assessment exercise to identify and evaluate the risks inherent in our Directors' Remuneration Policy. Important risk mitigators identified included the broad balance of clear financial and non-financial performance measures, targets which are set in line with SSE's business plans and an overall approach to pay design which rewards the delivery of strong, yet sustainable, performance. The close coordination with the Audit Committee was also highlighted as a strength. Specific areas of focus for the future in respect of remuneration risk include simplicity, ensuring fair pay outcomes and applying discretion to do so, and the internal alignment of pay design and outcomes.

## Shareholder voting in 2017

On 20 July 2017, shareholders approved the Directors' Remuneration Report for the year ended 31 March 2017. Below is the result of the resolution.

### Shareholding voting in 2017



## The Remuneration Committee

The members of the Committee and the meetings attended is set out on page 120.

The Terms of Reference for the Committee are available on the Company's website <http://sse.com/media/471048/ToR-RemCo.pdf>. In summary, the Committee determines and agrees with the Board, the Company's framework and policy for executive remuneration including setting remuneration for all Executive Directors, the Company Chairman and Company Secretary. The Committee also monitors the level and structure of remuneration across the senior management team.

During the year the Committee met three times where it considered the following:

MEETING DATE <sup>1</sup>	AGENDA ITEMS
May 2017	AGM season overview, AIP and PSP performance discussions, below-board remuneration, 2016/17 DRR, PSP/LSP/DBS participants, remuneration advisors annual performance review, draft agenda items for 2016/17.
November 2017	Executive remuneration market and governance review, mid-year performance update, new Executive Director appointment, Board engagement with SSE employees.
March 2018	Executive remuneration market and governance review, 2017/18 draft DRR, AIP and PSP performance update, Chairman fee and Executive Director base salary reviews, below-Board pay, risk assessment, de-merger pay considerations, 2018-20 planning.

<sup>1</sup> A brief teleconference also took place in September 2017 to consider a routine operational matter in relation to share plans.

## ANNUAL REPORT ON REMUNERATION CONTINUED

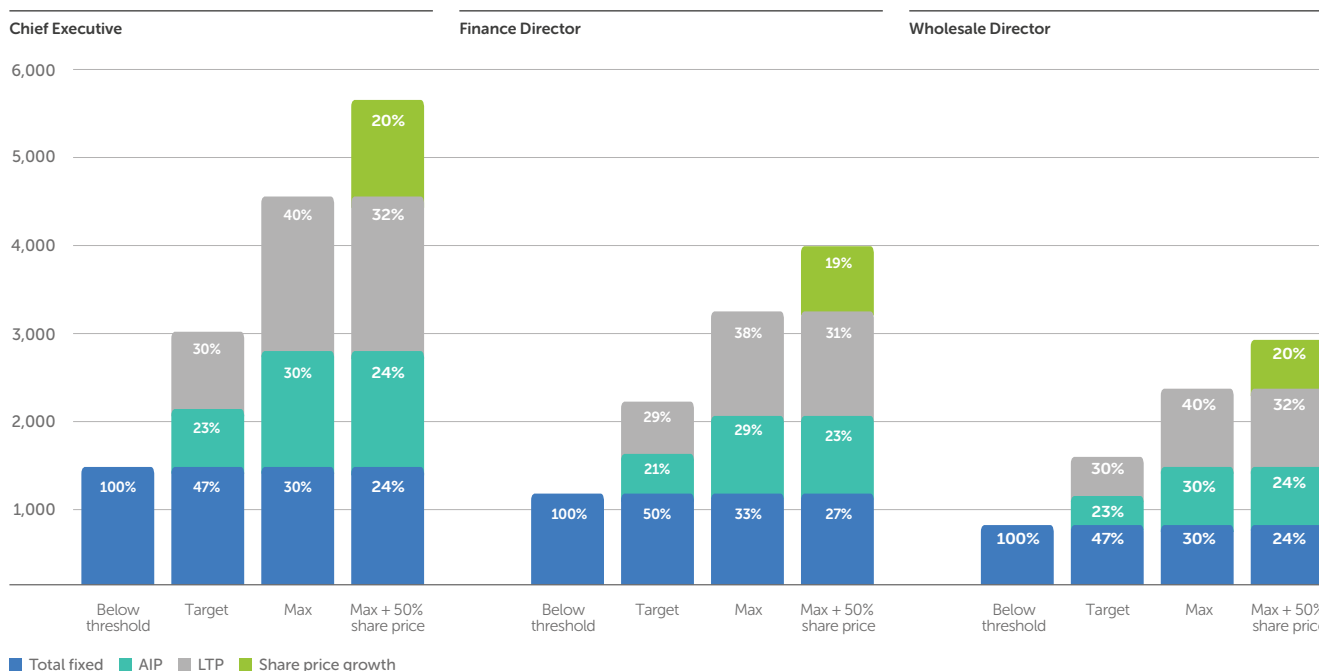
### 4. Implementation for 2018/19

The table below sets out how the Remuneration Committee intends to operate the remuneration policy for the year ending 31 March 2019:

ELEMENT OF PAY	IMPLEMENTATION FOR 2018/19	COMMENT
Base salary	Increases of 3%, effective 1 April 2018	In line with wider workforce increases of 3%.
Benefits	No changes proposed	
Pension	No changes proposed	
Annual Incentive Plan	No changes proposed: Adjusted EPS – 30% Cashflow – 10% DPS – 10% Personal – 15% Teamwork – 20% Customer – 15%	The AIP targets are considered to be commercially sensitive at this time and therefore will only be disclosed retrospectively in next year's report.
PSP	No changes proposed: TSR (v FTSE 100) – 20% TSR (v MSCI Europe) – 20% EPS – 20% DPS – 20% Customer – 20%	It is recognised that sustained DPS growth at RPI would be good performance in the context of SSE's business environment and is considered to be a stretching level of performance rather than a "threshold" level of performance. As with previous years, the entry or threshold level vesting for the DPS element has therefore been set at 50% for achieving this stretch. In assessing performance against DPS the Committee must be satisfied that a reasonable level of dividend cover has been maintained.  The customer service measure is based on an independent external customer measure (Citizen's Advice League Table) and the measure compares SSE's performance with the other energy suppliers.

The charts below indicate potential single figure of remuneration values for 2018/19 at below threshold, target and maximum. In addition, they show the possible impact of share price growth on the single total figure of remuneration based on a 50% increase.

### Single total figure of remuneration – an illustration of the application of our policy



### Chairman's and non-Executive Directors' fees

The policy in respect of the Chairman's and non-Executive Directors' fees mirrors that for Executive Directors where we aim to pay appropriately based on time commitments and scope of responsibilities, but generally at a level that is below the market median.

The Chairman's fee is determined by the Remuneration Committee. The fees for non-Executive Directors are a matter for the Chairman and Executive Directors. Care is taken to ensure no Director is present when their own remuneration is discussed.

For 2018/19, it is proposed that the Chairman's and the non-Executive Directors' fees are increased by 3% in line with the wider employee population with effect from 1 April 2018, with the exception of the SHEAC Chair fee which is proposed to increase from £12,000 to £14,000 reflecting the increased remit of that Committee. The new fees are shown in the table below.

As at 1 April 2018

Chairman	£388,800
Base fee	£70,000
Additional Senior Independent Director fee	£17,500
Additional fee for being Remuneration Committee Chairman	£17,500
Additional fee for being Audit Committee Chairman	£17,500
Additional fee for being SHEAC Chairman	£14,000

### Changes in the SSE Group and impact on share plan participants

As covered in detail on page 6 and 7 subject to necessary shareholder and regulatory approvals, a decision was taken in November 2017 to enter into an agreement with innogy SE in respect of a proposed demerger of SSE's household energy supply and services business in Great Britain and combination with innogy's subsidiary npower Group plc, to form a new independent energy supply and services business in the Great Britain market. As a result of this the Committee has started to consider the impact the transaction will have on the various employee share plans. The Committee will review the rules of the plans with appropriate advice from the Committee's advisors and make appropriate decisions in relation to all employees, both those remaining within the SSE Group and those likely to leave.

## SUMMARY OF DIRECTORS' REMUNERATION POLICY

For ease of reference, set out below is a summary of the Remuneration Policy (the "Policy") which was approved by shareholders at SSE's AGM on 21 July 2016 and applies, in the normal course of events, for a period of three years. The full policy report is available on the Company's website at [http://sse.com/media/404875/SSE\\_AnnualReport\\_2016.pdf](http://sse.com/media/404875/SSE_AnnualReport_2016.pdf).

ELEMENT OF REMUNERATION	LINK TO STRATEGY	FRAMEWORK (OPERATION AND MAXIMUM OPPORTUNITY)	PERFORMANCE MEASURES
<b>Base salary</b>	Supports the retention and recruitment of Executive Directors of the calibre required to develop the Company's strategy.	Normally reviewed annually with changes effective from 1 April.  No maximum salary level, but salary increases will normally be in line with the typical level of increase awarded to other employees in the Company.	Broad review of performance is included in the annual review process.
<b>Benefits</b>	To provide a market-competitive level of benefits for Executive Directors.	Benefits currently provided are: – Core benefits – car allowance, private medical insurance and health screening. – All-employee share plans. – Relocation – additional reasonable benefits as necessary.  The cost will depend on the cost to the Company of providing individual items.	Not applicable.
<b>Pension</b>	The pension provision is consistent with the long-term goals and horizons of the business.	Funded final salary and top-up unfunded arrangements ("UURBS") up to the maximum pension of two-thirds of final salary, normally at age 60.  From 1 April 2017, future pensionable pay increases capped at RPI + 1%.  Alternative pension provisions may operate for new appointments to the Board.	Not applicable.
<b>Annual Incentive Plan (AIP)</b>	Reward Executive Directors' for achievement of annual performance targets linked to SSE's strategy and core purpose.	Maximum annual incentive opportunity is 150% of base salary for the Chief Executive, and 130% of base salary for the Finance and Wholesale Directors.  Award delivered: – 67% in cash; and – 33% in a career share award.  Career share awards vest after three years (with accrual of dividends). The after-tax number of shares are retained until the first anniversary of the cessation of the Executive Director's employment.  Subject to malus and clawback provisions.	Based on a mix of financial and strategic performance measures.  A minimum of 50% of the annual incentive will be based on financial performance.  The strategic performance will normally include matters such as safety, customer service in the Retail and Networks divisions and investment decision-making and execution, as well as the personal performance of the Executive Directors.
<b>Performance Share Plan (PSP)</b>	Reward Executive Directors, for delivering sustained success and align interests with those of shareholders.	Maximum annual award of 200% of base salary for the Chief Executive, and 175% for the Finance and Wholesale Directors.  Awards normally vest based on performance over a period of three years (with accrual of dividends).  Post-tax number of shares vesting will be subject to an additional two-year holding period.  Subject to malus and clawback provisions.	Awards vest based on relative total shareholder return, financial based measures and customer satisfaction.  At least 70% of the award will be based on financial and relative total shareholder return measures.  Targets set each year to ensure they are stretching and represent value creation for shareholders.

ELEMENT OF REMUNERATION	LINK TO STRATEGY	FRAMEWORK (OPERATION AND MAXIMUM OPPORTUNITY)	PERFORMANCE MEASURES
<b>Share ownership policy</b>	Aligns the interests of Executive Directors with those of shareholders.	Executive Directors are expected to maintain a shareholding equivalent to two times base salary.  Normally built up via shares vesting through the PSP, deferred shares from the AIP and all employee share schemes.  Vested career shares may also count towards the Executive Director's shareholding.	Not applicable.
<b>Chairman's and non-Executive Directors' fees</b>	Reward for undertaking the role and are sufficient to attract and retain individuals with the calibre and experience to contribute effectively at Board level.	Fees are reviewed at appropriate intervals against companies of a similar size and complexity.  The fee structure may be made of: a basic Board fee or Chairman's fee; – an additional fee for any committee chairmanship or membership; and – an additional fee for further responsibilities e.g. Senior Independent Director, or periods of increased activity.  The aggregate level of non-Executive Directors' fees shall not exceed the maximum limit set out in the Articles of Association.  All non-Executive Directors should build up a minimum of 2,000 shares in the Company.	Not applicable.

#### Further information on policy

The full policy approved by shareholders at the 2016 AGM is set out in the 2016 Directors' Remuneration Report and includes further information on:

- loss of office;
- recruitment;
- recovery provisions (clawback and malus);
- Committee discretions;
- legacy commitments;
- Directors' service contracts and non-Executive Directors' letters of appointment;
- shareholders' views;
- remuneration engagement across the Company; and
- illustration of the remuneration policy.

This report was approved by the Board and signed on its behalf by:

#### **Dame Sue Bruce DBE**

Chairman of the Remuneration Committee  
24 May 2018