SSE plc Annual Report 2014

Providing the energy people need

We are SSE. Our purpose is to provide the energy people need in a reliable and sustainable way.

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IBC Shareholder information

* This financial report describes adjusted profit before tax before exceptional items (£747.2m), re-measurements arising from IAS 39 (£212.0m) and after the removal of taxation on profits from jointly controlled entities and associates (£11.6m). Following the adoption of IAS 19R, adjusted profit before tax is stated excluding interest costs on net pension scheme liabilities (£28.2m). In addition, this financial report describes adjusted operating profit before exceptional items, re-measurements arising from IAS 39, and after the removal of taxation and interest on profits from jointly controlled entities and associates. It also describes adjusted profit after tax and adjusted earnings per share before exceptional items, re-measurements arising from IAS 39 and deferred tax and excluding interest costs on net pension scheme liabilities. (See also pages 95 and 96).

An overview of the year

Providing the energy people need

Producing more green energy

During 2013/14, SSE's conventional hydro electric schemes and onshore and offshore wind farms produced 9.2 terawatt hours (TWh) of electricity, confirming SSE's position as the biggest generator of electricity from renewable sources across the UK and Ireland.

▶ **For more information see page 36.**

Building for the future

In 2013/14, SSE continued to invest in its new 460 megawatt (MW) gas-fired power station at Great Island, County Wexford, which is on course to be fully commissioned before the end of 2014.

▶ **For more information see page 38.**

Getting the lights back on

During the autumn and winter 2013/14, there were a record eight major weather-related incidents affecting SSE's electricity networks in the north of Scotland and central southern England; for 99% of affected customers, supplies were restored within two days.

▶ **For more information see page 43.**

Pricing our energy fairly

In March 2014, SSE announced a freeze on household electricity and gas prices in GB until at least January 2016. By that stage, SSE will not have increased its prices for 26 months, making it the longest-lasting comprehensive energy price freeze in the market.

▶ **For more information see page 48.**

Chairman's statement
Lord Smith of Kelvin

Focused on our customers and investors

SSE's core purpose is to provide the energy people need in a reliable and sustainable way. In fulfilling this purpose, SSE requires the support of shareholders, to whom this report is addressed. It summarises SSE's performance in 2013/14 and looks ahead to 2014/15 and beyond.

As an energy provider, SSE has a key role to play in addressing the energy 'trilemma' of security of supply, decarbonisation and affordability. The company's decision-making, for both operations and investment, aims to reflect all three parts of the 'trilemma' and in this way be as consistent as possible with the direction of energy policy and politics in the UK and Ireland. During 2013/14 it became clear that while there rightly remains widespread political support for action to address climate change there is also a requirement to ensure such action does not make energy unaffordable for the most vulnerable customers.

SSE's decision to freeze until at least January 2016 household electricity and gas prices in Great Britain was a practical response to the concerns of customers and the politicians they elect. The price freeze also provides SSE with an opportunity to work constructively with legislators, regulators, consumer bodies and other stakeholders to secure practical changes that will benefit energy bill payers now and in the future.

The announcement by Ofgem of a referral of the energy market in Great Britain to the Competition and Markets Authority (CMA) should also be seen as an opportunity. Many of the key features of the energy market have become politically contentious and been subject to significant change designed to achieve a mixture of objectives. SSE has demonstrated consistently its appetite for reform that is in the interests of customers and believes that a market reference should provide a platform for achieving greater political and regulatory stability for the GB energy market, for the benefit of customers and investors.

There will be a degree of uncertainty while the CMA looks at the market and uncertainty also arises as a result of the Scottish referendum in September, about which SSE is strictly neutral. We take account of all uncertainties in our decision-making and will engage constructively with the UK and Scottish governments whatever the outcome of the referendum, so that we can best meet the needs of all of our networks and energy supply customers, while safeguarding the interests of investors.

Meeting the needs of customers has presented significant challenges over the past year. In particular, the severe late autumn and winter weather put SSE's electricity networks under unprecedented strain and caused networks customers to be without electricity more often and for longer than would normally be expected. We have carried out a wide-ranging consultation to see what we can do better in the future, but in the meantime I have no doubt that our engineers and support teams did an outstanding job in difficult conditions.

Indeed, across all of SSE's businesses employees have shown outstanding commitment and professionalism, with which I am very proud to be associated. For over 10 years they were led by Ian Marchant, an outstanding Chief Executive, who was succeeded on 1 July by his deputy, Alistair Phillips-Davies. Alistair has made a very impressive start in his new job and has been able to count on an excellent contribution from the senior management team and the rest of the organisation.

Change has extended to the non-Executive team also, with Susan Rice and Thomas Thune Andersen stepping down after 11 and five years' service respectively, having been first class Directors in that time. I am delighted that Sue Bruce and Peter Lynas agreed to become non-Executive Directors as they each bring perspective and judgement that is invaluable in the work of any Board.

There is no doubt that plenty of work lies ahead. At the same time, I believe that SSE is well-placed for the future. The company is listening to and helping customers with the longest-ever energy price freeze in the GB market; it has well-defined plans for net investment of around £5.5bn between now and 2018 to maintain, upgrade and build the assets the customers depend on; and it is committed to giving investors a fair return through an annual dividend that at least keeps pace with inflation. All of this means that SSE is not part of the problem but part of the solution to meeting the energy needs of customers in Great Britain and Ireland.

Lord Smith of Kelvin
Chairman

Performing for shareholders

Delivering dividend increases
SSE aims to remunerate shareholders for their investment through the delivery of annual increases in the dividend of at least Retail Price Index (RPI) inflation.

A strategy for creating long-term value

Core purpose

To provide the energy people need in a reliable and sustainable way

Financial objective

Annual dividend growth

Consistent strategy

Operational excellence | Disciplined investment | Balanced business | Geographic focus

Long-term values

Safety | Service | Efficiency

Sustainability | Excellence | Teamwork

Core purpose

SSE's core purpose is to provide the energy people need in a reliable and sustainable way.

▶ **For more information see page 06.**

Financial objective

SSE's success in fulfilling its core purpose enables it to achieve its first financial objective, which is to remunerate shareholders' investment in the company through the payment of dividends that increase each year by at least RPI inflation.

▶ **For more information see page 14.**

Consistent strategy

SSE's strategy for achieving its financial objective is to deliver the efficient operation of, and investment in, a balanced range of economically-regulated and market-based businesses in energy production, storage, transmission, distribution, supply and related services in the UK and Ireland.

▶ **For more information see page 12.**

Long-term values

SSE believes that companies don't just have to execute their strategy, achieve their objectives and fulfil their purpose; they have to do so in a responsible way. For this reason, SSE adopted in 2006 the SSE SET of core values:

- **Safety** – we believe all accidents are preventable, so we do everything safely and responsibly or not at all.
- **Service** – we give our customers service we are proud of and make commitments that we deliver.
- **Efficiency** – we keep things simple, do the work that adds value and avoid wasting money, materials, energy or time.
- **Sustainability** – our decisions and actions are ethical, responsible and balanced, helping to achieve environmental, social and economic well-being for current and future generations.
- **Excellence** – we strive to get better, smarter and more innovative and be the best in everything we do.
- **Teamwork** – we support and value our colleagues and enjoy working together as a team in an open and honest way.

Our business explained
Three energy businesses

Providing energy

SSE's strategy is to deliver annual growth in the dividend payable to shareholders through the efficient operation of, and investment in, a balanced range of economically-regulated and market-based energy-related businesses. This balance means SSE has a strong and diverse group of energy assets and businesses from which to secure the revenue to support future dividend growth.

Wholesale

1.
Gas production
Using platforms to extract natural gas, from fields in the North Sea, for use onshore.

2.
Energy portfolio management and electricity generation
Using turbines to convert energy from gas, oil, coal, water and wind to generate electricity.

3.
Gas storage
Using caverns to store large volumes of natural gas under ground for use at a future date.

4.
Electricity transmission
Using higher voltage lines and cables to transmit electricity from generating plant to the distribution network.

Market-based

Energy production, generation and storage

Wholesale
Steps 1-3

To secure energy for its customers, SSE is involved in energy portfolio management, gas production and electricity generation. Amongst other things, it is the leading generator of electricity from renewable sources across the UK and Ireland. Its Wholesale businesses priorities are competitiveness, sustainability and flexibility. SSE is also a large gas storage provider.

▶ **For more information see page 32.**

Transmission and distribution of energy

Networks
Steps 4-7

SSE has an ownership interest in economically-regulated network businesses in electricity transmission and electricity and gas distribution and has other networks businesses in market-based areas such as lighting services, utility solutions and telecoms. In operating and investing in these businesses, SSE's Networks priorities are efficiency and innovation.

▶ **For more information see page 40.**

Energy supply to consumers

Retail
Steps 8-9

Through its brands such as SSE, SWALEC, Scottish Hydro and Airtricity, SSE supplies electricity and gas in markets in Great Britain and Ireland and also provides other energy-related services such as mechanical and electrical contracting. Its Retail priorities are digital excellence and a brand people trust – taking actions that make a difference for customers.

▶ **For more information see page 46.**

Networks

5.
Electricity distribution
Using lower voltage lines and cables to distribute electricity to homes, work places and other premises.

6.
Gas distribution
Using pipes to distribute gas from the transmission network to homes, work places and other premises.

7.
Other networks
Maintaining street and highway lighting. Designing, building, owning and operating networks for electricity, gas, water and heat. Providing network capacity and bandwidth.

Retail

8.
Energy supply
Retailing gas and electricity to household, small business and industrial and commercial customers.

9.
Energy-related services
Providing energy-related products and services to household, small business and industrial and commercial customers.

Economically-regulated

Market-based

Our value chain explained
How we work for customers, communities and investors

Earning a profit – and putting profit to good use

SSE has three business segments which have one core purpose: to provide the energy people need in a reliable and sustainable way. In return for doing this, SSE is able to earn a profit – a profit that SSE puts to good use for the customers and communities it serves and the countries in which it operates. An independent study published in 2014 found that SSE's annual contribution to UK Gross Domestic Product is over £9bn and that SSE supports over 110,000 jobs.

Wholesale

Producing energy
In 2013/14 SSE generated over 36,000GWh of electricity

Networks

Delivering energy
SSE delivers electricity to 3.7 million homes, offices and businesses

Retail

Supplying energy
SSE supplies electricity and gas to 9.1 million customers

£617m
invested in generating capacity.

£658m
invested in network capability.

2016
price freeze for GB customers.

◀ Providing the energy people need

◀ Upgrading energy infrastructure

The profit SSE earns in producing, delivering and supplying energy enables it to do six things: produce the energy that people need; deliver better services; upgrade the country's energy system; protect jobs; pay tax; and pay and attract investors.

Providing energy in a reliable and sustainable way requires investment. SSE is a company that is powering investment across the UK and Ireland. In 2013/14 SSE earned adjusted profit before tax* of £1.55bn. In that same period it invested £1.58bn in building, upgrading and maintaining the energy infrastructure that customers in the UK and Ireland depend on.

In fact, in the last five years alone SSE has invested around £7.5bn in the UK and Ireland – significantly more than the profits it earned during that time.

Earning a profit enables SSE to do six things:

1. Produce the energy people need:
In 2013/14 SSE generated over 36,000GWh of electricity – enough to meet the needs of around 10 million homes for a whole year.

2. Upgrade the country's energy system:
SSE plans to invest around £1.6bn across all three of its businesses in 2014/15 to help modernise and maintain the UK's and Ireland's energy systems.

3. Deliver better services:
SSE has been voted number one for customer service by uSwitch for the eighth year in a row. It is investing in smart meters and new digital technology to ensure it maintains this position.

4. Protect jobs:
SSE employs almost 20,000 people across the UK and Ireland, and has created around 2,000 new jobs over the last five years.

5. Pay tax:
SSE is a major contributor to UK tax revenues. In 2013/14 it paid over £431m in tax to the UK government.

6. Pay and attract investors:
SSE aims to deliver to shareholders annual dividend increases that at least keep pace with inflation to give them a return on the investment they make.

◀ **Reinvesting in the energy system**

Sector overview

SSE's strategy is to operate and invest in a balanced range of energy-related businesses in the UK and Ireland. Across these countries there are two principal energy sectors: Great Britain and Ireland. Their main features are described below. The production, distribution and supply of energy are all affected by the weather, and its impact on SSE in 2013/14 is set out opposite.

Great Britain

The energy sector in Great Britain is split between activities which are economically-regulated (energy transmission and distribution networks) and activities which are market-based (energy production and retailing). Companies that operate in both parts of the sector must maintain clear legal separation and confidentiality under the Utilities Act 2000.

Energy networks

Electricity and gas networks have operated under a relatively stable regulatory regime since privatisation. Regulation is based on allowing a return on a Regulated Asset Value (RAV) model. By virtue of their regional monopoly status competition in this sector is defined by the criteria set by the regulator, Ofgem. Network operators compete to prove themselves the most efficient and effective operator of energy networks and by doing so they can secure additional revenue compared with the inefficient operators.

There are four types of energy network:

- electricity transmission (three networks in GB) – high voltage electricity wires and cables;
- electricity distribution (14 networks in GB) – lower voltage wires and cables delivering electricity to customers' premises;
- gas transmission (one network in GB) – high pressure gas pipelines; and
- gas distribution (eight networks in GB) – lower pressure pipes delivering gas to customers' premises.

Distribution networks are each owned and operated by the same company. Electricity transmission networks have a single, GB-wide system operator (National Grid) with network ownership spread amongst three different private owners.

The companies operating these networks are the subject of economic regulation through a Price Control determined by Ofgem which sets the index-linked revenue they can earn, through charges levied on network users. Ofgem also places incentives on companies.

Ofgem also sets the framework for the capital investment companies are able to make in maintaining and upgrading the networks. Each network has a RAV indexed to the Retail Price Index (RPI), which represents:

- the price paid for them when they were privatised; plus
- allowed capital expenditure; less
- annual depreciation.

Overall, Ofgem seeks to strike the right balance between attracting investment in electricity and gas networks, encouraging companies to operate them as efficiently as possible and ensuring that prices ultimately borne by customers are no higher than they need to be.

Wholesale electricity and gas

The production of electricity and gas for customers in Great Britain is a market-based activity with wholesale markets in which:

- producers (generators), retailers (suppliers), large users and energy traders buy and sell electricity like any other commodity. It can be purchased through bilateral contracts of various lengths and through trading in the market; and
- producers, shippers, retailers, electricity generators, large gas users and energy traders buy and sell gas like any other commodity. As with electricity, gas (natural or liquefied natural) can be purchased through bilateral contracts of various lengths and through trading in the market.

Unlike electricity, gas can be stored in large-scale facilities such as under ground caverns. Customers of these facilities can have gas injected or withdrawn, according to their needs, which means they can manage their gas portfolio more effectively and the country benefits from greater gas security.

Electricity and gas retailing

Great Britain has one of the most competitive energy retail markets in the world. There are six electricity and gas suppliers in Great Britain with a market share each of more than 5%. Across Europe, there is only one other country that has a larger number of suppliers with a market share of more than 5%.

Ireland

The energy market in Ireland is split over two political and regulatory jurisdictions – the Republic of Ireland (RoI) and Northern Ireland (NI). At the same time it has a common electricity wholesale market. As in Great Britain, Ireland has limited interconnection though this has improved since December 2012 with the commissioning of the East-West interconnector connecting Dublin to Wales. Total interconnection now consists of:

- 450MW Moyle electricity interconnector;
- 500MW East-West electricity interconnector;
- Scotland-Northern Ireland gas pipeline; and
- Scotland-Republic of Ireland gas pipeline.

Economic regulation of networks

The Commission for Energy Regulation (CER) and the Northern Ireland Utility Regulator (NIAUR) regulate the electricity and natural gas markets and networks in the Republic of Ireland and Northern Ireland respectively.

Electricity and gas markets

Across the Republic of Ireland and Northern Ireland there is a common wholesale electricity market; the Single Electricity Market. This market operates with two currencies (Euro and Sterling) and there are separate dual support mechanisms for renewable energy.

Electricity and gas retailing

Despite competitive business markets existing for a number of years, domestic switching in electricity and gas has only taken hold since 2009. The retail brand in Ireland, SSE Airtricity, has been a significant contributor to the development of domestic competition across the island with almost 800,000 energy customers joining in the last four years. This has followed full deregulation of the RoI electricity retail market, since April 2011. While deregulation in RoI gas and NI electricity and gas will follow, significantly lower switching rates are slowing its delivery.

Market structure

The RoI government in early 2012 announced a programme for the disposal of state assets through the National Treasury Management Agency (NTMA). While, gas and electricity transmission and distribution systems will remain in state control, all other state assets are under review. In March 2014, the sale of Bord Gais' wholesale and retail businesses was announced.

Weather in 2013/14

How the weather affected us in 2013/14

During the winter of 2013/14 the UK was affected by an exceptional run of severe winter storms. Heavy and persistent rainfall caused widespread flooding in Somerset and the Thames Valley area whilst high winds caused major disruption in both England and Scotland.

December and January of 2013/14 were the wettest since 1910 for the south east and central southern England. December 2013 was one of the windiest calendar months for the UK since January 1993. As a result thousands of homes suffered power cuts with SSE's engineers battling the elements to restore power as quickly as possible.

It is the role of SSE's meteorologist to analyse global weather models, the jet stream, sea surface temperature patterns and microclimates to predict weather patterns and their potential business impact. This information is communicated across the business. It helps with calculating: energy demand, renewable generation, and the risk of extreme winds, icing and lightning affecting the power lines.

Key weather events in SSE's central southern England network area

1. A deep Atlantic low pressure system brought strong winds and heavy rain to the UK from 23 to 24 December, bringing 60 to 70mm of rain to the high ground of southern England. Flooding affected parts of Dorset and Surrey.
2. In December, heavy rain and gale force winds brought down hundreds of trees in southern England. 83% of faults in this network area were in East Surrey, West Sussex and Hampshire; all highly populated, leafy commuter areas with significant tree cover.
3. Parts of England had their wettest January since records began more than 100 years ago. Southern England saw twice the average rainfall for January.
4. February 2014 saw thousands of people having to abandon their homes along the Thames as the river reached its highest level in 60 years.

Key weather events in SSE's northern Scotland network area

5. Northern Scotland was hit by a low pressure centre from 5 December. There was flooding and widespread transport disruption with Scotland's rail network shut down, and many thousands of homes without power.
6. Scotland was drenched in its wettest December on record, with an average rainfall of 300.7mm, beating the previous high set in 1986 of 268.5mm.
7. Snowfalls were largely confined to the Scottish mountains with fewer air frosts for the UK than for any other winter in a series from 1961.
8. The winter windy and wet weather helped boost SSE's renewable electricity output. SSE's hydro electric stations in Scotland and its windfarms across the UK and Ireland worked overtime using the extra energy to generate more renewable electricity.

Overview 2013/14

Rainfall

161%
of the 1981-2010 average

Winter rainfall totalled 532mm which represented 161% of the 1981-2010 average. It was also the wettest winter for the UK, and the second wettest winter for Northern Ireland, since 1910.

Wind

142mph
winds recorded in December

December 2013 was one of the windiest calendar months for the UK since January 1993. Aonach Mor in the Scottish Highlands recorded a wind speed of 142mph.

Temperature

+1.5°C
above the 1981-2010 average

The average temperature of 5.2°C in December, January and February 2013/14 was 1.5°C above the 1981-2010 average and the fifth highest in the series since 1910.

Scotland
- Worst affected by extreme weather
- Less affected by extreme weather
- Renewables boosted by extreme weather

Southern England
- Network impacted by weather
- Network impacted by extreme weather
- Network severely impacted by extreme weather

Questions and answers
with the SSE Executive Team

Answering key questions

SSE has two Executive Directors: Alistair Phillips-Davies, who became Chief Executive in July 2013; and Gregor Alexander, Finance Director. Alistair and Gregor both joined the Board of SSE in 2002. Here they answer some of the key questions facing both SSE and the energy industry now and in the future.

The 2013/14 financial year ended with Ofgem announcing that the energy market in Great Britain should be investigated by the CMA. Why have things got to this stage?
Alistair: We think the energy market is competitive and has brought significant benefits for customers. We also think we've done a lot in recent years to make it more transparent and easier to understand. That said, standards have fallen short in some areas and key features of the market have become politically contentious and subject to significant change designed to achieve a mixture of objectives. With all of that going on, we think the CMA now looks like the best way of achieving a new, lasting settlement on the energy market that commands broad regulatory, political and public support.

Energy has barely been out of the headlines over the past year and some of that is down to the profits being made by companies like SSE. How do you persuade people that SSE's £1.55bn adjusted profit before tax* is fair?
Alistair: Profit is contentious – and has become more so as the aftermath of the 2008 recession has put a squeeze on people's living standards. At the same time, Great Britain and Ireland need successful energy companies to secure the energy and provide the services that people need. Profit enables us to do that – but we recognise that profit needs to be earned, not made, and needs to be earned in the right way. That's why we're committed to achieving high standards in everything we do, especially in what we do directly for customers. In that way, we believe that people will recognise the profit we earn across all of our businesses as fair and reasonable.

Profit is one measure of financial performance, but which one really matters to SSE?
Gregor: Earnings per share, on the adjusted basis we use. We've always said we look at EPS to monitor financial performance over the medium term and it's the fairest measure because it defines the amount of profit after tax that has been earned for each ordinary share in the company. The 4.1% increase in EPS in 2013/14 was a solid result in a challenging year.

You said in March 2013 that increases in earnings per share are subject to greater risk in 2015/16 and 2016/17. Why is that the case?
Gregor: Difficult market conditions in thermal generation, possible legislation on freezing retail energy prices, the electricity distribution price control process and other regulatory, political and constitutional developments could all have an impact. On a more positive note, our balanced range of businesses means we're not over-exposed to any single risk and the action we're taking through our value programme to simplify the business through disposals and secure operational efficiencies means we're in good shape to withstand some of the difficult challenges we could face.

With all of those challenges, why is SSE so strongly committed to the dividend?
Gregor: It's a matter of fairness. Shareholders have either invested directly in SSE or, as owners of the company, enabled it to borrow money from debt investors. That's allowed investment in things like power stations and electricity networks that help provide the energy people need. In return for this, we pay shareholders dividends – and although dividend growth will be slower in the future than it has been in the past, we're still strongly focused on delivering annual increases that at least match RPI inflation in the next few years.

SSE has announced its own energy price freeze in Great Britain through to 2016, saying it was worried about the impact of bills on households under financial pressure. Has affordability now 'trumped' climate change in the energy 'trilemma'?
Alistair: As the term implies, the 'trilemma' is about three issues – security of supply, decarbonisation and affordability. Our decision-making, in both operations and investment, aims to reflect all three of these issues. That means, for example, that while we strongly support action to address climate change, we also think such action should not make energy unaffordable for the most vulnerable electricity and gas customers. That's why we believe social and environmental policies should be funded by the tax-payer, not the bill-payer. As far as climate change is concerned, SSE has put its money where its mouth is, spending around £3bn on hydro electric schemes and wind farms in the last five years alone.

The third part of the 'trilemma' is security of supply. Should people be worried that the lights might go out?
Alistair: Security of supply should never be taken for granted and Ofgem has said for some time that electricity generation capacity margins will be lower than they were in recent years due to difficult market conditions and EU regulations closing down older plant. The Energy Act 2013, which enjoyed broad support across the political spectrum, effectively gives the UK Department of Energy and Climate Change clear responsibilities and tools for security of supply, including the creation of a mechanism to support generating capacity. We'll play our part by working with DECC and National Grid and by making sure our generation plant, where practicable, is available to produce electricity when demand is highest.

The lights did go out for many of SSE's electricity network customers following the spells of bad weather in the autumn and winter. How do you feel about some of the criticisms that network companies have come under?
Alistair: I think constructive criticism is helpful, because we want to make sure that our ability to handle the consequences of bad weather gets better and better each year. That's why we launched our own consultation in January, looking for views on what else we can do to meet and exceed customers' expectations when power supplies are lost. Until recently, networks have had a relatively low profile, and despite the difficulties of last winter, power cuts have fallen by 30% and network costs have fallen by 60% since electricity privatisation. That's a good record, but the experience of last winter shows why we need to build on it.

SSE also came under heavy criticism at the start of the 2013/14 year after being fined by Ofgem for the way it had gone about selling electricity and gas. Do you think that damage has been put right?
Alistair: As we said a year ago, the test of whether an organisation can live up to the standards expected of it is in making sure that mistakes are put right and not repeated. In terms of putting the mistakes in sales right, we applied our sales guarantee all the way back to 2008, making payments totalling around £3m to customers who may have lost out through switching their electricity and gas supply to us. In terms of not repeating the mistakes, we've totally changed our approach to sales and the processes underpinning it. We also have a new management team in this area, and I am confident we have done, and are doing, the right things with regard to sales.

To what extent should investors be worried by political and regulatory interventions and uncertainties in the GB and Ireland markets?
Gregor: Electricity and gas are privatised industries and so political and regulatory interventions have always been, and will always be, a fact of life. Part of the way we manage that risk is by having a clearly-defined market focus, concentrating on the UK and Ireland. We also try to be constructive in all of our dealings with governments, politicians and regulators – just as we have a job to do, so do they. On the whole, I think political and regulatory decision-making in the UK and Ireland has been better than elsewhere in Europe but the extent of the intervention has been increasing and, as Alistair said, the CMA study should provide a good opportunity to achieve a new, lasting settlement on the energy market in GB.

The energy market in GB may change if there is a 'Yes' vote in the Scottish referendum. How does SSE feel about that?
Gregor: Our position on this has been clear since shortly after the last Scottish Parliamentary elections. We strongly believe that constitutional arrangements are matters for voters, and so remain neutral on the question. A 'Yes' vote would clearly lead to the governments for an independent Scottish state and a remaining UK undertaking extensive negotiations on arrangements for the energy sector and everything else. We've said before that this could result in changes to the single electricity market in GB. We've put in place arrangements to make sure we take account of this uncertainty in our decision-making and have a clear view of the issues that would arise should there be a 'Yes' vote. Whatever the outcome of the referendum, we'll continue to work constructively with the Scottish and UK governments, with the aim of making sure that we continue to meet the needs of customers and of investors in the energy industry.

In addition to managing political and regulatory uncertainties, what are SSE's key priorities for 2014/15?
Alistair: The safety of everyone who works for or with SSE, and of the people who come into contact with SSE, has to be our top priority. We made good progress last year, with a lower 'Total Recordable Injury Rate'. Behind jargon like that, however, is a list of people who got hurt in the course of their working day and until that stops happening I won't be satisfied. Injury-free working has to be our goal. Beyond that, we need to make sure that the quality of service we deliver to our retail and networks customers is of the highest possible standard at a time when their expectations of companies like SSE are, quite rightly, increasing significantly.

You said in March 2014 that you expect adjusted earnings per share in 2014/15 to be around or slightly greater than that in 2013/14. Are you confident that you can deliver this?
Gregor: Confident, yes; but certain, no. As always, there are many things that could affect EPS during the course of a year, from general market conditions and how much electricity we generate from renewable sources to how much energy customers need to use. At the same time, we have a good, balanced range of businesses and assets and our renewed focus on simplifying and streamlining the business should help us deliver solid results in the 2014/15 financial year.

After almost a year in the job of Chief Executive, how do you see the next few years shaping up for SSE?
Alistair: I took on this job knowing there would be big operational, investment, political and regulatory issues to deal with but knowing also that the company has strong values, a well-defined strategy, a straightforward financial objective and an excellent team of employees. We've been building on that, with initiatives for customers, like our price freeze in GB, re-defined investment plans and a focus on what is really central to our purpose of providing energy to customers. I think this puts us in the best possible position to deliver for customers and for investors in the years ahead.

Financial overview

SSE's principal financial objective is to deliver annual above-inflation increases in the dividend. To do this, it operates and invests in a balanced range of energy networks, retail and wholesale businesses.

Strategy

Fulfilling SSE's core purpose

SSE's core purpose is to provide the energy people need in a reliable and sustainable way. Its strategy is to deliver the efficient operation of, and investment in, a balanced range of economically-regulated and market-based businesses in energy production, storage, transmission, distribution, supply and related services in the energy markets in Great Britain and Ireland. This means:

- **operating and investing efficiently** is how SSE serves its customers and makes investments to meet their long-term energy needs and also to earn the profit that allows it to give a return to investors;
- **maintaining a balanced range of economically-regulated businesses** means SSE does not become over-exposed to any one part of the energy sector but can pursue opportunities in each of them where appropriate;
- **production, storage, transmission, distribution, supply and related services** means that there is diversity of business activity in SSE but also depth through the focus on a single sector, energy; and
- **Great Britain and Ireland** give SSE a clear geographical focus, allowing it to maintain and deploy strong experience and understanding of the markets in which it operates and to focus on the needs of the customers which it serves.

The financial objective of this strategy is to increase annually the dividend payable to shareholders by at least RPI inflation. This is because shareholders have either invested directly in SSE or, as owners of the company, have enabled it to borrow money from debt investors to finance investment, mainly in electricity generation and electricity networks, that will help to meet customers' energy needs over the long term.

Maintaining a balanced range of energy businesses

SSE has three reportable segments covering its Wholesale, Networks and Retail and businesses:

- **Networks** – the economically-regulated transmission and distribution of electricity and gas to people's homes, offices and businesses, and other related networks;
- **Retail** – the supply of electricity, gas and other services to household and business customers; and
- **Wholesale** – the production and storage of energy and energy portfolio management.

This means that SSE is well placed to recognise and understand the breadth of issues that could affect the people and organisations that ultimately pay for the production, distribution and supply of energy – customers. In addition, SSE is able to apply across all of its businesses best practice in critical areas such as safety, customer service, stakeholder engagement and large capital project management.

SSE's balanced range of businesses means that it earns revenue from nine different energy-based activities, which gives it strong foundations from which to deliver the levels of profitability and long-term value required to support annual dividend growth while reducing the risks to its achievement through the balance between, and within, SSE's businesses, assets and investment options.

In addition, SSE believes that the 'vertical integration' of electricity generation and supply brings significant benefits for customers, including protection from the price volatility that arises in wholesale markets. The State of the Market Assessment published by Ofgem in March 2014 also noted the benefits that 'vertical integration' of electricity generation and supply should bring for customers (while also commenting that it had not been able to assess the net impact on customers of vertical integration overall).

At the same time, SSE has listened to the views of its customers and other stakeholders and acknowledged that more needs to be done to make the complexities of the energy sector easier to understand and has no objection in principle to greater separation of Retail and Wholesale businesses. Subject to securing the necessary third party consents, SSE will reorganise its companies so that there are separate legal entities for its energy supply (Retail) and its electricity generation and energy portfolio management (Wholesale) activities. This will enhance the transparency of the measurement and reporting of the performance of these businesses. Longer term, SSE remains open-minded about further reform that is in the clear interests of customers.

Strategic focus #1

Fulfilling our core purpose

SSE's decision-making for both operations and investments aims to reflect all three parts of the energy 'trilemma' – security of supply, decarbonisation and affordability.

It has adopted three long-term priorities across its balanced range of businesses which reflect, and respond to, the issues arising from the energy 'trilemma':

- **Wholesale** – sustainability in energy production through a diverse generation portfolio, including the largest amount of renewable energy capacity in the UK and Ireland, that helps keep the lights on by being available to generate electricity when required and is flexible enough to respond to changes in demand when they occur;
- **Networks** – efficiency and innovation to help keep the lights on and provide the necessary connections to the electricity system; and
- **Retail** – digital excellence and a brand people trust so that operating costs are kept to a minimum, opportunities to increase the efficient use of energy are maximised and customers trust SSE to do the right things for them.

SSE believes these long-term priorities reflect the energy 'trilemma', the shape of its business and the needs of customers.

Priority for 2014/15

Implement a disciplined £1.6bn capital and investment programme.

Strategic focus #2

Sticking to our core values

SSE maintains a strong emphasis on its six core values, the SSE SET of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. See page 3 for the full definitions of these values.

They were adopted in 2006, almost eight years after SSE was formed, to reflect the shared values of people across the company. SSE believes these values are especially significant because energy is something which people need rather than want and so the highest possible standards in its operations and investments are essential.

This means that safety comes first. SSE believes that the effective management of safety issues is a barometer of effective management of all operational and investment-related activities. Its ultimate goal is injury-free working.

In addition, SSE believes that service of the highest possible standards for customers, efficiency in operations and investments, sustainability at the heart of decision-making, excellence in all aspects of business activity and teamwork on the part of all employees should support the delivery of annual increases in the dividend payable to shareholders that at least match RPI inflation.

Priority for 2014/15

Deliver a reduction in the Total Recordable Injury Rate.

Strategic focus #3

Maintaining a balanced business

SSE has reportable segments covering Wholesale, Networks and Retail businesses.

SSE is the only company listed on the London Stock Exchange which owns, operates and invests in a balanced group of economically-regulated energy businesses, such as electricity networks, and market-based energy businesses, such as energy supply and electricity generation. The balance between these activities means that:

- while energy is at their core, SSE has a diverse range of businesses;
- within those businesses, SSE has a diverse range of assets; and
- to add to these assets, SSE has a diverse range of investment options.

This balance, diversity, asset base and range of investment options means SSE has a broad platform from which to deliver the levels of profitability and long-term value required to support annual dividend growth. In addition, the risks to the achievement of that growth are contained by that balance and by the diversity of SSE's businesses, assets and investment options.

Moreover, SSE's balanced business means it can apply across all of its businesses best practice in critical areas such as safety, customer service and large capital project management.

Priority for 2014/15

Maintain a diverse balance between Wholesale, Networks and Retail businesses.

Strategic focus #4

Achieving our financial objective

SSE focuses on the dividend because the ultimate objective of investing capital in companies is to secure a cash return.

Receiving and reinvesting dividends is the biggest source of a shareholder's return over the long-term. SSE's target of annual increases in the dividend of at least RPI inflation means it has to look beyond short-term value and maintain a disciplined, consistent and long-term approach to business activities.

Ultimately, however, dividends are paid out of earnings and, over the long-term, earnings must increase to support dividend growth. For this reason, SSE believes that the dividend per share should be covered by its adjusted earnings per share* within a range of around 1.5 times over the medium-term (although it can temporarily fall below that range).

In addition, SSE believes that it should maintain a strong balance sheet, evidenced by its commitment to the current criteria for a single A credit rating. It believes that a strong balance sheet enables it to secure funding from debt investors at competitive rates, pursue investment or acquisition opportunities if they enhance earnings per share and take decisions for the long-term.

Priority for 2014/15

Deliver an annual dividend increase of at least RPI inflation.

Financial overview continued

Focusing on strong financial management

SSE focuses on the dividend because the ultimate objective of investing capital in companies is to secure a return; and receiving and reinvesting dividends is the biggest source of a shareholder's return over the long term. SSE's target of annual increases in the dividend of at least Retail Price Index (RPI) inflation means it must, can and does look beyond short-term value and profit maximisation in any one year and maintain a disciplined, consistent and long-term approach to the management of, and investment in, business activities.

Ultimately, however, dividends are paid out of earnings and, over the long term, earnings must increase to support dividend growth. For this reason, SSE believes that the dividend per share should, over time, be covered by its adjusted earnings per share* within a range of around 1.5 times. The risks to which adjusted earnings per share* are subject, however, mean that dividend cover can fall temporarily below this target range and it could, in some circumstances, be closer to around 1.2 times in 2016/17. See 'Addressing the energy trilemma' below.

In addition, SSE believes that it should maintain a strong balance sheet, illustrated by its commitment to the current criteria for a single A credit rating. As a business focused on the long term, it believes that a strong balance sheet enables it to secure funding from debt investors at competitive and efficient rates and take decisions that are focused on the long term – all of which support the delivery of annual increases in the dividend of at least RPI inflation.

Focusing on the SSE SET of core values

Companies don't just need to earn profits; they should earn profits in a responsible way. It is for this reason that SSE adopted in 2006 the SSE SET of core values: Safety; Service; Efficiency; Sustainability; Excellence; and Teamwork.

The first value is Safety, which is defined as: 'We believe all accidents are preventable, so we do everything safely and responsibly, or not at all.' In 2013/14, SSE's Total Recordable Injury Rate (TRIR) per 100,000 hours worked by employees was 0.12, compared with 0.14 in the previous year. Despite this improved performance, 40 employees were injured in the course of their work during the year and SSE's long-term goal remains, quite simply, to achieve injury-free working.

Addressing the energy 'trilemma'

Energy policy in both the United Kingdom and Ireland has three broad objectives that have commanded general support and which are characterised as the energy 'trilemma'. They are:

- security of supply, so that 'the lights stay on';
- decarbonisation, so that the UK and Ireland can meet their legally-binding targets for greenhouse gas emissions reduction; and
- affordability, so that people, organisations and businesses can get the energy they need at the lowest possible price.

The **security of supply** issue was addressed in the Statutory Security of Supply Report published by the UK Department of Energy and Climate Change and Ofgem in October 2013. It stated that GB's electricity system 'faces some significant challenges over coming years' as older, more polluting generation capacity has been closing under EU directives and other capacity is naturally coming to the end of its working life. In response to 'tightening capacity margins and increasing risks to security of supply', the UK government has legislated to introduce a Capacity Market in 2018 and National Grid Electricity Transmission plans to introduce new balancing services from the winter of 2014/15, including the Supplemental Balancing Reserve, designed to provide electricity customers with 'additional safeguards against an uncertain security of supply outlook mid-decade'.

The **decarbonisation** issue is illustrated by the requirement for the UK and Ireland to comply with the EU Climate Change and Renewable Energy Package, enacted in 2009, including a reduction of at least 20% in the levels of greenhouse gas emissions across the EU, compared with 1990 levels, and an increase to at least 20% of all energy consumption being generated from renewable sources. The EU believes that these targets, plus that for a 20% improvement in EU energy efficiency, represent an integrated approach to climate and energy policy that aims to 'combat climate change, increase the EU's energy security and strengthen its competitiveness'.

The **affordability** issue has become more prominent as a result of the cumulative impact on retail energy prices of the costs associated with decarbonisation and government-sponsored social schemes, the need to upgrade electricity and gas networks and the long-term rise in wholesale costs for commodities such as gas. The impact of higher prices has been heightened by the continuing effects of the economic recession that occurred from 2008. It has, however, been mitigated to an extent by the decline in energy consumption. This is illustrated by Ofgem's decision, announced in September 2013, to reduce its Typical Domestic Consumption Values for electricity and gas 'in line with recent evidence of a sustained fall in domestic energy consumption'.

Balancing environmental, social and economic well-being

In response to the energy 'trilemma', SSE adopted in April 2013 a new definition of its Sustainability core value: 'Our decisions and actions are ethical, responsible and balanced, helping to achieve environmental, social and economic well-being for current and future generations.'

In practice, this means its decision making – for both operations and investment – aims to reflect all three parts of the 'trilemma' and in this way be as consistent as possible with the priorities of its customers (Retail and Networks) and with the direction of public policy in the UK and Ireland. This means, for example, that while SSE supports action to address climate change, it also believes that steps should be taken to ensure such action does not make energy unaffordable for the most vulnerable electricity and gas customers.

In participating in the continuing development of, and debates on, energy markets and energy policy at EU level and in the UK and Ireland, SSE's approach will be founded on the definition of its Sustainability core value, focused on the achievement of its long-term priorities and directed towards the achievement of the maximum possible confidence in the energy sector.

SSE is therefore open-minded about further reform that is in the clear interests of customers and it will look for ways of responding constructively to political and regulatory initiatives.

Managing issues which could have an impact on SSE

The impact of the 'trilemma' is being seen in a number of issues which could have an operational and/or financial impact on SSE in the coming years. These include

- the continuing impact of difficult market conditions in thermal generation, which have already persisted for some years;
- the possibility of a freeze on retail energy prices being legislated upon in Great Britain after the 2015 general election;
- the outcome of the RIIO (Revenue=Incentives +Innovation+Outputs) ED1 process for determining electricity distribution companies' Price Controls for 2015-23, where Ofgem has already reduced its central reference point for assessing cost of equity from 6.3% to 6.0%; and
- changes arising from any other political, constitutional and regulatory developments, such as the competition study process instigated by the UK government in October 2013, which has resulted in a recommendation by Ofgem that the Competition and Markets Authority (CMA) should undertake an investigation in to the energy market in Great Britain.

Constitutional developments could include the Scottish referendum on 18 September, about

which SSE remains strictly neutral, resulting in a decision that Scotland should leave the UK and become a separate country. In April 2014, the UK government published its 'Scotland analysis: Energy' paper which stated that: 'Scotland, Wales and England currently enjoy a fully integrated Great Britain (GB) energy market... If Scotland becomes an independent state, the current integrated GB energy system could not continue as it is now.'

SSE has long recognised that the processes of negotiation following a 'Yes' vote would be likely to take time, be complex and result in changes to the existing single energy market. This would have implications for its operations and investments and so represents increased legislative and regulatory risk. In the event of a 'Yes' vote, SSE would aim to work constructively with the Scottish and UK governments, with the objective of meeting the needs of Networks and Retail customers, while safeguarding the interests of investors.

In addition SSE, in common with other energy companies, is exposed to a range of geo-political, market and other risks which it will continue to manage through financial and operational discipline. In respect of the possible retail price freeze legislation, RIIO-ED1 and the expected CMA investigation, SSE will continue to argue strongly for policies and decisions that are fair to energy bill payers and to investors and support the delivery of secure, lower carbon and affordable supplies of energy over the long term.

Working for a new, lasting settlement on the energy market in Great Britain

SSE has submitted and published (see sse.com) its response to Ofgem's consultation on the proposal to make a market investigation reference to the CMA in respect of the supply and acquisition of energy in Great Britain. SSE hopes that the CMA does not focus solely on the household energy market, but that its work covers small businesses and industrial and commercial customers and that it looks at all parts of the energy supply chain that are not economically-regulated.

In particular, SSE believes that the expected CMA investigation should have the following five simple objectives:

- get the scope right, so it is broad enough to restore trust in the competitive markets;
- focus on all energy customers, so what they pay for is defined and transparent;
- create simple markets, which encourage new entrants and enable different business models to thrive;
- establish clear measures of success in advance, so people can see objectively how the market is performing; and
- achieve lasting results, so there is a clear and enduring framework that gives customers confidence, allows regulators to regulate and encourages investors to invest in the GB energy market.

SSE believes that a CMA referral provides the opportunity to reach a new, lasting settlement on the energy market in Great Britain that commands broad regulatory, political and public support and it will contribute positively to the achievement of this.

Dividend Per Share and Adjusted Earnings Per Share*

Increasing the dividend for 2013/14

SSE's first financial responsibility to its shareholders is to give them a return on their investment through the payment of dividends. The Board is recommending a final dividend of 60.7p per share, to which a Scrip alternative is offered, compared with 59.0p in the previous year, an increase of 2.9%. This will make a full-year dividend of 86.7p per share, which is:

- an increase of 3.0% compared with 2012/13, which is just above RPI inflation; and
- covered 1.42 times by SSE's adjusted earnings per share*.

Targeting dividend increases of at least RPI inflation in 2014/15 and beyond

The stated financial goal of SSE's strategy is to deliver annual increases in the dividend and, as set out in its Notification of Close Period in March 2014, its target for 2014/15 onwards is to deliver annual dividend increases of at least RPI inflation (measured against the average annual rate of RPI inflation across each of the 12 months to March).

Increasing Adjusted Earnings Per Share*

To monitor its financial performance over the medium-term, SSE focuses consistently on adjusted earnings per share*, which is calculated by excluding the charge for deferred tax, exceptional items and the impact of re-measurements arising from International Accounting Standard (IAS) 39 (see also 'Increasing Adjusted Profit Before Tax*' below).

Adjusted earnings per share* has the straightforward benefit of defining the amount of profit after tax that has been earned for each Ordinary Share and so provides an important measure of underlying financial performance. In addition to financial performance, however, SSE's adjusted earnings per share* are influenced by two specific factors:

- hybrid capital securities qualify for recognition as equity and so charges for the coupon associated with them are presented within dividends, with this cost reflected within adjusted earnings per share*; and
- the Scrip dividend scheme, approved by shareholders in 2010, results in the issue of additional ordinary shares.

In the year to 31 March 2014, SSE's adjusted earnings per share* were 123.4p, based on 965.5 million shares, compared with 118.5p, based on 952.0 million shares, in the previous year. As stated in its Notification of Close Period in March 2014, SSE expects adjusted earnings per share* in 2014/15 to be around or slightly greater than in 2013/14.

In view of the wider energy sector conditions, including the issues set out under 'Focusing on the energy trilemma' above, SSE recognises that its ability to deliver increases in adjusted earnings per share* is subject to greater risk in 2015/16 and 2016/17. As stated in March 2014, it recognises, therefore, that dividend cover could, temporarily, fall below its target range of around 1.5 times and be closer to around 1.2 times in 2016/17.

Adjusted Profit Before Tax*

Increasing Adjusted Profit Before Tax*

These financial results for the year to 31 March 2014 are reported under International Financial Reporting Standards, as adopted by the EU. In line with its policy since 2005/06, SSE focuses on profit before tax before exceptional items, re-measurements arising from IAS 39, and after the removal of taxation on profits from jointly controlled entities and associates. Following the adoption of IAS 19R, which impacts the reported profit measures, adjusted profit before tax* will also be stated excluding interest costs on net pension scheme liabilities. These costs are non-cash and SSE believes that in order to focus on underlying performance it is appropriate to exclude them from all adjusted profit measures. A full explanation of the impact of the adoption of IAS 19R, including the restatement of the previous year's reported results, is included in the Notes to the Financial Statements.

As a result, 'adjusted profit before tax*'

- reflects the underlying profits of SSE's business;
- reflects the basis on which the business is managed; and
- avoids the volatility that arises from IAS 39 fair value measurement.

The tables on page 16 reconciles SSE's adjusted profit before tax* to its reported profit before tax and also sets out the position after tax and in respect of adjusted earnings per share*. The volatility that arises from IAS 39 and the impact of the adjustment relating to IAS 19R can also be observed.

Delivering Adjusted Profit before Tax*

Adjusted profit before tax* rose by 9.6%, from £1,415.1m to £1,551.1m in 2013/14. Excluding the gas production assets acquired in April 2013, the increase was 5.0%.

Financial overview continued

While SSE's Networks, Retail and Wholesale segments were all profitable, Retail recorded a decline in operating profit*.

The 9.3% increase in operating profit* in **Networks** reflects in particular:

- investment in the asset base of Electricity Transmission resulting in higher income; and
- increasing operating profit in Scotia Gas Networks (SGN) due to a good start to the new Price Control that began on 1 April 2013.

The 28.6% decline in operating profit* in **Retail** reflects in particular:

- lower use of energy by customers; and
- higher costs including the costs of gas.

Within the Retail segment, the profit margin in Energy Supply, as measured by adjusted operating profit* as a percentage of revenue, fell from 4.2% to 2.9% in 2013/14. SSE's decision to freeze household energy prices in Great Britain means its Energy Supply profit margin is not expected to recover to the level achieved in 2012/13 before 2016/17 at the earliest.

The 24.8% increase in operating profit* in **Wholesale** reflects in particular:

- greater output of renewable energy, including from offshore wind farms; and
- an increased contribution from Gas Production, reflecting SSE's recent acquisition of assets in this area, in particular the purchase of a 50% interest in the Sean gas production assets in April 2013.

This was, however, offset by the electricity generation costs associated with CO_2 emissions.

Impact of the movement on derivatives (IAS 39)

The adverse movement on derivatives under IAS 39 of £212.0m shown in the table below and on the face of the Income Statement has arisen primarily from deterioration in the fair value of forward commodity purchase contracts accounted for under IAS 39. The fair value of such contracts is derived by comparing the contractual delivery price against the prevailing market forward price at the balance sheet date. The position at 31 March 2014 for such contracts, primarily electricity and gas, was a liability of £265.4m compared to a liability on similar contracts at 31 March 2013 of £114.5m – a movement of £150.9m. The actual value of the contracts will be determined as the relevant commodity is delivered to meets customers' energy needs, which will predominately be within the subsequent 12 months. As a result, SSE believes the movement in fair value of the contracts in the current year is not relevant to underlying performance.

In addition to this, an adverse movement on the fair valuation of interest and currency derivatives of £61.1m arising from the relative strengthening of Sterling and the net position on interest rate swaps was recognised in the year to 31 March 2014.

SSE sets out these movements in fair value separately, as re-measurements, as the extent of the actual profit or loss arising over the life of the contracts giving rise to this liability will not be determined until they unwind.

Reconciliation of Adjusted Profit Before Tax* and Reported Profit Before Tax*

	Mar 14 £m	Mar 13 £m restated	Mar 12 £m restated
Adjusted Profit before Tax*	**1,551.1**	1,415.1	1,338.1
Movement on derivatives (IAS 39)	**(212.0)**	(199.7)	(509.0)
Exceptional items	**(747.2)**	(584.7)	(551.6)
Interest on net pension liabilities (IAS19R)	**(28.2)**	(34.9)	(43.6)
Share of JCEs and Associates tax	**11.6**	(24.5)	(4.8)
Reported Profit before Tax*	**575.3**	571.3	229.1
Adjusted Profit before Tax*	**1,551.1**	1,415.1	1,338.1
Adjusted Current Tax Charge	**(236.7)**	(223.6)	(213.4)
Adjusted Profit after Tax*	**1,314.4**	1,191.5	1,124.7
Less: attributable to other equity holders	**(122.9)**	(63.4)	(65.5)
Adjusted Profit After Tax attributable to ordinary shareholders	**1,191.5**	1,128.1	1,059.2
Reported Profit after Tax**	**323.1**	402.7	167.3
Number of shares for basic and adjusted EPS (million)	**965.5**	952.0	937.8
Adjusted EPS* – pence	**123.4**	118.5	112.9
Basic EPS – pence	**33.5**	42.3	17.8

** After distributions to hybrid capital holders.

Exceptional items

The pre-tax exceptional charges totalling £747.2m have come as a result of two main factors:

- the announcement, on 26 March 2014, of a 'value programme' of disposals of a number of non-core assets and businesses and the identification of further operational efficiencies; and
- a further significant review of the operational plant in SSE's Wholesale segment, with a specific focus on thermal power generation plant and gas storage facilities.

The value programme is designed to ensure SSE is well-positioned for future challenges arising from the energy 'trilemma'. As part of it, SSE announced its decision to scale back its commitment in relation to offshore wind projects and has also conducted a review of its onshore wind development projects. Non-core businesses identified for disposal include SSE's portfolio of PFI street lighting contracts, a Telecoms data centre and the gas connections activity within Other Networks. As a consequence, SSE has recognised provisions for certain exceptional closure and exit costs associated with the programme. The announcement also referred to a programme of voluntary early release for which 600 employees have successfully applied and which will have the effect of reducing headcount across all business areas. In total, therefore, SSE has recognised exceptional asset and investment impairment costs and other charges associated with the announcement of £272.6m.

In addition to this, SSE has conducted a further significant review of its operational plant with a specific focus on thermal power generation plant and gas storage facilities. The value of these plants, which include the coal-fired power generation plants at Fiddler's Ferry and Ferrybridge, are considered to be at specific risk due to low forecast operating margins, increasing uncertainty over coal-fired generation viability, changes arising from market reform including the creation of a Capacity Market in 2018 and the Supplemental Balancing Reserve and the ongoing economic issues associated with gas storage. Total exceptional charges of £428.2m have been recognised in respect of these asset and investment impairments, which also included £36.2m in respect of Retail-related system and software development. In addition, a provision for the settlement of a contractual dispute, of £46.4m, was also recognised as an exceptional charge in the year.

Delivering Adjusted Profit Before Tax* in 2014/15

SSE believes profit is not an end in itself, but a

means to an end. In addition to enabling it to provide new services for customers and invest in maintaining, upgrading and building assets and pay tax, profit also supports the dividend, which is the key means through which SSE gives shareholders a return on their investment.

SSE has delivered 15 successive increases in adjusted profit before tax* since it was formed during the 1998/99 financial year and is seeking to deliver another increase in 2014/15. Because well-managed economically-regulated networks provide a relatively stable revenue flow, and because SSE has frozen household energy prices in Great Britain until at least January 2016, SSE's adjusted profit before tax* for 2014/15 is likely to be determined mainly by the following issues in its market-based Retail and Wholesale businesses:

- electricity market conditions, the ability of its operating thermal power stations to generate electricity efficiently and the price achieved for output;
- the output of renewable energy from its hydro electric stations and wind farms;
- the output from its gas production assets; and
- the actual and underlying level of customers' energy consumption.

In addition to managing these issues, SSE is undertaking a value programme to secure more operational efficiencies. While independent evidence shows that SSE is an efficient company with relatively low operating costs, it has still been able to identify annual savings in overheads that will total in the first instance around £100m by the end of 2015/16.

Investment and Capital Expenditure

Investing in energy assets that the UK and Ireland need

In 2010, SSE said that it expected its investment and capital expenditure would be in the range of £1.5bn to £1.7bn in each of the five years to March 2015. In 2013/14, its investment and capital expenditure totalled £1,582.5m, compared with £1,485.5m in the previous year. During the year there was investment of:

- £349.2m in **electricity transmission**, which includes £163.4m of regulated spend on replacing SSE's section of the Beauly-Denny replacement line;
- £308.3m in **electricity distribution**, the majority of which was spent on system upgrades such as the installation of high voltage under ground cables between Bracknell and Camberley;
- £99.9m in **retail**, the majority of which was spent on work associated with preparations for the roll-out of smart meters;
- £276.6m in **thermal generation**, including investment of £104m in the construction of the new Combined Cycle Gas Turbine at Great Island, County Wexford, and £77m in the construction of the multi-fuel generation facility adjacent to Ferrybridge;
- £339.9m in **renewable generation**, a significant part of which was invested in new wind farms such as Calliachar in Scotland and Glenconway in Northern Ireland; and
- £10.6m in **gas storage** and £40.9m in **gas production**.

Investment and Capex Summary

	Mar 14 Share	Mar 14 £m	Mar 13 £m
Electricity Transmission	**22.1%**	**349.2**	334.2
Electricity Distribution	**19.5%**	**308.3**	288.8
Other Networks	**3.5%**	**54.6**	52.8
Total Networks	**45.0%**	**712.1**	675.8
Total Retail	**6.3%**	**99.9**	77.0
Thermal Generation	**17.5%**	**276.6**	228.1
Renewable Generation	**21.5%**	**339.9**	382.6
Gas Storage	**0.7%**	**10.6**	33.1
Gas Production	**2.6%**	**40.9**	7.2
Total Wholesale	**42.2%**	**668.0**	651.0
Other	**6.5%**	**102.5**	81.7
Total investment and capital expenditure	**100.0%**	**1,582.5**	1,485.5
50% of SGN capital/replacement expenditure		**160.9**	199.0

This means that, for the second consecutive year, combined investment in economically-regulated electricity networks comprised the largest element of SSE's capital and investment expenditure.

Delivering an expanded asset base to provide the energy people need

In the four years from 2010, SSE's investment and capital expenditure totalled £6.2bn. This has resulted in a significantly expanded asset base for SSE, including:

- an increase of £1.35bn in the RAV of its electricity networks;
- an increase of around 1,000MW in its capacity for generating electricity from wind farms (resulting in SSE's wind farms producing 5.4TWh of electricity during 2013/14); and
- the Aldbrough gas storage facility, where the initial capacity is 270 million cubic metres, of which SSE owns a two thirds share.

In addition, SSE expects to complete the commissioning of the 460MW Combined Cycle Gas Turbine (CCGT) plant at Great Island, by the end of the year.

SSE believes in the strength and diversity of its growing asset base and the value it continues to create from its capital and investment expenditure programme. SSE also believes that the long-term nature of the assets which it owns and operates and those it continues to develop, will play their part in providing the energy that people will need in the 2020s, 2030s and beyond and that value from these investments will be sustained for many years to come.

Delivering investment efficiently

Central to SSE's strategy is 'efficient' investment in a balanced range of economically-regulated and market-based energy businesses. This means that investment should be:

- in line with SSE's commitment to strong financial management, including securing returns which are significantly greater than the cost of capital, enhance earnings and support the delivery to shareholders of a return on their investment;
- complementary to SSE's existing portfolio of assets and consistent with the maintenance of a balanced range of assets within SSE's businesses;
- consistent with developments in public policy and regulation; and
- governed, developed, approved and executed in an efficient and effective manner, consistent with SSE's Major Projects Governance Framework and with the skills and resources available within SSE.

Making capital and investment expenditure decisions in 2014/15 and beyond

Looking across its Networks, Retail and Wholesale businesses, SSE currently expects that its capital and investment expenditure will total around £1.6bn in 2014/15 and total around £3.9bn (net of disposal proceeds received) over the three years to 2017/18. This total of £5.5bn over the next four years includes:

- economically-regulated expenditure on electricity transmission networks;
- economically-regulated electricity distribution expenditure plus essential maintenance of other assets; and

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- expenditure that is already committed to development of new assets (this currently includes the CCGT at Great Island in Ireland, SSE's share of the new multi-fuel plant at Ferrybridge and onshore wind farm capacity).

The transmission upgrades include the planned link between Caithness and Moray that is required to transmit the large volume of electricity from renewable sources in the north of Scotland. On 2 April 2014, Ofgem stated that its 'initial view is that there is a need for a reinforcement of the transmission system in northern Scotland in future' and sought views on the merits of the proposed subsea cable solution or an alternative option onshore. It is seeking consultees' views before the end of May 2014. The subsea project has a forecast investment requirement of around £1.3bn (2012/13 prices).

In addition, SSE is continuing to develop options for new assets such as onshore wind farms. Its commitment to financial discipline means that it will monetise value from existing investments and assets in order to support future investment in new assets to which it decides to commit over the next few years, where that will enhance adjusted earnings per share* over the long term (see 'Simplifying SSE to focus on what's important' below).

SSE believes that a capital and investment programme on this scale, supported by recycling of capital through appropriate asset disposals, and a flexible approach to value-creation, should position it well for the future and will deliver:

- additions to the asset base in key businesses, including economically-regulated electricity networks;
- fuel for electricity in the form of renewable sources of energy, supporting a reduction in the CO_2 intensity of electricity generated;
- a hedge against prices for fossil fuels;
- well maintained existing and new modern capacity for generating electricity; and
- additional cashflows and profits to support continuing dividend growth.

As SSE pointed out in its submission to the Scottish and UK governments in February 2012, the existing market arrangements mean that investment in new long-term electricity and gas assets in Scotland, England and Wales is effectively remunerated through the bills paid by electricity and gas customers throughout Great Britain. It also noted that new arrangements would have to be established in the event of voters in Scotland deciding it would no longer be part of the United Kingdom and should become a separate country. SSE's capital and investment programme always takes account of legislative, regulatory and market change and its capital expenditure plans would be adapted to reflect market or sector changes arising from a 'Yes' outcome in the referendum.

Simplifying SSE to focus on what's important

SSE has identified a range of assets and businesses which are not core to its future plans or which result in a disproportionate financial burden to SSE. It has started a programme of disposal of such assets that will be completed over the next two years and which are taken into account in the total expected net capex referred to above of £5.5bn across the four years to March 2018. Some disposal processes, such as SSE's portfolio of PFI street lighting contracts, are already under way and some should be completed in the course of this financial year. Proceeds and debt reduction from all of these disposals are estimated to total around £500m.

In addition, there are other assets such as onshore wind farms which present, through disposal, opportunities to release capital to support future investment. SSE currently envisages securing proceeds of around £500m through disposals of such assets. In total, therefore, the disposal programme is expected to result in a financial benefit of around £1bn including proceeds received and balance sheet debt reduced. The disposal programme is also intended to enable SSE to ensure its resources are fully focused on what is important and relevant to its core purpose of providing the energy people need in a reliable and sustainable way.

Investing in gas distribution through Scotia Gas Networks (SGN)

In addition to its own capital and investment expenditure programme, SSE effectively has a 50% interest in SGN's capital and replacement expenditure, through its 50% equity share in that business which it acquired in 2005. SGN is self-financing and all debt relating to it is separate from SSE's balance sheet. Nevertheless, it is a very substantial business which gives SSE, through its 50% stake, a major interest in economically-regulated gas distribution. Since 2005, SSE has received from SGN dividends and shareholder loan interest totalling £529.8m, which compares with the £505m investment it made to acquire its 50% equity share in that year.

In 2013/14, a 50% share of SGN's capital and replacement expenditure was £160.9m, compared with £199.0m in the previous year. During 2013/14, SGN's RAV increased to £4.88bn (SSE share: £2.44bn), up from £2.8bn (SSE share: £1.4bn) when it was acquired.

Financial management and balance sheet

Maintaining a prudent treasury policy

SSE's treasury policy is designed to be prudent and flexible. In line with that, its operations and investments are generally financed by a combination of:

- retained profits;
- bank borrowings;
- bond issuance; and
- commercial paper.

As a matter of policy, a minimum of 50% of SSE's debt is subject to fixed rates of interest. Within this policy framework, SSE borrows as required on different interest bases, with derivatives being used to achieve the desired out-turn interest rate profile. At 31 March 2014, after taking account of interest rate swaps, 79.4% of SSE's borrowings were at fixed rates.

Borrowings are mainly made in Sterling and Euro to reflect the underlying currency denomination of assets and cashflows within SSE. All other foreign currency borrowings are swapped back into either Sterling or Euros.

The United Kingdom remains SSE's main area of operation, although business activities in the Republic of Ireland are also substantial. In February 2014 the UK government and opposition parties stated that they could not recommend the remaining UK entering into a currency union with an independent Scotland if Scotland decided to leave the UK. This means that if there is a Yes vote in September's referendum, at least some of the future earnings of SSE's Scottish businesses appear likely to be in a different currency. This would require SSE to take steps to ensure that its financial and other contracts continue to reflect the underlying currency denomination of its assets and cashflows.

Transactional foreign exchange risk arises in respect of:

- procurement contracts;
- fuel and carbon purchasing;
- commodity hedging and energy trading operations; and
- long-term service agreements for plant.

SSE's policy is to hedge all material transactional foreign exchange exposures through the use of forward currency purchases and/or derivative instruments. Translational foreign exchange risk arises in respect of overseas investments, and hedging in respect of such exposures is determined as appropriate to the circumstances on a case-by-case basis.

Managing net debt and maintaining cash flow

SSE's adjusted net debt and hybrid capital was £7.66bn at 31 March 2014, compared with £7.35bn at 31 March 2013. Fundamentally, this increase reflects the quantum and phasing

Financial management and balance sheet

	Mar 14	Mar 13 restated	Mar 12
Adjusted net debt and hybrid capital (£bn)	7.66	7.35	6.76
Average debt maturity (years)	10.7	10.6	10.5
Adjusted interest cover[1] (excluding SGN) (times)	5.1	5.3	5.9
Shares in issue at 31 March (m)	974.9	964.3	944.7
Shares in issue (weighted average) (m)	965.5	952.0	937.8

1 including hybrid coupon

of capital and investment projects to maintain, upgrade and build new assets that energy customers depend on and which support annual increases in the dividend payable to shareholders. It was less than it otherwise could have been as a result of the uptake of the interim dividend Scrip (see 'Keeping SSE well-financed' below), higher-than-forecast dividends received from joint ventures and associates and efficient working capital management.

As the table below sets out, adjusted net debt excludes finance leases and includes outstanding liquid funds that relate to wholesale energy transactions. Hybrid capital is accounted for as equity within the Financial Statements but has been included within SSE's 'Adjusted net debt and hybrid capital' to aid comparability.

Ensuring a strong debt structure through medium- and long-term borrowings

SSE's objective is to maintain a balance between continuity of funding and flexibility, with debt maturities set across a broad range of dates. Its average debt maturity, excluding hybrid securities, as at 31 March 2014 was 10.7 years, compared with 10.6 years at 31 March 2013.

SSE's debt structure remains strong, with around £5.1bn of medium/long term borrowings in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans.

In March 2013, SSE secured £650m of additional bank facilities which were drawn down during 2013/14, and are now classed as term loans. The table above also includes the issue by SSE of:

- hybrid capital of £1.162bn in September 2010; and
- hybrid capital of £1.025bn in September 2012.

The balance of SSE's adjusted net debt is financed with short-term commercial paper and bank debt. SSE's adjusted net debt includes cash and cash equivalents totalling £442.5m. Around £90m of medium-to-long term borrowings will mature in 2014/15. In addition, an option to extend a £500m term loan will be invoked, pushing the maturity out by one year, from September 2014 to September 2015.

Keeping SSE well-financed

SSE believes that maintaining a strong balance sheet, illustrated by a commitment to the current criteria for a single A credit rating, such as a funds from operations/debt ratio of 20% (Standard & Poor's) and a retained cash flow/ debt ratio of 13% (Moody's), is a key financial principle.

In April 2014, Moody's announced its decision to put SSE's 'A3' corporate credit rating on 'negative outlook', reflecting the well-known political and regulatory issues in the Great Britain market. SSE remains confident that its plans are consistent with continuing to meet the current criteria for the single A rating. In May 2014, Standard & Poor's Ratings Services confirmed SSE's Corporate Credit Rating as 'A-' with a negative outlook under their new rating methodology.

SSE's principal sources of debt funding as at 31 March 2014 were:

- bonds – 43%;
- hybrid capital securities – 27%;
- European Investment Bank loans – 7%; and
- US private placement – 5%.

The remaining 18% included index-linked debt, long term project finance and other loans.

SSE is committed to maintaining financial discipline and diversity of funding sources and will move quickly to select financing options that are consistent with this, including issuing new bonds and loans. In line with that, in July 2013, it entered into a new Revolving Credit Facility provided by a group of 10 banks. The £1.3bn facility was a self-arranged deal which matures in July 2018 and replaced an existing £900m committed facility that had been due to mature in August 2015. It is in addition to a bilateral facility of £200m which was increased to £300m in March 13 and matures in April 2018.

In June 2013, SSE issued a €600m seven-year Eurobond with a coupon of 2% and in December 2013 it issued a further eight-year €500m Eurobond with a coupon of 2.375% which was swapped into Sterling at an all-in-cost of 3.51%.

These bond issues replaced maturing debt which had a coupon of around 6% which, in turn, has helped reduce the average cost of debt down to around 4.50%.

In addition, the Scrip Dividend Scheme approved by SSE's shareholders in 2010 gives them the option to receive new fully paid ordinary shares in the company in place of their cash dividend payments. It therefore reduces cash outflow and so supports the balance sheet, although the extent to which it will do so is inevitably difficult to predict. Scrip dividend take-up in 2013/14 was as follows:

- September 2013 (final dividend for the year to 31 March 2013): Scrip take-up resulted in a reduction in cash dividend funding of £17.8m, with 1,128,181 new ordinary shares, fully paid, being issued; and
- March 2014 (interim dividend for the year to 31 March 2014): Scrip take-up resulted in a reduction in cash dividend funding of £112.4m with 8,551,629 new ordinary shares, fully paid, being issued.

This means that the cumulative cash dividend saving or additional equity capital resulting from the introduction of SSE's Scrip Dividend Scheme now stands at £619.7m and has resulted in the issue of 48.8m Ordinary shares. It is expected that SSE's current Scrip Dividend Scheme, which expires in 2015, will be extended, subject to shareholder approval.

Net Finance Costs

The table on page 20 reconciles reported net finance costs to adjusted net finance costs, which SSE believes is a more meaningful measure. In line with this, SSE's adjusted net finance costs during 2013/14 were £329.0m, compared with £363.9m in 2012/13.

Adjusted net debt and hybrid capital

	Mar 14 £m	Mar 13 £m	Mar 12 £m
Adjusted Net Debt and hybrid capital	**(7,659.2)**	(7,347.7)	(6,755.8)
Less: hybrid capital	**2,186.8**	2,186.8	1,161.4
Adjusted Net Debt	**(5,472.4)**	(5,160.9)	(5,594.4)
Less: Outstanding Liquid Funds	**(51.2)**	(55.0)	(119.9)
Add: Finance Leases	**(328.9)**	(330.4)	(342.1)
Unadjusted Net Debt	**(5,852.5)**	(5,546.3)	(6,056.4)

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	Mar 14 £m	Mar 13 £m restated
Adjusted net finance costs	**329.0**	363.9
Add/(less):		
Movement on derivatives	**64.2**	(20.3)
Share of JCE[1]/Associate interest	**(147.9)**	(156.1)
Interest on net pension liabilities (IAS 19R)	**28.2**	34.9
Reported net finance costs	**273.5**	222.4
Adjusted net finance costs	**329.0**	363.9
Add/(less):		
Finance lease interest	**(35.7)**	(37.1)
Notional interest arising on discounted provisions	**(9.5)**	(7.7)
Hybrid coupon payment	**122.9**	63.4
Adjusted finance costs for interest cover calculation	**406.7**	382.5

1 Jointly Controlled Entities

The first coupon payment relating to the US Dollar hybrid capital issued in September 2012 was made on 1 April 2013. A further payment in respect of that, and of the remaining hybrid capital securities that were issued in September 2010 and September 2012, was made on 1 October 2013. Charges are presented as distributions to other equity holders and are reflected within adjusted earnings per share* when paid.

The average interest rate for SSE, excluding JCE/Associate interest, during 2013/14 was 4.71%, compared with 5.26% for the previous year. Based on adjusted interest costs, SSE's adjusted interest cover was (previous year's comparison in brackets):

- 5.1 times, excluding interest related to SGN (5.3 times); and
- 4.6 times, including interest related to SGN (4.7 times).

Excluding shareholder loans, SGN's net debt at 31 March 2014 was £3.52bn, and within the adjusted net finance costs of £329.0m, the element relating to SGN's net finance costs was £94.4m (compared with £90.6m in the previous year), after netting loan stock interest payable to SSE. Its contribution to SSE's adjusted profit before tax* was £182.2m, compared with £143.5m in 2012/13.

Contributing to employees' pension schemes

In line with the IAS 19R treatment of pension scheme assets, liabilities and costs, pension scheme liabilities of £637.7m are recognised in the balance sheet at 31 March 2014, before deferred tax. This compares to a liability of £705.8m at 31 March 2013.

During 2013/14, employer cash contributions amounted to:

- £50.4m for the Scottish Hydro Electric scheme, including deficit repair contributions of £29.5m; and
- £82.3m for the Southern Electric scheme, including deficit repair contributions of £56.7m.

As part of the electricity Distribution Price Control for 2010-15, it was agreed that allowances equivalent to economically-regulated businesses' share of deficit repair contributions in respect of the Southern Electric and Scottish Hydro Electric schemes would be included in price controlled revenue, with an incentive around ongoing pension costs.

Tax

Being a responsible tax payer

SSE pays taxes in the United Kingdom and the Republic of Ireland, the only states in which it has trading operations. Central to SSE's approach to tax is that it should be regarded as a responsible tax payer. As a consequence, SSE maintains a good relationship with HM Revenue & Customs, based on trust and cooperation.

SSE strives to manage efficiently its total tax liability, and this is achieved through operating within the framework of legislative reliefs. SSE does not take an aggressive stance in its interpretation of tax legislation, or use so-called 'tax havens' as a means of reducing its tax liability. SSE's tax policy is to operate within both the letter and spirit of the law at all times.

SSE's tax paid to the government in the UK, including Corporation Tax, Employers' National Insurance Contributions, Business Rates, and Environmental Taxes totalled £431.6m during the year to 31 March 2014, compared with £312.0m in the previous year. In the last three financial years, SSE has paid £1.1bn in tax on that basis. The increase in tax paid in 2013/14 primarily relates to the impact of the Carbon Price Support rates of Climate Change Levy introduced from April 2013, which are payable by electricity generators.

SSE pays taxes in the Republic of Ireland, in relation to its operations there, having paid £20.6 m during the year to 31 March 2014, and £11.3 million in the previous year.

SSE also indirectly contributed £59.6m to UK government tax revenues through its significant investment in joint ventures and associates. This compares with £57.3m in the previous year. SSE also collected a further £279.7m of employment, environment and other taxes to add to its total tax contribution.

In January 2014, PricewaterhouseCoopers announced the result of its UK 2013 Total Tax Contribution Survey for The Hundred Group, in which SSE ranked 22nd for the level of total taxes borne (the amount a company pays that are its own tax costs).

Setting out SSE's tax position

To assist the understanding of SSE's tax position, the adjusted current tax charge is presented as follows:

For reasons already stated above, SSE's focus is on adjusted profit before tax* and in line with that the adjusted current tax charge is the tax measure that best reflects underlying performance. The effective adjusted current tax rate, based on adjusted profit before tax*, was 15.3%, compared with 15.8% in 2012/13 on the same basis. The full benefit of the 1% Corporation Tax rate reduction announced in the 2012 Budget and the tax relief due on the increased hybrid debt coupons payable by SSE has been partly offset by the increased tax charge arising as a result of the acquisition of the Sean Field North Sea assets.

The deferred tax balance has been re-measured to reflect the further reductions in the UK Corporation Tax rate that were announced in the 2013 Budget. This 3% total reduction in rate has a significant positive impact on the total tax charge for the year.

Reconciliation of adjusted current and reported tax charges

	Mar 14 £m	Mar 13 £m restated
Adjusted current tax charge	**236.7**	223.6
Add/(less)		
Share of JCE/Associate tax	**11.6**	(24.5)
Deferred tax including share of JCEs and Associates	**134.6**	107.8
Tax on exceptional items/certain re-measurements	**(253.6)**	(201.8)
Reported tax charge	**129.3**	105.1

Priorities and Outlook for 2014/15

Setting the right long-term priorities to provide the energy people need

In support of its strategy, SSE has identified three long-term priorities across its balanced range of businesses which reflect, and are consistent with, the key issues and trends in its Networks, Retail and Wholesale segments. The long-term priorities are:

- efficiency and innovation in Networks;
- excellence and trust in Retail; and
- sustainability in Wholesale.

In addition to the safe and efficient management of assets in operation or under maintenance or construction and the safe and efficient delivery of services to Retail and Networks customers, SSE's priorities for 2014/15 are to:

- make a positive contribution to the CMA investigation of the energy market in Great Britain, with the objective of achieving greater political and regulatory stability for the benefit of customers and investors alike;
- secure an outcome from the ED1 electricity distribution Price Control review that is fair to customers and fair to investors;
- deliver in a timely manner the required investment in the transmission system in the north of Scotland;
- ensure that the transformation of systems required by the planned roll-out of smart meters in Great Britain is successfully delivered;
- adapt successfully to the progressive implementation of the UK government's Electricity Market Reform and any other political change; and
- ensure planned steps to simplify and streamline its business are successfully delivered.

Focusing on the right financial priority for 2014/15

By taking into account all of SSE's stakeholders and focusing on what's important to them, SSE has the best possible means to give shareholders a return on their investment through increasing dividends for years to come.

Risk management

The achievement of SSE's strategic goals necessarily involves taking risks

Energy markets are both complex and volatile, and SSE believes that the process of identifying and controlling risk needs to be flexible, effective and dynamic.

Key Risks

Defined principal risks
20
SSE has defined 20 principal risks which are set out on page 26.

Emerging risks
3
SSE has identified three emerging risks which are summarised on pages 24 and 25.

Embedded risks
3
SSE has identified three embedded risks which are summarised on pages 22 and 23.

Key activities
8
SSE undertook eight principal risk management activities in 2013/14 which are set out on page 24.

Risk management process

SSE's risk management process is designed to ensure that:

- risks are taken knowingly and with a full understanding of their implications;
- risks taken are proportionate and in keeping with achievement of SSE's goals;
- proper consideration is given to where in the business certain risks are taken;
- risk is managed on both a 'top down' and 'bottom up' basis; and
- the wider control environment is strong and fully integrated.

The requirement for good risk governance and its responsibility for clear and effective risk management is accepted and endorsed by the Board. As such, this report includes commentaries on risk appetite, principal risks, risk management activities carried out during 2013/14, plans for the development of a formal Enterprise Risk Management (ERM) framework, principal risks and uncertainties facing SSE, risk governance and an update with regard to SSE's wider control environment.

Risk appetite
SSE continues to have a limited appetite and tolerance for risk, commensurate with its key goal of delivering annual dividend growth for investors.

The three segments which make up the SSE Group have varying risk profiles. For example, the Networks business – which is heavily regulated and is characterised by stable, inflation-linked cashflows – is inherently lower risk than the Wholesale or Retail businesses. Conversely the Wholesale business is heavily exposed to, amongst others, energy market and commodity risk.

SSE will only accept risk in the parts of its business where that risk is well understood, can be appropriately managed and corresponding returns are deemed sufficiently attractive.

Principal and embedded risks
SSE has identified 20 principal risks which are set out in the table on page 26. In addition to these, SSE recognises the following embedded risks:

- **Geopolitical risk.** SSE operates a diverse business model which looks to avoid undue dependence on any single technology, fuel or other resource. Nevertheless, geopolitical developments could have a material impact on several parts of SSE's business – for example, procurement and the supply chain and commodity costs and availability – although in practice SSE's ability to control or proactively manage this risk is likely to be limited.

- **Weather and climate change risk.** Weather affects the production and consumption of energy, the operation of energy networks and the balance between SSE's electricity generation and energy supply activities. This risk is mitigated through the maintenance of a diversified generation portfolio and through detailed emergency planning. For more information about the impact of the weather on SSE's businesses in 2013/14, see page 9.
- **Reputational risk.** SSE continues to believe that the most effective way to manage reputational risk is to manage its principal Group risks. Corporate reputation is a key issue for a long-term business such as SSE.

Each business undertakes a six monthly review to identify and report on key specific risks, and the control mechanisms relating to these. As part of this process, each business unit aligns its individual risks with the 20 principal Group risks.

This information has in turn informed 'deep dive' reviews of the principal risks, each of which is sponsored and led by one of SSE's Managing Directors. These intensive exercises continue to form a central strand in SSE's approach to risk management by providing a focus not only on the 20 principal risks themselves, but also on key controls and potential emerging threats to SSE's ability to meet its strategic goals.

Current risk management process

SSE follows a traditional risk cycle to identify and manage the risks to which it is exposed at all levels, as outlined below:

1. Identify risks

Know the key risks and maintain a register of them.

2. Assess impact and likelihood of risks

Look to understand and define the key drivers and impacts of the risks in relation to SSE's risk tolerance.

3. Evaluate risks and controls

Understand the key controls relied on to manage key risks. Know and monitor the measures that indicate the controls are working.

4. Record, prioritise, communicate, take action

Ensure risks and issues identified are addressed and improvements are made.

5. Monitor and review

Review and report – keep risk registers refreshed and updated.

Risk management continued

Review of risk management activities during the year

SSE continued to actively review and manage current and emerging risks throughout the course of 2013/14. A summary of issues and actions include:

- Ongoing risk reviews by each business unit continue to be a key feature of SSE's approach to risk management. This is based on the principle that business unit experts are best placed to identify and manage the risks that they face on a day-to-day basis. The Group Risk function provides feedback and challenge in respect of all business output.
- The Executive Committee continues to closely monitor SSE's management of the principal risks. During the course of the year, this resulted in updating the Legislative Change risk to 'Political and Legislative Change' to better reflect the significance of political risk with regard to SSE's ongoing business and operations.
- Each of the principal risks continues to be championed by one of SSE's Managing Directors, ensuring regular review and recognition of current and/or emerging issues, and the adequacy of the related control environment.
- The energy 'trilemma' of energy affordability, security of supply and decarbonisation has created a unique and complex risk environment. In response, SSE has created dedicated project teams to consider how best these issues can be balanced and managed.
- In-depth testing of risk controls has been carried out in key business areas, including Energy Portfolio Management.
- Throughout the course of 2013/14, business continuity planning was reviewed with a variety of specific business continuity scenarios tested.
- SSE's Insurance department continues to seek opportunities to place owner controlled policies, taking a risk orientated approach to obtain fit for purpose cover, building on strong strategic relationships and leveraging buying power. This approach has brought about considerable benefits through a fuller understanding of policy terms and conditions, in turn ensuring that these meet SSE's needs.
- The decisions to adapt SSE's portfolio of generation assets and developments in the light of ongoing environmental requirements, market conditions and policy change demonstrate that SSE continues to manage actively the risks associated with generation development, construction and operation with the objective of maintaining a diverse, reliable, efficient and flexible portfolio of assets capable of operating successfully in the changing energy market.

Development of an Enterprise Risk Management (ERM) framework

In recognition of the increasingly complex environment in which SSE operates, an ERM function is now being developed to support the strategic and organisational needs of SSE. This change is evolutionary in nature, formalising and building on the current risk management practices that have historically provided SSE with a strong foundation for the identification, monitoring and management of risks across the business.

Once fully established, ERM will provide a comprehensive framework for risk awareness and management, ensuring a consistent approach throughout SSE. Core responsibility for the identification and management of key risks will remain at business unit level, with overall 'top down' responsibility for the identification and assessment of SSE's principal risks managed by the Executive Committee with regular updates given to the Board. A small centralised team will provide synchronisation between these processes; ensure alignment of SSE's strategy with risk management; engage with the business units to provide guidance, support and challenge; and produce a consolidated analysis of total SSE risk exposure.

Specifically, the ERM framework will support and encourage:

- risk-informed decision making at all levels within the organisation;
- greater business unit empowerment and accountability for risk management;
- the development of more comprehensive risk appetite statements at both business unit and Group levels;
- better clarity and definition with regard to SSE's overall risk profile;
- SSE's ability to risk assess new business opportunities as and when they arise; and
- the further development of a comprehensive and fully co-ordinated control environment.

Emerging risks and uncertainties

In addition to SSE's current list of principal ongoing group risks (as set out on page 26), current key uncertainties include:

- **European gas supply.** Russia is an important source of European gas supply, covering around 30% of European demand (UK, Netherlands, Germany, France, Spain, Italy and Belgium). Ukraine represents one of the major transit routes with approximately 50% of Russian gas imported via Ukraine in 2013. The UK interconnection with continental Europe via BBL and Interconnector UK gas pipelines means that developments in the European gas market have a significant impact on gas prices in the UK. A change of government in Ukraine, opposed by the Russian Federation, a subsequent referendum in Crimea and annexation of this territory by the Russian Federation, again posed a question about security of gas supply in Europe.

  A key risk is that of gas payment disputes arising between state-controlled companies. Previous disputes over prices, payments and debt have led to gas supply interruptions of up to 18 days during the winters of 2005/2006, 2007/2008 and 2008/2009. Intensification of political tensions could lead to fresh disputes and to curtailing of Russian gas supplies to Ukraine. This in turn would jeopardise gas imports to the rest of Europe and would put pressure on European gas prices.

  SSE recognises that with an increased interconnection of gas markets it is exposed to the risks associated with global geopolitical events through its Energy Portfolio Management activities. However, SSE operates a policy of purchasing a proportion of its gas requirements in advance of delivery in order to manage market price volatility. In addition, SSE's upstream production interests help to ensure cost effective gas procurement for its customers. More generally, SSE's ownership and operation of a well-balanced portfolio of thermal, wind and hydro generation assets helps to reduce exposure to wider market and geopolitical risks.

- **Scottish independence.** SSE employs people, serves customers, owns and operates assets and has plans to invest in England, Wales and Scotland, which together have a single energy market established through the United Kingdom Parliament and regulated by Ofgem.

  SSE believes that the interconnection and integration of the electricity and gas systems and markets in Scotland and in England and Wales should continue regardless of the outcome of the referendum on Scotland's future this September. This means it believes that there should continue to be a single energy market for the island of Great Britain, just as there is a single electricity market for the island of Ireland.

  Nevertheless, arrangements for the future of the energy market would have to be agreed by the Scottish government and the UK government in the event of Scotland becoming independent. In addition, other issues that would have to be resolved and which could affect SSE's business, include the currency that an independent Scotland would use, the process for determining Scotland's position with regard to the European Union, and arrangements for recovery of capital investments currently socialised across GB,

such as renewable energy and the transmission network.

If Scotland votes to become an independent country, the process of negotiation with the UK government and the European Union on these and other matters is likely to be complex and will take some time. This means that the risk of legislative and regulatory change, which SSE has previously acknowledged will remain one of its principal risks, is heightened until the Scottish referendum and will continue to be so for some time if there is a 'Yes' vote.

SSE has already put in place arrangements to ensure that it takes account of the increased uncertainty in its decision-making and has a clear view of the issues that would arise should there be a 'Yes' vote and is in a good position to engage constructively with the Scottish and UK governments in that event. Its approach is to ensure that it continues to meet the needs of its networks and energy supply customers in particular, while safeguarding the interests of investors.

- **UK political and regulatory environment.** The nature of SSE's core business in producing, delivering and supplying energy leads to significant exposure to political and regulatory risk. There were a number of developments in 2013/14 which underlined this exposure.

  As the primary cost of energy has risen, the issue of affordability for customers has been fully supported by – and in some areas actively led by – SSE through its advocacy of replacement of 'green taxes', which take no account of ability to pay, with funds levied from general taxation. This was further demonstrated by SSE's announcement in March 2014 that it is to freeze electricity and gas prices for all of its GB household customers until at least January 2016. This was made possible through a combination of a robust business model, operational efficiency, work to secure customers' energy supplies in wholesale markets and SSE's success in helping to secure planned changes to the 'green taxes' of the Warm Home Discount and Energy Company Obligations (ECO). In addition to these measures, a project team will look at what else can be done to ensure that customers can afford to meet their energy needs.

In addition to affordability, another key area of political and regulatory focus is competition in the GB energy market and in particular the performance of the so-called 'big six' energy providers (of which SSE is one). Having completed their joint assessment of the market in late March 2014, Ofgem, the Office of Fair Trading (OFT) and the Competition and Markets Authority (CMA) concluded that there are a number of factors which call into question its competitiveness. The factors included declining consumer confidence in the industry, whether vertical integration is in the best interests of the consumer, increases in retail profits, and the potential for customers who show an unwillingness to switch provider to pay more. Given this conclusion, Ofgem have called for a fuller market investigation by the CMA, to 'once and for all clear the air and allow the CMA to ensure that there are no further barriers to effective competition'.

SSE believes that the energy market in Great Britain is competitive, has brought significant benefits for customers, and that much has been done in recent years to make it more transparent and easier to understand, ranging from greater liquidity in the wholesale electricity market to simplification of tariffs in the retail markets. In addition, there has been significant investment in Wholesale and Retail businesses in Great Britain.

Nevertheless, many of the key features of the energy market have become contentious and been subject to significant change designed to achieve a mixture of objectives. SSE has demonstrated consistently its appetite for reform that is in the interests of customers and the competitive market and believes that if a market reference is made it should provide a platform for achieving greater political and regulatory stability for the competitive GB energy market, for the benefit of customers. In line with that, SSE hopes that such a market reference does not focus solely on the household energy market, but that its work covers small businesses and industrial and commercial customers and that it looks at all parts of the energy supply chain that are not economically regulated.

It is, however, recognised that a market reference is likely to be lengthy and will require significant resource within the Company, supported by external advice and analysis where appropriate. As such, SSE has created a formal project structure - led by the Regulation department but drawing on the knowledge and experience of employees from across the organisation, to manage the expected workload and ensure SSE is a constructive contributor to the market reference process.

Recognising the need to maintain and build stakeholder trust in the industry, SSE is also committed to the transparent operation of its businesses. The State of the Market Assessment published by Ofgem in March 2014 noted the benefits of vertical integration of electricity generation and supply while also commenting that it had not been able to assess the net impact on customers of vertical integration overall. In the meantime, in order to further improve transparency in this area, SSE has committed to separate these two areas for legal and reporting purposes. This will not only increase the transparency of SSE's overall business, but will also enable it to demonstrate the clear benefits of vertical integration to the customer.

Risk Governance and the wider control environment

During the course of 2013/14, significant steps were taken to strengthen SSE's control environment. This has included a refocusing on and strengthening of the Business Assurance activities in key business units. Additionally, a structure to ensure formal and fully independent compliance coverage across the Group has been put in place, with a Director of Compliance appointed and reporting to SSE's Managing Director, Corporate and Business Services.

Changes have also been made in respect of Internal Audit, including the introduction of integrated one- and three-year audit plans, adding greater flexibility to the audit process to support the changing needs of SSE's business.

Plans to consider reporting on the awareness of management with regard to key risks, issues and controls in their business areas – in addition to reporting on the current effectiveness of controls – are well advanced and are expected to be introduced in the course of 2014/15.

Key to the overall effectiveness of SSE's control framework is good communication and co-ordination of activities between the functions that form the 'three lines of defence'. To ensure that this is achieved, regular cross-functional meetings are held to ensure that coverage of keys risks is comprehensive across the organisation and to co-ordinate operational activities and planning.

In April 2013, Ofgem imposed a fine of £10.5m on SSE for failings relating to its energy sales activities. As reported last year the Board believed appropriate action had been taken to address these failings. A dedicated team was set up to fully review and implement improvements to ensure full, ongoing compliance across the Retail business. This project, which was sponsored and led by senior management and supported by employees from key relevant functions across the organisation, was successfully completed and subsequently formally closed in April 2014.

Key areas of focus for the project included:

- values and behaviour;
- processes and IT;
- management controls; and
- assurance activities.

This was a significant piece of work that has delivered material improvements in the way

Risk management continued

Table of current top 20 principal risks

Principal risk definition	
Safety management	Unsafe working practices, equipment and inadequate training may lead to accidents or incidents involving employees, contractors, members of the public or plant and equipment.
Regulatory change	An adverse change to the current regulatory framework in all parts of SSE could have a significant affect on its business.
Political and legislative change	Risks to SSE from unfavourable political and legislative developments at EU level and in the jurisdictions in which it operates.
Energy portfolio management	Failure to identify and effectively manage the physical and financial exposures that result from SSE's operational involvement in electricity generation, gas storage, gas production, physical coal procurement, wholesale energy trading and retail supply.
Asset and plant management	Loss or extended disruption to key Group infrastructure caused by failure/loss of containment at key plant.
Networks management	Loss or extended disruption to key Group network infrastructure.
Cyber and information security	Unauthorised access or disclosure of data either within the SSE Group or between SSE and external environments and markets; disruption to business operations as a result of a malicious attack.
Supply chain	Delivery of major projects and critical business as usual programmes is impacted through failure to establish, contract and maintain adequate supply chains and strategic alliances.
Treasury and tax management	Failure to identify and effectively manage treasury and tax exposures and to meet the organisation's funding requirements and obligations.
Energy affordability	Economic, social, energy market and policy conditions which make it difficult for households and businesses to pay the cost of electricity and gas.
Pension liabilities	Liabilities increase due to market conditions or demographic changes and investments under perform.
Sector developments	Inability/tardiness in identifying step changes in the industry sectors and reacting appropriately.
Major capital projects management	Failure to deliver quality projects on time and on budget.
Transformation projects management	Failure to deliver required upgrades to customer systems in relation to smart metering and the Energy Supply business requirements.
Compliance management	Any significant or multiple compliance failures could result in adverse effect on SSE, including the possibility of a financial penalty.
Crisis management	Inadequate response to a major emergency/contingency event.
Succession planning	Not having cover for the Board and Executive Committee and their direct reports.
Resource and internal infrastructure	Inability to establish and maintain a competent workforce. Failure to forward plan and identify a capabilities matrix to match growth plans. Portfolio of assets (buildings, transport and IT) not maintained and enhanced to support business plans.
Corporate arrogance or hubris	Unwarranted belief in SSE's own abilities, failure to keep listening, inadequate regard for the company's long-term reputation and insufficient challenge to conventional wisdom.
Joint ventures	Failure to assess effectively individual JV proposals, manage effectively individual JV assets or understand cumulative impact on SSE of its JVs results in reputational damage or destruction in value.

that energy sales are supported by effective compliance arrangements. Ongoing scrutiny and review will be carried out to ensure that these improvements are enduring, and that further enhancements are made when and where possible.

The Board's review of internal control
SSE's Board has responsibility for agreeing, setting and communicating SSE's overall internal control structure and risk management activities. As such it:

- approves policies, procedures and frameworks for the maintenance of a sound and effective system of internal control;
- reviews principal key risks and mitigating actions/controls;
- determines the risk appetite of the Group;
- receives regular update reports on risk management activities, including 'deep dive' presentations with regard to SSE's principal risks; and
- evaluates the effectiveness of internal reporting and controls.

While the Board retains overall responsibility, reviewing the system of internal control and monitoring its effectiveness is primarily dealt with by the Audit Committee, and its output is reviewed at least annually by the Board.

The Board and the Audit Committee have reviewed the effectiveness of the Company's risk management and internal control system in accordance with the UK Corporate Governance Code (the Code) for the period from 1 April 2013 to 20 May 2014 (being the last practical day prior to the printing of this Annual Report). The Board confirms that no significant failings or weaknesses have been identified in the company's management and internal control system.

The internal control procedures described in this section have not been extended to cover its interests in joint ventures. The Group has Board representation on its joint venture companies where separate systems of internal control have been adopted.

During the year, the company responded to the Financial Reporting Council's consultation on changes to the Code to update guidance regarding internal control. SSE welcomes and supports the changes proposed.

The roles of relevant committees and functions

As with all other activities, SSE's Executive Committee is responsible for ensuring implementation of the strategy and policies determined by the Board with regard to risk management and internal control.

The Risk and Trading Committee reports to the Executive Committee. The specific remit of this committee is to support the company's risk management responsibilities in specific areas by reviewing the market, credit, operational and liquidity risks and issues arising from SSE's Wholesale, Retail and Treasury operations.

In addition to the Risk and Trading Committee SSE has a number of specialist committees that provide further oversight and direction to support risk management activities throughout the organisation. The structure of these committees can be seen in the chart on page 59.

The Group Risk and Audit function is responsible for SSE's risk management activities at a Company-wide level, and for provision of its Internal Audit service. As such, its activities include:

- working with the business units to develop and improve operational risk management;
- ensuring that business risks are identified, managed and regularly reviewed;
- ensuring the regular review of internal controls relating to key risks;
- reporting on risk matters to the Board and Audit Committee;
- monitoring and testing the effectiveness of SSE's internal controls through audit reviews, exercises and reports and, where appropriate, action plans to senior managers, directors, the Audit Committee and external Auditors;
- providing the Board and Audit Committee with independent and objective assurance with regard to SSE's control environment;
- undertaking focused risk based assurance exercises as required; and
- providing risk training to senior management.

Key performance indicators
How we measure the progress of our business

Strategic performance: KPIs measuring SSE's performance in relation to customers' and shareholders' needs.

The KPIs for 2013/14 set out here and opposite demonstrate SSE's performance in respect of its first financial responsibility to shareholders – annual dividend growth – and in respect of its core purpose of providing the energy people need in a reliable and sustainable way.

Graphs reflect restatement for the adoption of IAS 19R.

Segmental performance: KPIs measuring SSE's performance in the three reportable segments covering its Wholesale, Networks and Retail businesses.

Sustainability overview
An overview of sustainability

We have an economically, socially and environmentally sustainable business

Making a difference to peoples' lives by being responsible in all that we do.

▶ To find out more visit
http://www.sse.com/responsible

Responsible Service Provider

Doing more to provide essential services reliably and affordably

Energy prices frozen until 2016
Freezing our prices until at least 2016 is the longest unconditional energy price commitment ever made.

#1 Customer Service
Our customer service has been voted the best of the major energy suppliers by U-switch for eight years running and is backed by the industry's only customer service guarantee.

Committed to energy efficiency
Through the ECO scheme we helped improve the energy efficiency of around 85,000 homes in 2013/14.

Responsible Operator

Producing and delivering safe and secure energy in the best way we can

UK's largest generator of renewable energy
We produce more renewable energy than anyone else in the UK from the most diverse range of sources.

Committed to reducing our carbon emissions
We have committed to reduce the carbon intensity of our generation by 50% (compared to 2006 levels) by 2020.

Working hard to keep the lights on 24 hours a day
During Christmas 2013 over 1,000 SSE employees were working to restore power to over 600,000 customers affected by the winter storms.

Responsible Developer

Going further than we have to, for the benefit of local stakeholders

Maximising local contracts and employment
Through our award winning Open4Business online portals we ensure local businesses get their fair share of contracts and jobs.

Connecting new renewable generation
Investment in our networks allowed us to connect over 250MW of new renewable generation in the north of Scotland last year.

Responsible Employer

Ensuring SSE is a great place to work

A major 'Living Wage' employer
We were the largest company in the FTSE to become a Living Wage employer in September 2013.

350 apprenticeships created
We employ almost 20,000 people across the UK including 350 apprentices and technical trainees.

Job stability
During times of organisational change, we have committed that anyone affected will have the opportunity for re-training or redeployment.

Our business has an essential purpose at its core – providing the energy people and businesses need to go about their daily lives. We have a responsibility to ensure this need is met in a sustainable way, both now and for the long-term. Sustainability is therefore a guiding value for SSE and has been for many years. We define our sustainable approach as:

"Our actions and decisions are ethical, responsible and balanced, helping to achieve environmental, social and economic well-being for current and future generations."

In practical terms this means we work hard to make sure the lights stay on, energy costs are affordable and the environmental impact of producing and distributing energy is kept to a minimum. Only by achieving this will we meet the responsibilities we have to our customers, employees, communities and shareholders.

Our determination to act in a sustainable way is embedded throughout our different business operations. For us it is simply about being responsible in all that we do. Doing what is expected of us and going beyond this whenever we can – and making a positive difference to people's lives as a result.

Responsible Community Member

Proud to be playing our part

8,000 days donated to UK charities

More than 40% of our employees participated in our employee volunteering programme last year – donating a total of 8,000 days to charities in the UK and Ireland.

Investing in communities

Last year our community benefit schemes contributed over £4.5m to local communities near our renewable energy projects and over £15m has been invested in the last 10 years.

Responsible Buyer

Procuring what we need in the right way

Setting high standards

Our responsible procurement charter aims to ensure all our suppliers act ethically, sustainably and within the law.

Shared values

We use our own CEMARS accreditation to help our suppliers achieve best practices in reducing resource use, waste and emissions.

Paying suppliers promptly

We have signed up to the BIS Prompt Payment Code and aim to pay all our suppliers within 30 days.

Responsible Profits

Earning profits that serve a purpose

A reasonable margin

Our average margin from supplying energy to our customers was less than 3% last year – less than many other essential service providers.

One of the most significant tax payers in the UK

Our businesses paid £431m in UK taxes last year.

An essential component of UK savings and pension funds

90% of the top fund management companies in the UK receive dividends from SSE.

Responsible Investment

Focusing on the long-term

Investing over £4m per day in new energy infrastructure

We've invested more than we made in profit for each of the last five years.

Over £3.7bn invested in renewable energy

Our investment has added over 1,700MW of new renewable energy capacity in the last seven years.

Real economic impact

We contributed over £9bn of value to the UK economy in 2012/13.

Responsible Governance

Transparent about doing what is right

A well governed company

SSE is committed to the highest standards of Corporate Governance.

Award winning remuneration disclosure

SSE has received the Building Public Trust Award, twice, for the transparency of its executive remuneration reporting.

Code of Business Practice

Our Code of Business Practice makes clear to everyone working in SSE the importance of doing the right thing.

Wholesale
Market-based businesses

Securing and producing the energy people need

Key Metrics

Wholesale operating profit* – £m

634.6
+24.8%

The businesses in SSE's Wholesale segment source, produce and store energy through energy portfolio management, electricity generation, gas production and gas storage.

Thermal generation capacity – GW

8.34
-14.8%

SSE has wholly-owned gas-fired power stations at Keadby, Medway and Peterhead and coal-fired power stations at Ferrybridge and Fiddler's Ferry.

Thermal generation output – TWh

26.7
-9.0%

Thermal generation output covers the amount of electricity generated by gas- and coal-fired power stations in which SSE has an ownership or contractual interest.

Gas production – million therms

414.1
+225.3%

Gas Production is responsible for the efficient delivery of gas from the physical gas fields that SSE has a shared ownership in.

Renewable generation capacity – GW

3.33
+2.7%

Renewable generation capacity covers hydro electric schemes (conventional and pumped storage), wind farms (onshore and offshore) and dedicated biomass plant.

Renewable generation output – TWh

9.2
+26.1%

Renewable generation output is output from SSE's conventional hydro electric schemes, wind farms and dedicated biomass plant. Output is affected by the amount of plant in operation and by weather conditions.

Sustainably sourcing and producing energy

SSE's long-term priority for the businesses in its Wholesale segment is sustainability in energy production through a diverse portfolio that helps keep the lights on by being available to produce energy when it is required and is flexible enough to respond to changes in demand when they occur.

SSE's Wholesale segment delivers this through the following business activities:

- **Energy Portfolio Management (EPM)** is responsible for: ensuring SSE has the energy supplies it requires to meet the needs of its customers; procuring the fuel required by the generation plants that SSE owns or has a contractual interest in; and selling the power output from this plant in the wholesale market.
- **Electricity Generation** is responsible for the operation and management of SSE's generation assets, their maintenance and ensuring these assets are available for use by EPM.
- **Gas Production** is responsible for the efficient delivery of gas from the physical gas fields that SSE has a shared ownership in.

Separately, **Gas Storage** is responsible for the operation and management of SSE's gas storage facilities, their maintenance and ensuring they are available for use by SSE and third parties.

EPM and Electricity Generation form a single profit centre with a focus on the efficient procurement (and, in the case of renewable sources, capture) of energy and efficient operation of electricity generation plant. In doing so it ensures it is consistent with all regulatory requirements, including the EU Regulation on Energy Market Integrity and Transparency (REMIT).

Financial performance in Wholesale

During the year to 31 March 2014 operating profit* in Wholesale was £634.6m. This comprised (comparisons with 2012/13):

- **EPM and Electricity Generation** – £496.1m compared with £450.6m. This reflects greater output of renewable energy, including that from offshore wind farms, offset by the electricity generation costs associated with CO_2 emissions.
- **Gas Production** – £130.2m compared with £39.6m. The increase in profits reflects SSE's recent acquisitions in this area, in particular the purchase of a 50% interest in the Sean gas production assets in April 2013. SSE's share of gas production was 414.1 million therms compared with 183.8 million therms;
- **Gas Storage** – £8.3m compared with £18.4m. Continued low gas price volatility has further reduced the spread between summer and winter gas prices resulting in a lower Standard Bundled Unit price being achieved.

Protecting customers from wholesale energy price volatility

The wholesale price of energy can fluctuate significantly due to a number of factors including the economy, the weather, customer demand, infrastructure availability, and world events. EPM and Electricity Generation seek to minimise the impact of these variables by maintaining a diverse and well-balanced portfolio of contracts and assets, both long and short term. In doing so, SSE has:

- greater ability to manage wholesale energy price volatility, thereby protecting customers from it and ensuring greater retail price stability;
- lower risk from wholesale prices through reduced exposure to volatility in any single commodity; and
- more scope to deliver the investment needed in Generation and Gas Production because the risks associated with large-scale and long-term investments are balanced by the demand from electricity and gas customers.

Responding to key trends in the energy sector

The energy sector is undergoing a period of profound change which is creating a range of opportunities and challenges for SSE's Wholesale businesses. The main public policy drivers of this change are those of the energy 'trilemma' – European and UK-led decarbonisation policy; security of energy supplies; and price competitiveness (affordability). These policy objectives are influencing and in turn being impacted by:

- the extent of economic growth, which has a direct impact on energy demand;
- forecasts of tightening generation capacity in Great Britain as older plant (including coal, nuclear and gas) closes as a result of age and of regulatory and economic pressures;
- market change as the implementation of the new operating frameworks delivered by Electricity Market Reform (EMR) gathers pace in Great Britain;
- the changing policy on the UK Carbon Price Support Rate and the move to reform allocation of allowances under EU ETS;
- the requirement for the electricity system to manage higher penetrations of variable energy sources; and
- opportunities for market harmonisation between Great Britain and Ireland.

The UK government believes that the Energy Act 2013 and the associated EMR represents the most significant market intervention since the privatisation of electricity. It features:

- an annual minimum price for a tonne of carbon that applies only in the UK (the Carbon Price Support Rate);
- long-term contracts, allocation of which will begin in October 2014, that will effectively fix the price received by generators for each unit of electricity produced from new low carbon sources (the Contract for Difference Feed-in Tariffs);
- a mechanism to address the security of supply challenges resulting from plant closures and the changing nature of electricity generation (the Capacity Market), with a first auction for capacity contracts planned for November 2014; and
- maximum emissions levels for electricity generation technologies (the Emissions Performance Standard).

Energy Portfolio Management (EPM)

Managing an energy portfolio

In recent years, SSE has typically required around eight million therms of gas per day to supply all its customers and to fuel its power stations, and around 140GWh of electricity per day to supply all its customers. EPM has three primary routes to procure competitively and sustainably the fuels and energy it needs to meet this demand:

- **assets:** including upstream gas exploration and production and thermal and renewable generation;
- **contracts:** long-term gas producer contracts, power purchase agreements (with SSE-owned plant and third parties) and solid fuel contracts; and
- **trading:** where energy contracts are transparently traded on international exchanges or through 'over the counter' markets, with 100% of SSE's electricity supply and demand traded on the day-ahead auction market.

Managing risks associated with energy procurement across these three routes is a key challenge for EPM, as it is heavily influenced to varying degrees by a multitude of national and international factors. By optimising energy procurement through a diverse portfolio, SSE ensures that its customers are protected to an extent from the unavoidable volatility that exists in global markets.

Increasing wholesale market transparency

SSE has led the way in responding to stakeholders' desire for greater transparency and increased liquidity in the short-term wholesale market for electricity. Since 30 September 2012 it has consistently placed 100% of its electricity generation and demand into Nasdaq OMX Group Inc. and Nord Pool Spot AS's N2EX daily auction. SSE has also introduced a series of trading commitments to smaller suppliers.

Wholesale continued

In taking this action SSE has helped to deliver a new level of market transparency, significantly improved liquidity, increased the depth and credibility of the market and assisted in the creation of a robust and tangible pricing index.

EPM priorities for 2014/15 and beyond

EPM short term priorities include:

- securing a stable and predictable supply of energy to meet SSE's customers' needs;
- driving business change to respond effectively to new UK and EU regulations;
- responding to market evolution and change;
- identifying and agreeing new long term energy supply contracts; and
- continuing to support improved market transparency and liquidity initiatives.

Generation – Great Britain and Ireland Overview

Managing Generation assets according to long-standing principles

SSE's primary objective for its Generation division is to maintain a diverse generation portfolio, including the largest amount of renewable energy capacity in the UK and Ireland, that helps keep the lights on by being available, reliable and flexible.

This objective is underpinned by six principles that direct the operation of, and investment in, its Generation portfolio:

- **availability**: to respond to customer demand and market conditions;
- **capacity**: to meet the electricity needs of domestic and small business customers;
- **compliance**: with all safety standards and environmental and regulatory requirements;
- **diversity**: to avoid over-dependency on particular fuels or technologies;
- **flexibility**: to ensure that changes in demand for electricity and the variability of generation from wind farms can be addressed; and
- **sustainability**: to support progressive reduction in the CO_2 intensity of electricity generated through the cost efficient decarbonisation of its generation fleet.

SSE's generation assets are underpinned by a strong engineering focus on asset life and continuous equipment monitoring.

Maintaining a diverse Generation portfolio

SSE is maintaining and investing in a diverse and sustainable portfolio of thermal and renewable generation plant. In moving towards a lower carbon generation mix SSE will, by the end of the decade, transition its generation assets from a portfolio weighted towards gas and coal, towards a portfolio more weighted towards gas and renewables.

The practical application of this principle means that SSE owns or has an ownership interest in 11,665 MW of capacity, which comprised at 31 March 2014:

- 4,262 MW of gas-and oil-fired capacity (GB);
- 1,068 MW of gas- and oil-fired capacity (Ire);
- 3,009 MW of coal-fired capacity (with biomass co-firing capability); and
- 3,326MW of renewable capacity (including hydro, pumped storage, onshore wind and offshore wind).

With this portfolio SSE has the greatest fuel diversity for producing electricity amongst UK generators and retains the most flexible fleet. It also makes SSE the largest generator of electricity from renewable sources across the UK and Ireland.

Reducing the carbon intensity of electricity generated

A priority for SSE is a continuing cost-efficient reduction in the carbon intensity of the electricity produced by its generation fleet and it remains committed to the progressive reduction of its carbon intensity every decade until 2050. This goal will be achieved through a diverse range of solutions including:

- the commissioning and development of additional renewable energy capacity;
- lower emissions from more efficient and flexible gas-fired generation and the potential implementation of CCS technology;
- delivering innovative solid fuel solutions at coal-fired stations; and
- reduced output from coal-fired stations as they use up their allocated running hours under the EU's Industrial Emissions Directive.

In 2013/14, SSE achieved a 15% reduction in its overall Scope 1 gross carbon emissions from its operations, largely as a result of reduced output from coal-fired power stations. The carbon intensity of SSE's generation portfolio has also reduced in 2013/14 partly due to the reduction in coal output, but also due to the increase in renewable and gas-fired generation compared to last year.

Very low spark spreads – the difference between the cost of gas and emissions allowances used by a CCGT and the value of the power produced – for gas-fired generation continue to be a feature of the electricity market and so coal-fired plants have, temporarily, played a larger part in generating electricity for customers. This has resulted in higher than forecast levels of carbon emissions in recent years, but, as evidenced by the reductions seen in 2013/14, SSE's longer term strategy of moving to a lower carbon generation fleet weighted towards gas and renewables means it remains on track to meet its objective of halving the carbon intensity of the electricity it generates (compared to 2006) by 2020.

Generation – Great Britain

Focusing on operations in Generation

During 2013/14, SSE's generation plant in GB generated (previous year's numbers in brackets):

- 26.7TWh, based on contracted output of electricity from all thermal power stations in which it has an ownership interest (29.3TWh); and

Powering Ireland

SSE's new 460MW Combined Cycle Gas Turbine (CCGT) power plant at Great Island, County Wexford is nearing completion. 850 workers are on site at SSE's largest capital power generation project in either Ireland or the UK.

- 8.1TWh, based on contracted output from renewable sources of energy in which it has an ownership interest, including pumped storage (6.3TWh).

Thermal Generation

At 31 March 2014, SSE owned or had an ownership interest in 7,271MW of thermal generation plant in Great Britain, comprising (net):

- 4,262MW of gas- and oil-fired generation, including 750MW of mothballed plant at Keadby and 1,180MW at Peterhead which from April 2014 has only 400MW of Transmission Entry Capacity (TEC); and
- 3,009MW of coal-fired generation. The c.1,360MW reduction in coal capacity is due to closure of Uskmouth and Ferrybridge Units 1 and 2 in March 2014.

The amount of electricity generated by gas-fired power stations in which SSE has an ownership or contractual interest, including CHP, increased to 10.1TWh during 2013/14, (including 4.7TWh from wholly-owned stations) compared with 8.7TWh in the previous year (including 3.7TWh from wholly-owned stations).

During 2013/14 SSE's coal-fired power stations, located at Fiddler's Ferry, Ferrybridge and Uskmouth, generated 16.6TWh of electricity compared with 20.6TWh in the previous year.

Managing the impact of market conditions and the public policy framework

The market conditions for electricity generation in Great Britain have continued to be challenging. The extent of this can be seen by the very different issues impacting on SSE's thermal and renewable generation assets and the fact that public policy decisions can have quite different impacts on each element of the generation portfolio.

2013/14 saw the lowest spark spreads in the history of the GB energy market. Average spark spreads were around £1.5/MWh lower than the previous year. Despite worsening spark spreads, SSE's electricity output from gas generation increased due to Medway's return to service as well as National Grid calling on gas plant to generate more frequently to meet system requirements following the closure of old oil and coal capacity throughout GB.

While low coal prices have resulted in favourable operating conditions for coal-fired plant in recent years, emissions regulations – including the constraints imposed by the Industrial Emissions Directive, the introduction of the Carbon Price Support Rate, and the introduction of full auctioning of EU carbon allowances – have begun to weigh heavily on the longer term viability of thermal generation plant.

On 1 April 2013 the UK government introduced a new Climate Change Levy tax in the form of the Carbon Price Support Rate. This added a cost of around £5/tonne of CO_2 emissions in 2013 for fossil-fuelled generation in Great Britain, on top of the cost of complying with the EU ETS. The additional cost is set to rise to c. £18/tonne in 2015/16. The 2014 Budget announced that this additional cost would then be frozen until 2018/19, instead of increasing as previously proposed.

In July 2013, Ofgem proposed new interim mechanisms – the Supplemental Balancing Reserve (SBR) and Demand-Side Balancing Reserve – to deal with any shortfalls in generation capacity in advance of the planned introduction of the Capacity Market in 2018. The tender process for these mechanisms was due to be held in March 2014 but has been delayed, with the first tenders now expected in June 2014.

Without certainty around SBR and the outcome of the Capacity Market auction process investment decisions in new and existing thermal generation plant will continue to be difficult. Clarity and stability are, therefore, much-needed features of the energy policy landscape in Great Britain and their continued absence could eventually jeopardise the security of electricity supply.

A combination of all these factors has influenced the decisions (see 'Changing SSE's thermal operations for the future' below) made with regards to SSE's existing thermal fleet; and its ongoing view on investment in new thermal assets.

SSE will continue to manage its portfolio of electricity generation assets in accordance with the principles set out above (see 'Managing Generation assets according to long-standing principles') and in accordance with disciplined financial management.

Contributing to security of electricity supply

Ofgem has consistently maintained that over the coming years electricity generation capacity margins will be lower than they were in recent years due to weak market economics and EU regulations closing down older plant.

The UK Government, together with National Grid (as the System Operator) and Ofgem, has decided to address this issue in two ways

- in the longer term through the introduction of a Capacity Market, which will begin in 2018/19; and
- in the intervening period, through the SBR which is due to begin this winter (2014/15).

In addition to these mechanisms National Grid already has the ability to manage moments when demand outstrips supply through a range of different balancing and optimisation tools.

SSE has consistently argued that an effective and timely Capacity Market will be an important additional tool in assisting DECC and National Grid discharge their responsibility for ensuring security of supply; and that SBR could be an effective short term solution if it incentivises mothballed plant to come back on the system and does not inadvertently affect business-as-usual market operations.

The design, implementation and operation of these mechanisms is ultimately determined by DECC and National Grid. They will determine how much capacity is required to ensure security of supply under each of these mechanisms. Once this volume has been determined it will signal this to the market, and then procure the necessary capacity through a competitive auction/tender process.

Responsibility for determining the volume of capacity required to ensure a secure electricity supply, and for the timely signalling of this to the market, therefore lies with National Grid and DECC. Both organisations are confident they will fulfil this responsibility with the Secretary of State for Energy and Climate Change stating in March 2014 that the combination of the Capacity Market and SBR would keep the lights on.

SSE will play its part by working with DECC and National Grid and by focusing on ensuring that its plant, where practicable, is available to generate at times when demand is highest.
It will also continue to assist the UK government and National Grid with their policy development and will engage constructively with all parties on this issue.

Complying with the Industrial Emission Directive (IED)

All of the capacity at Fiddler's Ferry and Units 3 and 4 at Ferrybridge, (just over 3,000MW in total) is compliant with the Large Combustion Plant Directive (LCPD) and able to run beyond 2015. Fiddler's Ferry and all of SSE's gas-fired plant has been opted-in to the Transitional National Plan (TNP), and Units 3 and 4 at Ferrybridge have been opted in to the Limited Life Derogation (LLD) option under the Industrial Emissions Directive (IED).

Selecting some plant for the LLD, while maintaining other plant within the TNP, provides a number of alternative options for how these plants will operate in the future. SSE will monitor the development of the TNP over the next two years and, as key elements are finalised, will review whether it is appropriate to also move the plant at Ferrybridge into the TNP. Any decisions will also be informed by market conditions and the effects of a future capacity mechanism.

Wholesale continued

Changing SSE's thermal operations for the future

SSE has three wholly-owned gas-fired power stations: Keadby (Lincolnshire; 735MW); Medway (Kent; 700MW) and Peterhead (Aberdeenshire; 1,180MW). Each has been affected by the market conditions for such power stations:

- **Keadby** is mothballed, meaning it will take up to one year to restore to full operating condition. As a result, the decision to defer the tender process means Keadby will not be able to participate in the SBR for the winter of 2014/15. It does not have TEC from 1 April 2014. Nevertheless, investment in the station in 2012/13 means that if and when it is required to generate electricity in the future, it will be able to operate in a more flexible and efficient way;
- **Medway** is operational, having also benefited from investment in 2012/13 to achieve greater efficiency and flexibility in operations; and
- **Peterhead** has TEC of 400MW only. SSE recently signed a contract with National Grid company to provide ancillary support services to the electricity system in the north of Scotland for one year. The contract allows National Grid to call up to 780MW of Peterhead's 1,180MW of capacity to provide these support services. This means its capacity will be unavailable to the market unless called by National Grid. Meanwhile the station will benefit from investment of £15m to enhance its efficiency and flexibility.

Making the right investment decisions in gas-fired power stations

Despite currently experiencing short term market challenges, gas-fired plant will play an increasingly important role in electricity generation driven by its:

- relatively low capital costs;
- flexibility to support increasing amounts of generation from on- and offshore wind farms;
- short construction time;
- high thermal efficiency; and
- its status as the cleanest of the fossil fuel technologies.

As a result, SSE will continue to pursue options for CCGT in Great Britain, including sites under development at Abernedd (South Wales), Keadby (Lincolnshire), and Seabank (Bristol). These locations offer many attractive characteristics, including established grid and gas connections, availability of cooling water and land area.

Although projects such as Abernedd are close to being 'shovel ready' and others such as Keadby 2 are at an advanced stage of development, continuing uncertainty surrounding the operation of a future Capacity Market and clear market signals suggesting the need for increased gas-fired generation capacity, means that SSE does not expect to take any final investment decisions to construct new plant until at least 2016. This will effectively mean no new capacity will come into operation until 2017/18 at the earliest, given the lead times for constructing new CCGT plant.

Looking to the future of solid fuel generation

SSE's generation strategy is built upon managing risk through owning a diverse range of assets and fuels from which to meet its customers' needs. Solid fuel remains an important part of that strategy.

SSE has completed a trial investment on one 485MW unit at its Fiddler's Ferry site, which has reduced the emissions of NOx to a level that would enable increased generation under the IED Transitional National Plan. The viability of extending this solution to the other three units at the plant is still being assessed.

Multi-fuel plants use waste-derived fuels to generate electricity and therefore benefit from an additional revenue opportunity in the form of a 'gate fee' for taking the waste, which is earned on top of revenue received from any electricity generated by the plant. They offer a sustainable energy solution that has lower carbon intensity than other solid fuels and which further diversifies the range of fuels that SSE can deploy in its generation fleet.

The SSE and Wheelabrator Technologies Inc. 50:50 joint venture – Multifuel Energy Ltd (MEL) – is currently constructing a £300m multi-fuel generation facility adjacent to SSE's existing Ferrybridge power station. Construction of the facility is progressing well and it is scheduled to be operational in 2015. All of the electricity generated by the plant will be sold to SSE. In May 2013, MEL confirmed that it is seeking planning consent for a second multi-fuel facility at the Ferrybridge site, prompted by a clear indication from potential fuel suppliers that there is demand in the market for further waste derived generation facilities. Early consultation work on this project is under way.

In addition to the MEL joint venture, SSE is also pursuing the development of a new multi-fuel facility of up to 50MW at its Slough site.

Making the right contribution to Carbon Capture and Storage (CCS) developments

Achieving the EU's decarbonisation policy will broadly require a halving of CO_2 emissions in the electricity sector every decade between now and 2050. On this basis, the use of fossil fuels to generate electricity will eventually depend on the extent to which CCS technology can be applied to abate CO_2 emissions. Consequently, the development of viable carbon capture technology is essential to the UK's long term climate change and energy security objectives.

Against this background, SSE is continuing to work with Shell UK as a strategic partner in the proposed gas CCS project at SSE's gas-fired power station in Peterhead. The project aims to create the first industrial-scale application of CCS technology at a gas-fired power station anywhere in the world and capture up to 10 million tonnes of CO_2 over a 10-year period. Shell is leading the development of the project, and will take responsibility for the construction of the CO_2 capture plant and thereafter the operation, transport and storage elements of the project.

In February 2014, the UK Government announced that it would fund the next stage in the development of the project, the Front End Engineering Design (FEED) study, as part of its CCS commercialisation competition.

Renewable Generation

Operating a diverse range of renewable generation

SSE continues to be the UK's leading generator of electricity from renewable sources and the largest generator of electricity from wind across the UK and Ireland. At 31 March 2014, it had 2,783MW of renewable energy capacity in operation in GB (as well as 543MW in Ireland), including its share of joint ventures. The GB portfolio comprised (net):

- 1,150MW conventional hydro;
- 940MW onshore wind;
- 355MW offshore wind;
- 300MW pumped storage; and
- 38MW dedicated biomass.

Output from around 1,900MW of SSE's capacity for renewable energy in GB qualifies for Renewable Obligation Certificates (ROCs), the main financial support scheme for renewable energy in the UK.

During 2013/14, total electricity output from SSE's renewable resources in GB was 8,089GWh net (including pumped storage). This is broken down as follows:

- conventional hydro electric schemes – 3,753GWh;
- pumped storage schemes – 252GWh;
- onshore wind farms – 2,679GWh;
- offshore wind farms (SSE share) 1,338GWh; and
- biomass – 67GWh

Managing the impact of market conditions and the public policy framework

SSE continues to respond to policy support for increased renewable generation capacity in the portfolio mix in GB, currently delivered through the financial support of the Renewables Obligation (the RO applies also in Northern Ireland). The new Contracts for Difference (CfD) support mechanism, due to be accessible from October 2014, is still being finalised. Absolute support will be limited by the Levy Control

Producing green energy

We now have 3,326MW of renewable energy capacity (onshore wind, offshore wind, hydro and dedicated biomass) in operation, in the UK and Ireland.

Framework budget which has the reasonable objective of controlling costs to customers from government energy policies. However it also means that less support will be available for new renewable generation in the future.

Moreover, the GB electricity market itself could change if the majority of people in Scotland vote 'Yes' in the forthcoming referendum on independence. SSE has long recognised that the processes of negotiation following a 'Yes' vote would be likely to take time, be complex and result in changes to the existing energy market. In particular, the future remuneration of renewable energy, which is currently supported by electricity customers throughout Great Britain, would have to be agreed. In this circumstance, SSE would aim to work constructively with the Scottish and UK governments, with the objectives of ensuring the best interests of its customers in Scotland, England and Wales are met and helping to meet the renewable energy targets of these countries, while safeguarding the interests of investors.

Optimising the renewable development portfolio

As SSE moves forward the next phase of its renewable energy development pipeline, it is focusing on projects that best allow the efficient allocation of resources and economies of scale. While the scale of overall development is likely to be lower than in recent years, the focus is on a consistent pipeline of new developments. To support future investment in onshore wind assets, both in operation and development, and as outlined in March 2014, SSE will recycle capital by adding to its established programme of selective disposals.

Developing renewable energy schemes onshore

At 31 March 2014, SSE's onshore wind farm portfolio in Great Britain comprised around (net):

- 940MW in operation;
- 246MW in construction or pre-construction; and
- 358MW with consent for development.

The following projects were in construction at 31 March 2014 and are key components of SSE's portfolio of strategic onshore wind projects in GB:

- **Keadby** (68MW) – Adjacent to SSE's gas-fired power station in North Lincolnshire, Keadby wind farm is England's largest onshore wind farm with 34 turbines. Construction is largely complete, with all turbines erected and generating electricity.
- **Strathy North** (67MW) – Located in Sutherland, this project is a significant development for SSE. Pre-construction work has been completed and full construction is now under way, which is due for completion in 2015.
- **Dunmaglass** (94MW) – Construction at this site south east of Inverness is well under way, enabling works are due to be completed shortly and the main construction work will follow thereafter. The site is scheduled for completion in 2016.
- **Langhope Rig** (16MW) – Construction at this 10-turbine site in the Scottish Borders is progressing well. Turbine erection will begin this summer and the site will be completed later in 2014.

In addition to these projects under construction, SSE has:

- over 500MW of development projects currently in planning in GB. Two key projects Stronelairg (198MW) and Glencassley (53MW) received no objection from Highland Council during the planning process and are now with Scottish Ministers awaiting a consent determination; and
- around 300MW of new onshore wind farm projects are currently in pre-planning.

SSE's proposed Coire Glas (Loch Lochy) 600MW pumped storage scheme received planning consent from the Scottish Ministers in December 2013. Making a final investment decision to progress the Coire Glas scheme will require overcoming a number of commercial and regulatory challenges and therefore any final investment decision is unlikely to be taken in the foreseeable future.

Developing renewable energy schemes offshore

In line with its wider focus on streamlining and simplifying its business, and following the conclusion of a strategic review of its offshore wind development portfolio, SSE decided in March 2014 to narrow significantly the focus of its near term development plans for its offshore wind development portfolio.

In particular, it decided to focus its efforts and resources on progressing the Beatrice project (up to 664MW, currently a 75:25 partnership between SSE and Repsol Nuevas Energias UK) planned for the outer Moray Firth. In April 2014, the UK government announced that Beatrice had been successful in securing an Investment Contract (or early Contract for Difference).

The UK government's announcement provides the security needed to allow SSE and its partners to continue to invest in the engineering and procurement work required to maintain progress towards a final investment decision in early 2016. A final decision to invest in the project will only be made if SSE has been able to reduce its stake in the project from 75% at present to no more than 50% and the project provides the return on capital investment required to be compatible with the risks involved.

In addition to Beatrice, SSE has had an interest in four further offshore wind farm developments:

- **Galloper**: SSE has decided not to take beyond the current phase of development its interest in the Galloper project (340MW, a 50:50 partnership between SSE and RWE Innogy). In the context of its wider capital and investment programme, SSE does not currently believe that the costs of constructing and operating Galloper, and the revenue likely to be earned from it once built will provide a return on SSE's capital investment that will enable the

Wholesale continued

project to compete successfully against other projects in SSE's wider investment portfolio over Galloper's planned construction timeline. As a result, SSE is working with its partner and other stakeholders to secure the maximum possible value for its interest in the project.
- **Round 3** SSE currently participates in the development of two of the projects allocated under The Crown Estate's Round 3 site allocation process: **SeaGreen** (3,500MW), a 50:50 partnership between SSE Renewables and Fluor Limited, which has submitted consent applications to Marine Scotland for two wind farm areas in the Firth of Forth with a capacity of 525MW each in the 3.5GW Firth of Forth zone; and **Forewind** (7,200MW), a four-way partnership with RWE Innogy, Statoil and Statkraft, which has submitted a consent application to the Planning Inspectorate for four wind farm projects of up to 1,200MW each on Dogger Bank. SSE has decided that it will continue to support the progress of development work on SeaGreen and Forewind with the objective of securing the necessary consents for construction, but that it will not extend beyond that the scope of its commitments to the projects in the near term.
- **Islay**: SSE had proposed to develop an offshore wind farm off the coast of Islay with capacity of up to 690MW and while it will continue to work with other stakeholders in relation to the development, it will not be investing further in the project in the foreseeable future.

Construction continues at the Hunterston offshore wind energy test facility in North Ayrshire, in which SSE is a partner. The Siemens (6MW) turbine is completed and is now fully operational. The Mitsubishi (7MW) turbine will follow later this year. SSE is working with Scottish Enterprise to find a manufacturer for the third and final berth at the site.

Generation – Ireland

The Single Electricity Market (SEM) in Ireland faces similar market drivers to Great Britain but has a very different regulatory regime, including:

- centrally dispatched generation;
- a capacity mechanism that remunerates generators for a proportion of their fixed costs when plant is made available; and
- no support for offshore wind electricity generation.

In the Republic of Ireland renewable generation receives policy support through the Renewable Energy Feed in Tariff. Policy support for renewable generation in Northern Ireland is delivered through the Renewables Obligation, the same as in Great Britain.

SSE is keen to maintain an effective balance between the electricity required to meet the demands of its growing customer base in Ireland and the electricity it produces from its own generation assets on the island. It is now the third largest electricity generation capacity owner in Ireland with around 13% of installed capacity.

Maintaining effective operational performance

At 31 March 2014, SSE owned 544MW of onshore wind farm capacity in Ireland (including 88MW in Northern Ireland) and 1,068MW of thermal generation capacity. The thermal assets are at four sites and their principal function is to help maintain security of electricity supply by being available to respond to peaks in demand. Output during 2013/14 was:

- 25GWh from thermal capacity; and
- 1,350GWh from renewable capacity.

Investing in new capacity for generating electricity at Great Island

Construction at the 460MW CCGT site at Great Island, Co. Wexford is well advanced and the plant is expected to generate its first energy in the next few weeks and be commissioned in the second half of 2014, at which time the existing 240MW fuel oil unit at the site will be decommissioned. Two major milestones reached by 31 March included the completion of the gas transmission connection and the 220kV electricity connection to the site. The Great Island gas connection has also provided a very positive local economic story, since the South-East of Ireland was previously unconnected to the gas network.

The Single Electricity Market (SEM) in Ireland has an effective capacity mechanism in place. This mechanism was an important factor in SSE's decision to progress with the Great Island development and means it has been able to proceed with investment in new thermal electricity generation plant in the Irish market, which is in contrast to the position in respect of the Great Britain market.

The SEM itself is expected to be subject to important changes designed to implement the EU 'target model' in electricity, about which consultations have begun. These consultations have looked at a wide range of issues and are expected to lead to wide-ranging SEM redesign, although the principles and objectives of such redesign, beyond compliance with the EU 'target model' have yet to be confirmed. This is likely to result in the biggest change to the SEM since it was created in 2007 and SSE is working to ensure that changes safeguard supplies of electricity at a price that is affordable to customers, while supporting continuing investment in electricity in Ireland.

Developing new capacity for renewable energy in the all Island market

In the period to March 2014, both Athea (34MW) in Co. Limerick, and Glenconway (46MW), part of SSE's Slieve Kirk strategic area located in Co. Derry, came into operation. Output from Athea qualifies for the ReFiT support mechanism in RoI while output from Glenconway will receive ROCs.

SSE is continuing to add to its onshore wind farm development portfolio in Ireland and at 31 March 2014 it comprised around:

- 116MW in construction or pre-construction; and
- 56MW with consent for development.

The largest pre-construction project is the consented 170MW (SSE share 112MW) Galway Wind Park development, where pre-construction ground works are currently taking place. Subject to a final investment decision, it is expected to enter construction towards the later part of 2014. SSE also has around 100MW of other development projects currently in planning across Ireland.

Meeting customers' future requirements for electricity in Ireland

Over the medium and long term, the completion of the 460MW CCGT at Great Island and the continuing development of its wind farm projects will give SSE a more balanced generation portfolio in Ireland and significantly increased output of electricity with a lower CO_2 intensity than the SEM average. In a typical year, the Great Island CCGT and SSE's wind farms are expected to generate the equivalent of around two thirds of the electricity needed to supply SSE's current customers in Ireland. Along with its power purchase agreements, this means SSE can securely and cost-effectively meet the demand of its Irish supply business, SSE Airtricity, in a way that is sustainable.

Generation priorities in 2014/15 and beyond

In Generation, SSE's 2014/15 priorities remain consistent with its established principles to:

- comply fully with all safety standards and environmental requirements;
- ensure power stations are available to respond to customer demand and market conditions;
- operate power stations efficiently to achieve the optimum conversion of primary fuel into electricity; and
- continue to show discipline in the development of and investment in new generation projects.

Gas Production

Producing gas to meet the needs of customers

SSE's upstream portfolio is 100% gas weighted, with the primary reason for owning gas assets being to secure long term supply of physical gas at a 'fixed' cost, to enable it to effectively meet the energy needs of its customers and generation portfolio. As at 31 March 2014, SSE's upstream portfolio is estimated to hold in excess of 2.6 billion therms of reserves. The volume and production profile of the assets represents a secure and fixed-price supply of gas that can meet around 25% of the forecast demand from SSE's domestic gas customers over the next three years.

Securing output from gas production assets

The Gas Production business continued to perform well and benefitted strongly from the contribution of the new Sean gas field assets acquired in April 2013. The increased output from the expanded asset base was partially offset by forecast and normal production decline rates from existing wells. Total output to in the year to 31 March 2014 was 414.1 million therms, compared with 183.8 million therms in the same period last year.

Continuing to expand the Gas Production business

The addition of the Sean assets scaled-up SSE's Gas Production business considerably. SSE continues to seek new opportunities to increase its reserve base to meet portfolio demand requirements. The UK and north west Europe remains the focus for this activity, as it provides a relatively stable tax and fiscal regime and is near to SSE's domestic energy supply markets. SSE has not set a target scale for its Gas Production business and will continue to evaluate gas weighted opportunities in line with its investment criteria, financial discipline and the primary reason for it owning gas assets – being one of the ways it can secure a long term supply of physical gas that enables it to meet effectively the energy needs of its customers and generation portfolio.

Examining the opportunities in shale gas

Shale gas has the potential to become a new source of indigenous gas supply for the UK, although SSE does not expect UK output to reach meaningful volumes until the next decade. SSE currently has no involvement in any shale gas operations. It is, however, monitoring the development of shale gas in the UK and the proposed fiscal and tax regimes surrounding its potential exploitation.

Gas Production priorities for 2014/15 and beyond

Gas Production priorities for the 2014/15 financial year include:

- ensuring the safe operation of all the assets in which it has an ownership interest;
- stringent cost control on operator budgets and enhanced monitoring and reporting of operator work programmes; and
- continuing the robust investment appraisal process to identify potentially suitable acquisition targets.

Gas Storage

Providing capacity to store gas

Gas storage provides physical flexibility that enables customers who purchase the capacity to manage their market risks and respond to trading opportunities. It also provides an important security of supply function for the UK. SSE has an ownership interest in two major gas storage facilities in East Yorkshire, the primary objective of which is to maximise the availability of the plant to safely import and export gas:

- **Hornsea (Atwick)**, which provided 267 million cubic metres (mcm) of gas storage capacity to its customers in 2013/14. This accounts for around 5% of the total gas storage capacity in the UK and 12% of deliverability; and
- **Aldbrough**, which is one of the UK's newest and largest onshore gas storage facilities, is owned by SSE (66.7%) and Statoil (UK) Ltd (33.3%) and operated by SSE. All nine caverns were in operation during 2013/14, providing a total capacity of up to 270mcm, although available capacity currently remains lower due to unplanned outages on two of the nine caverns. It is anticipated that the Aldbrough facility will ultimately provide the ability to store up to a maximum of around 320mcm, and account for around 20% of the UK's storage deliverability.

Managing operations at Hornsea and Aldbrough

The continuing decline in the profitability of the Gas Storage business reflects the reduction in the spread between summer and winter wholesale gas prices and the prevailing lower volatility in shorter-term gas prices. Nevertheless, both sites continued to operate with good availability to meet commercial requirements, despite significant ongoing maintenance and upgrade activities, especially at the Hornsea site. During 2013/14:

- Hornsea again met 100% of customer nominations with the site 96% available during the winter period except in instances of planned maintenance;
- Aldbrough met 100% of customer nominations and was 86% available overall except in instances of planned maintenance.

Looking to the future for gas storage

Current gas storage capacity, both at SSE and within the UK as a whole, plays an important role in the UK's energy infrastructure. The UK already meets the EU Regulation for Security of Supply of Gas and will do so for the foreseeable future. It is also clear that the market returns for gas storage are challenging and currently too low to encourage additional capacity to be deployed. SSE believes this situation is unlikely to change in the short-to medium-term. SSE and Statoil, despite having full planning permission for the development of a second phase of the gas storage facility at the Aldbrough site, maintain their decision not to proceed with this project until market conditions improve.

Gas Storage priorities in 2014/15 and beyond

Gas storage priorities for the financial year and beyond include:

- ensuring on-going high safety standards for operation of the facilities at Hornsea and Aldbrough and the compliant operation of the Gas Storage business;
- continuing to listen to existing and potential customers, working with them to shape flexible products which add value to their portfolios;
- continuing to ensure maximum utilisation of both facilities to the benefit of the UK gas market and the Gas Storage business;
- ensuring high availability and strong operational performance at Hornsea and Aldbrough; and
- continuing targeted investment as required and justified to prolong operational life of the existing facilities.

Wholesale – conclusion

Producing and securing energy in a sustainable way to meet the needs of SSE's customers is at the heart of SSE's Wholesale businesses. Key parts of this segment continue to face public policy uncertainty and challenging market conditions. Nevertheless, continued excellence in operating its portfolio of assets, ongoing progress in the development and delivery of new assets and strategic investments across its portfolio, has meant that SSE's activities in Energy Portfolio Management, Electricity Generation, Gas Production and Gas Storage continued to support SSE's core purpose.

It also supports the achievement of SSE's first financial goal of annual growth in the dividend payable to shareholders, and the fulfilment of SSE's core purpose of providing the energy people need in a reliable and sustainable way.

Networks
Economically-regulated businesses

Keeping the lights on and supporting growth

Key Metrics

Networks operating profit* – £m

955.4
+9.3%

SSE is involved in: electricity transmission; electricity distribution; gas distribution (through Scotia Gas Networks); and other networks-related businesses in lighting services, utility solutions and telecoms.

Networks Regulated Asset Value (RAV) (net) – £bn

6.82
+7.3%

The RAV is the price paid for economically-regulated energy networks when they were privatised plus allowed capital expenditure less depreciation. It is indexed to the Retail Price Index.

Electricity networks capital expenditure – £m

657.5
+5.5%

SSE owns and invests in three electricity networks companies: Scottish Hydro Electric Transmission; Scottish Hydro Electric Power Distribution; and Southern Electric Power Distribution.

Customer minutes lost (north)

77
+5.5%

Excluding exceptional events, customer minutes lost is the average number of minutes that customers are without electricity supply in a year. SSE's north of Scotland network distributes electricity to around 800,000 properties.

Customer minutes lost (south)

67
+ 3.1%

Excluding exceptional events, customer minutes lost is the average number of minutes that customers are without electricity supply in a year. SSE's network in central southern England distributes electricity to around 2.9 million properties.

Number of Utility Solutions electricity networks in operation

168
+22.6%

SSE's Utility Solutions business designs, builds, owns and operates networks for electricity, gas, water and heat. The electricity networks are outside SSE's two distribution areas.

Owning, operating and investing in Networks

The performance of SSE's economically-regulated electricity networks businesses is reported within Networks, as is the performance of Scotia Gas Networks (SGN), in which SSE has a 50% stake. In addition, the market-based activities of Lighting Services, Utility Solutions and Telecoms are also network-based and are therefore included within SSE's Networks segment as Other Networks.

Economically-regulated network companies with a growing Regulated Asset Value

SSE has an ownership interest in five economically-regulated energy network companies:

- Scottish Hydro Electric Transmission (100%);
- Scottish Hydro Electric Power Distribution (100%);
- Southern Electric Power Distribution (100%);
- Scotland Gas Networks (50%); and
- Southern Gas Networks (50%).

SSE estimates that the total Regulated Asset Value (RAV) of its economically-regulated 'natural monopoly' businesses is £6.82bn, up £460m from £6.36bn, at 31 March 2014, comprising around:

- £1.33bn for electricity transmission;
- £3.05bn for electricity distribution; and
- £2.44bn for gas distribution (being 50% of SGN's total RAV).

SSE is the only energy company in the UK to be involved in electricity transmission, electricity distribution and gas distribution. Through Price Controls, Ofgem sets the index-linked revenue the network companies can earn through charges levied on users to cover costs and earn a return on regulated assets. Although the process for setting Price Controls is exhaustive and onerous, these lower-risk, economically-regulated, natural monopoly businesses provide a financial backbone and operational focus for SSE and balance its activities in the competitive Wholesale and Retail markets. They are core to SSE, to its strategy in the short-, medium- and long-term and contribute to its ability to deliver annual dividend increases.

Financial performance in Networks

Operating profit* in Networks increased by 9.3%, from £874.2m to £955.4m, contributing 50.8% of SSE's total operating profit*. This comprised:

- £136.7m in electricity transmission, compared with £92.6m;
- £507.0m in electricity distribution, compared with £511.6m;
- £276.6m representing SSE's share of the operating profit* for SGN, compared with £234.1m; and
- £35.1m in other network businesses, compared with £35.9m.

Electricity Transmission

Increasing operating profit* for Scottish Hydro Electric Transmission

In SHE Transmission, operating profit* increased by 47.6% to £136.7m. This reflected the continuing growth in its investment in its asset base and resultant increase in allowed revenue. A total of £349.2m was invested by SHE Transmission in its network in the year to 31 March 2014, compared with £334.2m in the previous year. This took the total to over £1bn in the last four years. Its share of a typical GB electricity bill during the financial year 2014/15 is forecast to be equivalent to £2.26, or less than 0.5%, of the total bill.

Managing SHE Transmission through a period of rapid growth

SHE Transmission is responsible for maintaining and investing in the transmission network in around 70% of the land mass of Scotland, serving remote and island communities. As the licensed transmission company for an area with a significant amount of generation from renewable sources seeking to connect to the electricity network, SHE Transmission is required to ensure that there is sufficient capacity for projects committed to generating electricity.

A major programme of investment is under way in electricity transmission infrastructure in Great Britain to support the transition to lower carbon electricity generation, increase security of supply and promote economic growth. The requirement to connect large volumes of dispersed renewable generation, supported and incentivised by policy-makers at Scottish, UK and EU levels, represents a fundamental change from the historic role of SHE Transmission's network.

Over 300MW of new renewable generation has been connected in the past year in the north of Scotland; and over 1,530MW in the preceding decade. A robust and challenging regulatory system, put in place by Ofgem, scrutinises major transmission reinforcements on a case-by-case basis – seeking to deliver the right projects at the right time to minimise constraint on the system without risking excessive costs for electricity consumers across Great Britain. The RIIO Price Control process gives transmission owners clear incentives to deliver savings for customers using innovation and efficiency, while providing a highly reliable network; penalties also apply for poor performance.

The investment undertaken by SHE Transmission is a significant contributor to economic growth in the local, regional and national economy. Over the past two years, a study conducted in conjunction with PwC, has found that SHE Transmission's Beauly Denny project has generated around £85m in Gross Value Added (GVA) to the Scottish economy and supported around 1,500 jobs. SHE Transmission plans to replicate the positive benefits from this project with the other network upgrades that it is progressing as part of a multi-billion pound investment programme which will help increase security of supply, decarbonise electricity supplies and promote sustainable economic growth.

Upgrading Scotland's electricity transmission network

SHE Transmission's work to upgrade its network includes four major projects currently under construction with expenditure for 2013/14 totalling over £220m:

- **Beauly-Denny:** Excellent progress is being made on the construction of SHE Transmission's part of the replacement line from Beauly to Wharry Burn, with the route running through some of the highest and most challenging terrain in Great Britain. Almost all of the foundations are complete, with anticipated full completion in the next few weeks; three quarters of the 539 towers have been erected; and over half of the route wired. Total regulated spend of £508.3m has been invested so far. In line with the conditions associated with the planning consent, good progress is being made with the work to remove over 100km of overhead lines in Highland Scotland. Based on expenditure to date and known issues including the interface with SP Transmission's section of the line, it is still expected the final cost will be over £675m. Further discussions continue to take place with SP Transmission and Ofgem on the coordination with the network in the south of Scotland and the timescales and full cost of completion.
- **Beauly to Blackhillock to Kintore:** The replacement of the 275kV conductors to allow an increase in the capacity of the network to transmit electricity is also well under way with over 50% of the project already complete and anticipated energisation in 2015. Ofgem has given capital funding approval of £94m (2013/14 prices) for this development.
- **Beauly to Mossford:** Good progress is being made on the upgrade with phase one complete, including the commissioning of Corriemoillie substation within the Ofgem funding allowance. Phase two, including the rebuilding of the overhead line, is on programme for completion in 2015 and Ofgem has given capital funding approval of £53m (2013/14 prices) for this phase.
- **Kintyre-Hunterston:** This network reinforcement, including the subsea cable from Crossaig on the Kintyre peninsula around the north coast of Arran to Hunterston, is well under way with completion of the platform for the substation and landing point for the subsea cable in Kintyre. The current programme anticipates that the reinforcement will be operational by 2016. Ofgem has given capital funding approval of £205.6m (2013/14 prices).

Networks continued

In 2014/15 SHE Transmission expects to incur capital expenditure of around £400m, taking its RAV to over £1.6bn.

Taking forward transmission upgrades to meet the needs of generators and customers

As stated above, Ofgem scrutinises major transmission reinforcements on a case-by-case basis – seeking to deliver the right projects at the right time to minimise constraint on the electricity system without risking excessive costs for electricity consumers across Great Britain. This means that, to proceed to construction, projects require

- a demonstrable commitment from developers;
- any necessary consents for development; and
- authorisation from Ofgem that SHE Transmission can recover the efficient cost of its investment.

SHE Transmission has in place advanced plans and associated planning consents for a new transmission link between Caithness and Moray, including a subsea electricity cable in the Moray Firth. The assessment from SHE Transmission demonstrates that the customer benefit of the new link, which is required to transmit a large volume of electricity from renewable sources in the north of Scotland, is clear. Ofgem is undertaking further detailed consultations on the project, to which a combination of onshore reinforcements could be an alternative. The subsea link has a forecast investment requirement of around £1.3bn (2012/13 prices), which would take SHE Transmission's total investment in the next four years to around £2bn. If it is approved, revenue recovery is expected to begin in 2015/16.

SHE Transmission is planning to upgrade the existing East Coast transmission line from an operating voltage of 275kV to 400kV, with associated substation developments. The line runs from Blackhillock in Moray to Kincardine in Fife. Planning consent has now been received for the substations along the line and work continues to secure approval for the overhead line. Plans for the upgrade are dependent on generators' requirements and the timing of SHE Transmission's submission will be in line with meeting generators' needs. The project has a forecast investment requirement of around £0.5bn (2013/14 prices).

Working with stakeholders on the Scottish island groups

The new framework being implemented from 2017 under the UK government's Electricity Market Reform plans should bring some clarity to the volume of generation seeking connection to the network and will therefore allow SHE Transmission to make a robust business case for reinforcement where a case can be demonstrated to be economic and efficient. While the volume and diversity of generation on the mainland enables a clear case to be made, making the business case for a subsea link to a number of potential generation developments on the Scottish islands remains challenging.

In recognition of this challenge, the UK government has confirmed additional support through an enhanced Islands Strike Price for onshore wind and has issued a consultation indicating its position that the islands should not be subject to the competitive allocation, competing with onshore wind on the mainland. This, aligned with the strong wind resource in the north of Scotland, has led SHE Transmission to continue to work with the UK government and Scottish government to help find a solution to the policy and regulatory hurdles being faced by developers on the Scottish islands.

Along with developers, SHE Transmission anticipates that the current uncertainty around the transmission charging regime, which is being considered by Ofgem through Project TransmiT, should be resolved in the summer of 2014. The outcome will contribute to developers' ability to formalise their financial positions about their projects on the islands.

While these key issues continue towards a resolution, SHE Transmission is working closely with government officials, developers and Ofgem in order to make further progress through the regulatory approval process for the island connections, taking into account the continuing policy and regulatory hurdles, with the objective of developing a robust case that demonstrates the affordability of the links.

Electricity Transmission priorities for 2014/15 and beyond

For the SHE Transmission business, the core activity for much of the next decade will be construction. Against this background, its priorities for 2014/15 and beyond are to:

- meet key milestones in projects under construction, in a way that is consistent with all safety and environmental requirements;
- continue to implement the new operational regimes for the 2013-21 Price Control and maintain high levels of system availability;
- work within the changing policy framework and, where appropriate, achieve regulatory approval for new links in an efficient and timely manner;
- make progress with projects in development, including implementing the programme of consulting with, and updating, interested parties;
- maintain and develop effective stakeholder relationships; and
- ensure it has the people, skills, resources and supply chain relationships that will be necessary to support growth.

Electricity Distribution

Performance in Scottish and Southern Energy Power Distribution (SSEPD)

The performance of SSE's two electricity distribution companies during the year to 31 March 2014 was as follows (comparisons with the same period to 2013):

Improving resilience

One year on from devastating snow storms which affected 20,000 homes on Arran and Kintyre SSEPD has undertaken on extensive works to bolster the resilience of the network. This includes the £206m Kintyre-Hunterston subsea cable project.

- operating profit* decreased by 0.9% to £507.0m;
- electricity distributed fell by 1.2TWh to 40.4TWh;
- excluding exceptional events, the average number of minutes of lost supply per customer was 77 in the north (73) and 67 in the south (65); and
- excluding exceptional events, the number of supply interruptions per 100 customers was 75 in the north (69) and 68 in the south (62).

In addition to the exceptional weather events, the year was characterised by wet and windy weather which had a negative impact on the average number of minutes of lost supply and average number of supply interruptions.

The small decrease in operating profit* principally results from essentially flat revenue across the two networks compared with 2012/13, together with higher storm related costs.

If, in any year, regulated network companies' revenue is greater (over recovery) or lower (under recovery) than is allowed under the relevant Price Control, the difference is carried forward and the subsequent prices the companies may charge are varied. Both networks are in an over-recovery position at March 2014 as a result of the roll forward of prior year recovery positions and other regulatory mechanisms being closed out at the year end. The over-recovery position for the two distribution networks combined at the year end is estimated at around £25m.

Volume of electricity distributed

The total volume of electricity distributed by the two companies in the year to 31 March 2014 was 40.4TWh, compared with 41.6TWh in the previous year. Under the electricity distribution Price Control for 2010-15, the volume of electricity distributed does not affect companies' overall allowed revenue (although it does have an impact on the timing of revenue collection).

Managing the Networks during the wettest winter on record

In March 2014, DECC published a report reviewing the winter weather that had been experienced by electricity networks in 2013/14, including SSEPD's network in the north of Scotland and, more severely, central southern England. The report stated: 'Throughout December, January and February 2013/14, the UK has been affected by an exceptional run of severe winter storms. The Met Office has confirmed that the two month period covering December and January for the South East and central Southern England has been the wettest since 1910. Widespread high winds have also been recorded across the country, and December 2013 has been confirmed as one of the windiest calendar months for the UK since January 1993.'

SSEPD has submitted all the evidence required by Ofgem for its investigation into performance and processes over the Christmas period. It believes it has a strong case that its network area was particularly affected by the weather. Over the entire winter of 2013/14, it experienced three exceptional events (storms) in its north of Scotland network and five in its central southern England network, a total of eight major storms. The cost of managing the impact of the winter weather on the network has been around £25m, including payment to customers who have experienced disruption due to adverse weather.

The wind speeds and heavy rain led to flooding, impassable roads, ground saturation, and fallen trees. Unusually, severe weather affected the north of Scotland and central southern England at similar times. All of this made for some of the most challenging working conditions SSEPD's workforce has ever faced when trying to restore power. Power was restored to 99% of SSEPD's southern customers who lost power within two days. SSEPD remains very grateful for both the dedication of engineers, tree-cutters and customer service employees and the patience of customers.

Demonstrating that SSEPD is not complacent about its performance, a consultation was launched on 3 January 2014 to gather feedback from customers and interested parties on storm management in order to learn any lessons. The consultation closed on 28 March and, once fully analysed and considered, these views will feed into a range of improvements that will be set out in the summer of 2014. In the meantime, a number of improvements have been implemented including better information from field employees on expected restoration times, improvements to its award-winning Power Track App for smart phones and more face-to-face customer liaison.

In addition, over the coming months, SSEPD will be working collaboratively with DECC, other DNOs and the Electricity Networks Association (ENA) to undertake the actions identified in the DECC review. In particular, SSEPD strongly supports the recommendation that a single three digit phone number for customers to use during power cuts should be put in place and will work with all relevant stakeholders to ensure this is delivered as quickly as practically possible.

Investing in network resilience

Capital expenditure in electricity distribution networks was £308.3m in the year to 31 March 2014, taking the total for the 2010-15 Price Control so far to £1,069m. The RAV of the electricity distribution networks is estimated to total £3,050m at the end of March 2014 and is expected to reach around £3.2bn by 31 March 2015.

This investment contributes to the key priority of providing an essential service to customers by delivering a reliable supply of electricity. SSEPD has a strong historic performance on network reliability, currently over 99%. Investing in the networks to maintain reliability is therefore critical to maintaining this record; and with new standards on restoring power within 12 hours, SSEPD continues to implement a programme to keep assets in good condition and, under revised proposals for RIIO ED1, to further improve reliability without increasing costs for customers.

Keeping costs down and improving customer service for RIIO ED1

RIIO-ED1 will be the first electricity distribution Price Control review to reflect the new regulatory framework first adopted in RIIO-T1 and RIIO-GD1 (gas distribution). It will run from 2015 to 2023. In line with wider trends in electricity networks, it puts an emphasis on incentives to secure the innovation required for a cost effective transition to low carbon technology.

SSEPD submitted a business plan in June 2013 and in November Ofgem announced that the plan had not been selected for 'fast-track'. Nevertheless, SSEPD is encouraged that, as with previous Price Controls, the business is recognised as one of the leading companies on cost efficiency and that a number of proposals in key areas such as connections and customer service have been accepted in full. The outcome of the decision has been used to review a number of areas and a revised business plan was submitted in March 2014. Key proposals include:

- a reduction to the distribution element of the electricity bill of around 15%;
- a reduction in the frequency and duration of power cuts;
- doubling the Guaranteed Standard payment to customers who are off supply for more than 18 hours as a result of an unplanned interruption;
- more partnership working with relevant organisations to support vulnerable customers; and
- reducing by 10% the average time it takes to receive a quote for connection and to connect in to the network.

While Ofgem has reduced its central reference point of the appropriate allowed base return on equity from 6.3% to 6.0% post-tax real, SSEPD will continue to make the case for a fair return on equity; at the same time, this is just one part of a wider package of measures that will comprise the final proposals for electricity distribution between 2015 and 2023. SSEPD believes that its revised business plan should lead to a Price Control that is fair to customers and investors alike.

Networks continued

Innovating for the future of electricity networks

SSE's electricity distribution businesses are leading the way in keeping costs down for customers and preparing for the future through innovation. It has opened the sector-leading Active Network Management scheme on Orkney to the North East of Scotland and anticipates the roll out to other network areas of SSEPD in due course. This system uses advanced IT systems to balance energy flows, thereby allowing many small and medium sized generators to connect to the network in areas where there is no permanent spare capacity.

In addition, good progress is being made on a series of major 'smart' projects, with total approved funding under the Ofgem Low Carbon Networks (LCN) Fund of £34.5m which are being led by SSE's electricity distribution businesses:

- **Thames Valley Vision (TVV):** based in and around Bracknell, aims to demonstrate that by applying new technologies to the local network SSEPD can provide a lower cost alternative to redeveloping the network in order to meet increasing electricity use; these trials also have potential to significantly reduce costs to customers.
- **My Electric Avenue:** SSEPD, as the host electricity distribution company, is working with EA Technology to undertake a series of trials with electric vehicle drivers to assess their cars' impact on the network.
- **Solent Achieving Value from Efficiency (SAVE):** is a new project to trial and establish the extent to which energy efficiency measures can be considered as a cost effective, predictable and sustainable tool for managing peak electricity demand as an alternative to network reinforcement. The project will run until 2018.

In addition, the **Northern Isles New Energy Solutions (NINES)** project continues to use heat and electricity storage to manage intelligently the impact of movements in demand on electricity generation and forms part of the Shetland Integrated Plan which was submitted to Ofgem in July 2013. Ofgem has now responded, requiring SHEPD to begin a competitive market process, preceded by an open consultation, to determine 'the lowest cost and most efficient solution' for meeting Shetland's future energy needs. It anticipates this taking around an additional 12 months, after which it will consider the successful option. SHEPD is committed to working with Ofgem, communities and interested parties to commence the competitive process as quickly as possible.

Electricity Distribution priorities in 2014/15 and beyond

During 2014/15 and beyond SSE's priorities in Electricity Distribution are to:

- comply fully with all safety standards and environmental requirements;
- place customers' needs at the centre of plans for the networks;
- achieve an acceptable and appropriate settlement from Ofgem on RIIO-ED1;
- ensure that the networks are managed as efficiently as possible, delivering required outputs while maintaining tight controls over operational expenditure;
- implement actions from the reviews of storm performance by the autumn;
- put responsiveness at the heart of day-to-day operations, so that the number and duration of power cuts experienced by customers is kept to a minimum;
- ensure that there is adequate capacity to meet changing demands on the electricity system; and
- make progress on the deployment of innovative investment in smart grids.

Gas Distribution

Performance in SGN

SSE receives 50% of the distributable earnings from Scotia Gas Networks (SGN), in line with its equity holding, and also provides some, but reducing, levels of support through a managed service agreement. In the year to 31 March 2014:

- SSE's share of SGN's operating profit* was £276.6m, compared with £234.1m in the previous year;
- gas transported fell by 11.6% to 143.7TWh; and
- 98.7% of uncontrolled gas escapes were attended within one hour of notification, compared with 98.4%, and exceeding the Ofgem standard of 97%.

The change in SGN's operating profit* reflects a positive start to the new price control, continued good operational performance as well as an adjustment for the under recovery position in the year ended 31 March 2013.

Only 3.5% of SGN's transportation income is volume-related; the remaining 96.5% is related to the maximum capacity requirements of its customers. A small part of SGN's operating profit* is derived from its non-regulated activities.

Implementing the new Gas Distribution Price Control

SGN accepted the Final Proposals from Ofgem for its Price Control for the period 1 April 2013 to 31 March 2021 and is now working under the new RIIO framework ensuring that outputs are met, incentives are maximised and innovation is delivered effectively while running an efficient, safe and reliable network. SGN has been allowed by Ofgem over £4.6bn (at 2012/13 prices) of cost allowances to deliver these outputs efficiently.

SGN's investment programme is key to this delivery and within the overall cost allowances, Ofgem has allowed around £2.8bn over the next eight years to cover new investment and to manage the risks relating to SGN's existing assets.

Weathering the storms

Over Christmas 2013 SSEPD's network in southern England bore the brunt of severe storms. Power was restored to 97.4% of SSEPD's customers within two days or 99%, if customers who lost power for three minutes or less are included in the figures.

This investment will allow SGN to:

- deliver a safe and reliable network for its customers;
- minimise the impact on the environment and reduce disruption for customers and communities; and
- deliver new customer-driven initiatives to help reduce fuel poverty and increase awareness of the dangers of carbon monoxide.

Investing in gas networks and securing growth in its RAV

At the end of 2013/14, SGN's total RAV is estimated to be £4.88bn. In the year to 31 March 2014, SGN invested £321.7m in capital expenditure and mains and services replacement projects, compared with £398.0m in the comparable period to 2013 due to the introduction of new contracting arrangements and timing issues driven primarily by the planning phase of its eight-year investment programme:

- The majority of the mains replacement expenditure was incurred under the Iron Mains Risk Reduction Programme (IMRRP) which was started in 2002. This requires that all iron gas mains within 30 metres of homes and premises must be replaced over a 30-year period. In the year to 31 March 2014, SGN replaced 1,088km of its metallic gas mains with modern polyethylene plastic pipe.
- SGN is also committed to making new gas connections to existing homes which are not on mains gas as affordable as possible, and is running an Assisted Connections scheme, under which 6,144 properties were connected to its networks in the year to 31 March 2014.

Investment will continue to be a top priority for SGN and, in line with that, it expects to invest around £350m in capital expenditure and mains and service replacement projects during 2014/15.

Gas Distribution priorities in 2014/15 and beyond

During 2013/14, SGN refreshed its company goals. Its key priorities are now to:

- deliver excellent levels of safety and operational performance;
- create an inclusive and engaged team, proud to work;
- shape the future of a low-carbon environment by leading the way in the development of green gas;
- minimise its effect on the environment and have a positive impact on local communities;
- meet regulatory outputs and maximise incentives, while continuing to deliver value for all stakeholders;
- deliver a strong financial performance and an acceptable shareholder return; and
- grow unregulated income to support the core business and build a diversified portfolio of assets in the UK.

Other Networks

Focusing and developing Other Networks

SSE's 'Other Networks' businesses – Lighting Services, Utility Solutions and Telecoms – are market-based and relatively small when compared with its economically-regulated energy networks. Their contribution to SSE's operating profit* stayed almost flat at £35.1m compared to £35.9m in the previous year.

In recognition of the competitive markets in which they operate, these businesses have been brought under new leadership as part of an 'Enterprise' division within the SSE group. This division will bring enhanced and co-ordinated focus to the business-to-business opportunities across SSE, including SSE Contracting. Building, for example, on Utility Solutions' success in increasing its number of 'out-of-area' electricity networks in operation to 168, further consideration is being given to opportunities to maximise their growth potential over the coming years.

At the same time, it is important to ensure that the financial structure for these businesses is optimised, and for this reason SSE is seeking to dispose of its portfolio of Private Finance Initiative (PFI) lighting services contracts, and thereby secure a reduction in its net debt.

Other Networks (including 'Enterprise') priorities in 2014/15 and beyond

SSE Contracting, Lighting Services, Utility Solutions and Telecoms have specific priorities for 2014/15, but across all of them there is a continuing need to:

- work together to realise growth potential;
- enhance business relationship management;
- increase efficiency and achieve excellent customer service;
- undertake effective product development; and
- promote technological change and innovation.

Networks – conclusion

The continuing success of SSE's economically-regulated and market-based Networks will be founded on efficiency and innovation in operations, such as restoring power supplies following interruptions, and investments, such as upgrading the transmission network in the north of Scotland. This, in turn, underpins SSE's ability to target annual dividend increases of at least RPI inflation.

Retail
Market-based businesses

Earning the right to make a profit

Key Metrics

Retail operating profit* – £m

292.0
-28.6%

SSE is involved in the supply of electricity and gas and in other energy-related services such as electrical contracting to business and household customers.

Energy customer accounts – millions

9.1
-3.9%

SSE supplies electricity and gas to household and business customers in the energy markets in Great Britain and Ireland. It is the second largest supplier in both markets.

Home services customer accounts – millions

0.37
-11.9%

Home services provided by SSE include gas boiler, central heating and wiring maintenance and installation, and telephone line rental, calls and broadband services.

Meters read – millions

14.1
-2.1%

SSE is involved in supplying, installing, maintaining and reading meters in the household, commercial, industrial and generation sectors in Great Britain.

Financial assistance for vulnerable customers – £m

50.5
+1.0%

SSE provides assistance for customers who struggle to pay for their basic energy needs, including discounts on energy bills.

SSE Contracting order book – £m

85
-3.4%

SSE Contracting is one of the largest mechanical and electrical contracting businesses in the UK, operating from regional offices throughout Great Britain.

Supplying energy and related services across the Great Britain and Ireland markets

SSE's Retail segment comprises two business areas: Energy Supply and Energy-related Services. SSE is the second largest energy supplier in the competitive markets in Great Britain and in Ireland. At 31 March 2014, it supplied electricity and gas to 9.10 million household and business accounts. It also provides other energy-related products and services to over 350,000 customers, covering three main areas: home services; metering; and mechanical and electrical contracting.

Financial performance in Retail

Operating profit* in Retail in 2013/14 was £292.0m compared with £409.1m in 2012/13 and £321.6m in 2011/12. This amounted to 15.5% of SSE's total operating profit in 2013/14 and comprised:

- £246.2m in Energy Supply, compared with £363.2m in 2012/13 and £271.7m in 2011/12; and
- £45.8m in Energy-related Services, compared with £45.9m in 2012/13 and £49.9m in 2011/12.

In 2013/14 SSE's profit margin (operating profit as a percentage of revenue) in Energy Supply was 2.9% (before tax) compared with 4.2% in 2012/13, and 3.5% in 2011/12. Energy Supply profit margin has therefore averaged 3.5% over the past three years.

Evidence such as the Consolidated Segmental Statements submitted to Ofgem shows that SSE is an efficient energy supplier with relatively low operating costs, and as an efficient company, SSE has consistently stated that it aims to make a profit margin of around 5% on average over the medium-term (ie three to five years) across its entire Energy Supply business. To put this another way, SSE believes that five pence in every pound is a fair amount to earn from supplying efficiently energy to customers.

Consolidated Segmental Statements

Since 2010, Ofgem has required the leading energy suppliers in Great Britain to publish a Consolidated Segmental Statement (CSS) setting out the revenues, costs and profits or losses of their electricity generation and energy supply businesses.

Although it is not required to do so until 30 September 2014, SSE expects to publish by 31 July its CSS for the year to 31 March 2014. The CSS, which will be externally reviewed before publication, is expected to show that SSE's profit margin in its domestic electricity and gas supply business in Great Britain was 3.9% (before tax). In the year to March 2013 it was 6.4% (before tax) and we expect that the average for the 5 years up to and including March 14 was 4.9%.

Energy Supply

Fulfilling key responsibilities as an energy supplier

The key responsibilities of the Energy Supply business are to:

- ensure it secures enough electricity and gas to meet customers' needs;
- arrange for electricity and gas to be distributed to customers' premises through the relevant networks;
- provide customers with necessary associated services such as metering and billing; and
- meet its obligations in respect of energy efficiency and any related social or environmental schemes promoted by government.

SSE appreciates that its customers rely on its core products of electricity and gas to heat and power their homes in order to live comfortably. It has, therefore, led the energy supply industry on the issue of energy affordability and in the year to 31 March 2014 it:

- became the only supplier to freeze unconditionally household energy prices in Great Britain until 2016;
- was one of only two suppliers to cut prices for all household customers in Great Britain, including fixed and capped price customers; and
- continued to lead the debate on the need to take costs out of energy bills and to fund energy policies more progressively through taxation, to ensure greater fairness and help the vulnerable.

SSE's Energy Supply business buys the electricity and gas it needs through SSE's Energy Portfolio Management division. The associated cost to the Energy Supply business comprises the weighted average cost of both electricity and gas which in turn accounts for just under half an average SSE household customer bill. Around a further quarter of an average bill comes from delivery costs with 11% of bill costs now coming from government environmental and social schemes. The remaining 16% of the bill is split between VAT, SSE's customer service and IT costs and its profit.

This means that SSE's operating profit from the supply of electricity and gas to a household in Great Britain was an average of around £48 during 2013/14. From this operating profit, SSE is required to pay tax and interest.

Supplying energy to customers across Great Britain and Ireland

In the year to 31 March 2014, SSE's energy customer accounts in Great Britain and Ireland fell from 9.47 million to 9.10 million. This comprised:

- 4.66 million household electricity accounts in GB;
- 3.21 million household gas accounts in GB;
- 0.42 million business electricity and gas accounts in GB; and
- 0.81 million electricity and gas accounts in Northern Ireland and the Republic of Ireland.

The decline in customer account numbers reflects the highly competitive market conditions in Great Britain, in which there are 10 suppliers of scale (with at least 100,000 customers) aiming to retain and gain customers. Despite this, SSE's energy customer account numbers are still less than 6% below their peak in March 2011 and its price freeze to 2016 is a very positive commitment to household customers in Great Britain.

Meeting customers' need for energy

The decrease in SSE's operating profit in Energy Supply was in part due to a decrease in energy consumed by customers as a result of the relatively mild winter in 2013/14 compared with the previous year. This is illustrated by the fact that:

- the average temperature of 5.2C in December, January and February 2013-14 was 1.5C above the 1981-2010 average and the fifth highest in the series since 1910; and
- snowfalls were largely confined to the Scottish mountains with fewer air frosts for the UK than for any other winter in the series from 1961.

As a result, SSE estimates its household customers in Great Britain used, on average (comparisons with the previous year):

- 465 therms of gas (544); and
- 3,991kWh of electricity (4,299).

In addition to the mild weather conditions, this reduction reflects sustained investment in improving energy efficiency. While annual consumption varies, customers' use of electricity and gas is now around 17% lower than it was 5 years ago (measured on an underlying basis).

Working with politicians to tackle energy bills

SSE is committed to working with all stakeholders to minimise the bills that customers pay and has, over the last few years, highlighted that the outlook for energy bills was increasing due to upward cost pressures from:

- the increased cost of buying energy on wholesale markets;
- paying for the investment to upgrade electricity and gas networks to deliver energy to customers; and
- social and environmental levies put on energy bills by successive governments.

In the autumn of 2013 energy became particularly politicised. It was a key topic at UK party political conferences and continued to be so after SSE made the difficult decision to respond to the upward cost pressures through announcing an average price rise of 8.2% for household customers in Great Britain, effective from 15 November. The decision to make changes to household tariffs was not taken lightly, and at the time SSE urged politicians of all parties to take steps to remove social and environmental levies from energy bills and fund the policy objectives they are designed to achieve through general taxation.

This raised customer and political awareness and understanding of the issues and SSE welcomed the decision by the UK government to undertake a consultation on changes to improve the cost-effectiveness of the Energy Company Obligation (ECO), and other changes to these schemes. Over the course of 2014/15, the impact of these changes should see a typical customer benefit by around £50 as a specific result of:

- the extension by two years and simplification of the ECO, reducing the annual cost per customer by around £33;
- a government-funded rebate of £12 paid to every electricity customer in the autumn for the next two years; and
- distribution network operators (DNOs) making a voluntary commitment to reduce network costs in 2014/15, funding a one-off reduction of around £5 per customer.

SSE started to pass on the resulting savings to customers from March 2014 and – unlike some of its competitors — has also passed on the cost saving to customers on fixed and capped price tariffs.

In March 2014, SSE also announced a household energy price freeze in Great Britain until at least January 2016 — the longest ever in the sector. The move came in response to SSE's:

- research among its own customers which found that 80% were concerned about prices rising in the next two years;
- ability to model fully the costs of the new ECO scheme and its impact on customer bills; and
- ability to secure successfully energy in long-term wholesale markets.

In order to deliver its price freeze, SSE stated in March 2014 that it accepted that its profit margins from supplying customers with electricity and gas are unlikely to recover to the level seen in 2012/13 before 2016/17 at the earliest. In that period, it is now expecting to earn:

- an annual profit margin across its entire Energy Supply business that is lower than the 4.2% (before tax) it achieved in 2012/13; and, within this
- an annual profit margin in its household electricity and gas supply business in Great Britain that is lower than the 6.4% (before tax) that it achieved in 2012/13.

SSE would like to extend its price freeze beyond 2016, or even cut prices if further costs can be taken out of energy. It believes further savings for consumers worth around £100 – forecast to rise to around £200 by 2020 – could be made with political action to end the practice of levying policy costs on energy bills. Recouping the cost through energy bills takes no account of an individual's ability to pay and is therefore socially regressive. SSE wrote to all the major political parties in March 2014, calling for more of these levies to be moved into general taxation, making bills cheaper and helping those less able to pay.

Delivering the Energy Company Obligation (ECO)

ECO itself was introduced in January 2013 and is a government-mandated energy efficiency programme that requires the largest energy companies to deliver certain household energy efficiency improvements targeted at specific vulnerable customer groups. SSE is fully supportive of the aims of ECO and in 2013/14 around 85,000 homes were helped through the scheme.

Nevertheless, and despite the welcome changes made by the UK government, SSE remains concerned about the impact of this scheme because:

- it is volatile and clearly subject to significant political change;
- it has a negative impact on competition because of the exclusion of smaller suppliers; and
- the cost of this and other government schemes levied on energy bills is not being paid for fairly.

Once the ECO comes to an end in 2017, SSE believes that nationally significant infrastructure projects such as insulating the UK's housing stock should be government-led, funded through general taxation and have far greater local authority involvement. In the meantime, SSE welcomes efforts to enhance the level of transparency in how the costs of delivering ECO are reported, as long as its ability to deliver the programme in the most cost-effective manner is not compromised. It has responded to DECC's request for information about ECO delivery. This has shown that the changes made by the UK government have reduced the costs of ECO and this has been reflected in a price reduction for all of SSE's household customers and SSE's decision to freeze its tariffs in Great Britain until at least 2016. However, the programme remains inherently complicated and delivery costs are unpredictable. SSE will continue to work with DECC to ensure that the programme is delivered in the most cost-effective manner possible.

Making a difference

SSE has a long standing commitment to putting customers first and in 2013 it was voted number one for customer service for the eighth consecutive year by uSwitch.

Helping vulnerable customers
In addition to campaigning on energy bills and freezing household prices until at least January 2016, SSE helps vulnerable customers manage the impact of high energy prices in a number of other ways.

- During 2013/14, SSE spent over £50m providing assistance to over 330,000 vulnerable customers through the Warm Home Discount (WHD) scheme. This scheme enables pensioners and vulnerable customers to receive help with their fuel bills.
- Under the WHD scheme, two groups of customers – a 'core' group of pensioners and a 'broader group' of other vulnerable customers – were given £135 to help with the cost of energy over the winter. Over 240,000 of SSE's customers have received core group rebates. SSE exceeded its 'broader group' obligation target of 58,000 by helping over 99,000 vulnerable customers. This was achieved via promotion by front line advisors and by working with external partners such as Citizens Advice, National Energy Action and Energy Action Scotland to identify those most in need of help.
- As part of the Warm Homes Discount Scheme, the Priority Assistance Fund provides additional support to help low income and vulnerable customers. During 2013/14, the fund provided more than £4m of assistance to vulnerable customers, including debt relief, free energy-efficient appliances, energy efficiency advice, help with bespoke payment arrangements and signposting to other organisations for help with more specialist issues.
- SSE also operates a free Careline priority service, dedicated to helping customers who are elderly, disabled or have special medical needs. Tailored and flexible payment arrangements are provided to pay for the electricity and gas that they use.
- Between the start of December and the end of February (or longer if the weather is unseasonably cold outside this time), SSE commits to a no disconnection policy covering all customers.
- Through its partnership with Social Enterprise Direct (part of Citizens Advice) SSE helped 210 customers increase their household income, with an average increase of £3,765 per annum (£72 per week).

Treating customers fairly
In August 2013 SSE launched Treating Customers Fairly, setting out the standards of conduct its customers can expect. In practice, it means ensuring customers are treated fairly and that SSE works in a transparent, honest and professional way. The introduction of such standards is good news for customers as they are now enforceable by Ofgem, which has powers to investigate, and if appropriate, fine companies who fail to meet them.

SSE has already implemented its own clear and tangible commitments. These are enshrined in its Customer Charter and backed up by its Customer Service Guarantee, through which SSE promises to meet five key customer service standards or give customers £20.

Providing customers with sector-leading service
SSE puts high standards of customer service at the heart of everything it does. During 2013/14 SSE was ranked number one for customer service in the uSwitch Customer Satisfaction Report – with customers voting SSE into top spot for the eighth year in a row. The annual survey, carried out for uSwitch by YouGov, asked more than 5,000 energy customers for their feedback on their energy supplier. As well as winning the Customer Service award, SSE was named 'Most Likely To Be Recommended' and best for Billing Services.

A Citizens Advice study (formerly by Consumer Futures), 'The Energy Supplier Performance Report', ranked SSE as the best performing of the major energy suppliers in terms of customer complaints. The findings are deemed an important guide for customers looking to switch their energy supplier. SSE had the lowest rate of complaints of the major energy suppliers, with 31.5 per 100,000 customers.

SSE also led the field in the energy industry's satisfaction charts for the third year in a row, coming joint first in the latest National Customer Satisfaction Index UK (NCSI-UK). The NCSI is an independent online satisfaction survey, capturing customers' views on the quality of service and products they have purchased from UK companies. Customers give their feedback in five areas – 'Customer Expectations', 'Perceived Quality', 'Perceived Value', 'Customer Complaints' and 'Customer Loyalty' – with companies then given a ranking out of 100. SSE achieved a ranking of 71, joint highest of any major energy supplier.

Taking further action to make a difference for customers
To build on its position, SSE offered a series of new initiatives during 2013/14, including:

- In July 2013, SSE introduced a new energy bill design to be clearer and simpler for customers. Over 1,000 SSE customers provided input, and the new bill features ten key pieces of information and design features which customers requested. These include a simple front page summary and financial position, a clear presentation of billing periods and dates, easy-to understand prices and charges, easy to find contact information, and clear identification of whether the bill is estimated or actual.
- In August 2013, SSE announced that it had ended the practice of unsolicited telephone calls to potential customers in Great Britain, recognising that they are unwelcome and intrusive. SSE and its supply brands will only contact customers they already have a relationship with or potential customers who have previously agreed to a call.
- In February 2014, SSE announced that it will issue automatic refunds to direct debit customers with more than £5 credit at the end of their yearly billing cycle. Previously, although customers have been able to request their credit to be refunded at any time, automatic refunds were made on balances of £100 or more. SSE will reduce this threshold to £5 at customers' annual reviews, and also begin reviewing all direct debit customer accounts twice a year to provide further reassurance that payments are set at the right level for customers' usage.

Delivering for small business customers
SSE believes that small businesses play an important role in the UK economy and in August 2013, with support from the Government and the Federation of Small Businesses, it announced changes to make life easier for its small business customers. These changes mean that SSE has ended the practice of automatic contract rollovers for small business customers, as well as extending to these customers its existing commitment not to back-bill micro-business customers for more than 12 months where they have previously been under-billed due to a genuine billing error on SSE's part.

So now, when a small business customer comes to the end of a fixed-term contract with SSE and does not make arrangements to terminate or enter into a new contract, instead of being automatically locked in to a new deal, the customer will move to SSE's Variable Business Rates. This allows these customers to move to a new deal with no exit fee, once their fixed period contract ends, as long as they give 30 days' notice.

These changes will help SSE's small business customers, enabling them to focus on the more important challenge of running and growing their companies. SSE will continue to seek ways to help improve the service it provides to its business customers.

Working with customers to manage energy-related debt
At 31 March 2014, the total aged debt (i.e. debt that is overdue by more than six months) of SSE's domestic and small business electricity and gas customers in Great Britain and Ireland was £117.8m, compared with £90.4m at 31 March 2013. A bad debt-related charge of £67.8m was recognised in the period (compared to £50.7m in same period last year).

Retail continued

The increase in the bad debt charge of £17.1m was driven by an increase in the cost of energy and increased energy consumption following the cold winter of 2012/13, set against a backdrop of continued pressures on disposable incomes. Whilst the number of customers with an energy debt continues to fall, average balances per customer and subsequently gross aged debts have risen. With affordability remaining a real challenge there has been an increased reliance on structured repayment options such as the use of payment plans and prepayment meters to help customers manage bills. This in turn has extended repayment periods and has led to a greater proportion of receivables requiring additional provision.

This coming year will see an increased emphasis on engaging with customers with arrears as early as possible, securing payment arrangements that have lower balances at their inception and helping to spread the cost of energy across the year. This will require an increase in pro-active customer contact with a greater use of data and customer insight to target effort most effectively. This proactive approach is in the best interests of SSE and the customers concerned.

Transforming energy supply with smart meters

Smart meters have the potential to transform energy supply in Great Britain. They allow the quantity and value of electricity and gas used to be continuously monitored by the customer and exchanged with the supplier electronically. Around 53 million smart meters are due to be installed in around 30 million homes and businesses by the end of 2020. Of these, SSE is set to install around nine million meters.

SSE is supportive of the smart meter roll-out as it will bring increased information and control to customers but is working closely with government and industry to make sure implementation is as cost-effective as possible for customers. In particular, SSE believes that the objective of the smart meter roll-out should be to comply with, but not necessarily exceed, EU requirements.

SSE is progressing well through the foundation phase of the roll out which involves building and testing the systems. Throughout this stage, SSE has endeavoured to keep installation volumes low due to its focus on a cost-effective roll-out and the lack of maturity in the smart meter supply chain.

To date, SSE has installed over 900 smart meters in customers' homes and undertaken multiple trials and pilots to refine solutions and to prove the stability and affordability of this emerging technology. Up to 75,000 meters will be installed over the next financial year, with mass deployment (Initial Live Operations) anticipated in late 2015, in line with the current DECC plans.

SSE has established a Smart Meter Operations Centre (SMOC) in Havant, which will oversee the installation and future operations of its smart meters.

Supplying energy to customers in Ireland

SSE is the second largest energy provider across the island of Ireland. The company supplies electricity and gas to 810,000 household and business accounts in the Republic of Ireland and Northern Ireland under its SSE Airtricity (previously Airtricity) brand. The new SSE Airtricity brand leverages the scale of SSE's investment so far in Ireland while building on the strong brand presence and heritage of Airtricity as Ireland's greenest energy provider. SSE Airtricity delivers distinct characteristics to Ireland's retail energy markets:

- it provides Ireland's greenest energy supply, with around 40% of the electricity it supplies to customers on an all-island basis coming from renewable sources;
- it delivers award-winning customer service including a particular focus on supporting vulnerable customers; and
- it provides customers with an award-winning online/digital/mobile platform from where around 60% of all customer interactions are performed.

At 31 March 2014, SSE Airtricity had a 21% share by customer numbers of the total combined gas and electricity market on the island, up from just 1% when it first entered Ireland's competitive domestic energy supply market in 2009.

SSE Airtricity is the only energy supply brand to operate in each of the competitive gas and electricity markets across the island:

- **Northern Ireland (gas):** SSE Airtricity is the regulated supplier of natural gas to 120,000 household and business accounts in the Greater Belfast area – approximately 75% of gas customers in Northern Ireland. The setting of SSE Airtricity's regulated gas prices, including any changes to those prices, requires the formal approval of Northern Ireland's Utility Regulator under a defined annual Price Control review process. On 1 April 2013 SSE Airtricity's regulated gas prices increased by 8.5% following approval by the Utility Regulator. In February 2014 SSE Airtricity announced that it would hold regulated prices for its domestic and small business customers at current levels until the next interim Price Control review by the Regulator in October 2014. This means that SSE Airtricity's gas customers in NI will enjoy stable prices for a period of at least 18 months since the company last changed its tariffs. It also demonstrates the price stability delivered to its Northern Ireland gas customers since it acquired Phoenix Supply Ltd. in June 2012.
- **Northern Ireland (electricity):** in this regulated electricity market, SSE Airtricity increased its prices by 17.8% from 1 July 2013. This followed Regulator-approved changes to the regulated electricity tariff and followed a decrease of similar proportions nine months previously, in October 2012. SSE Airtricity echoed the view of the First Minister and

Rewarding customers

In October 2013 the new 13,000 seater SSE Hydro opened in Glasgow. Since then it has welcomed nearly one million visitors and the biggest live acts. The SSE Reward scheme means our customers can buy tickets 48 hours in advance of general sale, win tickets and upgrades and enjoy VIP treatment.

Deputy First Minister that it wanted to see greater stability in Northern Ireland electricity pricing.

- **Republic of Ireland:** SSE Airtricity increased its gas prices by 2% from 1 October 2013 following an increase in regulated gas prices approved by the Republic's Commission for Energy Regulation. In the deregulated electricity market the company announced a 3.5% increase in its domestic prices from 1 November 2013 as a result of sustained rises in networks costs and wholesale prices.

SSE Airtricity is committed to making energy more affordable for vulnerable electricity and gas customers. In the Republic, where Pay-As-You-Go (PAYG) meters are an emerging solution to customer debt, the company has installed 20,000 PAYG meters. It also offers its most-in-need customers the cheapest available PAYG tariff in the market.

SSE Airtricity also leads the market in providing support to indebted customers and was an early adopter of a range of budgeting and technology solutions. As the industry leader, SSE Airtricity recently prepared a supplier code of practice in partnership with the Irish Government, Regulator and other suppliers. This code sets the standard for all market participants in assisting customers experiencing difficulty in paying their energy bills.

Achieving digital excellence and building a brand people trust in GB and Ireland

SSE's long-term priority in Retail is to achieve digital excellence and be a brand people trust so that operating costs are kept to a minimum, opportunities to increase the efficiency with which energy is used are maximised and customers trust SSE to do the right things for them. This, in turn, should enable SSE to be a market-leading retailer of energy and essential services. The objective is to attract and retain customers by delivering a valuable service, increasingly using digital channels, and creating opportunities to cross-sell relevant products.

The digital transformation of the industry means homes will become increasingly 'smart' as they use smart meters to monitor energy use. This increase in energy data will allow SSE to develop corresponding services and help its customers understand and reduce their consumption. The digital transformation should also reinforce the benefits of building and maintaining a trusted brand. In line with this, SSE's Retail business has developed new branding which, while maintaining the regional brands such as Scottish Hydro and SWALEC, creates a more unified SSE brand.

Rewarding customers through sponsorship

In October 2013 The SSE Hydro, a new 13,000-seater live entertainment venue in Glasgow, opened to the public. Sponsorship of the SSE Hydro gives SSE a customer offering that is unique in the energy supply market, with access to tickets for all events 48 hours in advance of public sale as well as the opportunity to win tickets or ticket upgrades through the SSE Rewards programme. The SSE Rewards programme is designed to help with customer retention as well as acquisition.

Following the success of The SSE Hydro a sponsorship agreement has been concluded between SSE and entertainment promoter AEG for the naming rights of the venue formerly known as the Wembley Arena, now The SSE Arena. This sponsorship will allow SSE to build on the sponsorship of The SSE Hydro with similar ticket pre-sales, upgrades and other benefits for customer in the southern half of the UK.

As part of this approach, and to reflect its strong commitment to Great Britain and Ireland, SSE has also sponsored the Glasgow 2014 Commonwealth Games, including sponsorship of each of the four home nation teams. Again the value of this sponsorship is in the opportunity to promote the SSE brand and to offer customer tickets and experiences during the Games.

Energy-related services

In addition to electricity and gas SSE offers energy-related products and services including boiler, central heating and wiring maintenance and installation as well as supplying and maintaining meters for household and commercial customers. These areas represent a natural fit with the company's existing strengths and propositions.

SSE provides heating, hot water and electrical maintenance through SSE's Home Services. It currently has over 190,000 gas/electricity maintenance contracts, compared with around 216,000 in the previous year. It also completed around 6,000 gas central heating installations and electrical heating/wiring installations in 2013/14, compared with over 8,500 in the previous year.

SSE's metering business undertakes meter reading operations and meter operator work in all parts of the UK. It also provides services to most electricity suppliers with customers in central southern England and the north of Scotland. It supplies and maintains meters and undertakes metering work in the commercial, industrial and generation sectors.

The number of SSE electricity and gas supply customers who receive bills based on actual meter readings now stands at 96.7%, in line with last year. SSE Metering has also installed just over 22,500 AMR (automatic meter reading) meters which are read remotely. During 2013/14, SSE collected 8.43 million electricity readings and 5.63 million gas readings.

SSE Contracting is involved in industrial, commercial and domestic mechanical and electrical contracting and in electrical and instrumentation engineering. It is one of the largest mechanical and electrical contracting businesses in the UK and is involved in the industrial, commercial, retail, housing, health, defence, transport and local authority sectors.

It continued to make solid progress in 2013/14. Its order book ended the year at £85m, just £3m lower than the year before. In addition, SSE Contracting was ranked second in the Electrical Times' 'Top 50 Electrical Contractor Report 2013' – a comprehensive annual industry measure of the best performing electrical contractors in Great Britain.

Retail – conclusion

Through its price freeze, SSE has sought to demonstrate its ability to make a difference for customers, in this case household energy bill payers in the Great Britain market. More broadly, SSE is committed to delivering sustained value and high standards of service for all of its Retail customers.

People, values and the environment

The SSE SET of values

Safety

We believe all accidents are preventable, so we do everything safely and responsibly or not at all.

Sustainability

Our decisions and actions are ethical, responsible and balanced, helping to achieve environmental, social and economic wellbeing for current and future generations.

Service

We give our customers service we are proud of and make commitments that we deliver.

Excellence

We strive to get better, smarter and more innovative and be the best in everything we do.

Efficiency

We keep things simple, do the work that adds value and avoid wasting money, materials, energy or time.

Teamwork

We support and value our colleagues and enjoy working together as a team in an open and honest way.

Values and responsibilities

Culture

SSE believes that the behaviours and culture of an organisation should be guided by its values, and that an organisation's values should be at its core. SSE has six core values which seek to bound the behaviour and attitude of its employees and those it works with. They are: Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. For full definitions of the values see opposite.

The team

The Board of Directors and the Executive Committee

The Board of Directors is accountable to SSE's shareholders for the good conduct of the Company's affairs. It is responsible for creating and sustaining shareholder value in a responsible way through the overall management of the Company. In doing so, the Board must ensure that a sound system of internal control and risk management is in place. There are a total of nine directors (including the Chairman) on The Board, of these six are men and three are women. Full details of 'How the Board Works' is set out on pages 62 to 66.

The Executive Committee comprises SSE's two Executive Directors and four of its Managing Directors. It is responsible for implementing strategy and policy as agreed by the Main Board and for the operational management of all of SSE's businesses. The members of the Board are listed on page 60 and 61 and the members of the Executive Committee are outlined below.

A total of 59 senior managers report to the Executive Directors and Managing Directors in SSE. Of these 18 are women and 41 are men.

All employees

SSE employed 19,779 people on 31 March 2014, compared with 19,795 in the previous year. Fundamental to the Company's success is the professionalism and enthusiasm of employees, guided by SSE's teamwork value, which states: 'We support and value our colleagues and enjoy working together as a team in an open and honest way.' SSE is committed to ensuring that it is a great place to work and its policies on human resources are developed and delivered in support of this.

Of all employees, 70% are men and 30% are women. The average age of SSE's employees is 41 years. In 2013/14, there was a 9.2% turnover of employees, the same as in the previous year.

Developing and recruiting people

Building the SSE team

During 2013/14, SSE recruited externally a total of 2,157 people to jobs in England, Scotland, Wales, Northern Ireland and the Republic of Ireland. Of the people recruited during the year, 67% were men and 29% were women, with 4% who did not specify their gender. While it was difficult to find candidates for a very small number of the jobs, because of the technical requirements or location issues, the vast majority were filled by appropriately-qualified people in a timely way and SSE remains pleased with the number of high quality applications that it receives.

SSE's priorities in maintaining and developing the right team of employees are:

- making SSE a great place to work, therefore retaining engaged, motivated and committed people and attracting a strong and diverse number of quality applicants for new roles;
- making a long-term commitment to employees, giving them the time to build their professional skills and the opportunity to advance their careers;
- maintaining a preference for recruiting and promoting from within the organisation where possible, while recognising that some specialist skills may only be available through external recruitment;
- taking steps to ensure a balanced and diverse list of applicants for roles within SSE;
- ensuring effective succession planning, based on a comprehensive annual review process which extends beyond the Board and the Executive Committee to other levels in the organisation and which features a range of options for the development of key individuals; and
- recognising that the most effective employees over the long-term are those who are able to maintain a balance between their working and family lives.

SSE is undertaking a value programme to secure more operational efficiencies. SSE is expecting to see a reduction, compared with previous plans, in the number of jobs across its business and since its launch on 26 March 2014, 600 employees have applied successfully for voluntary early release and will be leaving SSE on 30 June. Nevertheless, SSE still expects to employ around 20,000 people in Great Britain and Ireland at the end of 2014/15.

The Living Wage

In September 2013, SSE became (at that time) the UK's biggest officially-accredited Living Wage employer – guaranteeing that all employees will receive at least the Living Wage rate, set at a level which ensures people can cover their basic cost of living, including

The Executive Committee

The Executive Committee is responsible for implementing the strategy, values and governance set by the Board and for leading the day-to-day running and operations of SSE. Its members are Alistair Phillips-Davies (see biography on page 60), Gregor Alexander (see biography on page 60) and four Managing Directors:

Jim McPhillimy
Managing Director, Enterprise
Jim McPhillimy is Managing Director, Enterprise. He joined SSE in 1995 and is responsible for SSE Contracting, Lighting Services, Utility Solutions, Telecoms and business relationship management.

Mark Mathieson
Managing Director, Networks
Mark Mathieson is Managing Director, Networks. He joined SSE in 1988 and is responsible for SSE's economically regulated businesses in electricity distribution and electricity transmission.

Will Morris
Managing Director, Retail
Will Morris is Managing Director of SSE's Retail business. He joined SSE in 2012 and is responsible for the customer facing retail business in energy supply and energy-related services.

Martin Pibworth
Managing Director, Wholesale
Martin Pibworth is Managing Director, Wholesale. He joined SSE in 1998 and is responsible for energy portfolio management, generation, generation development, gas production and gas storage.

People, values and the environment continued

housing, bills, food and travel. In total, 148 employees in Scotland, England and Northern Ireland received a wage increase, averaging around £1,000, as a result of the decision to become a Living Wage employer. SSE became a Living Wage employer because it believes it is a matter of basic fairness that people should get a wage that is enough to cover their living expenses and SSE believes in being a fair employer.

Diversity and inclusion
SSE has a Diversity and Inclusion Working Group which focuses on ensuring a diverse mix of candidates is attracted for all available job opportunities, while helping to build a culture of inclusion so that everyone has the same opportunity to progress regardless of background or personal circumstance.

In support of this, an Equality and Diversity e-learning module has been rolled out to all 2,800 people managers in SSE. This promotes the creativity and innovation benefits that can be achieved by building SSE teams which reflect a wide range of skills, thinking styles, personality types and perspectives.

In 2013/14, the diversity agenda was focused on understanding the skills and employment challenges faced by SSE over both the short- and long-term, and identifying creative solutions to address these. This included looking at alternative recruitment routes and markets to tap into, structure of working patterns and acceleration of high potential employees within the business. Another key focus for the year ahead was on ensuring that SSE's talent pipeline and management leadership traits promote diversity and inclusion.

Youth unemployment
The level of unemployment among 18- to 24-year-olds has been a particular cause for concern as a result of the economic slowdown in the United Kingdom and Ireland in recent years. Over 1,500 of SSE's employees are aged under 25 (around 1,549 in total).

SSE supports the Barnardo's Works programme, which aims to give long-term unemployed young people the opportunity to gain comprehensive waged-work opportunities, training and industry-related qualifications. Since it began in 2008, a total of 105 young people have taken part in the programme with SSE.

In addition, SSE offers a range of structured development programmes suited to the needs of school leavers, trainees, trainee engineers, graduates and apprentices. The focus of each programme is to ensure that those participating gain skills which create sustainable career opportunities that can be used for their future benefit and for the benefit of SSE. This sustainable creation of jobs is key to SSE.

Currently 650 individuals are progressing through these programmes and the Executive Committee has agreed an increase in the numbers of participants in these programmes with the introduction of new training programmes planned for 2014/15.

Performance management
SSE has in place a wide-ranging performance management system, designed to make sure that employees are able to fulfil their potential and contribute as much as possible to the achievement of SSE's goals and the delivery in practice of SSE's values. For this reason, the performance appraisal system is focused on:

- performance in the past year, including a review of performance against each of SSE's core values (Safety, Service, Efficiency, Sustainability, Excellence and Teamwork);
- key objectives for the year ahead;
- expectations, aspirations and ambitions for the year ahead and beyond; and
- personal development requirements and aspirations for the year ahead and beyond.

Performance management therefore focuses on the skills and competencies of employees, which are critical to SSE and to the energy sector in the United Kingdom, the Republic of Ireland and elsewhere. Above all, SSE needs to ensure the safe and efficient operation of its businesses and the reliable provision of services to customers.

Training and development
SSE has three technical and general training centres located in Berkshire, Rhondda Cynon Taf and Perthshire respectively. These centres enable people to train in the types of environment in which they will eventually work, providing a realistic experience in a safe and controlled setting. SSE's newest training facility, in Rhondda Cynon Taf, is focused on developing skills to support the delivery of services in key areas of energy efficiency and smart metering. Training is supplemented by operational awareness days, during which best-in-class working practices are demonstrated to employees through detailed coaching and assessment in operational environments. SSE has an internal training team which is equipped to run a range of technical, customer, business and management training interventions.

During 2013/14, SSE invested £2.5m in externally-provided training and development, taking the total to £10m over the last five years. This helped to deliver training to thousands of employees. Training interventions included the delivery of a number of development programmes run in partnership with selected universities focused on supporting the development of employees across the business. These programmes included Glasgow Caledonian Business Degree and Diploma Programme, Foundation Degree in Mechanical Engineering at Aston University and Project Management Academy in partnership with Strathclyde University.

Employees and the law
SSE has in place a comprehensive range of policies to safeguard the interests of employees and potential employees. Like all responsible organisations it has an actively-managed equal opportunities policy, in keeping with the spirit, as well as the letter, of the law in the United Kingdom and elsewhere, designed to ensure fair and equal treatment of employees and potential employees across the seven protected characteristics, as defined in the Equality Act 2010 – sex, race, religion or belief, disability, pregnancy and maternity, disability, sexual orientation and gender reassignment. The Employment Equality (Age) Regulations 2006 were incorporated into the Equality Act 2010. There were no occasions during 2013/14 when SSE was found to have failed to comply with legislation on equality.

SSE also runs a policy development group with representatives of its recognised trades unions to ensure that revisions to existing policies and development of new policies are discussed and reviewed with employee representatives prior to implementation.

SSE also keeps employees and managers updated with key changes to employment policy and legislative requirements through the use of e-learning which has been used to train managers on the Bribery Act provisions.

Ethical working
SSE prides itself on acting with honesty and integrity in its dealings within the Company, and with customers, investors, regulators and business partners. SSE sets very high standards of behaviour and employees are given clear guidance on best ethical practice through a regularly updated Company policy booklet.

Engaging employees

Employee participation
SSE recognises the value in attracting and retaining an engaged workforce and runs an annual externally-facilitated Company-wide survey of employee engagement. The 2013 survey, which was open to all employees, had a 92% response rate and showed that SSE has an above benchmark employee engagement index of 78%.

SSE shares the details of the survey results with all employees and publishes and implements detailed business by business action plans based on the findings of the survey.

Within SSE, employee participation is encouraged through adherence to the Company's Teamwork value and an established

recognition programme. The appraisal process for employees, including the senior management team, specifically evaluates their performance in teamwork, along with performance in respect of SSE's other core values. Coupled with this is formal recognition of strong teamwork and good performance through an annual employee awards scheme – the eSSEntial Awards – which celebrates success. In 2013/14, 653 employees were nominated for awards by their peers and managers.

In addition to a wide range of internal communication media and events, employee participation in SSE is also encouraged through internal blogs, interactive online forums, division- and subject-specific employee surveys, Director-led regional roadshows and the Licence to Innovate scheme, established in 2007, which enables employees to research, review and test-trial new ideas.

Joint Negotiating and Consultative Committee
SSE has a well-established Joint Negotiating and Consultative Committee (JNCC) which includes lay and full-time representatives from four recognised trade unions. This company-wide forum meets to consider key employment issues impacting SSE employees. This group was responsible for the negotiation of a three-year modernisation agreement which has led to a move to performance-related pay, and has introduced a number of employment safeguards in return for increased employee flexibility. The JNCC is supported by Joint Business Committees (JBCs) which seek to deal with key employment issues within each of the main business groups.

Employee benefits
SSE believes that there is a commonality of interest between employees, customers and shareholders. To reinforce that it:

- encourages all employees to become and remain customers by providing them with energy at a 12% reduction on the normal unit rate for their tariff, plus discounts on other SSE products and services such as energy efficiency installations, central heating and wiring maintenance and telephone and broadband services; and
- provides opportunities for employees to become and remain shareholders in SSE through a Share Incentive Plan and a Sharesave Scheme. Employee participation in these schemes is now 53% and 40% respectively.

SSE believes that all employees should invest for retirement and offers pension schemes to all employees. It has been automatically enrolling all new starts into pension schemes since 2005. The UK government's policy to help those in employment build up a pension through their workplace now requires all employers to enrol their workers into a workplace pension scheme if they are not already in one. Since 1 March 2013 SSE has automatically enrolled all eligible employees into a competitive pension scheme; currently membership of the GPPP+ stands at 15,600.

In addition, in recognition that it operates in a competitive employment market, SSE provides a wide range of employee benefits including: a range of salary sacrifice offerings; access to the SSE Extras programme which provides employees with discounts and offers from a range of retailers; and EmployeeCare, a service which provides counselling during times of need and a health and wellbeing advisory service.

SSE in the community

In order to meet its objective of being a responsible member of the community, SSE continues to establish close working relationships with local community groups, organisations and charities in the regions in which it operates. With its origins in the north of Scotland, central southern England and south Wales, and with around 20,000 employees throughout the UK and Ireland, SSE can make a positive impact to hundreds of local communities.

SSE undertook three main community programmes during 2013/14:

- **Action** – through SSE's employee volunteering programme, under which employees are given one day of leave to support community initiatives. During 2013/14, over 8,000 volunteer days were given to 740 individual projects in the UK and Ireland. SSE teams supported a wide range of initiatives including: conservation tasks at wildlife trusts; fund-raising and support for local hospices; gardening and DIY in schools, sports clubs and community theatres; and educational workshops for schools and public events;
- **Fundraising** – supporting key partner charities such as Mission Christmas, for which £9k was raised in cash and a further 1,000 Christmas gifts were donated by employees in December 2013, and Sport Relief, for which over £50k was raised in the spring of 2014. All funds raised by SSE staff were matched by SSE in order to double the impact for local good causes;
- **Heritage** – cataloguing, maintaining and preparing for display the SSE Heritage Collection (see sseheritage.org.uk), currently based in Dorset, developing a new £3m visitor centre at its Pitlochry hydro electric scheme and launching a Perthshire renewables trail guide, in order to make the built and natural heritage of SSE's hydro plant and wind farms more accessible to the public.

In addition, during 2013/14, SSE shared £2.5m between eight UK charities working to improve the lives of people living in fuel poverty. Energy Action Scotland, Citizens Advice Bureau, Age UK, Save the Children and Macmillan Cancer Support are amongst the charities to receive a share of money. The money is being used for a range of projects including training for local energy champions, energy awards for cancer sufferers and a grant scheme for energy efficiency measures.

The SSE donation was made possible by the creation of a retrospective Sales Guarantee Fund from January 2008 to August 2013. The Guarantee, launched in 2011, reimburses any household customers who switched their energy supply to SSE after being given inaccurate or misleading information and who was disadvantaged as a results. SSE pledged to donate any balance of the fund to charities. SSE's Sales Guarantee, is the only one of its kind in the industry and it remains open as a safeguard for household energy sales.

Community Funds

SSE operates a leading community investment programme, delivering financial support to a diverse range of community projects near to its renewable developments. It manages over 25 local community funds and a regional Sustainable Development Fund, aimed at supporting large-scale transformational projects. In the last decade over 1,200 community initiatives with grants totalling over £15 million have been supported.

During 2013/14, SSE provided over £5m to community projects in the UK and Ireland through these funds supporting initiatives including energy efficiency programmes, local apprenticeship schemes and new build sporting facilities and enabling local infrastructure upgrades such as rural broadband, path networks and lifeline services.

Furthermore in 2013/14 SSE established a Sustainable Development Fund in order to support strategic projects in the regions where SSE is developing its renewable energy projects. This regionally based fund will be available within any local authority where an SSE wind farm was constructed after 1 January 2012. The value of the fund may be worth up to £50 million over the next 25 years. The first of these funds, the Highland Sustainable Development Fund opened in January 2014 and an independent panel will grant over £1 million to regional community projects.

SSE's work with suppliers and contractors

SSE depends on an extended team of suppliers and contractors for the long-term success of its business. With its Responsible Procurement Charter, it aims to promote responsible practices within its supplier and contractor base and its aims in this area include:

People, values and the environment continued

- improving contractors' safety performance;
- ensuring employees of contractors working on SSE's sites are paid the Living Wage; and
- reducing the CO_2 footprint.

In support of this, SSE has a Supplier Registration System which provides it with information on suppliers, including categories relating to where they work on site, data on safety, health and the environment and quality.

Continuing the focus on reducing carbon emissions, SSE has successfully completed the Certified Emissions Management and Reduction Scheme (CEMARS) and encouraged many of its main suppliers to sign up to the programme.

As a responsible buyer of goods and services, SSE has signed up to the Prompt Payment Code in the UK, which means it will pay suppliers on time, within the terms agreed at the outset of the contract, without attempting to change payment terms retrospectively and without changing practice on length of payment for smaller companies on unreasonable grounds.

SSE recognises that it has a significant part to play in contributing to the economic well-being and sustainable development of the communities in which it operates. It is therefore committed to achieving the highest levels of engagement with local suppliers. SSE's Open4Business portal specifically targets small to medium enterprises and is an easy-to-use platform for local companies to do business with SSE and its core contractors. The portal is open to potential suppliers in Highlands and Islands and North of England regions. The Highlands and Islands platform won the 'Contribution to Supply Chain Development' Award at the Scottish Green Energy Awards in 2013 along with the Business Excellence Award for 'Excellence for Business Service and Engagement' from the Scottish Council Development & Industry.

Human Rights

Like other companies operating in the United Kingdom, SSE is governed by the Human Rights Act 1998, the aim of which is to give 'further effect' in the UK law the rights contained in the European Convention of Human Rights. The Republic of Ireland, which is the only other state in which SSE employs people and carries out operations and investments, is also a party to the ECHR. It is SSE's approach to comply with the spirit and letter of human rights legislation and responsibility for doing so rests with its Executive Committee.

Research and development

SSE is, fundamentally, an adopter of technology, choosing to focus on development, demonstration and deployment that delivers benefits for customers and other stakeholders. Nevertheless, SSE is involved in a series of research and development-related activities that are closely aligned to its core purpose of providing the energy people need in a reliable and sustainable way. For example:

- **Networks:** SSE's electricity distribution opened the sector-leading active network management scheme on Orkney in advance of wider deployment, and is leading a series of 'smart' projects, such as the Thames Valley Vision to provide innovative technologies to meet increasing electricity use, that could lead to the transformation of key features of electricity distribution in the years to come;
- **Wholesale:** SSE's renewable energy division has pioneered the development of the UK's national offshore wind turbine testing facility at Hunterston in North Ayrshire, in partnership with DECC, Scottish Enterprise and leading turbine suppliers; and its thermal energy division is a strategic partner in the UK government-approved carbon capture and storage project at SSE's Peterhead power station, with responsibility for station modification.

With a partnership-based approach, focusing on key issues affecting the energy sector in Great Britain and Ireland, SSE has a practical approach to research and development that should secure meaningful outcomes that contribute to meeting its customers' needs and addressing key issues in the energy 'trilemma'.

Sustainability

SSE has an essential purpose at its core - providing the energy people and businesses need. SSE has a responsibility to ensure this need is met in a sustainable way, both now and for the long term. Sustainability is therefore a guiding value and is defined as:

'Our actions and decisions are ethical, responsible and balanced, helping to achieve environmental, social and economic well-being for current and future generations.'

SSE's sustainability value is one of six core values, established in 2006, that influence how SSE conducts its activities.

The value guides employees to act responsibly, balancing all three aspects of sustainable well-being – environmental, social and economic – with a view to the impact on current and future generations.

Being responsible

SSE's determination to act in a sustainable way is embedded throughout its business operations. In practice this simply means SSE's businesses act responsibly, going beyond minimum standards in order to make a positive difference to people's lives.

Examples of SSE's responsible and sustainable approach during 2013/14 include:

- freezing energy prices for customers until 2016;
- continued investment in new renewable energy capacity. SSE has invested around £3bn in renewable energy in the last five years taking capacity to over 3,000MW;
- becoming Living Wage employer – one of the largest in the UK;
- 40% of SSE employees participated in the employee volunteering scheme, donating 8,000 employee days to local charities; and
- contributing over £4.5m to continued support for local communities through SSE's community investment schemes.
- working closely with its supply chain to bring about greater social and environmental impacts for local people.

Integrated reporting

Sustainability is integral to SSE's core purpose and as such it is embedded in the way each of SSE's three business segments operates. Reflecting this, the reporting of SSE's sustainability impacts (financial and non financial) is integrated throughout this Annual Report, with full descriptions of the significant social, environmental and economic impacts of each business highlighted in the relevant business overview.

Increasing transparency

Although this report will continue to be integrated, SSE wants to make information about its sustainability impacts more accessible and transparent for all stakeholders and over the next 12 months it will establish new ways of communicating this information. The first and most significant of these is a new area on its website entitled 'Being Responsible' – sse.com/beingresponsible.

This area contains straightforward information and relevant case studies that explain how SSE operates in a responsible way and seeks to make a positive difference to people's lives as a result. Over time this area will also include a wide range of data and KPIs which support SSE's sustainable approach as well as policy statements covering key issues such as bribery, diversity, corporate governance and support for communities.

In 2013/14 SSE commissioned a major economic analysis from PriceWaterhouseCoopers (PWC) in order to be more transparent about it impacts on the UK, Scottish and Irish economies. The report demonstrated, for example, that the impacts of SSE's activities contributes £9.1bn to UK gross domestic product and supports 112,000 jobs in the UK economy.

Responding to the IPCC report
The second in a series of influential reports from the UN Intergovernmental Panel on Climate Change (IPCC) was released in March 2013 and described the impacts of global warming as "severe, pervasive and irreversible". SSE pays close attention to climate science reports like those from the IPCC. It knows it has an important part to play in addressing climate change, at the same time as making sure energy supplies are resilient enough to cope with the severe weather that may arise.

Taking carbon out of electricity generation in an affordable way is key to mitigating climate change. Therefore SSE remains committed to reducing the carbon intensity of its electricity generation by 50%, compared to 2006, by 2020 and is on target to achieve this.

Transforming the energy efficiency of the UK's homes also remains crucial and SSE remains focused on working with customers to help them reduce their energy use. SSE continues to make the case that the cost of energy efficiency is more fairly paid through taxes, not through the energy bill.

Greenhouse gas emissions reporting
During 2013 DEFRA implemented new greenhouse gas reporting requirements for large companies listed on the London Stock Exchange. SSE adopted these new requirements in its Annual Report in 2013 and this information is included alongside the 2013/14 data below.

In 2013/14, SSE achieved a 15% reduction in its overall Scope 1 gross carbon emissions from its operations, largely as a result of reduced output from coal-fired power stations. The carbon intensity of SSE's generation portfolio has also reduced in 2013/14 partly due to the reduction in coal output, but also due to the increase in renewable and gas-fired generation compared to last year.

Very low spark spreads for gas-fired generation continue to be a feature of the electricity market and so coal-fired plants have, temporarily, played a larger part in generating electricity for customers. This has resulted in higher than forecast levels of carbon emissions in recent years, but, as evidenced by the reductions seen in 2013/14, SSE's longer term strategy of moving to a lower carbon generation fleet weighted towards gas and renewables means it remains on track to meet its objective of halving the carbon intensity of the electricity it generates (compared to 2006) by 2020.

CO_2 emissions (000's)

	1 April 2013 to 31 March 2014			1 April 2012 to 31 March 2013		
	CO_2	**CO_2e**	**Total CO_2**	CO_2	CO_2e	Total CO_2
Generation[1]	20,499	165	20,664	24,319	176	24,495
Other Scope 1	49	9	58	56	9	65
Scope 1 total	**20,548**	**174**	**20,722**	**24,375**	**185**	**24,560**
Distribution network losses	1,099		1,099	1,224		1,224
Other Scope 2	64		64	72		72
Scope 2 total	**1,163**	**0**	**1,163**	**1,296**	**0**	**1,296**
Scope 3 total	**18**	**0**	**18**	**17**	**0**	**17**
Total emissions[1]	**21,729**	**174**	**21,903**	**25,688**	**185**	**25,873**
Intensity ratios						
Emissions relative to turnover			716			914
Emissions relative to MW output			572g/kWh			659g/kWh

Notes
1. The figure for generation emissions adjusts the figure from SSE-owned generation to include energy bought in under power purchase agreements. The figure corresponds to the contracted position set out elsewhere in the report (see pages 32 to 39). It includes emissions from generation plant in Ireland from the date of acquisition.
2. Scope 1 comprises generation, operational vehicles, sulphur hexafluoride, fuel combustion, gas consumption in buildings.
3. Scope 2 comprises distribution losses, electricity consumption in buildings and substations.
4. Scope 3 comprises business flights, rail journeys and car miles and losses associated with the electricity consumption in Scope 2.
5. Scope 2 and 3 numbers for 2012/13 restated to reflect changes in DEFRA reporting guidelines
6. Emissions intensity is calculated against generation emissions, rather than total emissions.
7. GHG emissions from SGN's activities are not included here. Those emissions are reported in SGN's annual report.
8. GHG emissions arising from the losses across the SHETL owned transmission network are not included since the network is operated by National Grid Company.
9. The figures have been assured to the CEMARS standard by Achilles Group Limited, consistent with ISO14064-1 and the Greenhouse Gas Protocol.

More information

Sustainability overview

▶ **See pages 30-31 for more information**

▶ **See also** http://www.sse.com/responsible

By order of the Board

Vincent Donnelly
Company Secretary
20 May 2014

Chairman's introduction to SSE corporate governance
Lord Smith of Kelvin

Committed to the highest standards of corporate governance

Good corporate governance is key to the running of SSE as a successful, responsible, transparent and sustainable company.

As Chairman of the Board, I can assure you that I remain committed to ensuring SSE continues to operate within established best practice. Our Report for 2013/14 explains SSE's approach to corporate governance, and there are also separate reports from each of the Board Committees.

UK Corporate Governance Code

The UK Corporate Governance Code was revised in September 2012 and made changes on matters such as audit tendering, reporting of significant financial judgements and diversity. Although we were able to report last year that we had adopted early the 2012 Code provisions on diversity, this is the first year we are formally required to report on how we have complied with this version of the Code. I can confirm that with the exception of the provision relating to audit tendering, SSE has complied with all other provisions of the Code. The detailed explanation of non-compliance with the audit tendering provision is given in the Audit Committee Report.

Board Changes and Succession Planning

The Nomination Committee continued to keep under review the succession planning needs of the Board and senior management team. There have been a number of changes to the Board during 2013/14. Ian Marchant stood down as Chief Executive on 30 June 2013 and Alistair Phillips-Davies succeeded him on 1 July 2013. Sue Bruce joined the Board as a non-Executive Director in September 2013 and we recently announced the appointment of Peter Lynas as non-Executive Director from 1 July 2014. Lady Rice and Thomas Andersen are both stepping down from the Board at the AGM on 17 July 2014. I would like to thank Susan and Thomas for their commitment over the years. In particular, Susan has brought to the role of Remuneration Committee Chairman diligence and judgement that has been vital at a time when publicly-listed companies are under such scrutiny. Thomas' contribution, including his Chairmanship of the Safety Health and Environment Advisory Committee, has also been invaluable.

Diversity

We value and support all forms of diversity throughout the organisation. This report sets out our policy on Boardroom diversity. I would like to highlight that SSE was recently reported in the Women on Boards Davies Review Annual Report 2014 as being in the top seven of the FTSE100 for its level of female Board representation, which is currently 33%. I have also explained to the Secretary of State for Business Innovation and Skills our approach to succession planning both at Board and senior management level, including our very successful experience of considering the talent and skills available in the public sector when appointing Sue Bruce to the Board.

Board Evaluation

In 2012/13 we used PwC to conduct an externally facilitated evaluation of the Board and the recommendations have been implemented. The evaluation of the Board during 2013/14 was an internal process which developed on the previous year's external evaluation recommendations. I also held meetings with each Director, and I am confident that the Directors and Board continue to operate to a high standard.

Time commitment of non-Executive Directors

The commitment of our non-Executive Directors to SSE over and above attendance at Board and Committee meetings continues to be very valuable to SSE. During the year our non-Executive Directors visited sites throughout SSE, including power stations, major transmission projects and customer service centres in the United Kingdom and Ireland. The feedback from these visits is given to the Board, and visits are also given increased prominence within the Company through various internal media channels, including the Chief Executive's blog which I know is read extensively by employees.

Lord Smith of Kelvin
Chairman

SSE corporate governance – at a glance

Board of Directors

Responsible to shareholders for the long-term success of SSE and for its overall strategic direction, values and governance.

Nomination Committee

Reviews the leadership needs of the Board and senior management team, to support SSE's continued ability to retain and recruit the expertise it needs.

Safety, Health and Environment Advisory Committee

Advises the Board on safety, health and environment matters including policy, targets and strategy to improve performance and support SSE's safety value.

Audit Committee

Assists the Board in discharging its responsibilities in relation to financial reporting, internal control, risk management and the relationship with the external auditor.

Remuneration Committee

On behalf of the Board sets the total remuneration policy and approves the detailed remuneration terms of, and incentive schemes for, the Executive Directors.

Executive Committee

Responsible for implementing the strategy, values and governance set by the Board, whilst leading the day to day running and operations of SSE.

Safety, Health and Environment Committee

Reviews safety, health and environment performance against targets and implements the strategy for improved performance to support SSE's safety value.

Risk and Trading Committee

Supports management of risks by reviewing the market, credit, operational and liquidity risks and issues arising from wholesale, retail and treasury operations and ensuring appropriate responses to them.

Major Projects Committee

Ensures projects are governed, developed, approved and executed in ways that are compliant with SSE's Major Projects Governance Framework.

Disclosure and Governance Committee

Oversees the framework for matters relating to disclosure, investor relations and corporate governance arising from SSE's listing on the London Stock Exchange.

Capital Allocation Committee

Makes recommendations to the Executive Committee and the Board to ensure the efficient use and allocation of capital available for optional investments in relation to SSE's wholesale business.

Board of Directors

	Lord Smith of Kelvin **Chairman**	**Alistair Phillips-Davies** **Chief Executive**	**Gregor Alexander** **Finance Director**	**Jeremy Beeton CB** **Non-Executive Director**	**Katie Bickerstaffe** **Non-Executive Director**
Nationality	UK	UK	UK	UK	UK
Date of appointment	Non-Executive Director since June 2003. Chairman since January 2005.	Appointed Energy Supply Director in January 2002. Generation and Supply Director December 2010. Deputy Chief Executive September 2012. Chief Executive since 1 July 2013.	Appointed Finance Director in October 2002.	Non-Executive Director since July 2011.	Non-Executive Director since July 2011.
Committee Membership	Chairman of the Nomination Committee; Member of the Remuneration Committee.	Member of the Nomination Committee.		Member of Audit,and Safety, Health and Environment Advisory Committees.	Member of the Nomination and Remuneration Committees.
Background	Lord Smith has held a number of senior positions in a range of financial services organisations, including Morgan Grenfell Private Equity, Morgan Grenfell Asset Management and Deutsche Asset Management. He is a chartered accountant and a past president of the Institute of Chartered Accountants of Scotland. He was a member of the Judicial Appointments Board for Scotland and former Chairman of the trustees of the National Museums of Scotland.	Alistair has over 17 years' service with the Group, having joined Southern Electric plc in 1997. Previously he worked for HSBC and the National Westminster Bank in corporate finance and business development roles. As Chief Executive, Alistair has an extensive remit. He is also Chairman of the Executive Committee. His direct reports include the Group Finance Director, the MDs Enterprise; Networks; Retail; Wholesale; and Corporate Affairs, and the Director of Human Resources. He is a chartered accountant.	Gregor has over 23 years' service with the Group, having joined Scottish Hydro-Electric plc in 1990. He is a chartered accountant. Gregor has SSE Board-level responsibility for Finance, Investor Relations, Risk & Assurance, Procurement & Logistics, IT and Corporate Business Services. He is the sponsoring Board member for SSE's businesses in Ireland and Chairman of 50%-owned Scotia Gas Networks Ltd.	Jeremy was the Director General of the UK Government Olympic Executive, the lead government body for coordinating the 2012 London Olympics. Previously Jeremy was Principal Vice President of Bechtel Ltd, where he had responsibility for the management and delivery of Bechtel's civil engineering projects in infrastructure and aviation business lines. Jeremy is a civil engineer.	From 2008 to 2012, Katie served as Director of Marketing, People and Property (Dixons). Previously she was Managing Director of Kwik Save Ltd and Group Retail Director and Group HR Director at Somerfield plc. Her earlier career included roles at Dyson Ltd, PepsiCo Inc and Unilever PLC.
Key appointments	Chairman of: UK Green Investment Bank plc; Glasgow 2014 Limited, the organising committee for the Commonwealth Games. Non-Executive Director of Standard Bank Group Ltd in South Africa.	Director of Energy UK.	Non-Executive Director of Stagecoach Group plc.	Member of the Court of Strathclyde University. Sits on the Advisory Board of PwC, the Supervisory Board of Imtech and is Chairman of Merseylink Ltd. Non-Executive Director of A Proctor Group Ltd.	Chief Executive, UK and Ireland Dixons Retail plc.

Sue Bruce Non-Executive Director	Richard Gillingwater CBE Senior Independent Director	Peter Lynas Non-Executive Director	Lady Rice CBE Non-Executive Director	Thomas Thune Andersen Non-Executive Director
UK	UK	UK	USA and UK	Denmark
Non-Executive Director since 1 September 2013.	Non-Executive Director since May 2007. Senior Independent Director since July 2012.	Non-Executive Director from 1 July 2014.	Non-Executive Director since July 2003. Senior Independent Director from July 2007 to July 2012. Susan is stepping down from the Board at the conclusion of the Annual General Meeting on 17 July 2014.	Non-Executive Director since January 2009. Thomas is stepping down from the Board at the conclusion of the Annual General Meeting on 17 July 2014.
Member of the Safety, Health and Environment Advisory Committee.	Chairman of the Audit Committee. Member of the Nomination and Remuneration Committees.	Joins the Audit Committee as Chairman on 17 July 2014.	Chairman of the Remuneration Committee. Member of the Nomination Committee.	Chairman of the Safety, Health and Environment Advisory Committee. Member of the Audit and Nomination Committees.
Sue began her local government career with Strathclyde Regional Council in 1976. Sue was Chief Executive at both Aberdeen City Council and East Dumbartonshire Council before she took up the same post at the City of Edinburgh Council in January 2011. In 2010 and 2011 Sue received the Prince's Business Ambassador award and in 2010 she was recognised as the Scottish Public Sector Leader of the Year at the Scottish Leadership awards.	Richard was, most recently, Dean of Cass Business School, London. Prior to this he spent 10 years at Kleinwort Benson, before moving to BZW, in due course, becoming joint Head of Corporate Finance and, latterly, Chairman of European Investment Banking at Credit Suisse First Boston. He has previously served as Chief Executive then Chairman of the Shareholder Executive. He has been the Chairman of CDC Group and a non-Executive director of P&O, Debenhams, Tomkins, Qinetiq Group and Kidde.	Peter joined GEC-Marconi in 1985 as a Financial Accountant at the manufacturing operation in Portsmouth and in 1998 was appointed Finance Director of Marconi Electronic Systems prior to the completion of the British Aerospace/Marconi merger. He was a Board director of Marconi's European joint venture companies, Alenia Marconi Systems and Matra Marconi Space, and has been a Chairman of the trustee board of a major pension scheme. Peter is a Fellow of the Chartered Association of Certified Accountants.	As Chairman and Chief Executive of Lloyds TSB Scotland plc, Susan was the first woman to head a UK clearing bank. Previously she worked for Bank of Scotland and Natwest Bancorp in New York. In her earlier career, she was a Dean at Yale and Colgate universities in America. Susan is a Chartered Banker.	Thomas has had an extensive international career in the oil and marine industries with the A.P. Møller-Mærsk Group. From 2004 to 2009 he was CEO and President of Mærsk's oil and gas company. Between 2005 and 2009 he also served on Mærsk's Board and Executive Committee. Thomas has an MBA in Foreign Relations and Foreign Trade.
Chief Executive, Edinburgh City Council.	Chairman of Henderson Group plc. Non-Executive Director of Wm Morrison Supermarkets plc. Senior Independent Director of Hiscox Ltd and Helical Bar plc. Trustee of the British Council and a member of the advisors boards of the City UK and of the Association of Corporate Treasurers.	Group Finance Director of BAE Systems plc and a member of the BAE Systems Inc Board in the US.	Managing Director, Lloyds Banking Group Scotland. Non-Executive Director on the Court of Bank of England, and Chair of its Audit and Risk Committee. Non-Executive Director of J Sainsbury plc and of Big Society Capital Ltd. President of SCDI.	Chairman of the Lloyd's Register Group and Chairman of the Board of Trustees for the Lloyds Foundation. Chairman of DeepOcean Group. Vice Chairman of VKR Holding. Non-Executive Director of Petrofac Ltd.

How the Board works

The UK Corporate Governance Code

This report explains how the Company applies the main principles of The UK Corporate Governance Code issued by the Financial Reporting Council (the 'Code') available on the FRC website.

The Board confirms that the Company has, throughout the period under review, complied with all the principles and provisions set out in the Code with the exception of Code provision C.3.7 which requires FTSE 350 companies to put the external audit contract out to tender at least every ten years. The full explanation relating to this aspect of non-compliance is addressed in the Audit Committee Report on pages 70-73.

Leadership

The role of the Board

The Board is collectively responsible to the Company's shareholders for the long-term success of SSE and for its overall strategic direction, its values and governance. It provides the leadership necessary for the Group to meet its business objectives whilst ensuring that a sound system of internal control and risk management is in place.

The powers and duties of the Directors are determined by legislation and by the Company's Articles of Association, which are available on the SSE website. A formal schedule of matters is specifically reserved to the Board for its decision. This schedule is reviewed regularly by the Board and is published on the SSE website.

The roles of Chairman and Chief Executive

The roles of Chairman and Chief Executive are separate and clearly defined. These roles were reviewed during 2013.

The Chairman

The Board is chaired by Lord Smith of Kelvin. The Chairman is responsible for the operation, leadership and governance of the Board ensuring that it operates effectively while providing appropriate challenge and debate. He ensures constructive relations exist between the Executive and non-Executive Directors. He identifies individual Director training needs and oversees the performance evaluation.

He meets with shareholders, analysts and other representatives of institutional investors, and participates in both the interim and annual results presentations and the AGM. He also meets with managers and employees at various locations throughout the Group.

The Chief Executive

Alistair Phillips-Davies is the Chief Executive and took over this role from Ian Marchant in July 2013. He leads the management team in the day-to-day running and operations of the Group, and is responsible for implementing the strategy and policy set by the Board. He represents the Company to external stakeholders, including shareholders, customers, suppliers, regulatory and government authorities, and the community.

He is advised and assisted by the Executive Committee and its sub-Committees which oversee the operational and financial performance of, and issues facing, the Company. The Executive Committee and its role is explained on pages 52 and 63.

The Executive Directors

The Executive Directors have specific executive responsibilities, and as Board members their duties also extend to the whole of the Group's operations and activities.

Executive Directors may be invited to become non-Executive Directors of other companies. Recognising the benefit to the individual and to the Company, Board approval may be given to accept such positions and any fees earned during the year are disclosed in the Remuneration Report.

Full biographical details of the Executive Directors, including details of their relevant experience, and external directorship are set out on page 60.

The non-Executive Directors

The non-Executive Directors are chosen for their diversity of skills and experience. Each non-Executive Director is appointed for a fixed term of three years subject to annual re-election by shareholders. This term may then be renewed by mutual agreement. The non-Executive Directors' appointment letters are available on the SSE website.

The non-Executive Directors: scrutinise, measure and review the performance of management; constructively challenge and assist in the development of strategy; review the Group financial information and ensure systems of internal control and risk management are appropriate and effective; through the Audit Committee, review the relationship with the external Auditor; through the Remuneration Committee, review the remuneration of the Executive Directors and senior management; and through the Nomination Committee review the succession planning for the Board.

The Chairman and non-Executive Directors met twice during the year without the Executive Directors being present.

Membership	On the Board since	Independent non-Executive Director/ Executive Director	Attended/ Scheduled
Lord Smith of Kelvin	2003	Non-Executive Chairman	6/6
Gregor Alexander	2002	Executive	6/6
Sue Bruce[1]	2013	Independent	4/4
Thomas Thune Andersen	2009	Independent	6/6
Jeremy Beeton	2011	Independent	6/6
Katie Bickerstaffe	2011	Independent	6/6
Richard Gillingwater	2007	Independent	6/6
Ian Marchant[2]	1998	Executive	1/1
Alistair Phillips-Davies	2002	Executive	6/6
Lady Rice[3]	2003	Independent	6/6

Note

1 Sue Bruce joined the Board on 1 September 2013
2 Ian Marchant retired from the Board on 30 June 2013
3 Lady Rice was deemed to be independent by the Company throughout the year (see page 67).

The Senior Independent Director

Richard Gillingwater is the Senior Independent Director. He acts as a sounding board for the Chairman, and serves as intermediary to other Directors when necessary. He is available to shareholders if they have any concerns which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which contact is inappropriate.

During the year he carried out the Chairman's performance evaluation, together with the other non-Executive Directors and with input from the Executive Directors. He also attended meetings with investors and management visits including customer forums.

The Company Secretary

Vincent Donnelly is the Company Secretary. He is responsible to the Board for compliance with Board procedures and, through the Chairman, for advising and keeping the Board up to date on all corporate governance developments. He facilitates the Directors' induction programme and assists with professional development as required. The advice, services and support of the Company Secretary are available to all Directors.

Governance Structure

The relationship between the Board, its Committees and the management of the Company is summarised on pages 59. The Board Committee reports are set out on pages 67 to 92.

The Board

The Board has six scheduled Board meetings each year. These start with an evening meeting when the Board is often given a presentation by senior management on a particular topic. Occasionally the evening meeting is used to meet with external stakeholders. The Board meeting then continues the next day and is usually followed by a meeting of at least one of the Board Committees.

In addition to the scheduled meetings the Board has an update conference call which is held in the month between the bi-monthly scheduled Board meetings. These calls are used to update the Board on business performance, to brief the Board on any current issues, and may include a matter for decision or approval.

The Board Committees

There are four standing committees of the Board. The terms of reference of these committees are set by the Board, are reviewed regularly, and are available on the SSE website. Membership is determined by the Board on the recommendation of the Nomination Committee and in consultation with the relevant Committee Chairman. Minutes of Board Committee meetings are included on the agenda of the next Board meeting for information, and the Committee Chairman will give an update on the key matters that should be brought to the attention of the Board.

Attendance at Board and Committee meetings

There is normally full attendance at Board and Committee meetings, although occasionally there may be non-attendance due to unforeseen circumstances or prior commitments which could not be rearranged. If unable to attend a meeting, the Director will provide comments and feedback to the Chairman, Committee Chairman or Company Secretary who ensures that the comments received are raised at the meeting. Senior managers are invited to attend Board meetings to present various agenda items to the Board, as appropriate.

The table above sets out the attendance of the Directors at the scheduled Board meetings during 2013/14. Details of attendance at Board Committee meetings are set out in the reports that follow.

The Executive Committee

Following a review of the management structure within SSE an Executive Committee was established in February 2014 and replaced the Management Board. The Executive Committee is responsible for implementing policy and strategy set by the Board for the operational management of all SSE's businesses. The Executive Committee comprises the Chief Executive, the Finance Director, and the Managing Directors for Enterprise, Networks, Retail and Wholesale. The Executive Committee meets monthly and the minutes of the meeting are provided to the Board for information. There are five sub-Committees of the Executive Committee as outlined on page 59.

How the Board works continued

Effectiveness

The composition of the Board

The composition of the Board and its Committees is regularly reviewed to ensure that the balance and mix of skills, independence, knowledge and experience is maintained.

In September 2013 the Board appointed Sue Bruce as non-Executive Director and a member of the Safety, Health and Environment Advisory Committee. The Company announced on 11 March 2014 that Thomas Thune Andersen will resign from the Board following the AGM on 17 July 2014. He joined the Board in 2009 and is the Chairman of the Safety, Health and Environment Advisory Committee. Jeremy Beeton will assume the role of Chairman of this Committee from 17 July 2014.

Lady Rice joined the Board in 2003 and is Chairman of the Remuneration Committee. She will step down from the Board on 17 July 2014. Richard Gillingwater will step down as Chairman of the Audit Committee on 17 July 2014 and will be appointed Chairman to the Remuneration Committee on that date. He will remain a member of the Audit Committee.

The Board announced on 4 April 2014 that Peter Lynas will be appointed as non-Executive Director to the Board from 1 July 2014 and will also assume the role of Chairman of the Audit Committee on 17 July 2014.

Following these changes the Board will comprise the Chairman, two Executive Directors and five non-Executive Directors.

Boardroom diversity

The recommendation of the Davies Report on Women on Boards is that FTSE 100 Boards should aim for a minimum of 25% female representation by 2015. Female representation on the SSE board is currently 33% and when the various Board changes mentioned above take place this will reduce to 25%. The Company is committed to the approach on diversity set out in the Davies Review, and will continue to take diversity into account for future Board appointments whilst appointing on merit. The Board's statement on diversity is set out on SSE's website.

Succession planning

The programme to refresh the Board is explained in the Nomination Committee Report on page 67. The succession plans for management positions are reviewed to ensure management roles are refreshed with the best candidates, taking account of a range of factors such as background, experience, qualifications and gender. The Company's talent management programme provides a robust succession process and development plans for individuals to assist with career aspirations.

Board balance and independence

The Nomination Committee Report sets out the process carried out during the year to verify the continuing independence of the non-Executive Directors. The Board considers that the Chairman was independent on appointment and all non-Executive Directors are independent for the purposes of the Code. The continuing independent and objective judgement of the non-Executive Directors was confirmed as part of the annual Board performance evaluation process.

The Board considered that Lady Rice who has served on the Board since July 2003, continued to demonstrate the characteristics of independence, such as challenging management and taking part in rigorous debate, whilst possessing outstanding knowledge of the Company's business. As Chairman of the Remuneration Committee her knowledge and extensive experience of remuneration matters has been extremely valuable to the Company during a time of heightened scrutiny of Executive remuneration and review of the Company remuneration policy.

Director induction, training and development

On joining the Board, non-Executive Directors receive a comprehensive induction course tailored to their individual requirements which includes meetings with the Executive Directors and senior management, visits to key sites, and meetings with key stakeholders. It also covers a review of the Group's governance, policies, structure and business including details of the risks and operational issues facing SSE. Directors are also expected to develop and refresh their knowledge and skills on an on-going basis. Sue Bruce received a full induction on appointment to the Board which included site visits to Energy Portfolio Management, Retail Customer Service and Scotia Gas Networks.

As part of the annual Board evaluation process the training and development needs of individual Directors are reviewed by the Chairman. The Company makes the necessary resources available should any Director wish additional training.

The Company operates performance coaching for the Executive Directors and for other members of senior management, which is designed to develop and enhance individual and Company performance.

Information and briefings

Keeping up to date with key business developments is essential for Directors to maintain and enhance their effectiveness. The Directors receive detailed financial and operational information to allow them to monitor effectively the performance of the business. Board and Committee papers are issued for review in advance of meetings. At each Board meeting, the Chief Executive presents an update report on any major current matters from the Group's business; the Finance Director presents a report on financial

performance and the Board receives a detailed business report from the Executive Committee. The Board also receives regular updates on the progress and performance of investments, and a detailed key performance indicator report.

During the year, the Board and Committees were kept up to date with developments through a programme of briefings by the Executive Directors and senior management on the full range of business areas. Specialist briefings and presentations were given on areas such as strategy, corporate governance, regulatory and political developments, risk management, energy portfolio management, treasury and funding, health and safety, major projects, and the Group's major business activities generally.

Meetings, briefings and site visits were arranged for the individual non-Executive Directors during the year to allow them to gain additional understanding of SSE's business. The briefings covered subjects such as operational activities and major projects, and the business areas visited included: energy solutions, gas storage, energy portfolio management, coal and freight, energy trading and customer services, retail, generation control desk/operations and Ireland operations.

Independent professional advice

There is an agreed procedure for Directors to take independent professional advice, if necessary, at the Company's expense. The prior approval of the Chairman is required where the cost of such advice is likely to exceed £10,000. Any advice obtained shall be made available to the other members of the Board, if the Board so requests. This procedure was not used during the year.

Evaluation of the Board, Committees and Directors

The Board, its Committees and the individual Directors participate in an annual evaluation of performance.

An externally facilitated evaluation process every three years is recommended by the Code. The last external evaluation was conducted during 2012. An internally facilitated Board and Committee evaluation was carried out in 2013 and took the form of individual questionnaires and feedback from each of the Directors. The outcome of the evaluation process was considered at the Board meeting held in January 2014. Recommendations for further consideration included increasing the profile of the Board within SSE, arrangements for more strategy discussions, and suggestions for some new agenda items for Board meetings.

Each Director also participated in detailed reviews of individual performance which were carried out by the Chairman. The process for evaluating the Chairman was managed by the Senior Independent Director which involved a separate meeting with the non-Executive Directors and included feedback from the Executive Directors.

The Board evaluation process also confirmed that the performance of the Directors continues to be effective and that they continue to demonstrate commitment in their respective roles.

Annual re-election of Directors

Each Director will be subject to annual re-election and all Directors will stand for re-election at the 2014 AGM (with exception of Lady Rice and Thomas Thune Andersen who will both step down from the Board on 17 July 2014). Biographical details for all the Directors are set out on pages 60 and 61.

Directors' conflicts of interest

During the year a review of the Directors' interests and appointments was carried out by the Company Secretary and a report was provided to the Nomination Committee for review and recommendation to the Board. The full Board then considered and authorised each Director's reported actual or potential conflicts of interest at the Board meeting in January 2014. In accordance with the Company's Articles of Association and relevant legislation, each Director abstained from approval of their own position. The Board continues to monitor and review potential conflicts of interest on a regular basis. Directors are responsible for notifying the Company Secretary if they become aware of an actual or potential conflict situation or a change in circumstances relating to an existing authorisation.

Accountability

Financial and business reporting

In its reporting to shareholders, the Board recognises its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects. This responsibility covers the Annual Report and Accounts and extends to interim results statements and other price-sensitive public announcements and reports to regulators as well as information that should be presented by statutory requirements. The Strategic Report on pages 1 to 57 sets out explanations of the basis on which the Company generates or preserves value over the longer term and the strategy for delivering the objectives of the Company. The Annual Report is intended to provide the information necessary to enable an assessment of the Company's performance, the business model and its strategy.

The Audit Committee

The Audit Committee Report, which describes the work of the Audit Committee in discharging its responsibilities, is set out on pages 70 to 73.

Relations with shareholders and major stakeholders

Disclosure and Governance Committee

The Disclosure and Governance Committee reports to the Executive Committee. It is responsible for overseeing the Company's framework for the identification, release and control of announcements and other information of interest to shareholders and the investment community. The Committee assists in developing the investor relations strategy, reviews and implements governance developments and advises on matters relating to external affairs. The Committee comprises: the Chief Executive; Finance Director; Company Secretary; Managing Director, Corporate Affairs; Director of Investor Relations and Analysis; Director of External Relations; and the Assistant Company Secretary. The Committee meets as required and had six meetings in the year.

Dialogue with shareholders

The Company continued to maintain an effective dialogue with shareholders. The Board believes that this is fundamental to ensuring that the Company's strategy is understood and that any questions or issues are dealt with in a constructive way.

The Company maintains regular contact with institutional shareholders, fund managers and analysts through a programme of dialogue, meetings, presentations, events and site visits led by the Chief Executive and Finance Director. The Director of Investor Relations and Analysis has day-to-day responsibility for communications with institutional shareholders. Brokers' reports and analysts' briefings are distributed to the Directors. The Board receives regular reports on the various issues raised by institutional shareholders, fund managers and analysts which allow the Directors to form a view of the priorities and concerns of the Company's stakeholders.

The Chairman participated in the Company's results presentations in May 2013 and November 2013. He also meets major institutional shareholders and institutional shareholder bodies from time to time to gain a first-hand understanding of key issues.

The Senior Independent Director, is available to shareholders if they have concerns that contact through the normal channels has either failed to resolve or is deemed inappropriate.

Communications with investors

SSE's website contains up-to-date information for shareholders and other interested parties including share price information, announcements and news releases, investor and analyst presentations, and a section containing information on shareholder services. The Company's Annual Report

How the Board works continued

and other shareholder circulars are also published on the SSE website.

Shareholders have a choice of how to receive their Company communications such as the Annual Report. The Company recognises the benefit of electronic communications and encourages shareholders to receive electronic communication. Currently 97% of shareholders receive Company communications such as the Annual Report and Notice of Annual General Meeting from the SSE website. In recognition of the reduced cost and environmental impact of this form of communication, the Company, on behalf of shareholders, makes a donation to WWF's International Forest Programme for every shareholder that elects for email communication or receives Company documentation via the SSE website.

Annual General Meeting 2014

The 25th AGM of the Company will be held on 17 July 2014 at 12 noon at the Perth Concert Hall, Mill Street, Perth PH1 5HZ. The Notice of Annual General Meeting, which contains full explanations of the business to be conducted at the AGM, is set out in a separate shareholder circular.

The AGM provides an opportunity for the Board to meet with shareholders and provide an update on the performance and plans of the Company. Shareholders are invited to ask questions at the AGM and to meet the Directors and senior managers.

Communications with other stakeholders

The Directors have a programme of events to meet with a range of external stakeholders representing the public sector, investment community, environmental affairs, and consumer interests. The purpose of these events is to discuss the Company's position on a range of business, policy and public interest issues and to learn more about stakeholders' views, hear their suggestions and address any areas of concern.

More generally, working with public policy makers is a vital area for the Company, given the high profile of energy and environment related issues in the United Kingdom and elsewhere. The Company engages with stakeholders in several ways:

- constructive engagement where appropriate with Ofgem, which is responsible for promoting competition, and regulating the regional monopoly companies which run the gas and electricity networks;
- ongoing dialogue with Ministers and officials in the UK and Irish governments, and in the devolved administrations in the UK;
- submissions to government and Parliamentary consultations and inquiries;
- meetings with, and briefings of, elected members of all parties in legislatures;
- engagement with local authority elected members and officials;
- active participation in relevant trade associations and bodies; and
- discussions with non-governmental organisations and other relevant organisations such as charities.

The Company's objective is to ensure that it is able to perform its core purpose of providing the energy people need in a reliable and sustainable way. Its principal public policy goal at present is to represent the interests of its customers by ensuring that energy bills are as affordable as possible. This is achieved by removing policy costs from non means-tested energy bills and into the fairer mechanism of general taxation, whilst ensuring a framework to enable the Company to invest in secure and lower-carbon supplies of energy in the United Kingdom and Ireland. In pursuing public policy goals, SSE always aims to deploy evidence and arguments that are consistent with its purpose, values and strategy.

Nomination Committee Report

The Nomination Committee's role is to review the leadership needs of the Board and senior management of SSE, to support the Company's continued ability to retain and recruit the expertise it needs.

Members and meetings

Members	Independent non-Executive Director	Member since	Attended/ scheduled
Scheduled			
Lord Smith (Committee Chairman)	No	Mar 2004	4/4
Katie Bickerstaffe	Yes	Sep 2011	4/4
Richard Gillingwater	Yes	Sep 2008	4/4
Alistair Phillips-Davies	No	July 2013	4/4
Lady Rice	Yes	Mar 2004	4/4
Former Committee Members			
Jeremy Beeton	Yes	–	1/1
Thomas Thune Andersen	Yes	–	1/1

Role

The Nomination Committee's role is to review the leadership needs of the Board and senior management, with a view to ensuring SSE's continued ability to compete effectively in the marketplace. The Nomination Committee's remit, which is set out in its terms of reference, includes responsibility for:

- reviewing the structure, size and composition of the Board and its Committees and making recommendations to the Board on any desired changes;
- reviewing the succession plans for the Executive Directors;
- making recommendations to the Board on suitable candidates to fill vacancies for both non-Executive and Executive Directors;
- ensuring that the procedure for appointing new Directors is rigorous and transparent and that appointments are made on merit and against objective criteria, including independence and diversity of candidates;
- reviewing potential conflicts of interest of Directors; and
- reviewing the external commitments of the Directors and the time required to discharge their responsibilities effectively.

Before a Board appointment is made, the Committee evaluates the skills, knowledge and experience of the Board to ensure that any new appointment complements these qualities. Candidates from a wide range of backgrounds are considered and appointments are made on merit, with due regard for the benefits of diversity on the Board, including gender.

The selection process generally involves interviews with a number of candidates, using the services of a professional search firm specialising in Board-level recruitment.

When the Committee deals with any matter concerning the Chairmanship of the Board another non-Executive Director, chosen by the remaining members, chairs the meeting. Members of the Committee do not take part in discussions when their own performance or when their continued appointment is being considered.

The Committee also reviews succession planning and leadership needs in the course of its work taking into account the risks and opportunities facing the Company, and from this identifies the skills and expertise required from the Board and senior management team.

Composition

The membership of the Committee was refreshed during the year. The table above lists the current membership, and also details the attendance of the two previous Committee members, Jeremy Beeton and Thomas Thune Andersen. The Company Secretary is Secretary to the Nomination Committee.

Activities in 2013/14

The Nomination Committee had four meetings during the year. The business covered at the meetings included the following:

- a review of any declared conflicts of interests of the Directors;
- the reappointment of Jeremy Beeton and Katie Bickerstaffe as non-Executive Directors for a further three-year period;
- a review of Board Committee membership;
- the search for a new non-Executive Director as part of the ongoing review of succession and refreshment of the Board; and
- a review of independence of all the non-Executive Directors.

Independence

Lady Rice's continuing independence was considered carefully taking account of the fact she has been on the Board since 2003. The Committee's clear view continued to be that she remains independent, she provides robust challenge, and her knowledge and experience as a Remuneration Committee member has been invaluable in the period of change of Executive Directors' roles and responsibilities, and in a period of significant developments in the governance and reporting requirements of remuneration matters. She will step down from the Board at the AGM on 17 July 2014 and Richard Gillingwater will then take over as Chairman of the Remuneration Committee.

Board Succession

The search for new non-Executive Directors resulted in the appointment of Sue Bruce on 1 September 2013 and Peter Lynas with effect from 1 July 2014. The specification for the proposed recruitment of the new non-Executive Directors took account of the Board's policy on diversity and specifically addressed the need for a non-Executive Director with relevant financial experience who could serve on the Audit Committee. Sam Allen Associates were appointed by the Committee to carry out this search which resulted in the appointment of Peter Lynas, and the Committee was satisfied that they had no other connections with the Company which would give rise to a conflict of interest.

Evaluation

As part of the Board evaluation process, the operation of the Nomination Committee was evaluated and it was confirmed that the Committee was operating effectively.

Lord Smith of Kelvin
Chairman

Safety, Health and Environment Advisory Committee (SHEAC) Report

The Committee advises the Board on safety, health and environmental matters including policy, targets and strategy for improved performance.

Members and meetings

Members	Independent non-Executive Director	Member since	Attended/ scheduled
Thomas Thune Andersen (Committee Chairman)	Yes	Mar 2009	6/6
Jeremy Beeton, Non-Executive Director	Yes	Jul 2011	5/6
Sue Bruce, Non-Executive Director	Yes	Sept 2013	2/3
Jim McPhillimy, Managing Director, Enterprise	No	Nov 2008	6/6
Paul Smith, Managing Director, Generation	No	Nov 2008	6/6
Mark Patterson, Group SHE Manager	No	Jan 2013	6/6

Role

The SHEAC advises the main Board of SSE and works alongside the Safety, Health and Environment Committee (SHE) of the Executive Committee, which implements SHE Policy within SSE's businesses. The SHEAC is responsible to the SSE Board for:

- ensuring that SSE's SHE Policy, including the Major Accident Prevention Policy, is adhered to;
- setting Group SHE targets and strategy for improved performance;
- monitoring Group SHE performance against targets;
- encouraging greater awareness throughout SSE of the importance of SHE management and higher achievement in SHE performance;
- providing a link between the non-Executive Directors of the Board, the Executive Committee and other members of the management team with responsibility for SHE management; and
- making recommendations to the Board where action or improvement is needed.

Composition and meetings

Sue Bruce joined the Committee on appointment to the Board in September 2013. Sue provides experience and knowledge of the public sector to influence improvements in SSE's SHE performance.

The Chief Executive attends when required. The Assistant Company Secretary is Secretary to the Committee. The current membership of the SHEAC is set out in the table above.

The SHEAC met six times during the year.

The SHEAC provides a forum for non-Executive Directors to contribute to improving SSE's SHE performance.

Its goal is to protect the health and safety of all employees, contractors and protect the environment. This ensures there is strong SHE leadership within SSE, including an active commitment from the Board, and the integration of good SHE management with business decisions.

Policy

People in SSE have many different working environments – from full-scale industrial processes to offices – but the SHEAC is clear that the Company expects everyone to play a part in achieving safe working practices.

SSE's Safety Management System focuses on five 'Ps':

- **Policy:** defining how things get done;
- **People:** helping employees to act safely;
- **Processes:** managing risks and delivering safe systems of work;
- **Plant:** maintaining the integrity of plant and equipment; and
- **Performance:** managing and improving SHE performance.

Value, goal and priorities

In SSE, safety is the first value: we believe all accidents are preventable, so we do everything safely and responsibly or not at all.

The SHEAC endorses SSE's overall goal: work without anyone getting injured. To meet this goal the SHEAC, and SSE as a whole, will retain a healthy level of challenge until the highest levels of SHE performance are met.

The SHEAC's priorities are to:

- support progress towards SSE's ultimate goal of working without anyone getting injured;
- promote the health and well-being of people working for SSE; and
- encourage effective environmental management throughout SSE.

Managing SHE matters in SSE

To effectively manage SHE risks SSE needs both rigour in systems and passion to make them work. This is achieved through the implementation and rigorous application of dedicated SHE Management Systems, and through a positive safety culture based on fairness, trust and co-operation.

SSE's fundamental principles are that SHE risks are best managed by those who create and work with the risk and that everyone has their part to play. To meet this challenge every employee, every supervisor and every manager will need to fulfil their responsibilities for their safety, the safety of others and that of the environment. Successful delivery of SSE's behavioural safety programme, 'The Safety Family', reinforces this.

SSE safety performance

The SHEAC carefully monitored SSE's safety performance during 2013/14. The results in key areas were as follows (previous year's performance in brackets):

- the Lost Time/Reportable Injury Rate (AFR) was 0.049 per 100,000 hours worked (0.052);
- the Total Recordable Injury Rate (TRIR) (covering Lost-Time, reportable and medical treatment injuries) was 0.115 per 100,000 hours worked (0.136);
- the number of dangerous or potentially dangerous road traffic incidents involving SSE employees driving Company vehicles was 0.245 per 100 vehicles (0.163).

Two of the most common measures of safety performance, AFR and TRIR, improved slightly compared to 2012/13. When viewed against long-term trends there have been significant improvements in performance of both AFR and TRIR. Whilst noting the slight improvement in 2013/2014 performance the SHEAC welcomed the continued focus on the three 'Priorities for 2014/2015' (set out below) to maintain an overall improving performance trend.

There was an increase in the number of serious incidents involving employees driving Company vehicles, reverting to the performance levels experienced in 2011/2012. Whilst SSE has invested in systems to monitor driving habits and performance in Company vehicles, a specific improvement project for driving behaviour has been identified for 2014/2015.

SSE utilises positive leading indicators of SHE performance throughout its business to set targets and improve performance. This includes measures specifically designed to monitor improvements in the management of process

safety risks and SHE critical maintenance of plant and equipment.

SSE operates 'High Impact Risk' plant and process and the safe operation of these processes remains an enduring goal. As Committee Chairman, I visited SSE's gas storage facility in East Yorkshire and was impressed by the site's genuine focus on asset integrity and the management of process safety risks.

Contractors' safety performance

The safety of contractors working on SSE projects and sites is fundamentally the responsibility of their employers but remains a significant issue for SSE. The SHEAC believes SSE must work closely with its contractors in continuously improving the safety standards.

SSE adopted a new combined performance measure during 2013/14 for SSE/Contractor TRIR performance to emphasise behavioural safety. In 2013/14 the joint TRIR was 0.200 compared with 0.227 in 2012/13.

SSE's contractors' TRIR was 0.421 per 100,000 hours worked, compared with 0.504 the previous year. It is pleasing to note the improvement in contractors' safety performance and this follows the commencement of a programme to engage with this group in 2013/14.

In 2013/14 SSE developed a business-wide SHE specification for all contracts and has commenced the roll-out of-'Signature Practices' and an SHE Charter. 'Signature Practices' define how SSE and contractor partners will work together to keep people and the environment safe.

Health promotion

SSE's Health and Well-Being Action Plan provides the basis for workplace health programmes and initiatives, all designed to help employees optimise performance.

SSE's policy is to deal with sickness absence in a sympathetic and constructive way, helping people make a speedy return to health and to work. During 2013/14, the average number of days of sickness absence from work was 8.3 days per person, compared with 9.6 the previous year.

Environmental management

SSE's main environmental impact is generally regarded as emissions of CO_2 associated with electricity generation. See greenhouse gas emissions reporting on page 57.

In addition the focus remains on meeting permit conditions associated with SSE's operations and minimising the impact of operations and projects in environmentally sensitive areas.

To help focus on the management of environmental risk, SSE has adopted additional performance measures for the classification of environment-related incidents for both SSE and contractor operations. In 2013/14 for SSE there were 34 minor, six serious and one major environmental incident(s); for Contractors the comparable numbers were 28 minor, 6 serious and no major. The one major SSE incident related to the leak of sulphur hexafluoride (SF6) gas from a circuit breaker at an electrical sub-station (SF6 is a greenhouse gas that contributes to global warming). There were no environmental enforcement notices issued during 2013/14.

Good environmental stewardship involves on-site energy efficiency and waste management. A key goal is to minimise waste and unnecessary use of natural resources by re-using and recycling materials. During 2013/14, the recycling and recovery rate for SSE's internal waste collection and management process (including office waste and scrap metal from SSE's facilities) decreased to 95.8% (97.8% in 2012/13). The recycling and recovery rate fell slightly in 2013/14 as an external waste facility for producing refuse derived fuel was unavailable in Scotland for part of the year.

Priorities for 2014/15

The key priorities for 2014/2015 are:

- embed The Safety Family, by completing the delivery of safety coaching (enhanced behavioural safety training) for all supervisors across SSE;
- manage high-impact risks, such as asset integrity, process safety and major accident hazards; and
- improve contractor SHE performance, by completing the engagement across all businesses with the SSE Charter, 'Signature Practices' and the SSE SHE Specification.

Thomas Thune Andersen
Committee Chairman

Audit Committee Report

The Audit Committee assists the Board in discharging its responsibilities relating to financial reporting, internal control, risk management and the relationship with the external auditor.

Members and meetings

Members	Independent non-Executive Director	Member since	Attended/ scheduled
Richard Gillingwater (Committee Chairman)	Yes	May 2007	3/3
Thomas Thune Andersen	Yes	Feb 2009	3/3
Jeremy Beeton	Yes	Nov 2011	3/3

Chairman's Introduction

I am delighted to present on behalf of the Board our Audit Committee Report for the financial year ended 31 March 2014. Our activities continued to be focused on the integrity of the Group's financial reporting; the performance and effectiveness of both the internal and external audit process; the objectivity, independence and appointment of the External Auditor; the effectiveness of the internal control and risk management framework; and the assessment of governance developments affecting the activities of the Audit Committee.

This is the first year that we have been required to report under the 2012 edition of The UK Corporate Governance Code (the Code). During the year, we considered and made recommendations to the Board on the new requirements relating to audit tendering, reporting of significant judgements and the assurance framework to underpin the fair, balanced and understandable requirement.

The Audit Committee recognises that the length of tenure of external auditors is coming under increasing scrutiny, and is fully aware of the changes being implemented by the Competition and Markets Authority and also at EU level. Following our recommendation on the Code requirement to put the external audit contract out to tender at least every 10 years, the Board concluded that a tender process should not take place at this time. The factors which we took account of in considering the audit tendering requirements are explained in this report.

We will continue to keep our activities under review to ensure future developments relating to the work of the Audit Committee are fully considered. The Report that follows describes the role of the Audit Committee in SSE's corporate governance framework and explains how it has discharged its responsibilities during the year.

Richard Gillingwater
Committee Chairman

Committee Report

Role

The Audit Committee is authorised by the Board to:

- review the integrity of the interim and annual financial statements;
- review the appropriateness of accounting policies and practices;
- review the significant issues and judgements considered in relation to the financial statements including how they were addressed;
- review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable;
- review and monitor the effectiveness of the Internal Audit function, including approval of the Internal Audit plan;
- review and monitor the objectivity and independence of the External Auditor, including the policy to govern the provision of non-audit services;
- review and monitor the effectiveness of the external audit process and the ongoing relationship with the External Auditor;
- review and make recommendations to the Board on tendering, appointment, remuneration and terms of engagement of the External Auditor;
- review and monitor the effectiveness of the internal control and risk management framework; and
- establish and oversee appropriate whistleblowing and fraud prevention arrangements.

Composition

Members of the Audit Committee are appointed by the Board following recommendation by the Nomination Committee. The current membership of the Audit Committee is set out in the table above. The Board confirmed that each member of the Audit Committee is independent and that the membership meets the requirements of the Code. Each member of the Audit Committee has, through their other business activities, significant experience in financial matters (see biographies on pages 60 and 61). The Audit Committee's Chairman, Richard Gillingwater, is considered by the Board to have recent and relevant financial experience as required by the Code. The membership of the Audit Committee will be refreshed when Thomas Andersen stands down from the Board on 17 July 2014. Sue Bruce will become a member of the Audit Committee. Richard Gillingwater will Peter Lynas will continue to be a member and become the new Committee Chairman.

On joining the Audit Committee, new members receive an induction tailored to their individual requirements which would usually include an overview of the business, its financial dynamics, principal risks and their management, and a separate meeting with the External Auditor. Members of the Audit Committee receive regular briefings from management on matters such as governance developments, treasury, energy portfolio management and accounting policies and practices.

Meetings and Activities in 2013/14

The Audit Committee met three times during the year and details of members' attendance is set out in the table above. Meetings are also routinely attended by the: Company Chairman; Chief Executive; Finance Director; Managing Director, Finance; Director of Risk and Audit; and the External Auditor, KPMG LLP (KPMG). The Assistant Company Secretary is secretary to the Audit Committee. Other senior managers including the: Managing Director, Wholesale; Director of Treasury and Corporate Finance; Group Financial Controller; and Chief Accountant are also invited to attend certain meetings in order to provide a deeper level of insight into certain key issues. The Audit Committee meets with the External Auditor and management separately at least once a year in order to get feedback on the relationship and assess the effectiveness of the external audit process. The Chairman of the Audit Committee regularly meets separately with the Finance Director, Director of Risk and Audit and the External Auditor to ensure the work of the Audit Committee is focused on key and emerging issues.

As part of the process of working with the Board and to maximise effectiveness, meetings of the Audit Committee take place in advance of Board meetings. The Audit Committee Chairman reports to the Board after each meeting, identifying the matters of particular relevance to the Board in the conduct of its work. Minutes of Audit Committee meetings are provided to the Board and External Auditors.

The Audit Committee has an annual work plan developed from its terms of reference. The key matters considered by the Audit Committee

during the year principally fell under five main areas set out below:

- Financial Reporting and Significant Financial Judgements
- Internal Audit
- External Audit
- Internal Control and Risk Management
- Governance

Financial Reporting and Significant Financial Judgements

Financial Reporting

The Audit Committee assisted the Board with the effective discharge of its responsibilities for financial reporting. To fulfil this responsibility during the year, the Audit Committee considered:

- the integrity of the interim and annual financial statements and accompanying reports to shareholders;
- the appropriateness of the accounting policies and practices used;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- areas in which significant judgements had been applied or matters raised for discussion by the External Auditor;
- letters of representation issued by management to the External Auditor; and
- whether the Annual Report and Accounts, were fair, balanced and understandable and provided the information necessary for shareholders to assess the company's performance, business model and strategy.

In carrying out this review, the Audit Committee received reports from members of the Group Finance Team and the External Auditor setting out their views on the accounting treatments and judgements included in the financial statements. In addition, the Audit Committee reviewed and the Board approved the assurance framework used to support compliance with the requirement to state the Annual Report and Accounts are fair, balanced and understandable.

Significant financial judgements

After discussion with management and the External Auditor, the significant areas of judgement reviewed and considered by the Audit Committee in relation to the 2014 financial statements, and how these were addressed, are set out below:

Significant financial judgements for the year ended 31 March 2014	How the Audit Committee addressed these significant financial judgements
Accounting for estimated revenue: Revenue from energy sales includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. This is based on estimates and assumptions in relation to the estimated consumption and valuation of that consumption (see Note 3 to the Financial Statements).	The Audit Committee considered a paper prepared by management which detailed the methodology, practical process issues and assumptions applied in determining the basis of recognition of 'unbilled' debtors, with particular reference to domestic gas. The Audit Committee also considered detailed reporting from, and held discussions with, the External Auditor on this key judgement.
Valuation of receivables: The recoverability of the Group's billed energy receivables is a key judgement area given the risk of customer insolvency or default. The level of the Group's aged debt is monitored with the basis of the Group's allowances for doubtful debt being based on assumptions derived from experience and industry knowledge (see Note 3 to the Financial Statements).	The Audit Committee considered a detailed paper which described the economic conditions and assumptions impacting management judgements on doubtful debt allowances and charges, the activities of the Group's Debts Steering Group (whose members include the Finance Director and other senior management) and the Group's policies and processes for receivables' collection and provisioning. The Audit Committee also considered the results of the work of the External Auditor in this area.
Carrying value of certain non-current assets: The carrying value of certain non-current assets – including power generation plants and goodwill – needs to be assessed by reference to the recoverable value (value-in-use or fair value less costs to sell) of the asset or the associated CGU (cash generating unit). An annual valuation/ impairment exercise is carried out as described at Note 13 to the Financial Statements. The assumptions applied in this exercise require judgements on the economic factors associated with the assets under review (see Note 13 to the Financial Statements).	The basis and outcome of this review is described in papers presented to the Audit Committee by management. These papers include descriptions of the methodologies and assumptions applied in deriving the recoverable values including the discount rates utilised. The Audit Committee constructively challenged the assumptions and projections presented in the management paper and also considered the detailed reporting from, and findings by, the External Auditor. Following this review, the Audit Committee approved the decision to recognise exceptional charges of £574.9 m in relation to certain assets in the financial year.
Accounting for legal and contractual claims: The Group is exposed to the risk of litigation and contractual disputes through the course of its normal operations. The Group needs to consider the level of provision or disclosure in relation to these claims utilising legal advice which is an inherently subjective process (see Note 3 to the Financial Statements).	The significant disputes, claims and other actions against the Group and the associated accounting judgements and disclosures are reported to the Audit Committee by management. The Audit Committee constructively challenged the assumptions underpinning the accounting treatment and sought the views of the External Auditor in this area.
Accounting for Group pension obligations: The assumptions in relation to the cost of providing post-retirement benefits during the period are set after consultation with qualified actuaries and can have a significantly material impact on the financial position of the Group (see Note 31 to the Financial Statements).	The costs, assets and liabilities of the Group's defined benefit retirement schemes are regularly reviewed. Advice is taken from independent actuaries on the IAS 19R valuation of the schemes. The Audit Committee were updated on the schemes' valuation from management at each period end and also considered the reporting of the External Auditor particularly in relation to the schemes' key assumptions relative to market practice.

Audit Committee Report continued

Internal Audit

The Audit Committee is responsible for reviewing and monitoring the effectiveness of the Internal Audit function, including approval of the Internal Audit plan. To fulfil this responsibility during the year, the Audit Committee considered:

- progress against the 2013/14 Internal Audit plan, the results of any audits and other significant findings, the adequacy of management's response to matters raised and the time taken to resolve any such matters;
- reports from Internal Audit on the assessment of the risk management framework and the internal control environment, including details on the level of alignment between the Group's principal risks and the Internal Audit plan;
- the Internal Audit plan for 2014/15 and approved a more flexible approach to its implementation in order to reflect changing business needs and to ensure that new and emerging risks are considered;
- the requirements of the Internal Audit Charter and approved an updated version outlining the independence, authority and responsibilities of the Internal Audit function; and
- the expertise and resources available to the Internal Audit function.

SSE's Director of Risk and Audit has management responsibility for the Internal Audit function. In addition to the normal corporate reporting structure, the Director of Risk and Audit is given the right of direct access to the Audit Committee, Chief Executive and Company Chairman. During the year, the Audit Committee considered his views on the effectiveness and resourcing of the Internal Audit function, together with an overview of areas for future development. The Audit Committee concluded that it is fully satisfied with the effectiveness of the Internal Audit function, and supports ongoing developments to further enhance its effectiveness.

External Audit

KPMG was appointed as the External Auditor in 1999 through a competitive tender process following the merger which formed SSE. KPMG was re-appointed by shareholders at the 2013 Annual General Meeting to hold office until conclusion of the next AGM, and it has acted as the External Auditor of the Group throughout the year. The current lead audit partner is based in London and is supported by an audit team based in Reading, Glasgow and Dublin. The External Auditor is required to rotate the lead audit partner every five years. The Audit Committee monitors this rotation, and confirms that the current lead partner will reach his five year term, and will therefore cease to act, on completion of the audit for the financial year ended 31 March 2014.

Objectivity and independence of the External Auditor

The Audit Committee is responsible for reviewing and monitoring the objectivity and independence of the External Auditor. To fulfil this responsibility, the Audit Committee oversees a policy to govern the non-audit services that may be provided by the External Auditor. The policy sets out details of the allowable services that are pre-approved up to a threshold of £30,000 for general advice and £75,000 for tax-related advice. Any non-audit services that exceed these thresholds must be tendered unless the Audit Committee Chairman is consulted in advance. The Audit Committee receives a regular report from management on the services being provided by the External Auditor and approves the fees incurred. Fees for audit-related and non-audit services incurred during the year amounted to £0.6m representing 60% of the audit fees. Details of the fees paid to the External Auditor for audit, audit-related and non-audit services during the year is made in Note 5 to the Financial Statements.

Significant categories of engagement for non-audit services awarded during the year include £214,000 in connection with advice relating to the review of the street lighting business, £165,000 in connection with the Rocksavage claim and £62,000 in connection with tax compliance and advisory service. In each case, the Audit Committee Chairman was satisfied that the work was best handled by the External Auditor because of their knowledge of the Group and the skills and expertise that it brought to the assignment. The Audit Committee considered reports from management which did not raise any concerns in respect of the External Auditors' objectivity and independence. In addition, the External Auditor's has provided specific assurance to the Audit Committee on the arrangements it has in place to maintain its objectivity and independence. The Audit Committee concluded that it is fully satisfied with the objectivity and independence of the External Auditor.

Effectiveness of the External Auditor and ongoing relationship

The Audit Committee is responsible for reviewing and monitoring the effectiveness of both the external audit process and the ongoing relationship with the External Auditor. To fulfil this responsibility during the year, the Audit Committee considered:

- regular reports on progress against the 2013/14 External Auditor's plan, significant findings, the adequacy of management's response to matters raised and the time taken to resolve any such matters;
- the competence with which the External Auditor handled and communicated the key accounting and audit judgements;
- the effectiveness of the overall audit process for 2013/14, including meeting with the External Auditor and management separately to identify any areas of concern;
- the quality of both the External Auditor's report to, and the Audit Partner's interaction with, the Audit Committee;
- feedback from management on the ongoing relationship with the External Auditor; and
- the qualifications, expertise and resources of the External Auditor.

After taking into account all the above matters, the Audit Committee concluded that it is fully satisfied with the effectiveness of both the external audit process and the ongoing relationship with the External Auditor.

Appointment of the External Auditor

The Audit Committee is responsible for reviewing and making recommendations to the Board on the appointment, remuneration and terms of engagement of the External Auditor. At the 2013 AGM, shareholders re-appointed KPMG as the External Auditor of the company for the year ended 31 March 2014, and authorised the directors to fix their remuneration. In making such recommendations to the Board, the Audit Committee considered the objectivity, independence, effectiveness, and ongoing relationship with the External Auditor as described above, in addition to the External Auditor's approach, scope, areas of focus, level of materiality and remuneration for the audit of the financial year ended 31 March 2014.

Tendering of External Auditor

The Audit Committee is responsible for reviewing and making recommendations to the Board on tendering of the external audit contract. Whilst the Audit Committee has kept under review all aspects of the relationship with the External Auditor, no formal tender of the audit process has been carried out since KPMG's appointment in 1999. The Audit Committee was briefed on audit tendering developments and is fully aware of the audit tendering recommendations set out in the Code. Before making a recommendation to the Board on the timing of the external audit tender, the Audit Committee considered:

- the quality, stability and continuity provided by the relationship with the current External Auditor;
- the timing of planned changes to the membership and position of Chair of the Audit Committee;
- the changes to auditor tendering requirements and the anticipated mandatory auditor rotation obligation and the impact both have on the timing of a tender;
- management of the audit requirement regarding the change in UK GAAP at subsidiary level;

- the lead time to ensure potential audit firms are not restricted in their ability to tender for the external audit contract arising from existing contracts for non-audit work; and
- the lead time to tie in with the cycle for the preparation of the Annual Report and AGM documentation.

After taking into account all the above matters, upon the recommendation of the Audit Committee, the Board concluded that a tender should not take place at this time. The matters highlighted above constitute the Company's rationale and explanation for non-compliance with section C.3.7 of the Code. The Audit Committee will continue to keep under review the timing of the tender for the external audit contract and will make recommendations to the Board. However it is likely that a tender process will not be initiated until between summer 2015 and March 2016 at the earliest. There are no contractual obligations which restrict the choice of External Auditor, and any future tender process will be based on a clear selection and assessment criteria. In light of the decision to defer tendering, resolutions to re-appoint KPMG as External Auditor of the Company for the year ending 31 March 2015, and to authorise the directors to fix their remuneration, will be proposed to shareholders at the AGM on 17 July 2014.

Internal Control and Risk Management

Whilst the Board is responsible for the overall system of internal control and risk management, responsibility for reviewing and monitoring effectiveness of the system is covered by a number of key committees and related assurance activities across the Group. Full details of the Group's internal control and risk management framework, including an explanation of the requirements under the Turnbull guidance, are set out on pages 22 to 27. The Audit Committee plays an important role in the internal control and risk management framework, and during the year it considered information drawn from a number of different sources, including reports from:

- **Treasury:** setting out strategy, market developments, significant risks and controls in place to mitigate these risks;
- **Energy Portfolio Management:** setting out strategy, market and financial regulation developments, significant risks and controls in place to mitigate these risks;
- **Internal Audit:** on the identification, evaluation and monitoring of principal risks, including their assessment of the risk management framework and internal control environment;
- **Internal Audit:** on the implementation of the whistleblowing policy and the investigation into allegations and any incidents of fraud; and
- **the External Auditor:** on their assessment of significant risks and the internal control environment in so far as is necessary to form an opinion on the true and fair view of the financial statements.

Governance

Terms of reference

The terms of reference of the Audit Committee were updated to reflect changes made to The UK Corporate Governance Code. These were approved by the Board in November 2013, and a copy is available on the SSE website.

Evaluation

As part of the Board evaluation process, the operation of the Audit Committee was evaluated, and it was confirmed that it was operating effectively. Details of the evaluation process are set out on page 64.

Richard Gillingwater
Committee Chairman

Remuneration Report
The Chairman's statement

Transparent disclosure

As Chairman of the Committee, I find the new regulations this year reassuring. They call for transparency and context in reporting remuneration issues. We have always tried to report in that way.

We welcome the chance to disclose the major issues we have discussed over the year, along with our key decisions. Indeed, one of the advantages of being listed on the London Stock Exchange, as SSE is, is that a company must be transparent in its disclosures and accountable to its shareholders.

Our Issues

The Committee considered the following key issues in the course of last year:

- appropriate salaries on the appointment of Alistair Phillips-Davies as Chief Executive, and Gregor Alexander, in his expanded role as Finance Director;
- performance assessment against both longer-term and shorter-term incentive plans;
- changes to the design of the incentive plans, to align the plans more closely to future business priorities, and to ensure that the plans have a specific customer focus as a key element of them.

An important factor for these key decisions is that SSE remains committed to maintaining a fair and balanced pay policy.

SSE is also committed to embracing the letter and the spirit of the new regulations on remuneration reporting. We would welcome any feedback on how they have been interpreted in this report and should be interpreted in future reports.

Our Decisions

Salary
Setting the remuneration for the new Chief Executive, Alistair Phillips-Davies and for Gregor Alexander, with his enhanced responsibilities, was a key focus for the Committee during the year. We retained our core principle of offering total executive remuneration at below the market median for FTSE 20-50 companies (excluding financial services). Reflecting also guidance from our shareholders, we appointed our new CEO on a salary more than 15% below the outgoing incumbent, with the potential for further increases in the following couple of years as he settles into the role.

Incentive Plan Structure
Another important consideration for the Committee was to ensure that incentive plans have the potential to reward Executives fairly for delivering business performance in a changing and challenging environment. The Committee reviewed its approach to the incentive plans and concluded that they should be reshaped to align more explicitly with both shareholder and customer expectations. The plans also have to be achievable but stretching with the aim of paying around half of maximum levels for good performance. We have also introduced an additional 2 year post-vesting holding period for new awards made under the PSP scheme.

Importantly, while the measures in the plans have been reshaped, the quantum of each plan remains unchanged, reflecting our commitment to maintain a balanced and conservative pay policy.

Performance against Plans
The Committee also had to determine performance against the plans in the current year. The annual incentive performance reflected a financial performance ahead of consensus estimates, strong individual performance against objectives and positive teamwork across the senior management team, producing an outturn of 60% of maximum. Performance against the longer-term performance share plan, where only one of the performance elements were met, led to an outturn of 22.8% of maximum.

Our Approach

Transparency and accountability
Transparency is particularly beneficial in a sector such as energy, where the provision of electricity and gas is central to society. People must be able to see clearly the company's financial and operational performance and, beyond that, the purpose, values, culture and strategy which underpin it. This Remuneration Report is intended to aid that view, looking back at remuneration in 2013/14 and looking forward to remuneration policy in the years ahead.

Accountability is also important. Shareholders have invested directly in SSE and, as owners of the company, enabled it to borrow money from debt investors. In this way, SSE helps maintain, upgrade or build the assets that will deliver safe and secure energy to customers in the years ahead. Shareholders are therefore entitled to their say, and I was pleased that 99.1% of the votes cast by SSE's shareholders at the AGM in 2013 were in favour of last year's Remuneration Report.

Principles
The principles of SSE's remuneration policy, which are summarised in this Report, are well-established. I hope that shareholders and other stakeholders will see this year's Report as the latest evidence of SSE's continuing commitment to these principles, in particular, to simplicity, acceptability and longevity in remuneration policy, practice and reporting.

Simplicity
Simplicity means that what Executive Directors are paid is made up of just four elements: base salary, plus benefits; pension rights; an annual incentive scheme, with cash and shares; and a long-term incentive scheme, with shares. As well as being straightforward, this represents a balance of fixed and performance-related remuneration. We believe that annual performance at the standard we expect, should result in a broadly equal split between fixed and performance-related remuneration.

Simplicity is important in remuneration reporting. It serves neither transparency nor accountability if complex remuneration structures leave shareholders and other stakeholders struggling to see the wood for the trees. With just four elements to remuneration, I do not believe that is the case at SSE.

Acceptability
Acceptability means that Executive Directors should be paid fairly for their responsibilities at the head of a large and very complex business. It's also why we consult with leading shareholders, most recently in the spring of 2014, when they reminded us in particular that this is a challenging industry and remuneration should ensure the quality of our executives. It's important to have alignment between how our Executive Directors are rewarded and what our stakeholders expect of the business.

This means that executives should not be overpaid when the core purpose of the business is a public good – providing the energy people need. Nor should they be underpaid if we are to retain the services of the best leaders. Above all, they should be measured on the things that matter most.

As a reflection of our core purpose, SSE's success in meeting the needs of customers, we have introduced a specific customer service measure into both the annual incentive and performance share plan. But, as we have done in the last two years, we also reserve the right to exercise discretion to override such an award, even if the measure has been met, if there has been a failure in how a part of the business has been delivered.

Consultation is essential to the work we do to ensure Executive Directors' remuneration is appropriate, and we believe the principles which lie behind it are consistent with shareholder expectations.

Longevity
In a long-term business especially, such as energy, remuneration for Executive Directors and other senior managers should encourage sustained, long-term commitment to the business itself and to meeting the needs over time of the customers it serves.

I believe SSE benefited from longevity in 2013/14, when Alistair Phillips-Davies, after 17 years' service with the company, succeeded Ian Marchant as Chief Executive and then made such an impressive start to the job – managing decisively within the organisation and developing a leadership voice for the industry outside it. In this, he has been and continues to be ably supported by Gregor Alexander in his expanded role, whose service with SSE is 24 years.

Identifying appropriate performance measures for a long-term business, such as energy and the environment in which it operates, carries a number of benefits. Not least for SSE is the Company's exemplary record of annual increases in the dividend paid to shareholders. Other key financial indicators, such as adjusted earnings per share, and operational performance indicators are summarised in this Report. Our philosophy is that the right strategic measures, such as teamwork and customer focus, lead directly to financial performance.

Longevity, acceptability and simplicity remain key features of remuneration in SSE and underpin everything that is set out in this Report, including the policy for which shareholders' approval is being sought at this year's AGM.

Our Challenge

With this policy, SSE should be able to retain and attract Executive Directors over the next few years, but that must never be taken for granted. Those years will be challenging, with the energy industry being subject to an unprecedented period of scrutiny and change.

SSE believes that scrutiny is entirely legitimate and that change should be embraced, but in such a period the company's shareholders, employees and customers need it to be led by people with exceptional skills and tireless commitment. Those skills and that commitment need to be fairly rewarded, and that is what SSE's remuneration policy and the principles which lie behind it are designed to achieve.

Our Future

I shall step down after almost eight years as Chairman of the Remuneration Committee, and more than eleven as a non-Executive, at this year's AGM. I am pleased that Richard Gillingwater, already a Committee member, will become Chairman. Increasingly, executive remuneration has been a high profile issue and we expect that to continue. We have benefited greatly from open consultation with shareholders, informed advice from remuneration specialists, feedback from other stakeholders and, above all, the commitment to the company displayed by the Executive Directors and other senior managers.

I fully expect that, at SSE, open consultation will continue to take place, informed advice will continue to be sought, stakeholder feedback will continue to be welcomed and commitment to the Company will continue to be strong. I have no doubt also that this will support greatly SSE's continuing commitment to transparency and accountability in everything it does.

Lady Rice CBE
Remuneration Committee
Chairman

Remuneration Report continued
Policy

The following sets out SSE's Directors' Remuneration Policy (the "Policy"). This Policy will be subject to a binding shareholder vote at the 2014 AGM on 17 July 2014, and will apply from this date.

SSE's Executive Director remuneration principles
SSE's principles are that Executive Director remuneration policy should:

- attract and retain Executive Directors who lead the Company effectively for the benefit of customers, employees and shareholders;
- provide a simple and competitive approach to total remuneration, which takes into account shareholder expectations;
- reinforce the values and culture, including teamwork, to deliver the long-term sustainability and growth of the business; and
- set Total Remuneration Policy at levels which promote the long-term development of the business and reward individuals in line with performance.

The total remuneration policy for Executive Directors is to remain below median of the FTSE 20-50, excluding financial services. SSE also monitors its generally conservative positioning against direct peers and UK listed companies in related sectors. SSE's remuneration policy is integral to overall HR strategy and the SSE SET of core values is supported in the principles outlined above, in the plan design and application of the Policy.

Remuneration policy – key features

Base salary
Purpose and link to strategy
The base salary supports the retention and recruitment of Executive Directors of the calibre required to develop the Company's strategy, deliver efficient operations and investments, and engage effectively with the Company's key stakeholders. It is intended to reflect the role and its responsibilities, business and individual performance measured against SSE's strategy and core purpose of providing the energy people need in a reliable and sustainable way, and to have an awareness of competitive market pressures.

Operation
The Committee sets base salary taking into account:

- the individual's skills, experience and performance;
- salary levels at other FTSE100 companies and other energy businesses;
- remuneration of different groups of employees and wider internal pay arrangements; and
- the overall policy objective to remain below market median on a total remuneration basis for the FTSE 20-50 excluding financial services companies.

Base salary is normally reviewed annually with changes effective from 1 April. It may be reviewed more frequently or at different times of the year if the Committee determines this is appropriate.

Maximum opportunity
While there is no maximum salary level, salary increases will normally be in line with the typical level of increase awarded to other employees in the Group. However, increases may be above this level in certain circumstances, including but not limited to:

- where a new Executive Director has been appointed to the Board at an initially lower base salary with the intention that larger salary increases would be awarded for an initial period of time as the Executive Director gains experience;
- where there has been a significant increase in the scope and responsibility of an Executive Director's role or where they have been promoted, salary increases in excess of the above limit may be awarded; and
- where a larger increase is considered necessary to reflect significant changes in market practice.

The current Chief Executive was appointed at a salary that was more than 15% lower than his predecessor's and the Committee retains the flexibility to make further increases above normal levels for employees as he builds his experience in the role.

Performance measures
The overall performance of the Executive Director is considered by the Remuneration Committee when setting and reviewing salaries annually.

Pension

Purpose and link to strategy

Pension planning is an important part of SSE's remuneration strategy because it is consistent with the long-term goals and horizons of the business. The pension supports the Company's ability to retain experienced Executive Directors and develop talent internally.

Operation

The current Executive Directors participate in either the Southern Electric Pension Scheme or the Scottish Hydro-Electric Pension Scheme.

These schemes are funded final salary pension schemes. Where an Executive Director is subject to the scheme-specific salary cap (which mirrors the provisions of the previous HMRC cap arrangements) the Company provides top-up unfunded arrangements ("UURBS") up to the maximum benefit outlined below.

The Committee may determine that alternative pension provisions will operate for new appointments to the Board, and would also determine the value of such arrangements. When determining pension arrangements for new appointments the Committee will give regard to the cost of the arrangements, market practice and the pension arrangements received elsewhere in the Group.

Maximum opportunity

For existing Executive Directors, the pension arrangements provide for a maximum pension of two-thirds of final salary, normally at age 60.

Performance measures

Not applicable.

Benefits

Purpose and link to strategy

To provide a market-competitive level of benefits for Executive Directors.

Operation

Benefit policy is to provide an appropriate level of benefit taking into account market practice at similar sized companies and the level of benefits provided for other employees in the Group.

Core benefits – Benefits currently include car allowance, private medical insurance and health screening.

All-employee share plans – Executive Directors are eligible to participate in the Company's all-employee share plans on the same terms as UK colleagues. The Company currently operates the Share Incentive Plan and the Sharesave Scheme.

Relocation policy – In the event that an Executive Director was required to re-locate to undertake their role, the Committee may provide additional reasonable benefits (either on a one-off or on-going basis) to reflect the relevant circumstances.

The Committee may introduce or remove particular benefits if it is considered appropriate to do so.

Maximum opportunity

When determining the level of benefits the Committee will consider the factors outlined in the 'operation' section.

The cost will depend on the cost to the Company of providing individual items and the individual's circumstances and therefore there is no maximum benefit level.

Performance measures

Not applicable.

Remuneration Report continued
Policy

Annual incentive plan (AIP)
Purpose and link to strategy
In line with the need to achieve a suitable balance of fixed and variable remuneration the purpose of the AIP is to reward Executive Directors' performance during the year, based upon achievement of performance targets.

The performance targets are linked to SSE's strategy and core purpose.

Deferral into Company shares provides alignment between Executive Directors' interests and the long-term interests of shareholders.

Operation
The Committee determines the level of incentive at its absolute discretion taking into account performance in each of the measures, the underlying performance of the business and Executive Directors' management of, and performance in, all of the business issues that arise during the year.

Performance is typically assessed over a financial year.

The award is normally delivered:

- 75% in cash
- 25% in deferred shares

The Committee may determine that a different balance of cash and deferred shares may be awarded.

Deferred shares will normally vest three years from the award and will typically be subject to continued employment (unless the Committee determines an alternative vesting period is appropriate). Until vesting, deferred shares may accrue additional dividend shares. Dividend equivalents may be determined by the Committee on a cumulative basis and may assume reinvestment of dividends in the Company's shares.

In certain circumstances set out in the plan rules the Committee may at its discretion "claw back" outstanding awards prior to the vesting date. For further details see the section Recovery provisions on page 80.

The Committee may adjust and amend the terms of the deferred shares in accordance with the Deferred Scheme rules.

Maximum opportunity
Maximum annual incentive opportunity is equal to 100% of base salary.

Performance measures
The annual incentive is normally based on a mix of financial measures and measures related to the strategic performance of the business.

A minimum of 50% of the annual incentive will be based on financial performance.

The strategic performance of the business is generally determined with reference to its core purpose of providing the energy people need in a reliable and sustainable way and therefore normally includes 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. The Committee determines the exact metrics each year depending on the key strategic objectives for the forthcoming year and ensures that they are appropriately stretching in the context of the business plan.

In determining the final out-turn the Committee considers Executive Directors' management of, and performance in, all of the business issues that arose during the year.

The AIP starts accruing for entry level performance from 25% of salary. Around 50% of the incentive is paid if target levels of performance are delivered with the full incentive being paid for delivering stretching levels of performance.

The part of the AIP that is converted into deferred shares is not subject to any further performance conditions.

Performance share plan (PSP)
Purpose and link to strategy
The purpose of the PSP is to reward Executive Directors over a three-year period for their part in delivering the sustained success of SSE and to ensure that their interests are aligned with those of the shareholders who invest in the Company.

Operation
Shares are awarded which normally vest based on performance over a period of three years. The Committee may apply additional holding periods, following vesting.

The Committee shall determine the extent to which the performance conditions have been met. No shares shall vest unless the Committee is satisfied with the underlying financial performance of the Company. Awards do not vest until after the end of the performance period.

Until vesting, PSP awards may accrue additional dividend shares. Dividend equivalents may be determined by the Committee on a cumulative basis and may assume reinvestment of dividends in the Company's shares.

In certain circumstances set out in the PSP rules the Committee may at its discretion "claw back" outstanding awards prior to vesting. For further details see the section Recovery provisions on page 80.

The Committee may adjust and amend awards in accordance with the PSP rules.

Maximum opportunity
The maximum value of award that can be granted under the PSP is equal to 150% of base salary.

Performance measures
The Committee determines targets each year to ensure that they are stretching and represent value creation for shareholders while remaining realistically achievable for management.

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.

The Committee may review the detailed targets and weightings of measures year on year, as well as the appropriate threshold levels of performance.

Share ownership policy
Purpose and link to strategy
A key element of Executive Director pay policy is to align the interests of Executive Directors with those of shareholders who invest in the Company.

Operation
Shareholding is normally built up via shares vesting through the PSP, deferred shares from the AIP and all employee share schemes.

Maximum opportunity
Executive Directors are expected to maintain a shareholding equivalent to one year's base salary built up within a reasonable timescale. Consent to sell shares is not normally given (unless in exceptional circumstances) until this level of shareholding is reached.

Performance measures
Not applicable.

Remuneration Report continued
Policy

Chairman and Non-Executive Director fees
Purpose and link to strategy
Fees are set at a level which provides reward for undertaking the role and are sufficient to attract and retain individuals with the calibre and experience to contribute effectively at Board level.

Operation
The Committee is responsible for determining fees for the Chairman. The Board is responsible for determining fees for other non-Executive Directors.

Fees are reviewed at appropriate intervals against companies of a similar size and complexity. Fees are set in a way that is consistent with the wider remuneration policy.

The fee structure is typically made up of:

- A basic Board fee or Chairman fee
- An additional fee for any committee chairmanship
- An additional fee for further responsibilities e.g. Senior Independent Director

Non-Executive Directors do not participate in the Annual Incentive Plan, Deferred Bonus Scheme or any of the share schemes, or contribute to any group pension scheme.

Non-Executive Directors do not currently receive any benefits. However, benefits may be provided in the future if, in the view of the Board for non-Executive Directors or the Committee for the Chairman, this was considered appropriate.

Reasonable travelling and other expenses for costs incurred in the course of the non-Executive Directors undertaking their duties are reimbursed (including any tax due on the expenses).

It is also expected that all non-Executive Directors should build up a minimum of 2,000 shares in the Company.

Maximum opportunity
The aggregate level of non-Executive Director fees shall not exceed the maximum limit set out in the Articles of Association.

Performance measures
While there are no direct performance measures relating to Chairman and non-Executive Director fees, the performance of the Board is subject to annual evaluation, including individual evaluation. Moreover, all Directors are subject to annual re-election at the AGM.

Recovery provisions
A 'clawback' arrangement applies to all awards made in deferred shares under the AIP and PSP awards from 2012 onwards. This arrangement is defined in the schemes' rules and gives the Committee powers to review the final award of shares under these arrangements when they vest. Should the Committee conclude that during the period between the granting and vesting of awards there has been an event such as a material mis-statement of accounts, gross misconduct or something which causes significant reputational damage to the Company, it has the ability to reduce the final award or deem it to have lapsed.

Committee discretion
The rules of the AIP and PSP contain the following discretions in addition to those described elsewhere in the report:

- In the event of a variation of the Company's share capital or a demerger, delisting, special dividend, rights issue or other event, the number of shares subject to an Award and/or any performance condition attached to Awards, may be adjusted.
- The Committee may adjust PSP performance conditions for subsisting awards as it considers appropriate to take account of any factors which are relevant in the opinion of the Committee, for example to reflect modifications of accounting standards, provided that the revised performance conditions are not considered to be less challenging to achieve.
- In the event of a voluntary winding-up of the Company, the Committee may allow some or all of the outstanding PSP awards to vest and be exercisable within 30 days following the date the resolution for the winding-up is passed.

The Committee may make minor changes to this Policy (for example for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without seeking shareholder approval for that amendment.

Legacy commitments
The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretion available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out in this report where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. This includes commitments relating to the defined benefit pension arrangements which were made before 27 June 2012. "Payments" includes the Committee sanctioning awards of variable remuneration and an award over shares is "agreed" at the time the award is granted. Any payments made outside of the remuneration policy pursuant to legacy commitments will be disclosed in full in the relevant year's Annual Report.

Directors' service contracts and non-Executive Directors' letters of appointment

Current Executive Directors have service contracts terminable by the Company immediately without notice upon breach by the individual or by the Company giving to the individual 12 months' notice or, at its discretion, payment in lieu of salary only during that notice. The payment in lieu of notice may be made in staged payments, and may either reduce or cease completely where the departing Executive Director gains new employment. The Executive Director may terminate his contract by giving the Company 12 months' notice. Contracts for new Executive Directors will be limited to 12 months' notice by both parties (or payment in lieu of notice in respect of the Company). Both contracts of the Executive Directors are dated 7 November 2013.

The Committee may also determine that the Executive Director should receive outplacement support and legal advice at the expense of the Company.

The non-Executive Directors have letters of appointment, and are appointed for fixed terms of three years, subject to retirement and re-appointment at AGMs.

Non-Executive Directors on termination are not entitled to any payment in lieu of notice or any compensation for loss of office.

The letters of appointment are available for shareholders to view on sse.com.

Loss of office policy

The Committee takes a number of factors into account when determining leaving arrangements for Executive Directors:

- The Committee must satisfy any contractual obligations provided they are consistent with the Policy or have been entered into on a date on or before 27 June 2012 in accordance with relevant legislation.
- The treatment of outstanding share awards is governed by the relevant share plan rules, as set out below.
- The Committee may determine that the Executive Director should receive outplacement support and legal advice at the expense of the Company and any payments required by statute.

The Company may at its discretion terminate any Executive Director's contract by providing notice (as set out above).

AIP

The Executive Director may, at the discretion of the Committee, remain eligible to receive an AIP award for the financial year in which they ceased employment. Any such AIP award will be determined by the Committee taking into account time in employment and performance. If an AIP award is received in such cases it will not be subject to deferral into deferred shares.

Deferred shares

If an Executive Director's employment terminates in circumstances such as death, injury, disability, ill-health (as agreed by the Committee) or other circumstances that the Committee deems appropriate, deferred shares shall vest in full at the time of termination of employment.

If an Executive Director leaves the business in other circumstances their deferred shares shall lapse.

Performance share plan

If an Executive Director's employment terminates in circumstances such as death, injury, disability, ill-health (as agreed by the Committee) or other circumstances that the Committee deems appropriate, PSP shares may continue to vest. The PSP shares will normally be reduced to reflect the time elapsed in the three-year performance period when the Director's employment ends and will normally remain subject to performance at the end of the performance period.

The Committee may determine, in exceptional circumstances, that PSP shares may be released at the time of cessation of employment. In this circumstance, it will determine the level of vesting taking into account the extent to which the performance condition has been met at the time (subject to modification if the Committee considers that the performance condition would be met to a greater or lesser extent at the end of the original performance period) and the period the Executive Director has been in employment.

Where the Committee determines that PSP shares shall vest for reasons other than death, disability or ill-health, the Committee has the discretion to disapply time pro-rating or alter the time pro-rating fraction if it considers that the Executive Director's contribution to the business of the Group would not otherwise be properly recognised. In this circumstance, the vesting of PSP shares would remain subject to performance until the end of the performance period.

If the Executive Director's employment ends for any other reason, PSP share awards will lapse.

Pension

Where an Executive retires through ill-health they are entitled to an unreduced pension based on service to expected retirement.

In the event of any reorganisation or redundancy, Executives who are aged 50 or more with at least five years of service will be provided with an unreduced accrued pension. If an Executive has not reached age 50 at the time of this event their pension will be paid from age 50.

From age 55 Executives are entitled to leave the Company and receive a pension, reduced for early payment, unless the Company gives consent and funds the pension being paid on an unreduced basis.

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

Remuneration Report continued
Policy

The following is information relating to the pension of Gregor Alexander as a participant in the HMRC approved Scottish Hydro-Electric Pension Scheme the terms of which also apply to the UURBS arrangement.

(i) Dependants' pensions on death are half of members' pension entitlements, together with a capital sum equal to four times pensionable pay. On death in retirement, the Director's spouse will receive a pension equal to half of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.
(ii) Post retirement increases are expected to be in line with inflation.

The following is information relating to the pension of Alistair Phillips-Davies, as a participant in the HMRC approved Southern Electric Group of the Electricity Supply Pension Scheme, the terms of which also apply to the UURBS arrangement.

(i) Dependants' pensions on death are four-ninths of the member's pensionable pay, together with a capital sum equal to four times pensionable pay. If death occurs after attaining the age of 55 an additional lump sum between three to five times notional pension is payable dependent upon age and length of service.
(ii) On death in retirement, the Director's spouse will receive a pension equal to two-thirds of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.
(iii) Post retirement increases are expected to be in line with inflation (guaranteed up to the level of 5% per annum and discretionary above that level).

Other arrangements
If buyout awards are made on recruitment, the treatment on leaving would be determined at the time of the award.

For all-employee share plans, such as the Sharesave Scheme and the Share Incentive Plan, leavers will be treated in accordance with the HMRC approved plan rules.

Change of control
In the event of a change of control of the Company, performance in the PSP will be measured to that date subject to modification if the Committee considers that the performance conditions would be met to a greater or lesser extent at the end of the original performance period. Awards will normally be scaled down to reflect the period up to the change of control, but the Committee has discretion to disapply or alter the pro-rating fraction if it considers that participants' contribution to the creation of shareholder value during the performance period would not otherwise be properly recognised. Any outstanding deferred shares from the AIP will vest automatically.

Recruitment policy
The Committee would generally seek to align the remuneration package offered with its remuneration policy outlined in pages 76-79 and would be subject to the variable pay limit outlined below.

Base salary would be set taking into account the individual's skills and experience and performance, salary levels at other FTSE 100 companies and other energy businesses, remuneration of different groups of employees, and the wider internal pay arrangements.

The Committee will determine appropriate pension provision for any new Executive Director. When determining pension arrangements for new appointments the Committee will give regard to the cost of the arrangements, market practice and the pension arrangements which operate elsewhere in the group.

The Committee retains the flexibility to provide a higher variable remuneration opportunity for a new recruit. For example, where the value of pension offered is lower than that offered to current executive directors, a higher level of incentive opportunity may be required to maintain broadly comparable total remuneration positioning. More generally, it is considered appropriate for the policy to provide some flexibility given the current very conservative positioning of SSE's incentive arrangements. The over-riding objective in determining a total remuneration package for a new recruit would be to make decisions which are in the best interests of the Company, its shareholders and other stakeholders.

In this context the on-going variable incentive maxima (currently 100% annual incentive and 150% PSP) may be increased. Were an increase to be made for a new recruit the Committee would consider very carefully the appropriate level, taking into account the rationale and circumstances. The maximum incentive level would be an additional 50% of the current limits (i.e. up to 150% annual incentive and up to 225% PSP). The structure of any such incentive awards, including performance measures, would be in line with the established principles in the policy table.

The Committee may make awards on appointing an Executive Director to 'buy out' remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested. Generally buy-out awards will be made on a comparable basis to those forfeited. To facilitate these awards, the Committee may make awards under Company incentive plans and other available structures.

The committee may make awards under Company incentive plans and under the Listing Rules exemptions LR9.4.2. The use of the latter shall be limited to the granting of buy-out awards or share awards within the limits described above.

Shareholders' views
The Committee Chairman, on behalf of the Committee, regularly undertakes consultation with a number of institutional shareholders regarding a broad range of remuneration issues. The Committee finds such consultation meetings a valuable opportunity to receive feedback on the work of the Committee and the key issues that it is considering. The feedback received is extremely helpful in informing the Committee's decisions. In addition, the Committee monitors the views of other stakeholders and broader developments in executive remuneration generally.

Remuneration engagement across the Group

The Committee appreciates the importance of an appropriate relationship between the remuneration levels of the Executive Directors, senior executives, managers and other employees within the Group although comparison metrics are not used. Remuneration at all levels in SSE is designed to support its core remuneration principles, long-term business strategy and core purpose of providing the energy people need in a reliable and sustainable way. It is also designed to be consistent with and support the Company's core values of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. The structure of reward necessarily differs based on scope and responsibility of role, level of seniority and location.

- Senior management population participate in an annual incentive and the performance share plan on a similar basis to Executive Directors.
- All employees have the opportunity to be share owners through the Share Incentive Plan and the Sharesave Plan and those participating are able to express their views in the same way as other shareholders.
- Pension planning is an important part of SSE's reward strategy for all employees because it is consistent with the long-term goals and horizons of the business. SSE welcomes the introduction of auto-enrolment, an approach it has been practising for a number of years. The terms of the funded final salary pension schemes apply equally to all members.
- As part of its Employee Engagement Survey the Company invites all Employees to provide a view on the benefits and pay that it provides.

The Head of Reward also provides an annual update to all SSE-recognised trade unions, explaining the Company's position on executive remuneration. This covers many of the policy positions explained in this report. Feedback from this meeting is shared with the Remuneration Committee. The Company will continue to liaise with employee representative bodies in the future and welcomes their views and opinions on remuneration issues.

Illustration of Remuneration Policy for 2014/15

Directors' remuneration

The charts above are based on the current Executive Directors' packages and show the amount of remuneration payable in three scenarios; 1) minimum performance where only base salary, benefits and pension is payable, 2) target performance and 3) maximum performance.

Underlying assumptions

Minimum performance

In this scenario only the fixed pay elements are payable i.e. base salary, benefits and pension calculated as:
- Base salary effective from 1 April 2014
- Benefits represent those shown on the single figure table on page 85
- Pension is the value of accrual in a typical year (assuming a pay increase of 2%) using the same valuation methodology as in the "single figure" table on page 85.

	Base salary	Benefits	Pension	Total
CEO	£805,000	£24,027	£327,000	£1,156,027
FD	£622,200	£21,275	£229,000	£872,475

Target performance

This is what the Executive Director would receive in addition to the minimum performance element, if the Committee agreed that target level performance had been achieved:
- AIP pays out 50% of maximum opportunity of 100% of base salary
- PSP pays out 50% of maximum opportunity of 150% of base salary

Maximum performance

This is what the Executive Director would receive in addition to the minimum performance element, if the Committee agreed that the maximum level performance had been achieved:
- AIP pays out 100% of base salary
- PSP pays out 150% of base salary

Notes

The AIP figures are the gross value of the awards before 25% is converted into deferred shares.
The PSP awards are shown simply as the gross face value at the date of grant and do not include any assumptions for share price growth or dividend accrual.

Annual Remuneration Report 2013/14

The following sets out the Annual Remuneration Report of SSE's Executive Directors and detailed policy for 2014/15. The report will be subject to an advisory vote at the 2014 AGM.

Fixed remuneration	Variable remuneration	
Base salary	**Short-term – annual**	**Long-term – three years**
Pension – final salary	Annual Incentive Scheme – 75% maximum cash and 25% deferred shares Linked to individual and team performance, corporate, financial and operational measures	Performance Share Plan (PSP) – 3 years plus 2 year holding period 20% linked to relative FTSE 100 TSR, 20% MSCI Eur. Utilities TSR, 20% dividend growth, 20% adjusted annual EPS growth and 20% customer satisfaction.
Benefits – car, medical and Share Incentive Plan		
Minimum shareholding guideline equal to 100% of base salary		

Changes to incentive scheme structures and base salary from 2014

Following a consultation exercise with leading shareholders the Committee will be implementing a number of changes to the remuneration plans for Executive Directors from 2014/15. The incentives have been reshaped to align more explicitly with both shareholder and customer expectations. There are no changes to the maximum opportunities.

Annual incentive plan

For 2014/15, the structure of the Annual Incentive Plan will change so that assessment of performance is more closely aligned to SSE's business strategy and its responsibility to the customers it serves. The key differences are the introduction of the additional financial performance measures of cashflow and dividend per share, and an operational measure focussed on the quality of service delivered to SSE's energy supply customers and networks customers. The maximum annual incentive payable will remain 100% of salary split between profit before tax (30%), dividend per share (10%), cashflow (10%), teamworking (20%), personal objectives (15%) and customer performance (15%). While the Committee has set specific targets for 2014/15 it has chosen not to publish them at this time as they are commercially sensitive.

Performance share plan

As with AIP, the structure of the PSP will change so that assessment is more closely aligned to SSE's business strategy and its responsibility to the customers it serves. From 2014/15, the PSP will have a new measure relating to the quality of service delivered to SSE's energy supply customers. Adjustments will also be made to the Earnings Per Share (EPS) and Dividend Per Share (DPS) targets in the context of our business strategy and shareholder expectations. Targets are set to be achievable but stretching with the aim of paying around half of maximum levels for good performance.

The PSP will have 5 component factors each worth 20% each.

	TSR1 (20%)	TSR2 (20%)	EPS (20%)	DPS (20%)	Customer Service (20%)
Measure	Relative position against the FTSE 100	Relative position against European Utilities	Growth in Adjusted EPS versus RPI	Growth in DPS versus RPI	Consumer Futures ranking

The Total Shareholder Return (TSR) measures remain unchanged. TSR performance is compared to the FTSE 100 and a dedicated peer group of around 30 UK and other European utilities (the MSCI Europe Utilities). This provides a sector emphasis whilst continuing to bring a market perspective to the plan. For median performance 25% of the maximum of these segments is payable. For upper quartile 100% is payable.

For EPS growth of RPI, 25% of the maximum of this segment will be payable, 80% will be payable for RPI +5% and 100% will be payable for RPI +8%.

For DPS growth of RPI, 50% of the maximum of this segment will be payable. 100% will be payable for DPS growth at RPI+4%. In assessing performance against DPS the Committee must be satisfied that a reasonable level of dividend cover has been maintained.

The higher vesting level at entry-level DPS growth reflects the higher degree of stretch of this target. Taking into account the importance of dividend growth to our shareholders, the Committee sought to operate a principle of no vesting for below RPI growth. However it is recognised that sustained 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. The vesting has therefore been set at a higher than usual entry-level vesting of 50% for achieving this stretch target.

Customer performance will be measured against the Consumer Futures Complaints League Table. This is an independently verified measure which ranks customer performance based on a measure of customer complaints. For customer performance ranking below the top 2 large suppliers 0% of the maximum segment will be payable, for ranking at 2, 50% will be payable. For ranking at 1, 100% will be payable.

Within this group ranking 3rd would be an above median entry level performance. The Committee, however, set the threshold at what would be a more stretching level of 2nd position, with vesting of 50% for achievement of this position.

The Committee considers that the new performance measures and targets will represent a balanced assessment of SSE's performance. The Committee reserves the right to exercise discretion to override an award, even if a measure has been met, if there has been a failure in how a part of the business has been delivered.

As part of the changes to the PSP, the Committee has also decided to apply an additional 2 year holding period after vesting for the Executive Directors.

Base salary

The Committee gave consideration to the appropriate base salary increase for Chief Executive, Alistair Phillips-Davies. When reaching its conclusions the Committee considered the fact that he had been appointed at a salary that more than 15% below that of the previous incumbent. In addition, the Committee also took into account the excellent start Mr Phillips-Davies has made to the role, including his leadership around customer affordability, and the structural changes that have been successfully made to the management team in SSE. After careful consideration, the Committee decided to increase his salary by 6.6% to £805,000.

Summary of remuneration policy
Single total figure of remuneration for each director for financial years ending 31 March 2013 and 2014

	Base Salary/Fees £000s		Benefits[4] £000s		AIP[5] £000s		PSP[6] £000s		Pension[7] £000s		Total £000s	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Executive Directors												
Alistair Phillips-Davies[1]	702	545	24	19	453	206	204	618	1,345[9]	251	2,728	1,639
Gregor Alexander	594	545	21	19	366	206	204	618	557	253	1,742	1,641
Ian Marchant[2]	223	870	6	22	167	–	259	1,076	–	256	655	2,224
										Total	5,125	5,504
Non-executive Directors												
Thomas Thune Andersen	68	66	–	–	–	–	–	–	–	–	68	66
Jeremy Beeton	57	56	–	–	–	–	–	–	–	–	57	56
Katie Bickerstaffe	57	56	–	–	–	–	–	–	–	–	57	56
Sue Bruce[3]	33	–	–	–	–	–	–	–	–	–	33	–
Richard Gillingwater	83	74	–	–	–	–	–	–	–	–	83	74
Lady Rice	70	72	–	–	–	–	–	–	–	–	70	72
Lord Smith of Kelvin	362	353	–	–	–	–	–	–	–	–	362	353
										Overall Total	5,855	6,181

Notes

1. Alistair Phillips-Davies was appointed to the role of CEO on 1st July 2013.
2. Ian Marchant retired on 30th June 2013.
3. Sue Bruce was appointed to the Board on 1st September 2013.
4. Benefits relate to company car allowance, medical benefits and Share Incentive Plan matching shares.
5. The AIP figures above show the full value of the award before 25% was deferred in shares. Ian Marchant decided to waive his annual incentive for 2012/13 which would have been £329,000.
6. The PSP figures above are based on awards vesting in 2013 (the award granted in 2010) and 2014 (the award granted in 2011) and include the value of dividends accrued. As per the new regulations, the 2013 award is based upon the share price as at date of vesting and the 2014 award is based upon the average share price in the last 3 months of the financial year ended 31 March 2014 (£14.69).
7. The pension value represents the cash value of pension accrued over 1 year multiplied by 20 in line with new regulations with allowance for inflation and employee contributions.
8. Directors have not received any other items in the nature of remuneration other than as disclosed in the table.
9. Alistair Phillips-Davies' total remuneration for 2013/14 is strongly influenced by the valuation methodology of his pension, calculated in line with the new regulations. The pension number for 2013/14 is largely driven by his base salary increase awarded 1 July 2013 (39%) when he was promoted to Chief Executive.

Annual Remuneration Report 2013/14 continued

Remuneration and performance

Executive Directors' salary and incentive plans 2013/14

Measure	Decision
Base salary	The 2013 review of Alistair Phillips-Davies' and Gregor Alexander's salaries were deferred until July 2013, when they took on new responsibilities following the departure of the previous Chief Executive. In 2014, salary reviews reverted to April, and were as follows:- Alistair Phillips-Davies was awarded an increase of 6.6%, and Gregor Alexander was awarded an increase of 2%, in line with the annual salary budget for the wider senior management team.
Annual incentive plan (maximum award of 100% of base salary)	**Overall 60% awarded**
The Annual Incentive award is determined by the Remuneration Committee's assessment of the performance during the year, based on the three key areas below: corporate performance; teamwork; and achievement of objectives.	Maximum award up to 100% of base salary: 75% in cash (non-pensionable); 25% compulsorily deferred into shares which only vest, subject to continued service, after three years. There is no share matching award in place.
Corporate performance (60%) Group corporate performance is measured by adjusted profit before tax*, which reflects the underlying profits of SSE's business and the basis on which it is managed.	**Corporate performance (24% awarded)** During 2013/14, SSE delivered a 3% increase in dividend per share, a 4.1% increase in adjusted earnings per share* and a 9.6% increase in adjusted profit before tax*. These increases were achieved in a challenging business and operating environment which was impacted by adverse weather conditions, reduced customer demand and a very competitive retail environment. The business delivered an adjusted profit before tax of £1,551m compared to a stretching corporate target of £1,585m and a threshold target of £1,505m. On this basis 24% was awarded. This performance means that SSE achieved its first financial objective for the year of an annual dividend increase that was greater than RPI inflation. SSE's financial performance means it can also improve its operations for the benefit of customers, invest in the energy infrastructure that customers will depend on in the future, employ many thousands of people and pay £431.6m of tax.
Teamwork (20%) Teamwork is measured by performance against the 'SSE SET' of core values: Safety; Service; Efficiency; Sustainability; Excellence; and Teamwork. Performance against these values is assessed through SSE's performance management process.	**Teamwork performance (18% awarded)** • Safety – a reduction in the Total Recordable Injury Rate among SSE employees, and a reduction for contractor safety rates • Service – SSE remained the leading large supplier in customer service surveys • Efficiency – positive progress made to implement a 'value programme' and good progress made on managing underlying controllable costs • Sustainability – positive progress made on de-carbonisation, and in the development and deployment of renewable sources of energy • Excellence – excellent progress made in key projects to address the energy 'trilemma', including 'smart' networks and carbon capture • Teamwork – positive engagement scores, a record number of employees participating in engagement surveys, and successful preparation and implementation of key management changes during the year.
Personal objectives (20%) SSE believes personal objectives should form a part of the Annual Incentive Plan. In keeping with its Teamwork value, SSE seeks to avoid potentially conflicting personal objectives. Focusing on operations and the investment programme, they are designed to support achievement of SSE's strategy and reinforce its values.	**Personal objectives (18% awarded)** During 2013/14, the Executive Directors implemented a successful transition, working individually and collectively within SSE and beyond to implement management changes in a positive and effective manner; ensure that the Company was engaged and visible with key stakeholder concerns such as energy affordability; set clear expectations of how the business would navigate through a price freeze; implemented actions to re-shape and simplify the business. Their work to reduce the pressure on energy bills of social and environmental levies and their commitment to a freeze until 2016 in household energy prices in GB was an effective response to the external environment in which SSE operates.

Measure	Decision
Performance share plan (maximum award of 150% of base salary)	**Overall 22% awarded**
For awards granted in 2011, performance is measured against the following criteria over a three-year period.	Maximum award of 150% of base salary each year. Awards are released to the extent performance conditions are met.
Total shareholder return (TSR) (25%) Compared to FTSE 100 100% vests at or above 75th percentile 25% vests at median straight-line basis between median and 75th percentile no vesting of award if median performance not achieved.	**TSR FTSE 100 (0% awarded)** Out-turn ranked below median and 0% of TSR element awarded.
Total Shareholder Return (TSR) (25%) Compared to peer group of UK and other European Utilities MSCI) 100% vests at or above 75th percentile 25% vests at median straight-line basis between median and 75th percentile no vesting of award if median performance not achieved.	**TSR MSCI (22% awarded)** Out-turn ranked 9/29th of MSCI constituents and 89.5% of TSR element awarded;
Adjusted earnings per share* (EPS) (25%) 100% vests where EPS is 8% above RPI 25% vests where EPS is 2% above RPI straight-line basis between 2% and 8% above RPI no vesting if EPS minimum.	**EPS (0% awarded)** Out-turn growth below the EPS minimum growth target RPI+2%, and 0% of EPS element awarded.
Dividend per share (DPS) (25%) 100% vests where DPS is 6% above RPI 25% vests where DPS is 2% above RPI straight-line basis between 2% and 6% above RPI no vesting if DPS minimum growth of RPI +2% is not achieved.	**DPS (0% awarded)** Out-turn growth below the DPS minimum growth target off RPI+2%, and 0% of DPS element awarded.

Annual Remuneration Report 2013/14 continued

Pension

In common with all members of the pension schemes who joined at the same time as the Executive Directors, the following provisions relating to leaving the Company apply: 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 being paid on an unreduced basis.

The Executive Directors are members of either the Southern Electric Pension Scheme or the Scottish Hydro-Electric Pension Scheme 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 if they had not been subject to the salary cap. There are no arrangements to compensate members for any change in their personal tax liability.

Dependent upon 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 would limit SSE's liability, taking into account valuations provided by independent actuarial advisors, and would be undertaken on what was judged to be a cost neutral basis to SSE.

Directors' pension information

	Accrued pension as at 31 March 2014 (or date Directorship ceased) £000s	Accrued pension as at 31 March 2013 £000s
Alistair Phillips-Davies	272	200
Gregor Alexander	290	255
Ian Marchant	429	422

Notes
1. The increase in the accrued pensions over the period (net of CPI inflation) was calculated by comparing the accrued pension at 31 March 2014 with the accrued pension at 31 March 2013 increased in line with CPI over the period from September 2011 to September 2012 in line with the new regulations.
2. Ian Marchant left the Company on 30 June 2013 and his UURBS pension entitlement was settled as a lump sum. The amount shown in the table represents his pension entitlement on leaving the Company immediately prior to his UURBS pension entitled being settled as a lump sum.

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 Group.

Core benefits include car allowance, private medical insurance and health screening.

Executive Directors are eligible to participate in the Company's all-employee share schemes on the same terms as other employees:

- the Sharesave Scheme which allows employees options to acquire shares using the proceeds of a monthly savings contract of up to £250 per month. Exercise of the options is not subject to satisfaction of any performance target. The option price is set at a discount maximum of 20% to market value. The rules of the scheme can now accommodate up to £500 per month.
- the Share Incentive Plan (the SIP) which allows employees to allocate part of their pre-tax salary to purchase shares up to a maximum of £125 per month. Participants receive two free matching shares monthly for each share purchased up to a maximum of six free shares. The rules of the scheme can now accommodate up to £150 per month.
- the long service award scheme which purchases 10, 20, 30, 40 or 50 shares on behalf of an employee on the occasion of the employee reaching 10, 20, 30, 40 or 50 years' service respectively with the Group.

Previous Chief Executive's leaving arrangements

Ian Marchant retired from the Company on 30 June 2013. The remuneration terms applied on exit were derived from his terms of employment or through the rules of the relevant incentive plans, and summarised in the Remuneration Report in 2013.

He received his base salary and benefits until 30 June 2013 but he did not receive any payment in lieu of notice or compensation for loss of office on termination.

His terms of employment provided for a pension of around £429,000 payable from age 60. This pension is provided by two schemes; the Southern Electric Pension Scheme (SEPS) and an Unfunded Unapproved Retirement Benefit Scheme (UURBS). As previously disclosed, he had the option to request that the SEPS element of his pension be payable from age 55 subject to actuarial reduction. He also had the option to request that the portion of his pension provided through the UURBS be paid as a commuted lump sum. Ian Marchant made the UURBS lump sum request and as per the terms of the UURBS arrangement the Committee considered this in light of the financial health of the Company and agreed a commuted payment of £6.8m, which in its judgement and that of its actuaries, was deemed to be cost neutral to SSE.

He also received a pro rata annual incentive payment based on the Committee's assessment of his performance up to 30 June 2013. This amounted to £167,203.

Ian Marchant was, for the purposes of his share plans, treated as a good leaver and his award was subject to time pro-rating so that he will receive 27/36ths of any award vesting under the 2011 Performance Share Plan subject to performance conditions being met at the end of the performance period. At his request, participation in the 2012 plan, where he could have received 15/36ths of any award that may vest, has been cancelled for no consideration. His deferred share arrangements from 2011 and 2012 vested in full on his departure.

Chief Executive's Historical Remuneration 2010-14

Directors	Single figure of total remuneration £000s	Annual variable element award rates against maximum opportunity %	Long term incentive vesting rates against maximum opportunity %
2014 (Alistair Phillips-Davies and Ian Marchant)	2,546	60	22
2013 (Ian Marchant)	2,241	0	53
2012 (Ian Marchant)	1,214	25	0
2011 (Ian Marchant)	1,686	60	0
2010 (Ian Marchant)	1,795	59	16

Note

The single figure of total remuneration has been valued using the same approach as used in the table on page 85. For 2014 an aggregate number has been applied by combining pro-rated values for each CEO based upon their time in the role.

CEO pay progression comparison

The table below shows the percentage change in the CEO's base salary, benefits and AIP between 2013 and 2014 compared with the percentage change in the average of all employees:

	% change in remuneration from 2012/13 to 2013/14		
	% change in base salary	% change in benefits	% change in annual incentive
CEO	-9.29%	3.45%	54.09%
All Employees	2.75%	18%	13.48%

Notes

The CEO base salary for 2012/13 is for Ian Marchant. The base salary for 2013/14 is an aggregate of the salary for Ian Marchant and Alistair Phillips-Davies calculated on the same basis as the table at the top of this page. The decrease of 9.29% is due to the lower starting salary of Alistair Phillips-Davies. The all-employee base salary change is based on comparing the change in the average basic salary at April 2013 and April 2014.

The CEO change in benefits is an aggregate of the benefits for Ian Marchant and Alistair Phillips-Davies calculated on the same basis as the table at the top of this page. The increase of 3.45% is largely down to the higher value of matching SIP shares in 2013/14. The all-employee change in benefits is based on P11D data from 2013 and 2014. The increase is due to increased costs in company car arrangements and private medical benefits.

The CEO annual incentive for 2012/13 is the amount Ian Marchant would have received had he not waived his incentive (£329,000). The annual incentive for 2013/14 is an aggregate for Ian Marchant and Alistair Phillips-Davies calculated on the same basis as the table at the top of this page. The increase of 54.09% is due to the lower 2012/13 out-turn impacted by the fine from Ofgem. The all-employee change in annual incentive reflects the average out-turn for all eligible employees in 2013 and 2014. The increase in value of 13.48% is due to higher performance out-turns in 2013/14.

The comparison does not include pension or PSP awards as disclosed in the single figure table.

How do the earnings of the Executive Directors compare with other financial dispersals?

	2013 £m	**2014 £m**	% change in year
Executive Directors' earnings[1]	5.5	**5.1**	-7.84%
Dividends to shareholders[2]	770.5	**819.6**	5.99%
Capital and investment expenditure	1,485.5	**1,582.5**	6.13%
Contribution to government revenues in UK[3]	312.0	**431.6**	27.71%
Staffing costs[4]	783.8	**834.4**	6.06%

1. On same basis as "Single figure of total remuneration" table on page 85.
2. There were no share buy-backs during 2012/13 or 2013/14.
3. Includes Corporation Tax, Employer's National Insurance Contributions and Business Rates.
4. Wages and salaries and share-based remuneration for all employees, as per Note 7 (i) of the accounts, excluding Executive Directors.
5. Capital and investment expenditure and contribution to government revenues in UK were chosen because they reflect the Companys' contribution to the wider UK economy.

The table above shows that for every £1 spent on Executive Directors' earnings by SSE in 2013/14, £85 was paid in tax, £164 was spent on employee costs, £161 was made in dividend payments to shareholders and £310 was spent on capital and investment expenditure.

Annual Remuneration Report 2013/14 continued

Directors' share interests

	31 March 2014		31 March 2013	
	Shares held	**Shares under option**	Shares held	Shares under option
Directors				
Gregor Alexander	**124,087**	**187,834**	97,787	198,170
Thomas Andersen	**2,000**	**–**	2,000	–
Jeremy Beeton	**4,000**	**–**	4,000	–
Katie Bickerstaffe	**2,300**	**–**	2,000	–
Sue Bruce	**949**	**–**	*220	–
Richard Gillingwater	**2,000**	**–**	2,000	–
Alistair Phillips-Davies	**134,131**	**199,113**	107,886	197,550
Lady Rice	**6,215**	**–**	5,875	–
Lord Smith of Kelvin	**29,950**	**–**	22,600	–
Former Directors				
Ian Marchant	**–**	**70,417**	222,439	235,742

* Shares held at date of appointment (01/09/13).

Notes

From 31 March 2014 to 20 May 2014, the following changes to the interests of Directors took place:

- Under a standing order for reinvestment of an ISA, on 7 April 2014, Gregor Alexander acquired 16 shares.
- Under the Share Incentive Plan (SIP) on 4 April 2014 Alistair Phillips-Davies acquired 15 shares and Gregor Alexander acquired 14 shares. On 6 May 2014 Gregor Alexander and Alistair Phillips-Davies each acquired 14 shares.

The Register of Directors' Interests (which is open to shareholders' inspection) contains full details of Director's shareholdings and options to subscribe for shares.

The table above shows the interests of the Executive Directors in awards granted under the Deferred Bonus Plan 2006 and the Performance Share Plan (PSP) and in options granted under the Sharesave Scheme during the year ended 31 March 2014. Further information on shares and shares under option held by Executive Directors is set out in the table below.

Non-Executive Directors are required to build up a shareholding of 2,000 shares.

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 2013	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 2014
Gregor Alexander	DBP 2006[2]	02/06/2010	02/06/2013	6,602	–	–	–	6,602[5]	–
	DBP 2006[2]	14/06/2011	14/06/2014	5,533	–	–	–	–	5,533
	DBP 2006[2]	22/06/2012	22/06/2015	2,953	–	–	–	–	2,953
	DBP 2006[2]	13/06/2013	13/06/2016	–	–	3,440[3]	–	–	3,440
	PSP[1]	02/06/2010	May 2013	67,145	–	–	–	40,997[5]	–
	PSP[1]	14/06/2011	May 2014	55,336	–	–	–	–	55,336
	PSP[1]	22/06/2012	May 2015	59,065	–	–	–	–	59,065
	PSP[1]	13/06/2013	May 2016	–	–	54,604[3]	–	–	54,604
	PSP[1]	20/12/2013	May 2016	–	–	5,367[4]	–	–	5,367
	Sharesave	30/06/2009	01/10/2014-31/03/15	1,253	1,042p	–	–	–	1,253
	Sharesave	30/06/2010	01/10/2015-31/03/16	283	871p	–	–	–	283
Alistair Phillips-Davies	DBP 2006[2]	02/06/2010	02/06/2013	6,602	–	–	–	6,602[5]	–
	DBP 2006[2]	14/06/2011	14/06/2014	5,533	–	–	–	–	5,533
	DBP 2006[2]	22/06/2012	22/06/2015	2,461	–	–	–	–	2,461
	DBP 2006[2]	13/06/2013	13/06/2016	–	–	3,440[3]	–	–	3,440
	PSP[1]	02/06/2010	May 2013	67,145	–	–	–	40,997[5]	–
	PSP[1]	14/06/2011	May 2014	55,336	–	–	–	–	55,336
	PSP[1]	22/06/2012	May 2015	59,065	–	–	–	–	59,065
	PSP[1]	13/06/2013	May 2016	–	–	54,604[3]	–	–	54,604
	PSP[1]	20/12/2013	May 2016	–	–	17,266[4]	–	–	17,266
	Sharesave	29/06/2012	01/10/2017-31/03/18	1,408	1,065p	–	–	–	1,408
Former Directors									
Ian Marchant	DBP 2006[2]	02/06/2010	02/06/2013	11,482	–	–	–	11,482[5]	–
	DBP 2006[2]	14/06/2011	12/06/2013	9,388	–	–	–	9,388[5]	–
	DBP 2006[2]	22/06/2012	12/06/2013	3,796	–	–	–	3,796[5]	–
	PSP[1]	02/06/2010	May 2013	116,774	–	–	–	71,300[5]	–
	PSP[1]	14/06/2011	May 2014	93,889	–	–	–	–	70,417[7]
	PSP[1]	22/06/2012	May 2015	94,360	–	–	94,360	–	–
	Sharesave	30/06/2010	01/10/2013-31/03/2014	413	871p	–	–	413[6]	–

Directors' Long Term Incentive Plan Interests continued

	Share plan	Date of award	Normal exercise period (or vesting date)	No. of Shares under award as at 1 April 2013	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 2014
Colin Hood	PSP[1]	02/06/2010	May 2013	87,581	–	–	–	26,202[5]	–

Notes

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, as indicated in the table above, the following shares were realised arising from such notional reinvestment of dividends:

Ian Marchant – 15,007 shares, Gregor Alexander – 7, 846 shares, Alistair Phillips-Davies – 7,846 shares.

1. The performance conditions applicable to awards under the PSP since 2010 are described on page 87. The 2010 award under the PSP vested in respect of 51.25% of the total award.
2. 25% of annual bonus payable to Executive Directors and Senior Managers is satisfied as a conditional award of shares under the DBP 2006. Vesting of shares 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 market value of a share on the date on which these awards were made was 1,496p.
4. The market value of a share on the date on which these additional awards were made was 1,371p.
5. The market value of a share on the date on which these awards were realised was 1,504p.
6. The market value of a share on the date on which these awards were exercised was 1,469p.
7. Ian Marchant's 2011 PSP award has been pro-rated by a factor of 27/36ths to reflect his service to 30 June 2013.

The closing market price of shares at 31 March 2014 was 1,469p and the range for the year was 1,300p to 1,676p. Awards granted during the year were granted under the DBP 2006 and the PSP. The aggregate amount of gains made by the Directors on the exercise of share options and realisation of awards during the year was £2,977,736.52 (2013 – £377,549.27).

DBS and PSP awards granted in 2013/14

	Scheme	Basis of award granted	Shares awarded	Face value of award	Maximum vesting	Percentage vesting for threshold performance	Vesting period
Alistair Phillips-Davies	PSP	150% of salary	71,870	£1,053,593[1]	100%	25%	Performance measured over 3 years to 31 March 2016
	DBS	25% of annual incentive	3,440	£52,081[2]	100%	Deferred bonus, subject to continued employment	Award will vest on third anniversary of grant
Gregor Alexander	PSP	150% of salary	59,971	£890,457[3]	100%	25%	Performance measured over 3 years to 31 March 2016
	DBS	25% of annual incentive	3,440	£52,081[2]	100%	Deferred bonus, subject to continued employment	Award will vest on third anniversary of grant

1. Based on a grant price of £14.96 per share on 13/6/13 for 54, 604 shares and £13.71 per share on 20/12/13 for 17,266 shares.
2. Based on a grant price of £15.14 per share on 13/6/13.
3. Based on a grant price of £14.96 per share on 13/6/13 for 54,604 shares and £13.71 per share on 20/12/13 for 5,367 shares.

Directors' shareholdings as percentage of annual salary

	2014 % salary	2013 % salary
Gregor Alexander	306	266
Alistair Phillips-Davies	280	294

Both Executive Directors are complying with the objective of building-up and maintaining a shareholding equal to 100% of base pay. Based on a share price at 31 March 2014 of £14.69.

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 Directors' experience and value to the Company. Any fees received are retained by the Director.

In 2013/14 Ian Marchant was a non-Executive Director with John Wood Group plc, and received £12,250 in fees during the period that he was also the Chief Executive of SSE. Gregor Alexander was a non-Executive Director with Stagecoach Group plc and received £51,146 in fees. Gregor Alexander is also Chairman of Scotia Gas Networks and receives no additional fees for this.

Annual Remuneration Report 2013/14 continued

Committee members

Membership	Attended/scheduled
Lady Rice (Committee Chairman)	5/5
Richard Gillingwater	5/5
Lord Smith of Kelvin	5/5
Katie Bickerstaffe	5/5

The committee chair also held a number of of update calls with committee members to update progress on a number of Key issue between scheduled meetings.

The membership of the Committee comprises three independent non- Executive Directors plus the Chairman of SSE. They represent diverse backgrounds and experience. This is designed to provide balance and diversity within the Committee. Informal consultation among the Committee members, and also with other non-Executive Directors, takes place outside the scheduled meetings as necessary.

Advice to the Committee

The Chief Executive, the Director of Human Resources, and SSE's 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 SSE's Head of Reward advised on HR strategy and the application of policies across the organisation.

Deloitte LLP provided a range of advice to the Committee which included market information drawn from published surveys, governance developments and their application to the Company, advice on the appropriate structure of short-term incentives, long-term incentives, and comparator group pay and performance. Deloitte LLP received fees of £81,625 in relation to their work for the Committee. They were appointed by the Committee. Deloitte LLP also advised the Company on tax and Deloitte LLP and Deloitte MCS Limited together provided IT and business consulting services. Deloitte LLP is one of the founding members of, and adheres to, the Remuneration Consultants' Group Code of Conduct. During the year the Committee reviewed Deloitte's performance in relation to this Code and remained satisfied that the advice provided was objective and independent.

Bank of America Merrill Lynch provided assistance on shareholder communications. They were appointed by the Committee for these services. They did not receive any fees relating specifically to these services, and they are retained as SSE's brokers.

Audited Information

The Annual Remuneration Report is subject to audit, other than the elements explaining the application of the remuneration policy for 2014/15, elements in relation to the performance graph, disclosure of percentage change in remuneration of director undertaking the role of chief executive officer, disclosures in relation to voting at the AGM and disclosures of the relative importance of spend on pay and consideration by the directors of matters relating to directors' remuneration.

Shareholder voting in 2013

On 25 July 2013, shareholders approved the Remuneration Report for the year ended 31 March 2013. Below is the result of the resolution:

Votes for	Votes against	Votes cast
569,397,929 (99.11%)	5,096,221 (0.89%)	574,494,150

In addition 20,488,407 votes were withheld.

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

Lady Rice CBE
Remuneration Committee Chairman
20 May 2014

Other statutory information

Disclosures in Strategic Report

The Strategic Report is set out on pages 1 to 57. The Board has taken advantage of Section 414C(11) of the Companies Act 2006 to include disclosures in the Strategic Report on:

- Employment of disabled people on page 54.
- Employee involvement on pages 52-56.
- A summary of the principal risks facing the Company on page 26.
- An indication of likely future development in the business of the Company see pages 1 to 57.
- Greenhouse gas emissions on page 57.
- Information on the Company's Research and Development activities during the period on page 56.

Results and dividends

The Group profit attributable to Ordinary Shareholders for the financial year amounted to £323.1m. The Directors recommend a final dividend of 60.7p per Ordinary Share which, subject to approval at the 2014 AGM, will be payable on 19 September 2014 to shareholders on the Register of Members at close of business on 25 July 2014. With the interim dividend of 26p per Ordinary Share paid on 21 March 2014, this makes a total dividend of 86.7p per Ordinary Share.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Financial Statements are therefore prepared on a Going Concern basis. Further details of the Group's liquidity position and Going Concern review are provided in Note 33 to the Financial Statements.

Share capital

Details of the Company's issued share capital as at 31 March 2014, which includes options granted under the Group's employee share option schemes, are set out in Notes 28 and 32 to the Financial Statements.

Authority to purchase shares

The Company was authorised at the 2013 AGM to purchase its own shares within certain limits. During 2013/14, SSE did not purchase any shares under this authority. The Directors will, however, seek renewal of their authority to purchase in the market the Company's own shares at the 2014 AGM and this remains a benchmark against which financial decisions are taken.

Accounting policies, financial instruments and risk

Details of the Group's accounting policies, together with details of financial instruments and risk, are provided in Note 33 and Accompanying Information, A1. Basis of consolidation and significant accounting policies to the Financial Statements.

Substantial shareholdings

As at 20 May 2014 the Company has been notified under Rule 5 of the Disclosure and Transparency Rules of the interests in its shares as shown in the table below:

Entity	Number of shares*	Percentage*	Nature of holding
The Capital Group Companies, Inc	67,168,118	6.95%	Indirect
Invesco Limited	45,775,918	4.69%	Indirect
Norges Bank	40,121,600	4.15%	Direct

* At date of disclosure by relevant entity.

Indemnification of directors and insurance

The Directors have the benefit of the indemnity provision contained in the Company's Articles of Association. They also have been granted a qualifying third party indemnity provision which was in force throughout the financial year and remains in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and for its Directors and Officers.

Additional information

Where not provided elsewhere in the Directors' Report, the following provides the information required to be disclosed by Section 992 of the Companies Act 2006.

Each Ordinary Share of the Company carries one vote at general meetings of the Company.

There are no restrictions on the transfer of Ordinary Shares in the capital of the Company other than certain restrictions which may from time-to-time be imposed by law (for example, insider trading law). In accordance with the Listing Rules of the Financial Conduct Authority, certain employees are required to seek the approval of the Company to deal in its shares.

Employees who participate in the Share Incentive Plan whose shares remain in the schemes' trusts give directions to the trustees to vote on their behalf by way of a Form of Direction.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights. The rules governing the appointment and replacement of Directors are set out in the Company's Articles of Association. The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

The Company is not aware of any significant agreements to which it is party that take effect, alter or terminate upon a change of control of the Company following a takeover.

Each of the Directors who held office at the date of approval of this Directors' Report confirms that, so far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware and each Director has taken all the steps that ought to have been taken in his or her duty as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

The Directors Report set out on pages 58 to 94 has been approved by the Board of Directors in accordance with the Companies Act 2006.

By Order of the Board

Vincent Donnelly
Company Secretary
20 May 2014

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the Going Concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report (including the Directors' Remuneration Report and Corporate Governance Statement) that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- the Annual Report and Accounts, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance business model and strategy.

For and on behalf of the Board

Alistair Phillips-Davies
Chief Executive
20 May 2014

Gregor Alexander
Finance Director
20 May 2014

SSE's financial results explained

	Mar-2014 £m	Mar-2013 restated £m	Mar-2012 restated £m
SSE's results on an adjusted basis:			
Adjusted operating profit (Note 4)	1,880.1	1,779.0	1,657.8
Adjusted net finance costs	(329.0)	(363.9)	(319.7)
Adjusted Profit before Tax (PBT)	1,551.1	1,415.1	1,338
Adjusted current tax charge	(236.7)	(223.6)	(213.4)
Adjusted Profit after Tax (PAT)	1,314.4	1,195.5	1,124
Hybrid coupon paid	(122.9)	(63.4)	(65.5)
Adjusted Profit after Tax for EPS	1,195.5	1,128.1	(1,059.2)
Weighted average number of shares for adjusted EPS	965.5	952.0	937.8
Adjusted Earnings Per Share (EPS) (pence)	**132.4**	**118.5**	**112.9**

Why do we have "Adjusted" numbers for Profit Before Tax (PBT), Profit After Tax (PAT), Earnings Per Share (EPS) and Net Debt and Hybrid Capital?

The accounting rules used for preparing SSE's financial statements are the International Financial Reporting Standards as adopted by the EU (IFRSs) and SSE's Reported Results for PBT, PAT, EPS and net debt are presented in accordance with these rules. SSE also publishes these financial measures on an "Adjusted" basis reflecting a number of adjustments to the IFRS numbers that it believes give a more meaningful and comparable set of numbers. These adjustments fall into four main categories:

1 Movements on derivatives

IFRSs require that certain contracts to buy (or sell) electricity, gas and other commodities for use in the future generation of power or in satisfying the Group's customers' future consumption requirements are recognised at 'fair value' at each year end. This requires measuring the contract price against the market price for the period of the contract. Similarly, derivative contracts used to manage the Group's foreign exchange and interest rate risk are also measured at fair value at each year end. The movement on these fair values are reported within the income statement despite the fact that the resulting gain or loss does not crystallise until the delivery of the contract and that it may in fact never crystallise if the market price changes. As a result, SSE makes an adjustment to exclude this item from its "Adjusted" numbers.

2 Exceptional Items

In order to ensure that results are comparable year on year, exceptional items are separately identified and disclosed. Exceptional items are defined as exceptional by virtue of nature and scale and, in general, they relate to unusual events that have had a material impact on results. SSE excludes these from its Adjusted numbers so as to ensure that results can be compared from year to year and that any one-off items that might distort the comparability of the reults from year to year are not included in the headline numbers.

3 Interest on net pension liabilities – IAS 19R

International Accounting Standard (IAS 19R) in relation to accounting for defined benefit pension schemes requires the income statement to reflect the theoretical interest payable on net pension liabilities. It is because this interest is theoretical and non-cash, as well as being likely to change year on year while not reflecting company performance, that SSE makes an adjustment for this cost when presenting its adjusted profit measures.

4 Tax and interest on JCEs and Associates

IFRSs require that reported operating profit includes the results of the main SSE businesses before interest and tax but that results of any Jointly Controlled Entities (JCEs) or Associate companies are included after interest and tax. SSE believes that it is clearer for the user of the Financial Statements to have all the results at operating profit level on a before interest and tax basis. Therefore SSE's Adjusted Profit Before Interest and Tax makes an adjustment to add interest and tax on JCEs and Associates back to the Reported result. There is no impact on the Group Profit after Tax but, for clarity, the adjusted interest and tax numbers reflect the totals for all of SSE's businesses.

Other specific adjustments:

5 Deferred tax

As it is a non-cash item, SSE adjusts for deferred tax when arriving at adjusted profit after tax.

6 Hybrid capital securities

The characteristics of hybrid capital securities mean that under IFRSs they qualify for recognition as equity rather than debt in the financial statements with charges for the coupon associated with them presented within dividends rather than within interest. In order to ensure simple and comparable presentation of these capital securities within its adjusted EPS measure, SSE makes an adjustment to reduce earnings by the coupon paid in the year. For the same reasons, SSE presents adjusted net debt and hybrid capital as one balance.

7 Finance lease

Under IFRSs, net debt includes a liability for a finance lease based primarily upon the Power Purchase Agreement (PPA) that SSE has in place with Marchwood power station. SSE adjusts this out of net debt when arriving at adjusted net debt as it believes that this better reflects the true net debt position of the company

8 Outstanding liquid funds

Outstanding liquid funds are SSE cash balances that are being held by counterparties as collateral at the year end. SSE adjusted these out of the net debt when arriving at adjusted net debt as, until utilitised they remain SSE's cash.

SSE's financial results explained

The tables below reconcile the Operating Profit, PBT, Net Debt, Tax and Net Interest on a reported under IFRS basis with the SSE Adjusted basis.

	Reference	Mar-2014 £m	Mar-2013 £m	Mar-2012 £m
Operating profit				
Adjusted operating profit		1,880.1	**1,779.0**	1,657.8
Movement on operating derivatives		(147.8)	**(220.0)**	(419.5)
Exceptional items		(741.2)	**(584.7)**	(551.6)
Share of JCE and Associate interest and tax		(136.3)	**(180.0)**	(158.1)
Reported operating profit		848.8	**793.7**	528.6
PBT				
Adjusted Profit Before Tax (PBT)		1,551.1	**1,415.1**	1,338.1
Movement on operating and financing derivatives (IAS 39)	1	(212.0)	**(199.7)**	(509.0)
Exceptional items	2	(747.2)	**(584.7)**	(551.6)
Interest on net pension liabilities (IAS 19R)	3	(28.2)	**(34.9)**	(43.6)
Share of JCEs and Associates tax	4	11.6	**(24.5)**	(4.8)
Reported Profit before Tax		575.3	**571.3**	229.1
Adjusted net debt and hybrid capital				
Less: Hybrid capital		(7,658.2)	**(7,341.7)**	(6,755.8)
Adjusted net debt		2,186.8	**2,186.8**	1,161.4
Add: Hybrid capital		(5,472.4)	**(5,160.9)**	(5,584.4)
Less: Outstanding liquid funds		(51.2)	**(55.0)**	(119.9)
Add: Finance leases		(328.9)	**(330.4)**	(342.1)
Unadjusted net debt		(5,852.7)	**(5,546.3)**	(6,056.4)
Tax				
Adjusted current tax charge		236.7	**223.6**	213.4
Tax on exception items/movements on derivatives	1 and 2	(253.6)	**(201.8)**	(319.6)
Share of JCE and Associate tax	4	11.6	**(24.5)**	(4.8)
Deferred tax including share of JCEs and Associates	5	134.6	**107.9**	107.3
Reported tax charge		129.3	**105.2**	(3.7)
Interest				
Adjusted net finance costs		329.0	**363.9**	319.7
Movement on financing derivatives	1	64.2	**(20.3)**	89.5
Share of JCE and Associate interest	4	(148.9)	**(156.1)**	(153.3)
Interest on net pension liabilities (IAS 19R)	3	28.2	**34.9**	43.6
Reported net finance costs		273.5	**222.4**	299.5

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Shareholder information

IBC Shareholder information

Consolidated income statement
for the year ended 31 March 2014

	Note	2014 Before exceptional items and certain re-measurements £m	2014 Exceptional items and certain re-measurements (Note 6) £m	2014 Total £m	2013 Before exceptional items and certain re-measurements restated (Note 2i) £m	2013 Exceptional items and certain re-measurements (Note 6) £m	2013 Total restated (Note 2i) £m
Revenue	4	**30,585.0**	**–**	**30,585.0**	28,304.6	–	28,304.6
Cost of sales	5	**(27,799.3)**	**(560.2)**	**(28,359.5)**	(25,612.5)	(691.3)	(26,303.8)
Gross profit		**2,785.7**	**(560.2)**	**2,225.5**	2,692.1	(691.3)	2,000.8
Operating costs	5	**(1,316.0)**	**(303.0)**	**(1,619.0)**	(1,240.5)	(105.6)	(1,346.1)
Other operating income		**4.5**	**–**	**4.5**	11.8	–	11.8
Operating profit before jointly controlled entities and associates		**1,474.2**	**(863.2)**	**611.0**	1,463.4	(796.9)	666.5
Jointly controlled entities and associates:							
Share of operating profit		**405.9**	**(34.9)**	**371.0**	315.6	(16.5)	299.1
Share of interest		**(147.9)**	**–**	**(147.9)**	(156.1)	–	(156.1)
Share of movement on derivatives		**–**	**3.1**	**3.1**	–	8.7	8.7
Share of tax		**(58.2)**	**69.8**	**11.6**	(50.1)	25.6	(24.5)
Share of profit on jointly controlled entities and associates	16	**199.8**	**38.0**	**237.8**	109.4	17.8	127.2
Operating profit	4,5	**1,674.0**	**(825.2)**	**848.8**	1,572.8	(779.1)	793.7
Finance income	8	**133.1**	**–**	**133.1**	101.4	–	101.4
Finance costs	8	**(342.4)**	**(64.2)**	**(406.6)**	(344.1)	20.3	(323.8)
Profit before taxation		**1,464.7**	**(889.4)**	**575.3**	1,330.1	(758.8)	571.3
Taxation	9	**(382.9)**	**253.6**	**(129.3)**	(307.0)	201.8	(105.2)
Profit for the year		**1,081.8**	**(635.8)**	**446.0**	1,023.1	(557.0)	466.1
Attributable to:							
Ordinary shareholders of the parent	11	**958.9**	**(635.8)**	**323.1**	959.7	(557.0)	402.7
Other equity holders		**122.9**	**–**	**122.9**	63.4	–	63.4
Basic earnings per share (pence)	11			**33.5p**			42.3p
Diluted earnings per share (pence)	11			**33.3p**			42.2p

The accompanying notes are an integral part of these financial statements.

Consolidated statement of comprehensive income
for the year ended 31 March 2014

	2014 £m	2013 restated (Note 2i) £m
Profit for the year	**446.0**	466.1
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Actuarial gains/(losses) on retirement benefit schemes	**19.0**	(23.5)
Taxation on actuarial losses on defined benefit pension schemes	**(23.5)**	(2.0)
	(4.5)	(25.5)
Share of jointly controlled entities and associates actuarial (losses)/gains on retirement benefit schemes	**(29.2)**	15.7
Share of jointly controlled entities and associates taxation of actuarial gains/(losses) on retirement benefit schemes	**6.2**	(4.0)
	(23.0)	11.7
Items that will be reclassified subsequently to profit or loss:		
(Losses)/gains on effective portion of cash flow hedges	**(54.5)**	46.4
Transferred to assets and liabilities on cash flow hedges	**(0.8)**	0.7
Taxation on cashflow hedges	**12.6**	(11.4)
	(42.7)	35.7
Share of jointly controlled entities and associates gain/(loss) on effective portion of cash flow hedges	**13.2**	(0.4)
Share of jointly controlled entities and associates taxation on cashflow hedges	**(3.3)**	(0.1)
	9.9	(0.5)
Losses on revaluation of available for sale investments, net of taxation (Note 16b)	**(5.1)**	–
Exchange difference on translation of foreign operations	**(22.6)**	22.6
Gains/(losses) on net investment hedge	**16.2**	(7.3)
Taxation on net investment hedge	**(3.7)**	1.3
	(10.1)	16.6
Other comprehensive (loss)/income, net of taxation	**(75.5)**	38.0
Total comprehensive income for the period	**370.5**	504.1
Attributable to:		
Ordinary shareholders of the parent	**247.6**	440.7
Other equity holders	**122.9**	63.4
	370.5	504.1

Balance sheets
as at 31 March 2014

	Note	Consolidated 2014 £m	Consolidated 2013 £m	Company 2014 £m	Company 2013 £m
Assets					
Property, plant and equipment	14	**10,316.6**	9,838.3	**–**	–
Biological assets	15	**–**	3.4	**–**	–
Intangible assets:					
Goodwill	13	**585.1**	635.8	**–**	–
Other intangible assets	13	**304.2**	282.2	**–**	–
Equity investments in associates and jointly controlled entities	16	**1,543.5**	913.2	**190.0**	190.0
Loans to associates and jointly controlled entities	16	**521.6**	1,244.0	**496.3**	1,208.5
Other investments	16	**42.3**	46.7	**18.1**	18.0
Investments in subsidiaries	17	**–**	–	**2,442.3**	2,426.8
Trade and other receivables	20	**–**	–	**4,093.2**	4,341.9
Deferred tax assets	26	**207.3**	155.4	**100.5**	96.8
Derivative financial assets	33	**368.4**	382.4	**51.9**	151.7
Non-current assets		**13,889.0**	13,501.4	**7,392.3**	8,433.7
Other intangible assets	13	**433.7**	368.4	**–**	–
Inventories	19	**393.0**	291.7	**–**	–
Trade and other receivables	20	**4,262.4**	4,953.0	**4,449.6**	3,802.9
Cash and cash equivalents	21	**442.5**	538.7	**212.7**	289.2
Derivative financial assets	33	**1,261.2**	940.8	**4.0**	65.1
Current assets held for sale	18	**332.5**	2.3	**–**	–
Current assets		**7,125.3**	7,094.9	**4,666.3**	4,157.2
Total assets		**21,014.3**	20,596.3	**12,058.6**	12,590.9
Liabilities					
Loans and other borrowings	25	**618.7**	1,544.6	**561.5**	1,414.1
Trade and other payables	22	**4,954.3**	5,047.6	**3,065.3**	2,971.4
Current tax liabilities	23	**315.2**	286.8	**9.3**	17.9
Provisions	27	**134.3**	60.1	**–**	–
Derivative financial liabilities	33	**1,470.2**	1,011.2	**17.5**	–
Liabilities held for sale	18	**19.2**	–	**–**	–
Current liabilities		**7,511.9**	7,950.3	**3,653.6**	4,403.4
Loans and other borrowings	25	**5,676.3**	4,540.4	**3,965.1**	3,282.1
Deferred tax liabilities	26	**709.6**	806.6	**–**	–
Trade and other payables	22	**416.2**	341.4	**–**	–
Provisions	27	**261.4**	229.5	**–**	–
Retirement benefit obligations	31	**637.7**	705.8	**182.7**	185.9
Derivative financial liabilities	33	**681.7**	473.4	**287.9**	253.5
Non-current liabilities		**8,382.9**	7,097.1	**4,435.7**	3,721.5
Total liabilities		**15,894.8**	15,047.4	**8,089.3**	8,124.9
Net assets		**5,119.5**	5,548.9	**3,969.3**	4,466.0
Equity:					
Share capital	28	**487.4**	482.1	**487.4**	482.1
Share premium		**861.5**	857.9	**861.5**	857.9
Capital redemption reserve		**22.0**	22.0	**22.0**	22.0
Hedge reserve		**(27.0)**	5.8	**(1.3)**	41.0
Translation reserve		**1.5**	11.6	**–**	–
Retained earnings		**1,587.3**	1,982.7	**412.9**	876.2
Equity attributable to ordinary share holders of the parent		**2,932.7**	3,362.1	**1,782.5**	2,279.2
Hybrid capital	30	**2,186.8**	2,186.8	**2,186.8**	2,186.8
Total equity attributable to equity holders of the parent		**5,119.5**	5,548.9	**3,969.3**	4,466.0

These financial statements were approved by the Board of Directors on 20 May 2014 and signed on their behalf by

Gregor Alexander
Finance Director

Lord Smith of Kelvin
Chairman

SSE plc Registered No: SC117119

Statement of changes in equity
for the year ended 31 March 2014

Consolidated Statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid Capital £m	Total £m
At 1 April 2013	**482.1**	**857.9**	**22.0**	**5.8**	**11.6**	**1,982.7**	**3,362.1**	**2,186.8**	**5,548.9**
Profit for the year	–	–	–	–	–	323.1	**323.1**	122.9	**446.0**
Other comprehensive (loss)	–	–	–	(42.7)	(10.1)	(9.6)	**(62.4)**	–	**(62.4)**
Share of jointly controlled entities and associates other comprehensive income				9.9	–	(23.0)	**(13.1)**	–	**(13.1)**
Total comprehensive income for the year	–	–	–	(32.8)	(10.1)	290.5	**247.6**	122.9	**370.5**
Dividends to shareholders	–	–	–	–	–	(819.6)	**(819.6)**	–	**(819.6)**
Scrip dividend related share issue	4.8	(4.8)	–	–	–	130.2	**130.2**	–	**130.2**
Distributions to hybrid capital holders	–	–	–	–	–	–	**–**	(122.9)	**(122.9)**
Issue of shares	0.5	8.4	–	–	–	–	**8.9**	–	**8.9**
Credit in respect of employee share awards	–	–	–	–	–	15.5	**15.5**	–	**15.5**
Investment in own shares	–	–	–	–	–	(12.0)	**(12.0)**	–	**(12.0)**
At 31 March 2014	**487.4**	**861.5**	**22.0**	**(27.0)**	**1.5**	**1,587.3**	**2,932.7**	**2,186.8**	**5,119.5**

Consolidated Statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings restated (Note 2i) £m	Total attributable to ordinary shareholders restated (Note 2i) £m	Hybrid Capital £m	Total restated (Note 2i) £m
At 1 April 2012	**472.3**	**862.0**	**22.0**	**(29.4)**	**(5.0)**	**2,100.8**	**3,422.7**	**1,161.4**	**4,584.1**
Profit for the year	–	–	–	–	–	402.7	**402.7**	63.4	**466.1**
Other comprehensive (loss)/income	–	–	–	35.7	16.6	(25.5)	**26.8**	–	**26.8**
Share of jointly controlled entities and associates other comprehensive income	–	–	–	(0.5)	–	11.7	**11.2**	–	**11.2**
Total comprehensive income for the year	–	–	–	35.2	16.6	388.9	**440.7**	63.4	**504.1**
Dividends to shareholders	–	–	–	–	–	(770.5)	**(770.5)**	–	**(770.5)**
Scrip dividend related share issue	9.6	(9.6)	–	–	–	255.2	**255.2**	–	**255.2**
Distributions to hybrid capital holders	–	–	–	–	–	–	**–**	(63.4)	**(63.4)**
Issue of shares	0.2	5.5	–	–	–	–	**5.7**	–	**5.7**
Issue of hybrid capital	–	–	–	–	–	–	**–**	1,025.4	**1,025.4**
Credit in respect of employee share awards	–	–	–	–	–	16.0	**16.0**	–	**16.0**
Investment in own shares	–	–	–	–	–	(7.7)	**(7.7)**	–	**(7.7)**
At 31 March 2013	**482.1**	**857.9**	**22.0**	**5.8**	**11.6**	**1,982.7**	**3,362.1**	**2,186.8**	**5,548.9**

Statement of changes in equity continued
for the year ended 31 March 2014

Company Statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid capital £m	Total £m
At 1 April 2013	**482.1**	**857.9**	**22.0**	**41.0**	**876.2**	**2,279.2**	**2,186.8**	**4,466.0**
Profit for the year	–	–	–	–	238.0	**238.0**	122.9	**360.9**
Other comprehensive (loss)	–	–	–	(42.3)	(15.4)	**(57.7)**	–	**(57.7)**
Total comprehensive income for the year	–	–	–	(42.3)	222.6	**180.3**	122.9	**303.2**
Dividends to shareholders	–	–	–	–	(819.6)	**(819.6)**	–	**(819.6)**
Scrip dividend related share issue	4.8	(4.8)	–	–	130.2	**130.2**	–	**130.2**
Distributions to hybrid capital holders	–	–	–	–	–	**–**	(122.9)	**(122.9)**
Issue of shares	0.5	8.4	–	–	–	**8.9**	–	**8.9**
Increase in investment in subsidiaries	–	–	–	–	15.5	**15.5**	–	**15.5**
Investment in own shares	–	–	–	–	(12.0)	**(12.0)**	–	**(12.0)**
At 31 March 2014	**487.4**	**861.5**	**22.0**	**(1.3)**	**412.9**	**1,782.5**	**2,186.8**	**3,969.3**

Company Statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Retained earnings restated £m	Total attributable to ordinary shareholders restated £m	Hybrid capital £m	Total £m
At 1 April 2012	**472.3**	**862.0**	**22.0**	**5.8**	**536.8**	**1,898.9**	**1,161.4**	**3,060.3**
Profit for the year	–	–	–	–	855.5	**855.5**	63.4	**918.9**
Other comprehensive income/(loss)	–	–	–	35.2	(9.1)	**26.1**	–	**26.1**
Total comprehensive income for the year	–	–	–	35.2	846.4	**881.6**	63.4	**945.0**
Dividends to shareholders	–	–	–	–	(770.5)	**(770.5)**	–	**(770.5)**
Scrip dividend related share issue	9.6	(9.6)	–	–	255.2	**255.2**	–	**255.2**
Distributions to hybrid capital holders	–	–	–	–	–	**–**	(63.4)	**(63.4)**
Issue of shares	0.2	5.5	–	–	–	**5.7**	–	**5.7**
Issue of hybrid capital	–	–	–	–	–	**–**	1,025.4	**1,025.4**
Increase in investment in subsidiaries	–	–	–	–	16.0	**16.0**	–	**16.0**
Investment in own shares	–	–	–	–	(7.7)	**(7.7)**	–	**(7.7)**
At 31 March 2013	**482.1**	**857.9**	**22.0**	**41.0**	**876.2**	**2,279.2**	**2,186.8**	**4,466.0**

Cash flow statements
for the year ended 31 March 2014

	Note	Consolidated 2014 £m	Consolidated 2013 £m	Company 2014 £m	Company 2013 £m
Cash generated from/(absorbed by) operations before working capital movements	12	**2,032.3**	1,953.5	**(3.7)**	(8.2)
(Increase)/Decrease in inventories		**(104.1)**	47.6	**–**	–
Decrease/(Increase) in receivables		**303.8**	250.1	**(511.2)**	(1,571.1)
Increase/(Decrease) in payables		**195.0**	(110.3)	**(40.7)**	359.6
(Decrease)/Increase in provisions		**(18.9)**	22.8	**–**	–
Cash generated from/(absorbed by) operations		**2,408.1**	2,163.7	**(555.6)**	(1,219.7)
Dividends received from jointly controlled entities and associates		**364.3**	87.0	**103.6**	30.0
Dividends received from subsidiaries		**–**	–	**357.8**	931.7
Interest received		**113.8**	88.5	**469.8**	440.9
Interest paid		**(284.3)**	(245.5)	**(283.3)**	(274.8)
Income taxes paid		**(147.1)**	(114.6)	**(5.7)**	(14.3)
Payment for consortium relief		**(26.4)**	(1.9)	**–**	–
Net cash from operating activities		**2,428.4**	1,977.2	**86.6**	(106.2)
Cash flows from Investing activities					
Purchase of property, plant and equipment		**(1,432.3)**	(1,303.3)	**–**	–
Purchase of other intangible assets		**(403.8)**	(317.1)	**–**	–
Deferred income received		**7.2**	7.5	**–**	–
Proceeds from sale of property, plant and equipment		**–**	2.0	**–**	–
Proceeds from sale of business and subsidiaries	18	**3.2**	153.8	**–**	–
Loans to jointly controlled entities	16	**(83.9)**	(88.6)	**(80.3)**	(76.8)
Purchase of businesses and subsidiaries	18	**(109.6)**	(358.4)	**–**	–
Cash included in disposals		**–**	5.4	**–**	–
Investment in jointly controlled entities and associates	16	**(10.0)**	(13.5)	**–**	–
Loans and equity repaid by jointly controlled entities	16	**19.4**	31.6	**792.5**	8.3
Increase in other investments	16	**(0.7)**	(10.6)	**–**	–
Net cash from investing activities		**(2,010.5)**	(1,891.2)	**712.2**	(68.5)
Cash flows from financing activities					
Proceeds from issue of share capital		**8.9**	5.7	**8.9**	5.7
Dividends paid to company's equity holders		**(689.4)**	(515.3)	**(689.4)**	(515.3)
Hybrid capital dividend payment		**(122.9)**	(63.4)	**(122.9)**	(63.4)
Issue of Hybrid Capital		**–**	1,025.4	**–**	1,025.4
Employee share awards share purchase		**(12.0)**	(7.7)	**(12.0)**	(7.7)
New borrowings		**1,815.8**	517.1	**1,624.7**	445.0
Repayment of borrowings		**(1,514.8)**	(694.7)	**(1,414.1)**	(440.1)
Repayment of intragroup funding		**–**	–	**(270.5)**	–
Net cash from financing activities		**(514.4)**	267.1	**(875.3)**	449.6
Net (decrease)/increase in cash and cash equivalents		**(96.5)**	353.1	**(76.5)**	274.9
Cash and cash equivalents at the start of year	21	**538.7**	185.5	**289.2**	14.3
Net increase/(decrease) in cash and cash equivalents		**(96.5)**	353.1	**(76.5)**	274.9
Effect of foreign exchange rate changes		**–**	0.1	**–**	–
Cash and cash equivalents at the end of year	21	**442.2**	538.7	**212.7**	289.2

The accompanying notes are an integral part of these financial statements.

Notes on the financial statements
for the year ended 31 March 2014

1. General Information and Basis of preparation

General information

SSE plc (the Company) is a company domiciled in Scotland. The address of the registered office is given on the back cover. The Group's operations and its principal activities are set out earlier in this Report at pages 4 to 5. The consolidated financial statements for the year ended 31 March 2014 comprise those of the Company and its subsidiaries (together referred to as the Group). The Company financial statements present information about the Company as a separate entity and not about the Group. Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement and related notes.

Basis of preparation

Statement of compliance

The financial statements were authorised for issue by the directors on 20 May 2014. The financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations as adopted by the European Union (adopted IFRS).

Going concern

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future despite net current liabilities of £576.2m. The financial statements are therefore prepared on a going concern basis. Further details of the Group's liquidity position and going concern review are provided in Note 33 of the Financial Statements on page 155.

Basis of measurement

The financial statements of the Group and the Company are prepared on the historical cost basis except for derivative financial instruments, biological assets and the assets of the Group pension scheme which are stated at their fair value, and the liabilities of the Group pension schemes which are measured using the projected unit credit method. The directors believe the financial statements present a true and fair view. The financial statements of the Group and Company are presented in pounds sterling. Operations and transactions conducted in currencies other than pounds sterling are included in the consolidated financial statements in accordance with the Group's foreign currencies accounting policy.

Use of estimates and judgements

The preparation of financial statements conforming with adopted IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The areas involving a higher level of judgement or estimation are summarised at page 107 and 108.

2. Summary of significant new accounting policies and reporting changes

The basis of consolidation and principal accounting policies applied in the preparation of these financial statements are set out below and in the Accompanying Information section (A1) on pages 166 to 176.

New Standards, amendments and interpretations

The newly effective accounting standards, amendments and interpretations are described at Note 2.1.

2.1 Effective in financial year ended March 2014

(i) IAS 19 (revised)

IAS 19 (revised): 'Employee benefits' amends the accounting for employee benefits with the main change being the replacement of the interest cost on defined benefit obligations and the expected return on pension scheme assets with a net interest cost calculated on a net liability basis. This has the impact of increasing net finance costs reported in the income statement. A corresponding change is recognised through Other Comprehensive Income (OCI). In addition, there are a number of smaller changes including the requirement to recognise certain scheme expenses in operating costs as opposed to in OCI. The Group has applied the standard retrospectively in accordance with the transitional provisions and the comparatives have been restated accordingly.

2. Summary of significant new accounting policies and reporting changes continued

(i) IAS 19 (revised)

The restatement impact on the Group can be summarised as follows:

Extract of Consolidated condensed income statement

	Year ended 31 March 2013		
	Reported £m	Impact of applying IAS 19R £m	Restated £m
Operating profit/(loss) before jointly controlled entities and associates	**670.3**	**(3.8)**	**666.5**
Jointly controlled entities and associates:			
Share of operating profit	299.1	–	299.1
Share of interest	(152.3)	(3.8)	(156.1)
Share of movement on derivatives	8.7	–	8.7
Share of tax	(25.4)	0.9	(24.5)
Share of profit on jointly controlled entities and associates	130.1	(2.9)	127.2
Operating profit/(loss)	**800.4**	**(6.7)**	**793.7**
Finance income	235.5	(134.1)	101.4
Finance costs	(435.0)	111.2	(323.8)
Profit/(loss) before taxation	**600.9**	**(29.6)**	**571.3**
Taxation	(111.6)	6.4	(105.2)
Profit/(loss) for the year	**489.3**	**(23.2)**	**466.1**
Attributable to:			
Equity holders of the parent	425.9	(23.2)	402.7
Other equity holders	63.4	–	63.4
Basic earnings/(loss) per share (pence)	44.7p	(2.4)	42.3p
Diluted earnings/(loss) per share (pence)	44.6p	(2.4)	42.2p

Extract of Consolidated Condensed Statement of Comprehensive Income

	Year ended 31 March 2013		
	Reported £m	Impact of applying IAS19R £m	Restated £m
Profit/(loss) for the year	**489.3**	**(23.2)**	**466.1**
Other comprehensive income:			
Actuarial losses on retirement benefit schemes	(50.2)	26.7	(23.5)
Taxation on actuarial losses on defined benefit pension schemes	4.4	(6.4)	(2.0)
Share of jointly controlled entities actuarial gains on defined benefit pension schemes (net of tax)	8.8	2.9	11.7
Other comprehensive income in year	51.8	–	51.8
	14.8	23.2	38.0
Total comprehensive income attributable to equity holders of the parent	**504.1**	**–**	**504.1**

Extract of Note 12 Reconciliation of group operating profit to cash generated from operations

	Year ended 31 March 2013		
	Reported £m	Impact of applying IAS19R £m	Restated £m
Profit/(loss) for the year	**489.3**	**(23.2)**	**466.1**
Add back: taxation	111.6	(6.4)	105.2
Add back: net finance costs	199.5	22.9	222.4
Pension service charges net of contributions paid	(84.5)	3.8	(80.7)
Less: share of profit of jointly controlled operations and associates	(130.1)	2.9	(127.2)
Other movements (see Note 12)	1,367.7	–	1,367.7
Cash generated from operations before working capital movements	**1,953.5**	**–**	**1,953.5**

The impact in the year to 31 March 2014 has been an increase in operating costs of £4.0m and an increase in net finance costs of £22.9m. The impact on the company in the year to 31 March 2013 was a decrease in profit after tax of £11.0m and an equal and opposite increase in other comprehensive income after tax of £11.0m.

Notes on the financial statements continued
for the year ended 31 March 2014

2. Summary of significant new accounting policies and reporting changes continued

(ii) Amendment to IAS 1

'Amendment to IAS 1: Presentation of financial statements – Presentation of items of other comprehensive income'. The Group has applied this amendment retrospectively and the comparatives have been represented accordingly. Within the Group statement of comprehensive income, items are now separated into 'Items that will be or have been recycled to the Group Income Statement' and 'Items that will not be recycled to the Group Income Statement'.

(iii) IFRS 13

IFRS 13: 'Fair value measurement' has measurement and disclosure requirements that the Group was required to adopt for the March 2014 year-end onwards.

2.2 Effective in financial year ended 31 March 2015 and in future

(i) IFRS 10, 11 and 12

IFRS 10: 'Consolidated financial statements', IFRS 11: 'Joint arrangements', IFRS 12: 'Disclosures of interests in other entities', and subsequent revisions to IAS 27: 'Separate financial statements' and IAS 28: 'Investments in associates and joint ventures' are new and revised standards that SSE will mandatorily be required to adopt in the year to 31 March 2015. The Group has not adopted these standards early in these statements. The most significant changes anticipated for the Group relate to the adoption of IFRS 11. Under this new standard, certain of the Group's jointly controlled entities and associates, currently equity accounted, will be classified as joint operations. Joint operations arise where the venturers are deemed to have joint control and have rights to the assets and obligations for the liabilities of the arrangement as opposed to having rights to the net assets and obligations for the liabilities of the operation. Accordingly, a joint operator will recognise its share of the operation's assets, liabilities, revenue and expenses in the consolidated Financial Statements rather than its net share of the ventures' result. The Group has assessed that certain of its significant investments which are currently equity accounted, such as Greater Gabbard Offshore Winds Limited, are likely to fall within this category under the new standard. Discussions are also ongoing with certain venture partners to confirm treatment in respect of specific arrangements. This will result in the material restatement of the Group's Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Comprehensive Income and Consolidated Cash Flow Statements. It should be noted that, as the Group currently reports its adjusted profit measures (as explained on page 95) including its respective share of operating profit, interest and tax of the affected investments, no change is anticipated to arise in respect of the measures reported internally and in the Annual Report in respect of underlying performance. A full explanation of the restatements arising from the adoption of IFRS 11, and the other new standards, will be included in the Group's Condensed Interim Statements for the six month period to 30 September 2014.

At the date of authorisation of these financial statements, there are no other IFRSs or IFRIC interpretations that are effective for the first time for the current financial period that have had a material impact on the Group. The Group has not early adopted any standard, interpretation or amendments that have been issued but are not yet effective.

In addition, as part of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement', the IASB has issued the phases of IFRS 9 covering the classification and measurement of financial assets and the accounting for financial liabilities. The other phases, covering hedge accounting and impairment, are still to be completed. IFRS 9 is now expected to be effective for annual periods beginning on or after 1 January 2018.

The Group is continuing to assess the impact the standards and amendment will have on future financial statements.

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The Group's key accounting judgement and estimation areas are noted with the most Significant Financial Judgement areas as specifically discussed by the Audit Committee being highlighted separately.

Significant Financial Judgements

The Financial Statements have been prepared with consideration given to the following **Significant Financial Judgements** which include areas of estimation uncertainty and accounting judgement.

(i) Revenue recognition – Estimation Uncertainty

Revenue on energy sales includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. This will have been estimated by using historical consumption patterns and takes into consideration industry reconciliation processes for total consumption by supplier and differences between estimated and actual meter data. At the balance sheet date, the estimated consumption by customers will either have been billed (estimated billed revenue) or accrued (unbilled revenue). Management apply judgement to the measurement of the quantum of the estimated consumption and to the valuation of that consumption. The judgements applied, and the assumptions underpinning these judgements are considered to be appropriate. However, a change in these assumptions would impact upon the amount of revenue recognised.

(ii) Valuation of trade receivables – Estimation Uncertainty

The basis of determining the provisions for bad and doubtful debts is explained at Note 33. While the provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to the income statement.

(iii) Retirement benefits – Estimation Uncertainty

The assumptions in relation to the cost of providing post-retirement benefits during the period are based on the Group's best estimates and are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the level of the retirement benefit obligation recorded and the cost to the Group of administering the schemes. The value of scheme assets are impacted by the asset ceiling test which (a) restricts the surplus that can be recognised to assets that can be recovered fully through refunds and (b) may increase the value of scheme liabilities where there are minimum funding liabilities in relation to agreed contributions. Further detail on the estimation basis is contained in Note 31.

3. Critical accounting judgements and key sources of estimation uncertainty continued

(iv) Impairment testing and valuation of certain Non-Current Assets – Estimation Uncertainty

The Group reviews the carrying amounts of its goodwill, other intangible assets and property, plant and equipment to determine whether there is any indication that the value of those assets is impaired. Detail on the accounting policies applied is included the Accompanying Information section at pages 166 to 176. In conducting the reviews, the Group makes judgements and estimates in considering the recoverable amount of the respective assets or cash-generating units (CGUs). The key assets under review are goodwill, thermal power generation assets, wind farm CGUs and specific assets, gas storage assets and exploration and production (E&P) assets. Changes to the estimates and assumptions on factors such as power, gas, carbon and other commodity prices, volatility of gas prices, plant running regimes and load factors, expected 2P reserves, discount rates and other inputs could impact the assessed recoverable value of assets and CGUs and consequently impact the Group's income statement and balance sheet. Further detail of the basis and assumptions used in the impairment review conducted for the financial year, and the resulting impairment charges, is included at Note 13.

(v) Treatment of disputes and claims – Accounting Judgement

The Group is exposed to the risk of litigation and contractual disputes through the course of its normal operations. The Group considers each instance separately in accordance with legal advice and will provide or disclose information as deemed appropriate. Changes in the assumptions around the likelihood of an outflow of economic resources or the estimation of any obligation would change the values recognised in the financial statements.

Other key accounting judgements

Other key accounting judgements and presentation conventions applied in the preparation of the Financial Statements include the following:

(i) Exceptional items and certain re-measurements

As permitted by IAS 1 'Presentation of financial statements', the Group has disclosed additional information in respect of jointly controlled entities and associates, exceptional items and certain re-measurements on the face of the income statement to aid understanding of the Group's financial performance.

An item is treated as exceptional if it is considered unusual by nature and scale and of such significance that separate disclosure is required for the financial statements to be properly understood. These items will be non-recurring and will include items such as asset or CGU impairment charges, restructuring costs or contractual settlements. Certain re-measurements are re-measurements arising on certain commodity, interest rate and currency contracts which are accounted for as held for trading or as fair value hedges in accordance with the Group's policy for such financial instruments. This excludes commodity contracts not treated as financial instruments under IAS 39 where held for the Group's own use requirements.

(ii) Adjusted measures

The Directors assess the performance of the reportable segments ('Operating profit by segment', Note 4(b)) based on an 'adjusted profit before interest and tax' measure. This is the basis used for internal performance management and is believed to be appropriate for explaining underlying performance. The adjusted profit before interest and tax is reconciled to reported profit before interest and tax by adding back exceptional items, remeasurements arising from IAS 39 and after the removal of taxation on profits from jointly controlled entities and associates. Following the adoption of IAS 19 (revised), as detailed at Note 2 (i), 'adjusted profit before tax', which is the key measure of Group financial performance, will now be presented after adding back the net interest costs associated with defined benefit schemes. This represents a change in the current year and all comparative measures have been restated accordingly. In addition, adjusted profit after tax will be reported on a basis consistent with this change.

The Directors also present details of an 'adjusted earnings per share' measure, which is based on basic earnings per share before exceptional items, remeasurements arising from IAS 39, the net interest costs associated with IAS 19 (revised) and after the removal of deferred taxation. The adjusted measures are considered more reflective of the Group's underlying performance, are consistent with way the Group is managed and avoids volatility arising from IAS 39 fair value measurements.

Reconciliations from reported measures to adjusted measures are included in SSE's financial results explained at pages 95 and 96.

(iii) Business Combinations and acquisitions

Business combinations and acquisitions require a fair value exercise to be undertaken to allocate the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of this purchase price to the identifiable assets and liabilities with any unallocated portion being recorded as goodwill. Business combinations are disclosed in Note 18.

(iv) Energy Company Obligation (ECO) costs

The Energy Company Obligation ('ECO') legislation, in force since 1 January 2013, requires qualifying energy suppliers to meet defined targets by providing measures to improve the energy efficiency of and level of carbon emissions from UK domestic households. The targets for the Group's Energy Supply business are set based on historic customer information with delivery of the measures being required by 31 March 2017. The Group believes it is not technically obligated to provide those measures until 31 March 2017. As a consequence and applying applicable accounting standards, the costs of ECO are recorded when measures are delivered or other qualifying expenditure has been incurred.

Notes on the financial statements continued
for the year ended 31 March 2014

3. Critical accounting judgements and key sources of estimation uncertainty continued

Other areas of estimation uncertainty

(i) Provisions and contingencies

The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37. Provisions are calculated based on estimations. The evaluation of the likelihood of the contingent events has required best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseeable developments, this likelihood could alter.

(ii) Decommissioning costs

The estimated costs of decommissioning at the end of the useful lives of the assets is reviewed periodically. Decommissioning costs in relation to gas exploration and production assets are based on expected lives of the fields and costs of decommissioning and are currently expected to be incurred predominantly between 2017 and 2030.

(iii) Gas and liquids reserves

The volume of proven and probable gas and liquids reserves is an estimate that affects the unit of production depreciation of producing gas and liquids property, plant and equipment. This is also a significant input estimate to the associated impairment and decommissioning calculations. The impact of a change in estimated proven and probable reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If proven and probable reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

4. Segmental information

The Group's operating segments are those used internally by the Main Board to run the business, allocate resources and make strategic decisions. The Group's main businesses and operating segments are the **Networks** business comprising Electricity Distribution, Electricity Transmission, Gas Distribution and Other **Networks**; the **Retail** business comprising Energy Supply and Energy-related Services, and; **Wholesale** comprising Energy Portfolio Management and Electricity Generation, Gas Storage and Gas Production.

The types of products and services from which each reportable segment derives its revenues are:

Business Area	Reported Segments	Description
Networks	Electricity Distribution	The economically regulated lower voltage distribution of electricity to customer premises in the North of Scotland and the South of England
	Electricity Transmission	The economically regulated high voltage transmission of electricity from generating plant to the distribution network in the North of Scotland
	Gas Distribution	SSE's share of Scotia Gas Networks, which operates two economically regulated gas distribution networks in Scotland and the South of England
	Other Networks	Operation of other networks and services including telecoms capacity and bandwidth, out-of-area local networks in the UK and street-lighting services in the UK and Ireland
Retail	Energy Supply	The supply of electricity and gas to residential and business customers in the UK and Ireland
	Energy-related Services	The provision of energy-related goods and services to customers in the UK including electrical contracting, meter reading and installation, telecommunication and broadband services, boiler maintenance and installation and the sale of electrical appliances.
Wholesale	Energy Portfolio Management and Electricity Generation	The generation of power from renewable and thermal plant in the UK, Ireland and Europe and the optimisation of SSE's power and gas contracts and requirements.
	Gas Storage	The operation of gas storage facilities in the UK
	Gas Production	The production and processing of gas and oil from North Sea fields

As referred to in Note 3, the measure of profit used by the Board is adjusted operating profit which is before exceptional items, the impact of financial instruments measured under IAS 39, the net interest costs associated with IAS 19 (revised) and after the removal of taxation and interest on profits from jointly controlled entities and associates.

Analysis of revenue, operating profit, assets and other items by segment is provided below. All revenue and profit before taxation arise from operations within Great Britain, Ireland and mainland Europe.

4. Segmental information continued

a) Revenue by segment

	External revenue 2014 £m	Intra-segment revenue (i) 2014 £m	Total revenue 2014 £m	External revenue 2013 £m	Intra-segment revenue (i) 2013 £m	Total revenue 2013 £m
Networks						
Electricity Distribution	704.1	311.7	1,015.8	647.0	348.8	995.8
Electricity Transmission	185.2	–	185.2	139.1	0.1	139.2
Other Networks	294.4	51.7	346.1	246.3	68.5	314.8
	1,183.7	**363.4**	**1,547.1**	**1,032.4**	**417.4**	**1,449.8**
Retail						
Energy Supply	8,465.0	26.7	8,491.7	8,602.1	35.1	8,637.2
Energy-related Services	263.2	203.9	467.1	246.0	203.2	449.2
	8,728.2	**230.6**	**8,958.8**	**8,848.1**	**238.3**	**9,086.4**
Wholesale						
Energy Portfolio Management and Electricity Generation	20,608.5	4,246.0	24,854.5	18,356.9	4,420.4	22,777.3
Gas Storage	9.0	82.6	91.6	19.4	93.4	112.8
Gas Production	7.8	255.7	263.5	3.7	114.4	118.1
	20,625.3	**4,584.3**	**25,209.6**	**18,380.0**	**4,628.2**	**23,008.2**
Corporate unallocated	47.8	276.0	323.8	44.1	247.9	292.0
Total	**30,585.0**	**5,454.3**	**36,039.3**	**28,304.6**	**5,531.8**	**33,836.4**

(i) Significant intra-segment revenue is derived from use of system income received by the Electricity Distribution business from Energy Supply; Other Networks provide Telecoms infrastructure charges to other Group companies; Energy Supply provides internal heat and light power supplies to other Group companies; Energy-related Services provides Contracting, Metering and other services to other Group companies; Energy Portfolio Management and Electricity Generation provides power and gas to the Energy Supply segment; Gas Storage provide the use of Gas Storage facilities to Energy Portfolio Management; Gas Production sells gas from producing North Sea fields to the Electricity Generation and Energy Portfolio Management segment. Corporate unallocated provides corporate and infrastructure services to the operating businesses. All are provided at arm's length basis.

Revenue within Energy Portfolio Management and Electricity Generation includes revenues from generation plant output and the gross value of all wholesale power and gas sales including settled physical and financial trades. These are entered into to optimise the performance of the generation plants and to support the Energy Supply segment. Purchase trades are included in cost of sales.

Revenue from the Group's investment in Scotia Gas Networks (SSE share being: 2014 – (£535.0m; 2013 – £458.0m) is not recorded in the revenue line in the income statement.

Revenue by geographical location is as follows:

	2014 £m	2013 £m
UK	**29,727.9**	27,528.5
Ireland	**857.1**	776.1
	30,585.0	28,304.6

Notes on the financial statements continued
for the year ended 31 March 2014

4. Segmental information continued
b) Operating profit/(loss) by segment

	2014				
	Adjusted operating profit reported to the Board £m	JCE/Associate share of interest and tax (i) £m	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Networks					
Electricity Distribution	507.0	–	507.0	(7.1)	499.9
Electricity Transmission	136.7	–	136.7	(1.0)	135.7
Gas Distribution	276.6	(163.1)	113.5	68.9	182.4
Other Networks	35.1	–	35.1	(33.0)	2.1
	955.4	**(163.1)**	**792.3**	**27.8**	**820.1**
Retail					
Energy Supply	246.2	–	246.2	(43.2)	203.0
Energy-related Services	45.8	(0.1)	45.7	(57.8)	(12.1)
	292.0	**(0.1)**	**291.9**	**(101.0)**	**190.9**
Wholesale					
Energy Portfolio Management and Electricity Generation	496.1	(42.9)	453.2	(600.2)	(147.0)
Gas Storage	8.3	–	8.3	(137.7)	(129.4)
Gas Production	130.2	–	130.2	–	130.2
	634.6	**(42.9)**	**591.7**	**(737.9)**	**(146.2)**
Corporate unallocated	(1.9)	–	(1.9)	(14.1)	(16.0)
Total	**1,880.1**	**(206.1)**	**1,674.0**	**(825.2)**	**848.8**

	2013				
Restated (Note 2i)	Adjusted operating profit reported to the Board £m	JCE/Associate share of interest and tax (i) £m	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Networks					
Electricity Distribution	511.6	–	511.6	–	511.6
Electricity Transmission	92.6	–	92.6	–	92.6
Gas Distribution	234.1	(163.0)	71.1	27.4	98.5
Other Networks	35.9	–	35.9	–	35.9
	874.2	**(163.0)**	**711.2**	**27.4**	**738.6**
Retail					
Energy Supply	363.2	–	363.2	(4.3)	358.9
Energy-related Services	45.9	(0.2)	45.7	(31.7)	14.0
	409.1	**(0.2)**	**408.9**	**(36.0)**	**372.9**
Wholesale					
Energy Portfolio Management and Electricity Generation	450.6	(43.0)	407.6	(767.2)	(359.6)
Gas Storage	18.4	–	18.4	–	18.4
Gas Production	39.6	–	39.6	–	39.6
	508.6	**(43.0)**	**465.6**	**(767.2)**	**(301.6)**
Corporate unallocated	(12.9)	–	(12.9)	(3.3)	(16.2)
Total	**1,779.0**	**(206.2)**	**1,572.8**	**(779.1)**	**793.7**

(i) The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives and tax from jointly controlled entities and associates. The share of Scotia Gas Networks Limited interest includes loan stock interest payable to the consortium shareholders (included in Gas Distribution). The Group has accounted for its 50% share of this, £33.3m (2013 – £33.3m), as finance income (Note 8).

The Group's share of operating profit from jointly controlled entities and associates has been recognised in the Energy Portfolio Management and Electricity Generation segment other than that for Scotia Gas Networks Limited, which is recorded in Gas Distribution, and PriDE (South East Regional Prime), which is recognised in Energy-related Services (£0.6m before tax; 2013 – £1.0m before tax).

4. Segmental information continued

c) Capital Expenditure by segment

	Capital additions to Intangible Assets 2014 £m	Capital additions to Property, Plant and Equipment 2014 £m	Capital additions to Intangible Assets 2013 £m	Capital additions to Property, Plant and Equipment 2013 £m
Networks				
Electricity Distribution	**–**	**401.2**	–	364.9
Electricity Transmission	**–**	**349.2**	–	334.2
Gas Distribution	**–**		–	–
Other Networks	**–**	**54.6**	–	52.8
	–	**805.0**	–	751.9
Retail				
Energy Supply	**14.4**	**45.9**	45.4	15.3
Energy-related Services	**15.1**	**32.3**	–	15.4
	29.5	**78.2**	45.4	30.7
Wholesale				
Energy Portfolio Management and Electricity Generation	**606.5**	**411.7**	482.5	456.7
Gas Storage	**–**	**10.6**	–	33.0
Gas Production	**–**	**40.9**	–	7.2
	606.5	**463.2**	482.5	496.9
Corporate unallocated	**1.7**	**94.9**	1.1	73.7
Total	**637.7**	**1,441.3**	529.0	1,353.2
(Decrease)/increase in prepayments related to capital expenditure	**–**	**(30.0)**	–	(3.9)
Decrease/(increase) in trade payables related to capital expenditure	**–**	**21.0**	–	(46.0)
Less: Other non-cash additions	**(233.9)**	**–**	(211.9)	–
Net cash outflow	**403.8**	**1,432.3**	317.1	1,303.3

Capital additions do not include assets acquired in acquisitions or assets acquired under finance leases. Capital additions to Intangible Assets includes the purchase of emissions allowances and certificates (2014 – £245.5m; 2013 – £218.1m). Other non-cash additions comprise self-generated renewable obligation certificates.

No segmental analysis of assets requires to be disclosed as this information is not presented to the Board.

Notes on the financial statements continued
for the year ended 31 March 2014

4. Segmental information continued
d) Items included in operating profit/(loss) by segment

	Depreciation/Impairment on Property, Plant and Equipment			Amortisation/Impairment of Intangible Assets		
	Before exceptional charges 2014 £m	Exceptional charges 2014 £m	**Total 2014 £m**	Before exceptional charges 2014 £m	Exceptional charges 2014 £m	**Total 2014 £m**
Networks						
Electricity Distribution	229.1	–	**229.1**	–	–	**–**
Electricity Transmission	26.3	–	**26.3**	–	–	**–**
Gas Distribution	–	–	**–**	–	–	**–**
Other Networks	28.7	10.4	**39.1**	2.0	2.1	**4.1**
	284.1	**10.4**	**294.5**	**2.0**	**2.1**	**4.1**
Retail						
Energy Supply	17.5	10.0	**27.5**	2.5	18.7	**21.2**
Energy-related Services	7.1	29.9	**37.0**	0.3	-	**0.3**
	24.6	**39.9**	**64.5**	**2.8**	**18.7**	**21.5**
Wholesale						
Energy Portfolio Management and Electricity Generation	198.4	208.5	**406.9**	12.8	75.9	**88.7**
Gas Storage	14.5	111.5	**126.0**	–	26.2	**26.2**
Gas Production	55.5	–	**55.5**	–	–	**–**
	268.4	**320.0**	**588.4**	**12.8**	**102.1**	**114.9**
Corporate unallocated	37.4	–	**37.4**	0.5	–	**0.5**
Total	**614.5**	**370.3**	**984.8**	**18.1**	**122.9**	**141.0**

	Depreciation/Impairment on Property, Plant and Equipment			Amortisation/Impairment of Intangible Assets		
	Before exceptional charges 2013 £m	Exceptional charges 2013 £m	**Total 2013 £m**	Before exceptional charges 2013 £m	Exceptional charges 2013 £m	**Total 2013 £m**
Networks						
Electricity Distribution	222.8	**–**	**222.8**	–	–	**–**
Electricity Transmission	24.1	–	**24.1**	–	–	**–**
Gas Distribution	–	–	**–**	–	–	**–**
Other Networks	34.9	–	**34.9**	0.3	–	**0.3**
	281.8	–	**281.8**	**0.3**	**–**	**0.3**
Retail						
Energy Supply	5.4	–	**5.4**	2.6	4.3	**6.9**
Energy-related Services	6.6	23.4	**30.0**	0.3	–	**0.3**
	12.0	**23.4**	**35.4**	**2.9**	**4.3**	**7.2**
Wholesale						
Energy Portfolio Management and Electricity Generation	194.5	277.9	**472.4**	1.5	159.1	**160.6**
Gas Storage	12.3	–	**12.3**	–	–	**–**
Gas Production	33.3	–	**33.3**	–	–	**–**
	240.1	**277.9**	**518.0**	**1.5**	**159.1**	**160.6**
Corporate unallocated	36.9	2.0	**38.9**	1.2	1.3	**2.5**
Total	**570.8**	**303.3**	**874.1**	**5.9**	**164.7**	**170.6**

The Group's share of Scotia Gas Networks Limited depreciation (2014 – £56.2m; 2013 – £55.0m) and amortisation (2014 – £4.8m; 2013 – £4.8m) is not included within operating costs.

5. Other operating income and cost

Total group costs before exceptional items and certain remeasurements can be analysed thus:

	2014 £m	2013 restated £m
Cost of sales	**27,799.3**	25,612.5
Distribution costs	**489.3**	478.4
Administration costs	**826.7**	762.1
Operating costs	**1,316.0**	1,240.5
Total costs	**29,115.3**	26,853.0

Group operating profit is stated after charging (or crediting) the following items:

	2014 £m	2013 £m
Depreciation and impairment of property, plant and equipment (Note 14) (i)	**614.5**	570.8
Exceptional charges (Note 6)	**712.3**	568.2
Impairment of inventories (Note 19)	**2.0**	3.6
Research costs	**7.0**	5.9
Operating lease rentals (Note 35)	**150.6**	193.3
Release of deferred income in relation to capital grants and historic customer contributions	**(16.8)**	(16.8)
Loss on disposal of property, plant and equipment	**–**	0.1
Loss/(gain) on disposal of businesses and subsidiaries	**1.4**	(8.2)
Amortisation and impairment of other intangible assets (Note 13) (i)	**18.1**	5.9

(i) Does not include exceptional impairment charges.

Auditor's remuneration

	2014 £m	2013 £m
Audit of these financial statements	**0.3**	0.3
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**0.7**	0.7
Audit-related assurance services	**0.1**	0.1
Taxation compliance and advisory services	**0.1**	0.2
Other service fees	**0.4**	–
	1.3	1.0
Total remuneration paid to Auditor	**1.6**	1.3

Tax service fees incurred in the year were £0.1m (2013 – £0.2m). Audit-related assurance services include fees incurred in relation to regulatory accounts and returns required by Ofgem. Other service fees include fees for forensic accounting investigations. A description of the work of the Audit Committee is set out on pages 70 to 73 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

Amounts paid to the Company's auditor in respect of services to the Company other than the audit of the Company's financial statements have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

Notes on the financial statements continued
for the year ended 31 March 2014

6. Exceptional items and certain re-measurements

i) Exceptional items

In the year to 31 March 2014, the following exceptional items were recorded:

Impairments and other charges: On 26 March 2014, the Group announced its intention to dispose of a number of non-core assets and businesses and to identify further operational efficiencies as part of a value programme. This initiative was launched to allow the Group to simplify its activities in order to focus on its core businesses and to ensure the Group is well-positioned for future challenges arising from the energy 'trilemma' of security of supply, decarbonisation and affordability. Businesses identified for disposal included SSE's portfolio of PFI street lighting contracts and other businesses such as the data centre activity in Telecoms and the gas connections business which is part of the capital 'recycling' programme. The Group also announced its decision to scale back its commitment in relation to offshore wind projects including its share of the Galloper, Seagreen and Forewind joint ventures. The announcement also referred to a programme of voluntary early release which would have the effect of reducing headcount by around 500 employees across all business areas. A number of these assets and businesses have been designated as 'held for sale' and are disclosed as such on the face of the balance sheet and at Note 18c.

In addition to this, the Group has conducted a further significant review of its operational plant with a specific focus on thermal power generation plant and gas storage facilities. These plants are considered to be at specific risk due to ongoing low 'spark' spreads, increasing uncertainty over coal generation viability, changes arising from market reform including the creation of a Capacity Market in 2018 and the Supplemental Balancing Reserve and the ongoing economic issues associated with gas storage.

The Group has therefore recognised exceptional charges in respect of thermal generation plant of £238.4m and gas storage facilities of £137.7m, including the impairment of goodwill (£26.2m) and the impairment of its interest in thermal generation jointly controlled entities of £15.7m. Following the announcement of its intentions relating to offshore wind developments, certain impairments and charges of £125.5m have been recognised in relation to renewable wind development including £20.0m in relation to goodwill. In addition, the group has recognised impairment charges of £36.2m across its energy supply and metering business in respect of development expenditure associated with system and software development.

Other exceptional charges of £132.1m were recognised in relation to the 26 March 2014 announcement including a restructuring provision of £52.9m, associated with both the voluntary early release scheme and other business closures, and the recognition of losses and costs associated with exit from non-core businesses of £79.2m. A provision for the settlement of a contractual dispute, of £46.4m, was also recognised. In total, the exceptional charges associated with the 26 March 2014 announcement were £257.6m being the £132.1m noted and the combined £125.5m associated with the scaling back of renewable wind developments.

In the year to 31 March 2013, the following exceptional items were recorded:

Impairments and other charges: Following a comprehensive review of generation operations, it was announced that around 2,000MW of the Group's thermal generation capacity would close in the current financial year with the main stations affected being Ferrybridge, Keadby, Slough, Uskmouth and Peterhead. Related to this, the Group reassessed the carrying value of its associate investments at Barking Power Limited and Derwent Cogeneration Limited. As a result, combined impairment charges of £306.9m were recognised. In addition, impairment charges of £84.6m were recognised in relation to legacy metering assets, wind development pipeline assets, certain associate investments and other assets. The Group also recognised exceptional charges following the settlement of contractual claims (£43.0m) and in relation to the impairment of carbon dioxide emissions allowances purchased to cover the emissions liabilities at the Group's thermal plants (£139.3m). Provisions for onerous contracts, restructuring and other liabilities. On review of the Group's provisions at 31 March 2013, certain provisions for onerous contracts were released (£37.4m) and other provisions were recognised (£44.3m).

ii) Certain re-measurements

Certain re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category includes the movement on derivatives (and hedged items) as described in Note 33. Only certain of the Group's energy commodity contracts are deemed to constitute financial instruments under IAS 39. As a result, while the Group manages the commodity price risk associated with both financial and non-financial commodity contracts, it is only commodity contracts that are designated as financial instruments under IAS 39 that are accounted for on a fair value basis with changes in fair value reflected in the Income Statement (as part of 'certain re-measurements') or in other comprehensive income. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts.

iii) Change in UK corporation tax rates

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate would reduce from 28% to 24% over a period of four years starting in 2011. Subsequent Budgets have accelerated the reductions and the 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2013 and substantive enactment of the rates of 21% and 20% with effect from 1 April 2014 and 1 April 2015, respectively, took place on 3 July 2013.

As the changes have been substantively enacted, they have had the effect of reducing the Group's net deferred tax liabilities recognised at 31 March 2014 by £33.6m (with an income statement impact of £52.6m) and the Group's share of associate and jointly controlled investment deferred tax liabilities by £70.5m. The income statement impact of the reduction in rate from 24% to 23% effective in the previous year was recorded as £22.0m and with £23.8m being the impact in relation to the Group's share of jointly controlled entity deferred tax.

6. Exceptional items and certain re-measurements continued

iv) Taxation

The Group has separately recognised the tax effect of the exceptional items and certain re-measurements summarised above.

These transactions can be summarised thus:

	2014 £m	2013 £m
Exceptional items (i)		
Impairment of thermal generation assets and associated costs	**(238.4)**	(433.7)
Impairment of renewable generation assets and associated costs	**(125.5)**	(20.0)
Impairment of gas storage assets	**(137.7)**	–
Impairment of other assets	**(73.3)**	(64.6)
Restructuring costs, contract termination costs and other liabilities	**(91.0)**	(6.9)
Provisions for, and settlement, of contractual disputes	**(46.4)**	(43.0)
	(712.3)	(568.2)
Impairment of investments in Associates (share of result, net of tax)	**(34.9)**	(12.5)
	(747.2)	(580.7)
Share of effect of change in UK corporation tax on deferred tax liabilities and assets of associate and joint venture investments	**70.5**	23.8
	(676.7)	(556.9)
Certain re-measurements (ii)		
Movement on operating derivatives (Note 33)	**(150.9)**	(228.7)
Movement on financing derivatives (Note 33)	**(64.2)**	20.3
Share of movement on derivatives in jointly controlled entities (net of tax)	**2.4**	6.5
	(212.7)	(201.9)
Exceptional items before taxation	**(889.4)**	(758.8)
Exceptional items (iii)		
Effect of change in UK corporation tax rate on deferred tax liabilities and assets	**52.6**	22.0
Taxation on other exceptional items	**137.3**	129.6
	189.9	151.6
Taxation on certain re-measurements	**63.7**	50.2
Taxation	**253.6**	201.8
Exceptional items after taxation	**(635.8)**	(557.0)

Notes on the financial statements continued
for the year ended 31 March 2014

7. Directors and employees
(i) Staff costs

	Consolidated	
	2014 £m	**2013 £m**
Staff costs:		
Wages and salaries	**654.5**	638.3
Social security costs	**63.4**	61.3
Share-based remuneration (Note 32)	**15.5**	16.0
Pension costs (Note 31)	**101.1**	68.2
	834.5	783.8
Less: capitalised as property, plant and equipment	**(128.3)**	(114.8)
	706.2	669.0

Employee numbers:

	Consolidated		Company	
	2014 Number	2013 Number	**2014 Number**	2013 Number
Numbers employed at 31 March	**19,894**	19,795	**2**	3

The average number of people employed by the Group (including Executive Directors) during the year was:

	Consolidated		Company	
	2014 Number	2013 Number	**2014 Number**	2013 Number
Networks				
Electricity Distribution	**2,247**	2,173	**–**	–
Electricity Transmission	**364**	295	**–**	–
Other Networks	**398**	387	**–**	–
	3,009	2,855	**–**	–
Retail				
Energy Supply	**5,931**	5,828	**–**	–
Energy-related Services	**7,019**	7,098	**–**	–
	12,950	12,926	**–**	–
Wholesale				
Energy Portfolio Management and Electricity Generation	**1,819**	1,912	**–**	–
Gas Storage	**97**	93	**–**	–
Gas Production	**–**	3	**–**	–
	1,916	2,008	**–**	–
Corporate unallocated	**2,015**	1,980	**2**	3
Total	**19,890**	19,769	**2**	3

The costs associated with the employees of the Company, who are the Executive Directors of the Group, are borne by Group companies. No amounts are charged to the Company.

(ii) Directors' remuneration and interests
Information concerning Directors' remuneration, shareholdings, options, long term incentive schemes and pensions is shown in the Remuneration Report on pages 74 to 92. No Director had, during or at the end of the year, any material interest in any other contract of significance in relation to the Group's business.

8. Finance income and costs

Recognised in income statement

	2014			2013		
	Before Exceptional items and certain re-measurements £m	**Exceptional items and certain re-measurements £m**	**Total £m**	Before Exceptional items and certain re-measurements restated (Note 2i) £m	Exceptional items and certain re-measurements restated (Note 2i) £m	Total restated (Note 2i) £m
Finance income:						
Interest income from short-term deposits	**1.7**	**–**	**1.7**	1.7	–	1.7
Foreign exchange translation of monetary assets and liabilities	**19.3**	**–**	**19.3**	12.9	–	12.9
Other interest receivable:						
Scotia Gas Networks loan stock	**33.3**	**–**	**33.3**	33.3	–	33.3
Other jointly controlled entities and associates	**22.1**	**–**	**22.1**	25.4	–	25.4
Other receivable	**56.7**	**–**	**56.7**	28.1	–	28.1
	112.1	**–**	**112.1**	86.8	–	86.8
Total finance income	**133.1**	**–**	**133.1**	101.4	–	101.4
Finance costs:						
Bank loans and overdrafts	**(18.5)**	**–**	**(18.5)**	(22.5)	–	(22.5)
Other loans and charges	**(310.8)**	**–**	**(310.8)**	(302.7)	–	(302.7)
Interest on pension scheme net liabilities	**(26.8)**	**–**	**(26.8)**	(31.1)	–	(31.1)
Notional interest arising on discounted provisions	**(9.5)**	**–**	**(9.5)**	(7.7)	–	(7.7)
Finance lease charges	**(35.7)**	**–**	**(35.7)**	(37.1)	–	(37.1)
Less: interest capitalised (i)	**58.9**	**–**	**58.9**	57.0	–	57.0
Total finance costs	**(342.4)**	**–**	**(342.4)**	(344.1)	–	(344.1)
Changes in fair value of financing derivative assets or liabilities at fair value through profit or loss	**–**	**(64.2)**	**(64.2)**	–	20.3	20.3
Net finance costs	**(209.3)**	**(64.2)**	**(273.5)**	(242.7)	20.3	(222.4)
Presented as:						
Finance income	**133.1**	**–**	**133.1**	101.4	–	101.4
Finance costs	**(342.4)**	**(64.2)**	**(406.6)**	(344.1)	20.3	(323.8)
Net finance costs	**(209.3)**	**(64.2)**	**(273.5)**	(242.7)	20.3	(222.4)

(i) The capitalisation rate applied in determining the amount of borrowing costs to capitalise in the period was 4.88% (2013 – 5.38%).

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

	2014 £m	2013 £m
Net finance costs	**(273.5)**	(222.4)
(add)/less:		
Share of interest from jointly controlled entities and associates:		
Scotia Gas Networks loan stock	**(33.3)**	(33.3)
Other jointly controlled entities and associates	**(114.6)**	(122.8)
	(147.9)	(156.1)
Interest on pension scheme liabilities	**26.8**	31.1
Share of interest on net pension liabilities in jointly controlled entities	**1.4**	3.8
Movement on financing derivatives (Note 33)	**64.2**	(20.3)
Adjusted net finance costs	**(329.0)**	(363.9)
Notional interest arising on discounted provisions	**9.5**	7.7
Finance lease charges	**35.7**	37.1
Hybrid coupon payment (Note 30)	**(122.9)**	(63.4)
Adjusted net finance costs for interest cover calculations	**(406.7)**	(382.5)

The interest on net pension liabilities for the year ended 31 March 2014 of £26.8m (2013 – £31.1m) represents the respective charges under IAS 19R. The restatement adjustments in Note 2i (£23.2m, March 2013) represent the increase in net interest costs associated with the adoption of IAS 19R.

Notes on the financial statements continued
for the year ended 31 March 2014

8. Finance income and costs continued
Recognised in other comprehensive income

	2014 £m	2013 £m
(Loss)/gain on effective portion of cash flow hedges (i)	**(54.5)**	46.4
Share of jointly controlled entity/associate gain/(loss) on effective portion of cash flow hedges (i)	**13.2**	(0.4)
	(41.3)	46.0

(i) Before deduction of tax.

9. Taxation
Analysis of charge recognised in the income statement:

	Before Exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	2014 £m	Before Exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	2013 restated (Note 2i) £m
Current tax						
UK corporation tax	**248.1**	**(24.8)**	**223.3**	243.5	(50.6)	192.9
Adjustments in respect of previous years	**(21.4)**	**–**	**(21.4)**	(23.5)	–	(23.5)
Total current tax	**226.7**	**(24.8)**	**201.9**	220.0	(50.6)	169.4
Deferred tax						
Current year	**147.5**	**(162.0)**	**(14.5)**	61.5	(129.2)	(67.7)
Effect of change in tax rate	**–**	**(52.6)**	**(52.6)**	–	(22.0)	(22.0)
Adjustments in respect of previous years	**8.7**	**(14.2)**	**(5.5)**	25.5	–	25.5
Total deferred tax	**156.2**	**(228.8)**	**(72.6)**	87.0	(151.2)	(64.2)
Total taxation charge	**382.9**	**(253.6)**	**129.3**	307.0	(201.8)	105.2

The charge for the year can be reconciled to the profit per the income statement as follows:

	2014 £m	2014 %	2013 £m	2013 %
Group profit before tax	**575.3**		571.3	
Less: share of results of associates and jointly controlled entities	**(237.8)**		(127.2)	
Profit before tax	**337.5**		444.1	
Tax on profit on ordinary activities at standard UK corporation tax rate of 23% (2013 – 24%)	**77.6**	**23.0**	106.6	24.0
Tax effect of:				
Change in rate of UK corporation tax	**(52.6)**	**(15.6)**	(22.0)	(5.0)
Expenses not deductible for tax purposes	**74.4**	**22.0**	15.8	3.6
Impact of supplementary corporation tax	**80.9**	**24.0**	24.2	5.4
Impact of foreign tax rates and foreign dividends	**(3.1)**	**(0.9)**	3.2	0.7
Corporation tax relief on PRT paid	**(5.5)**	**(1.6)**	–	–
Adjustments to tax charge in respect of previous years	**(8.3)**	**(2.5)**	2.0	0.4
Hybrid capital coupon payments	**(27.8)**	**(8.2)**	(15.4)	(3.5)
Consortium relief not paid for	**–**	**–**	(6.6)	(1.5)
Other items	**(6.3)**	**(1.9)**	(2.6)	(0.6)
Group tax charge and effective rate	**129.3**	**38.3**	105.2	23.5

9. **Taxation** continued

The adjusted current tax charge is arrived at after the following adjustments:

	2014 £m	**2014 %**	2013 £m	2013 %
Total taxation charge	**129.3**	**38.3**	105.2	23.5
Effect of adjusting items (see below)		**(30.0)**	–	(16.1)
Total taxation charge on adjusted basis	**129.3**	**8.3**	105.2	7.4
Add/(less):				
Share of current tax from jointly controlled entities and associates	**10.0**	**0.6**	3.6	0.3
Exceptional items	**189.9**	**12.2**	151.6	10.7
Tax on movement on derivatives	**63.7**	**4.2**	50.2	3.6
Deferred tax (excluding share of jointly controlled entities and associates)	**(156.2)**	**(10.0)**	(87.0)	(6.2)
Adjusted current tax charge and effective rate	**236.7**	**15.3**	223.6	15.8

The adjusted effective rate is based on adjusted profit before tax being:

	2014 £m	2013 restated (Note 2i) £m
Profit before tax	**575.3**	571.3
Add:		
Exceptional items and certain re-measurements	**889.4**	758.8
Share of tax from jointly controlled entities and associates before exceptional items and certain re-measurements	**58.2**	50.1
Interest on pension scheme liabilities	**26.8**	31.1
Share of interest on net pension liabilities in jointly controlled entities and associates	**1.4**	3.8
Adjusted profit before tax	**1,551.1**	1,415.1

The majority of the Group's profits are earned in the UK with the standard rate of UK corporation tax being 23% for the year to 31 March 2014 (24% – March 2013). Details on the changes in tax rates are included at Note 6(iii). The Group's Gas Production business is taxed at a UK corporation tax rate of 30% plus a supplementary charge of 32% (combined 62%; March 2013 – 62%). In addition, profits from the acquired Sean gas field (see Note 18(a)) are subject to petroleum revenue tax (PRT) at 50% which is deductible against corporation tax, giving an overall effective rate for the field of 81%.

Tax (credit)/charge recognised directly in other comprehensive income/(loss)

	2014 £m	2013 £m
Relating to:		
Pension scheme actuarial movements	**(23.5)**	(2.0)
Cash flow and net investment hedge movements	**8.9**	10.1
	(14.6)	8.1

All tax recognised through other comprehensive income/(loss) is deferred tax.

Notes on the financial statements continued
for the year ended 31 March 2014

10. Dividends
Ordinary dividends

	Year ended 31 March 2014 Total £m	Settled via scrip £m	Pence per ordinary share	Year ended 31 March 2013 Total £m	Settled via scrip £m	Pence per ordinary share
Interim – year ended 31 March 2014	**251.0**	**112.4**	**26.0**	–	–	–
Final – year ended 31 March 2013	**568.6**	**17.8**	**59.0**	–	–	–
Interim – year ended 31 March 2013	**–**	**–**	**–**	241.2	82.5	25.2
Final – year ended 31 March 2012	**–**	**–**	**–**	529.3	172.7	56.1
	819.6	**130.2**		770.5	255.2	

The final dividend of 59.0p per ordinary share declared in the financial year ended 31 March 2013 (2012– 56.1p) was approved at the Annual General Meeting on 25 July 2013 and was paid to shareholders on 27 September 2013. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the cash dividend under the terms of the Company's scrip dividend scheme.

An interim dividend of 26.0p per ordinary share (2013 – 25.2p) was declared and paid on 21 March 2014 to those shareholders on the SSE plc share register on 24 January 2014. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the interim cash dividend under the terms of the Company's scrip dividend scheme.

The proposed final dividend of 60.7p per ordinary share (which equates to a dividend of £591.8m based on the number of issued ordinary shares at 31 March 2014) is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

11. Earnings per Share
Basic earnings per share
The calculation of basic earnings per ordinary share at 31 March 2014 is based on the net profit attributable to Ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 March 2014. All earnings are from continuing operations.

Adjusted earnings per share
Adjusted earnings per share has been calculated by excluding the charge for deferred tax, interest on net pension liabilities under IAS 19R and the impact of exceptional items and certain re-measurements (Note 6).

	Year ended 31 March 2014 Earnings £m	Year ended 31 March 2014 Earnings per share pence	Year ended 31 March 2013 Earnings £m restated (Note 2i)	Year ended 31 March 2013 Earnings per share pence restated (Note 2i)
Basic	**323.1**	**33.5**	402.7	42.3
Exceptional items and certain re-measurements (Note 6)	**635.8**	**65.8**	557.0	58.5
Basic excluding exceptional items and certain re-measurements	**958.9**	**99.3**	959.7	100.8
Adjusted for:				
Interest on net pension scheme liabilities (Note 8)	**26.8**	**2.8**	31.1	3.3
Share of interest on net pension scheme liabilities in jointly controlled entities (Note 8)	**1.4**	**0.1**	3.8	0.4
Deferred tax (Note 9)	**156.2**	**16.2**	87.0	9.1
Deferred tax from share of jointly controlled entities and associates	**48.2**	**5.0**	46.5	4.9
Adjusted	**1,191.5**	**123.4**	1,128.1	118.5
Basic	**323.1**	**33.5**	402.7	42.3
Dilutive effect of outstanding share options	**–**	**(0.2)**	–	(0.1)
Diluted	**323.1**	**33.3**	402.7	42.2

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

	31 March 2014 Number of shares (millions)	31 March 2013 Number of shares (millions)
For basic and adjusted earnings per share	**965.5**	952.0
Effect of exercise of share options	**6.1**	1.9
For diluted earnings per share	**971.6**	953.9

12. Notes to the group cash flow statement

a) Reconciliation of group operating profit to cash generated from operations

	Note	Consolidated 2014 £m	Consolidated 2013 restated (Note 2i) £m	Company 2014 £m	Company 2013 restated (Note 2i) £m
Profit for the year		**446.0**	466.1	**360.9**	929.9
Add back: taxation	9	**129.3**	105.2	**23.2**	35.3
Add back: net finance costs	8	**273.5**	222.4	**(135.1)**	(172.5)
Operating profit		**848.8**	793.7	**249.0**	792.7
Less share of profit of joint ventures and associates		**(237.8)**	(127.2)	**–**	–
Operating profit before jointly controlled entities and associates		**611.0**	666.5	**249.0**	792.7
Movement on operating derivatives		**150.9**	228.7	**–**	–
Pension service charges less contributions paid		**(75.9)**	(80.7)	**(22.6)**	(27.1)
Exceptional charges		**712.3**	568.2	**231.3**	187.9
Depreciation of assets		**614.5**	570.8	**–**	–
Amortisation and impairment of intangible assets		**18.1**	5.9	**–**	–
Impairment of inventories		**2.0**	3.6	**–**	–
Release of provisions		**(0.7)**	(0.6)	**–**	–
Release of deferred income		**(16.8)**	(16.8)	**–**	–
Charge in respect of employee share awards (before tax)		**15.5**	16.0	**–**	–
Loss/(profit) on disposal of property, plant and equipment		**–**	0.1	**–**	–
Profit on disposal of business and subsidiaries		**1.4**	(8.2)	**–**	–
Income from investment in subsidiaries, jointly controlled entities and associates		**–**	–	**(461.4)**	(961.7)
Cash generated from/(absorbed by) operations before working capital movements		**2,032.3**	1,953.5	**(3.7)**	(8.2)

b) Reconciliation of net increase in cash and cash equivalents to movement in adjusted net debt and hybrid capital

	Note	Consolidated 2014 £m	Consolidated 2013 £m
(Decrease)/increase in cash and cash equivalents		**(96.2)**	353.1
Add:			
New borrowings		**(1,815.8)**	(517.1)
Repayment of borrowings		**1,514.8**	694.7
Issue of Hybrid Capital	30	**–**	(1,025.4)
Non-cash movement on borrowings		**89.5**	(32.3)
(Decrease) in cash held as collateral	20	**(3.8)**	(64.9)
Movement in adjusted net debt and hybrid capital		**(311.5)**	(591.9)

Non-cash movement on borrowings includes revaluation of fair value items, exchange movements and accretion of index-linked bonds.

Cash held as collateral refers to amounts deposited on commodity trading exchanges which are reported within Trade and other receivables on the face of the balance sheet.

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13. Goodwill and other intangible assets
Consolidated

	Goodwill £m	Allowances & certificates £m	Development assets £m	Other intangibles £m	Total £m
Cost:					
At 1 April 2012	719.3	454.0	308.2	73.8	1,555.3
Additions	–	430.0	50.8	48.2	529.0
Acquisitions (Note 18)	8.3	25.7	–	14.5	48.5
Transfer to Property Plant and Equipment (Note 14)	–	–	(11.5)	–	(11.5)
Disposals/utilised	(1.3)	(314.7)	(9.8)	–	(325.8)
Exchange adjustments	1.3	0.9	2.6	–	4.8
At 31 March 2013	727.6	595.9	340.3	136.5	1,800.3
Additions	–	479.4	142.4	15.9	637.7
Transfer to Property Plant and Equipment (Note 14)	–	–	(27.4)	(13.2)	(40.6)
Disposals/utilised	–	(413.9)	–	–	(413.9)
Transfer to Held for Sale (Note 18)	–	–	(58.9)	–	(58.9)
Exchange adjustments	(1.6)	(0.2)	(0.4)	(0.2)	(2.4)
At 31 March 2014	**726.0**	**661.2**	**396.0**	**139.0**	**1,922.2**
Aggregate amortisation and impairment:					
At 1 April 2012	(91.8)	(88.3)	(101.8)	(61.4)	(343.3)
Charge for the year	–	–	(1.3)	(4.6)	(5.9)
Exceptional impairment (Note 6)	–	(139.2)	(21.2)	(4.3)	(164.7)
At 31 March 2013	(91.8)	(227.5)	(124.3)	(70.3)	(513.9)
Charge for the year	(0.8)	–	(13.6)	(3.7)	(18.1)
Exceptional impairment (Note 6)	(48.3)	–	(51.6)	(23.0)	(122.9)
Transfer to Held for Sale (Note 18)	–	–	55.7	–	55.7
At 31 March 2014	**(140.9)**	**(227.5)**	**(133.8)**	**(97.0)**	**(599.2)**
Carrying amount:					
At 31 March 2014	**585.1**	**433.7**	**262.2**	**42.0**	**1,323.0**
At 31 March 2013	635.8	368.4	216.0	66.2	1,286.4
At 1 April 2012	627.5	365.7	206.4	12.4	1,212.0

The Company does not hold intangible assets.

Intangible assets have been analysed as current and non-current as follows:

	2014 £m	2013 £m
Current	**433.7**	368.4
Non-current:		
Goodwill	**585.1**	635.8
Other	**304.2**	282.2
	1,323.0	1,286.4

13. Goodwill and other intangible assets continued

a) Impairment review of goodwill and basis of other impairment reviews

Goodwill arising from business contributions is allocated to cash-generating units (CGUs) for impairment testing purposes. Certain goodwill valuations have changed in the current year following retranslation.

A summary of the goodwill allocated to CGUs and the group's operating segments is presented below:

Cash-generating unit	Operating segment	2014 £m	2013 £m
Ireland wind farms	Energy Portfolio Management and Electricity Generation	**131.5**	153.1
GB wind farms	Energy Portfolio Management and Electricity Generation	**199.9**	199.9
GB Energy Supply	Energy Supply	**187.0**	187.0
GB Generation	Electricity Generation and Energy Portfolio Management	**10.1**	10.1
Gas Storage	Gas Storage	**–**	26.2
Exploration and Production	Gas Production	**38.1**	38.1
Other Networks[1]	Other Networks	**10.3**	10.6
Energy-related Services[1]	Energy-related Services	**–**	2.5
Ireland Supply[1]	Energy Supply	**8.2**	8.3
		585.1	635.8

(1) Represented goodwill balances arising from acquisitions of Telecoms, Streetlighting (Other Networks) and Contracting businesses (Energy-related services) businesses. The amount of goodwill associated with these businesses is not significant in context of the aggregate carrying value of the business units or the aggregate value of goodwill held by the Group. Following review, £0.8m (2013 – nil) of this goodwill was impaired through consideration of ongoing trading prospects with other impairments (£1.9m, 2013 – nil) being recognised as part of the exceptional charges associated with the 26 March 2014 announcement referred to in Note 6.

The recoverable amounts of the GB Energy Supply, Gas Storage and Exploration and Production CGUs are determined by reference to value-in-use calculations. The value-in-use calculations use, as a starting point, pre-tax cash flow projections based on the Group's five year Corporate Model as approved by the Board. The Group's Corporate Model is based on past experience and reflects the Group's forward view of markets, prices, risks and its strategic objectives. Commodity prices used are based on observable market data and, where this is not available, on internal estimates.

The recoverable amount of the wind farm CGUs is based on the fair value less costs to sell methodology. The basis applied has been deemed appropriate as it is consistent with the way in which the economic values of the CGUs are assessed by management and how they would be by other market participants. The method applied is to determine fair value by assessing the discounted pre-tax cash flows expected to be earned by the individual wind farm projects within the respective CGUs. The two identified CGUs (Ireland wind farms and UK wind farms) share many of the same risk factors and are accordingly discounted using the same discount rates.

The key assumptions used for the main value-in-use calculations are as follows:

Cash-generating unit	Operating segment	2014 and 2013 Discount rates (%)	2014 and 2013 Cash flow projection period (years)
Ireland and GB wind farms (onshore and offshore)	Energy Portfolio Management and Electricity Generation	7.0% – 9.0%	up to 25
GB Energy Supply	Energy Supply	7.3%	5
GB Generation (excluding wind)	Energy Portfolio Management and Electricity Generation	7.3%	up to 15
Gas Storage	Gas Storage	7.3%	25
Exploration and Production	Gas Production	8.0% – 10.0%	Life of field

Management have determined the pre-tax cash flows of each CGU based on past performance and its expectations of market development. Further detail on how the cash flow projections have been derived is included in the specific commentaries. The discount rates used are pre-tax real and reflect specific risks attributable to the relevant operating segments. The discount rates used have been benchmarked against externally published rates used by comparable quoted companies operating in the respective market sectors. The discount rates applied in both 2014 and 2013 remain consistent across all CGUs reflecting the Group's view of cost of capital and risk. The recoverable amount derived from the value-in-use calculation is compared to the carrying amount of each CGU to determine whether the respective CGUs require to be impaired.

Notes on the financial statements continued
for the year ended 31 March 2014

13. Goodwill and other intangible assets continued

Specific comments on the key value-in-use and fair value less costs to sell calculations for the main CGUs and the results of the tests conducted follow:

Wind farm CGUs

For goodwill impairment testing purposes, the significant wind farm CGUs were established following the acquisition of the SSE Renewables (formerly Airtricity) business in 2008. In order to assess the respective recoverable amounts against an appropriate carrying value, goodwill was allocated to the main geographic regions in which the business operates. The established CGUs (Ireland and GB) have subsequently been assessed by considering the specific market attributes of those regions. Currency cash flows are set at the exchange rate at the time the impairment test is conducted. Aside from the specific market factors, the basis of review of the respective CGUs is identical.

Wind farm projects have an estimated useful life of up to 25 years and it is considered appropriate by management to assess the carrying amount against cash flow projections covering this period. The Ireland and GB wind CGUs include wind farms in operation and both CGUs include projects in the construction phase. Projects that are in development are those which have not received consent or have not concluded all environmental or planning studies. Following the Group's announcement that it intends to scale back its commitment to offshore development, cash flows from all such projects have been excluded from the goodwill impairment review.

Cash inflows for all projects are based on expected generation output based on wind studies and past experience and are valued at forward power prices based on market information, where available, continuing government support for wind ROCs and internal model assumptions.

Cash outflows are based on planned capital expenditure and expected maintenance costs. The power prices and costs of operation are the most significant distinguishing factors in the respective CGU regions. Growth is based on the expected output of the respective wind farms at their available operational capacity over their life cycle and on delivery of projects in the development pipeline.

Outcome of tests

The recoverable amount of the GB wind farm CGU exceeded the carrying values at the time of the impairment test. While cash flow projections are subject to inherent uncertainty, reasonably possible changes in the key assumptions applied in assessing the fair value less costs-to-sell would not cause a change to the conclusion reached. The recoverable amount of the Ireland wind farm CGU was below the carrying value of associated assets and accordingly an exceptional impairment of goodwill of £20.0m was recognised. Reasonably possible changes in key assumptions applied could increase the level of impairment by £20.0m. However, the level of impairment recognised is assessed as being appropriate based on current projections.

GB Energy Supply

Goodwill carried in relation to the acquisition, in 2001, of Swalec is attributed to the Group's UK retail electricity and gas supply business CGU. The CGU is equivalent to the Energy Supply reported segment with the exception of the Airtricity supply business in Ireland. Margins assumed in the value-in-use test are based on the forecast impact of the two year retail energy price freeze that was announced by the Group on 26 March 2014 along with its estimates of the direct and indirect costs of the business in this period. This includes the impact of this and other changes on market share estimated to arise over this period.

Outcome of test

The recoverable amount of the GB Energy Supply CGU exceeded the respective carrying value at the time of the impairment test. While cash flow projections are subject to inherent uncertainty, reasonably possible changes in the key assumptions applied in assessing the value-in-use would not cause a change to the conclusion reached.

GB Generation (excluding wind)

Goodwill of £10.1m is carried by the Group in relation to acquired deferred tax temporary differences. The operational plants in Electricity Portfolio and Energy Generation Management are operated as part of the integrated business segment. All main thermal generation plants exhibiting indications of impairment due to market and regulatory conditions have been assessed to ascertain the impact on carrying values (see Note 14).

Gas Storage

Goodwill was recognised on the acquisition of the Hornsea gas storage facility in 2003. Cash flow projections are based on gross margins expected to be achieved in the period of the five year Corporate Model. Beyond this period, cash flows have been extrapolated at a growth rate lower than the long-term growth rate of the economy to the end of the assets' expected economic lives. This longer period is necessary due to the long-term infrastructure nature of these assets but will consequently introduce less certainty into the valuation process. Assumptions on margin for the Corporate Model period are based on expected demand for gas storage and take into account the decline in profitability experienced in this CGU over recent years, published and projected gas wholesale prices, planned capital expenditure required to maintain the value of the facility and estimated operating costs.

13. Goodwill and other intangible assets continued

Outcome of test

The prospects in the medium term for the CGU continue to be impacted by lower volatility in the gas market and lower demand for gas storage. As a consequence, an impairment charge of £137.7m, consisting of £26.2m goodwill and £111.5m plant and equipment, was recognised in the current year reflecting the immediate and longer term economic viability of the CGU. While reasonably possible changes in assumptions could require further impairment of the residual carrying value in a range up to £50.0m, the level of impairment recognised is assessed as being appropriate.

It is noted that there remains inherent imprecision in the valuation process for these long-term infrastructure assets which is dependent upon a number of macro-economic factors. Management believe a balanced position has been taken regarding these factors.

Exploration and Production

Goodwill was recognised on the purchase of North Sea assets in 2011. Goodwill was been attributed to three cash generating units being the three main field development areas (Bacton, Easington Catchment Area (ECA) and Lomond/Everest) and their supporting infrastructure assets. Indications of impairment at asset/field level are investigated separately. All goodwill was derived from the recognition of deferred tax temporary liabilities.

The impairment test assumptions are based on forward prices of gas, timing of cash flows including capital and abandonment costs, reserves information and discount rates.

Outcome of test

The recoverable amount of all Exploration and Production CGUs continued to exceed their carrying value at the time of the impairment test. While cash flow projections are subject to inherent uncertainty, reasonably possible changes in the key assumptions applied in assessing the recoverable amount would not cause a change to the test outcome.

b) Other intangible assets

(i) Allowances and Certificates

Allowances and Certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs). In the year to 31 March 2013, the Group recognised an exceptional impairment charge of £139.2m against the value of carbon emissions allowances held following the impairment reviews of its thermal generation assets and the economic prospects for those plants.

(ii) Development assets

Development costs relate to the design, construction and testing of thermal and renewable generation sites and devices, including wind farms, which the Group believes will generate probable future economic benefits. Costs capitalised as development intangibles include options over land rights, planning application costs, environmental impact studies and other costs incurred in bringing wind farm and other generation and network development projects to the consented stage. These may be costs incurred directly or at a cost as part of the fair value attribution on acquisition. Development assets also includes the Group's exploration and evaluation expenditure in relation to exploration wells.

At the point the development reaches the consent stage and is approved for construction, the carrying value is transferred to Property, Plant and Equipment (Note 14). At the point a project is no longer expected to reach the consented stage, the carrying amount of the project is impaired. Exceptional impairment charges of £55.9m were recognised in relation to onshore and offshore wind developments. In the prior year, exceptional impairment charges of £25.5m were recognised in relation to UK wind farm developments (£20.0m) and other development projects (£5.5m).

(iv) Other intangible assets

Included within other intangible assets are brands, customer lists, contracts, application software license fees, software development work, software upgrades and purchased PC software packages. Amortisation is over the shorter of the contract term or five years with the exception of certain application software assets, which are amortised over 10 years. Exceptional impairment charges of £18.7m (2013 – nil) were recognised in relation to discontinued software development projects.

Notes on the financial statements continued
for the year ended 31 March 2014

14. Property, plant and equipment

Consolidated

	Power generation assets (i) £m	Gas storage and production assets (ii) £m	Land and buildings £m	Network assets £m	Metering assets and other equipment £m	Assets under construction (vi) £m	Total £m
Cost:							
At 1 April 2012	5,771.1	622.8	257.1	6,306.0	504.1	1,172.9	14,634.0
Additions	1.7	3.4	–	62.3	0.2	1,285.6	1,353.2
Acquisitions (Note 18)	94.3	30.0	8.8	–	4.7	157.7	295.5
Transfer from Intangible Assets (Note 13) (iv)	1.6	–	–	–	–	9.9	11.5
Disposals	(170.6)	–	–	–	(5.0)	(1.2)	(176.8)
Transfer from Assets Under Construction	756.4	204.3	0.1	999.8	44.9	(2,005.5)	–
Exchange rate adjustments	29.6	–	–	–	0.4	1.0	31.0
At 31 March 2013	6,484.1	860.5	266.0	7,368.1	549.3	620.4	16,148.4
Additions	17.2	–	–	82.9	–	1,341.2	1,441.3
Acquisitions (Note 18)	–	72.9	–	–	–	–	72.9
Transfer from Intangible Assets (Note 13) (iv)	4.7	–	–	–	0.3	35.6	40.6
Transfer from Assets Under Construction	296.3	35.4	–	709.5	107.5	(1,148.7)	–
Transfer to Asset Held for Sale (Note 18)	(18.3)	–	–	(40.7)	(19.8)	–	(78.8)
Disposals (iii)	(9.2)	–	(4.3)	–	(3.0)	(0.4)	(16.9)
Exchange rate adjustments	(16.3)	–	(0.2)	(0.1)	(0.6)	(8.0)	(25.2)
At 31 March 2014	**6,758.5**	**968.8**	**261.5**	**8,119.7**	**633.7**	**840.1**	**17,582.3**
Depreciation:							
At 1 April 2012	2,255.3	98.3	45.1	2,779.9	302.3	–	5,480.9
Charge for the year	202.3	45.6	7.5	276.7	38.7	–	570.8
Exceptional impairments (v)	277.9	–	2.0	–	23.4	–	303.3
Disposals (iii)	(54.3)	–	–	–	(0.9)	–	(55.2)
Exchange rate adjustments	9.9	–	–	–	0.4	–	10.3
At 31 March 2013	2,691.1	143.9	54.6	3,056.6	363.9	–	6,310.1
Charge for the year	212.8	69.9	10.1	278.7	43.0	–	614.5
Exceptional impairments (v)	191.4	111.4	–	16.3	7.4	46.2	372.7
Transfer to Asset Held for Sale (Note 18)	(1.4)			(10.4)	(4.7)		(16.5)
Disposals (iii)	(4.4)	–	(3.3)	–	(1.2)	–	(8.9)
Exchange rate adjustments	(5.1)	–	–	–	(1.1)	–	(6.2)
At 31 March 2014	**3,084.4**	**325.2**	**61.4**	**3,341.2**	**407.3**	**46.2**	**7,265.7**

Consolidated

	Power generation assets (i) £m	Gas storage and production assets (ii) £m	Land and buildings £m	Network assets £m	Metering assets and other equipment £m	Assets under construction (vi) £m	Total £m
Net book value							
At 31 March 2014	**3,674.1**	**643.6**	**200.1**	**4,778.5**	**226.4**	**793.9**	**10,316.6**
At 31 March 2013	3,793.0	716.6	211.4	4,311.5	185.4	620.4	9,838.3
At 1 April 2012	3,515.8	524.5	212.0	3,526.1	201.8	1,172.9	9,153.1

(i) Power generation assets comprise thermal and renewable generating plant, related buildings, plant and machinery and include all hydro civil and operating wind farm assets. The net book value of generation assets includes decommissioning costs with a net book value of £40.3m, (2013 – £42.4m).

(ii) Gas storage and production assets include decommissioning costs with a net book value of £78.8m (2013 – £53.2m).

(iii) Assets disposed includes operating and in construction wind farms and miscellaneous office equipment.

(iv) Represents the carrying value of development assets transferred from intangible assets (Note 13) which have reached the consent stage and have been approved for construction.

(v) Assets displaying indications of impairment, such as the SSE's main coal-fired generation plants and gas storage facilities have been impairment reviewed under the value-in-use methodology.

The current year property, plant and equipment impairment charges in relation to the Fiddler's Ferry and Ferrybridge thermal generation plants reflects the challenging market conditions for those plants. The fair value assumptions on market prices are made by reference to forward market prices and published market estimations, where available, and to internal model inputs beyond the observable period. Prices forecast include wholesale power prices and input costs such as wholesale coal and as well as carbon emissions costs including the effect of the carbon price support mechanism. The discount rates applied was a pre-tax real rate of 7.3%. Total exceptional impairment charges of £191.4m were recognised in relation to these plants. In addition, the group recognised impairment charges of £111.5m in relation to gas storage facilities, £52.3m in relation to assets impacted by the 26 March 2014 announcement and a further £17.5m in relation to discontinued assets. Total exceptional impairment in 2013 were £303.3m.

(vi) Assets Under Construction have been re-presented within the main table of property, plant and equipment to aid understanding of the Group's asset base.

14. Property, plant and equipment continued

The Company does not hold any property, plant or equipment.

Included within property, plant and equipment are the following assets held under finance leases:

	Power generation assets £m	Network assets £m	Metering assets and other equipment £m	Total £m
Cost				
At 1 April 2012 and 1 April 2013	387.8	5.0	7.0	399.8
Additions	13.9	–	–	13.9
At 31 March 2014	**401.7**	**5.0**	**7.0**	**413.7**
Depreciation				
At 31 March 2012	48.3	5.0	7.0	60.3
Charge for the year	18.5	–	–	18.5
At 31 March 2013	66.8	5.0	7.0	78.8
Charge for the year	18.5	–	–	18.5
At 31 March 2014	**85.3**	**5.0**	**7.0**	**97.3**
Net book value				
At 31 March 2014	**316.4**	**–**	**–**	**316.4**
At 31 March 2013	321.0	–	–	321.0
At 1 April 2012	339.5	–	–	339.5

15. Biological assets

The group owns 2,394 hectares of forest land including planted trees. The living trees are accounted for as biological assets and are subject to revaluation each year. The assets have been classified as Held for Sale following a review of the Group's activities in this area as part of the value programme announced on 26 March 2014.

	£'m
At 1 April 2013	3.4
Transfer to held for sale (Note 18c)	(3.4)
At 31 March 2014	**–**

The pre tax discount rate used in determining the fair value in 2014 was 8% (2013 – 8%). A 2.0% decrease/(increase) in the discount rate would increase/(decrease) the fair value of biological assets by approximately £0.5m (2013 – £0.5m). No trees were harvested during the year. The company does not hold any biological assets.

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16. Investments
a) Associates and Joint Ventures

	Equity			Loans			
	SGN £m	Other JCEs and associates £m	**Equity total £m**	SGN £m	Other JCEs and associates £m	**Loans total £m**	**Total £m**
Share of net assets/cost							
At 31 March 2012	232.6	679.1	**911.7**	266.9	925.0	**1,191.9**	**2,103.6**
Additions	–	13.5	**13.5**	–	88.6	**88.6**	**102.1**
Repayment of shareholder loans	–	–	**–**	–	(31.6)	**(31.6)**	**(31.6)**
Dividends received	(30.0)	(57.0)	**(87.0)**	–	–	**–**	**(87.0)**
Share of profit/(loss) after tax (i)	98.6	28.6	**127.2**	–	–	**–**	**127.2**
Share of other reserves adjustments	11.2	(1.3)	**9.9**	–	–	**–**	**9.9**
Disposal	–	(26.5)	**(26.5)**	–	–	**–**	**(26.5)**
Impairment of equity	–	(37.4)	**(37.4)**	–	(4.9)	**(4.9)**	**(42.3)**
Exchange rate adjustments	–	1.8	**1.8**	–	–	**–**	**1.8**
At 31 March 2013	312.4	600.8	**913.2**	266.9	977.1	**1,244.0**	**2,157.2**
Additions	–	10.0	**10.0**	–	83.9	**83.9**	**93.9**
Repayment of shareholder loans	–	–	**–**	–	(19.4)	**(19.4)**	**(19.4)**
Conversion of loan to equity	–	783.9	**783.9**		(783.9)	**(783.9)**	**–**
Dividends received	(82.4)	(281.9)	**(364.3)**	–	–	**–**	**(364.3)**
Share of profit/(loss) after tax (i)	182.1	58.7	**240.8**	–	(3.0)	**(3.0)**	**237.8**
Share of other reserves adjustments	(12.9)	1.2	**(11.7)**	–	–	**–**	**(11.7)**
Disposal	–	(28.3)	**(28.3)**	–	–	**–**	**(28.3)**
Exchange rate adjustments	–	(0.1)	**(0.1)**	–	–	**–**	**(0.1)**
At 31 March 2014	399.2	1,144.3	**1,543.5**	266.9	254.7	**521.6**	**2,065.1**

(i) Including exceptional impairment charges of £34.9m (2013 – £12.5m).

The investment in Scotia Gas Networks is disclosed separately to aid understanding of the Group's financial performance.

Company

	Equity			Loans			
	SGN £m	Other JCEs and associates £m	**Equity total £m**	SGN £m	Other JCEs and associates £m	**Loans total £m**	**Total £m**
Share of net assets/cost							
At 31 March 2012	190.0	–	**190.0**	266.9	873.1	**1,140.0**	**1,330.0**
Increase in shareholder loans	–	–	**–**	–	76.8	**76.8**	**76.8**
Repayment of shareholder loans	–	–	**–**	–	(8.3)	**(8.3)**	**(8.3)**
At 31 March 2013	190.0	–	**190.0**	266.9	941.6	**1,208.5**	**1,398.5**
Increase in shareholder loans	–	–	**–**	–	80.3	**80.3**	**80.3**
Repayment of shareholder loans	–	–	**–**	–	(792.5)	**(792.5)**	**(792.5)**
At 31 March 2014	190.0	–	**190.0**	266.9	229.4	**496.3**	**686.3**

16. Investments continued

Scotia Gas Networks Limited is deemed to warrant separate disclosure from other jointly controlled entities and is reported as a separate segment in the analysis of Group operating profit (Note 4). The results of Scotia Gas Networks Limited, of which the Group has a 50% share, can be illustrated thus:

	2014			2013		
	Before exceptional items and certain re-measurements £m	**Exceptional items and certain re-measurements £m**	**Total £m**	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Operating Profit	**553.1**	**–**	**553.1**	468.1	–	468.1
Finance Costs: excluding loan stock	**(191.6)**	**6.1**	**(185.5)**	(188.7)	17.4	(171.3)
Finance Costs: interest on loan stock	**(66.6)**	**–**	**(66.6)**	(66.5)	–	(66.5)
Profit before tax	**294.9**	**6.1**	**301.0**	212.9	17.4	230.3
Taxation	**(71.3)**	**134.4**	**63.1**	(64.8)	37.4	(27.4)
Profit for the year	**223.6**	**140.5**	**364.1**	148.1	54.8	202.9
SSE share of profit	**111.8**	**70.3**	**182.1**	74.0	27.4	101.4

As an investor, SSE plc received £33.3m (2013 – £33.3m) in relation to loan stock interest payable to the Group.

The balance sheet of Scotia Gas Networks Limited can be summarised as follows (100%):

	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m
Scotia Gas Networks Limited				
31 March 2014	**5,781.2**	**152.5**	**(339.9)**	**(4,805.0)**
31 March 2013	6,120.0	114.7	(342.7)	(5,267.0)

The financial statements of the Group's other jointly controlled entities and associates can be summarised as follows (100%):

	Current assets £m	Non-Current assets £m	Current liabilities £m	Non-Current liabilities £m	Revenues £m	Profit after tax £m
Jointly Controlled Entities						
31 March 2014	**539.4**	**2,179.8**	**(727.9)**	**(466.0)**	**608.2**	**(21.9)**
31 March 2013	445.2	2,326.7	(1,417.4)	(1,005.4)	562.1	89.1
Associates						
31 March 2014	**90.8**	**1,006.8**	**(80.9)**	**(35.0)**	**138.4**	**8.5**
31 March 2013	116.7	1,126.5	(56.1)	(37.9)	179.9	0.2

In addition to Scotia Gas Networks, the Group has investments in a number of materially significant joint ventures and associates. At 31 March 2014, the Group had provided loans of £nil (2013 – £761.6m) to Greater Gabbard Offshore Winds Limited, £88.3m (2013 – £32.2m) to Ferrybridge Multifuels Limited, £116.1m (2013 – £124.7m) to Marchwood Power Limited and had invested equity and loans of £351.3m (2013 – £261.0m) in Walney (UK) Offshore Winds Limited.

Notes on the financial statements continued
for the year ended 31 March 2014

16. Investments continued
(b) Other investments
Consolidated

	Faroe Petroleum £m	BiFab £m	Other £m	Total £m
At 31 March 2012	18.0	11.0	7.1	36.1
Additions in the year	–	–	10.6	10.6
At 31 March 2013	18.0	11.0	17.7	46.7
Additions in the year	–		0.7	0.7
Revaluation through other comprehensive loss		(2.8)	(2.3)	(5.1)
At 31 March 2014	**18.0**	**8.2**	**16.1**	**42.3**

Company

	Faroe Petroleum £m	Other	Total £m
At 31 March 2013	18.0	–	18.0
Additions	–	0.1	0.1
At 31 March 2014	**18.0**	**0.1**	**18.1**

17. Subsidiary undertakings
Details of the principal subsidiary undertakings are disclosed in the Accompanying Information section (A3) on page 175.

Investment in subsidiaries
Company

	Total £m
At 31 March 2013	2,426.8
Increase in existing investments (i)	15.5
At 31 March 2014	**2,442.3**

(i) The increase in existing investments held by the Company relates to equity shares in the Company awarded to the employees of the subsidiaries of the Group under the Group's share schemes, which are recognised as an increase in the cost of investment in those subsidiaries as directed by IFRIC 11 (2014 – £15.5m, 2013 – £16.0m).

Service concession arrangements
Details of the Group's service concession arrangements are disclosed in the Accompanying information Note (A3) on page 176.

18. Acquisitions, disposals and held-for-sale assets
a. Acquisitions
On 12 April 2013, the Group, through its wholly-owned subsidiary SSE E&P UK Limited, completed the acquisition from BP of a 50% working interest in the Sean gas field in the Southern North Sea. Following completion settlement including working capital items, the final cash consideration paid for the business was £127.6m, which included £18.0m paid on deposit on 28 January 2013. The acquisition enhances the Group's presence in the upstream gas sector and provides an additional source of primary fuel to meet the energy demands of the Group.

	£m
Assets acquired:	
Property, Plant and Equipment	72.9
Other working capital items	(6.2)
Provisions	(27.3)
Deferred tax	88.2
Net Assets	**127.6**

The acquired business contributed £110.0m to revenue and £65.1m to operating profit in the period to 31 March 2014. Profit after tax was £1.8m for the period to 31 March 2014. As the business was purchased on 12 April 2013, the notional impact on the Group of a full years operation would not have been significantly greater than that reported.

b. Disposals
During the year, the group disposed of businesses for combined cash consideration of £3.2m, and deferred consideration of £1.3m. These resulted in a gain on disposal of £1.1m.

18. Acquisitions, disposals and held-for-sale assets continued

c. Held-for-sale assets and liabilities

In its statement on 26 March 2014, the Group announced a programme of asset and business disposals in relation to certain non-core activities aimed at simplifying the Group and with a view to securing operational savings and reducing net debt. As a consequence, a number of assets and liabilities associated with those activities which are deemed to be available for immediate sale have been separately presented on the face of the balance sheet at 31 March 2014. The assets recorded have been stated at their fair value less costs to sell. The aggregated pre-tax profit contribution of the held for sale assets and businesses in the year to 31 March 2014 was £1.2m.

The assets and liabilities classified as held for sale, and the comparative balances at 31 March 2013, are as follows:

	Energy portfolio management and electricity generation £m	Other network £m	**Total 2014 £m**	2013 £m
Property Plant and Equipment	16.8	45.5	**62.3**	–
Forestry Assets	3.4	–	**3.4**	–
Other intangible	5.1	0.4	**5.5**	2.3
Non-current assets	25.3	45.9	**71.2**	2.3
Inventories	0.5	0.3	**0.8**	–
Trade and other receivables	3.0	257.4	**260.4**	–
Non trade debtors	0.1	–	**0.1**	–
Current assets	3.6	257.7	**261.3**	–
Total assets	28.9	303.6	**332.5**	2.3
Trade and other payables	–	(14.9)	**(14.9)**	–
Provisions	–	(0.7)	**(0.7)**	–
Current liabilities	–	(15.6)	**(15.6)**	–
Deferred tax liabilities	(0.5)	(2.2)	**(2.7)**	–
Provisions	(0.9)	–	**(0.9)**	–
Non-current liabilities	(1.4)	(2.2)	**(3.6)**	–
Total liabilities	(1.4)	(17.8)	**(19.2)**	–
Net assets	27.5	285.8	**313.3**	2.3

The assets and liabilities identified as held for sale at 31 March 2014 include a number of offshore and onshore developments and certain thermal power generation plants (all falling within the Energy Portfolio Management and Electricity segment). In addition, the assets and liabilities identified as held for sale also include the Telecoms data centre business, the gas network connections activity and a number of the Group's PFI streetlighting contracts (all within the 'Other Networks' segment). It is envisaged that the Group's disposal programme will continue over the following two years with the divestment of further non-core assets and businesses to follow.

d. Acquisitions and disposals in the previous year

(i) Acquisitions in the previous year

On 9 October 2012, the Group acquired 100% of the shares of Endesa Ireland Limited, a business consisting of the of four thermal generation plants in operation and a 460MW CCGT plant under construction (Great Island) in Ireland for a cash consideration of £281.8m and deferred consideration of £8.0m. Following the acquisition the company changed its name from Endesa Ireland Limited to SSE Generation Ireland Limited. The Group also acquired a number of businesses and assets which were not considered material in the previous year for combined cash consideration of £58.6m. Details of these acquisitions are included in the Group's annual report for the year to 31 March 2013. In addition, a cash deposit of £18.0m in relation to the Sean gas field acquisition (see a., above) was paid on 28 January 2013.

(ii) Disposals in the previous year

On 27 March 2013, SSE completed the disposal of four wind farms, including its stake in the Braes of Doune joint venture, to Greencoat Capital for a total cash consideration of £140.9m, which resulted in a gain on disposal of £8.8m. The Group entered into power purchase agreements (PPAs) with Greencoat Capital for three of the wind farms for a proportion of the output from the wind farms. The contracts are not judged to be leasing arrangements. In addition, SSE invested cash of £10m in the Greencoat initial public offering, which is disclosed in Other Investments (Note 16). During the previous financial year, the Group also disposed of its wind portfolios in Sweden and Italy for a combined cash consideration of £12.9m, which resulted in a loss on disposal of £0.6m.

Notes on the financial statements continued
for the year ended 31 March 2014

19. Inventories

	Consolidated	
	2014 £m	2013 £m
Fuel and consumables	**373.0**	272.5
Work in progress	**33.5**	31.9
Goods for resale	**2.4**	2.6
Less: provisions held	**(15.9)**	(15.3)
	393.0	291.7

The Group has recognised £682.2m within cost of sales in the year (2013 – £1,519.4m) and have also recognised £2.0m (2013 – £3.6m) relating to stock write-downs and increases in provisions held. The Company does not hold any inventories.

20. Trade and other receivables

	Consolidated		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Current assets				
Retail debtors	**806.7**	825.6	**–**	–
Wholesale trade receivables	**1,866.4**	1,854.7	**–**	–
Other trade receivables	**86.2**	134.8	**–**	–
Trade receivables	**2,759.3**	2,815.1	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**4,440.8**	3,782.5
Other receivables	**238.2**	306.0	**8.8**	20.4
Cash held as collateral	**51.2**	55.0	**–**	–
Prepayments and accrued income	**1,213.7**	1,776.9	**–**	–
	4,262.4	4,953.0	**4,449.6**	3,802.9
Non-current assets				
Amounts owed by subsidiary undertakings	**–**	–	**4,093.2**	4,341.9
	4,262.4	4,953.0	**8,542.8**	8,144.8

Other receivables includes financial assets totalling £29.1m (2013 – £39.9m). Cash held as collateral relates to amounts deposited on commodity trading exchanges.

Trade receivables and other financial assets are part of the Group's financial exposure to credit risk as explained in Note 33.

21. Cash and cash equivalents

	Consolidated		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Bank balances	**422.7**	517.8	**212.7**	289.2
Call deposits	**19.8**	20.9	**–**	–
Cash and cash equivalents	**442.5**	538.7	**212.7**	289.2

Cash and cash equivalents (which are presented as a single class of assets in the face of the balance sheet) comprise cash at bank and short-term highly liquid investments with a maturity of three months or less.

	Consolidated		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Cash and cash equivalents (from above)	**442.5**	538.7	**212.7**	289.2
Bank overdraft (Note 25)	**(0.3)**	–	**–**	–
Cash and cash equivalents in the statement of cash flows	**442.2**	538.7	**212.7**	289.2

22. Trade and other payables

	Consolidated		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Current liabilities				
Amounts due to subsidiary undertakings	**–**	–	**3,017.9**	2,899.7
Trade payables	**2,496.2**	2,531.4	**–**	–
Other creditors	**1,296.7**	1,418.9	**47.4**	71.7
Accruals and deferred income (i)	**1,161.4**	1,097.3	**–**	–
	4,954.3	5,047.6	**3,065.3**	2,971.4
Accruals and deferred income (ii)	**416.2**	341.4	**–**	–
	5,370.5	5,389.0	**3,065.3**	2,971.4

(i) Current accruals and deferred income includes customer contributions of £16.4m (2013 – £16.0m) and government grants of £1.0m (2013 – £1.0m).

(ii) Non-current accruals and deferred income includes customer contributions of £222.3m (2013 – £211.3m) and government grants of £6.1m (2013 – £6.9m).

23. Current tax liabilities

	Consolidated		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Corporation tax	**315.2**	286.8	**9.3**	17.9

24. Construction contracts

	2014 £m	2013 £m
Contracts in progress at balance sheet date:		
Amounts due from contract customers included in trade and other receivables (Note 20)	**40.2**	47.1
Amounts due to contract customers included in trade and other payables (Note 22)	**(27.5)**	(33.4)
Contract costs incurred plus recognised profits less recognised losses to date	**170.7**	286.7
Less: Progress billings	**(173.2)**	(298.8)
	(2.5)	(12.1)

In the year to 31 March 2014, contract revenue of £483.0m (2013 – £488.2m) was recognised.

At 31 March 2014, retentions held by customers for contract work amounted to £1.4m (2013 – £2.0m). Advances received from customers for contract work amounted to £8.2m (2013 – £3.6m).

The Company does not hold any construction contracts.

Notes on the financial statements continued
for the year ended 31 March 2014

25. Loans and other borrowings

	Consolidated		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Current				
Bank overdraft	**0.3**	–	**–**	–
Other short-term loans	**600.3**	1,529.2	**561.5**	1,414.1
	600.6	1,529.2	**561.5**	1,414.1
Obligations under finance leases	**18.1**	15.4	**–**	–
	618.7	1,544.6	**561.5**	1,414.1

	2014 £m	2013 £m	**2014 £m**	2013 £m
Non current				
Loans	**5,365.5**	4,225.4	**3,965.1**	3,011.6
Obligations under finance leases	**310.8**	315.0	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**–**	270.5
	5,676.3	4,540.4	**3,965.1**	3,282.1
Total loans and borrowings	**6,295.0**	6,085.0	**4,526.6**	4,696.2
Cash and cash equivalents (Note 21)	**(442.5)**	(538.7)	**(212.7)**	(289.2)
Unadjusted Net Debt	**5,852.5**	5,546.3	**4,313.9**	4,407.0
Add/(less):				
Hybrid capital (Note 30)	**2,186.8**	2,186.8	**2,186.8**	2,186.8
Obligations under finance leases	**(328.9)**	(330.4)	**–**	–
Cash held as collateral (Note 20)	**(51.2)**	(55.0)	**–**	–
Adjusted Net Debt and Hybrid Capital	**7,659.2**	7,347.7	**6,500.7**	6,593.8

Borrowing facilities

During the year the Group issued two Eurobonds, a 7 year €600m bond maturing June 2020 with a coupon of 2.00%, which remains as Euro debt and a 'long' 8 year €500m bond maturing February 2022 with a coupon of 2.375% and an all-in funding cost of 3.564% after being swapped to Sterling. During the year the Group arranged a further £200m of bank facilities and together with the £650m of bank facilities that were arranged in the previous year, the £850m facilities were drawn down in the year as floating rate term loans with maturities of 8 years (£150m) and an average of 1.5 years (£700m) respectively. The Group has also increased its committed facilities from £1.0bn to £1.5bn by increasing the Revolving Credit Facility from £0.9bn to £1.3bn and its bilateral facility from £0.1bn to £0.2bn. Both these facilities have been extended to 2018.

In addition the Group has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into Sterling). The Group has £1.5bn (2013 – £1.0bn) of committed credit facilities in place, maturing in April and July 2018. These provide a back up to the commercial paper programme and at 31 March 2014 these facilities were undrawn.

25. Loans and other borrowings continued
Analysis of Borrowings
Loans and Borrowings

	Consolidated				Company			
	2014 Weighted average interest rate (vii)	2014 Face value £m	2014 Fair value £m	2014 Carrying amount £m	2014 Weighted average interest rate (vii)	2014 Face value £m	2014 Fair value £m	2014 Carrying amount £m
Current								
Bank Overdrafts (i)	0.50%	0.3	0.3	0.3	–	–	–	–
Bank loans – non-amortising	1.00%	586.5	589.4	586.5	1.0%	561.5	564.3	561.5
Non-recourse funding (iv)	5.78%	13.8	13.8	13.8	–	–	–	–
Total current		600.6	603.5	600.6		561.5	564.3	561.5
Non-Current								
Bank loans – non amortising (v)	1.93%	326.6	370.4	326.6	–	–	–	–
Other loans – non-amortising	5.50%	0.4	0.4	0.4	1.93%	326.6	370.4	326.6
5.00% Eurobond repayable 1 October 2018	5.00%	500.0	554.0	497.5	5.00%	500.0	554.0	497.5
Non – recourse funding	6.25%	72.8	72.8	72.8	–	–	–	–
US Private Placement 16 April 2017	3.17%	12.8	12.3	12.7	3.17%	12.8	12.3	12.7
Between two and five years		912.6	1,009.9	910.0		839.4	936.7	836.8
Bank loans – non-amortising (v)	1.64%	550.0	557.0	550.0	1.77%	400.0	406.0	400.0
Non-recourse funding (iv)	6.68%	261.3	261.3	261.3	–	–	–	–
US Private Placement 16 April 2019	3.66%	67.0	63.9	66.8	3.66%	67.0	63.9	66.8
2.00% €600m Eurobond repayable 17th June 2020	2.00%	495.5	496.9	490.9	2.00%	495.5	496.9	490.9
4.25% Eurobond repayable 14 September 2021	4.25%	300.0	315.6	297.1	4.25%	300.0	315.6	297.1
2.375% €500m Eurobond repayable 10th February 2022 (vii)	3.51%	415.0	419.4	413.5	3.51%	415.0	419.4	413.5
US Private Placement 16 April 2022	4.31%	162.7	154.4	162.2	4.31%	162.7	154.4	162.2
5.875% Eurobond repayable on 26 September 2022	5.88%	300.0	360.1	297.7	5.88%	300.0	360.1	297.7
US Private Placement 16 April 2024	4.44%	204.0	190.9	203.5	4.44%	204.1	190.9	203.5
8.375% Eurobond repayable on 20 November 2028	8.38%	500.0	708.9	493.9	8.38%	500.0	708.9	493.9
5.50% Eurobond repayable on 19 June 2032	5.50%	350.0	398.3	350.2	–	–	–	–
4.625% Eurobond repayable on 20 February 2037	4.63%	325.0	329.8	323.7	–	–	–	–
6.25% Eurobond repayable on 27 August 2038	6.25%	350.0	428.7	346.1	6.25%	350.0	428.7	346.1
4.454% Index linked loan repayable on 27 February 2044	4.46%	116.7	178.4	116.1	–	–	–	–
1.429% Index linked bond repayable on 20 October 2056	1.77%	125.9	127.8	125.9	–	–	–	–
Over five years		4,523.1	4,991.4	4,498.9		3,194.3	3,544.8	3,171.7
Fair value adjustment (vi) (Note 33)		–	–	(43.4)		–	–	(43.4)
Total non-Current		5,435.7	6,001.3	5,365.5		4,033.7	4,481.5	3,965.1
TOTAL		6,036.3	6,604.8	5,966.1		4,595.2	5,045.8	4,526.6

Notes on the financial statements continued
for the year ended 31 March 2014

25. Loans and other borrowings continued
Loans and Borrowings

	Consolidated				Company			
	2013 Weighted average interest rate (vii)	2013 Face value £m	2013 Fair value £m	2013 Carrying amount £m	2013 Weighted average interest rate (vii)	2013 Face value £m	2013 Fair value £m	2013 Carrying amount £m
Current								
Other short-term loans – amortising (ii)	5.79%	1.4	1.4	1.4	–	–	–	–
Other short-term loans – non-amortising (iii)	5.37%	308.7	328.1	308.9	5.98%	208.7	226.6	208.9
Non-recourse funding (iv)	5.74%	13.7	13.7	13.7	–	–	–	–
6.125% Eurobond repayable on 29 July 2013	6.13%	506.2	515.3	506.0	6.13%	506.2	515.3	506.0
5.75% Eurobond repayable 5 February 2014	5.75%	700.0	726.6	699.2	5.75%	700.0	726.6	699.2
Total current		1,530.0	1,585.1	1,529.2		1,414.9	1,468.5	1,414.1
Non-Current								
Bank loans – non-amortising (v)	1.40%	61.5	57.3	61.5	1.40%	61.5	57.3	61.5
Non-recourse funding (iv)	6.04%	65.1	65.1	65.1	–	–	–	–
US Private Placement 16 April 2017	3.17%	12.8	13.6	12.7	3.17%	12.8	13.6	12.7
Between two and five years		139.4	136.0	139.3		74.3	70.9	74.2
Bank loans – non-amortising (v)	2.18%	526.6	571.1	526.6	2.18%	526.6	571.1	526.6
Non-recourse funding (iv)	6.58%	239.7	239.7	239.8	–	–	–	–
5.00% Eurobond repayable on 1 October 2018	5.00%	500.0	577.1	497.0	5.00%	500.0	577.1	497.0
US Private Placement 16 April 2019	3.66%	67.0	72.6	66.7	3.66%	67.0	72.6	66.7
4.25% Eurobond repayable 14 September 2021	4.25%	300.0	331.0	296.7	6.58%	300.0	331.0	296.7
US Private Placement 16 April 2022	4.31%	162.7	179.0	162.1	4.31%	162.7	179.0	162.1
5.875% Eurobond repayable on 26 September 2022	5.88%	300.0	373.0	297.4	4.25%	300.0	373.0	297.4
US Private Placement 16 April 2024	4.44%	204.1	224.0	203.5	4.44%	204.1	224.1	203.5
8.375% Eurobond repayable on 20 November 2028	8.38%	500.0	755.1	493.5	8.38%	500.0	755.1	493.5
5.50% Eurobond repayable on 19 June 2032	5.50%	350.0	427.2	350.2	–	–	–	–
4.625% Eurobond repayable on 20 February 2037	4.63%	325.0	352.0	323.6	_	–	–	–
6.25% Eurobond repayable on 27 August 2038	6.25%	350.0	453.3	346.0	6.25%	350.0	453.3	346.0
4.454% Index linked loan repayable on 27 February 2044	4.46%	113.7	199.0	113.1	–	–	–	–
1.429% Index linked bond repayable on 20 October 2056	1.77%	122.0	124.4	122.0	–	–	–	–
Over five years		4,060.8	4,878.5	4,038.2		2,910.4	3,536.3	2,889.5
Fair value adjustment (vi) (Note 33)		–	–	47.9		–	–	47.9
Total non-Current		4,200.2	5,014.5	4,225.4		2,984.7	3,607.2	3,011.6
TOTAL		5,730.2	6,599.6	5,754.6		4,399.6	5,075.7	4,425.7

(i) Bank overdrafts are repayable on demand.

(ii) Balances under amortising loans are adjusted for capital repayments or drawings in the financial year. These are held with the European Investment Bank (EIB) in a combination of fixed and floating rates.

(iii) Balances include commercial paper, term loans and EIB debt.

(iv) The Tay Valley Lighting companies formed under 50:50 partnership with Royal Bank Leasing Limited to provide street-lighting services are categorised as subsidiaries under SIC-12 (Accompanying information A3). The debt held by these companies is included on consolidation but is non-recourse to the Group.

(v) The floating rate European Investment Bank advances are either reset quarterly or semi-annually. Other loans include a mixture of fixed and floating debt repayable between 2014 and 2017.

(vi) The fair value adjustment relates to the change in the carrying amount of the borrowings as a result of fair value hedges that are in place. The movement in the fair value adjustment is recognised in the income statement with a corresponding movement on the hedging instrument also being recognised in the income statement.

(vii) The weighted average interest rates for the Group (including the effect of the interest rate swaps) for the year ended 31 March 2014 was 4.71% (2013 – 5.26%). The weighted average interest rate for the €500m Eurobond repayable on 10 February 2022 is stated inclusive of the effect of cross-currency swaps which are part of the Group's Financing Derivatives reported at Note 33.

25. Loans and other borrowings continued

(ii). Finance lease liabilities

Future finance lease commitments are as follows:

	Minimum lease payments		Present Value of minimum lease payments	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Amounts payable:				
Within one year	**52.5**	51.2	**18.1**	15.4
Between one and five years	**206.8**	199.1	**86.1**	73.0
After five years	**334.6**	373.4	**224.7**	242.0
	593.9	623.7	**328.9**	330.4
Less: future finance charge	**(265.0)**	(293.3)	–	–
Present value of lease obligations	**328.9**	330.4	–	–

The Group entered into a power purchase agreement categorised as a finance lease with Marchwood Power Limited in the year ended March 2010. The lease is for use of their main asset, a 840MW Gas powered CCGT Electricity Generating Plant. The term of the lease is 15 years with the Group having the option for a further 5 years extension at the end of this period. £19.7m (2013 – £18.9m) of contingent rents under the lease were included within cost of sales for the period. Contingent rent consists of £/MWh charges for availability of the plant for energy production and a £/MWh charge for actual 'nominated' energy produced.

Of the remaining finance leases held by the group, the average remaining term of the telecom leases is seven years. No arrangements have been entered into for contingent rental payments for these leases.

The fair value of the Group's lease obligations approximates their carrying amount. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets. The Company does not have any obligations under finance leases.

26. Deferred taxation

The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated capital allowances £m	Fair value gains /(losses) on derivatives £m	Retirement benefit obligations £m	Other (i) £m	Total £m
Consolidated					
At 1 April 2012	703.0	(4.2)	(175.7)	176.6	699.7
Acquisitions	7.3	–	–	5.8	13.1
Disposals	–	–	–	(10.0)	(10.0)
(Credit)/charge to Income Statement	(9.0)	(48.4)	17.8	(18.2)	(57.8)
(Credit)/charge to equity	–	11.4	(4.4)	(1.3)	5.7
Exchange adjustments	–	–	–	0.5	0.5
At 31 March 2013	701.3	(41.2)	(162.3)	153.4	651.2
Acquisitions	–	–	–	(88.2)	(88.2)
(Credit)/charge to Income Statement	(62.2)	(63.7)	11.3	42.0	(72.6)
(Credit)/charge to equity	–	(12.6)	23.5	3.7	14.6
Moved to Held for Sale	–	–	–	(2.7)	(2.7)
At 31 March 2014	**639.1**	**(117.5)**	**(127.5)**	**108.2**	**502.3**

Notes on the financial statements continued
for the year ended 31 March 2014

26. Deferred taxation continued

	Fair value gains /(losses) on derivatives £m	Retirement benefit obligations £m	Share based payments £m	Other £m	Total £m
Company					
At 1 April 2012	(29.9)	(47.1)	1.0	(39.9)	(115.9)
Charge to Income Statement	3.3	8.1	–	0.6	12.0
Charge/(credit) to equity	11.0	(3.8)	(0.1)	–	7.1
At 31 March 2013	(15.6)	(42.8)	0.9	(39.3)	(96.8)
(Credit)/charge to Income Statement	(9.0)	3.7	(0.1)	11.8	6.4
(Credit)/charge to equity	(12.7)	2.6	–	–	(10.1)
At 31 March 2014	**(37.3)**	**(36.5)**	**0.8**	**(27.5)**	**(100.5)**

(i) Includes deferred tax on fair value items recognised in business combinations.

Certain deferred tax assets and liabilities have been offset, including the asset balances analysed in the tables above. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Consolidated		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Deferred tax liabilities	**709.6**	806.6	**–**	–
Deferred tax assets	**(207.3)**	(155.4)	**(100.5)**	(96.8)
Net deferred tax liabilities/(assets)	**502.3**	651.2	**(100.5)**	(96.8)

The deferred tax assets disclosed include the deferred tax relating to the Group's pension scheme liabilities.

Temporary differences arising in connection with interests in associates and jointly controlled entities are recorded as part of the Group's share of investment in those entities. The aggregate amount of these is a charge, excluding exceptional items and remeasurement, of £42.8m (2013 – £46.5m charge).

A deferred tax asset has not been recognised on £55.0m of trading losses (2013 – £66.0m) due to uncertainty around the availability of future profits in the companies concerned.

27. Provisions

	Decommissioning (i) £m	Contracting Provisions (ii) £m	Restructuring (iii) £m	Other (iv) £m	Total £m
Consolidated					
At 1 April 2013	185.0	31.3	9.9	63.4	289.6
Charged in the year	–	8.4	1.3	6.5	16.2
Exceptional charges recognised in the year	–	6.0	52.9	46.4	105.3
Unwind of discount	9.5	–	–	–	9.5
Released during the year	–	(0.9)	–	(1.4)	(2.3)
Acquired	27.3	–	–	–	27.3
Utilised during the year	(0.8)	(5.6)	(4.7)	(37.2)	(48.3)
Transfer to Held for Sale (Note 18)	–	–	–	(1.6)	(1.6)
At 31 March 2014	**221.0**	**39.2**	**59.4**	**76.1**	**395.7**
At 31 March 2014					
Non-current	221.0	16.8	–	23.6	261.4
Current	–	22.4	59.4	52.5	134.3
	221.0	**39.2**	**59.4**	**76.1**	**395.7**
At 31 March 2013					
Non-current	185.0	16.0	–	28.5	229.5
Current	–	15.3	9.9	34.9	60.1
	185.0	31.3	9.9	63.4	289.6

(i) Provision has been made for the estimated net present cost of decommissioning North Sea gas production assets and certain generation and gas storage assets. Estimates are based on forecasted clean-up costs at the time of decommissioning discounted for the time value of money. The timing of costs provided is dependent on the lives of the facilities. Decommissioning provisions associated with the acquisitions of the Sean Gas Field.

(ii) The Group holds provisions in relation to long-term construction contracts including street-lighting PFIs. These relate to contract costs that are not guaranteed to being recovered under the respective contracts.

27. Provisions continued

(iii) Restructuring relate to the closure of certain thermal generation plants recognised in the previous year. In the current year, provisions in relation to the voluntary early release programme announced on 26 March 2014 and other business restructuring of £52.9m were recognised as exceptional charges.

(iv) Other provisions relate to costs associated with licence condition breaches, insurance claims and the employer financed retirement benefit provision for pensions for certain Directors and former Directors and employees, which is valued in accordance with IAS19. In addition to this, an exceptional provision of £46.4m relating to settlement of contractual disputes was recognised in the current year.

The Company does not hold provisions.

28. Share capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 1 April 2013	964.3	482.1
Issue of shares (i)	10.6	5.3
At 31 March 2014	**974.9**	**487.4**

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

(i) Shareholders were able to elect to receive ordinary shares in place of the final dividend of 59.0p per ordinary share (in relation to year ended 31 March 2013) and the interim dividend of 26.0p (in relation to the current year) under the terms of the Company's scrip dividend scheme. This resulted in the issue of 1,128,181 and 8,551,629 new fully paid ordinary shares respectively (2013: 13,213,634 and 5,920,120). In addition, the Company issued 0.9m (2013 – 0.5m) shares during the year under the savings-related share option schemes for a consideration of £8.9m (2013 – £5.7m).

During the year, on behalf of the Company, the employee share trust purchased 0.8m shares for a total consideration of £12.0m (2013 – 0.6m shares, consideration of £7.7m). At 31 March 2014, the trust held 3.2m shares (2013 – 3.5m) which had a market value of £46.6m (2013 – £51.9m).

29. Reserves

The movement in reserves is reported in the Statement of Changes in Equity which is included as part of the primary statements (pages 101 and 102).

The capital redemption reserve comprises the value of shares redeemed or purchased by the company from distributable profits.

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

The translation reserve comprises exchange translation differences on foreign currency net investments offset by exchange translation differences on borrowings and derivatives classified as net investment hedges under IAS 39.

The profit for the year attributable to ordinary shareholders dealt with in the financial statements of the Company was £238.0m (2013 – £855.5m). As allowed by section 408 of the Companies Act 2006, the Company has not presented its own income statement.

30. Hybrid capital

	2014 £m	2013 £m
GBP 750m 5.453% perpetual subordinated capital securities	**744.5**	744.5
EUR 500m 5.025% perpetual subordinated capital securities	**416.9**	416.9
USD 700m 5.625% perpetual subordinated capital securities	**427.2**	427.2
EUR 750m 5.625% perpetual subordinated capital securities	**598.2**	598.2
	2,186.8	2,186.8

Each bond has no fixed redemption date but the Company may, at its sole discretion, redeem all, but not part, of these capital securities at their principal amount. The date for the discretionary redemption of the capital issued on 18 September 2012 is 1 October 2017 and every five years thereafter. The 20 September 2010 issued capital may be redeemed fully (not in part) at their principal amounts on 1 October 2015 or 1 October 2020 or any subsequent coupon payment date.

The company issued £750m and €500m hybrid capital bonds on 20 September 2010 and €750m and $700m hybrid capital bonds on 18 September 2012.

In addition, under certain circumstances defined in the terms and conditions of the issue, the Company may at its sole discretion redeem all (but not part of) the bonds at their principal amount at any time prior to 1 October 2017 (for the 18 September 2012 securities) or at any time prior to 1 October 2015 (for the 20 September 2010 securities).

Notes on the financial statements continued
for the year ended 31 March 2014

30. Hybrid capital continued

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

- redemption; or
- dividend payment on ordinary shares

Interest will accrue on any deferred coupon.

For the capital issued on 20 September 2010 and the EUR 750m capital issued on 18 September 2012, coupon payments are expected to be made annually in arrears on 1 October in each year. For the USD 700m capital issued on 18 September 2012, coupon payments are expected to be made bi-annually in arrears on 1 April and 1 October each year. The purpose of both issues was to strengthen SSE's capital base and fund the Group's ongoing capital investment and acquisitions.

Coupon payments of £24.2m (2013 – nil) in relation to the USD Capital issued on 18 September 2012 were paid on 2 April 2013 and 1 October 2013. In addition coupon payments of £98.7m (2013 – £63.4m) in relation to the capital issued on 20 September 2010 were made on 1 October 2013.

31. Retirement benefit obligations

Defined Benefit Schemes

The Group has two funded final salary pension schemes which provide defined benefits based on final pensionable pay. The schemes are subject to independent valuations at least every three years. The future benefit obligations are valued by actuarial methods on the basis of an appropriate assessment of the relevant parameters. The Company operates one of these schemes, being the Scottish Hydro-Electric scheme.

The Group also has an Employer Financed Retirement Benefit scheme and a Group Personal Pension Plan. The Group Personal Pension Plan operates on a Money purchase basis and has been arranged with Friends Provident. The Group matches employee contributions up to a specified limit, in most circumstances this is set at 6%. The Group may also provide additional contributions of 3% after five years and a further 3% after ten year's continuous Group service.

Pension summary:

		Net actuarial (loss)/gain recognised in respect of the pension asset in the Statement of Comprehensive Income		Net pension (liability)	
	Scheme type	**2014 £m**	(Restated) 2013 £m	**2014 £m**	2013 £m
Scottish Hydro Electric (Company)	Defined benefit	**(8.8)**	(134.6)	**(182.7)**	(185.9)
Southern Electric	Defined benefit	**31.8**	(15.9)	**(455.0)**	(519.9)
		23.0	(150.5)	**(637.7)**	(705.8)
IFRIC 14 movement		**(4.0)**	127.0		
Net actuarial (loss) and movement in IFRIC 14 liability		**19.0**	(23.5)		

The Scottish Hydro Electric Pension Scheme net liability of £182.7m (2013 – £185.9m) is presented after an IFRIC 14 minimum funding requirement of £201.1m (2013 – £189.3m).

The individual pension scheme details based on the latest formal actuarial valuations are as follows:

	Scottish Hydro Electric	Southern Electric
Latest formal actuarial valuation	31 March 2012	31 March 2013
Valuation carried out by	Hymans Robertson	Aon Hewitt
Value of assets based on valuation	£1,374.5m	£1,560.6m
Value of liabilities based on valuation	£1,621.2m	£2,109.1m
Valuation method adopted	Projected Unit	Projected Unit
Average salary increase	Inflation curve plus 1.5% pa	RPI
Average pension increase	RPI	RPI
Value of fund assets/accrued benefits	84.8%	74.1%

31. Retirement benefit obligations continued

Both schemes have been updated to 31 March 2014 by qualified independent actuaries. The valuations have been prepared for the purposes of meeting the requirements of IAS 19. The major assumptions used by the actuaries in both schemes were:

	At 31 March 2014	At 31 March 2013
Rate of increase in pensionable salaries	**4.6%**	4.7%
Rate of increase in pension payments	**3.5%**	3.2%
Discount rate	**4.3%**	4.1%
Inflation rate	**3.6%**	3.2%

The assumptions relating to longevity underlying the pension liabilities at 31 March 2014 are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions equivalent to future longevity for members in normal health at age 65 are as follows:

	At 31 March 2014 Male	**At 31 March 2014 Female**	At 31 March 2013 Male	At 31 March 2013 Female
Currently aged 65	**24**	**26**	24	25
Currently aged 45	**27**	**28**	26	28

The impact on the schemes liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2014		At 31 March 2013	
	Increase/ decrease in assumption	**Effect on scheme liabilities**	Increase/ decrease in assumption	Effect on scheme liabilities
Discount rate	**0.1%**	**+/- 1.6%**	0.1%	+/- 1.9%
Longevity	**1 year**	**+/- 3.2%**	1 year	+/- 3.2%

These assumptions are considered to have the most significant impact on scheme valuations.

Valuation of combined Pension Schemes

	Consolidated				Company			
	Long-term rate of return expected at 31 March 2014 %	**Value at 31 March 2014 £m**	Long-term rate of return expected at 31 March 2013 %	Value at 31 March 2013 £m	**Long-term rate of return expected at 31 March 2014 %**	**Value at 31 March 2014 £m**	Long-term rate of return expected at 31 March 2013 %	Value at 31 March 2013 £m
Equities	**7.2**	**967.9**	6.7	1,109.0	**7.2**	**414.2**	7.0	407.2
Government bonds	**3.5**	**920**	3.0	883.0	**3.5**	**694.3**	3.0	736.0
Corporate bonds	**4.3**	**814.1**	4.1	812.0	**4.3**	**323.3**	4.1	281.9
Other investments	**1.3**	**555.3**	3.7	314.0	**1.4**	**188.7**	4.6	140.8
Total fair value of plan assets		**3,257.3**		3,118.0		**1,620.5**		1,565.9
Present value of defined benefit obligation		**(3,693.9)**		(3,634.5)		**(1,602.1)**		(1,562.5)
Pension (liability)/asset (pre IFRIC 14)		**(436.6)**		(516.5)		**18.4**		3.4
IFRIC 14 liability (i)		**(201.1)**		(189.3)		**(201.1)**		(189.3)
Deficit in the scheme		**(637.7)**		(705.8)		**(182.7)**		(185.9)
Deferred tax thereon		**127.5**		162.3		**36.5**		42.8
Net pension liability		**(510.2)**		(543.5)		**(146.2)**		(143.1)

(i) The IFRIC 14 liability represents the deficit repair obligations required to ensure a minimum funding level together with a restriction on the surplus that can be recognised.

Notes on the financial statements continued
for the year ended 31 March 2014

31. Retirement benefit obligations continued

Movements in the defined benefit asset obligations and assets during the year:

Group

	2014			2013 restated		
	Assets £m	Obligations £m	Total £m	Assets £m	Obligations £m	Total £m
at 1 April	**3,118.0**	**(3,634.5)**	**(516.5)**	2,695.0	(3,124.5)	(429.5)
Included in Income Statement						
Current service cost	**–**	**(56.2)**	**(56.2)**	–	(44.1)	(44.1)
Past service cost	**–**	**(0.6)**	**(0.6)**	–	(0.2)	(0.2)
Interest income/(cost)	**128.0**	**(147.0)**	**(19.0)**	124.5	(141.7)	(17.2)
	128.0	**(203.8)**	**(75.8)**	124.5	(186.0)	(61.5)
Included in Other Comprehensive Income						
Actuarial loss/(gain) arising from:						
Demographic assumptions	**–**	**(12.4)**	**(12.4)**	–	–	–
Financial assumptions	**–**	**14.8**	**14.8**	–	(374.4)	(374.4)
Experience assumptions	**–**	**13.3**	**13.3**	–	(57.5)	(57.5)
Return on plan assets excluding interest income	**7.3**	**–**	**7.3**	281.1	–	281.1
	7.3	**15.7**	**23.0**	281.1	(431.9)	(150.8)
Other						
Contributions paid by the employer	**132.7**	**–**	**132.7**	125.3	–	125.3
Scheme participants contributions	**1.1**	**(1.1)**	**–**	7.6	(7.6)	–
Benefits Paid	**(129.8)**	**129.8**	**–**	(115.5)	115.5	–
	4.0	**128.7**	**132.7**	17.4	107.9	125.3
Balance at 31 March	**3,257.3**	**(3,693.9)**	**(436.6)**	3,118.0	(3,634.5)	(516.5)

(i) The retirement benefit obligations are stated before IFRIC 14 liabilities.

Company

	2014			2013 restated		
	Assets £m	Obligations £m	Total £m	Assets £m	Obligations £m	Total £m
at 1 April	**1,565.9**	**(1,562.5)**	**3.4**	1,355.1	(1,248.9)	106.2
Included in Income Statement						
Current service cost	**–**	**(27.8)**	**(27.8)**	–	(21.5)	(21.5)
Past service cost	**–**	**–**	**–**	–	(0.2)	(0.2)
Interest income/(cost)	**64.3**	**(63.1)**	**1.2**	62.6	(56.5)	6.1
	64.3	**(90.9)**	**(26.6)**	62.6	(78.2)	(15.6)
Included in Other Comprehensive Income						
Actuarial loss/(gain) arising from:						
Demographic assumptions	**–**	**–**	**–**	–	–	–
Financial assumptions	**–**	**(1.6)**	**(1.6)**	–	(218.4)	(218.4)
Experience assumptions	**–**	**5.8**	**5.8**	–	(54.5)	(54.5)
Return on plan assets excluding interest income	**(13.0)**	**–**	**(13.0)**	138.0	–	138.0
	(13.0)	**4.2**	**(8.8)**	138.0	(272.9)	(134.9)
Other						
Contributions paid by the employer	**50.4**	**–**	**50.4**	47.7	–	47.7
Scheme participants contributions	**0.3**	**(0.3)**	**–**	3.2	(3.2)	–
Benefits Paid	**(47.4)**	**47.4**	**–**	(40.7)	40.7	–
	3.3	**47.1**	**50.4**	10.2	37.5	47.7
Balance at 31 March	**1,620.5**	**(1,602.1)**	**18.4**	1,565.9	(1,562.5)	3.4

(i) The retirement benefit obligations are stated before IFRIC 14 liabilities.

31. Retirement benefit obligations continued

Charges/(credits) recognised:

	Consolidated		Company	
	2014 £m	2013 Restated £m	**2014 £m**	2013 Restated £m
Current service cost (charged to operating profit)	**56.8**	44.3	**27.8**	21.7
	56.8	44.3	**27.8**	21.7
Charged/(credited) to finance costs:				
Interest from pension scheme assets	**(128.0)**	(124.5)	**(64.3)**	(62.6)
Interest on pension scheme liabilities	**147.0**	141.7	**63.1**	56.5
IFRIC 14 impact on net interest	**7.8**	13.9	**7.8**	13.9
	26.8	31.1	**6.6**	7.8

The return on Pension Scheme assets is as follows:

	Consolidated		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Return on Pension Scheme assets	**135.3**	405.6	**51.3**	200.6

Defined contribution scheme

The total contribution paid by the Group to defined contribution schemes was £44.3m (2013 – £27.4m).

Employer financed retirement benefit (EFRB) pension costs

The increase in the year in relation EFRB was £3.7m (2013 – £3.7m). This is included in other provisions (Note 27).

Staff costs analysis

The pension costs in Note 7 can be analysed thus;

	2014 £m	2013 £m
Service costs	**56.8**	40.8
Defined contribution scheme payments	**44.3**	27.4
	101.1	68.2

Risks to which the Scheme exposes the Company

The nature of the Schemes expose the Group and Company to the risk of paying unanticipated additional contributions to the Scheme in times of adverse experience. The most financially significant risks are likely to be:

Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields: if assets under perform this yield, this will create a deficit.

Changes in bond yields

A decrease in corporate bond yields will increase the value placed on the Schemes' liabilities for accounting purposes, although this will be partially offset by and increase in the value of the Scheme's bond holdings.

Inflation Risk

The majority of the benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. The majority of assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

Life Expectancy

The majority of the schemes obligations are to provide benefits for the life of the members, so increase in the life expectancy will result in an increase in the liabilities.

Notes on the financial statements continued
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31. Retirement benefit obligations continued

The sensitivity analysis disclosed is intended to provide an indication of the impact on the value of the Schemes' liabilities of the risks highlighted.

Policy for recognising gains and losses

The Group and Company recognises actuarial gains and losses immediately, through the remeasurement of the net defined benefit liability.

Methods and assumptions used In preparing the sensitivity analyses

The sensitivities disclosed were calculated using approximate methods taking into account the duration of the Scheme's liabilities. They have been calculated consistently with last period's disclosures. However, please note that these change over time with financial conditions and assumptions.

De-risking

The trustees have taken a number of steps to control the level of investment risk within the Schemes over the last 12 months including reducing the Scheme's exposure to higher risk assets and increasing the level of protection against adverse movements in interest rates and inflation. The trustees continue to review the risk exposures in light of the longer term objectives of the Scheme's.

Asset-liability matching strategies used by the Scheme or the Company

An asset-liability matching strategy has been adopted for a proportion of the Scheme's assets, which is designed to provide partial protection against adverse movements in interest rates and inflation. The trustees review the Scheme's asset allocation on an ongoing basis in light of changes in the funding position and market opportunities.

Expected contributions over the next accounting period and maturity profile

The Group and company expects to contribute approximately £50m to the Scottish Hydro Electric Scheme, and £86m to the Southern Electric Scheme in the period ending 31 March 2015, these contributions include deficit repair contributions of £29.5m and £58.4m respectively. This excludes any costs arising from the voluntary severance exercise that is currently being undertaken.

Maturity profile of the defined benefit obligation

The weighted average duration of the defined benefit obligation is 21 years (2013 – 21 years) for the Scottish Hydro Pension Scheme and 16 years (2013 – 16 years) for the Southern Electric Pension Scheme.

32. Employee share-based payments

The Scottish and Southern Energy Group operates a number of share schemes for the benefit of its employees. Details of these schemes, all of which are equity-settled, are as follows:

(i) Savings-related share option schemes ('Sharesave')

This scheme gives employees the option to purchase shares in the Company at a discounted market price, subject to the employees remaining in employment for the term of the agreement. Employees may opt to save between £5 and £250 per month for a period of 3 and/or 5 years. At the end of these periods employees have six months to exercise their options by using the cash saved (including any bonus equivalent to interest). If the option is not exercised, the funds may be withdrawn by the employee and the option expires.

(ii) Share Incentive Plan (SIP)

This scheme allows employees the opportunity to purchase shares in the Company on a monthly basis. Employees may nominate an amount between £10 and £125 to be deducted from their gross salary. This is then used to purchase shares ('Partnership' shares) in the market each month. These shares are held in trust and become free of liability to income tax and national insurance on their fifth anniversary. These shares may be withdrawn at any point during the 5 years, but tax and national insurance would become payable on any shares withdrawn.

(iii) Deferred Annual Incentive Scheme

This scheme (previously deferred bonus scheme) applies to senior managers and Executive Directors. Under this scheme, 25% of all eligible employees' annual bonus is deferred into shares which only vest after three years, subject to continued service. The number of shares awarded is determined by dividing the relevant pre-tax bonus amount by the share price shortly after the announcement of the results for the financial year to which the bonus relates.

32. Employee share-based payments continued

(iv) Performance Share Plan

This scheme applies to executive directors and senior executives. Shares granted under this arrangement vest subject to the attainment of performance conditions over the relevant three year performance period as set out below:

Award made		02 June 2010	02 June 2011	02 June 2012	02 June 2013
Maximum value of award as a % of base salary		150	150	150	150
Performance conditions					
Total shareholder return (i)	Full vesting	≥ 75th percentile	≥ 75th percentile	≥ 75th percentile	≥ 75th percentile
	25% vesting	median	median	median	median
Earnings per share (ii)	Full vesting	RPI + 8%	RPI + 8%	RPI + 8%	RPI + 8%
	25% vesting	RPI + 2%	RPI + 2%	RPI + 2%	RPI + 2%
Dividend per share growth (iii)	Full vesting	RPI + 6%	RPI + 6%	RPI + 6%	RPI + 6%
	25% vesting	RPI + 2%	RPI + 2%	RPI + 2%	RPI + 2%

These awards will vest after three years to the extent that the relevant performance conditions are met.

(i) Total Shareholder Return (TSR) target relative to other FTSE100 companies and MSCI Europe Utilities (a dedicated peer group of UK and other European utilities) Index. Pro rata vesting will take place between the median and 75th percentile, with no vesting if the minimum target is not met.

(ii) Under the EPS performance condition, pro rata vesting between the lower and upper level above RPI, with no vesting if the minimum EPS growth target is not achieved.

(iii) Under the Dividend per share growth performance condition, pro rata vesting between 2% and 6% above RPI, with no vesting if the minimum dividend per share growth target is not achieved.

(v) Long Term Incentive Plan (LTIP)

This scheme applies to the Management Board (excluding Executive Directors). Shares granted under this arrangement vest subject to the attainment of performance conditions over the relevant performance period. The relevant performance period for this LTIP award is 1 April 2011 to 31 March 2016. The performance conditions are as set out below:

Performance conditions		
Dividend per share growth (DPS)	Full vesting	RPI + 5%
	40% vesting	RPI + 2%

Where DPS growth is between 2 and 5% above RPI, vesting will be calculated on a straight-line basis. Where DPS growth is less than RPI + 2% no vesting will occur.

A charge of £15.5m (2013 – £16.0m) was recognised in the Income Statement in relation to these schemes, £1.7m (2013 – £1.9m) of this was in relation to the Directors of the Company.

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32. Employee share-based payments continued

Details used in the calculation of the costs of these schemes are as follows:

(i) Savings-related share option scheme

The movement in savings related share option schemes in the year were as follows:

Consolidated
As at 31 March 2014

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	**Outstanding at end of year**	Date from which exercisable	Expiry date (i)
10 July 2007	1,306	29,537	–	(4,768)	(24,769)	–	1 October 2012	31 March 2013
17 July 2008	1,274	236,144	–	(218,233)	(2,129)	**15,782**	1 October 2013	31 March 2014
30 June 2009	1,042	15,430	–	(4,813)	(10,617)	**–**	1 October 2012	31 March 2013
30 June 2009	1,042	492,411	–	(9,781)	(14,022)	**468,608**	1 October 2014	31 March 2015
30 June 2010	871	664,623	–	(640,376)	(8,968)	**15,279**	1 October 2013	31 March 2014
30 June 2010	871	2,656,395	–	(27,488)	(72,966)	**2,555,941**	1 October 2015	31 March 2016
29 June 2011	1,105	335,439	–	(3,596)	(25,112)	**306,731**	1 October 2014	31 March 2015
29 June 2011	1,105	655,098	–	(3,328)	(51,478)	**600,292**	1 October 2016	31 March 2017
29 June 2012	1,065	578,115	–	(1,281)	(72,495)	**504,339**	1 October 2015	31 March 2016
29 June 2012	1,065	589,568		(733)	(56,691)	**532,144**	1 October 2017	31 March 2018
05 July 2013	1,197	–	764,187	–	(53,940)	**710,247**	1 October 2016	31 March 2017
05 July 2013	1,197	–	508,865	(41)	(37,211)	**471,613**	1 October 2018	31 March 2019
		6,252,760	1,273,052	(914,438)	(430,398)	**6,180,976**		

As at 31 March 2013

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Outstanding at end of year	Date from which exercisable	Expiry date (i)
11 July 2006	999	26,772	–	(3,671)	(23,101)	–	1 October 2011	31 March 2012
10 July 2007	1,306	247,611	–	(210,405)	(7,669)	29,537	1 October 2012	31 March 2013
17 July 2008	1,274	92,487	–	(1,210)	(91,277)	–	1 October 2011	31 March 2012
17 July 2008	1,274	245,672	–	(1,672)	(7,856)	236,144	1 October 2013	31 March 2014
30 June 2009	1,042	276,846	–	(255,314)	(6,102)	15,430	1 October 2012	31 March 2013
30 June 2009	1,042	513,404	–	(1,597)	(19,396)	492,411	1 October 2014	31 March 2015
30 June 2010	871	702,312	–	(9,197)	(28,492)	664,623	1 October 2013	31 March 2014
30 June 2010	871	2,762,353	–	(4,621)	(101,337)	2,656,395	1 October 2015	31 March 2016
29 June 2011	1,105	386,019	–	(1,429)	(49,151)	335,439	1 October 2014	31 March 2015
29 June 2011	1,105	711,871	–	(516)	(56,257)	655,098	1 October 2016	31 March 2017
29 June 2012	1,065	–	611,099	–	(32,984)	578,115	1 October 2015	31 March 2016
29 June 2012	1,065	–	622,647	–	(33,079)	589,568	1 October 2017	31 March 2018
		5,965,347	1,233,746	(489,632)	(456,701)	6,252,760		

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,455p (2013 – 1,433p) is considered representative of the weighted average share price at the date of exercise. The weighted average share price of forfeitures is simply the option price to which the forfeit relates.

32. Employee share-based payments continued

Company

As at 31 March 2014

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	**Outstanding at end of year**	Date from which exercisable	Expiry date
30 June 2009	1,042	1,253	–	–	**1,253**	1 October 2014	31 March 2015
30 June 2010	871	413	–	–	**413**	1 October 2013	31 March 2014
30 June 2010	871	283	–	–	**283**	1 October 2015	31 March 2016
		1,949	–	–	**1,949**		

As at 31 March 2013

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Outstanding at end of year	Date from which exercisable	Expiry date
30 June 2009	1,042	1,253	–	–	1,253	1 October 2014	31 March 2015
30 June 2010	871	413	–	–	413	1 October 2013	31 March 2014
30 June 2010	871	283	–	–	283	1 October 2015	31 March 2016
		1,949	–	–	1,949		

No options were forfeited in the year.

(i) Options may remain exercisable beyond the published expiry date due to individuals taking advantage of the right to a payment holiday during the term of the scheme.

The fair value of these share options at the measurement date, calculated using the Black-Scholes model, and the assumptions made in that model are as follows:

	July 2007		July 2008		July 2009		July 2010		July 2011		July 2012		July 2013	
	3 Year	5 Year	3 Year	5 Year	3 Year	5 year	3 year	5 Year	3 year	5 Year	3 year	5 year	3 year	5 year
Fair value of option	287p	313p	304p	339p	244p	269p	231p	246p	171p	163p	182p	159p	194p	168p
Expected volatility	25%	25%	28%	28%	35%	35%	19%	19%	18%	18%	18%	18%	15%	15%
Risk free rate	5.8%	5.7%	4.9%	5.0%	2.7%	2.9%	1.4%	2.2%	1.2%	2.1%	0.4%	0.9%	0.7%	1.4%
Expected dividends	5.3%	5.2%	4.1%	4.2%	4.1%	4.2%	1.7%	2.2%	6.1%	6.1%	5.9%	5.8%	5.9%	5.9%
Term of the option	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Underlying price at grant date	1,460p	1,460p	1,397p	1,397p	1,139p	1,139p	1,089p	1,089p	1,393p	1,393p	1,391p	1,391p	1,579p	1,579p
Strike price	1,306p	1,306p	1,274p	1,274p	1,042p	1,042p	871p	871p	1,105p	1,105p	1,065p	1,065p	1,197p	1,197p

Expected price volatility was determined by calculating the historical volatility of the Group's share price over the previous 12 months.

(ii) Share Incentive Plan

Matching Shares

	Consolidated				Company			
	2014		2013		**2014**		2013	
	Shares	**Weighted average price (pence)**	Shares	Weighted average price (pence)	**Shares**	**Weighted average price (pence)**	Shares	Weighted average price (pence)
Outstanding at start of year	**2,126,456**	**1,240**	1,899,009	1,219	**1,044**	**1,240**	1,008	1,091
Granted during the year	**667,644**	**1,470**	610,162	1,395	**168**	**1,484**	216	1,393
Forfeited during the year	**(110,504)**	**1,383**	(90,652)	1,263	**–**	**–**	–	–
Exercised during the year	**(138,685)**	**1,239**	(96,718)	1,255	**(357)**	**1,268**	–	–
Transfer to pool during the year	**(256,782)**	**1,262**	(195,345)	1,506	**(147)**	**1,287**	(180)	1,507
Outstanding at end of year	**2,288,129**	**1,297**	2,126,456	1,240	**708**	**1,195**	1,044	1,240
Exercisable at end of year	**729,988**	**1,150**	645,462	1,301	**288**	**1,148**	414	1,301

When shares have been held for 5 years they are transferred to a pooled share account. At this point the holder has an unconditional right to the share.

Notes on the financial statements continued
for the year ended 31 March 2014

32. Employee share-based payments continued

The fair value of shares in the share incentive plan is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price and is based on the price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

Free Shares

	Consolidated				Company			
	2014		2013		2014		2013	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	**92,864**	**1,417**	262,277	1,187	**30**	**1,417**	90	1,098
Forfeited during the year	**(150)**	**1,059**	–	–	**–**	**–**	–	–
Exercised during the year	**(5,244)**	**1,404**	(22,682)	1,432	**–**	**–**	–	–
Transfer to pool during the year	**(87,470)**	**1,408**	(146,731)	1,474	**(30)**	**1,408**	(60)	1,474
Outstanding at end of year	**–**	**1,408**	92,864	1,417	**–**	**1,408**	30	1,417
Exercisable at end of year	**–**	**1,408**	92,864	1,417	**–**	**1,408**	30	1,417

The fair value of these shares is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price and is based on the price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

(iii) Deferred Annual Incentive Scheme

	Consolidated				Company			
	2014		2013		2014		2013	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	**346,214**	**1,257**	395,755	1,198	**54,350**	**1,229**	68,208	1,177
Granted during the year	**123,028**	**1,496**	95,681	1,383	**6,880**	**1,496**	9,210	1,383
Forfeited during the year	**(4,086)**	**1,208**	(18,434)	1,196	**–**	**–**	–	–
Exercised during the year	**(134,610)**	**1,183**	(126,788)	1,177	**(28,482)**	**1,119**	(23,068)	1,174
Outstanding at end of year	**330,546**	**1,409**	346,214	1,257	**32,748**	**1,381**	54,350	1,229
Exercisable at end of year	**2,298**	**1,327**	2,298	1,327	**–**	**–**	–	–

The fair value of the annual incentive scheme shares is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price and is based on the price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

(iv) Performance Share Plan

	Consolidated				Company			
	2014		2013		2014		2013	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	**1,909,567**	**1,246**	2,040,423	1,185	**755,696**	**1,236**	854,380	1,177
Granted during the year	**587,256**	**1,496**	656,437	1,383	**131,841**	**1,496**	212,490	1,383
Forfeited during the year	**(517,495)**	**1,140**	(738,000)	1,204	**(280,645)**	**1,779**	(311,174)	1,174
Exercised during the year	**(363,913)**	**1,079**	(49,293)	1,174	**(68,824)**	**1,496**	–	–
Outstanding at end of year	**1,615,415**	**1,408**	1,909,567	1,246	**538,068**	**1,347**	755,696	1,236

Of the outstanding options at the end of the year, none were exercisable.

The fair value of the performance share plan shares is not subject to valuation using the Black-Scholes model. The fair value of shares granted in the year is equal to the closing market price on the date of grant.

32. Employee share-based payments continued

(v) Long Term Incentive Plan

	2014		2013	
	Shares	**Weighted average price (pence)**	Shares	Weighted average price (pence)
Outstanding at start of year	**246,867**	**1,350**	225,687	1,342
Granted during year	**–**	**–**	50,986	1,383
Forfeit during year	**–**	**–**	(29,806)	1,342
Outstanding at end of year	**246,867**	**1,350**	246,867	1,350

No award was granted during the year.

Of the outstanding options at the end of the year, none were exercisable. The company has no employees in the LTIP.

The fair value of the long-term incentive plan shares is not subject to valuation using the Black-Scholes model. The fair value of shares granted in the year is equal to closing market price on the date of grant.

33. Capital and financial risk management

Capital management

The Board's policy is to maintain a strong balance sheet and credit rating so as to support investor, counterparty and market confidence and to underpin future development of the business. The Group's credit ratings are also important in maintaining an efficient cost of capital and in determining collateral requirements throughout the Group. As at 31 March 2014, the Group's long term credit rating was A3 stable outlook for Moody's and A- negative outlook for Standard & Poors. On 29 April 2014, the Group's long-term credit rating of A3 with Moody's was put on negative outlook. Further detail of the capital management objectives, policies and procedures are included in the 'Financial management and balance sheet' section of the Financial Overview at pages 18 to 20 of this report.

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

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices and economic conditions. The use of share buy-backs is the Group's benchmark for investment decisions and is utilised at times when management believe the Group's shares are undervalued. No share buy-back was made during the year.

The group's debt requirements are principally met through issuing bonds denominated in Sterling and Euros as well as private placements and medium term bank loans including those with the European Investment Bank. In addition the Group has issued hybrid capital securities which bring together features of both debt and equity, are perpetual and subordinate to all senior creditors. The Group has £1.5bn of committed bank facilities which relate to the Groups revolving credit and bilateral facilities that can be accessed at short notice for use in managing the Group's short-term funding requirements however these committed facilities remain undrawn for the majority of the time.

The Group capital comprises:

	2014 £m	2013 £m
Total borrowings (excluding finance leases)	**5,966.1**	5,754.6
Less: Cash and cash equivalents	**(442.5)**	(538.7)
Net debt (excluding hybrid capital)	**5,523.6**	5,215.9
Hybrid capital	**2,186.8**	2,186.8
Cash held as collateral	**(51.2)**	(55.0)
Adjusted net debt and hybrid capital	**7,659.2**	7,347.7
Equity attributable to shareholders of the parent	**2,932.7**	3,362.1
Total capital	**10,591.9**	10,709.8

Notes on the financial statements continued
for the year ended 31 March 2014

33. Capital and financial risk management continued

Under the terms of its major borrowing facilities, the Group is required to comply with the following financial covenant:

- **Interest Cover Ratio:** The company shall procure that the ratio of Operating Profit to Net Interest Payable for any relevant period is not less than 2.5 to 1.

The following definitions apply in the calculation of these financial covenants:

- **"Operating Profit"** means, in relation to a relevant period, the profit on ordinary activities before taxation (after adding back Net Interest Payable) of the Group for that relevant period but after adjusting this amount to exclude any exceptional profits (or losses) and, for the avoidance of doubt, before taking account of any extraordinary profits (or losses) and excluding the effect of IAS 39.
- **"Net Interest Payable"** means, in respect of any relevant period, interest payable during that relevant period less interest receivable during that relevant period.

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

Financial risk management

This note presents information about the fair value of the Group's financial instruments, the Group's exposure to the risks associated with those instruments, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further qualitative disclosures are included throughout these consolidated financial statements.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Commodity risk
- Currency risk
- Interest rate risk

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board established the Risk and Trading Committee, a standing committee of the Executive Committee comprising two Executive Directors and senior managers primarily from the Energy Portfolio Management and Finance functions, to oversee the control of these activities. This committee is discussed further in the Directors Report.

The Group's policies for risk management are established to identify the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies, and the systems used to monitor activities, are reviewed regularly by the Risk and Trading Committee.

Exposure to the commodity, currency and interest rate risks noted arise in the normal course of the Group's business and derivative financial instruments are entered into to hedge exposure to these risks. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below.

The Company is required to disclose information on its financial instruments and has adopted policies identical to that of the Group, where applicable. Separate disclosure is provided where necessary.

Before detailing the relevant qualitative and quantitative disclosures in relation to the potential risks faced by the Group, details on the different categories of financial instrument and the carrying and fair values of each of those categories is provided below.

33. Capital and financial risk management continued

A. Categories of financial instruments and fair values of those assets and liabilities

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

	2014 Amortised cost or other (i) £m	2014 Classified as trading (ii) £m	2014 Total carrying value £m	2014 Fair value £m	2013 Amortised cost or other (i) £m	2013 Classified as trading (ii) £m	2013 Total Carrying value £m	2013 Fair value £m
Financial Assets								
Current								
Trade receivables	**2,759.3**	**–**	**2,759.3**	**2,759.3**	2,815.1	–	2,815.1	2,815.1
Other receivables	**29.0**	**–**	**29.0**	**29.0**	39.9	–	39.9	39.9
Cash collateral	**51.2**	**–**	**51.2**	**51.2**	55.0	–	55.0	55.0
Cash and cash equivalents	**442.5**	**–**	**442.5**	**442.5**	538.7	–	538.7	538.7
Derivative financial assets	**–**	**1,261.2**	**1,261.2**	**1,261.2**	–	940.8	940.8	940.8
	3,282.0	**1,261.2**	**4,543.2**	**4,543.2**	3,448.7	940.8	4,389.5	4,389.5
Non-current								
Unquoted equity investments	**24.3**	**–**	**24.3**	**24.3**	28.7	–	28.7	28.7
Loans to associates and jointly controlled entities	**521.6**	**–**	**521.6**	**521.6**	1,244.0	–	1,244.0	1,244.0
Derivative financial assets	**–**	**368.4**	**368.4**	**368.4**	–	382.4	382.4	382.4
	545.9	**368.4**	**914.3**	**914.3**	1,272.7	382.4	1,655.1	1,655.1
	3,827.9	**1,629.6**	**5,457.5**	**5,457.5**	4,721.4	1,323.2	6,044.6	6,044.6
Financial Liabilities								
Current								
Trade payables	**(2,496.2)**	**–**	**(2,496.2)**	**(2,496.2)**	(2,531.4)	–	(2,531.4)	(2,531.4)
Bank loans and overdrafts	**(600.6)**	**–**	**(600.6)**	**(603.5)**	(1,529.2)	–	(1,529.2)	(1,585.1)
Finance lease liabilities	**(18.1)**	**–**	**(18.1)**	**(18.1)**	(15.4)	–	(15.4)	(15.4)
Derivative financial liabilities	**–**	**(1,470.2)**	**(1,470.2)**	**(1,470.2)**	–	(1,011.2)	(1,011.2)	(1,011.2)
	(3,114.9)	**(1,470.2)**	**(4,585.1)**	**(4,588.0)**	(4,076.0)	(1,011.2)	(5,087.2)	(5,143.1)
Non-current								
Loans and Borrowings (iii)	**(5,408.9)**	**43.4**	**(5,365.5)**	**(6,001.3)**	(4,177.5)	(47.9)	(4,225.4)	(5,014.5)
Finance lease liabilities	**(310.8)**	**–**	**(310.8)**	**(310.8)**	(315.0)	–	(315.0)	(315.0)
Derivative financial liabilities	**–**	**(681.7)**	**(681.7)**	**(681.7)**	–	(473.4)	(473.4)	(473.4)
	(5,719.7)	**(638.3)**	**(6,358.0)**	**(6,993.8)**	(4,492.5)	(521.3)	(5,013.8)	(5,802.9)
	(8,834.6)	**(2,108.5)**	**(10,943.1)**	**(11,581.8)**	(8,568.5)	(1,532.5)	(10,101.0)	(10,946.0)
Net financial liabilities	**(5,006.7)**	**(478.9)**	**(5,485.6)**	**(6,124.3)**	(3,847.1)	(209.3)	(4,056.4)	(4,901.4)

(i) Recorded at amortised cost or loans and receivables.

(ii) IAS 39 financial instruments.

(iii) Includes non–recourse borrowings.

Notes on the financial statements continued
for the year ended 31 March 2014

33. Capital and financial risk management continued

B. Risks from use of financial instruments

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

	2014 Amortised cost or other (i) £m	2014 Classified as trading (ii) £m	2014 Total Carrying value £m	2014 Fair value £m	2013 Amortised cost or other (i) £m	2013 Classified as trading (ii) £m	2013 Total Carrying value £m	2013 Fair value £m
Financial assets								
Current								
Cash and cash equivalents	**212.7**	**–**	**212.7**	**212.7**	289.2	–	289.2	289.2
Amounts owed by subsidiary undertakings	**4,440.8**	**–**	**4,440.8**	**4,440.8**	3,782.5	–	3,782.5	3,782.5
Derivative financial assets	**–**	**4.0**	**4.0**	**4.0**	–	65.1	65.1	65.1
	4,653.5	**4.0**	**4,657.5**	**4,657.5**	4,071.7	65.1	4,136.8	4,136.8
Non-current								
Amounts owed by subsidiary undertakings	**4,093.2**	**–**	**4,093.2**	**4,093.2**	4,341.9	–	4,341.9	4,341.9
Loans to associates and jointly controlled entities	**496.3**	**–**	**496.3**	**496.3**	1,208.5	–	1,208.5	1,208.5
Derivative financial assets	**–**	**51.9**	**51.9**	**51.9**	–	151.7	151.7	151.7
	4,589.5	**51.9**	**4,641.4**	**4,641.4**	5,550.4	151.7	5,702.1	5,702.1
	9,243.0	**55.9**	**9,298.9**	**9,298.9**	9,622.1	216.8	9,838.9	9,838.9
Financial liabilities								
Current								
Bank loans and overdrafts	**(561.5)**	**–**	**(561.5)**	**(564.3)**	(1,414.1)	–	(1,414.1)	(1,468.5)
Amounts owed to subsidiary undertakings	**(3,017.9)**	**–**	**(3,017.9)**	**(3,017.9)**	(2,899.7)	–	(2,899.7)	(2,899.7)
Derivative financial liabilities	**–**	**(17.5)**	**(17.5)**	**(17.5)**	–	–	–	–
	(3,579.4)	**(17.5)**	**(3,596.9)**	**(3,599.7)**	(4,313.8)	–	(4,313.8)	(4,368.2)
Non-current								
Loans and borrowings	**(4,008.5)**	**43.4**	**(3,965.1)**	**(4,481.5)**	(2,963.7)	(47.9)	(3,011.6)	(3,607.2)
Amounts owed to subsidiary undertakings	**–**	**–**	**–**	**–**	(270.5)	–	(270.5)	(270.5)
Derivative financial liabilities	**–**	**(287.9)**	**(287.9)**	**(287.9)**	–	(253.5)	(253.5)	(253.5)
	(4,008.5)	**(244.5)**	**(4,253.0)**	**(4,769.4)**	(3,234.2)	(301.4)	(3,535.6)	(4,131.2)
	(7,587.9)	**(262.0)**	**(7,849.9)**	**(8,369.1)**	(7,548.0)	(301.4)	(7,849.4)	(8,499.4)
Net financial assets/(liabilities)	**1,655.1**	**(206.1)**	**1,449.0**	**929.8**	2,074.1	(84.6)	1,989.5	1,339.5

(i) Recorded at amortised cost, available for sale, or loans and receivables.

(ii) IAS 39 financial instruments

Basis of determining fair value

Certain assets and liabilities designated and carried at amortised cost are loans and receivables. For certain current assets and liabilities their carrying value is equivalent to fair value due to short-term maturity.

Assets and liabilities designated at fair value and the fair value of other financial assets and liabilities have been determined by reference to closing rate market values. This basis has been used in valuing interest rate instruments, foreign currency hedge contracts and foreign currency denominated long-term fixed rate debt. Commodity contracts fair values are based on published price quotations.

The fair values are stated at a specific date and may be different from the amounts which will actually be paid or received on settlement of the instruments. The fair value of items such as property, plant and equipment, internally generated brands or the Group's customer base are not included as these are not financial instruments.

33. Capital and financial risk management continued

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations.

Credit risk arising from the Group's normal commercial operations is controlled by individual business units operating in accordance with Group policies and procedures. Generally, for significant contracts, individual business units enter into contracts or agreements with counterparties having investment grade credit ratings only, or where suitable collateral or other security has been provided. Counterparty credit validation is undertaken prior to contractual commitment.

Credit risk management for the Group's Networks businesses is performed in accordance with industry standards as set out by the Regulator and is controlled by the individual business units. The Group's greatest credit risks lie with the operations of the Energy Supply and Energy Portfolio Management activities and the activities carried out by the Group's Treasury function, for which specific credit risk controls that match the risk profile of those activities are applied. Exposure to credit risk in the supply of electricity and gas arises from the potential of a customer defaulting on their invoiced payables. The financial strength and creditworthiness of business customers is assessed prior to commencing, and for the duration of, their contract of supply. Domestic customers' creditworthiness is reviewed from a variety of internal and external information.

Exposure to credit risk in the procurement of wholesale energy and fuel is managed by reference to agreed transaction credit limits which are determined by whether the counterparty:

i) holds an investment grade credit rating; or

ii) can be assessed as adequately creditworthy in accordance with internal credit rules using information from other external credit agencies; or

iii) can provide a guarantee from an investment grade rated entity or post suitable collateral or provide other acceptable assurances in accordance with group procedures where they have failed to meet the above conditions; or

iv) can be allocated a non-standard credit limit approved by the Risk and Trading Committee within its authorised limits as delegated by the Group Board.

Credit support clauses or side agreements are typically included or entered into to protect the Group against counterparty failure or non-delivery. Within the Energy Portfolio Management activities, increasing volumes of commodity derivative products are now traded through cleared exchanges to further mitigate credit risk. Such exchanges are subject to strict regulation by the UK Financial Conduct Authority (FCA) and participants in these exchanges are obliged to meet rigorous capital adequacy requirements.

Individual counterparty credit exposures are monitored by category of credit risk and are subject to approved limits. At 31 March 2014, the Group's Energy Portfolio Management activities had pledged £249.1m (2013 – £248.5m) of cash collateral and letters of credit and had received £41.0m (2013 – £33.2m) of cash collateral and letters of credit principally to reduce exposures on credit risk.

Bank credit exposures, which are monitored and reported on daily, are calculated on a mark-to-market basis and adjusted for future volatility and probability of default. Any issues relating to these credit exposures are presented for discussion and review by the Risk and Trading Committee.

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to cash. These are subject to insignificant risk of change in value or credit risk. Derivative financial instruments are entered into to cover the Group's market risks – commodity risk, interest rate risk, currency risk – and are consequently covered elsewhere in this note.

Trade receivables represent the most significant exposure to credit risk and are stated after an allowance for impairment.

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33. Capital and financial risk management continued

Concentrations of risk

Trade receivables recorded by reported segment held at the 31 March were:

	2014 £m	2013 £m
Networks		
Electricity Distribution	**57.8**	101.7
Electricity Transmission	**2.4**	3.4
Other Networks	**18.2**	28.4
	78.4	133.5
Retail		
Energy Supply	**680.6**	696.2
Energy Related Services	**126.1**	129.4
	806.7	825.6
Wholesale		
Energy Portfolio Management and Electricity Generation	**1,864.1**	1,852.5
Gas Storage	**1.5**	2.2
Gas Production	**0.8**	–
	1,866.4	1,854.7
Corporate Unallocated	**7.8**	1.3
Total	**2,759.3**	2,815.1

The Retail segment accounts for 29.1% (2013 – 29.3%) of the Group's trade receivables. Trade receivables associated with the Group's 9.1 million electricity and gas customers are recorded in this segment. The Group also has significant receivables associated with its Wholesale activities which are generally settled within two to four weeks from invoicing. The Group's exposure to credit risk is therefore subject to diversification with no exposure to individual customers totalling >10% of trade receivables. The biggest customer balance, due from a wholesale customer (also a wholesale supplier), is 10% (2013 – 8%) of the total trade receivables.

The ageing of trade receivables at the reporting date was:

	2014 £m	2013 £m
Not past due	**2,475.5**	2,534.1
Past due but not individually impaired:		
0 – 30 days	**167.0**	173.1
31 – 90 days	**50.9**	65.3
Over 90 days	**230.3**	189.9
	2,923.7	2,962.4
Less: allowance for impairment	**(164.4)**	(147.3)
Net Trade receivables	**2,759.3**	2,815.1

The Group has past due debt which has not had an impairment allowance set aside to cover potential credit losses. The Group has certain procedures to pursue customers in significant arrears and believes its impairment policy in relation to such balances is appropriate. Those debts which are neither past due nor impaired are considered to be good and are expected to be recoverable.

The Group has other receivables which are financial assets totalling £29.1m (2013 – £39.9m). The Company does not have trade receivables.

The movement in the allowance for impairment of trade receivables was:

	2014 £m	2013 £m
Balance at 1 April	**147.3**	137.3
Increase in allowance for impairment	**103.0**	52.3
Impairment losses recognised	**(88.4)**	(49.3)
Recovery of impairment loss previously recognised	**–**	2.3
Acquired allowance	**–**	4.7
Foreign exchange movements	**2.5**	–
Balance at 31 March	**164.4**	147.3

33. Capital and financial risk management continued

At the end of each reporting period a review of the provision for bad and doubtful debts is performed. It is an assessment of the potential amount of trade receivables which will not be paid by customers after the balance sheet date. This amount is calculated by reference to the age, status and risk of each receivable.

(ii) Liquidity risk and Going Concern

Liquidity risk, the risk that the Group will have insufficient funds to meet its liabilities, is managed by the Group's Treasury function. The Group can have significant movements in its liquidity position due to movement in commodity price, working capital requirements, the seasonal nature of the business and phasing of its capital investment programme.

Treasury is responsible for managing the banking and liquidity requirements of the Group, risk management relating to interest rate and foreign exchange exposures, and for managing the credit risk relating to the banking counterparties with which it transacts. Short-term liquidity is reviewed daily by Treasury, while the longer term liquidity position is reviewed on a regular basis by the Board. The department's operations are governed by policies determined by the Board and any breaches of these policies are reported to the Risk and Trading Committee and Audit Committee.

In relation to the Group's liquidity risk, the Group's policy is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

During the year, the Group's approach to managing liquidity was to seek to ensure that the Group has available committed borrowings and facilities equal to at least 105% of forecast borrowings over a rolling 6 month period.

The Group uses a cash flow forecast to monitor its ongoing borrowing requirements. Typically, the Group will fund any short-term borrowing positions by issuing commercial paper or borrowing from uncommitted bank lines and will invest in money market funds when it has a cash surplus. Details of the Group's borrowings are noted at Note 25. In addition to the borrowings and facilities listed at Note 25, the Group has £100m of uncommitted bank lines and a £15m overdraft facility.

Over the course of the financial year to 31 March 2015, the Group has around £600m of debt reaching maturity, although £500m of this relates to a floating rate loan that has two one year lender extension options and we are expecting the first option to be taken up during the first half of this year. It is expected that the capital markets will be accessed and further new bank loans will be agreed to meet the Group's ongoing funding requirements. As a result of the debt issued and the increase in committed facilities secured during the last financial year the Group's 105% funding policy has been met out to October 2015. Given the committed bank facilities of £1.5bn maintained by the Group and the current capital market conditions, the Directors have concluded that the Group has sufficient headroom to continue as a going concern. In coming to this conclusion, the Directors have also taken into account the successful issuance of £4.5bn of medium to long term debt and hybrid capital since October 2009, and the Group's credit rating. The statement of going concern is included in the Directors' Corporate Governance report on page 93.

Treasury also manage the Group's interaction with its relationship banks (defined as those banks that support the company's financing activities through their ongoing participation in the committed lending facilities that are maintained by the Group). These are each allocated financial limits, subject to the maintenance of a minimum credit rating of investment grade or better allocated by a recognised major ratings group. In respect of short-term cash management, counterparties are subject to review and approval according to defined criteria.

As at 31 March 2014, the value of outstanding cash collateral in respect of mark-to-market related margin calls on exchange traded positions was £51.2m (2013 – £55.0m).

The contractual cash flows shown in the following tables are the contractual undiscounted cashflows under the relevant financial instruments. Where the contractual cashflows are variable based on a price, foreign exchange rate or index in the future, the contractual cashflows in the following tables have been determined with reference to the relevant price, foreign exchange rate, interest rate or index as at the balance sheet date. In determining the interest element of contractual cashflows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cashflows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the amounts in the following tables are on the assumption the holder redeems at the earliest opportunity.

The numbers in the following tables have been included in the Group's cashflow forecasts for the purposes of considering Liquidity Risk as noted above.

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for the year ended 31 March 2014

33. Capital and financial risk management continued

The following are the undiscounted contractual maturities of financial liabilities, including interest and excluding the impact of netting agreements:

Liquidity Risk	2014 Carrying value £m	2014 Contractual cash flows £m	2014 0-12 months £m	2014 1-2 years £m	2014 2-5 years £m	2014 > 5 years £m	2013 Carrying value £m	2013 Contractual cash flows £m	2013 0-12 months £m	2013 1-2 years £m	2013 2-5 years £m	2013 > 5 years £m
Financial liabilities												
Loans and borrowings												
Bank overdrafts	0.3	(0.3)	(0.3)	–	–	–	–	–	–	–	–	–
Commercial paper and cash advances	0.4	(0.4)	–	–	(0.4)	–	–	–	–	–	–	–
Bank loans – floating	1,236.4	(1,280.3)	(597.0)	(205.7)	(15.9)	(461.7)	386.5	(411.6)	(4.4)	(90.7)	(9.9)	(306.6)
Bank loans – fixed	788.0	(1,307.0)	(32.4)	(32.6)	(237.5)	(1,004.5)	1,070.0	(1,640.0)	(317.5)	(32.4)	(129.8)	(1,160.3)
Unsecured bonds – fixed	3,636.5	(6,374.2)	(180.1)	(180.2)	(1,040.8)	(4,973.1)	3,931.6	(7,036.6)	(226.0)	(1,426.3)	(465.8)	(4,918.5)
Non-recourse funding	347.9	(348.1)	(13.7)	(13.9)	(59.0)	(261.5)	318.6	(318.7)	(13.7)	(13.8)	(51.5)	(239.7)
Fair value adjustment	(43.4)	–	–	–	–	–	47.9	–	–	–	–	–
	5,966.1	(9,310.3)	(823.5)	(432.4)	(1,353.6)	(6,700.8)	5,754.6	(9,406.9)	(561.6)	(1,563.2)	(657.0)	(6,625.1)
Finance lease obligations	328.9	(593.9)	(50.1)	(52.5)	(156.7)	(334.6)	330.4	(623.7)	(51.2)	(49.9)	(149.2)	(373.4)
	6,295.0	(9,904.2)	(873.6)	(484.9)	(1,510.3)	(7,035.4)	6,085.0	(10,030.6)	(612.8)	(1,613.1)	(806.2)	(6,998.5)
Derivative financial liabilities												
Operating derivatives designated at fair value	1,839.2	15,311.6	10,671.4	4,203.6	418.5	18.1	1,220.9	3,572.5	4,005.2	(303.1)	(113.4)	(16.2)
Interest rate swaps used for hedging	79.5	(79.6)	(15.5)	(13.9)	(36.9)	(13.3)	50.3	(50.3)	(24.3)	(5.7)	(17.0)	(3.3)
Interest rate swaps designated at fair value	207.1	(207.1)	(22.1)	(22.1)	(46.6)	(116.3)	213.2	(213.2)	(11.9)	(11.9)	(35.1)	(154.3)
Forward exchange contracts held for hedging	13.0	(434.4)	(173.6)	(177.4)	(60.7)	(22.7)	0.2	(14.6)	(12.8)	(1.8)	–	–
Forward exchange contracts designated at fair value	13.1	(246.5)	(214.8)	(31.7)	–	–	–	–	–	–	–	–
	2,151.9	14,344.0	10,245.4	3,958.5	274.3	(134.2)	1,484.6	3,294.4	3,956.2	(322.5)	(165.5)	(173.8)
Other financial liabilities												
Trade payables	2,496.2	(2,496.2)	(2,496.2)	–	–	–	2,531.4	(2,531.4)	(2,531.4)	–	–	–
	2,496.2	(2,496.2)	(2,496.2)	–	–	–	2,531.4	(2,531.4)	(2,531.4)	–	–	–
Total	10,943.1	1,943.6	6,875.6	3,473.6	(1,236.0)	(7,169.6)	10,101.0	(9,267.6)	812.0	(1,935.6)	(971.7)	(7,172.3)
Derivative Financial Assets												
Financing derivatives	(55.9)	(131.5)	(110.5)	(24.7)	(8.6)	12.3	(216.8)	(1,470.3)	(1,099.3)	(304.1)	(66.1)	(0.8)
Operating derivatives designated at fair value	(1573.7)	(12,304.8)	(9,119.7)	(2,954.9)	(231.5)	1.3	(1,106.4)	(5,498.0)	(4,925.0)	(311.9)	(247.2)	(13.9)
	(1,629.6)	(12,436.3)	(9,230.2)	(2,979.6)	(240.1)	13.6	(1,323.2)	(6,968.3)	(6,024.3)	(616.0)	(313.3)	(14.7)
Net total (i)	9,313.5	(10,492.7)	(2,354.6)	494.0	(1,476.1)	(7,156.0)	8,777.8	(16,235.9)	(5,212.3)	(2,551.6)	(1,285.0)	(7,187.0)

(i) The Group believes the liquidity risk associated with out-of-the-money operating derivative contracts needs to be considered in conjunction with the profile of payments or receipts arising from derivative financial assets. It should be noted that cash flows associated with future energy sales and commodity contracts which are not IAS 39 financial instruments are not included in this analysis, which is prepared in accordance with IFRS 7.

33. Capital and financial risk management continued

The Company has the following liquidity maturity profile:

Liquidity Risk	2014 Carrying value £m	2014 Contractual cash flows £m	2014 0-12 months £m	2014 1-2 years £m	2014 2-5 years £m	2014 > 5 years £m	2013 Carrying value £m	2013 Contractual cash flows £m	2013 0-12 months £m	2013 1-2 years £m	2013 2-5 years £m	2013 > 5 years £m
Financial Liabilities Loans and Borrowings												
Bank loans – floating	**671.9**	**(889.7)**	**(27.0)**	**(27.1)**	**(220.3)**	**(615.3)**	361.5	(386.4)	(4.2)	(65.7)	(9.9)	(306.6)
Bank loans – fixed	**1,061.5**	**(1,090.6)**	**(570.0)**	**(203.8)**	**(10.1)**	**(306.7)**	880.5	(1,141.2)	(232.6)	(27.1)	(113.0)	(768.5)
Unsecured bonds – fixed	**2,836.6**	**(4,611.0)**	**(144.0)**	**(144.0)**	**(932.0)**	**(3,391.0)**	3,135.8	(4,907.2)	(1,396.6)	(119.1)	(357.4)	(3,034.1)
Fair value adjustment	**(43.4)**	**–**	**–**	**–**	**–**	**–**	47.9	–	–	–	–	–
	4,526.6	**(6,591.3)**	**(741.0)**	**(374.9)**	**(1,162.4)**	**(4,313.0)**	4,425.7	(6,434.8)	(1,633.4)	(211.9)	(480.3)	(4,109.2)
Derivative Financial Liabilities												
Interest rate swaps used for hedging	**79.6**	**(79.6)**	**(15.5)**	**(13.9)**	**(36.9)**	**(13.3)**	49.6	(49.6)	(23.6)	(5.7)	(17.0)	(3.3)
Interest rate swaps designated at fair value	**199.7**	**(207.1)**	**(22.1)**	**(22.1)**	**(46.6)**	**(116.3)**	203.7	(203.7)	(11.5)	(11.5)	(34.0)	(146.7)
Forward exchange contracts held for hedging	**13.0**	**(351.0)**	**(173.6)**	**(177.4)**	**–**	**–**	0.2	(14.6)	(12.8)	(1.8)	–	–
Forward exchange contracts designated at fair value	**13.1**	**(246.5)**	**(214.8)**	**(31.7)**	**–**	**–**	–	–	–	–	–	–
	305.4	**(884.2)**	**(426.0)**	**(245.1)**	**(83.5)**	**(129.6)**	253.5	(267.9)	(47.9)	(19.0)	(51.0)	(150.0)
Other financial liabilities												
Amounts due to subsidiary undertakings	**3,017.9**	**(3,017.9)**	**(3,017.9)**	**–**	**–**	**–**	2,899.7	(2,899.7)	(2,899.7)	–	–	–
	3,017.9	**(3,017.9)**	**(3,017.9)**	**–**	**–**	**–**	2,899.7	(2,899.7)	(2,899.7)	–	–	–
Total	**7,849.9**	**(10,493.4)**	**(4,184.9)**	**(620.0)**	**(1,245.9)**	**(4,442.6)**	7,578.9	(9,602.4)	(4,581.0)	(230.9)	(531.3)	(4,259.2)
Derivative Financial Assets												
Financing derivatives	**(55.9)**	**(131.5)**	**(110.5)**	**(24.7)**	**(8.6)**	**12.3**	(216.8)	(1,470.3)	(1,099.3)	(304.1)	(66.1)	(0.8)
Net total	**7,794.0**	**(10,624.9)**	**(4,295.4)**	**(644.7)**	**(1,254.5)**	**(4,430.3)**	7,362.1	(11,072.7)	(5,680.3)	(535.0)	(597.4)	(4,260.0)

(iii) Commodity risk

The Group's Energy Portfolio Management function manages the Group's exposure to energy commodity price movements and also to physical commodity volume requirements as part of its normal course of business. This arises from the Group's requirement to source gas or electricity to supply to customers, or to procure fuel for its Electricity Generation business.

The Group's strategy is to manage all exposures to commodity risk through volumetric limits and to measure the exposure by use of a Value at Risk (VaR) model. The exposure is subject to financial limits established by the Board and managed by the Risk and Trading Committee. The exposure is reported to the Committee on a monthly basis and to the Board when certain trigger levels are exceeded. Within this approach, only certain of the Group's energy commodity contracts are deemed to constitute financial instruments under IAS 39. As a result, while the Group manages the commodity price risk associated with both financial and non-financial commodity contracts, it is only the fair value of IAS 39 financial instruments which represents the exposure of the Group's commodity price risk under IFRS 7. This is a consequence of the accounting policy which requires that commodity contracts which are designated as financial instruments under IAS 39 should be accounted for on a fair value basis with changes in fair value reflected in profit or equity. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts. As fair value changes in own use contracts are not reflected through profit or equity, these do not represent the IFRS 7 commodity price risk. Therefore, as the overall Group VaR associated with the Energy Portfolio Management activities is monitored for internal risk management purposes and is outside the scope of IAS 39, these measures are not required to comply with IFRS 7.

Operationally, the economic risks that the Group is exposed to associated with this exposure are managed through a selection of longer and shorter term contracts for commodities such as gas, electricity, coal and oil, the contract that Energy Portfolio Management has with the Group's gas production business and through flexibility from the Group's fleet of generation assets.

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33. Capital and financial risk management continued

Short-term exposures arise from the requirement to match volumes of procured gas and electricity with demand for gas and electricity by Energy Supply customers. In addition, exposures can arise from matching fuel and other commodities procurement with demand for these commodities arising from the Group's Generation assets. Both can vary from expectations and can result in a requirement to close the contracted positions at unfavourable prices. This short-term aspect of commodity risk is in part managed through the ability to increase or decrease energy production either in the form of flexible purchase contracts or assets such as pumped storage generating plant, flexible hydro generating plant, standby oil plant and gas storage.

Longer-term exposures are managed by Energy Portfolio Management through longer term contracts (including forwards, futures contracts and other financial instruments). These, in turn, are used to reduce short-term market exposures.

Certain commodity contracts are entered into primarily for own use purposes to supply to customers or to provide fuel to power stations. However, as noted, a number of these contracts do not qualify for own use treatment under IAS 39 and are subject to fair value measurement through the income statement. In addition to this, the Group enters into certain contracts to manage commodity price and volume risk. These are also subject to fair value measurement through the income statement. Finally, other physical contracts can be treated as the hedging instrument in documented cash flow hedging relationships where the hedged item is the forecast future purchase requirement to meet production or customer demand. The accounting policies associated with such items are explained in the Accompanying Information section A1.

The consequential commodity risk which derives from these activities is quantified by the use of a Value at Risk (VaR) model which considers exposures in all commodities and provides an estimate of the potential change to the Groups forecast profits over a given period and to a given confidence level. The calculated financial risk is controlled through the imposition of a number of risk limits approved by the Board and monitored and managed by the Risk and Trading Committee. The Group's exposure to Commodity risk is subsequently reported to and monitored by the Risk and Trading Committee and to the Management Board by exception.

The Group's exposure to commodity price risk according to IFRS 7 is measured by reference to the Group's IAS 39 commodity contracts. IFRS 7 requires disclosure of a sensitivity analysis for market risks that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables impacting upon the fair value or cash flows associated with the Group's financial instruments.

Therefore, the sensitivity analysis provided discloses the effect on profit or loss and equity at the balance sheet date assuming that a reasonably possible change in the relevant commodity price had occurred, and been applied to the risk exposures in existence at that date. The reasonably possible changes in commodity prices used in the sensitivity analysis were determined based on calculated or implied volatilities where available, or historical data.

The sensitivity analysis has been calculated on the basis that the proportion of commodity contracts that are IAS 39 financial instruments remains consistent with those at that point. Excluded from this analysis are all commodity contracts that are not financial instruments under IAS 39.

	2014		2013	
	Base Price (i)	**Reasonably possible increase/ decrease in variable**	Base Price (i)	Reasonably possible increase/ decrease in variable
Commodity prices				
UK gas (p/therm)	**60**	**+/- 4**	68	+/- 4
UK power (£/MWh)	**51**	**+/- 3**	57	+/- 3
UK coal (US$/tonne)	**85**	**+/- 7**	99	+/- 6
UK emissions (€/tonne)	**5**	**+/- 2**	5	+/- 2
UK oil (US$/bbl)	**98**	**+/- 8**	98	+/- 8

(i) The base price represents the average forward market price over the duration of the active market curve used to calculate the sensitivity analysis.

The impacts of reasonably possible changes in commodity prices on profit after taxation based on the rationale described are as follows:

	2014		2013	
	Impact on profit (£m)	**Impact on equity (£m)**	Impact on profit (£m)	Impact on equity (£m)
Incremental profit/(loss)				
Commodity prices combined – increase	**146.6**	**–**	96.2	–
Commodity prices combined – decrease	**(146.6)**	**–**	(96.2)	–

The sensitivity analysis provided is hypothetical and is based on the Group's commodity contracts under IAS 39. This is analysis only and should be used with caution as the impacts disclosed are not necessarily indicative of the actual impacts that would be experienced. It should also be noted that these sensitivities impacts provided are indicative only and are based on calculations which do not consider all interrelationships, consequences and effects of such a change in those prices.

33. Capital and financial risk management continued

(iv) Currency risk

The Group publishes its consolidated financial statements in Sterling but also conducts business in foreign currencies. As a result, it is subject to foreign currency exchange risk arising from exchange rate movements which will be reflected in the Group's transaction costs or in the underlying foreign currency assets of its foreign operations.

The Group's policy is to use forward contracts, swaps and options to manage its exposures to foreign exchange risk. All such exposures are transactional in nature, and relate primarily to procurement contracts, commodity purchasing and related freight requirements, commodity hedging, long term plant servicing and maintenance agreements, and the purchase and sale of carbon emission certificates. The policy is to seek to hedge 100% of its currency requirements arising under all committed contracts excepting commodity hedge transactions, the requirements for which are significantly less predictable. The policy for these latter transactions is to assess the Group's requirements on a rolling basis and to enter into cover contracts as appropriate.

The Group has foreign subsidiary operations with significant Euro-denominated net assets. The Group's policy is to hedge its net investment in its foreign operations by ensuring the net assets whose functional currency cash flows are denominated in Euros are matched by borrowings in Euros. For the acquired net assets whose functional cash flows are in Sterling, the Group will ensure Sterling denominated borrowings are in place to minimise currency risk.

Significant exposures are reported to, and discussed by, the Risk and Trading Committee on an ongoing basis and additionally form part of the bi-annual Treasury report to the Audit Committee.

At the balance sheet date, the total nominal value of outstanding forward foreign exchange contracts that the Group has committed to is:

	2014 £m	2013 £m
Forward foreign exchange contracts	**1,756.8**	1,954.4

The Group's exposure to foreign currency risk was as follows:

	2014						2013					
	¥m	**DKK (million)**	**SEK (million)**	**€m**	**$m**	**NOK (million)**	¥m	DKK (million)	SEK (million)	€m	$m	NOK (million)
Loans and borrowings	**15,000.0**	**–**	**–**	**1,103.5**	**100.0**	**512.3**	43,000.0	–	–	604.5	100.0	–
Purchase and commodity contract commitments	**–**	**3.5**	**13.8**	**741.3**	**885.3**	**–**	–	70.8	37.1	592.9	1,307.0	–
Gross exposure	**15,000.0**	**3.5**	**13.8**	**1,844.8**	**985.3**	**512.3**	43,000.0	70.8	37.1	1,197.4	1,407	–
Forward exchange/ swap contracts	**15,000.0**	**3.5**	**13.8**	**1,041.4**	**982.7**	**512.3**	43,000.0	70.8	37.1	915.2	1,322.3	–
Net exposure (in currency)	**–**	**–**	**–**	**803.4**	**2.5**	**–**	–	–	–	282.2	84.7	–
Net exposure (in £m)	**–**	**–**	**–**	**663.4**	**1.5**	**–**	–	–	–	238.1	55.8	–

This represents the net exposure to foreign currencies, reported in pounds Sterling, and arising from all Group activities. All sensitivity analysis has been prepared on the basis of the relative proportions of instruments in foreign currencies being consistent as at the balance sheet date. This includes only monetary assets and liabilities denominated in a currency other than Sterling and excludes the translation of the net assets of foreign operations but not the corresponding impact of the net investment hedge.

The sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually changing. The calculations are based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the Group.

Notes on the financial statements continued
for the year ended 31 March 2014

33. Capital and financial risk management continued

A 10% change in foreign currency exchange rates would have had the following impact on profit after taxation, based on the assumptions presented above:

	Equity		Income Statement	
	At 31 March 2014 £m	At 31 March 2013 £m	**At 31 March 2014 £m**	At 31 March 2013 £m
US Dollars	**–**	–	**0.1**	4.7
Euro	**42.4**	42.7	**14.4**	(22.6)
DKK	**–**	–	**–**	–
¥	**–**	–	**–**	–
SEK	**–**	–	**–**	–
NOK	**–**	–	**–**	–
	42.4	42.7	**14.5**	(17.9)

The impact of a decrease in rates would be an identical reduction in the annual charge.

(v) Interest rate risk

Interest rate risk derives from the Group's exposure to changes in the value of an asset or liability or future cash flows through changes in interest rates.

The Group's policy is to manage this risk by stipulating that a minimum of 50% of Group borrowings be subject to fixed rates of interest, either directly through the debt instruments themselves or through the use of derivative financial instruments. The floating rate borrowings are provided by banks including the European Investment Bank (EIB).Such instruments include interest rate swaps and options, forward rate agreements and, in the case of debt raised in currencies other than Sterling, cross currency swaps. These practices serve to reduce the volatility of the Group's financial performance.

Although interest rate derivatives are primarily used to hedge risk relating to current borrowings, under certain circumstances they may also be used to hedge future borrowings. Any such pre-hedging is unwound at the time of pricing the underlying debt, either through cash settlement on a net present value basis or by transacting offsetting trades.

The impact of a change in interest rates is dependent on the specific details of the financial asset or liability in question. Changes in fixed rate financial assets and liabilities, which account for the majority of cash, loans and borrowings, are not measured at fair value through the income statement. In addition to this, changes to fixed-to-floating hedging instruments which are recorded under cash flow hedge accounting also do not impact the income statement. Changes in variable rate instruments and hedging instruments and hedged items recorded under fair value hedge accounting are recorded through the income statement. The exposure measured is therefore based on variable rate debt and instruments.

The net exposure to interest rates at the balance sheet date can be summarised thus:

	2014 Carrying amount £m	2013 Carrying amount £m
Interest bearing/earning assets and liabilities:		
– fixed	**(4,987.3)**	(5,351.1)
– floating	**(1,147.3)**	(276.8)
	(6,134.6)	(5,627.9)
Represented by:		
Cash and cash equivalents	**442.5**	538.7
Derivative financial liabilities	**(238.7)**	(129.5)
Loans and borrowings	**(6,009.5)**	(5,706.7)
Finance lease obligations	**(328.9)**	(330.4)
	(6,134.6)	(5,627.9)

33. Capital and financial risk management continued

Following from this, the table below represents the expected impact of a change of 100 basis points in short-term interest rates at the reporting date in relation to equity and income statement. The analysis assumes that all other variables, in particular foreign currency rates, remain constant. An increase in exchange rates would be a change to either the income statement or equity. The assessment is based on a revision of the fair value assumptions included in the calculated exposures in the previous table.

All sensitivity analysis has been prepared on the basis of the proportion of fixed to floating instruments being consistent as at the balance sheet date and is stated after the effect of taxation.

The sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually changing. The calculations are based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the Group.

	2014 £m	2013 £m
Income statement	**12.6**	7.1
	12.6	7.1

The impact of a decrease in rates would be an identical reduction in the annual charge. There is no impact on equity as the analysis relates to the Group's net exposure at the balance sheet date. Contracts qualifying for hedge accounting are, by definition, part of the group's covered position.

(vi) Primary statement disclosures

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

The net movement reflected in the income statement can be summarised thus:

	2014 £m	2013 £m
Operating Derivatives		
Total result on operating derivatives (i)	**(785.4)**	33.7
Less: Amounts settled (ii)	**634.5**	(262.4)
Movement in unrealised derivatives	**(150.9)**	(228.7)
Financing Derivatives (and hedged items)		
Total result on financing derivatives (i)	**(754.7)**	(755.0)
Less: Amounts settled (ii)	**690.5**	775.3
Movement in unrealised derivatives	**(64.2)**	20.3
Net income statement impact	**(215.1)**	(208.4)

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

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

The derivative financial assets and (liabilities) are represented as follows:

	2014 £m	2013 £m
Derivative financial assets		
Non-current	**368.4**	382.4
Current	**1,261.2**	940.8
	1,629.6	1,323.2
Derivative liabilities		
Non-current	**(681.7)**	(473.4)
Current	**(1,470.2)**	(1,011.2)
Total derivative liabilities	**(2,151.9)**	(1,484.6)
Net (liability)	**(522.3)**	(161.4)

Notes on the financial statements continued
for the year ended 31 March 2014

33. Capital and financial risk management continued

Fair Value Hierarchy

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

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

	Level 1 £m	Level 2 £m	Level 3 £m	**Total £m**
Financial assets				
Energy derivatives	107.3	1,466.4	–	**1,573.7**
Interest rate derivatives	–	47.9	–	**47.9**
Foreign exchange derivatives	–	8.0	–	**8.0**
Equity investments	–	43.0	–	**43.0**
	107.3	1,565.3	–	**1,672.6**
Financial liabilities				
Energy derivatives	(113.9)	(1,725.3)	–	**(1,839.2)**
Interest rate derivatives	–	(286.6)	–	**(286.6)**
Foreign exchange derivatives	–	(26.1)	–	**(26.1)**
Loans and borrowings	–	(43.4)	–	**(43.4)**
	(113.9)	(2,081.4)	–	**(2,195.3)**

There were no significant transfers out of level 1 into level 2 and out of level 2 into level 1 during the year ended 31 March 2014.

(vii) Cash Flow Hedges

The Group designates contracts which qualify as hedges for accounting purposes either as cash flow hedges or fair value hedges. Cash flow hedges are contracts entered into to hedge a forecast transaction or cash flow risk generally arising from a change in interest rates or foreign currency exchange rates and which meet the effectiveness criteria prescribed by IAS 39. The Group's accounting policy on cash flow hedges is explained in the Accompanying Information section A1.

The following table indicates the contractual maturities of the expected transactions and the qualifying cash flow hedges associated:

Cash flow hedges

	2014 Carrying amount	**2014 Expected cash flows**	**2014 0 – 12 months**	**2014 1–2 years**	**2014 2–5 years**	**2014 > 5 years**	2013 Carrying amount	2013 Expected cash flows	2013 0 – 12 months	2013 1–2 years	2013 2–5 years	2013 > 5 years
Interest rate swaps:												
Liabilities	**–**	**–**	**–**	**–**	**–**	**–**	(0.7)	(0.7)	(0.7)	–	–	–
Forward exchange contracts:												
Assets	**5.0**	**(102.6)**	**(42.0)**	**(32.5)**	**(27.5)**	**(0.6)**	47.4	(658.0)	(474.7)	(60.5)	(82.0)	(40.8)
Liabilities	**(13.0)**	**(434.4)**	**(173.6)**	**(177.4)**	**(60.7)**	**(22.7)**	(0.2)	(14.6)	(12.8)	(1.8)	–	–
	(8.0)	**(537.0)**	**(215.6)**	**(209.9)**	**(88.2)**	**(23.3)**	47.2	(672.6)	(487.5)	(62.3)	(82.0)	(40.8)

Net investment hedge

The Group's net investment hedge consists of debt issued in the same currency (€) as the net investment in foreign subsidiaries with € denominated functional currencies being the Airtricity Supply business, the acquired thermal plant in Ireland and the Ireland and European wind farm portfolios. The hedge compares the element of the net assets whose functional cash flows are denominated in € to the matching portion of the € borrowings held by the Group. This therefore provides protection against movements in foreign exchange rates.

Gains and losses in the hedge are recognised in equity and will be transferred to the income statement on disposal of the foreign operation (2014 – £10.7m gain, 2013 – £6.0m loss). Gains and losses on the ineffective portion of the hedge are recognised immediately in the income statement (2014 – £nil, 2013 – £nil).

34. Related party transactions

The immediate parent and ultimate controlling party of the Group is SSE plc (incorporated in Scotland). Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(i) Trading transactions

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

	Sale of goods and services 2014 £m	Purchase of goods and services 2014 £m	Amounts owed from 2014 £m	Amounts owed to 2014 £m	Sale of goods and services 2013 £m	Purchase of goods and services 2013 £m	Amounts owed from 2013 £m	Amounts owed to 2013 £m
Jointly controlled entities:								
Seabank Power Ltd	**22.9**	**(108.7)**	**1.2**	**9.1**	27.2	(99.5)	2.9	8.9
Marchwood Power Ltd	**33.5**	**(94.5)**	**0.2**	**8.1**	22.5	(85.5)	0.3	6.0
Greater Gabbard Offshore Winds Ltd	**5.4**	**(121.0)**	**–**	**37.0**	–	(90.0)	–	33.4
Scotia Gas Networks Ltd	**58.7**	**(175.2)**	**15.7**	**0.7**	57.6	(157.2)	9.2	15.1
Other Joint Ventures	**36.5**	**–**	**1.1**	**0.3**	42.1	–	9.8	–
Associates	**1.5**	**(28.2)**	**1.1**	**2.5**	29.6	(38.3)	1.2	2.4

The transactions with Seabank Power Limited, Marchwood Power Limited and Greater Gabbard Offshore Winds Limited relate to the contracts for the provision of energy or the tolling of energy under power purchase arrangements. Scotia Gas Networks Limited has operated the gas distribution networks in Scotland and the South of England from 1 June 2005. The Group's gas supply activity incurs gas distribution charges while the Group also provides services to Scotia Gas Networks in the form of a management service agreement for corporate services, stock procurement services and the provision of the capital expenditure on the development of front office management information systems.

The amounts outstanding are trading balances, are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties. Aggregate capital loans to jointly controlled entities and associates are shown in Note 16.

Remuneration of key management personnel

The remuneration of the key management personnel of the Group (excluding pension value increases), is set out below in aggregate.

	2014 £m	2013 £m
Short-term employment benefits		
Executive Directors	**4.9**	4.7
Other Management Board members	**4.4**	3.6
	9.3	8.3

Key management personnel are responsible for planning, directing and controlling the operations of the Group. These personnel are were identified in the previous year as the Management Board, which was made up of the Executive Directors and eight (2013 – eight) Managing Directors and the Chief Executive Officer of Scotia Gas Networks Limited. In the Interim Management Statement on 28 January 2014, it was announced that the these activities would be conducted by the newly formed Executive Committee with effect from 1 February 2014. The Executive Committee comprises the two executive directors and the Managing Directors of the Networks, Retail, Wholesale and Enterprise businesses.

In addition, the key management personnel receive share based remuneration, details of which are found at Note 32. Further information about the remuneration of individual directors is provided in the audited part of the Remuneration Report. The Executive Directors are employed by the Company.

Information regarding transactions with post-retirement benefit plans is included in Note 31.

Notes on the financial statements continued
for the year ended 31 March 2014

35. Commitments and contingencies

(i) Capital commitments

	2014 £m	2013 £m
Capital expenditure:		
Contracted for but not provided	**625.1**	622.3

Contracted for but not provided capital commitments includes the fixed contracted costs of the Group's major capital projects. In practice contractual variations may arise on the final settlement of these contractual costs.

(ii) Operating lease commitments

a) Leases as lessee:

	2014 £m	2013 £m
Amount included in the income statement relating to the current year leasing arrangements		
Minimum lease payments – power purchase agreement	**89.7**	132.2
Other lease payments	**60.9**	61.1
	150.6	193.3

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2014 £m	2013 £m
Power purchase agreements		
Within one year	**86.9**	86.8
In second to fifth years inclusive	**260.7**	333.9
	347.6	420.7
Other leases		
Within one year	**55.9**	54.4
In second to fifth years inclusive	**89.9**	96.2
After five years	**214.1**	201.9
	359.9	352.5
Total		
Within one year	**142.8**	141.2
In second to fifth years inclusive	**89.9**	430.1
After five years	**474.8**	201.9
	707.5	773.2

The average power purchase agreement lease term is 4 years (2013 – 5 years).

Certain obligations under power purchase agreements with various power generating companies are not deemed to qualify as finance leases as the lease term is not judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at the inception of the agreements did not amount to substantially all of the fair value of the power stations at that time. The Company has no operating lease commitments as a lessee.

b) Leases as lessor:

The Group and Company have no operating lease commitments as a lessor.

35. Commitments and contingencies continued

(iii) Guarantees, indemnities and other contingent liabilities

SSE plc has provided guarantees on behalf of subsidiary, joint venture and associated undertakings as follows:

	2014 £m	2013 £m
Bank borrowing	**150.0**	–
Performance of contracts	**1,227.7**	1,124.6
Purchase of gas	**20.5**	30.5

Subsidiaries have provided guarantees on behalf of the Company as follows:

	2014 £m	2013 £m
Bank borrowing	**1,865.0**	1,155.7

In the year to 31 March 2014, the Group had drawn down £200m from its Lloyds TSB bank facility. SSE Energy Supply Limited and SSE Generation Limited, both wholly owned subsidiaries of the Company have entered into a guarantee with Lloyds TSB Bank Plc in relation to the bank facility. In relation to bank borrowings the guarantee amounts outlined above include accrued interest.

Unlimited guarantees have been provided on behalf of subsidiary undertakings in relation to eight contracts in respect of performance of work and any liabilities arising. Southern Electric Power Distribution plc and the Company have provided guarantees to the Southern Group of the Electricity Supply Pension scheme in respect of funding required by the Scheme. Scottish Hydro Electric Power Distribution plc and the Company have provided guarantees to the Scottish Hydro-Electric Pension Scheme in respect of funding required by the Scheme. SSE E&P (UK) Limited, a wholly owned subsidiary of the Company, has provided a guarantee to Hess Limited in respect of decommissioning liabilities. SSE E&P (UK) Limited has also provided a guarantee to Britoil Limited and Arco British Limited in respect of the acquisition of the Sean Field. SSE E&P (UK) Limited has also provided a guarantee to Perenco UK Limited in respect of a Sale and Purchase Agreement for the Minerva, Apollo and Mercury Fields.

An insurance bond has been provided to the Law Debenture Trust Corporation in respect of SSE E&P UK Limited and the liabilities associated with the Sean Field Decommissioning Security Agreement.

Where the Company enters into financial guarantee contracts to guarantee indebtedness of the other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make payment under the guarantee.

Accompanying information
for the year ended 31 March 2014

This section explains the significant accounting policies applied in the preparation of the consolidated financial statements and provides details of the Group's principal subsidiaries, joint ventures and subsidiaries.

A1. Basis of consolidation and significant accounting policies

Basis of consolidation

The financial statements consolidate the financial statements of the Company and its subsidiaries together with the Group's share of the results and net assets of its jointly controlled entities and associates.

Subsidiaries

Subsidiaries (including special purpose entities) are those entities controlled by the Group or the Company. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity in order to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries acquired are consolidated in the financial statements of the Group from the date that control commences until the date control ceases. All business combinations are accounted for by applying the purchase method of accounting.

The special purpose entities referred to relate to entities in which the Group has a 50% shareholding but whose activities the Group is deemed to control under SIC-12 Consolidation – Special Purpose Entities.

In the Company, investments in subsidiaries are carried at cost less any impairment charges.

Associates

Associates are those entities in which the Group has significant influence but not control over the financial and operating policies, normally where the Group has a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of associates, from the date that significant influence commences until the date that significant influence ceases.

In the Company, investments in associates are carried at cost less any impairment charges.

Joint ventures

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. In the consolidated financial statements, investments are accounted for under the equity method of accounting and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of jointly controlled entities, after adjustments to align the accounting policies with those of the Group.

Jointly controlled operations are businesses which use assets and liabilities that are separable from the rest of the Group. In these arrangements, the Group accounts for its own share of property, plant and equipment, carries its own inventories, incurs its own expenses and liabilities and raises its own finance.

In the Company, investments in jointly controlled entities are carried at cost less any impairment charges.

Transactions eliminated on consolidation

Intra-Group balances and any unrealised gains and losses or income and expenses arising from Intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

A1. Basis of consolidation and significant accounting policies continued

Accounting policies

Revenue recognition: energy, services and goods relating to the sale of energy

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and that the revenue can be reliably measured. Revenue comprises sales of energy, use of system income, gas production revenue, gas storage facility revenue, the value of contracted services and facilities provided and goods sold during the year in the normal course of business.

Revenue on energy sales comprises sales to retail end-user customers including an estimate of the value of electricity and gas supplied to customers between the date of the last meter reading and the year end. Revenue on energy sales also includes monies received from the electricity and gas balancing markets in the UK and other wholesale market energy sales. Unread energy sales are estimated using historical consumption patterns taking account of industry volume reconciliation processes.

Revenue from sales and optimisation trades in physical and financial energy and commodity contracts is recognised gross in the income statement.

Revenue associated with business interruption insurance claims is recognised as revenue in the income statement only when it is virtually certain that the claim will be successful.

Revenue from use of energy systems includes an estimation of the volume of electricity distributed or transmitted by customers based on independently procured electricity settlement systems data. Annual revenue is dependent on being approved by the industry regulator, Ofgem. Certain circumstances may result in the regulatory 'allowed' income being over- or under-recovered in the financial year. Any over- or under-recovery is included in the calculation of the following year's regulatory use of system revenue within agreed parameters. No adjustment is made for over- or under-recoveries in the year that they arise.

Revenue from the production of natural gas, crude oil and condensates is recognised when title passes to the customer. The Group has an interest with other producers in jointly controlled operations for the production of such products.

Revenue under these arrangements is recognised based on the entitlement method in reference to the Group's interest and the relevant production sharing terms. Where there are differences between the Group's share of production and the volume sold, an overlift or underlift is recorded (see below).

Where the Group has an ongoing obligation to provide services, revenues are recognised as the service is performed and amounts billed in advance are treated as deferred income and excluded from current revenue. For network connections activity from 1 November 2009, the revenue recognition rules of IFRIC 18 have been applied, whereby income is recognised over the course of completion of the associated capital works unless there is a future service obligation, in which case revenue is recognised over the service period. Revenue from fixed-fee service contracts is recognised over the life of the contract, in relation to the benefit received by the customer.

Gas storage facilities revenues are recognised evenly over the contract period, whilst revenues for the injection and withdrawal of gas are recognised at the point of gas flowing into or out of the storage facilities.

Sales of goods are recognised when goods are delivered and title has passed, along with the risks and rewards of ownership.

Overlift and underlift

In relation to the Group's gas production activities, it is often not practical for each participant to receive or sell its precise share of the overall production from a jointly controlled operation under the contractual offtake arrangements in any given period. These short-term imbalances between cumulative production entitlement and cumulative sales are referred to as overlift and underlift. An overlift payable, or underlift receivable, is recognised at the balance sheet date and measured at market value, with movements in the period recognised within cost of sales.

Exploration, evaluation and production assets

The Group uses the successful efforts method of accounting for exploration and evaluation expenditure associated with exploration wells or 'prospects'. This expenditure will be capitalised initially within intangible assets and will include licence acquisition costs associated with the prospects. If the prospects are subsequently determined to be successful on completion of the evaluation period, the relevant expenditure will be transferred to property, plant and equipment and depreciated on a unit of production basis. If the prospects are subsequently determined to be unsuccessful on completion of the evaluation period, the intangible asset will be expensed in the period in which that determination is made.

All field development costs, including rights and concessions related to production activities, are capitalised as property, plant and equipment. Capitalised costs relate to the acquisition and installation of production assets and facilities and includes specialist engineering, drilling and technical services costs. These property, plant and equipment assets are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on the proven and probable reserves of those fields. Changes in these estimates are dealt with prospectively.

The carrying value of exploration prospects is regularly compared on an individual field basis with the expected discounted future net revenues associated with the remaining commercial reserves. An impairment loss will be recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues. All exploration and production assets are reviewed annually for indicators of impairment.

Accompanying information continued
for the year ended 31 March 2014

A1. Basis of consolidation and significant accounting policies continued

Government grants

A government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same years in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement on a systematic basis over the useful life of the asset to match the depreciation charge.

Leases

The determination of whether an arrangement contains a lease is dependent on whether the arrangement relates to use and control of a specific asset. Leases are classified as finance leases if the arrangement transfers substantially all the risks and rewards of ownership to the lessee. All other leases are categorised as operating leases.

(i) Operating lease obligations

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Finance lease obligations

Assets held under finance leases are capitalised and held as part of property, plant and equipment. The accounting policy for such arrangements is described on page 137.

Foreign currencies

The consolidated financial statements are presented in pounds sterling, which is the functional currency of the Company and the Group's presentational currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured accordingly.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Any gain or loss arising on the restatement of such items is taken to the income statement with the exception of exchange gains or losses on foreign currency borrowings that provide a hedge against a net investment in a foreign entity or exchange gains or losses incurred as part of a qualifying cash flow hedge. Exchange gains or losses on net investment hedges are taken against the consolidated translation reserve, a separate component of equity, to the extent the hedge is effective. Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated at the historic rate at the date of transaction.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into pounds sterling at the balance sheet closing rate. The results of these operations are translated at the average rate in the relevant period. Exchange differences on retranslation of the opening net assets and the results are transferred to the translation reserve and are reported in the statement of recognised income and expense. Exchange differences on foreign currency borrowings, foreign exchange contracts or foreign currency swaps used as part of a hedge against net investment in a foreign entity are transferred to the translation reserve.

Finance income and costs

Finance income comprises interest receivable on funds invested in short-term deposits and the Group's interests in jointly controlled entities and associates and from interest rate derivative receipts. Finance costs comprise interest payable on borrowings and finance leases, the release of discounting on provisions, interest on net pension scheme liabilities interest rate derivative payments and accretion of the debt component on the convertible loan less capitalised interest.

Interest on the funding attributable to major capital projects is capitalised during the years of construction and depreciated as part of the total cost over the useful life of the asset.

Interest income and costs are recognised in the income statement as they accrue, on an effective interest method. The issue costs and interest payable on bonds and all other interest payable and receivable is reflected in the income statement on the same basis.

Taxation

Taxation on the profit for the year comprises current and deferred tax. Taxation is recognised in the income statement unless it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities other than in business combinations that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A1. Basis of consolidation and significant accounting policies continued

Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset within the same tax authority and where the Company intends to either settle them on a net basis, or to realise the asset and settle the liability simultaneously. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Dividends

Dividend income is recognised on the date the Group's right to receive payments is established. Dividend liabilities are recognised on the date the Group's obligation to pay dividends is established.

Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairments. The cost of self-constructed assets includes the cost of materials, direct labour and other directly attributable costs. All items of property, plant and equipment are accounted for under the cost model within IAS 16. The purchase price of an asset will include the fair value of the consideration paid to acquire the asset. Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment, and depreciated accordingly. An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

(ii) Leased assets

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Assets held under finance leases are recognised as part of the property, plant and equipment of the Group at the fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Benefits received and receivable as an incentive to enter into an operating lease are also allocated on a straight line basis over the lease term.

(iii) Hydro civil assets

The Group is obliged under the Reservoirs Act 1975 to maintain its hydro infrastructure network, including its dams, tunnels and other hydro civil engineering structures (hydro civil assets). All items of property, plant and equipment within hydro civil assets, with the exception of land, are subject to depreciation.

In accordance with the transition provisions of IFRS 1, the Group identified the carrying value of these assets at privatisation and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, has been subject to depreciation over a useful economic life of 100 years. All subsequent maintenance expenditure is chargeable directly to the income statement.

(iv) Depreciation

Depreciation is charged to the income statement to write off cost, less residual values, on a straight line basis over their estimated useful lives with the exception of Gas and Oil Production Assets which are depreciated on the Units of Production basis. Heritable and freehold land is not depreciated. Depreciation policy, useful lives and residual values are reviewed at least annually, for all asset classes to ensure that the current method is the most appropriate. Depreciation commences following the asset commissioning period and when the asset is available for commercial operation. The estimated useful lives for assets depreciated on a straight line basis are as follows:

	Years
Hydro civil assets	**100**
Thermal and hydro power stations including electrical and mechanical assets	**20 to 60**
Operating wind farms	**20 to 25**
Overhead lines, underground cables and other network assets	**40 to 80**
Gas storage facilities	**25 to 50**
Other transmission and distribution buildings, plant and equipment	**10 to 45**
Office buildings	**30 to 40**
Shop & office refurbishment, fixtures, IT assets, vehicles and mobile plant	**3 to 10**

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Accompanying information continued
for the year ended 31 March 2014

A1. Basis of consolidation and significant accounting policies continued

(v) Subsequent expenditure

It is the Group policy to capitalise qualifying replacement expenditure and depreciate it over the expected useful life of the replaced asset. Replaced assets are derecognised at this point and the costs recorded as costs of disposal. Where an item of property, plant and equipment is replaced and it is not practicable to determine the carrying amount of the replaced part, the cost of the replacement adjusted for inflation will be used as an approximation of the cost of the replaced part at the time it was acquired or constructed.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the item of property, plant and equipment to which it relates.

(vi) Derecognition

An item of property, plant or equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are determined by comparing the proceeds received with the carrying amount of the asset and are included in the income statement. Any gain or loss on derecognition of the asset is included in the income statement in the period of derecognition.

Biological Assets

Biological assets, such as living trees, are measured at their fair value less estimated point of sale costs. The valuation of forest assets is based on discounted cash flow models whereby the fair value of the biological asset is calculated using cash flows from continuous operations, that is, each forest asset is split into an appropriate grouping based on the maturity and/or type of trees. An expected future volume of Timber that will be produced from each of these groups is then derived. The expected volume is used to apply a market value to the groups of trees based on the market value of Standing Timber. These market values are discounted based on the time to full maturity to appropriately value each grouping.

Periodic changes resulting from growth, felling prices, discount rate, costs and other premise changes are included in operating profit on the income statement.

Business Combinations

The acquisition of subsidiaries is accounted for under the purchase method. The acquired business is measured at the date of acquisition as the aggregate fair value of assets, liabilities and contingent liabilities as required under IFRS 3 Business Combinations. The excess of the cost of acquisition over the fair value of the acquired business is represented as goodwill. For combinations taking place from 1 April 2010, contingent consideration classified as a liability will be subsequently re-measured through the income statement under the requirements of the revised IFRS 3. Pre-existing relationships are recognised and, together with all acquisition-related costs, are expensed.

Intangible assets

i) Goodwill and impairment testing

Goodwill arising on a business combination represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least on an annual basis.

For the purpose of impairment testing, goodwill is allocated on initial recognition to those cash-generating units expected to benefit from the combination's synergies. The cash-generating units used for goodwill impairment testing purposes will represent how goodwill was attributed but may not represent reportable business segments.

If the carrying amount of the cash-generating unit exceeds its recoverable amount, an impairment charge will be recognised immediately in the income statement and, in relation to the impairment of goodwill, will not be subsequently reversed. The recoverable amount is the higher of the cash-generating unit's fair value less costs to sell and its value-in-use. Value in use calculations require the estimation of future cash flows to be derived from the respective CGUs (or assets) and the selection of an appropriate discount rate in order to calculate their present value. The fair value less costs to sell methodology used for wind farms CGUs also requires the discounting of cash flows from the projects within the respective CGUs. The estimation of the timing and value of underlying projected cash flows and the selection of appropriate discount rates involves management judgement. The impairment charge will initially be adjusted against the goodwill allocated to the cash-generating unit. Thereafter, the remaining assets of the cash-generating unit will be written-down proportionately.

Goodwill may also arise upon investments in jointly-controlled entities and associates. Such goodwill is recorded within the carrying amount of the Group's investment and any impairment loss is included within the share of result from jointly-controlled entities and associates. On disposal or closure of a previously acquired business, any attributed goodwill will be included in determining the profit or loss on disposal.

ii) Research and development

Expenditure on research activities is charged to the income statement as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products or processes, is capitalised if the product or process is considered to be technically and commercially feasible and the Group intends to complete the intangible asset for use or for sale.

A1. Basis of consolidation and significant accounting policies continued

iii) Allowances and emissions

The European Emissions trading scheme (EU ETS) has been in operation since 1 January 2005. The IASB withdrew IFRIC 3 Emission Rights in June 2005 and it has not been replaced with definitive guidance or interpretation for CO2 ("carbon") emissions trading. The Group recognises carbon allowances granted in a period at nominal value (nil value). Carbon allowances purchased are recorded at cost within intangible assets. A liability is recognised based on the level of emissions recorded. Up to the level of allowances held, the liability is measured at the cost of purchase. When the carbon emission liability exceeds the carbon allowances held, the net liability is measured at market value selling price. Movements in the market value of the liability are recognised in operating profit. Forward carbon contracts are measured at fair value with gains or losses arising on re-measurement being recognised in the income statement.

The carbon allowance intangible asset is surrendered at the end of the compliance period to the extent requested reflecting the consumption of the economic benefit and is recorded as being utilised. As a result, no amortisation is booked but an impairment charge may be recognised should the carrying value of allowances exceed market or fair value.

Under the Renewable Obligations Certificates (ROCs) scheme, certificates obtained from own generation are awarded by a third party, Ofgem. Self-generated certificates are recorded at market value and purchased certificates are recognised at cost, both within intangible assets. The liability under the renewables obligation is recognised based on electricity supplied to customers, the percentages set by Ofgem and the prevailing market price. The intangible asset is surrendered at the end of the compliance period reflecting the consumption of economic benefit. As a result no amortisation is recorded during the period.

iv) Development assets

Costs capitalised as development intangibles represent the costs incurred in bringing individual projects to the consented stage. These include wind farm developments, thermal generation and gas storage projects, prospective gas production assets and other developments relating to proven technologies. Costs associated with reaching the consent stage include options over land rights, planning application costs and environmental impact studies. These may be costs incurred directly or part of the fair value exercise on acquisition of a controlling interest in a project. The asset is subject to impairment testing on an annual basis until this time. At the point that the project reaches the consent stage and is approved by the Board, the carrying value of the project is transferred to property, plant and equipment as assets under construction. Depreciation will then be charged over the expected useful life of the related operational asset. The asset is derecognised on disposal, or when no future economic benefits are expected from their use.

v) Other intangible assets

Other intangible assets that have been acquired by the Group including brands are stated at cost less accumulated amortisation and impairment losses. Software licenses are stated at cost less accumulated amortisation. Expenditure on internally generated brands is expensed as incurred. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of these other intangible assets. The amortisation periods utilised are as follows:

	Years
Brand values	**10**
Developed software assets and application software licences	**5 to 10**
Customer lists	**5**
Contracts	**Shorter of contract term or 5**

The useful lives of all the intangible assets are reviewed annually and amended, as required, on a prospective basis.

Impairment review

The carrying amounts of the Group's assets, other than inventories or deferred tax, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there is evidence of impairment, the recoverable amount associated with the asset, being the higher of the fair value less costs to sell and the value-in-use of the asset, is estimated to determine the extent of any such impairment. For goodwill and other intangible assets with an indefinite life or which are not ready for use, the test for impairment is carried out annually. For financial assets measured at amortised cost the impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The estimation of the timing and value of underlying projected cash flows and the selection of appropriate discount rates involves management judgement. For property, plant and equipment assets exhibiting indications of impairment, the review of impairment will be performed annually until there is sufficient evidence to confirm that any potential impairment loss has been appropriately recognised. In this circumstance, for example certain thermal generation plant that are able to be assessed independently, the value-in-use method will be applied to ascertain the extent of any potential impairment charge. Subsequent changes to these estimates or judgements may impact the carrying value of the assets within the respective CGUs. Impairments of property, plant and equipment will only reversed only if there has been a significant increase in the recoverable amount associated with the asset. Gas production and development assets are assessed under the fair value less costs method for the respective CGUs. This is deemed more appropriate as it is based on post-tax cash flows arising from each field within the respective CGUs, which is consistent with the approach taken by management in determining the economic value of the underlying assets. This is determined by discounting the post-tax cash flows expected to be generated by the CGU, net of associated selling costs, and takes into account assumptions market participants would use in estimating fair value.

Accompanying information continued
for the year ended 31 March 2014

A1. Basis of consolidation and significant accounting policies continued

Inventories and work in progress

Inventories are valued at the lower of cost (on a first-in, first-out basis) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of fuel stocks is based on the weighted average principle. The valuation of work in progress is based on the cost of labour, the cost of contractors, the cost of materials plus other directly attributable costs.

Recognition of revenue and profit on construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured as the proportion of cost incurred on work performed to date compared to the estimated total contract cost, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. When it becomes probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately in the income statement.

Employee benefit obligations

(i) Defined benefit pension schemes

The Group operates two defined benefit pension schemes, one of which is operated by the Company. Pension scheme assets are measured using bid market values. Pension scheme liabilities are measured using the projected unit credit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Any increase in the present value of liabilities within the Group's defined benefit pension schemes expected to arise from employee service in the year is charged as service costs to operating profit.

Net interest costs are based on net schemes' liabilities adjusted for minimum funding requirement and pension surplus restrictions under IFRIC 14. Actuarial gains and losses are recognised in full in the consolidated statement of comprehensive income. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet.

(ii) Defined contribution pension schemes

The Group also operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amounts charged represent the contributions payable to the schemes in the year and are charged directly to the income statement.

(iii) Equity and equity-related compensation benefits

The Group operates a number of employee share schemes as described in the Remuneration Report and Note 30. These schemes enable Group employees to acquire shares of the Company.

The exercise prices of the sharesave scheme are set at a discount to market price at the date of the grant. The fair value of the sharesave scheme option granted is measured at the grant date by use of a Black-Scholes model. The fair value of the options granted is recognised as an expense on a straight-line basis over the period that the scheme vests. Estimates are updated for non-market conditions at each balance sheet date with any adjustment in respect of the current and prior years being recognised in the income statement. The costs associated with the other main employee schemes are recognised over the period to which they relate. The charge related to the equity shares in the Company awarded under the share schemes is treated as an increase in the cost of investment held by the Company in the subsidiary companies of the Group.

Financial instruments

The Group uses a range of financial instruments to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price fluctuations in its normal course of business and in accordance with the Group's risk management policies. The Group's risk management policies are further explained in Note 33.

(i) Interest rate and foreign exchange derivatives

Financial derivative instruments are used by the Group to hedge interest rate and currency exposures. All such derivatives are recognised at fair value and are re-measured to fair value each reporting period. Certain derivative financial instruments are designated as being held for hedging purposes. The designation of the hedge relationship is established at the inception of the hedge and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on re-measurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a 'fair value' or 'cash flow' hedge. Derivatives that are not designated as hedges are treated as if held for trading, with all fair value movements being recorded through the income statement.

A derivative classified as a 'fair value' hedge recognises gains and losses from re-measurement immediately in the income statement. Loans and borrowings are measured at cost except where they form the underlying transaction in an effective fair value hedge relationship. In such cases, the carrying value of the loan or borrowing is adjusted to reflect fair value movements with the gain or loss being reported in the income statement.

A1. Basis of consolidation and significant accounting policies continued

A derivative classified as a 'cash flow' hedge recognises the portion of gains or losses on the derivative which are deemed to be effective directly in equity in the hedge reserve. Any ineffective portion of the gains or losses is recognised in the consolidated income statement. When hedged cash flows result in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged cash flows affect the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At the point of discontinuation, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction affects profit or loss. On settlement, the cumulative gain or loss recognised in equity is recognised in the income statement.

(ii) Commodity derivatives

Within its regular course of business, the Group routinely enters into sale and purchase derivative contracts for commodities such as electricity, gas, coal and oil. Where the contract was entered into and continues to be held for the purpose of receipt or delivery in accordance with the Group's expected sale, purchase or usage requirements, the contracts are designated as 'own use' contracts and are measured at cost. These contracts are not within the scope of IAS 39.

Derivative commodity contracts which are not designated as own use contracts are accounted for as trading derivatives and are recognised in the balance sheet at fair value. Where a hedge accounting relationship is designated and is proven to be effective, the changes in fair value will be recognised in accordance with the rules noted in part (i) to this note. There are currently no designated hedge relationships in relation to commodity contracts.

Other commodity contracts, where own use is not established and a hedge accounting relationship is not designated, are measured at fair value with gains and losses on re-measurement being recognised in the income statement in cost of sales.

(iii) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives where the characteristics of the derivatives are not closely related to those of the host contracts.

(iv) Net investment hedges

Hedges of net investments in foreign operations are accounted in a manner similar to effective cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity, in the translation reserve, and any gain or loss on the ineffective portion of the hedge is recognised in the income statement. On disposal of the foreign operation, the cumulative value of any gains or losses recognised directly in equity is transferred to the income statement.

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(vi) Trade receivables

Trade receivables do not carry any interest and are measured at cost less an appropriate allowance for irrecoverable receivables

(vii) Interest-bearing loans and borrowings

All such loans and borrowings are initially recognised at fair value including transaction costs and are subsequently measured at amortised cost, except where the loan or borrowing is the hedged item in an effective fair value hedge relationship.

(viii) Share capital

Ordinary shares are accounted for as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received.

(ix) Hybrid capital

Hybrid capital comprises issued bonds that qualify for recognition as equity. Accordingly, any coupon payments are accounted for as dividends and are recognised directly in equity at the time the payment obligation arises. This is because the coupon payments are discretionary and relate to equity. Coupon payments consequently do not have any impact on the income statement. Coupon payments are recognised in the cash flow statement in the same way as dividends to ordinary shareholders.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Accompanying information continued
for the year ended 31 March 2014

A1. Basis of consolidation and significant accounting policies continued

Decommissioning costs

The estimated cost of decommissioning at the end of the useful lives of certain assets is reviewed periodically. Provision is made for the net present value of the estimated cost of decommissioning gas production facilities at the end of the producing lives of fields, and gas storage facilities and power stations at the end of the useful life of the facilities. The estimates are based on technology and prices at the balance sheet date. A corresponding decommissioning asset is recognised and is included within property, plant and equipment when the provision gives access to future economic benefits. Changes in these provisions are recognised prospectively. For offshore wind assets, power stations and gas storage facilities the unwinding of the discount on the provision is included in finance costs and the depreciation for the asset is straight-line over the expected useful life of the asset. For gas production facilities the decommissioning asset is amortised using the unit of production method, based on proven and probable reserves.

A2. Principal jointly controlled entities, operations and associates

Details of the principal jointly controlled entities, operations and associates are as follows:

	Country of Incorporation	31 March 2014 Holding %	31 March 2013 Holding %	Principal Activity
Jointly Controlled Entities				
Scotia Gas Networks Limited (iv)	England and Wales	**50.0**	50.0	Gas distribution networks
Greater Gabbard Offshore Winds Limited (v)	England and Wales	**50.0**	50.0	Offshore wind development
Marchwood Power Limited (i)	England and Wales	**50.0**	50.0	Electricity generation
Seabank Power Limited (iii)	England and Wales	**50.0**	50.0	Electricity generation
Multifuel Energy Limited (i)	England and Wales	**50.0**	50.0	Multifuel electricity generation
Associates				
Walney (UK) Offshore Windfarms Limited (vi)	England and Wales	**25.1**	25.1	Offshore wind development
Barking Power Limited (i)	England and Wales	**30.4**	30.4	Electricity generation

	Location of operations	Holding %	Holding %	Principal Activity
Jointly Controlled Operations (unincorporated)				
Aldbrough	England	**66.7**	66.7	Development of gas storage facility

The above companies' shares consist of ordinary shares only. All companies operate in Great Britain and Ireland. Seabank Power Limited, Walney (UK) Offshore Windfarms Limited and Marchwood Power Limited have accounting periods ending on 31 December. All other companies have accounting periods ending on 31 March. The Group has a number of other joint and associate investments that are not considered significant in relation to the results or position in these financial statements.

(i) Shares held by SSE Generation Limited
(ii) Shares held by SSE Contracting Limited
(iii) Shares held by SSE Seabank Investments Limited
(iv) Shares held by SSE plc
(v) Shares held by SSE Renewables Holdings (UK) Limited
(vi) Shares held by SSE Renewables Walney (UK) Limited

A3. Subsidiary Undertakings

Details of the principal subsidiary undertakings are as follows:

	Country of Incorporation	**2014 Holding %**	2013 Holding %	Principal Activity
SSE Services plc (i)	England and Wales	**100**	100	Corporate support services
SSE Energy Supply Limited (i)	England and Wales	**100**	100	Electricity supply
SSE Generation Limited (i)	England and Wales	**100**	100	Electricity generation
Medway Power Limited (ii)	England and Wales	**100**	100	Electricity generation
SSE Generation Ireland Limited (ii)	Ireland	**100**	100	Electricity generation
Keadby Generation Limited (ii)	England and Wales	**100**	100	Electricity generation
Southern Electric Gas Limited (vi)	England and Wales	**100**	100	Gas supply
Clyde Windfarm (Scotland) Limited (x)	Scotland	**100**	100	Renewable electricity generation
Griffin Wind Farm Limited (xi)	Scotland	**100**	100	Renewable electricity generation
SSE Renewables Developments (UK) Limited (viii)	Northern Ireland	**100**	100	Wind generation development (onshore)
SSE Renewables (Ireland) Limited (iii)	Ireland	**100**	100	Renewables holding company (onshore, Ireland)
SSE Renewables Holdings (UK) Limited	Northern Ireland	**100**	100	Renewables holding company (onshore and offshore, UK)
SSE Renewables offshore Windfarm Holdings Limited	Scotland	**100**	100	Renewable holding company (offshore, UK)
SSE Airtricity Limited (iii)	Ireland	**100**	100	Energy supply
SSE Airtricity Energy Supply (NI) Limited (ix)	Northern Ireland	**100**	100	Energy supply
Scottish Hydro Electric Transmission plc (iv)	Scotland	**100**	100	Transmission of electricity
Scottish Hydro Electric Power Distribution plc (iv)	Scotland	**100**	100	Distribution of electricity
Southern Electric Power Distribution plc (iv)	England and Wales	**100**	100	Distribution of electricity
SSE Metering Limited (i)	Scotland	**100**	100	Meter reader and operator
SSE Contracting Limited (v)	England and Wales	**100**	100	Electrical contractor
SSE Hornsea Limited (i)	England and Wales	**100**	100	Gas storage
SSE E&P UK Limited (i)	Scotland	**100**	100	Gas exploration and production
SSE Telecommunications Limited (i)	Scotland	**100**	100	Telecommunication services
Neos Networks Limited (vii)	England and Wales	**100**	100	Telecommunication services

The above companies' shares consist of ordinary shares only. All companies operate in the UK and Ireland. All companies have accounting periods ending on 31 March. The Group has other subsidiary undertakings which do not significantly affect the results and position disclosed in these financial statements. A full list of the subsidiary undertakings will be included in the company's annual return.

Shares in the above subsidiaries are held by:

(i) SSE plc
(ii) SSE Generation Limited.
(iii) SSE Renewables Holdings Limited
(iv) Scottish and Southern Energy Power Distribution Limited.
(v) SSE Contracting Group Limited.
(vi) SSE Energy Supply Limited.
(vii) SSE Telecommunications Limited.
(viii) SSE Renewables Holdings (UK) Limited
(ix) SSE Renewables Group (UK) Limited
(x) SSE Renewables Developments (UK) Limited
(xi) Griffin Wind Farm (Holdings) Limited

Accompanying information continued
for the year ended 31 March 2014

A3. Subsidiary Undertakings continued

Service Concession Arrangements

In 50:50 partnership with Royal Bank Leasing Limited, the Group established three companies to provide street lighting services to councils under the Private Finance Initiative (PFI). These services are thereafter sub-contracted to SSE Contracting Limited, a wholly owned subsidiary of the Group. The companies established are as follows:

Company	Council
Tay Valley Lighting (Stoke on Trent) Limited	Stoke-on-Trent
Tay Valley Lighting (Newcastle and North Tyneside) Limited	Newcastle and North Tyneside
Tay Valley Lighting (Leeds) Limited	Leeds City Council

Under SIC-12 Consolidation – Special Purpose Entities, despite being 50% owned, these companies are categorised as subsidiaries and are accounted for accordingly due to the Group being deemed to bear the majority of the risks and rewards associated with the companies. The debt associated with these companies is non-recourse to the Group. The arrangements for all three companies are materially similar.

In addition to these, the Group owns 100% of the share capital of entities which perform similar services under eight PFI contracts. The terms of the service concession arrangement are similar to those operated by the companies noted above. The council and contract holder within the acquired group are as follows:

Company	Council
Dorset Lighting Limited	Dorset County Council
Ealing Lighting Limited	London Borough of Ealing
Islington Lighting Limited	London Borough of Islington
Tay Valley Lighting (Hampshire) Limited	Hampshire County Council
Tay Valley Lighting (Southampton) Limited	Southampton City Council
Tay Valley Lighting (West Sussex) Limited	West Sussex County Council
Tay Valley Lighting (Nottingham) Limited	Nottingham County Council
Tay Valley Lighting (Knowsley) Limited	Knowsley Metropolitan Borough Council

Characteristics of the arrangements

Description

The contracts are 25 year arrangements to replace ageing street-lighting stock and to subsequently maintain the new assets throughout each Councils' areas.

Significant terms

The cash flows under the PFI arrangements come from the unitary charge for these services paid by the Councils. The unitary charge can only be adjusted if performance under the contract falls below the required standards. Any significant change to the services proposed by either party is subject to a formal change procedure and agreement to such a change is required by the other party.

Nature and extent of rights and obligations

The assets are part of the public highway and ownership of the assets remains with the Councils. The contract holding companies are licensed to replace and maintain the assets for the period of the contract. This obligation is passed down to SSE Contracting Limited or to other companies within the SSE Contracting group of companies through the operating sub-contract. Any failure to provide the services to the required standards will result in financial penalties which are taken from the unitary charge.

The companies have 25 year contracts with no extension options. Termination during this period can be initiated through a number of routes including service provider default, force majeure or the event of a risk becoming uninsurable, authority default, voluntary authority termination, or termination for a prohibited act or breach of refinancing provisions. In all cases, a formula exists for calculating compensation payments to the service provider.

Throughout the contract period there are a number of circumstances under which the companies could potentially be required to provide additional services:

(i) Changes in the law

If circumstances arise where by a change in legislation would mean a change in the way the services are to be provided the companies would be liable for part of the cost of this change. This liability is capped.

(ii) Final survey

The Councils have the ability to deduct a percentage of the unitary charge in the last two years if an independent survey indicates the assets are unlikely to have a 5-year residual life.

A number of these companies have been designated as Held for Sale at 31 March 2014 following the restructuring and value programme announcement made on 26 March 2014.

Independent auditor's report
to the members of SSE plc

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of SSE plc for the year ended 31 March 2014 set out on pages 98 to 176. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

<table>
<tr><th>The risk</th><th>Our response</th></tr>
<tr><td>Accounting for estimated revenue (£1.1bn included within total external revenue in Retail of £8.7bn)
Refer to page 71 (Audit Committee statement), page 106 (Note 3(i), page 109 (Note 4a) and page 167 (A1 Accounting Policy).

Certain of the Group's energy sales revenues included in the 2014 financial statements are based on estimates of the values of electricity and gas supplied to customers between the date of the last meter reading and the year end ('estimated revenues').

The method of estimating such revenues is complex and judgemental and requires estimates and assumptions being made to:

1 estimate the volumes of energy consumed by customers.

2 assess the valuation to be ascribed to that revenue given the range of tariffs and location of the group's customers location being one of the features in customer tariffs.

The risk of misstatement is that the accounting for the Group's estimated revenues does not appropriately reflect the underlying actual consumption or pricing of revenues.</td><td>For estimated revenues our audit procedures included, among others, the following: we performed various analytical procedures using actual data to allow us to set our own expectations as to the likely level of estimated revenue and compared this with the group's estimate obtaining explanations for significant differences. We also challenged the group's assumptions used in determining the level of estimated revenue at 31 March 2014.

Volume
The group calculated estimated revenue based on the closing unbilled volume reflected within the financial statements in the prior year, with adjustments made for gas or electricity procured for customers (as identified from the industry wide settlements system), gas or electricity billed to customers (as identified from the group's billing system) and various other adjustments. The group then applies a price per unit (which is dependent on a number of factors including location of customers and type of billing arrangement) to arrive at the total estimated value of energy sales between the date of the last meter reading and the year end.

We agreed the core volume data underlying the calculation of the estimated volumes into settlement, sales and other systems having performed sample testing of the key controls on these systems.

We compared the estimated volume determined by the Group with various benchmarks that the Group had also calculated using internal and external information and considered variances from that benchmark.

Price
We also challenged the assumptions of price per unit by comparing the price applied with historical and current trends and data. Further, we assessed the overall consistency of the assumptions and of the inputs to the calculation of estimated value of revenue.</td></tr>
<tr><td>Recovery of Retail receivables (£0.8bn)
Refer to page 71 (Audit Committee statement), page 107 (Note 3 (ii), page 153 (Note 33(i)) and page 173 (A1 Accounting Policy).
The group's billed energy revenues result in significant trade receivables with customers and, given the challenging economic climate, the risk of customer insolvency has increased in recent years. The risk of misstatement is that the group's trade receivables in relation to energy customers are not adequately provided for in the financial statements.</td><td>For trade receivables, our audit procedures included, among others, testing the group's controls over the receivables' collection processes; considering the receipt of cash after the year-end; and testing the adequacy of the group's provisions against trade receivables by assessing the relevant assumptions, taking account of our own knowledge of recent collections experience in this industry and also historical data from the group's previous collections experience. We also considered the adequacy of the group's disclosures in this area.</td></tr>
</table>

Independent auditor's report continued
to the members of SSE plc

Opinions and conclusions arising from our audit continued

The risk	Our response
Carrying value of certain non-current assets which aggregate to £11.2bn *Refer to page 106 (Note 3 (iii)) and pages 122 to 127 (Notes 13 and 14) and pages 169 to 171 (A1 Accounting Policy).*	
The recovery of certain non-current assets, including power generation assets, gas reserves (both included within property plant and equipment), goodwill and development assets (both included within intangible assets), depends on achieving sufficiently profitable business in the future. As these non-current assets mainly relate to the production of electricity, the assessment of future profitability is dependent on many factors. Those factors include the operating efficiency and the input costs of running the relevant plant relative to others and the expected electricity prices, all of which are impacted by political and economic factors in the UK and globally. In addition there have been significant impairments in prior years and the current year largely in relation to the group's power generation assets (principally in the UK Generation cash generating unit ("CGU").) Assets are reviewed, either on a stand-alone basis or as part of a wider cash-generating unit, for impairment using either a value in use or fair value less costs to sell model, as further detailed in Note 13. The outcome of these impairment reviews could vary significantly if different assumptions were applied in the model. Therefore this is considered a key audit risk.	In this area our audit procedures included, among others, the following: we challenged the group's calculation of value in use or fair value less costs to sell, as appropriate and the value of impairment charged to income during the year. This included seeking support for key assumptions such as earnings and cashflow forecasts included in the impairment review for each CGU or asset tested on a stand-alone basis, and the terminal value and discount rate assumptions used by management. We compared the Group's assumptions, where possible, to externally derived data (for example by comparing the discount rate to those applied by companies operating in a similar environment to the group), we compared earnings forecasts with budgets used within the business for other purposes and we applied sensitivities in assessing whether the Group's assessment was reasonable. We also considered the adequacy of the group's disclosures in this area.
Accounting for legal and other contractual claims *Refer to page 71 (Audit Committee statement), page 107 (Note 3 (iv)) and page 173 (A1 Accounting Policy).*	
The group's operations expose it to the risk of litigation and contractual claims (particularly in relation to significant capital projects) from third parties. Due to the range of potential outcomes and the considerable uncertainty around the resolution of various claims, the determination of the amount, if any, to be recorded in the financial statements as a provision is inherently subjective and therefore this is considered a key audit risk.	In this area our audit procedures included, among others, the following: we considered claims raised against the group by third parties, inspected relevant legal advice received by the group in connection with such claims and obtained formal confirmation from the group's solicitors on the status of any legal claims with which the group is dealing. We also considered the group's disclosures relating to provisions and/or contingent liabilities for legal and other contractual claims.
Accounting for the group's pension obligations (the Group reflects a net defined pension liability of £0.6bn) *Refer to page 71 (Audit Committee statement), page 106 (Note 3(v), pages 140-144 (Note 31) and page 172 (A1 Accounting Policy).*	
The valuation of the group's pension obligations requires significant judgment and estimation to be applied across numerous assumptions. The matter is considered to be a significant risk as small changes in the assumptions can have a material financial impact on the results and financial position of the Group given the size of the deficit.	In this area our audit procedures included, among others, the following: we considered the group's valuation methodology to assess its compliance with accounting standards and alignment to market practices, we challenged the key assumptions supporting the Group's retirement benefit obligations valuation, with input from our own actuarial specialists. This included a comparison of the discount and inflation rates used against benchmarks developed by our internal actuaries and similar assumptions used by other groups with defined benefit pension schemes and consideration of other assumptions such as mortality and life expectancy. In addition, our procedures included, among others, obtaining confirmation of the pension schemes assets as at 31 March 2014 by agreeing the asset values to investment statements and confirmations provided by the scheme actuaries. Further, we considered the adequacy of the group's disclosures in the area of pension obligations.

Opinions and conclusions arising from our audit continued

3 Our application of materiality and an overview of the scope of our audit

In establishing the overall audit strategy, and performing the audit, materiality for the Group financial statements as a whole was set at £104 million in aggregate. This has been determined with reference to a benchmark of group profit before taxation, which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the group. Materiality represents 17.6% of group profit before tax and 7.1% of group profit before tax adjusted for exceptional items and certain remeasurements (movements on derivatives) as disclosed on the face of the income statement.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £5 million for income statement items in addition to other audit misstatements we believe warranted reporting on qualitative grounds.

Audits for group reporting purposes were performed by KPMG auditors at the key reporting components in the UK and Ireland. These audits covered 99% of Group revenue, 98% of profit before tax adjusted for exceptional items and certain remeasurements (movements on derivatives) as disclosed on the face of the income statement; and 90% of Group total assets.

The audits undertaken for group reporting purposes at the key reporting components of the group were all performed to materiality levels set by, or agreed with, the group audit team. These materiality levels were set individually for each component and ranged from £10 million to £25 million due to the lower profits in these components and the need to consider statutory materiality for these components.

Detailed audit instructions were sent to the KPMG auditors of those components based in Ireland. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the group audit team. Telephone meetings were held during the year with the KPMG audit team in Ireland in relation to these components. The remaining UK components were covered by three audit teams under direct or indirect control of the UK audit partner.

Statutory audits are performed as required for the group's statutory entities in the UK and Ireland but these are completed after the date of this report.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 93, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 58 to 73 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Independent auditor's report continued
to the members of SSE plc

Opinions and conclusions arising from our audit continued

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 94, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.orq.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uklauditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

John Luke (Senior Statutory Auditor)
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Investor Timetable

Annual Report on sse.com/investors	12 June 2014
AGM (Perth) and IMS	17 July 2014
Ex-dividend date	23 July 2014
Record date	25 July 2014
Final date for Scrip elections	22 August 2014
Payment date	19 September 2014
Notification of Close Period	30 September 2014
Results for six months to 30 September	12 November 2014

Website

The Company's website, www.sse.com, contains a wide range of information including a dedicated Investors section where you can find further information about shareholder services including:

- share price information;
- dividend history and trading graphs;
- the Scrip Dividend Scheme;
- telephone and internet share dealing; and
- downloadable shareholder forms.

Digital news

We use a dedicated news and views website (available at http://news.sse.com) and Twitter (www.twitter.com/sse) to keep shareholders, investors, journalists, employees and other interested parties up-to-date with news from the Company.

eCommunications programme

Sign up to our eCommunications Programme at www.sse.com/investors/ecommsprogramme and receive shareholder documentation via e-delivery. As a thank you we will donate £2 on your behalf to the World Wildlife Fund's (WWF) International Conservation Programmes. In 2013/14, SSE made a donation of over £13,795 on behalf of its shareholders.

Keep us informed

Keep us informed of changes to your email address by visiting www.sse.com/investors/ecommsprogramme and follow the instructions under 'how to register or update your email address'.

Copy reports

You can view the Annual Report 2014 by accessing the Company's website at www.sse.com.

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