Reliable and Sustainable

SSE plc Annual Report 2013

We are SSE.

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

For customers

Keeping the lights on

SSE delivers electricity to 3.7 million homes, offices and businesses in the north of Scotland and central southern England. Minimising the number of minutes those customers are without electricity is the first responsibility of SSE's Networks business.

Supplying energy and related services

SSE supplies electricity and gas to homes, offices and businesses in Great Britain, Northern Ireland and the Republic of Ireland, and supports those customers from centres in Basingstoke, Cardiff, Cumbernauld, Dublin, Havant and Perth.

Investing in energy infrastructure

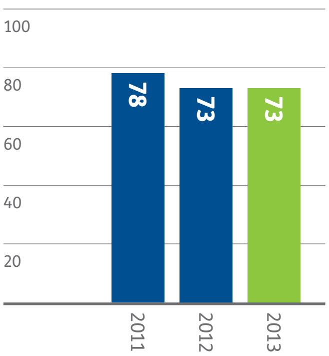
SSE produces electricity using gas, coal, water, wind and biomass and is also involved in natural gas production in the North Sea to help meet the energy needs of customers now and in the future.

For shareholders

Delivering real dividend increases

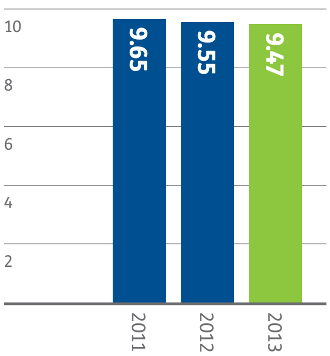
SSE's first financial responsibility to shareholders is to deliver annual above-inflation increases in the dividend, and fulfilling that responsibility is its first financial objective in the years ahead.

Customer minutes lost in the north of Scotland



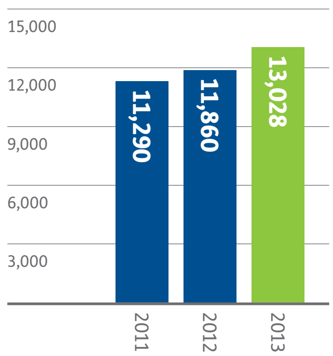
See page 35.

Energy customer account numbers



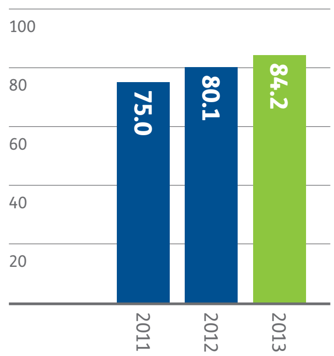
See page 40.

Total electricity generation capacity – MW



See page 50.

Full-year dividend payable to shareholders – pence per share



See page 14.

Inside this year's report

The Directors' Report is set out on pages 1 to 102.

* Unless otherwise stated, in line with SSE's approach since September 2005, this financial report describes adjusted operating profit before exceptional items, remeasurements arising from IAS 39, and after the removal of taxation and interest on profits from jointly controlled entities and associates, unless otherwise stated. In addition, it describes adjusted profit before tax before exceptional items, remeasurements arising from IAS 39 and after the removal of taxation on profits from jointly-controlled entities and associates. It also describes adjusted profit after tax and earnings per share before exceptional items, remeasurements arising from IAS 39 and deferred tax.

Key features of 2012/13

Above inflation dividend increase

SSE is recommending a final dividend of 59.0p per share. This will make a full-year dividend of 84.2p, which is an increase of 5.1%, and the fourteenth successive above-inflation dividend increase since the first full-year dividend paid by SSE, for 1998/99.

See page 14.

Networks asset base expanding

The Regulated Asset Value of SSE's economically-regulated energy networks has increased to £6.4bn (net) at 31 March 2013. This follows significant investment in electricity transmission and distribution and in gas distribution. The electricity transmission RAV has exceeded £1bn for the first time.

See page 31.

First customer service guarantee

SSE is the first leading energy supplier in Great Britain to offer a Customer Service Guarantee. It means that if SSE fails to meet one of five commitments, designed to make life easier for customers and find ways to help them save money, it will discount £20 off the customer's next bill.

See page 42.

New generation assets in Ireland

In October 2012, SSE completed the acquisition of electricity generation assets in Ireland for £289.8m. They include 1,068MW of assets in operation and a new 460MW gas-fired power station under construction in County Wexford. Adding to SSE's existing assets, the acquisition is a positive step forward in delivering a balanced electricity generation and supply business in Ireland.

See page 57.

Chairman's statement
Lord Smith of Kelvin

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 2012/13 and its plans for 2013/14 and beyond.

In consecutive weeks in the early spring of 2013, SSE confronted two of the biggest issues it has had to face since it was formed in 1998. The last week of March saw extreme snow falls and ice in the west of Scotland which inflicted unprecedented damage on the electricity network on Arran and Kintyre. Over 500 engineers and other employees from the company were deployed to help restore electricity supplies to households, businesses and other premises, working closely with a wide range of authorities and agencies. This was SSE at its best.

The first week of April saw the Gas and Electricity Markets Authority announce a £10.5m penalty on SSE for breaches of licence conditions in relation to sales of electricity and gas, mainly between 2009 and 2011. Like everyone else associated with SSE I have no hesitation in apologising unequivocally for the breaches that occurred; but while the breaches were clearly wrong, the response has been absolutely right. SSE has undertaken major reform of its Retail operations since 2011, including introducing a sales guarantee to make good any financial loss experienced by customers joining SSE, and launching in 2013 the industry's first-ever customer service guarantee, backed by a financial commitment. This is now SSE at its best, too.

A generally good performance in 2012/13 enabled SSE to extend its unbroken record of annual increases in the full-year dividend and in adjusted profit before tax*. This ability to deliver consistently increases in the full-year dividend and in adjusted profit before tax* shows the resilience inherent in its balanced model of economically-regulated and market-based energy businesses and the robustness of its strategy of focusing on operations and investments in each of those businesses.

A carefully-maintained balanced business model and a clear strategic emphasis on operations and investments, including learning lessons from the past to improve performance in the future, have been consistent features of SSE since the company was formed in 1998. The other consistent feature of the company has been the first financial objective of its business model and strategy: to deliver sustained real growth in the dividend payable to shareholders.

Throughout this time, Ian Marchant has been a remarkably successful finance director and then chief executive of SSE. He is the first to acknowledge, however, how much he owes to Alistair Phillips-Davies and Gregor Alexander and SSE is fortunate indeed to have these two very able and experienced executives, and a very strong management team generally, to take forward the business after Ian, having completed an exceptional decade as chief executive, steps down at the end of next month.

While there will be a change of Chief Executive in the company, and while the energy sector is subject to change driven by regulation, legislation, technology, demand for natural resources and the needs of customers, there are four things at SSE that won't change: the balanced business model; the focus on operations and investment; the dedication to customer service; and the commitment to sustained real growth in the dividend in the years ahead.

Lord Smith of Kelvin
Chairman

Strategy

Our aim:

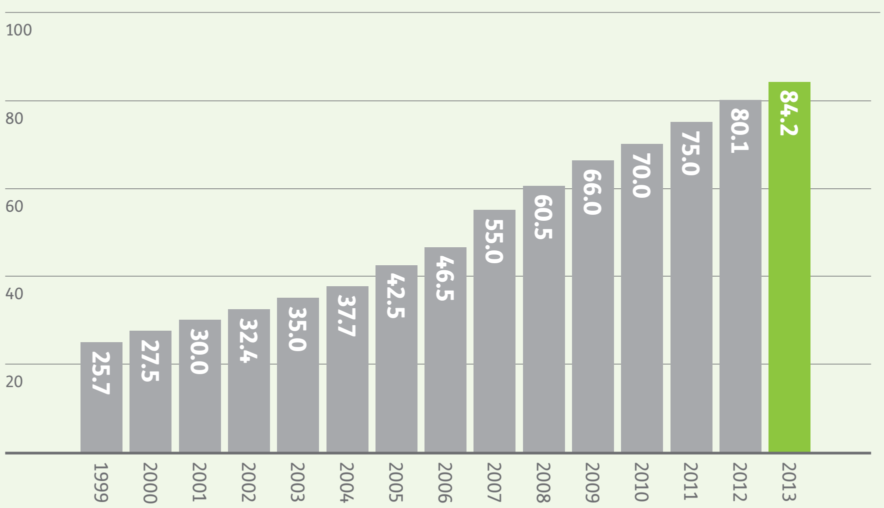
SSE's principal financial objective is to deliver annual above-inflation increases in the dividend payable to shareholders.

SSE's strategy is to deliver sustained real growth in the dividend payable to shareholders through the efficient operation of, and investment in, a balanced range of economically-regulated and market-based businesses in energy production, storage, distribution, supply and related services in the UK and Ireland.

Dividend per share

84.2p

+5.1%



The key features of SSE's strategy:

Focus on core values

Companies have to earn profits the right way and the SSE SET of values is designed to help deliver this: Safety, Service, Efficiency, Sustainability, Excellence and Teamwork.

See pages 14 and 64.

Maintaining a balanced business

Its Networks, Retail and Wholesale businesses give SSE strong foundations and diverse sources from which to achieve growth in the dividend, while reducing the risks associated with over-exposure to one part of the energy sector.

See page 14.

Sticking to our financial principles

SSE adopts a prudent approach through maintenance of a strong balance sheet, focus on achieving investment returns greater than the cost of capital, a disciplined approach to acquisitions and measuring financial decisions against share buy backs.

See page 15.

Setting clear long-term priorities

Shareholders' investment should be remunerated through dividends because they provide the biggest source of return over the long term and commitment to dividend growth demands a long-term approach to operations, investments and acquisitions.

See page 15.

The energy sector

Great Britain

The energy sector in Great Britain remains one of the most competitive and deregulated energy markets in the world. The sector 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 are vertically integrated and operate in both parts of the sector must maintain clear legal separation and confidentiality under the Utilities Act 2000.

Reflecting its island status, Great Britain's energy (ie electricity and gas) sector is largely free-standing with the exception of some electricity interconnection with Ireland and mainland Europe and some gas pipelines from mainland Europe and to Ireland.

Around 30 million homes, offices and businesses are connected to the electricity network in Great Britain and around 23 million to the gas network. Initial figures for 2012 show that total electricity generation throughout the UK was 363TWh representing a further fall in overall electricity demand. Total gas consumption in 2012 was 855TWh, representing a further fall in gas demand, largely driven by a significant reduction in gas being used to generate electricity.

The stated goal of the UK government's energy policy is to achieve secure, affordable and low-carbon energy in the years and decades ahead.

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 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 outperform their allowances, adding to returns, and vice versa for 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.

UK energy connections

1. Moyle interconnector
Date Established: 2001 **Length:** Approx 60km
Capacity: 450MW (currently restricted to 250MW)

2. Scotland to Northern Ireland pipeline
Date Established: 1996 **Length:** Approx 130km
Capacity: 8mcm

3. Scotland to Republic of Ireland pipeline
Date Established: 1993 **Length:** Approx 200km
Capacity: 26mcm

4. East to west interconnector
Date Established: 2012 **Length:** Approx 260km
Capacity: 500MW

5. Bacton to Balgzand line
Date Established: 2006 **Length:** Approx 230km
Capacity: 46mcm

6. Bacton to Zeebrugge interconnector
Date Established: 1998 **Length:** Approx 230km
Capacity: 58-74mcm

7. BritNed interconnector
Date Established: 2011 **Length:** Approx 260km
Capacity: 1,000MW

8. England to France interconnector
Date Established: 1986 **Length:** Approx 70km
Capacity: 2,000MW (DC)

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, to cover their costs and earn a return on their regulated assets. Ofgem also places incentives on companies to be more efficient and innovative and to deliver an enhanced quality of service.

It also sets the framework for the capital investment they are able to make in maintaining and upgrading the networks. Each network has a Regulated Asset Value (RAV) indexed to the Retail Price Index, 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. Companies cannot charge network users more than is allowed under the Price Control.

The first set of Price Controls under Ofgem's new RIIO (Revenue = Incentives + Innovation + Outputs) model have been set for electricity transmission, gas transmission and gas distribution and will run until 2021. The existing Price Control for electricity distribution was set under the old regime and will run until March 2015. Thereafter electricity distribution networks will be subject to a new eight year Price Control set under the RIIO regime. This new model delivers eight year price controls, delivering greater certainty to the sector over the medium term.

Wholesale electricity and gas

In line with its island status, around 98% of the electricity consumed by UK customers is generated in the UK. At the beginning of 2012, the UK as a whole had around 89GW of electricity capacity, representing a drop from 90.4GW at the end of 2010. Through 2012 and early 2013 further plant closures and reductions in capacity have been announced by generators, including SSE.

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

- producers (generators), retailers (or suppliers), large users, National Grid Electricity Transmission Ltd and other 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, National Grid Gas plc and other 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.

Gas production from the UK Continental Shelf is in long term decline. In 2012, roughly half of UK gas demand was supplied through UK production with the remainder being supplied via pipelines from European gas fields, the England-Belgium pipeline or liquefied natural gas terminals. This is set to increase significantly in the years ahead, as production of gas from the North Sea declines further.

It is part of Ofgem's responsibility to licence electricity generation and to make sure that electricity and gas markets are competitive. The markets are designed to maintain a downward pressure on the cost of electricity and gas, for the benefit of customers, and to encourage greater diversity in the supply of fuels in order to enhance energy security. In line with that, the Renewables Obligation requires licensed UK electricity suppliers to source a specified proportion of the electricity they provide to customers from eligible renewable sources. This proportion is set each year and has increased annually.

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 are only three countries that have a larger number of suppliers with a market share of more than 5%.

In the retail electricity and gas markets, customers are free to choose their retailer (or supplier). It is the responsibility of the retailer to buy the electricity and gas customers need, arrange for it to be distributed to them through the relevant networks, provide the associated services such as metering and billing and promote the efficient use of energy.

Ofgem is responsible for licensing the supply of electricity and gas and also scrutinises retail prices for electricity and gas and the overall effectiveness of the retail energy market. Its Retail Market Review represents Ofgem's attempt to enhance competition in the retail energy market and make it work more effectively so that the benefits can be realised for more consumers.

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 GB, 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.

Ireland is hugely dependent on fossil fuels, over 90% of which are imported. With two gas interconnectors to GB, potentially carrying over 30mcm daily, indigenous gas storage is limited. However, a new gas production field, Corrib, is being developed

The energy sector (continued)

off the west coast. At peak flow it is estimated this field will deliver 42% of all island demand over the first two years of operation. With the Republic of Ireland continental shelf extending to 220 million acres, 10 times its land area, the government is keen to encourage exploration companies in the expectation that significant oil and gas reserves may lie in deep water in the Atlantic basin.

To further reduce import dependence and meet strict EU decarbonisation and renewable energy targets, both RoI and NI governments have set a target of 40% renewable electricity to be delivered by 2020. This target requires approximately 5,000MW of renewable energy capacity to be installed across the island. This is underpinned by established support mechanisms: in RoI, the Renewable Energy Feed-in tariff which provides a floor for renewable energy; and, in NI, Renewable Obligation Certificates (as in GB). Renewable energy, mainly hydro and wind, currently supplies 17% of electricity demand in Ireland.

Ireland currently has approximately 2,070MW of onshore wind connected but has the resource to increase this on- and offshore. With a view to harnessing this potential, in January 2013, Energy Ministers from the UK and RoI governments signed a Memorandum of Understanding regarding the development and subsequent export of onshore wind from Ireland to GB. Over the coming year analysis will be completed to assess the economic viability and if proven, a legal partnership will be examined.

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 RoI and NI respectively.

The state-owned (RoI) Electricity Supply Board (ESB) owns and operates the distribution and owns the transmission networks in RoI and NI. Similarly to GB, these activities are regulated through Price Controls set by CER and NIAUR typically for five-year periods. The current Price Controls in RoI will run until 2015. In NI the price control covers the period 2012-17.

The transmission system in the Republic of Ireland is operated by EirGrid plc and, in Northern Ireland, is operated by SONI Ltd, a wholly-owned subsidiary of EirGrid plc.

Ireland is hugely dependent on fossil fuels, over 90% of which are imported. With two gas interconnectors to GB, potentially carrying over 30mcm daily, indigenous gas storage is limited.

In the Republic of Ireland, state-owned Bord Gáis owns, maintains and develops the gas transmission and distribution networks while Gaslink, a ring-fenced business within Bord Gáis, operates the transmission system. Regulated by the CER, the current Price Control runs until 2017.

In Northern Ireland the gas market is in the early stage of development. Two companies – Firmus Energy, a subsidiary of Bord Gáis, and Phoenix Natural Gas – own and operate separate distribution networks, regulated by NIAUR. The forthcoming Phoenix Price Control will cover the period 2014-16, while Firmus' runs to the end of 2016.

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.

The Single Electricity Market encompasses over 9,000MW of fully dispatchable generation capacity and supplied over 35TWh in 2012, costing around €2bn in energy payments and €0.5bn in capacity payments in 2012 (source: EirGrid/SONI). The retail markets operate separately with around two million customers in the Republic of Ireland and 0.8 million in Northern Ireland.

The island consumes approximately 73TWh of gas annually of which around two thirds is used in power generation. As in electricity the gas retail market operates as two separate markets with some 650,000 consumers in the Republic of Ireland and 150,000 in Northern Ireland. The majority of gas consumed is imported. The governments and regulatory authorities are currently developing an all-island gas market. Gas prices in Ireland tend to be set by the UK wholesale price.

Electricity and gas retailing

At 31 March 2013 there were four main electricity and gas suppliers operating in the Republic of Ireland and Northern Ireland.

Despite competitive business markets for a number of years, domestic switching in electricity and gas has only taken hold since 2009. SSE's retail brand in Ireland, 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 allowed full deregulation of 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.

In June 2012, SSE completed the acquisition of Phoenix Supply Limited, to become the regulated incumbent gas supplier to 130,000 customers. The now renamed Airtricity Gas Supply NI business completes its annual tariff review in March each year, with an interim tariff review in October.

In early 2013, Airtricity also became the first new market entrant for Large Energy Users in to Northern Ireland's Ten Towns Gas Supply Network, which was opened to competition in October 2012. Previously, Large Energy Users had been limited in their choice of natural gas supplier, with the Ten Towns license being restricted to Firmus – the network operator there.

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.

The sale of Bord Gáis Energy (BGE), which contains gas and electricity retail and thermal and renewable generation assets, will comprise the main element of the disposal in the energy sector, with some non-strategic power generation capacity owned by ESB also proposed. The sale process of BGE is scheduled to be completed by the end of 2013.

Weather

The UK and Ireland lie at a particularly volatile latitude where warm air from the tropics and cold air from the Arctic collide to create numerous weather systems. This creates unpredictable conditions where weather can change very quickly.

Weather and climate change can both have an effect on SSE's business operations, including:

- variations in customer demand for energy;
- changes in the volume of electricity generated; and, potentially,
- disruption to power supplies as a result of weather-related damage to the electricity network.

Often, when discussing prevailing conditions, the terms weather and climate are used interchangeably. This is particularly evident when unseasonably warm or cold days are contrasted with wider discussions on climate change.

The term 'weather' refers to the temperature, precipitation and wind, which sees hourly and daily fluctuations; whereas the term 'climate' describes the average weather expected over a long period of time, typically 30 years or more.

For the UK and Ireland long-term weather forecasting is difficult given their geographic location sitting between the Atlantic Ocean on one side and continental Europe on the other. This means even subtle changes in the wind direction can bring marked changes in the weather.

2012/13 weather patterns relative to the 30 year average

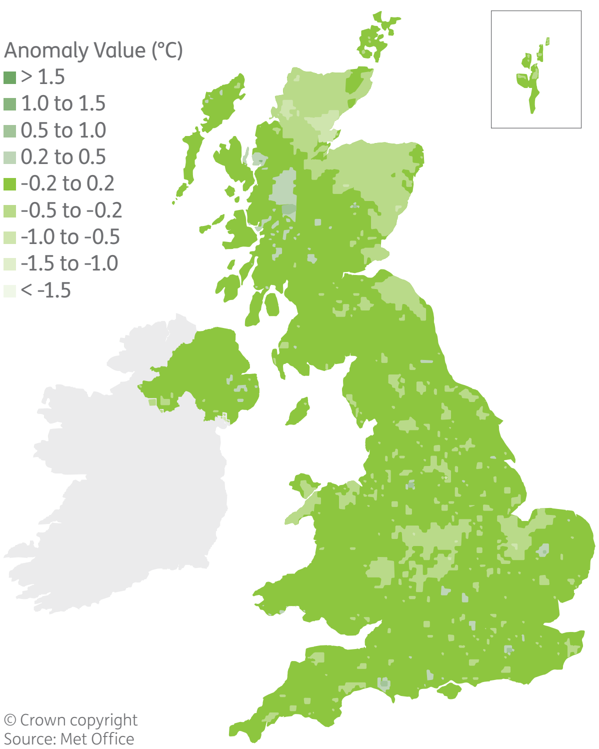
In the UK 2012/13 will be remembered as one of the coldest periods of time in the past 30 years. Not only was it a cold year but rainfall across the UK was also higher than the 30-year average for a number of months.

Most noticeably:

- April 2012 – the coldest April since 1989, it was also the wettest April since records began in 1910, only the western fringes of Scotland and parts of Northern Ireland were drier than average.
- June 2012 – the coldest June since 1991 and the wettest June on record since records began in 1910.
- August 2012 – although the start of this month saw flooding in parts of England, in Wales and Scotland the month was dry and clear compared with the 30-year average.
- December 2012 – the UK sunshine figure for this month was 120% of average.
- February 2013 – despite generally cold temperatures, there were few major weather events impacting the UK during February.
- March 2013 – the coldest March since 1962. March was the coldest month of the 'extended winter', the first time this has happened since 1975.

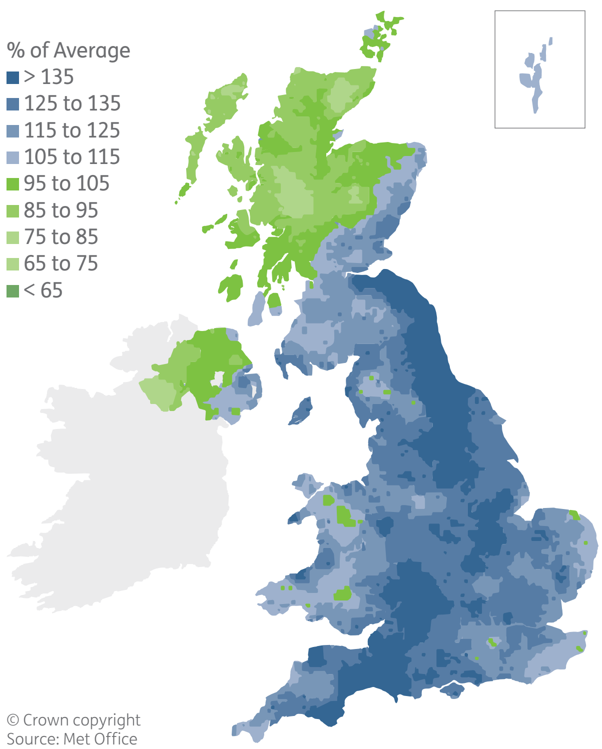
Weather is an important influence on how SSE manages its business. Accurate forecasting, coupled with analysis of generation plant availability (in SSE's own portfolio and elsewhere in the market), customer demand and its contractual position means SSE can assess, and therefore manage, exposure to weather fluctuations and wider market prices.

Annual 2012 mean temperature (compared to 1971-2000 average)



Source: Met Office

Annual 2012 rainfall amount (% of 1971-2000 average)



Source: Met Office

Questions and answers with the SSE Executive Team

Answering key questions.

In the year to March 2013, SSE had three Executive Directors: outgoing Chief Executive Ian Marchant, Deputy Chief Executive and Chief Executive Designate Alistair Phillips-Davies and Finance Director Gregor Alexander. Here they answer some of the key questions facing both SSE and the energy industry now and in the future.

Watch the video
Ian, Alistair and Gregor talk about SSE's full-year results.
http://www.youtube.com/sseplc

Left to right: Ian, Alistair and Gregor

Are you pleased with SSE's overall performance in 2012/13?

Ian After five years of sustaining profit increases during a period of tough underlying conditions for the energy sector, it is clearly encouraging that we have delivered an increase of 5.6% in adjusted profit before tax*.

Those tough underlying conditions are continuing. Stubbornly low margins for gas generation, persistently weak economic conditions, turbulence in global energy markets and heightened political and regulatory activity at home are continuing to make for a challenging and complex operating environment.

Gregor The increase in profit growth in 2012-13 is down to a number of factors. First and foremost it is down to SSE's vertically integrated business model that invests in a balanced range of energy businesses. When the market cycle is at a low point, regulated networks deliver solid dependable returns, and when the market picks up, the competitive businesses should provide upside.

It is also down to some good, old-fashioned cost control. SSE has a long standing reputation for efficiency and controlling costs and we have worked very hard over the last year reinforcing that culture and weeding out any unnecessary spend.

Putting safety first is an often cited SSE mantra. Are you satisfied with its safety record during 2012-13 and why should this matter to shareholders?

Alistair I am disappointed with the safety performance this year. It is true that we have safety statistics that many companies would be proud of but, to be frank, that's not the most important thing. What matters is that we should make consistent progress towards an injury free working environment – and we still have a lot of work to do before we reach that target.

Gregor I believe our safety performance has to be our top priority. First of all because of the human impact of a poor safety performance, but also because a company's attitude to the safety of its workforce tells you a lot about what kind of company it is. Simply put, safe companies are good companies.

You have repeatedly made the point that SSE must earn the right to make its profit. Do you believe it has done so this year?

Alistair This year has been a case of 'one step forward; one step back'. The outcome of Ofgem's investigation into our previous sales practices was obviously a significant setback in persuading customers that we are worthy of their trust.

We have a lot of work to do in the months ahead. However, on a more positive note, we introduced a sector-leading Customer Service Guarantee that is delivering for customers.

More broadly, the performance of the Networks businesses, especially in the late March snow storms on the west of Scotland, should have helped to build trust and respect amongst our network customers and other stakeholders.

The record £10.5m fine imposed on SSE for misleading customers has been described as a "damning indictment of what SSE has done." How can you square that with the values the company promotes?

Ian I can't. But I do believe that good companies can make bad mistakes. The test of whether an organisation can live up to the standards expected of it is in making sure the mistake is put right and never repeated. We are all determined that this will be the case with SSE.

Alistair The SSE values are about being open and honest and we have made no bones about the fact we got things wrong, and we've all apologised for that. Ofgem has proved itself to be a tough regulator on this matter. The key thing that matters now is that we never repeat the same mistake.

At the end of 2011 we introduced a Sales Guarantee to compensate customers who may have been mis-sold. Since then, we have created a newly-structured Retail division and brought in from outside SSE new members of the senior management team.

We have totally changed the way we conduct sales. We aim to make every sale open, honest and informed so that customers can make the right choice.

There are reports that some big businesses in the UK are avoiding making a fair contribution to the UK Treasury in terms of tax contributions. What is SSE's position?

Gregor SSE disagrees strongly with any company that takes an aggressive stance in interpreting tax legislation, or uses so-called 'tax havens' as a means of doing so. As a UK based and listed company operating solely in the UK and Ireland, SSE believes it has a responsibility to operate within both the letter and spirit of the law at all times. While the position varies from year to year, according to the 2012 PwC Total Tax Contribution survey, SSE ranked 17th for UK taxes paid, whilst being ranked 30th in the FTSE by market capitalisation

The energy problem in the UK is often described as a 'trilemma', of competing pressures from the challenges of climate change, security of supply and energy affordability. In the face of those competing pressures is it possible for SSE to find a sustainable balance?

Alistair The key word here is balance and to understand the trade offs that occur in order to achieve that balance. The UK could provide all of its energy more cheaply for a short time through fossil fuels but there would be a very negative impact on natural resources. We also can't be sure that fossil fuels will deliver security of supply given our reliance on unpredictable, but increasingly competitive and demanding, global markets. The country could put all its eggs in the renewable basket but it cannot generate energy 24/7. Equally, the UK could pursue the very expensive nuclear option, but even the most ardent nuclear supporter is unlikely to claim that it is capable of providing all of the country's energy requirements. We – and the country as a whole – have to manage these competing demands at the same time as ensuring the choices for future generations are not compromised.

Gregor In this competing trilemma SSE's strategy is simple. We will invest in the things we know we are good at: renewable energy and lower carbon thermal generation. The combination of these two generating technologies is important. Thermal generation provides the critical flexibility that enables us to make the most of the renewable resources when the wind blows, the sun shines or the rain falls. We contribute to making energy as affordable as possible by pursuing only the most economic investment projects at the same time as helping our customers reduce their overall energy consumption.

Customers are worried about energy bills. How worried should they be?

Gregor The winter gas price for 2012/13 contributed to the highest-ever financial year average price. Because the UK is increasingly reliant on gas imports, the volatility we have seen in domestic gas prices in recent times becomes very difficult to avoid. SSE works hard to counter this volatility and to secure supplies for customers as cheaply and reliably as possible – it's in our interests as well as our customers' that we do this. But the underlying structural issues behind price spikes show no signs of abating, and that means we all have an interest in the ongoing political debate that will help shape our energy future.

Alistair I am acutely aware the overall cost of energy to our customers is becoming an increasing burden on their household budgets. Energy affordability is a critical issue and we do everything we can to avoid price increases, and will continue to do so. But the additional costs that are borne by the energy customer – such as the cost of government-sponsored environmental and social schemes – have a material impact on their energy bills. These costs are part of an obligation placed on us by Government and there is nothing we can do to avoid it.

Another issue customers are worried about is security of supply. Do you believe the UK's current plans for Electricity Market Reform will enable sufficient investment in electricity infrastructure to avoid a security of supply crunch in the future?

Ian We can't speak on behalf of other companies that may or may not invest, but given that SSE is the only UK headquartered energy utility with such a strong and broad focus on the UK electricity market, I would suggest that

Questions and answers with the SSE Executive Team (continued)

our assessment should be of particular concern to the UK government. There is a real risk that the continuing uncertainty over measures such as the Contract for Difference and the capacity market simply increase a reluctance to invest. An early and appropriate capacity mechanism would make a significantly positive impact on the investment case for new gas-fired generation plant that is critical to securing electricity supply throughout this decade.

Alistair A good illustration of Ian's point is the example of nuclear. A six month delay in agreeing strike prices for nuclear will simply mean that new nuclear will come on later than expected and well after 2020. But slow progress towards a capacity mechanism will exacerbate an already precarious security of supply problem in the middle of this decade.

And what will this mean for SSE's investors?

Gregor We will work hard to make the case to government for an electricity market framework that will appropriately reward the risk that capital providers will face. If, however, proposed generation projects fail to meet the disciplined financial criteria we set, then we will not put shareholder returns at risk, and we will seek to invest in alternative options. SSE has a broad set of investment options and there is always an alternative value-adding project to invest in.

Alistair As Gregor says, we have plenty of options and that's one of the benefits of our balanced business model. For the period up to 2012, for example, the biggest element of our investment programme was renewable energy, but that has started to change and over the next few years the biggest proportion of our investment will be in economically-regulated electricity networks. We are very careful to make sure that we don't over-allocate the money we invest to any single part of the business and thereby expose SSE and its investors to unnecessary risk.

How do you assess political and regulatory risk to the business in 2013/14 and beyond?

Alistair Political and regulatory risk is a prominent feature of the industry we participate in and for understandable reasons. People need energy to live and to live well. SSE has a clearly-defined market focus – concentrating all of its activities in the UK and Irish markets. These markets, in comparison to elsewhere, are noted for their lower political risk. Of course, even in the UK political risk is omnipresent which is why we work hard to make our case to politicians, government and the regulator.

The date for a referendum on Scottish independence has now been set. What does that mean for SSE?

Gregor We made our position on this clear in 2012, and it hasn't changed. Constitutional issues are matters for voters. As we said in 2012, the referendum does increase the risk of regulatory and legislative change with regard to the electricity and gas industry in Scotland and we have to take account of that in making decisions about the business. At the same time, we expect SSE to continue to be a significant business in England, Wales, Scotland, Northern Ireland and the Republic of Ireland in the short, medium and long term.

When the attention of the public, politicians and the media is fixed firmly onto the debates surrounding security of supply and the price of energy, how important are the Networks businesses to SSE?

Alistair Many people see networks as the jewel in SSE's crown, and it's easy to see why. Of course they provide the basis under which we can make dependable returns but they also provide an important contribution to the culture of SSE as a whole. Operational excellence and a focus and pride for 'keeping the lights on' are embedded within the network businesses and influence all the businesses that make up the SSE Group.

Gregor All three of SSE's energy networks businesses are performing well but with their own specific challenges to meet. SGN (of which SSE owns 50%) has proved itself to be a first class investment, with its operational performance delivering dependable returns every year. The electricity distribution networks in the south of England and the north of Scotland are innovating and reforming in a way not seen for a generation. And the north of Scotland electricity transmission business is delivering significant growth in its regulated asset base, underpinning the solid and stable returns that are vital for our shareholders.

In the past, SSE would be described as an excellent operator of energy assets, not necessarily as a company that was excellent at building energy assets. Is this still the case?

Ian In my ten years as Chief Executive the company has undergone three phases. Firstly we cut waste and duplication in the years after the original merger forming SSE in 1998. Then there was a phase when acquisitions were plenty and SSE built a reputation for good judgement and timing in acquiring assets and for successfully integrating them in to the business. Finally, from 2008, SSE has undertaken a large capital programme of investment focussing on building new wind farms, new transmission infrastructure and the maintenance and development of existing and new thermal generation plant. The company is becoming increasingly skilled in this area.

Alistair The scale of SSE's programme of capital investment makes it one of the biggest across the UK and Ireland but we have learnt to pursue and deliver those investments with the same discipline and rigour for which we had built a reputation for in operations and acquisitions. We must constantly caution against complacency and have established ways to maintain the process of continuous improvement.

Gregor The focus for us is to make sure capital starts earning its way as quickly as possible. I am very pleased with the progress in completing our onshore wind farm developments to time and within budget – with the key target for the construction teams being on achieving 'first energy'. This financial year we have seen a substantial increase in total installed capacity which is now earning income for our shareholders.

Has SSE become capital constrained? Are you being prevented from pursuing investment opportunities due to a lack of capital?

Gregor I am comfortable that the current level of investment is appropriate in order to continue delivering the dividend target over the medium to long term. There is diversity and flexibility in our financial management and flexibility within the capital programme to be able to respond to opportunities if they arise but we remain firmly committed to the current criteria set out for an A- rating from the credit agencies.

With a new Chief Executive, will SSE introduce a new strategy for the future?

Alistair No. SSE's existing strategy is the product of its whole management team – of which Gregor and I have been members for over a decade. The Board and the senior management team remain as clear as we have always been – SSE's strategic purpose is to provide the energy people need in a reliable and sustainable way. And in doing so we will work to meet our core financial objective – which is to deliver real growth in the dividend every year.

Gregor Alistair and I have worked together since SSE was formed in 1998 and each year since then we have been able to point to the benefits of the company's strategy being realised in practice. There is no reason to change it, and it would be wrong to do so. Obviously, we'll continue to anticipate and adapt to changes in the sector and in the wider economy. We've always done that and we always will – but always within the framework of our established strategy.

What is the greatest risk of SSE being unable to deliver that dividend target in 2013-14?

Gregor Provided we stick to the financial and operational discipline that has defined SSE for over a decade, I firmly believe we will be in a strong position to deliver an above inflation increase in the dividend next year. We will also be well positioned to continue to deliver those all important dividend payments to our shareholders every year after that.

Finally, with Ian stepping as Chief Executive do you have any comments for the future?

Ian SSE has always had strength and depth to its management team. I am proud that our long term succession planning has meant that Alistair is the right person to succeed me. SSE is a company that is very sure of what it is here to do and what it stands for. That's partly because of the SSE SET of core values – safety, service, efficiency, sustainability, excellence and teamwork. They're very well-established throughout SSE. These values, I believe, will endure beyond any of the individuals that hold the most senior management positions.

Gregor Alistair and I have thoroughly enjoyed working alongside Ian. The great thing is that through the work he has led, the company is on a strong footing for the future, with a clear strategy and straightforward financial objective, backed up by the core values which go to the heart of everything we do.

Alistair SSE is a good company and Ian has been an outstanding leader. I am enormously looking forward to taking over the reins, working alongside Gregor. But I am clear about what the change means. This is a change of CEO, or team captain, not a change in the core strategy or the overall make-up of the team. SSE's core strategic purpose remains firm: to provide the energy people need in a reliable and sustainable way and in doing so we will work to meet our principal financial objective: delivering real term increases in the dividend year after year.

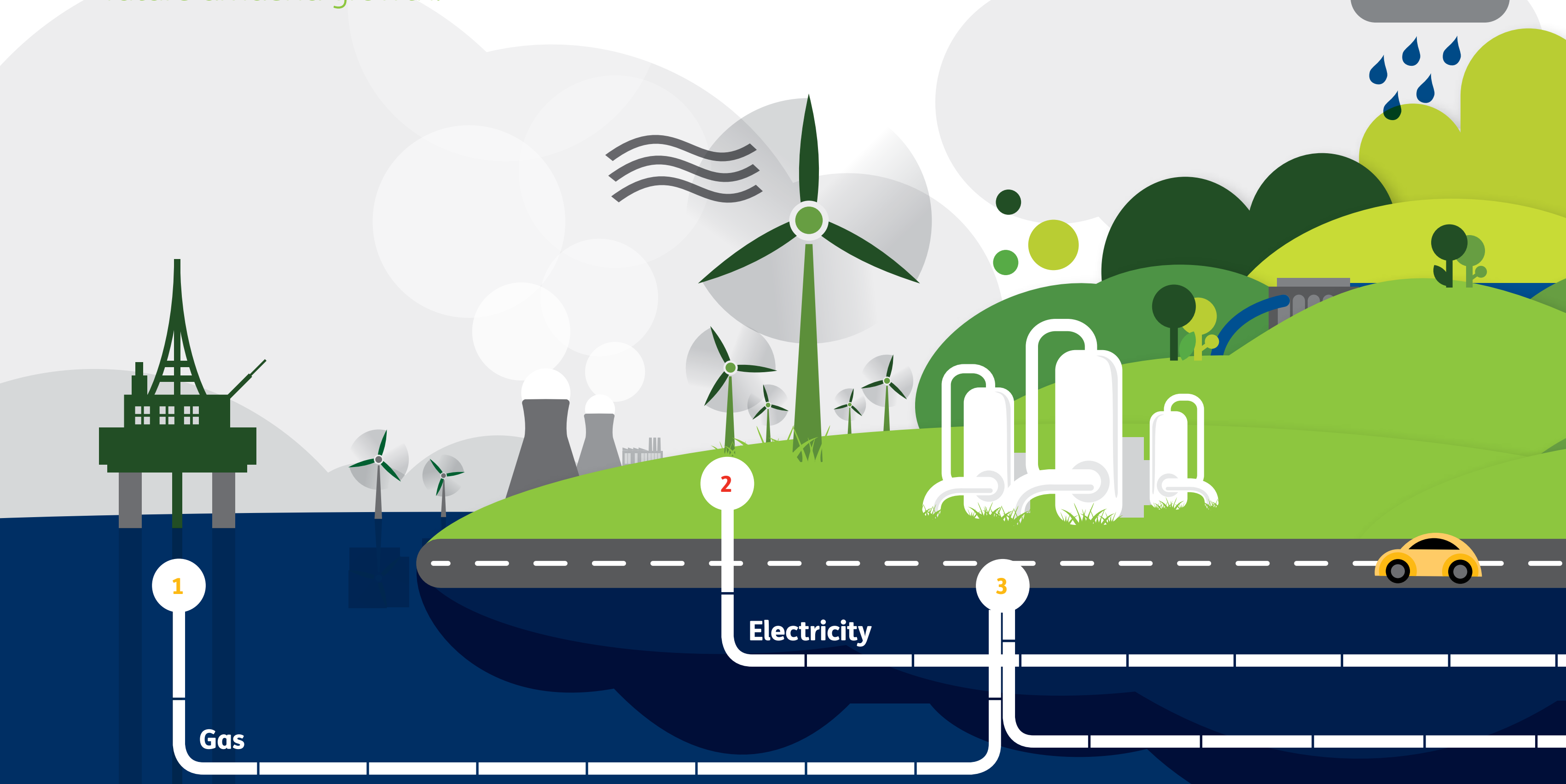
Our business explained
Three connected businesses

SSE's strategy is to deliver sustained real 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.

1-3
Wholesale

To secure energy for its customers, SSE is involved in energy portfolio management, electricity generation, gas production and gas storage. 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.



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.

Wholesale

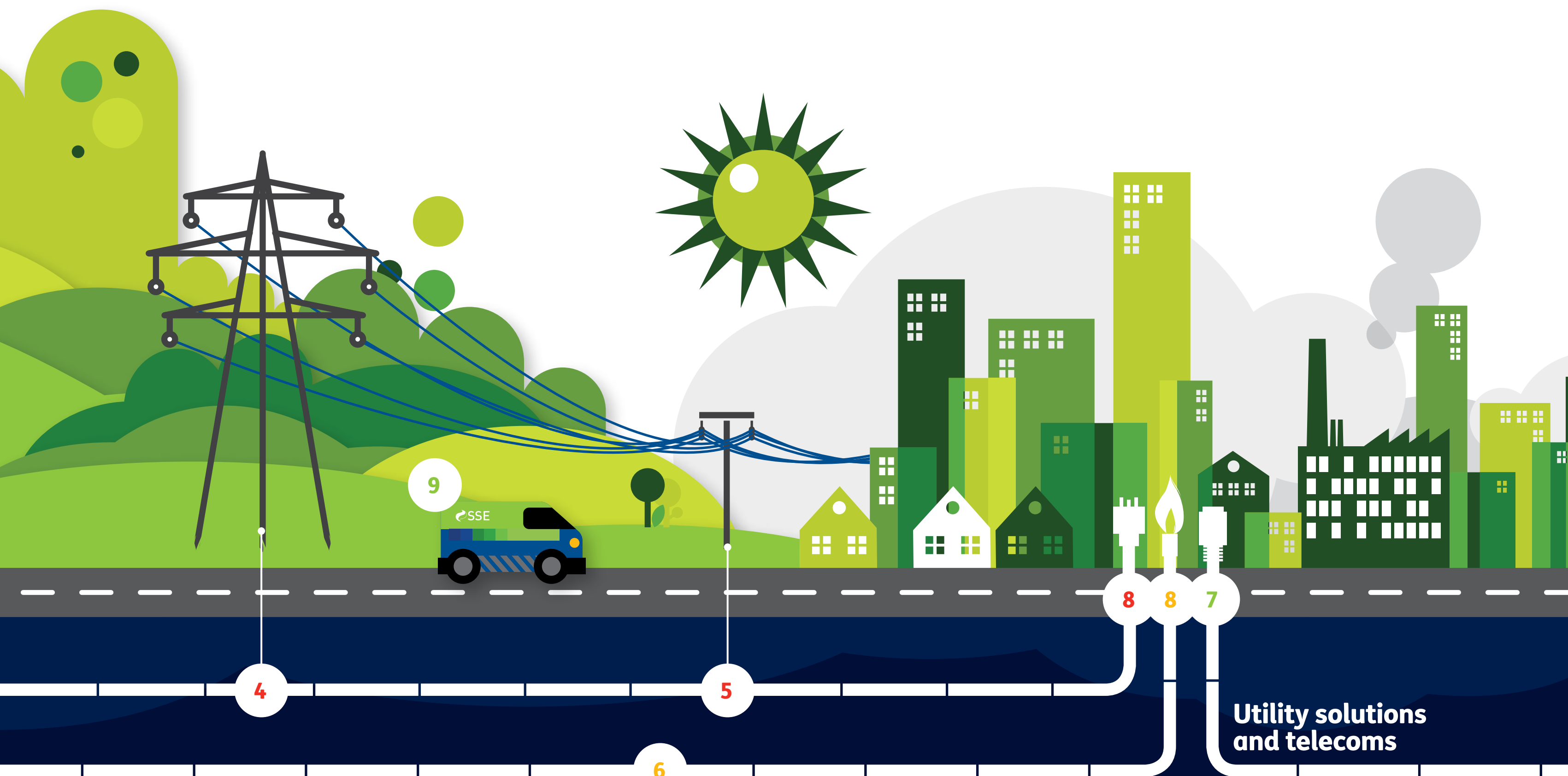
Market-based

4-7
Networks

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, responsiveness and innovation.

8-9
Retail

Through its brands SSE, Southern Electric, SWALEC, Scottish Hydro, Atlantic 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 fair prices, simple products and excellent service.



5.
Electricity Distribution
Using lower voltage lines and cables to distribute electricity to homes, workplaces 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, bandwidth and data centre services.

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.

Networks

Retail

Economically Regulated

Market-based

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.

Continuing strategy for dividend growth

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 the shareholders who have invested in its shares, and it continues to believe their investment should be remunerated through the payment of dividends, for four key reasons:

- the ultimate objective of financial investment is to secure a cash return and receiving and reinvesting dividends is the biggest source of an investor's return over the long term;
- dividends provide income for those investors who do not wish to reinvest them;
- dividend targets provide a transparent means with which to hold management to account; and
- long-term commitment to dividend growth demands a disciplined, consistent and long-term approach to operations, investments and acquisitions.

As a result of this, SSE's strategy is to deliver sustained real growth in the dividend payable to shareholders through the efficient operation of, and investment in, a balanced range of economically-regulated and market-based businesses in energy production, storage, distribution, supply and related services in the UK and Ireland.

Sticking to the financial principles which underpin dividend growth

This focus on the dividend requires SSE to maintain a disciplined, consistent and long-term approach to the management of business activities and this is underpinned by its four financial principles:

- **strength:** maintenance of a strong balance sheet, evidenced by the ongoing commitment to the current criteria for a single A credit rating;
- **rigour:** rigorous analysis to ensure investment decisions result in returns in excess of the cost of capital;
- **discipline:** a disciplined approach to acquisitions, which should enhance earnings per share, or should not be pursued at all; and
- **measurement:** safeguarding the interests of shareholders by using the economics of a company share buy-back as the first measurement for financial decisions.

The application of these principles supports the fulfilment of SSE's first financial goal: the delivery of **sustained real dividend growth**.

Targeting sustained real dividend growth over the long term

In practice, dividends are the principal way in which corporate profits are distributed and it is in recognition of this that the first financial objective of SSE's strategy is the delivery of sustained real growth in the dividend paid to shareholders.

As stated in its Annual Report 2012, SSE's policy is that dividend targets should be:

- set in a way which is consistent with its financial principles (see above);
- realistic and attainable, so that there can be the fullest possible confidence in their attainability; and
- consistent with maintaining dividend cover over the medium term within a range around 1.5 times.

In line with this, its target for 2013/14 onwards is, as stated in its Annual Report 2012, the delivery of annual dividend increases that are greater than RPI inflation. In this context, inflation is defined as the average annual rate across each of the 12 months to March.

Maintaining a balanced range of energy businesses through which to continue dividend growth

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

Strategic focus #1

Focusing on our core values

SSE will maintain a strong emphasis on its six core values, the 'SSE SET' of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork.

It 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.

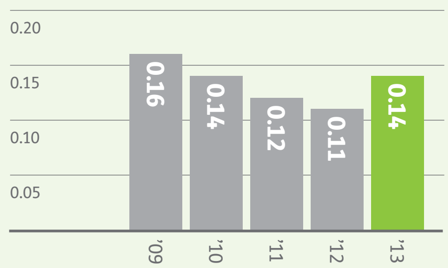
This means that **safety** must come first. SSE believes that the effective management of safety issues is a barometer of effective management of all operational and investment-related activities.

In addition, SSE believes that **efficiency** in operations and investments, **service** of the highest possible standard for customers, **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 above-inflation increases in the dividend paid to shareholders.

Priority for 2013/14

Deliver a reduction in the Total Recordable Injury Rate.

Total Recordable Injury Rate – per 100,000 hours worked



Strategic focus #2

Maintaining a balanced business

SSE has adopted reportable segments covering Networks, Retail and Wholesale 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:

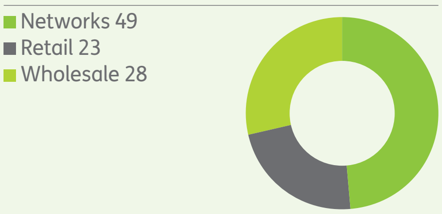
- while energy is at their core, SSE has a diverse range of businesses;
- within those businesses, SSE has a diverse range of assets; and
- to add to those assets, SSE has a diverse range of investment options.

This balance, diversity, growing asset base and range of investment options means that SSE has a broad platform from which to deliver the levels of profitability and the long-term value required to support sustained real 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.

Priority for 2013/14

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

Operating profit* composition in 2012/13 – %



Strategic focus #3

Sticking to our financial principles

The requirement on SSE to maintain a disciplined, consistent and long-term approach to the management of business activities is underpinned by a series of long-standing financial principles:

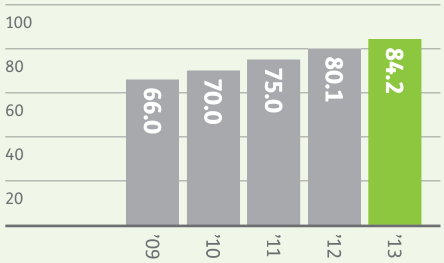
- **strength:** maintenance of a strong balance sheet, evidenced by commitment to the current criteria for a single A credit rating;
- **rigour:** rigorous analysis to ensure investment decisions result in returns greater than the cost of capital;
- **discipline:** deployment of a selective and disciplined approach to acquisitions, which should enhance earnings per share or should not be pursued at all; and
- **measurement:** safeguarding the interests of shareholders by using the economics of a company share buy-back as the first measurement for financial decisions.

The application of these principles supports the fulfilment of SSE's first financial responsibility to shareholders: the delivery of sustained real dividend growth.

Priority for 2013/14

Achieve an above-RPI inflation increase in the dividend.

Dividend per share – pence



Strategic focus #4

Setting clear long-term priorities

SSE has identified five long-term priorities across its balanced range of businesses which reflect and are consistent with the changes under way at global, EU, UK and Irish levels and with addressing the energy 'trilemma'.

The long-term priorities are:

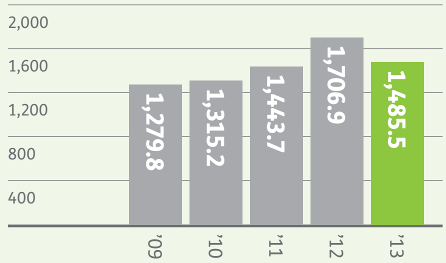
- efficiency, responsiveness and innovation in energy networks;
- gaining and retaining the trust of a growing number of household energy customers;
- breadth and depth in the provision of energy-related services to businesses and other organisations;
- competitive and sustainable energy procurement; and
- flexible and 'greener' electricity production.

SSE believes that the fulfilment of its core purpose, to provide the energy people need in a reliable and sustainable way, and the delivery of annual above-inflation dividend growth, requires it to maintain a long-term view and clear long-term priorities across all aspects of its business.

Priority for 2013/14

Implement a disciplined £1.5bn capital and investment programme.

Capital expenditure and investment – £m



Financial overview (continued)

- Networks – the economically-regulated transmission and distribution of electricity and gas, plus other related networks;
- Retail – the supply of electricity, gas and other services to household and business customers; and
- Wholesale – the production, storage and generation of energy and energy portfolio management.

These segments reflect the broad structure of the energy sector in Great Britain and in Ireland and SSE's commitment to the maintenance of a balanced range of energy businesses. They mean that SSE is the only company listed on the London Stock Exchange which owns, operates and invests in such a balanced group of economically-regulated energy businesses, such as electricity networks, and market-based energy businesses, such as energy supply and electricity generation.

As a result, SSE has a breadth of perspective on the energy sector that is complemented by a depth of knowledge that comes from it focusing on a defined geographical area and markets in Great Britain and in Ireland. This gives SSE a specialism and expertise in the operation of the energy sectors in Great Britain and Ireland, and it has unrivalled experience of them.

This breadth of perspective and depth of knowledge, and accumulated management experience, mean SSE is able to make the most of its balanced range of energy businesses, its growing asset base and its range of investment options. This, in turn, gives SSE strong foundations from which to deliver the levels of profitability and the long-term value required to support sustained real dividend growth. In addition, the risks to the achievement of that growth, such as volatility in energy markets, are contained by that balance and by the diversity of, and within, SSE's businesses, assets and investment options.

Focusing on the SSE SET of core values

Companies don't just have to earn profits; they have to earn profits in the right way. It is for this reason that SSE adopted in 2006 the SSE SET of core values: Safety; Service; Efficiency; Sustainability; Excellence; and Teamwork. Amongst other things, the core values are used in SSE's appraisal process to assess employees' (including Executive Directors and Managing Directors) performance.

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 2012/13, however, SSE's Total Recordable Injury Rate (TRIR) per 100,000 hours worked by employees was 0.14, compared with 0.11 in 2011/12. This disappointing result was the first increase in the SSE's TRIR since it was adopted as a key measure of safety performance in 2008/09. Nevertheless, SSE's long-term goal remains, quite simply, to achieve injury-free working.

In support of that, it has created and is implementing a company-wide behavioural safety programme in which every employee is participating. Beyond the company itself, there was the extremely sad loss of the lives of two employees of contractors to SSE during 2012/13. SSE is prioritising the achievement of enduring improvements in the safety performance of its contractors so that standards are as high as possible.

Although Ofgem announced, and SSE accepted, a penalty in respect of past breaches of Standard Licence Conditions in April 2013, SSE began the fundamental reform of its Energy Supply business almost two years before, in July 2011, to ensure all aspects of its operations are consistent with the Service value: 'We give our customers service we are proud of and make commitments that we deliver.' The importance of this value was reflected in SSE's decision to launch, in February 2013, the first Customer Service Guarantee of its kind in the energy supply sector under which a failure to meet key defined commitments results in a discount being applied to the affected customer's bill.

In its response to the Ofgem announcement, SSE apologised unreservedly to any customers who were affected by the Licence Condition breaches in its Energy Supply business which ran counter to the values and culture of the Company. The Remuneration Committee has agreed that the Executive Directors' award earned under the Annual Incentive Scheme for 2012/13 should be reduced by 23%, which is the contribution to SSE's operating profit* in 2012/13 from the Retail segment, of which Energy Supply is part. The Committee has also recognised that the issues in Energy Supply exposed SSE to substantive criticism from a wide range of stakeholders and concluded that this should also be reflected in the Annual Incentive scheme. As a result, it concluded that the Executive Directors' award earned should be reduced by 40% in total. This represents a fair response to the issues in one part of SSE's Retail division, given the significant progress made in other parts of the SSE group, including its Networks and Wholesale businesses. This is the second consecutive reduction in Annual Incentive Scheme payments to Executive Directors as a result of sales-related issues in SSE's Energy Supply business.

During 2012/13, SSE reviewed the definition of its Sustainability value and concluded that it should be updated to reflect the growing emphasis on the 'triple bottom line' test of environment, society and economy. It has therefore adopted a new definition of its Sustainability value, with effect from 2013/14: 'our decisions and actions are ethical, responsible and balanced, helping to achieve environmental, social and economic well-being for current and future generations'.

In terms of Sustainability, there were no enforcement actions taken against SSE by environmental agencies during 2012/13. SSE did, however, receive four formal warnings from the Environment Agency and the Scottish Environment Protection Agency relating to environmental issues, to which SSE responded fully in each case.

Sustaining dividend growth in a challenging and changing environment

SSE acknowledged in its Annual Report 2012 that big challenges lay ahead in 2012/13, pointing out that everything from wholesale energy prices to the weather can affect its financial performance. The expectation of big challenges proved to be correct, and they are continuing. They include:

- operating and investing in energy networks as the new RIIO (Revenue = Incentives + Innovation + Outputs) framework for Price Controls takes shape;
- the ongoing need to build trust in Energy Supply; and
- a significant change in the outlook for electricity generation capacity margins and the mix of the plant on the system.

Against this background, SSE believes that its strategy of operating and investing in a balanced range of market-based and economically-regulated businesses across just two increasingly interconnected markets, and the balanced range of assets within those businesses and within those markets, is the one which is most likely to exhibit resilience and to sustain annual above-inflation increases in the dividend payable to shareholders.

Operating and investing in energy networks as the RIIO framework takes shape

While SSE's market-based Wholesale and Retail businesses are experiencing significant regulatory, legislative, technology and market change, its economically-regulated Networks businesses are also starting to operate under a new framework: the RIIO framework introduced by Ofgem for eight-year Price Control periods which started on 1 April 2013.

SSE has an ownership interest in five economically-regulated energy network companies. Of these, three that in total account for 54% of the total net RAV (Regulated Asset Value) of this Group are now operating under a Price Control that will run to 2021; the other two will begin a new eight-year Price Control, to be agreed under the RIIO framework, on 1 April 2015.

This new Price Control – RIIO ED-1 – will be agreed at a time of significant technological change as distribution companies aim to respond to changes in electricity production and consumption in innovative ways that minimise the financial and environmental costs and avoid disruption to customers associated with new overhead lines, underground cables or similar infrastructure. In this context, SSE's commitment to efficiency, responsiveness and innovation should stand it in good stead, and the theme of its consultations on RIIO ED-1 is *Innovating for a greener, more efficient future*.

There is relative stability in economic regulation, featuring index-linked revenue that network companies earn through charges levied on users to cover costs and earn a return on regulated assets. This means it's efficiently-run, economically-regulated businesses are core to SSE, to its strategy in the short, medium and long term and to its ability to deliver sustained real dividend growth.

Renewing the commitment to build trust in Energy Supply

Customers' demand for energy in the UK and Ireland, on an underlying basis, is on a downward trend through the effects of investment in, and greater awareness of, energy efficiency measures, more efficient appliances and price sensitivity on the part of customers. In October 2012, the EU Council of Ministers formally adopted the Energy Efficiency Directive, under which Member States will be required to set national targets for energy efficiency improvements and adopt related measures.

At the same time as featuring declining demand for energy as a result of greater efficiency, the retail energy market in Great Britain is among the most competitive in the world and the market in Ireland has experienced the highest rate of customer switching of any European energy supply market in the last five years. According to the UK energy statistics published by DECC in March 2013, UK domestic gas and electricity prices are the lowest and fifth lowest in the EU15 respectively.

Both markets are the subject of substantial political and regulatory intervention, leading to non-energy costs accounting for an increasingly significant proportion of the bills paid by customers. The Energy Company Obligation in Great Britain is a case in point and is described in more detail in the Retail section.

The aim of Ofgem's Retail Market Review in Great Britain is to deliver a 'simpler, clearer, fairer' energy market. Reforms to be introduced in 2013 include restricting suppliers to no more than four core tariffs per fuel type, new requirements for information on customers' bills and more enforceable standards of conduct.

Enforcement action by Ofgem has increased significantly in recent years, and in April 2013 the Gas and Electricity Markets Authority gave notice of its proposal to impose a penalty of £10.5m on SSE for past non-compliance with two licence conditions. SSE accepted immediately the penalty and apologised unreservedly to any customers who were affected by sales activity which ran counter to the values and culture of the Company. Its Sales Guarantee to customers who may have suffered financial disadvantage as a result of the sales process remains unique in the GB energy sector.

More generally, Ofgem has acknowledged that a number of suppliers have taken steps to improve their interactions with customers, simplify their tariff offerings and to rebuild trust and the overall direction of the Retail Market Review is consistent with the strategy adopted by SSE through its *Building Trust* programme since 2011: a focus on fairness, simplicity, transparency and customer service – including the first Customer Service Guarantee in the Great Britain energy industry, which offers customers £20 off their next bill if the company fails to deliver any one of five clearly defined and measurable standards.

SSE recognises that it will have to redouble its efforts to build trust in energy supply following the shortcomings in aspects of its previous energy sales operations that resulted in the fine announced in April 2013. Its creation in 2012 of a bespoke Retail division, headed by an externally-appointed Managing Director, is one of a number of important changes that SSE is making in Energy Supply and Energy-related Services.

As part of its drive to build trust, SSE's emphasis is on being understood by, and connected with, customers, a strategy that will be particularly important as retail energy markets evolve and if energy consumption, as expected, continues to decline. In this context, SSE's ability to supply products other than electricity and gas will also prove to be important in the years ahead and energy-related services have contributed 13% of the operating profit of SSE's Retail business over the last three years.

Maintaining a balanced approach to electricity generation in a period of change

Energy markets across Europe have been dominated by the prevailing economic conditions. In the UK, minimal economic growth and a sustained fall in the underlying demand for energy have combined with high wholesale prices for gas to create a difficult environment for gas-fired power stations in particular, with 'spark spreads' proving to be stubbornly low, if not negative.

While 'spark spreads' have remained low, the EU Large Combustion Plant Directive will require the closure by the end of 2015 of a significant amount of

Financial overview (continued)

coal- and oil-fired power station capacity which has not been opted-in to comply with the Directive's emission limit values (ELVs) for pollutants such as sulphur dioxide and nitrogen oxides. This includes almost 1,000MW of capacity at SSE's Ferrybridge power station. The EU Industrial Emission Directive represents a further tightening of ELVs and its effect will be to limit the amount of hours that capacity at coal-fired power stations can operate between 2016 and 2023 without being compliant with the new ELVs. Non-compliant (or 'opted-out') capacity will have to close when the hours are used up, or by the end of 2023.

At the same time, energy markets in Great Britain and Ireland also operate in the context of the EU Climate Change and Renewable Energy Package, which aims to achieve by 2020:

- 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 net effect of all of this is that, until recently, the amount of electricity generation capacity in Great Britain has remained well in excess of that required to meet forecasts of peak demand. Nevertheless, Ofgem's first annual Electricity Capacity Statement, published in October 2012, was one of several substantive pieces of analysis to forecast a reduction in the amount of spare electricity capacity on the system in the period to 2015/16. SSE is concerned, however, that the speed and scale of the 'capacity crunch' facing Britain in the next few years is being under-estimated and that this could have implications for the security of electricity supplies.

The UK Department of Energy and Climate Change (DECC) believes that the current Energy Bill will address these issues by creating a framework to reform the electricity market in Great Britain, including the introduction of a Contract for Difference (CfD) feed-in tariff for electricity from low carbon sources and the creation of auctions to establish payments for the provision of electricity generation capacity. Essential detail regarding how the reform in general, and the CfD and the capacity mechanism in particular, will work in practice has yet to be established and the result is significant uncertainty about how the electricity market will operate in the second half of this decade and beyond. The natural consequence of this is that investment in new generation capacity is being delayed. SSE is, however, satisfied that there is robust policy commitment to maintaining the investment support for assets already in operation or construction.

In this context, SSE believes that its balanced approach to business – in this case owning and operating electricity generation capacity in Great Britain and in Ireland, and generating electricity from a wide range of sources such as gas, coal, onshore wind, offshore wind, water, biomass and, from 2015, multi-fuel – puts it in a good position to benefit from the more robust and sustainable electricity market conditions expected in the future as the anticipated reduction in the amount of spare capacity begins to have an impact.

Dividend per share and adjusted earnings per share*

Increasing the dividend for 2012/13

SSE's first financial responsibility to its shareholders is to remunerate their investment through the payment of dividends. The Board is recommending a final dividend of 59.0p per share to which a Scrip alternative is offered, compared with 56.1p in the previous year, an increase of 5.2%. This will make a full-year dividend of 84.2p per share, which is:

- an increase of 5.1% compared with 2011/12;
- a real terms increase of 2%, based on the average annual rate of RPI inflation in the UK between April 2012 and March 2013, which meets the target set for the year;
- the fourteenth successive above-inflation dividend increase since the first full-year dividend paid by SSE, in 1998/99;
- just over 2.4 times the full-year dividend paid by SSE in 2002/03; and
- covered 1.4 times by SSE's adjusted earnings per share*.

SSE is now one of just five companies to have delivered better-than-inflation dividend growth every year since 1999, while remaining part of the FTSE 100 for at least 50% of that time, and ranks third amongst that group in terms of compound annual growth rate over that time.

Targeting above-RPI inflation dividend increases in 2013/14 and beyond

The stated goal of SSE's strategy is to deliver sustained real growth in the dividend and, as set out in its Annual Report 2012 and in its six-month financial report in November 2012, its target from 2013/14 onwards is to deliver annual dividend increases which are greater than RPI inflation while maintaining dividend cover over the medium term within a range around 1.5 times.

Increasing adjusted earnings per share*

As part of monitoring its financial performance over the medium term, SSE focuses consistently on adjusted

Financial overview

	Mar 13 £m	Mar 12 £m	Mar 11 £m	Mar 10 £m
Adjusted profit before tax*	**1,410.7**	1,335.7	1,310.1	1,290.1
Movement on derivatives (IAS 39)	**(199.7)**	(509.0)	1,423.3	399.8
Exceptional items	**(584.7)**	(551.6)	(625.0)	–
Tax on JCEs and associates	**(25.4)**	(6.6)	3.3	(51.3)
Reported profit before tax*	**600.9**	268.5	2,111.7	1,638.6
Adjusted profit before tax*	**1,410.7**	1,335.7	1,310.1	1,290.1
Adjusted current tax charge	**(223.6)**	(213.4)	(268.2)	(274.1)
Adjusted profit after tax*	**1,187.1**	1,122.3	1,041.9	1,016.0
Reported profit after tax**	**425.9**	197.8	1,504.5	1,235.5
Number of shares for basic and adjusted EPS (million)	**952.0**	937.8	927.6	921.9
Adjusted EPS* – pence	**118.0**	112.7	112.3	110.2
Basic EPS – pence	**44.7**	21.1	162.2	134.0

** After distributions to hybrid capital holders.

SSE is now one of just five companies to have delivered better-than-inflation dividend growth every year since 1999, while remaining part of the FTSE 100 for at least 50% of that time.

earnings per share*, which is calculated by excluding the charge for deferred tax, exceptional items and the impact of remeasurements arising from 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. Moreover, as stated in its Annual Report 2012, it is SSE's policy that dividend targets over the medium term should be consistent with the dividend being covered by its adjusted earnings per share* within a range of around 1.5 times.

In addition to financial performance, however, SSE's adjusted earnings per share* is 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 2013, SSE's adjusted earnings per share* were 118.0p, based on 952.0 million shares, compared with 112.7p, based on 937.8 million shares, in the previous year.

Adjusted profit before tax*

Increasing adjusted profit before tax*

These financial results for the year to 31 March 2013 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, remeasurements arising from IAS 39, and after the removal of taxation on profits from jointly controlled entities and associates. As a result, this '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.

The table opposite reconciles SSE's adjusted profit before tax* to its reported profit before tax and set out the position after tax and in respect of adjusted earnings per share*. The volatility that arises from IAS 39 is also demonstrated.

Factors affecting adjusted profit before tax*

Adjusted profit before tax* rose by 5.6%, from £1,335.7m to £1,410.7m in 2012/13 compared with the year before. SSE's business has proved itself to be resilient throughout the period since the UK first entered recession in 2008, with annual increases in adjusted profit before tax*, but this is its biggest increase in adjusted profit before tax* since 2007/08.

The increase was achieved despite difficult energy market conditions characterised by low 'spark spreads', meaning much electricity generation from gas-fired power stations in particular was barely profitable, if at all. The impact of these energy market conditions is reflected in the **Wholesale** segment, in which operating profit fell by 16.2% to £509.5m. Operating profit* was also affected by the 33% reduction in output from hydro-electric schemes, compared with the previous year, which was the result of lower rainfall in the catchment areas.

The fall in operating profit* in Wholesale was more than offset by:

- a 18.9% increase in operating profit* in Networks to £876.1m; and
- a 27.5% increase in operating profit* in Retail to £410.1m.

The increase in operating profit* in **Networks** was mainly the result of:

- investment in the asset base of Electricity Transmission; and
- the level and timing of recovery of allowed income in Electricity Distribution.

The increase in operating profit* in **Retail** was mainly the result of the increase in demand for energy from customers of SSE's Energy Supply business during 2012/13, illustrated by:

- a 21.0% increase in average household consumption of gas by SSE's customers in Great Britain; and
- a 5.0% increase in average household consumption of electricity by SSE's customers in Great Britain.

This reflected the fact that the average temperature in Great Britain in every calendar month of the 2012/13 financial year was cooler than the same month in 2011/12, with the sole exception of the month of August. The increase in consumption of gas and electricity offset the significantly higher costs that had to be sustained in Energy Supply, such as for gas purchases and on UK government sponsored environmental and social schemes.

The profit margin in Energy Supply (ie adjusted operating profit* as a percentage of revenue) rose from 3.5% to 4.2% in 2012/13, which remains below the expected medium-term average of around 5%. Over the last three financial years the profit margin in SSE's Energy Supply business has averaged 4.0%.

Impact of the movement on derivatives (IAS 39)

At 31 March 2013, there was a net derivative financial liability in SSE's balance sheet arising from IAS 39 of £161.4m, before tax, compared with a net liability of £17.6m, before tax, at 31 March 2012. This consists of:

- a liability arising from the valuation of financial instruments used by SSE to hedge its exposure to financial risks such as interest rates; and

Financial overview (continued)

- a liability relating to the valuation of forward purchase contracts for commodities such as gas, coal, oil, carbon and wholesale electricity that SSE, like all major energy suppliers, has to enter into to ensure that the future requirements of its customers are met.

The liability arising from the valuation of interest and currency derivatives reduced during 2012/13 by £85.0m to £46.9m on 31 March 2013. The majority of this movement related to the foreign exchange position and the weakening of Sterling in relation to the US Dollar.

In addition, IAS 39 requires SSE to record designated forward commodity purchase contracts at their 'fair value' at each balance sheet date. This involves comparing the contractual price for commodities against the prevailing forward market price at 31 March. On that date this year, the average contractual price was higher than the market price (in other words, the contracts were 'out of the money'), particularly for future purchases of coal. The actual value of the contracts will be determined as the relevant commodity is delivered to meet customers' energy needs. For around half of the total energy volume, this will be over the next 12 months. As a result, SSE believes the movement in fair value of the contracts is not relevant to underlying performance in 2012/13.

The movement on derivatives under IAS 39 of £199.7m shown in the table on page 18 and on the face of the Income Statement is primarily due to the change in the commodity contract position between the 'in the money' position on 31 March 2012 and the 'out of the money' position on 31 March 2013, when the average contractual price was higher than the prevailing forward market price. SSE sets out these movements in fair value separately, as remeasurements, 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.

Exceptional items

The pre-tax exceptional items totalling £584.7m predominantly relate to the continuation of challenging market conditions affecting SSE's Wholesale businesses, including the economic prospects for older thermal generation plants, the resolution of past insurance-related issues at Medway power station and the lower value of CO_2 emissions allowances:

- In March 2013, SSE announced a series of decisions about its gas- and coal-fired power stations including, for example, the 'deep mothballing' of Keadby power station, the release of transmission capacity at Peterhead and the expectation that Units One and Two at Ferrybridge power station will close before 31 March 2014. These and related decisions resulted in impairment charges being made against a number of SSE's thermal plants and the recognition of provisions related to the restructuring of thermal generation operations. In addition, SSE has recognised related exceptional impairment charges in relation to its investment in thermal plants at Barking and Derwent.
- In 2008, SSE experienced significant unplanned interruptions to electricity generation at its Medway power station. This resulted in a number of associated costs which gave rise to a claim for an insurance payment, the expected value of which SSE recognised as receivable in its accounts for that year. As stated in its interim financial report on 14 November 2012, SSE agreed a settlement with its insurers which, although still substantial, was lower than the amount originally expected.
- SSE's intangible assets include purchased CO_2 emissions allowances, which it recognises at cost. SSE also enters into forward contracts for the future delivery of CO_2 allowances. Due to the continuing low market prices, SSE has restructured its portfolio of purchased and committed allowances, which resulted in the recognition of net exceptional charges in the year.
- In addition, SSE also recognised exceptional impairment and provision charges in relation to economically uncertain new technology and renewable generation development assets and, in relation to the Retail businesses, impairments of certain assets including legacy metering assets. Of the exceptional items total, £39.3m relate to the Retail segment.

Delivering adjusted profit before tax* in 2013/14

SSE's first financial goal is not the maximisation of profit and profit is not the sole point of SSE. In addition to enabling employment, investment and payment of taxation, profit is nevertheless an essential means to a financial end: it supports the dividend, which is the key means through which it remunerates shareholders.

At the same time, SSE has delivered 14 successive increases in adjusted profit before tax* since it was formed during the 1998/99 financial year. Because well-managed economically-regulated networks provide a relatively stable revenue flow, SSE's adjusted profit before tax* for 2013/14 as a whole will, as in other years, be determined mainly by issues in its market-based Retail and Wholesale businesses, such as:

- electricity market conditions, the ability of its operating thermal power stations to generate electricity efficiently and the price achieved for output;
- the interaction between wholesale prices for energy and fuel, the non-energy costs associated with supplying electricity and gas and the prices charged to customers;
- the output of renewable energy from its hydro-electric stations and wind farms;
- the output from its gas production assets;
- the actual and underlying level of customers' energy consumption; and
- the management of the overall energy portfolio, in the context of geopolitical and macro-economic issues.

SSE's emphasis on maintaining a balance across its business applies to its market-based Retail and Wholesale segments. This balance and diversity is illustrated by the fact SSE:

- is an energy producer and an energy retailer;
- has assets which use a wide range of fuels from which to generate electricity; and
- maintains a broad portfolio of commodity contracts as the means of securing the energy it and its customers need.

SSE believes that this balance and diversity within its range of market-based energy businesses and the extent of the operations and opportunities within those businesses, in addition to its economically-regulated Networks businesses, provides the best means of enabling it to deliver a level of adjusted profit before tax* capable of supporting the achievement of its principal financial target for the year, a full-year dividend increase that is greater than RPI inflation.

In line with its approach in 2012/13, SSE will not provide an outlook for adjusted profit before tax* in 2013/14 before the publication of its third quarter Interim Management Statement.

Investment and capital expenditure

Investing for sustained real dividend growth

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 2012/13, its investment and capital expenditure totalled £1,485.5m, compared with £1,706.9m in the previous year. During the year there was investment of:

- £334.2m in electricity transmission, of which £191.5m was spent on the work to replace SSE's section of the Beauly-Denny replacement line;
- £288.8m 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;
- £77.0m in retail, the majority of which was spent on work associated with preparations for the roll-out of smart meters;
- £228.1m in thermal generation, including investment of £45.7m in the construction of the new Combined Cycle Gas Turbine at Great Island;
- £382.6m in renewable generation, a significant part of which was invested in new wind farms such as Calliachar in Scotland and Glenconway in Northern Ireland;
- £33.1m in gas storage, including investment in the completion of the new facility at Aldbrough; and
- £7.2m in gas production.

This means that, for the first year since 2007/08, renewable energy did not comprise the largest element of SSE's capital and investment expenditure; it was exceeded by the combined investment in economically-regulated electricity networks. In the three years to 31 March 2012, renewable energy accounted for just over 50% of SSE's capital and investment expenditure; in the three years from April 2012 to March 2015, it is likely to account for around 30% of SSE's overall total. Economically-regulated electricity networks are likely to require the biggest proportion of capital and investment expenditure during that period.

During 2012/13, SSE also made acquisitions with cash consideration totalling £358.4m, almost all of which was accounted for by the acquisition of thermal generation assets in Ireland and gas production assets in the North Sea. In the last 10 years, SSE has spent around £4bn on acquiring energy related assets in the UK and Ireland.

Delivering an expanded asset base

In the three years from 2010, SSE's investment and capital expenditure totalled £4.6bn. This has resulted in a significantly expanded asset base for SSE, including:

- an increase of almost £1bn in the RAV of its electricity networks;
- an increase of around 800MW in its capacity for generating electricity from wind farms (resulting in SSE's wind farms producing 4.3TWh of electricity during 2012/13); and
- the Aldbrough gas storage facility, where the initial capacity is 270 million cubic metres, of which SSE owns a two thirds share.

SSE keeps the economic evaluation of its investment programme under close scrutiny. It uses analysis of previous projects in making individual investment decisions and in assessing the overall size and structure of its investment programme, which is also designed to reflect its established financial principles. The programme is, in turn, greatly influenced by the need to maintain balance between, and diversity within, its economically-regulated and market-based energy businesses.

SSE believes that a greatly expanded asset base and significant value have been and are being created from its capital and investment expenditure programme and that the long-term nature of the assets which it has developed and continues to develop means that value will be sustained into the 2030s and beyond.

Making capital and investment expenditure decisions in 2013/14 and beyond

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

- supportive of the strategic importance of maintaining a balance between, and diversity within, SSE's economically-regulated and market-based businesses;
- consistent with SSE's financial principles and so should achieve returns which are greater than the cost of capital (with an appropriate risk premium applied

Investment and capital expenditure summary

	Mar 13 Share	Mar 13 £m	Mar 12 £m
Electricity transmission	**22.5%**	**334.2**	228.7
Electricity distribution	**19.4%**	**288.8**	260.3
Other networks	**3.6%**	**52.8**	48.0
Total Networks	**45.5%**	**675.8**	537.0
Total Retail	**5.2%**	**77.0**	78.5
Thermal generation	**15.3%**	**228.1**	129.7
Renewable generation	**25.8%**	**382.6**	852.3
Gas storage	**2.2%**	**33.1**	51.0
Gas production	**0.5%**	**7.2**	6.1
Total Wholesale	**43.8%**	**651.0**	1,039.1
Other	**5.5%**	**81.7**	52.3
Total investment and capital expenditure	**100.0%**	**1,485.5**	1,706.9
50% of SGN capital/replacement expenditure		**199.0**	202.2

Financial overview (continued)

to the expected rate of return from individual projects where appropriate for construction, market, technology, regulatory or legislative reasons), enhance earnings and contribute to dividend growth; and

- governed, developed, approved and executed in an effective manner, consistent with SSE's Major Projects Governance Framework which is, itself, regularly updated.

The stated goal of the Framework is to ensure 'safe, sustainable and timely execution of the major project portfolio, delivering business revenues and shareholder value in line with approved business plans'.

For 2013/14 as a whole SSE expects capital and investment expenditure to total around £1.5bn, including expenditure to be incurred on the combined cycle gas turbine (CCGT) development at Great Island that was acquired in October 2012 and which is currently in construction. Looking ahead, there are four main categories in SSE's investment and capital expenditure plans to March 2015 and beyond:

- economically-regulated expenditure on electricity transmission upgrades;
- economically-regulated electricity distribution expenditure plus essential maintenance of other assets;
- expenditure that is already committed to development of new assets such as the CCGT at Great Island, the 'multi-fuel' plant at Ferrybridge and new wind farms; and
- expenditure that is not yet committed but which could be incurred to support the development of new assets.

Decisions on whether to proceed with individual projects are made following rigorous analysis and:

- in the context of SSE's commitment to maintaining a diverse range of assets within its economically-regulated and market-based businesses;
- in the light of developments in public policy and regulation;
- on the basis of the experience and skills available to SSE; and
- on the basis of SSE's established financial principles.

The uncommitted nature of some expenditure gives SSE flexibility in the management of its balance sheet. Moreover, the extent of its project pipeline means that SSE has a wide range of investment options from which to select those most likely to deliver the best returns. It continues to believe that a disciplined investment programme with the principles, shape and scale described above should allow it to maintain the development of a balanced and diverse range of assets to support annual dividend increases that are above RPI inflation while remaining consistent with the current criteria, including the key ratios, associated with a single A credit rating, without the need to issue new shares. It will deliver:

- further significant additions to the asset base in key businesses, including economically-regulated electricity networks;
- a continuing increase in 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;
- new, modern capacity for generating electricity; and
- additional cash flows and profits to support continuing dividend growth.

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 £414.0m, which compares with the £505.0m investment it made to acquire its 50% equity share in that year.

In 2012/13, a 50% share of SGN's capital and replacement expenditure was £199.0m, compared with £202.2m in the previous year. During 2012/13, SGN's RAV increased to £4.78bn (SSE share: £2.39bn), up from £2.80bn (SSE share: £1.40bn) 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 and forward rate agreements being used to achieve the desired out-turn interest rate profile. At 31 March 2013, after taking account of interest rate swaps, 87.8% 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 cash flows 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. Transactional foreign exchange risk arises in respect of:

Adjusted net debt and hybrid capital

	Mar 13 £m	Mar 12 £m	Mar 11 £m
Adjusted net debt and hybrid capital	**(7,347.7)**	(6,755.8)	(5,890.6)
Less: hybrid capital	**2,186.8**	1,161.4	1,161.4
Adjusted net debt	**(5,160.9)**	(5,594.4)	(4,729.2)
Less: outstanding liquid funds	**(55.0)**	(119.9)	(28.1)
Add: finance leases	**(330.4)**	(342.1)	(372.2)
Unadjusted net debt	**(5,546.3)**	(6,056.4)	(5,129.5)

Central to SSE's strategy is 'efficient' investment in a balanced range of economically-regulated and market-based energy businesses.

- 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 £7.35bn at 31 March 2013, compared with £6.76bn at 31 March 2012. Fundamentally, this increase reflects the quantum and phasing of capital and investment projects to support sustained real dividend growth, including the acquisition of electricity generation assets in Ireland in October 2012. SSE also made acquisitions with cash consideration totalling £358.4m during 2012/13.

The adjusted net debt and hybrid capital number was, however, reduced by £130.9m as a result of the receipt of the net cash proceeds from the sale of 79.5MW of onshore wind farm capacity in March 2013. During 2013/14, SSE expects to receive its share of the proceeds from the sale of the offshore transmission assets associated with the Greater Gabbard wind farm.

As the table opposite 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 2013 was 10.6 years, compared with 10.5 years at 31 March 2012.

SSE's debt structure remains strong, with around £5.4bn of medium-/long-term borrowings in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans. Around £1.5bn of medium- to long-term borrowings will mature in the period to 31 March 2014. In March 2013, SSE secured £650m additional bank facilities which will be drawn down in the course of 2013/14, at which point they will become term loans. The table opposite also includes the issue by SSE of:

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

Net finance costs

	Mar 13 £m	Mar 12 £m
Adjusted net finance costs	**372.1**	322.1
add/(less):		
Movement on derivatives	**(20.3)**	89.5
Share of JCE[1]/associate interest	**(152.3)**	(146.5)
Reported net finance costs	**199.5**	265.1
Adjusted net finance costs	**372.1**	322.1
add/(less):		
Return on pension scheme assets	**134.1**	147.4
Interest on pension scheme liabilities	**(142.3)**	(149.8)
Finance lease interest	**(37.1)**	(38.4)
Notional interest arising on discounted provisions	**(7.7)**	(7.8)
Hybrid coupon payment	**63.4**	65.5
Adjusted finance costs for interest cover calculation	**382.5**	339.0

1. Jointly controlled entities.

Any 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 £538.7m.

Keeping SSE well-financed

SSE believes that maintaining a strong balance sheet, evidenced 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 August 2012, Standard & Poor's affirmed SSE's long-term rating of A- while changing its rating outlook from 'stable' to 'negative'. Moody's corporate credit rating of SSE remains A3 with a 'stable' outlook.

SSE is committed to maintaining financial diversity and diversity of funding sources and will move quickly to take the right financing options, including issuing new bonds and loans. In line with that it:

- completed in April 2012 a private placement of senior notes with 22 US-based investors for a total consideration of US$700m (equivalent to around £450m). The senior notes consist of four tranches with a weighted average maturity of 10.3 years and an all-in funding cost of around 4.25% once swapped to Sterling; and

Financial overview (continued)

- successfully issued in September 2012 hybrid capital securities comprising US$700m and €750m, which are perpetual and subordinate to all senior creditors, with an all-in Euro funding cost to SSE of around 5.6% per annum.

Following the completion of the private placement and the issue of hybrid capital securities, SSE's principal sources of debt funding as at 31 March 2013 were:

- bonds – 48%;
- hybrid capital securities – 28%;
- European Investment Bank loans – 6%; and
- The US private placement – 6%

The remaining 12% included index-linked debt, long-term project finance and other loans.

With regard to shorter-term funding, SSE's core revolving credit facilities of £900m are, and are expected to remain, undrawn. The facilities are the subject of an agreement with banks which runs to 2015. In addition to these facilities, SSE has increased its committed bilateral facility of £200m with one other bank to £200m in April 2013.

Furthermore, as stated above, SSE secured during March 2013 £650m additional bank facilities which will be drawn down in the course of 2013/14 at which point they will become term loans.

In addition to funding sources, 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 2012/13 was as follows:

- **September 2012:** A total of 30,369 shareholders elected to receive the final dividend for the year to 31 March 2012 of 56.1p per Ordinary share in respect of 307,842,342 Ordinary shares in the form of Scrip dividend, resulting in a reduction in cash dividend funding of £172.7m. A total of 13,213,634 new Ordinary shares, fully paid, were issued on 21 September 2012, representing an increase of 1.40% on the issued share capital on the dividend record date of 27 July 2012.
- **March 2013:** A total of 30,180 shareholders elected to receive the interim dividend for the year to 31 March 2013 of 25.2p per Ordinary share in respect of 327,303,253 Ordinary shares in the form of Scrip dividend, resulting in a reduction in cash dividend funding of £82.5m. A total of 5,920,120 new Ordinary shares, fully paid, were issued on 22 March 2013, representing an increase of 0.62% on the issued share capital on the dividend record date of 25 January 2013.

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 £489.5m. SSE's current Scrip Dividend Scheme expires in 2015.

In March 2013, SSE completed the sale of four wind farms with a total generation capacity of 79.5MW for a net total cash consideration of £130.9m and an equity stake in the fund that bought the assets, illustrating its ability to create ongoing value from its pipeline of investments and its readiness to dispose of assets where their retention is not fully consistent with or supportive of its overall strategy. This, in turn, provides additional financial flexibility.

Fundamentally, SSE believes its commitment to the long term means it must be:

- disciplined and focused when managing its balance sheet;
- prudent and flexible in financing its activities; and
- rigorous and selective when making investment and acquisition decisions.

In summary, it believes that it has sufficient financial flexibility to pursue the best opportunities to provide the means with which to increase dividends.

Net finance costs

The table on page 23 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 2012/13 were £372.1m, compared with £322.1m in 2011/12.

The hybrid coupon payment is in respect of the hybrid capital issued in 2010 and was made on 1 October 2012. The first coupon payment relating to the US Dollar hybrid capital issued in September 2012 was made on 1 April 2013 (this issue has bi-annual coupon payments). The next payments, which will relate to all SSE's issued hybrid capital will be made on 1 October 2013. Charges are presented as distributions to other equity holders and are reflected within adjusted earnings per share*.

The average interest rate for SSE, excluding JCE/associate interest, during the 2012/13 was 5.26%, compared with 5.06% for the previous year. Based on adjusted interest costs, SSE's adjusted interest cover was (previous year's comparison in brackets):

- 5.4 times, excluding interest related to SGN (5.9 times); and
- 4.7 times, including interest related to SGN (4.9 times).

Excluding shareholder loans, SGN's net debt at 31 March 2013 was unchanged at £3.27bn, and within the adjusted net finance costs of £372.1m, the element relating to SGN's net finance costs was £94.4m (compared with £96.5m in the previous year), after netting loan stock interest payable to SSE. Its contribution to SSE's adjusted profit before tax* was £139.7m, compared with £138.3m in 2011/12.

Contributing to employees' pension schemes

In line with the IAS 19 treatment of pension scheme assets, liabilities and costs, pension scheme liabilities of £705.8m are recognised in the balance sheet at 31 March 2013, before deferred tax. This compares to a liability of £731.9m at 31 March 2012.

During 2012/13, employer cash contributions amounted to:

- £47.7m for the Scottish Hydro-Electric scheme, including deficit repair contributions of £29.5m; and
- £77.6m for the Southern Electric scheme, including deficit repair contributions of £55.2m.

As part of the electricity Distribution Price Control for 2010-15, it was agreed that allowances equivalent to economically-

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.

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 and Business Rates, totalled £312.0m during the year to 31 March 2013, compared with £396.4m in the previous year. In the last three financial years, SSE has paid £1.0bn in tax on that basis. The reduction in total tax paid in 2012/13 is the result of:

- the timing of Corporation Tax payments and a reduction in tax paid to reflect tax losses expected to be acquired from Greater Gabbard Offshore Winds Limited and SSE Renewables Walney (UK) Limited for which the consortium relief payments have yet to be made;
- asset impairments which were recognised in the subsidiary accounts for 2011/12 on which Corporation Tax relief was then recognised in SSE's final tax instalment for that year (and which was paid in 2012/13); and
- Corporation Tax refunds received during 2012/13 that relate to earlier years (on rolled over capital gains and losses relief from SGN).

SSE also pays taxes in the Republic of Ireland, in relation to its operations there, and also indirectly contributed £57.3m to UK government tax revenues through its significant investment in joint ventures and associates. This compares with £59.5m in the previous year. SSE also collected a further £225.4m of employment, environment and other taxes to add to its total tax contribution.

In January 2013, PwC has announced the result of its UK 2012 Total Tax Contribution Survey for The Hundred Group, in which SSE ranked 17th 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 in the table below.

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 15.9%, compared with 16.0% in 2011/12, on the same basis. The impact of SSE's higher capital expenditure programme and the series of UK Corporation Tax rate reductions announced in the 2010 and subsequent Budgets have had, and will continue to have, a positive impact on the effective current tax rate.

The deferred tax balance has been remeasured to reflect the latest of the series of annual reductions in the UK Corporation Tax rate that were announced in the 2010 Budget, and the deferred tax balances for future years will be remeasured as each subsequent rate reduction is enacted.

Executive Directors

Responding to sales-related issues in Energy Supply

As stated previously (see 'Focusing on the SSE SET of core values' on page 16), it has been agreed that the Executive Directors payment earned under the Annual Incentive Scheme for 2012/13 should be reduced by 40% as a result of SSE's previous non-compliance with two Standard Conditions of the Electricity and Gas Supply Licences.

This is the second consecutive reduction in Annual Incentive Scheme payments to Executive Directors as a result of past sales-related issues in SSE's Energy Supply business.

The total earnings of SSE's Executive Directors' in 2012/13 (covering base salary,

Tax charge

	Mar 13 £m	Mar 12 £m
Adjusted current tax charge	**223.6**	213.4
Add/(less):		
Share of JCE/associate tax	**(25.4)**	(6.6)
Deferred tax	**115.2**	118.0
Tax on exceptional items/certain remeasurements	**(201.8)**	(319.6)
Reported tax charge	**111.6**	5.2

Financial overview (continued)

benefits and the cash Annual Incentive Scheme) were £2.320m, compared with £2.787m in 2011/12.

Ensuring effective succession planning and Chief Executive transition

As announced on 23 January 2013, Alistair Phillips-Davies, currently Deputy Chief Executive, will become Chief Executive of SSE plc on 1 July 2013 in succession to Ian Marchant.

Gregor Alexander, Finance Director, will have an expanded role in supporting and deputising for the Chief Executive in the running and operations of the SSE group. In particular, in addition to Finance and Group Services, he will take on Board-level responsibility for Energy Portfolio Management and Regulation and Legal Services. Brandon Rennet, currently SSE's Director of Treasury and Operational Finance, will join the Management Board on 1 July 2013 as Managing Director, Finance.

From 1 July 2013, Alistair Phillips-Davies' annual salary as Chief Executive will be £755,000 per annum, which compares with Ian Marchant's current annual salary of £892,000. In view of his additional responsibilities from that date, Gregor Alexander's annual salary will be £610,000 per annum.

Alistair Phillips-Davies and Gregor Alexander joined the Board and Ian Marchant became Chief Executive in the course of 2002. The progress achieved in the 10 full financial years since then is summarised in the table below:

SSE from 2003 to 2013

	Mar 13	Mar 03
Full-year dividend per share – pence	**84.2**	35.0
Adjusted profit before tax – £m	**1,410.7**	589.8
Capital and investment expenditure – £m	**1,485.5**	251.9
Energy networks RAV (net) – £bn	**6.4**	2.5
Energy customer accounts – m	**9.47**	4.85
Electricity generation capacity – GW	**13.0**	7.0
People directly employed	**19,795**	9,474

From 1 July 2013, the number of Executive Directors on the Board of SSE plc will reduce from three to two. SSE's Management Board, which is chaired by the Chief Executive and of which the Finance Director is also a member, will remain responsible for implementing strategy and policy and for the operational management of SSE's businesses.

The combined length of service of SSE's Executive Directors and nine Managing Directors from 1 July 2013 will still be over 160 years. The transition over the coming months should, therefore, be very smooth.

The delivery of strong operational performance and the achievement of its investment priorities should enable SSE to achieve its first financial priority for 2013/14: an increase in the full-year dividend that is greater than RPI inflation. It should also put SSE in a good position to continue to deliver above-RPI inflation dividend increases in 2014/15 and beyond.

Priorities and outlook for 2013/14

Setting the right long-term priorities to achieve dividend growth

In support of its strategy, SSE has identified five 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, responsiveness and innovation in energy networks;
- gaining and retaining the trust of household energy customers;
- breadth and depth in the provision of energy-related services to businesses and other organisations;
- competitive and sustainable energy procurement; and
- flexible and 'greener' electricity production.

Setting the right operational priorities for 2013/14

SSE's strategy is based on the efficient operation of, and investment in, a balanced range of energy businesses. In terms of operations, its first priority for 2013/14 is to make substantive progress towards its core operational objective of injury-free working.

Its **Networks** priorities are:

- distribute electricity and (through Scotia Gas Networks) gas with the minimum possible interruptions to supplies;
- demonstrate responsiveness and innovation in the management of electricity and gas networks; and
- make a good start to the RIIO ED-1 electricity distribution Price Control review.

Its **Retail** priorities are:

- improve the standards of service delivered to energy supply customers, reinforce compliance with all licence obligations and renew the focus on building trust;
- improve the breadth, depth and integration of the products and services offered to business customers; and
- continue to adapt to the technological change that will result from the roll-out of smart meters and increased emphasis on digital channels.

Its **Wholesale** priorities are:

- continue the successful integration of recently-acquired electricity generation assets in Ireland and of gas production assets;
- successfully operate all assets, including those recently-commissioned or undergoing significant change; and
- increase SSE's capability in the operation and maintenance of its assets, especially on- and offshore wind.

Setting the right investment priorities for 2013/14

SSE expects to undertake capital and investment expenditure totalling around £1.5bn in 2013/14. Its priorities are to:

- **Networks:** continue progress in the programme of capital investment in electricity and (through Scotia Gas Networks) gas networks, especially electricity transmission;
- **Retail:** make progress with the systems that will be needed to support the roll-out and operation of smart meters; and
- **Wholesale:** continue its effective and efficient maintenance, construction and development of assets which support the achievement of flexible and 'greener' electricity generation, especially the new CCGT at Great Island, Co Wexford.

In addition, one of its priorities for 2013/14 is to work with the UK Department of Energy and Climate Change and other stakeholders to secure a package of reforms that will enable it to invest in electricity generation in a sustainable way.

Focusing on the right financial priority for 2013/14

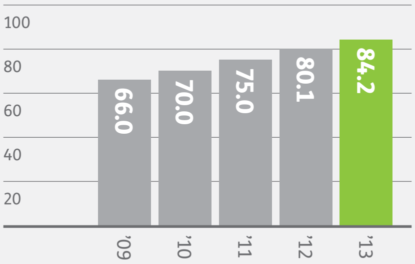
The delivery of strong operational performance and the achievement of its investment priorities should enable SSE to achieve its first financial priority for 2013/14: an increase in the full-year dividend that is greater than RPI inflation. It should also put SSE in a good position to continue to deliver above-RPI inflation dividend increases in 2014/15 and beyond.

Key performance indicators
How we measure the progress of our business

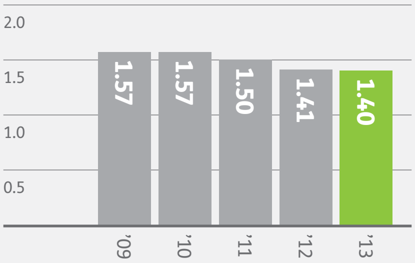
The key performance indicators for 2012/13 set out below and opposite demonstrate SSE's performance in respect of its first financial responsibility to shareholders – sustained real dividend growth – and in respect of its core purpose of providing the energy people need in a reliable and sustainable way.

Dividend

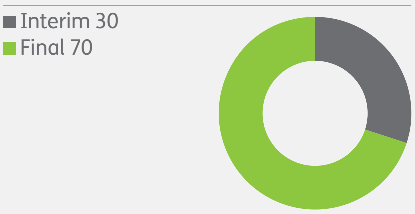
Dividend per share – pence



Dividend cover – times

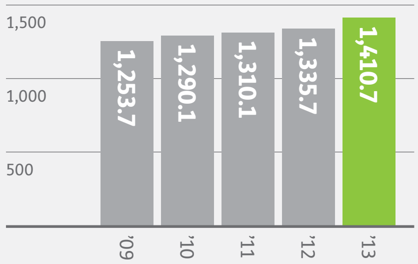


Dividend composition – %

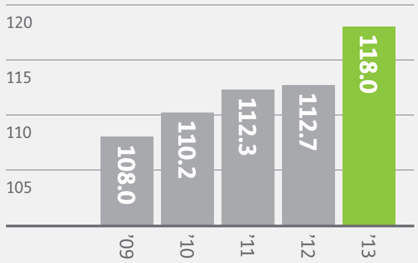


Profit

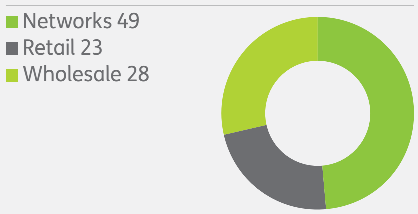
Adjusted profit before tax* – £m



Adjusted earnings per share* – pence

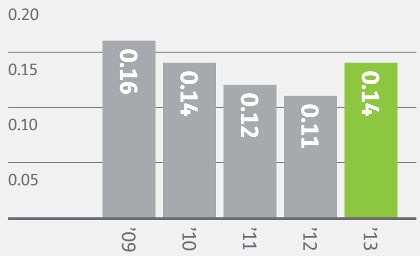


Operating profit* composition – %

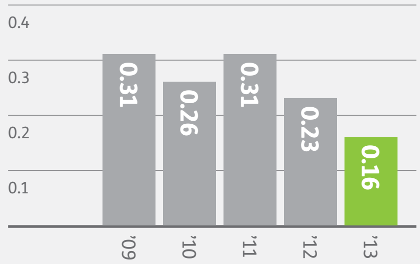


Safety

Total Recordable Injury Rate – per 100,000 hours worked

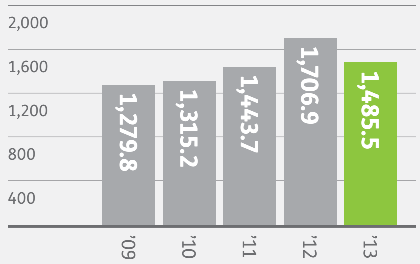


Serious road traffic incidents – per 100 vehicles

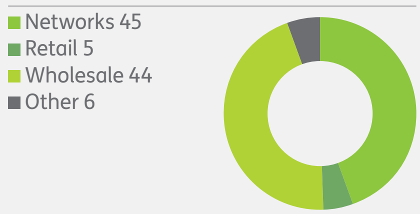


Investment

Capital expenditure and investment – £m



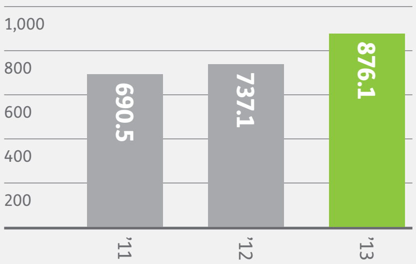
Capital expenditure and investment composition – %



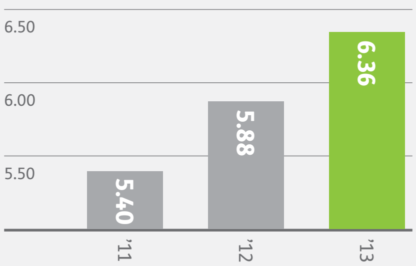
SSE's performance: KPIs measuring SSE's performance in the three reportable segments covering its Networks, Retail and Wholesale businesses.

Networks

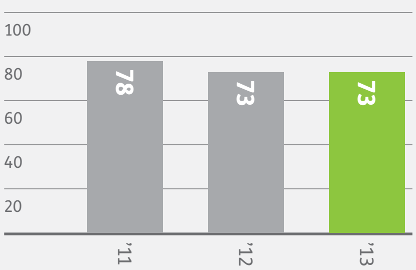
Operating profit* – £m



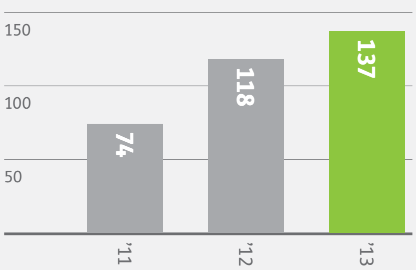
Regulated Asset Value – £bn



Network customer minutes lost (north)

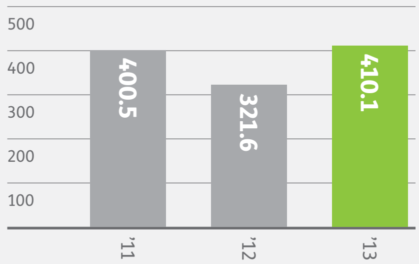


Utility Solutions electricity networks – number in operation

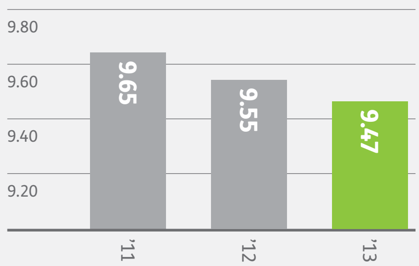


Retail

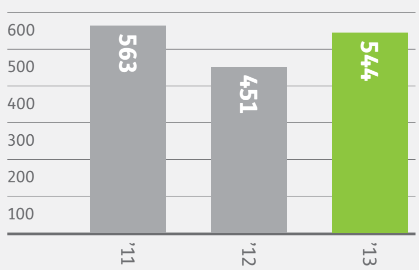
Operating profit* – £m



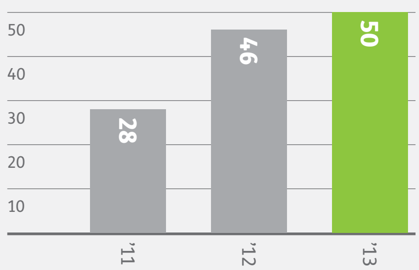
Energy customer accounts – m



Gas supplied (household average, GB) – therms

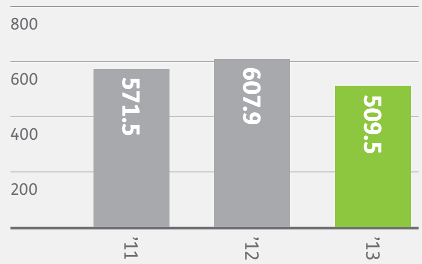


Financial assistance to vulnerable GB customers – £m

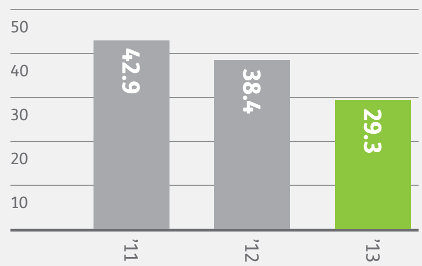


Wholesale

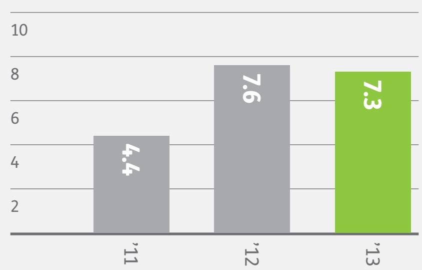
Operating profit* – £m



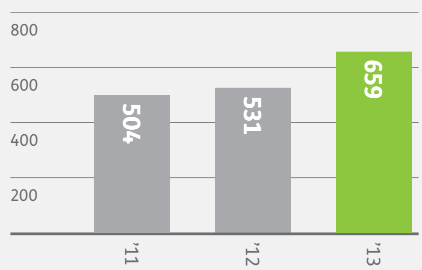
Thermal generation output – TWh



Renewable generation output – TWh



Electricity produced CO_2 emissions – g/kWh



Sustainability overview

Integrated reporting
Reflecting the fact that sustainability is core to SSE businesses the reporting of sustainability impacts is integrated throughout this Annual Report. Rather than produce a separate environmental, sustainability or corporate social responsibility report, full descriptions of the significant impacts and highlights are given throughout the report, set in the context of SSE's three reportable segments: Networks; Retail; and Wholesale.

The principal sustainability key performance indicators against which SSE reports its performance are the ratio of power station emissions to electricity output and the capacity of its renewable energy portfolio.

Greenhouse gas emissions reporting
During 2013 DEFRA is expected to implement new greenhouse gas reporting requirements for large companies listed on the London Stock Exchange. With the aim of increasing transparency, SSE has adopted the expected reporting requirements early and below, sets out relevant emissions for the years ended March 2012 and 2013.

During the year, total emissions reduced slightly. In the Wholesale segment report (from page 48) the operation of SSE's coal and gas power stations is described in detail. The key point to note is that during the year to 31 March 2013 improved returns from coal plant due to higher dark spreads led to increased running hours for SSE's coal stations. This led to higher CO_2 emissions from the coal plant than in the previous year. At the same time, there was weakening of the economics of gas fired stations due to high gas prices and low spark spreads. At times the spark spread was negative. The gas plant recorded lower operating hours due to the uneconomic market conditions and maintenance programmes at Keadby and Medway. Overall, SSE's fossil fired stations recorded lower CO_2 emissions than in the previous year against lower overall output. The ratio of emissions to output rose to 659g/kWh.

Over the period to 2020 SSE expects its emissions ratio to decrease due to coal power plant closures and increased output from renewable energy plant. Although the short to medium market economics remain weak, SSE expects gas plant to increasingly deliver a balancing role for variable renewables, that is, lower net output. On balance, SSE expects to meets its long term targets to reduce the emissions ratio of its generation output. This is defined in SSE's goal to reduce the carbon intensity of its energy generation by 50% by 2020 (against a 2006 baseline).

Capacity for renewable energy
Over the last five years, SSE's capacity for generating electricity from renewable sources has increased from just over 2,000MW to just over 3,200MW. SSE expects to add to this in the coming years, mainly through new wind farms that are in construction or pre-construction, have consent for construction or are in development. The details of SSE's capacity for renewable sources of energy are set out from page 54.

Definition of sustainability
SSE adopted a broader definition of sustainability with effect from 1 April 2013. The value forms part of the core 'SSE SET' of values which govern how SSE conducts its activities. The new definition is: 'Our decisions and actions are ethical, responsible and balanced, helping to achieve environmental, social and economic wellbeing for current and future generations'.

The value guides employees to act ethically and responsibly, and to balance three aspects of well-being – environmental, social and economic factors – with a view to both current and future generations. For energy companies this balance can also be styled as a 'trilemma' between decarbonisation, affordability and security of supply.

Given how difficult it is to optimise the balance between environmental, social and economic impacts, SSE aims to make increasingly transparent the balance it pursues among these factors. Through greater openness and transparency it will be possible to understand the full impact of the social, environmental and economic implications that result from SSE's activities.

CO_2 emissions (000's)

	1 April 2012 to 31 March 2013			1 April 2011 to 31 March 2012		
	CO_2	CO_2e	Total CO_2	CO_2	CO_2e	Total CO_2
Generation[1]	24,319	176	24,495	24,725	161	24,886
Other Scope 1	56	9	65	52	7	59
Scope 1 total	**24,375**	**185**	**24,560**	**24,777**	**168**	**24,946**
Distribution network losses	1,284		1,284	1,311		1,311
Other Scope 2	81		81	94		94
Scope 2 total	**1,365**		**1,365**	**1,405**		**1,405**
Scope 3 total	**11**		**11**	**11**		**11**
Total emissions[1]	**25,751**	**185**	**25,936**	**26,193**	**168**	**26,362**
Intensity ratios						
Emissions relative to turnover			916			831
Emissions relative to MW output[5]			659g/kWh			531g/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 page 48). 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.
5. Emissions intensity is calculated against generation emissions, rather than total emissions.
6. GHG emissions from SGN's activities are not included here. Those emissions are reported in SGN's annual report.
7. GHG emissions arising from the losses across the SHETL owned transmission network are not included since the network is operated by National Grid Company.
8. The figures have been assured to the CEMARS standard by Achilles Group Limited, consistent with ISO14064-1 and the Greenhouse Gas Protocol.

Networks
Economically-regulated businesses

Keeping the lights on and supporting growth.

Networks operating profit* – £m
876.1
+18.9%

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 (net) – £bn
6.36
+8.2%

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
623.0
+27.4%

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)
73
+0.0%

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.

Utility Solutions electricity networks
137
+16.1%

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.

Lighting Services PFI contracts
11
+0.0%

SSE's Lighting Services business is the UK and Ireland's largest streetlighting contractor, involved in the maintenance and replacement of public lighting units.

Key topics in this section

Exceptional weather event on Arran and Kintyre
See page 32 for more information

Upgrading Scotland's electricity transmission network
See page 32 for more information

Innovating for the future of electricity networks
See page 35 for more information

Owning, operating and investing in Networks
Electricity and gas transmission and distribution companies are natural monopolies, serving defined geographical areas. 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 now £6.36bn, up £477.0m from £5.88bn last year, comprising around:

- £1,050m for electricity transmission;
- £2,915m for electricity distribution; and
- £2,392m for gas distribution (ie 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 their regulated assets. 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 to its ability to deliver sustained real dividend growth.

Networks (continued)
Economically-regulated businesses

Financial performance in Networks
Operating profit* in Networks increased by 18.9%, from £737.1m to £876.1m, contributing 48.8% of SSE's total operating profit*. This comprised:

- £93.3m in electricity transmission, compared with £73.7m;
- £512.8m in electricity distribution, compared with £396.5m;
- £234.1m representing SSE's share of the operating profit* for SGN, compared with £234.8m; and
- £35.9m in other network businesses, compared with £32.1m.

Managing energy networks in exceptional situations
In March 2013, SSE's electricity transmission and distribution networks in the west of Scotland were affected by severe snow drifts and line-icing with the resulting requirement to replace around 350 wooden poles on the distribution network and repair or replace nine steel towers on the 132kV Port Ann to Carradale transmission line in Kintyre. To restore supplies as quickly as possible, two of the largest mobile power generation installations ever seen in the UK were deployed. Access was a key issue in what was an exceptional weather event.

Working closely with partners across government, local authorities and the emergency services, power was restored to the majority of homes within five days with the remaining households being connected within a week. The efforts of SSE's employees were recognised by, amongst many others, the residents of Arran, who gathered hampers of food and toiletries produced on the island to say thank you to the SSE employees who restored their electricity supply. The Chairman of VisitArran said: 'We are enormously grateful to the small army of men and women who worked in some pretty appalling conditions to restore power to our homes and workplaces'.

Several months before, the London Olympic and Paralympic Games were described as the biggest event ever hosted in the United Kingdom. Up to and during the summer of 2012, Southern Electric Power Distribution and Southern Gas Networks worked successfully with the London Organising Committee of the Olympic and Paralympic Games to ensure venues and designated road networks in their areas were free from disruption.

Electricity Transmission

Increasing operating profit* for Scottish Hydro Electric Transmission
In SHE Transmission, operating profit* increased by 26.6% from £73.7m to £93.3m. This reflected the continuing increase in its investment in its asset base and the resultant increase in allowed revenue.

Investing in Scotland's electricity transmission network
SHE Transmission is responsible for maintaining and investing in the transmission network in its area, which comprises almost 5,300km of high voltage overhead lines and under ground cables covering around 70% of the land mass of Scotland serving remote and, in some cases, island communities. As the licensed transmission company for the area, SHE Transmission has to ensure there is sufficient network capacity for those seeking to generate electricity from renewable and other sources.

A total of £334.2m was invested by SHE Transmission in its network in 2012/13, up from £228.7m in 2011/12, taking its total RAV to over £1bn for the first time. In 2013/14 SHE Transmission expects to incur capital expenditure of over £300m and its RAV should reach around £1.6bn by March 2015.

Upgrading Scotland's electricity transmission network
The base of SHE Transmission's plans for 2013 to 2021 is an approved £1.1bn capital investment programme in 2009/10 prices, or £1.4bn in expected out-turn prices based on a future inflation assumption of 3%. There is flexibility to increase this very significantly, if required, to upgrade the transmission network during the period. 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 cost of its investment. Within the £1.4bn base capital investment programme, projects completed or under construction include (investment numbers are on an expected out-turn basis):

- **Beauly-Dounreay:** Work on upgrading and reinforcing the transmission network between Beauly and Dounreay is now complete on time and within Ofgem's authorised budget of £78m. Further work, including on new and upgraded substations, is under way which, once complete, will allow the connection of around an additional 400MW of renewable generation in the Caithness and Sutherland area.
- **Beauly-Denny:** Full construction work on the replacement of SHE Transmission's part of the line, from Beauly to Wharry Burn, is now well under way, with all 136 towers erected in the north section between Beauly and Fort Augustus and expectations that this section will be complete in the next few months. With a total of around £340m invested so far, SHE Transmission's part of the replacement line is 200km in length and involves the development of five substations. Further work is taking place with SP Transmission on the interface with the network in the south of Scotland and this will inform the timescales for the completion of the entire line.
- **Beauly-Mossford:** The first stage of this project, to construct a new substation at Corriemoille, is well under way. This already has an Ofgem allowance of £14m. Consent for a replacement 132kV transmission line between Beauly and Mossford has been received from Scottish Ministers. Progress is being made for Ofgem authorisation and contracts are being negotiated in order to complete the overhead line works by 2015. The estimated cost of both parts of the project is around £70m.
- **Beauly-Blackhillock-Kintore:** Work on replacing the conductors of the 275kV transmission lines between Beauly and Blackhillock and Blackhillock and Kintore to allow an increase in the capacity of the network to transmit electricity is, subject to the outage programme, well under way. Ofgem has authorised investment of over £90m for this development.

A total of £246.1m was invested in these four projects during 2012/13.

Implementing RIIO-T1
SHE Transmission has now entered the next Price Control period, RIIO-T1 (Revenue = Incentives + Innovation + Outputs) which runs for eight years from 1 April 2013 until 31 March 2021. The decision to fast track with the publication of the Final Proposals in April 2012 allowed SHE Transmission a year to prepare for the implementation of the new Price Control. This included looking

at opportunities to maximise potential revenue from incentives and preparing a number of key projects for submission under the new flexible funding process including:

- **Kintyre-Hunterston:** SHE Transmission has received consent to build a new 132kV substation in Crossaig on the Kintyre peninsula and to replace the existing 132kV overhead line between Carradale and Crossaig with a higher capacity double circuit overhead line and install two subsea cable circuits from this new substation round the north coast of Arran to Hunterston. An investment case has recently been consulted on by Ofgem. The current programme anticipates that the reinforcement will be completed by around 2016. The investment is currently estimated to be in excess of £200m.
- **Caithness to Moray:** SHE Transmission has submitted an investment case to Ofgem to develop a subsea electricity cable between Caithness, where work is continuing to secure consents for a new substation at Spittal, and Moray, where it is proposed to upgrade the existing substation at Blackhillock. This is to transmit the large volume of existing and planned electricity from renewable sources in the north of Scotland. The cable will be capable of transmitting around 1,200MW of electricity and has a forecast investment requirement of around £1.2bn. This proposal to develop a subsea cable retains the flexibility to accommodate further generation developments in the north of Scotland as and when the need to do so arises.
- **East coast 400kV:** SHE Transmission is planning to upgrade the existing east coast transmission line which runs from Blackhillock to Kincardine from an operating voltage of 275kV to 400kV, with associated substation developments. This will enable new capacity for generating electricity to link to the main transmission system and centres of demand. The project is a key reinforcement in the Scottish Government's National Planning Framework for Scotland and has a forecast investment requirement of around £415m.

The key driver for the above projects, which could represent an investment of up to £1.9bn, is the need to accommodate renewable energy developments in the north of Scotland. In line with this, SHE Transmission expects to invest an average of around £350m for the next few years, possibly rising to over £500m. Throughout that period it will be, in essence, a construction business. In this context, the enforcement of SSE's Major Projects Governance Framework, including strong control over risk and project management, is absolutely critical.

In addition, a joint project between SHE Transmission, National Grid Electricity Transmission and SP Transmission to facilitate the proposed development of a 2GW east coast HVDC subsea link between the north of Scotland and centres of electricity demand is progressing. This project is subject to some uncertainty in generation scenarios, against which the cost benefit assessment is being carried out in order to ensure that the preferred option for development remains economic and efficient. While this is taking place, a number of technical and environmental assessments and consultations have been carried out and consultation processes relating to the proposed infrastructure are under way.

Working with stakeholders on the Scottish island groups

As stated above SHE Transmission's plans for 2013 to 2021 include approved capital expenditure of £1.4bn; there is also flexibility to increase this very significantly, to upgrade the transmission network during 2013-21 in response to the needs of electricity generators. This need is demonstrated by developers meeting commercial obligations under connection agreements thus enabling SHE Transmission to make the case for funding for transmission investment with Ofgem. However, developer confidence is currently affected by a period of regulatory and policy change, including the outcome of the UK government's Electricity Market Reform proposals and the transmission charging regime changes envisaged by Ofgem's Project TransmiT.

In recognition of some of the challenges faced by generation on the Scottish islands, including the Western Isles, Orkney and Shetland, a Scottish islands Renewables Steering Group, chaired by the UK government with input from the Scottish Government, has examined the commercial viability of renewable projects on the Scottish islands, the overall value for money that these projects would provide for the UK and options to address or mitigate the impact of transmission charges.

The report, published in May 2013, concludes that, under current policy, it is unlikely to be economic to develop further onshore wind projects on the Scottish islands and that the marine renewables industry will continue to require financial support at levels at or above those currently being offered. The report calls on government to weigh up the costs and benefits of renewable generation on the Scottish islands against other sources of electricity, considering the impact on the local economies and communities, and on wider GB consumers.

Prior to a decision from the UK and Scottish governments on how to address the above issue, SHE Transmission continues to make progress in developing projects to connect the Scottish islands including:

- **Orkney to Caithness:** SHE Transmission is continuing to develop a project for a new 220kV subsea cable between Orkney and Dounreay to increase transmission system capacity to support renewable energy projects, mainly marine, in and around Orkney. Site investigations, survey and design work is continuing and, pending the required consents and regulatory approval, the

Restoring power

In March, engineers re-built the electricity network in Kintyre and on Arran after catastrophic damage due to heavy snow and high winds.

See the page opposite for more information
Also see YouTube: http://bit.ly/11U9EbV

Networks (continued)
Economically-regulated businesses

completion of the link is planned for 2018.

- **Western Isles:** SHE Transmission has undertaken a considerable amount of work in relation to the proposed Western Isles HVDC link and Lewis infrastructure. However, under the regulatory framework, SHE Transmission needs to be able to demonstrate a robust economic case for constructing the link and, in light of the findings of the Scottish Islands Renewables Project, the funding gap for developers continues to be a key challenge. Therefore, while SHE Transmission awaits a decision from the UK and Scottish governments on how to overcome the costs faced by renewable developers on the Western Isles, the placing of the £700m cable contract by July 2013 is no longer achievable. As a result it will not be possible to commission a link before 2017.
- **Shetland:** SHE Transmission is in the process of securing consents for converter stations and the proposed subsea/onshore under ground HVDC transmission link between the Shetland islands and the Scottish mainland to accommodate renewable energy developments in Shetland. The link would also connect properties in Shetland to the mainland electricity network for the first time and could be installed in the second half of this decade. Pending the required consents, regulatory approval and securing of HVDC supply chain capacity, the completion of the link is currently planned for 2018.

For these island projects, a decision from the UK and Scottish governments on the issues raised in the Scottish Island Renewables Project report is required before SHE Transmission will submit the projects for regulatory approval. In the meantime, it will continue to seek planning consents and engage the supply chain.

Building a supply chain for transmission infrastructure
Global demand for key plant items such as HVDC technology, cable manufacturing capacity and subsea installation equipment is high, with the result that there is a restricted market place and competition with projects within the UK as well as further afield across Europe and the rest of the world. Equally important is the availability of a skilled and experienced workforce. SHE Transmission continues to engage with key global suppliers for HVDC technology and has recently awarded contracts with four global businesses to help facilitate the delivery of new electricity substations in the north of Scotland, an integral part of the investment programme. SHE Transmission is also working on similar awards for all of the proposed overhead line and under ground cable works.

In addition to the incorporation of innovation in day-to-day activities, wider change is taking place which means the way customers use electricity will evolve. SSE's electricity distribution businesses continue preparations to make the network ready for a low carbon future over the next decade.

In addition, SHE Transmission is investing in skills for the future through the recruitment of apprentices, Technical Staff Trainees and graduates to help deliver the infrastructure programme over the next decade. In the last three years, almost 100 such roles have been created and SHE Transmission plans to recruit for more than 50 additional roles this year.

Working with customers and stakeholders
As the licensed electricity Transmission Owner (TO) in the north of Scotland, SHE Transmission has a duty to maintain and develop the transmission system. In carrying out this duty, SHE Transmission's activities are scrutinised and regulated by Ofgem, including the level of engagement with customers and stakeholders.

The programme to expand the network to facilitate the growth of electricity generation from renewable sources is of interest to a wide range of individuals and organisations including developers, communities, national and local government, the supply chain and trade organisations. Keeping these stakeholders updated and informed about its programme is a key priority for SHE Transmission.

In addition, there is a complex system of co-ordination for development of the network in Great Britain, which means that significant new generation connecting into the system in the north of Scotland is likely to impact on the network in the south of Scotland and require reinforcement into England and, potentially, Wales. SHE Transmission participates in the Electricity Networks Steering Group, jointly chaired by the UK government and Ofgem, to identify and co-ordinate work to help address key strategic issues that affect the electricity networks in the transition to a low carbon future.

Electricity Transmission priorities for 2013/14 and Beyond

SHE Transmission is SSE's fastest-growing business, where the core activity for much of the next decade will be construction. Against this background, its priorities for 2013/14 and beyond are to:

- meet key milestones in projects under construction, in a way that is consistent with all safety and environmental requirements;
- implement the new operational regimes for the 2013-21 Price Control and maintain high levels of system availability;
- 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 on a significant scale.

Electricity Distribution

Performance in Southern Electric Power Distribution and Scottish Hydro Electric Power Distribution
The performance of SSE's two electricity distribution companies during 2012/13 was as follows (comparison with previous year):

- operating profit* increased by 29.3% to £512.8m;
- electricity distributed rose by 0.9TWh to 41.6TWh;
- the average number of minutes of lost supply per customer was 73 in the north (73) and 65 in the south (60); and
- the number of supply interruptions per 100 customers was 69 in the north (71) and 62 in the south (70).

The increase in operating profit* principally reflected additional allowed revenue under the existing Distribution Price Control, the recovery of allowed income not received in the previous year, 2011/12, and revenue resulting from the increase in the volume of electricity distributed during 2012/13 (see below) in addition to continued emphasis on the control of costs.

Volume of electricity distributed

The total volume of electricity distributed by the two companies during 2012/13 was 41.6TWh, compared with 40.7TWh 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).

Investing in electricity networks at the lowest possible cost for customers

Capital expenditure in electricity distribution networks was £288.8m in 2012/13, taking the total for the 2010-15 Price Control to £761.1m so far. This investment contributes to its priority of providing a good service to its customers by delivering a reliable supply of electricity. Investing in its network to maintain reliability takes a number of forms, including:

- keeping assets in good condition through a regular programme of inspection, maintenance, refurbishment and replacement;
- investing in areas to reinforce the existing network or build new lines to provide an alternative supply should the existing line be damaged;
- fast response to faults with up to 1,000 people based in 40 sites in the south of England and north of Scotland, supported by Network Management Centres in Perth and Portsmouth; and
- communication with customers during planned and unplanned interruptions through telephone, website, email and social media.

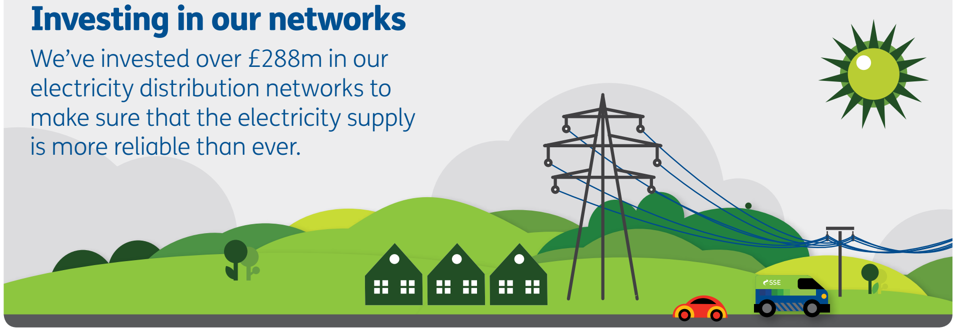
SSE now restores power within 12 hours to over 99% of customers who experience an unplanned interruption. To achieve this it has used a combination of fast response teams and innovative technologies to find and repair faults quickly.

Each year customer tariffs are set to recover the amount of money agreed with Ofgem during the Price Control review. In turn, electricity supply companies then include these costs in the charges they make to their customers. In 2012/13 electricity distribution charges made up 16% of an average GB household electricity bill.

Therefore, since any investment made in the electricity distribution network is ultimately paid for by customers, the approach adopted by SSE's two electricity distribution companies is to make sufficient up front investment, either through conventional reinforcement or use of new technologies, so that a quick response, when customers' needs become clear, can be made.

Investing in our networks

We've invested over £288m in our electricity distribution networks to make sure that the electricity supply is more reliable than ever.



Innovating for the future of electricity networks

In addition to the incorporation of innovation in day-to-day activities, wider change is taking place which means the way customers use electricity will evolve. SSE's electricity distribution businesses continue preparations to make the network ready for a low carbon future over the next decade.

The drivers for change are numerous and include:

- increasing electrification of heat and transport;
- further growth of large distributed generators, as well as widespread community and micro-generation using solar, hydro and wind; and
- significant energy conservation.

All of this will change the traditional flows of electricity, which means smarter, more dynamic networks will be required. Two major smart projects, with total approved funding under the Ofgem Low Carbon Networks (LCN) Fund of £26m, are being led by SSE's electricity distribution businesses:

- **My Electric Avenue,** in which SSE is the host electricity distribution company, working together with partners, to undertake a programme of trials with customers using electric vehicles to assess their impact on the local electricity network. The results of these trials will be shared with other distribution companies, UK government and other stakeholders once the project is complete at the end of 2015.
- **Thames Valley Vision (TVV),** in and around Bracknell, aims to demonstrate that applying new technologies to Bracknell's network will provide a lower cost alternative to redeveloping the substation to meet increasing electricity demand, with the potential to reduce significantly costs to customers. Around 550 participants are now involved in the project and further work is being undertaken to increase this number. TVV involves monitoring and predicting electricity demand and usage patterns and using a range of innovative technologies, including network automation, energy storage and automated demand response, to manage the network flows predicted by modelling.

Networks (continued)
Economically-regulated businesses

In addition to these two projects, **Northern Isles New Energy Solutions (NINES)** features the use of heat and electricity storage to manage intelligently the impact of movements in demand on electricity generation, which could allow more renewable energy to be connected to the network. It also features new active network management solutions. This means NINES is not just a smart programme but a comprehensive and sustainable solution to the energy challenges on Shetland. Information gathered through the project is making an important contribution to SSE's proposals for long-term energy security on Shetland, which are due to be submitted to Ofgem in July.

The deployment of innovations and technologies, as well as good performance in response to Ofgem's enhanced incentive mechanisms in areas such as customer service, should enable SSE to continue to achieve the post-tax real return in excess of 5% which it is targeting in electricity distribution.

Working with stakeholders on the new electricity distribution Price Control

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. It will run from 2015 to 2023. In line with wider trends in electricity networks, it is likely to put an emphasis on incentives to secure the innovation required for low carbon transition. In March 2013 Ofgem published its strategy decision for RIIO-ED1, confirming that the regulatory policy for it will build on the existing framework and benefit efficient distribution companies that meet the expectations of their stakeholders.

As with RIIO-T1, distribution companies will be required to develop comprehensive business plans setting out their planned outputs for the eight-year period and how they propose to deliver them. SSE continues to work extensively with stakeholders to ensure that its plans meet the requirements of all users of its distribution networks and in February 2013 published *Innovating for a greener, more efficient future: Our Second Consultation* to invite further views on the priorities identified for the electricity distribution businesses between 2015 and 2023. RIIO-ED1 business plans are to be submitted to Ofgem in July.

Investment will continue to be a top priority for SGN and, in line with that, it expects to invest around £350.0m in capital expenditure and mains and service replacement projects during 2013/14.

Electricity Distribution priorities in 2013/14 and beyond

During 2013/14 and beyond SSE's priorities in Electricity Distribution are to:

- comply fully with all safety standards and environmental requirements;
- ensure that the networks are managed as efficiently as possible, delivering required outputs while maintaining tight controls over operational expenditure;
- place customers' needs at the centre of plans for the networks;
- 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 there is adequate capacity to meet changing demands on the electricity system;
- work with stakeholders on RIIO-ED1; and
- make progress on the deployment of innovative investment in smart grids.

With such significant changes required over the next few years, not least in adapting the networks to accommodate changes in production and consumption, the scope for additional incremental growth in electricity distribution networks is clear.

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 it with some corporate and management services. In 2012/13:

- SSE's share of SGN's operating profit* was £234.1m, compared with £234.8m;
- gas transported rose by 19.1TWh to 162.5TWh; and
- 98.4% of uncontrolled gas escapes were attended within one hour of notification, compared with 98.7% in the previous year, and exceeding the standard of 97%.

The minimal change in operating profit* for SGN reflects good operational performance offset by accounting treatment of some regulatory and pension costs.

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 the non-regulated activities of its contracting, connections and commercial services operations.

Implementing the new Gas Distribution Price Control

Following the RIIO-GD1 Final Proposals from Ofgem for the next Gas Distribution Price Control for the period 1 April 2013 to 31 March 2021, SGN accepted the Price Control and believes that the level of total capital and operational expenditure is enough to allow it to maintain safe and reliable networks, which cover approximately 40% of the UK land mass and serve around 5.8m customers, and to secure a fair return for doing so.

SGN's preparations for the implementation of RIIO-GD1 included retaining a strong focus on operating cost efficiency. During the next eight years, SGN has committed to deliver a wide range of outputs and 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. 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 their RAV

The five-year Gas Distribution Price Control, which began in April 2008, provided the opportunity for SGN to increase significantly investment in its gas distribution networks, thereby reinforcing safety and reliability and securing another significant increase in its RAV. By the end of 2012/13, SGN's total RAV was estimated to have reached £4.78bn.

During 2012/13, SGN invested £398.0m in capital expenditure and mains and services replacement projects, compared with £404.3m in the previous year:

- The majority of the mains replacement expenditure was incurred under the 30:30 mains replacement programme 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. During 2012/13, SGN replaced 1,124km of its metallic gas mains with modern polyethylene pipes.
- Capital projects also included the development of a new UK leading biogas plant at Poundbury in Dorset which was opened by HRH The Prince of Wales in November 2012.
- SGN is also committed to making new gas connections to existing homes that are not on mains gas as affordable as possible, and is running an Assisted Connections scheme, under which 6,714 properties were connected to its networks during 2012/13.

Investment will continue to be a top priority for SGN and, in line with that, it expects to invest around £350.0m in capital expenditure and mains and service replacement projects during 2013/14.

Making gas networks more sustainable

Following the delivery of the country's first full-scale anaerobic digester and biomethane-to-grid project in Poundbury, Dorset, SGN is now developing this technology so that larger volumes of biomethane can be introduced into the network. SGN believes that this innovation will help the UK meet its decarbonisation targets, contribute to the UK's energy security and help with energy affordability.

SGN is in discussions with potential partners on a further 10 proposals for biomethane network entry points from anaerobic digestion projects to be delivered in the next 18 months in Scotland and southern England.

Gas Distribution priorities in 2013/14 and beyond

During 2013/14, SGN's priorities are to:

- continue to deliver a safe and secure gas supply to customers;
- work with stakeholders and the Regulator to implement the new Gas Distribution Price Control (2013-21);
- deliver to time and budget the 2013/14 mains replacement and capital works programmes; and
- support and invest in sustainable developments in gas distribution and biogas production.

Other Networks

Performance in Other Networks

SSE's 'Other Networks' businesses – Lighting Services, Utility Solutions and Telecoms – are relatively small when compared with its economically-regulated energy networks, and they operate in tough and competitive markets. Their contribution to SSE's operating profit* increased, from £32.1m in 2011/12 to £35.9m in 2012/13, despite challenging trading conditions.

Maintaining leadership in lighting services provision

SSE remains the UK's and Ireland's leading street-lighting contractor. At 31 March 2013, it had:

- 22 contracts with local authorities in England, Wales and Scotland to maintain over 625,000 lighting units;
- 16 consolidated contracts with local authorities in the Republic of Ireland to maintain over 245,000 lighting units, through Airtricity Utility Solutions (this was previously 28 individual contracts); and
- 11 contracts under the Private Finance Initiative, to replace and maintain nearly 630,000 lighting units.

Lighting services has been successful in offering a fully integrated solution for combined technology contracts covering, amongst other things, the maintenance and installation of lighting units and traffic signs, traffic signals and intelligent transport systems such as vehicle activated signs, CCTV traffic control cameras and speed enforcement cameras. These types of contract have the benefit of promoting best practice systems across an area, enabling local authorities and residents to be provided with an enhanced, integrated solution. In line with this, it has secured a £56m, eight-year contract for all of the street lighting and intelligent traffic management systems across Cornwall.

As part of developing innovative solutions, it has developed future proof 'fit and forget' models aimed at reducing unit maintenance regimes, improving efficiency, cost effectiveness and saving energy. Lighting Services is working with a number of clients installing Mayflower, an SSE-owned total lighting control management system, in the UK, with over 94,000 nodes installed, whilst continuing to develop the business in Ireland, where Lighting Services operates as the largest street lighting operator in the Republic.

The success of lighting services depends in part on effective long-term management of contractual relationships with local authorities. More generally, Lighting Services fits well within SSE's business model and, as in electricity distribution, future success will be based on effective and efficient customer service and successful deployment of new technology.

Providing comprehensive Utility Solutions

SSE provides a comprehensive range of utility solutions. It designs, builds, owns, operates and maintains cable and pipe networks for delivering electricity, gas, water and heat to existing and new commercial and residential developments in England, Wales and Scotland. It is, therefore, able to provide a one-stop solution for multi-utility infrastructure requirements

Networks (continued)
Economically-regulated businesses

to customers in the development and construction sectors. For example, in the past year, SSE has secured contracts at four large developments to provide combined electricity, gas and water services to 5,990 homes. Looking at each activity in turn:

- **Electricity Networks:** SSE now owns and operates 137 embedded energised electricity networks outside the traditional areas served by its economically-regulated companies Scottish Hydro Electric Power Distribution and Southern Electric Power Distribution. New sites in operation in 2012/13 include data centres, recycling plants, retail parks and over 1,400 homes. A further 61 networks are under construction and contracts have been signed for the development of an additional six, taking the total to 204 – up from 168 at the end of 2011/12. Several significant electricity contracts have been signed, including: the 2,012 plot development at Emerson's Green in Bristol and the 650 plot development at Monbank in Newport, both of which also include gas and water contracts; the 2,300 plot development at Calderwood near Edinburgh, which also includes a gas contract; and the adoption of the network at SkyPark Exeter, one of South West England's most ambitious business park developments.
- **Gas Pipelines:** SSE is also a licensed gas transporter, installing, owning and operating gas mains and services on new housing and commercial developments throughout the UK. The total number of new premises connected to its gas networks has continued to grow and since the start of the current financial year it has connected a further 15,056 premises, passing 100,000 total connections in October 2012. Contracts have been signed for a further 67,297 connections to be completed. New gas networks within multi-utility contracts (as mentioned above) are complemented by gas-only developments within SSE's electricity distribution areas such as the 312 home development at the former Prysmian Cable Works in Eastleigh or the 247 home development at Castle Meadows in Aberdeen.
- **Water:** Through SSE Water (SSEW) SSE is able to install, own, operate and supply water and sewerage services alongside its existing electricity and gas services. An 'inset' appointment is the route by which one company replaces another as the appointed water and/or sewerage company for a specified area. SSEW now has 19 such appointments and provides, or has secured contracts to provide, water and sewerage services to over 28,000 properties in England and Wales, more than any other new appointment company. This number includes over 3,500 SSEW customers already connected.
- **Heat:** SSE uses Combined Heat and Power (CHP) generation on District Heating schemes to provide hot water and space heating mainly to high density residential developments. There are now seven heat networks in operation and seven further schemes where SSE is the preferred bidder. Over 2,000 new heat customers have been connected in the last 12 months, including the delivery of one of Scotland's largest district heating schemes at Wyndford, Glasgow. SSE's total heat customers now stands at over 3,000 with a further 4,000 contracted but not yet completed.

Operating a national telecoms network
SSE Telecoms provides high-capacity resilient network and data centre services to the UK's cloud services, systems integration and telecoms industries. Its reputation for project delivery and high availability is based on the effective management of assets including 12,479km of fibre optic cable, leased fibre, microwave links and a 10MW, 80,000 square feet data centre built to exceed the demanding Tier 3 standard. In addition, SSE Telecoms manages SSE's internal call centre, telephony and data network infrastructure.

The ten-year £30m Janet contract to provide 6,500km of fibre network to over 30 UK sites used by the UK's research and education community has been delivered successfully, further strengthening SSE Telecoms' reputation as a service provider for education and public services. Contract wins in the data centre will see the site approaching its currently fitted-out capacity, with scope for expansion and development of existing space and power supplies.

The focus for the year ahead is the expansion of SSE Telecoms' network, which will reduce its cost to service high-density business areas and metropolitan data centres where it sees the greatest growth in demand.

SSE Telecoms has also set out its longer-term strategy, which is focused on four key objectives:

- increasing geographic coverage;
- facilitating fast and reliable cloud service delivery for customers;
- developing new high-capacity, high availability network services; and
- becoming ever-easier to work with as a service provider.

Other Networks priorities in 2013/14 and beyond

Lighting Services, Utility Solutions and Telecoms have specific priorities for 2013/14, but across all of them there is a continuing need for:

- efficiency and customer service;
- effective product development; and
- technological change and innovation.

Networks – conclusion
The continuing success of SSE's economically-regulated and market-based Networks will be founded on efficiency, responsiveness 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 above-inflation dividend increases.

Retail
Market-based businesses

Earning the right to make a profit.

Retail operating profit* – £m

410.1

+27.5%

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

9.47

-0.8%

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

0.42

+2.4%

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

14.4

-4.0%

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

+8.7%

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

SSE Contracting order book – £m

88

+12.8%

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

Key topics in this section

Demonstrating that saying sorry is not enough
See page 41 for more information

Introducing a new Customer Service Guarantee
See page 42 for more information

Focusing on energy efficiency obligations
See page 43 for more information

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 market in Great Britain and the second largest supplier in the competitive markets in Ireland.

At 31 March 2013, it supplied electricity and gas to 9.47 million household and business accounts under its brands SSE, Scottish Hydro, Southern Electric, SWALEC and Atlantic in the Great Britain market and Airtricity in the markets on the island of Ireland.

SSE also provides other energy-related products and services to over 400,000 customers, covering three principal areas: home services; metering; and mechanical and electrical contracting.

Financial performance in Retail
Operating profit* in Retail in 2012/13 was £410.1m, compared with £321.6m in the previous year and £400.5m in 2010/11. This amounted to 22.8% of SSE's total operating profit* and comprised:

- £364.2m in Energy Supply, compared with £271.7m in the previous year and £347.7m in 2010/11; and
- £45.9m in Energy-related Services, compared with £49.9m in the previous year and £52.8m in 2010/11.

As stated in its Annual Report 2012, SSE expects that its annual profit margin (ie adjusted operating profit* as a percentage of revenue) in Energy Supply should average around 5% over the medium term (ie three to five years).

In 2012/13, it was 4.2%, up from 3.5% in the previous year, and compared with 4.3% in 2011/12. Energy Supply profit margin has, therefore, averaged 4.0% over three years.

SSE believes that its expected profit margin over the medium term is reasonable and sustainable and that it stands comparison to organisations that provide other everyday essentials such as food retailers, telecoms companies and high street retailers.

Retail (continued)
Market-based businesses

Energy Supply

To provide customers with the best possible value for money SSE believes that it should deliver excellent customer service, simple products and fair prices.

Supplying energy across Great Britain and Ireland
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 obligations in respect of energy efficiency and any related social or environmental schemes promoted by government.

SSE appreciates that its core products of electricity and gas are not discretionary items (except, in some instances, in the extent of their use) but something people rely on to heat and power their homes and live comfortably. That means there is legitimate regulatory, political and public interest in its activities and it is SSE's responsibility to provide value for money, fairness and transparency to customers.

Supplying energy to customers in Great Britain and Ireland
In the year to 31 March 2013, SSE's energy customer accounts in Great Britain and Ireland fell from 9.55 million to 9.47 million. This comprised:

- 4.87 million domestic electricity accounts in GB;
- 3.35 million domestic gas accounts in GB;
- 0.43 million business electricity and gas accounts; and
- 0.82 million electricity and gas accounts in Northern Ireland and the Republic of Ireland.

Within the overall total, 2.4 million customer accounts in Great Britain are for loyalty and fixed term products. These include M&S Energy, available to customers through Marks & Spencer's stores and website.

The total customer account numbers include the acquisition in June 2012 of 130,000 gas customer accounts in Northern Ireland from Phoenix Energy Holdings Ltd for £29.3m, excluding working capital-related adjustments. Including these, customer account numbers in Ireland rose by 200,000.

In contrast, there was a reduction of around 275,000 in customer account numbers in Great Britain. Fundamentally, this decline reflects the highly competitive market conditions in Great Britain. Nevertheless, SSE's energy customer account numbers across Great Britain and Ireland are still just 3% below their peak in March 2011, on a like-for-like basis and are still nearly double their level in March 2003.

Making a reasonable profit in Energy Supply
SSE's Energy Supply business buys the electricity and gas it needs through SSE's Energy Portfolio Management and Generation divisions. The associated cost to the Energy Supply business comprises:

- the weighted average cost of electricity, made up of fuel used in generation plus associated costs of CO_2 emissions, power purchase agreements and direct bilateral electricity contracts; and
- the weighted average cost of gas, made up of gas purchase contracts and direct bilateral gas contracts and payments for gas storage.

In addition the Energy Supply business has to meet costs associated with the transmission and distribution of energy, customer service and government-sponsored social and environmental obligations.

Operating profit* in Energy Supply in 2012/13 increased from £271.7m to £364.2m and comprised 20.3% of SSE's total operating profit*. This includes operating profit* from the household and business sectors in Great Britain and in Ireland.

The increase in SSE's operating profit* in Energy Supply was mainly due to an increase in energy consumption as a result of colder than normal weather in 2012/13 compared with the warmer weather of the preceding year. This is illustrated by the fact that:

- the weather was colder in 11 of the 12 months to March 2013 than it was during the same month in the previous year;
- at London Heathrow, 2012/13 was the coldest year since 1987/88; and
- March 2013 was the coldest March since 1962 and the equal second coldest since records began in 1910.

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

- 544 therms of gas (451); and
- 4,299kWh of electricity (4,104).

Nevertheless, on a weather-corrected basis, there has been a sustained fall in average household consumption of gas and electricity in Great Britain; in 2012/13 it was 21.7% and 15.5% lower respectively than was the case in 2008.

Retail energy prices in Great Britain
Despite the significant improvements in energy efficiency, SSE recognises that energy affordability is a major societal issue and was therefore disappointed to have to implement in October 2012 price increases for household gas and electricity supply in Great Britain of an average of 9%. This followed a cut in the unit price of gas of 4.5% in March 2012. SSE's gas prices had previously increased in December 2010 and September 2011 and its electricity prices increased in August 2008 and September 2011.

The decision to increase prices was necessary due to rising costs putting an upward pressure on prices. The main pressures were:

- the average price in the wholesale energy markets to secure gas for the coming winter was around 14% higher than it was for the winter before. Indeed, the actual cost of gas turned out to be even higher than that forecast at the time the decision was taken to increase prices. Wholesale energy costs account for around 50% of a typical gas and electricity customer's dual fuel bill;

- the increasing costs of delivering gas and electricity to customers' homes through the gas and electricity transmission and distribution networks, which are determined by Ofgem and which are needed to finance necessary investment in the networks. These costs represent around 25% of a typical dual fuel customer's bill and were 9% higher than they were the previous year; and
- the cost of government economic and social initiatives including the Carbon Emissions Reduction Target (CERT) and Warm Homes Discount (WHD) that suppliers are required to fund and pass onto customers. At the time of the price increase announcement they had increased by 30% on the previous year, accounting for around 10% of a typical customer's bill.

At the same time as the price increase was announced SSE also committed to cap household energy prices in Great Britain until at least the second half of 2013. This has delivered certainty around its tariff offering in very competitive market conditions.

Looking ahead to 2013/14, the cost of government-sponsored social and environmental schemes is leading to further increases in costs in Great Britain. The amount of money paid out by SSE under the fuel poverty-related Warm Home Discount scheme will be around £50m, similar to the level paid in 2012/13. The costs of the feed-in tariffs programme for promoting micro-renewables are rising significantly and are on the point of overtaking the amount spent on the Warm Home Discount.

The delay in the start date for the new Energy Company Obligation, designed to reduce the energy consumption and support people living in fuel poverty, means that timescales for it are compressed in comparison with the UK government's original plan. This is expected to inflate the cost of a programme that was already based on an optimistic set of cost assumptions. SSE believes that a 'cap' should be put on energy suppliers' spend on ECO to ensure value for money for customers, who ultimately pay for the scheme.

The need for this is highlighted by the ECO brokerage mechanism established to give Green Deal providers an alternative route to ECO funding and to give obligated companies an alternative means of securing the carbon savings they need to meet their ECO targets. Results from it, to date, indicate that the actual cost of delivering ECO is over 30% higher than that forecast by the UK government, while other evidence points to a risk of further cost increases over the course of the scheme.

Other non-energy costs are also increasing, with the requirement for investment in transmission and distribution resulting in further increases in charges. Taken together these increases point to additional costs of over £80 per dual fuel customer in 2013/14. Unless there is a sustained reduction in prices in wholesale gas and electricity markets, it is highly likely that these additional costs will eventually have to be reflected in higher prices for household customers. Nevertheless, SSE intends to resist this trend of higher costs for as long as possible to shield customers from the unwelcome impact of higher prices.

Putting customers first

To provide customers with the best possible value for money SSE believes that it should deliver excellent customer service, simple products and fair prices. In recent years SSE consistently led the energy supply industry in customer service and became a benchmark for other energy suppliers.

During 2012/13, the number of SSE-related complaints to third party organisations (the Ombudsman Services: Energy UK, Consumer Focus, Consumer Direct and Consumer Focus' Extra Help Unit) was 942, compared with 896 in the previous year. The increase reflects greater sensitivity on the part of customers to all aspects of their energy supply at a time of higher prices and greater public scrutiny. Nevertheless, the energy complaints league table, last published by Consumer Focus in July 2012, awarded SSE a five star rating with the lowest number of complaints to Ombudsman Services.

SSE topped the uSwitch Customer Satisfaction Award run by uSwitch.com seven years in a row. In the most recent survey, in November 2012, SSE came top for customer service but came second for the overall Customer Satisfaction Award. At the time of the survey SSE was the only major energy supplier to have announced a price increase. Other energy suppliers followed suit in the following months. SSE is working hard to regain the top ranking in the Customer Satisfaction Index, although survey-based rankings can be influenced by events that are current or recent when the surveys take place.

Demonstrating that saying sorry is not enough

On 3 April 2013 Ofgem announced its decision to fine SSE £10.5m for breaches of two Standard Licence Conditions: Notification of Domestic Supply Contract Terms; and Marketing to Gas/Electricity Domestic Customers. SSE apologised fully for the breaches and accepted the fine without appeal. This marked the conclusion of Ofgem's investigation and associated enforcement action, financial or otherwise, against SSE in relation to these breaches. Up to that point, SSE has been the only leading supplier in Great Britain that had not been subject of a finding of breach of its supply licence conditions.

Breaches occurred for varying periods between October 2009 and September 2012, but mainly in the period to July 2011, the point at which SSE became the first company to suspend doorstep energy sales in Great Britain. They related mainly to inadequate monitoring, auditing and execution of SSE's sales activities. SSE believes it worked hard and in good faith to implement changes to licence conditions made by Ofgem in 2009 and 2010

Building trust

We've let some customers down in the past, but with our *Customer Service Guarantee* we are continuing to add to our record of sector-leading service.

See page 42 for more information

Retail (continued)
Market-based businesses

designed to ensure sales were conducted in a fairer and more transparent manner. Nevertheless, it accepts unreservedly that it did not move fast or far enough in some areas and acknowledges readily that some of its processes were not as effective as they should have been. SSE estimates that around 23,000 customers may have moved to a more expensive energy supply contract as a result of its energy sales activity on the doorstep and at venues.

While the investigation was being undertaken, SSE took significant action to begin remedying the substantive issues raised. In addition to ending doorstep sales in Great Britain, these included the creation of a new Retail division, the external recruitment of a new Managing Director and the development of new sales processes and related training for employees as well as new safeguards for customers.

To provide redress for customers affected, SSE introduced in December 2011 its Sales Guarantee – setting aside up to £5m to deal with historic issues to ensure that any household customer who shows that they switched their energy supply to SSE after being given inaccurate information or being misled will have any resulting financial loss made good. Although five of the six leading suppliers have been or are being investigated in this area, SSE remains the only leading energy supplier to offer such a guarantee. The processes underpinning the Sales Guarantee have been independently reviewed and audited to make sure that they are fair and reasonable.

Between 3 April and 17 May 2013, SSE was contacted by around 14,000 customers relating to its Sales Guarantee. SSE has already assessed around 80% of the cases raised since 3 April and advised the customers concerned about the outcome. In around 85% of assessed cases the customer has not experienced any financial disadvantage; in the 15% where the customer has suffered financial disadvantage payments have been made. Discussions with a further 25% of the customers whose situation has been assessed have resulted in a decision by SSE to address concerns other than financial disadvantage arising from the sales process. As a result, since 3 April 2013, SSE has so far made payments averaging around £80 to just over 5,000 customers – a total of around £425,000. SSE is continuing to assess the outstanding cases raised by customers.

SSE has decided to donate to energy-related charities all of the money that is remaining on 31 August 2013 from the £5m it provided for the retrospective implementation of its Sales Guarantee. The sum that will be donated is currently expected to be around £2.5m. SSE will confirm which charities are being supported at the end of August.

The safeguard offered by the Sales Guarantee, the only one of its kind in the Great Britain energy industry, will continue to apply to any sale made by SSE in the future.

Redoubling the effort to engage with customers

In October 2011 SSE announced a package of proposals designed to build greater trust with its customers. These included a commitment to reduce the number of tariffs offered, to ensure customers receive personalised Annual Energy Reviews (AERs) to help reduce their bills, and to ensure all customers have the opportunity to access any SSE product. SSE's *Building Trust* programme led the energy supply industry and was followed by similar, but often less radical schemes from other energy suppliers.

Following the success of *Building Trust* SSE published a second document, *Still Building Trust*, in April 2012 which set out a number of further measures to maintain momentum, including steps to simplify energy bills, tackle estimated bills and opened up the best tariff to prepayment meter customers.

SSE also introduced new measures to improve customer service, including the Sales Guarantee and implemented the Annual Energy Reviews that allow customers to check they are on the best tariff for them, are receiving benefits they may be entitled to and are taking advantage of energy efficiency options.

Introducing a new Customer Service Guarantee

In addition to the Sales Guarantee, in February 2013 SSE launched a new, separate Customer Service Guarantee which promised to meet a new set of customer service commitments or give customers £20 off their next bill. The commitments are based on three core objectives:

- helping customers save money;
- making life easier for customers; and
- helping customers when they need it most.

There are five clearly defined and measurable standards for SSE's customer service team including:

- always calling customers back at the agreed time;
- never transferring calls more than once unless the customer agrees;
- giving customers the opportunity to speak to a manager if they want;
- offering to find ways to save customers money on every call; and
- offering help with energy bills through payment plans or checking eligibility for assistance such as the Warm Home Discount.

The Customer Service Guarantee goes significantly beyond existing industry-wide Guaranteed Standards and further than other energy supply companies' customer service standards. By 31 March 2013, SSE had made 292 individual payments totalling £5,840.

Communicating with customers through digital channels

In Ireland SSE leads the energy supply sector in digital services to domestic customers with around half of customer interactions, such as submitting meter readings, making secure payments and updating personal account details carried out through Airtricity's online self service channel.

SSE is also the leading innovator of mobile communications methods in the Irish energy supply sector with technology in place that supports a broad range of customer activity on smartphone devices.

This illustrates that digital channels are now established as an important way of communicating with customers and around one quarter of all of SSE's transactions with energy supply customers are carried out in this way. In Great Britain and Ireland SSE has 1.9m customers who receive paperless billing. Customers can view their account and payment history, submit meter readings and receive an up-to-date balance on their account and make secure payments on their account. Customers can also undertake online Annual Energy Reviews.

Providing customers with a high-quality user experience when they choose to utilise digital channels is now one of SSE's top customer service priorities. Substantial investment is being made in digital services based on a customer proposition that is simple, value-adding and relevant. SSE is working to ensure that all of the main customer service requirements are available online and plans to broaden the digital touch points on offer, reflecting customers' enthusiasm for these channels evidenced across the energy supply and other sectors.

Helping customers save energy

While the average amount of energy used by SSE's customers increased during 2012/13 as a result of the colder weather experienced during the year, the longer-term weather-corrected position is as follows:

- average household consumption of gas by SSE's customers has fallen by 21.7% since 2008; and
- average household consumption of electricity by SSE's customers has fallen by 15.5% since 2008.

Based on SSE's unit prices in March 2013, the underlying fall in consumption since 2008 is equivalent to taking £248 off a dual fuel bill. This illustrates the distinction between the price of a unit of energy and the amount customers pay for heating and powering their homes.

The decline in energy consumption is expected to continue for the next few years. SSE has observed greater reductions in gas than in electricity, most likely due to more efficient boilers and to more energy efficient homes lowering gas heating requirements. Electricity demand is reducing, but efficiencies in appliances are balanced by increasing household technology.

Falling consumption presents short-term issues in relation to the revenue that companies are able to earn from supplying energy and in relation to the operation and development of plant for generating electricity. Nevertheless, as a result of the underlying fall in energy consumption, households are less exposed to the impact of high unit prices than they otherwise would be and the overall sustainability of supplies of gas and electricity is improved. In this context, SSE's goal is to broaden the range of products and services it offers to household customers.

Delivering past energy efficiency obligations

As a leading energy supplier, SSE had obligations under the Carbon Emissions Reduction Target (CERT) 2008-12 to deliver energy efficiency measures to households throughout Great Britain that delivered savings in CO_2 emissions.

Of the total obligation, 40% had to be met in a Priority Group of households, within which there was also a Super Priority Group (SPG) of households which are low income and qualify for certain benefits. There were also requirements in respect of promoting professionally installed insulation measures (the Insulation Obligation).

SSE has delivered the carbon savings set out by the CERT scheme and has contracts in place to ensure it meets it allocation under the Community Energy Saving Scheme (CESP).

SSE complied with the CERT scheme in full but was unable to verify and report the delivery of some of the obligations, namely the Priority Group (PG) and Super Priority Group (SPG) to Ofgem before the reporting date. Following verification work with the Department of Work and Pensions (DWP) SSE was able to show it delivered the obligations.

In relation to CESP, SSE acknowledges that despite best efforts it was not able to physically deliver all of the obligations by December 2012. However contracts were in place shortly afterwards for the delivery of the obligations in full.

In line with other energy companies, SSE's delivery at the reporting date was under 100% of the target because it did not achieve the scheme's bonus uplifts for multiple measures in a home and density bonuses within an area. Despite this, SSE has delivered nearly twice the unadjusted carbon reduction (ie the real carbon before bonuses) and spent £40m more than was suggested in DECC's impact assessment.

Ofgem announced in May 2013 that it will investigate SSE and five other energy companies' failure to achieve 100% of the CESP obligation by the cut-off date. SSE will co-operate fully with Ofgem as it considers further actions in relation to CESP.

SSE has always agreed with the aims of the schemes and has achieved significant savings for customers. For example through CERT, SSE insulated nearly 500,000 cavity wall insulations and nearly 700,000 lofts. SSE has also replaced almost 30,000 boilers. As DECC recently stated, there has been a substantial reduction in customers' gas and electricity usage as a result of these schemes.

These schemes have delivered real benefits for customers, but it has been extremely challenging for suppliers to find, deliver and verify measures in peoples' homes without having access to any data on income and benefits. These difficulties, along with delivery and capability issues in the insulation industry have caused cost inflation during the schemes. Important lessons for, and amendments to, the ECO scheme are also needed to ensure the schemes are delivered at reasonable cost for consumers.

Focusing on future energy efficiency obligations

SSE is now focussing on the delivery of the new Energy Company Obligation (ECO), the next phase of the government's mandatory energy efficiency programmes.

ECO creates a legal obligation on energy suppliers to improve the energy efficiency of households through the establishment of three distinct targets:

- the Carbon Emissions Reduction Obligation, focusing primarily on hard-to-treat homes and with solid wall insulation and hard-to-treat cavity wall insulation as primary measures;
- the Carbon Saving Community Obligation, focusing on the provision of insulation measures and connections to district heating systems to domestic energy users that live within an area of low income. This target has a sub-target, which states that at least 15% of each supplier's Carbon Saving Community Obligation must be achieved by promoting measures to low income and vulnerable households living in rural areas; and
- the Home Heating Cost Reduction Obligation, requiring energy suppliers to provide measures which improve the ability of low income and vulnerable households (the 'Affordable Warmth Group') to heat affordably their homes.

Retail (continued) Market-based businesses

While some of the final guidance from Ofgem is yet to be clarified, SSE is building its energy efficiency delivery business and partnerships in order to meet the new scheme requirements. While very supportive of the need for schemes to drive take-up of energy efficiency measures, particularly among vulnerable customers, SSE remains concerned by the potential costs of the new ECO.

The Department of Energy and Climate Change (DECC) estimates the annual cost of ECO at £1.3bn a year, an independent report by economic consultancy NERA for Energy UK found it could be £2.35bn or more. Currently the market is indicating a cost somewhere in between. Given this potentially huge variation in costs, SSE has been engaging with the Government regarding placing a cap on the total cost of the scheme, so that consumers, who will pay for it via their gas and electricity bills, are not unduly penalised should costs escalate.

Given the expected cost escalation and that it is ultimately paid for through energy bills and delivered by companies supplying more than 250,000 domestic customers, the Energy Company Obligation highlights three issues that are becoming increasingly acute:

- competition: 'small' suppliers' exemptions from government-sponsored schemes and obligations which means they can avoid passing on costs totalling an average of around £100 per dual fuel account to their customers;
- fairness: 'small' suppliers in the Great Britain market have a significant number of customer accounts. These customers are not required to contribute to the costs of government-sponsored schemes through their bills, but could still benefit from them; and
- equity: a larger proportion of the obligations on energy suppliers fall on electricity-only customers. This means that more than two million households in Great Britain who do not have access to the gas grid have to bear a disproportionate share of the burden of government-sponsored schemes.

Simplifying tariffs and anticipating new regulations

SSE recognised that the buying of energy had become too complex and needed to be simplified. In response it introduced in 2012/13 a far simpler range of energy tariffs which remove unnecessary complexity, featuring:

- three core products – standard, capped and fixed;
- general availability for customers;
- five simple questions to help customers find their best deal; and
- a new price comparison metric.

SSE also announced that its lowest priced tariff would be made available to prepayment meter customers, becoming the first energy supplier to do so.

The current Energy Bill contains clauses designed to enshrine Ofgem's Retail Market Review into primary legislation. The aims of these interventions are to:

- limit tariff numbers
- prescribe provision of information to customers; and
- impose new Standards of Conduct for licence holders.

While supportive of the 'simpler, clearer, fairer' objective, SSE does remain concerned about the overly-prescriptive nature of some of the reforms, many of which will add cost and complexity to energy suppliers' relationship with customers.

Clearly the high level of political and media interest in the sector is meaning that UK energy suppliers are going through a period of strong intervention in the regulatory cycle. It is possible that this may result in too much regulation, leading to a stifling of innovation in the sector. It is clear that Ofgem and the UK government need to create strong and coherent measures with which to define the success of these interventions, given that over-simplification may result in lower switching rates among electricity and gas customers.

SSE is nonetheless well placed to deal with these interventions, having already migrated customers onto its new tariff structure, invested in new systems and with its sector leading customer service. SSE is committed to being at the vanguard of good practice in the sector.

Continuing to help vulnerable customers

Under the existing definition, a household is classed as being in 'fuel poverty' if it would need to spend more than 10% of its income on fuel to keep its home warm enough. In September 2012, the UK government proposed new ways to measure fuel poverty. It is proposing a new definition which includes dual indicators of fuel poverty that separate the extent of the issue (the number of people affected) from its depth (how badly people are affected).

In addition to the successful deployment of measures under energy efficiency schemes, SSE fulfils other key responsibilities in order to help those of its customers who struggle to pay for their basic energy needs by:

- giving financial assistance with energy bills, helping an estimated 370,000 customers, with a total of around £50m being provided in 2012/13;
- providing tailor-made payment arrangements, helping customers who may be experiencing hardship and having difficulty in paying their energy bills;
- undertaking income maximisation checks, delivered in partnership with Citizens Advice Direct; and
- maintaining, through a Careline supported by specifically-trained people, extra services for vulnerable customers and contacting potentially vulnerable customers each winter, helping them with practical advice and support.

In addition, SSE did not disconnect the gas or electricity supply of any customer in Great Britain between 1 December 2012 and 28 February 2013, in line with its winter policy in this area.

Working with customers to manage energy-related debt

At 31 March 2013, the total aged debt (ie 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 £90.4m, compared with £88.3m in the previous year. A bad debt-related charge of £50.7m was recognised in the period. This compares with a charge of £40.5m in the previous year.

The general economic climate continues to give rise to significant debt management challenges. Debt less than three months old was 20% higher on 31 March 2013 than the year before and debt overdue by four to six months was 4.5% lower.

SSE has office- and field-based employees who work with customers to resolve debt issues. They aim to help customers by identifying as early as is practical when their payments are in arrears and contacting them as soon as possible to discuss the options available to them. This proactive approach is in the best interests of SSE and the customers concerned.

Supplying energy to customers in Ireland

In the Republic of Ireland SSE's supply brand Airtricity increased household energy prices in October 2012 by 4.7% for electricity and 8.5% for gas. In Northern Ireland SSE increased prices for gas by 8.75% from April 2013 following a number of significant cost increases. The previous April gas prices were cut by 8.5%. SSE cut household electricity prices by 14.1% from October 2012. Prices in Northern Ireland are set by the Northern Ireland Utility Regulator.

Airtricity, since the early 2000s, has had a strong brand presence in Ireland which was synonymous with the development of renewable energy. While the business had a small commercial electricity customer base in RoI and NI, it was not until 2010 that it made a significant push into both domestic electricity and subsequently gas supply markets across the island.

This was the first major entry by a privately owned energy utility into the market, a move that was widely welcomed by regulators and politicians in the north and south of the island. Domestic switching rates dramatically increased to become one of the highest in Europe, during the years 2010 to 2012. Such was the scale of switching it enabled the RoI regulator, the Commission for Energy Regulation, to deregulate the domestic electricity market.

For customers, Airtricity brings three distinctive characteristics to the market:

- it offers more competitive energy prices, particularly at a difficult economic time;
- it has a positive green image and today continues to have the largest renewable component to its energy sources relative to other suppliers; and
- it leads the way in providing customers with an online/digital platform from where they can sign up, manage their account, submit meter readings and pay their bills. This industry-leading service is particularly important in a market where 1.6 million people own a smartphone and where the average person spends around 150 minutes-a-day online.

The online platform also provided Airtricity with its earliest means of helping customers identify ways in which they can save money. From helping householders identify energy saving measures that can be delivered in the home, to presenting Airtricity's competitive pricing plans, it provided householders with the information they needed to get the most from their energy supply.

Since 2011, Airtricity is also obligated, in an initiative introduced by the Irish Energy Ministry, to achieve energy efficiency savings across the RoI economy. While the target set is challenging, Airtricity Energy Services (AES) is the retail subdivision focused on delivering this for commercial, public sector and household customers. Among a suite of energy efficiency measures, AES has completed over 20,000 boiler services in the past year. Meanwhile, linking with SSE's community funding programme for communities surrounding its wind farms, SSE has invested over £2m in local community based energy efficiency projects in Ireland.

Airtricity's entry into the domestic market coincided with difficult economic times in Ireland, and so from the earliest stage it sought to implement measures that could assist customers in managing their bills. From 2010, in the absence of pre-payment meters in the RoI market, Airtricity introduced its SMART Energy card allowing customers, through their local Post Office or convenience store to pay amounts against their account to a value and at a frequency that suits them. This prevents the accumulation of a larger bill at the end of the billing cycle. The success of the scheme proved to the regulator the benefit of prepayment meters which have now been introduced for vulnerable customers. In 2012/13, Airtricity also introduced a further service innovation – equal payment plan (EPP). EPP is a free service which allows customers to spread their costs for the year across 12 equal payments, giving the customer more predictability and more control.

Energy Supply priorities in 2013/14 and beyond

During 2013/14 and beyond, SSE's priorities in Energy Supply are to:

- resist for as long as is practical upward pressures on household energy prices;
- complete in a fair and timely way consideration of all remaining historic claims under its Sales Guarantee;
- ensure sales of electricity and gas are conducted in a professional, transparent and compliant way, consistent with the letter and spirit of all relevant regulations;
- deliver a high standard of customer service, in keeping with the principles behind its Customer Service Guarantee;
- improve customer insight into the energy supply market and ensure that the value of SSE's products and services are better known and understood; and
- identify new ways of engaging with energy supply customers, including through digital channels.

Keeping you informed

In December 2012 we launched our news and views website and Executive blog to keep you up-to-date with what is happening at SSE.

See http://news.sse.com

Energy-related Services

Offering a broader range of energy-related products and services

In addition to electricity and gas, SSE also provides energy-related products and services to customers, covering three principal areas:

- retailing of 'home services' such as gas boiler, central heating and wiring

Retail (continued)
Market-based businesses

maintenance and installation, telephone line rental, calls and broadband services and microgeneration;
- supplying, installing, maintaining and reading meters in the household, commercial, industrial and generation sectors in Great Britain; and
- domestic, commercial and industrial mechanical and electrical contracting and electrical and instrumentation engineering.

During 2012/13, SSE introduced new leadership and new management in its Retail division, bringing an opportunity to renew and refocus activities throughout this part of SSE.

The provision of these and other services provides scope to expand the business and provide a quality service to customers. These products and services are clearly linked to the supply of electricity and gas and build on the company's existing strengths rather than depart from them. Progress is being made in broadening the offer to customers and developing the people and processes to capitalise on these opportunities.

Providing services for the home

Home Services provides products including gas boiler, central heating and wiring maintenance and installation. These products are marketed to householders who value the security of having their heating, hot water and electrics regularly maintained and a repairs service available when they need it.

SSE has around 216,000 gas/electricity maintenance contract accounts, up 12% on the previous year. It has also completed just over 8,600 gas central heating installations and electrical heating/wiring installations in 2012/13, up 15% on the previous year.

SSE has also launched a domestic renewable installation business in Scotland focusing on air-source and ground-source heat pumps and biomass boilers. Installation volumes at present are low; it is anticipated, however, that demand will increase once the UK government's Renewable Heating Incentive is finalised and implemented later in the year.

SSE offers retail telecoms services including telephone line rental, calls and broadband to over 200,000 customer accounts. In 2012 SSE received accreditation for compliance against Ofcom's metering and billing direction.

Growth plans for the coming year include the development and launch of innovative products in the domestic consumer market. For example, SSE's Energy Solutions team has expanded the range of energy efficiency products offered to domestic customers including the installation of external wall insulation on over 500 homes.

Playing a part in the Green Deal

The Green Deal is a new financing mechanism for customers seeking to install energy saving measures, featuring a 'Golden Rule' under which the expected financial savings arising from the measures must be greater than the cost of the installation attached to the customer's energy bill.

SSE has undertaken significant investment in delivering the customer facing and IT systems obligations with respect to the Green Deal which it has to fulfil as an energy supplier. These include payment collection and remittance. The system delivery was highly challenging but delivered in time for the scheme launch.

In May 2013 SSE launched its own Green Deal offering to domestic customers. SSE now provides Green Deal assessments and eligible measures and believes this is an important mechanism for customers to reduce their energy usage. Over 700 customers have already agreed to progress with a Green Deal assessment which could lead to a loan and installation of energy efficiency measures.

Maintaining a national metering business

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, installs and maintains domestic meters and carries out metering work in the commercial, industrial and generation sectors. It also offers data collection services to the domestic and SME sectors. The number of SSE electricity and gas supply customers who receive bills based on actual meter readings now stands at 96.8%. SSE Metering has also installed just over 12,000 AMR (automatic meter reading) meters which are remotely read.

During 2012/13, SSE collected 8.7 million electricity readings and 5.7 million gas readings.

Smart meters which will allow the quantity and value of electricity and gas used to be continuously monitored by the customer and exchanged with the supplier electronically are expected to transform energy supply in Great Britain. Around 53 million smart meters are due to be installed in around 30 million homes and businesses; of these, SSE is due to install around nine million meters. This will be implemented in two phases:

- a foundation phase to enable the energy supply industry to build and test all the systems needed to start the roll-out, ensure positive customer engagement and deliver energy savings; and
- a mass deployment phase to install meters across the country once further customer support has been achieved.

SSE welcomed the announcement in May 2013 of changes to the delivery timetable for the national rollout of smart meters which mean that the foundation phase will extend to the final quarter of 2015, when the mandated deployment will commence. The target date for completion of the roll-out is now the end of 2020.

SSE has consistently had a strategy of developing consumer-friendly, scalable, strategic solutions for smart metering, avoiding interim solutions and asset stranding wherever possible. This means taking a measured, realistic approach to the roll-out of smart meters. SSE has installed just under 300 smart meters in customers' homes to date while developing the necessary IT systems to support the wider roll-out. Further installations are planned in 2013-14 to continue to develop systems, processes and organisational capability for mass deployment and deliver an excellent customer experience. Investment in systems made up the majority of capital and investment expenditure in Retail, which totalled £77.0m in 2012/13.

In Ireland installation of smart meters will be the responsibility of network companies.

Managing a leading mechanical and electrical contracting business

SSE Contracting has two principal areas of activity:

- industrial, commercial and domestic mechanical and electrical contracting; and
- electrical and instrumentation engineering.

It is one of the largest mechanical and electrical contracting businesses in the UK and its breadth and depth is illustrated by some of the specific services it provides, such as:

- mechanical and electrical packaged services covering consultancy, design and build, project management and prime contracting;
- high voltage power services, including design, build, safety testing and maintenance;
- low voltage infrastructure cabling and services covering design, build, safety testing and maintenance; and
- electrical storage heating systems and installations.

SSE Contracting is involved in the industrial, commercial, retail, housing, health, defence, transport and local authority sectors.

SSE Contracting continued to make solid progress during 2012/13. Its order book ended the year at £88m, compared with £78m in the previous year. It completed a number of major projects, such as the AD47 Air Dispatch Facility at RAF Brize Norton and the Exxon Mobil CAT Turnaround Project in the Fawley Refinery. It was also listed as a top three contractor in the *Electrical Times* 'Top 50 Electrical Contractor Report 2012'.

In November 2012, SSE Contracting was awarded accreditation from safecontractor, a leading third party accreditation scheme which recognises very high standards in health and safety management amongst UK contractors, for its commitment to achieving excellence in health and safety.

Energy-related Services priorities in 2013/14 and beyond.

SSE's priorities in Energy-related Services in 2013/14 and beyond are to:

- develop and deploy safely the right portfolio of products and services;
- deliver high standards of customer service; and
- anticipate the changing requirements of customers.

Retail – conclusion

During 2012/13, SSE introduced new leadership and new management in its Retail division, bringing an opportunity to renew and refocus activities throughout this part of SSE. Through a process of evolution, designed to build on its strengths in retail and identify opportunities as products and markets develop, SSE plans to develop and deploy a central proposition to household and business customers that enables them to receive core services from a single provider, based on value, convenience, choice and quality.

Wholesale
Market-based businesses

Securing and producing the energy people need.

Wholesale operating profit* – £m

509.5

-16.2%

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

9.79

+10.7%

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

Thermal generation output – TWh

29.3

-23.7%

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

Renewable generation capacity – GW

3.24

+7.3%

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

Renewable generation output – TWh

7.3

-3.9%

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.

Gas production – million therms

183.8

+4.0%

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

Key topics in this section

Changing SSE's thermal operations in the future

See page 52 for more information

Producing electricity from renewable sources

See page 54 for more information

Continuing to expand the gas production business

See page 59 for more information

Sourcing and producing energy
SSE's Wholesale segment comprises four different business areas:

- **Energy Portfolio Management (EPM)** is responsible for ensuring SSE has the energy supplies it requires to meet the needs of its customers and for procuring the fuel required by the generation plants that SSE owns or has a contractual interest in.
- **Generation** is responsible for the operation and management of SSE's generation assets, their maintenance and ensuring this plant is 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.
- **Gas Storage** is responsible for the operation and management of SSE's gas storage facilities, their maintenance and ensuring the plant is available for use by SSE and third parties.

EPM and Generation are not reported as discrete profit centres or activities but their shared objective is to provide the lowest cost input to SSE's Retail business for the provision of energy to customers, consistent with the EU Regulation on Energy Market Integrity and Transparency (REMIT).

Financial performance in Wholesale
During 2012/13 operating profit* in Wholesale decreased by 16.2%, from £607.9m to £509.5m, contributing 28.4% of SSE's total operating profit*. This comprised **EPM and Electricity Generation** – £451.5m compared with £541.5m, a decrease of 16.6%. Although profitable, the year was challenging, with continued low spark spreads for gas-fired generation and lower underlying output from renewables sources due to calmer and drier weather when compared with the previous year. Total electricity output fell by 20% to 36.5TWh. There was however, 570MW of additional capacity for renewable energy operational on 1 April 2012 compared with the previous year. This resulted in actual wind energy output increasing, although there was much lower hydro output:

- **Gas Production** – £39.6m compared with £42.6m. Despite the small fall in profits the production assets continued to perform well, producing 183.8 million therms compared with 176.7 million therms in the previous year; and

- **Gas Storage** – £18.4m compared with £23.8m. Lower market volatility and a reduction in the spread between summer and winter gas prices led to a lower Standard Bundled Unit price being achieved. Demand for storage was also lower. These factors were only partly offset by additional storage capacity coming online at Aldbrough.

Working for customers

The wholesale price of energy can fluctuate greatly due to 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 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. The main public policy drivers are European and UK-led decarbonisation policy, security of fuel supplies and price competitiveness (affordability). These policy objectives are influencing and in turn being impacted by:

- slow economic growth implying lower electricity demand;
- reduced domestic gas consumption following the success of energy efficiency interventions;
- rising energy prices as a result of higher input costs and the cost of delivering mandatory government-sponsored energy efficiency schemes;
- uncertainties surrounding Electricity Market Reform and a regulatory framework trending towards increased central planning;
- the introduction of a UK carbon price floor and the move to auction all carbon allowances under EU ETS for thermal generation plant;
- increasing system variability due to higher penetrations of variable energy sources;
- market integration between Great Britain and Ireland; and
- forecasts of tightening generation capacity in Great Britain as older plant (including coal, nuclear and gas) closes as a result of regulatory and economic pressures.

In addition, the European Target Model is the principal regulatory vehicle for working towards a single European energy market to enable optimal use of cross-border capacity and greater harmonisation of electricity wholesale market arrangements.

Assessing GB electricity market reform

The UK government believes that its Electricity Market Reform (EMR), including the current Energy Bill, 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 floor);
- long-term contracts that will effectively fix the price received by generators for each unit of low carbon electricity produced (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); and
- maximum emissions levels for electricity generation technologies (the Emissions Performance Standard).

The origins of EMR go back to 2009, yet much of the detail is still to be determined and this prolonged period of uncertainty is having an effect, making investment decisions in new thermal generation plant very difficult.

Clarity and stability are, therefore, much-needed features of the UK energy policy landscape and their absence could eventually jeopardise the security of electricity supply.

In the meantime, SSE will continue to manage its portfolio of electricity generation assets in accordance with the principles set out below (see 'Managing Generation assets according to long-standing principles') and in accordance with the financial principles set out above (see 'Sticking to the financial principles which underpin dividend growth').

Energy Portfolio Management (EPM)

Managing an energy portfolio

In recent years, SSE has typically required around 10 million therms of gas per day to supply all its customers and to fuel its power stations, and around 150GWh of electricity per day to supply all its customers. EPM has three primary routes to procure competitively and sustainably the energy and fuels it needs to meet this demand:

- **SSE-owned 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
- **Wholesale trading:** where energy contracts are transparently traded on international exchanges or through 'over the counter' markets, with 100% of electricity supply and demand traded on the day-ahead auction market.

Managing risks associated with energy procurement across these channels is a key challenge for EPM, as it is heavily influenced to varying degrees by a multitude of national and international factors including:

- energy demand growth/decline;
- the global economy;
- fuel supply disruptions;
- international affairs;
- nuclear availability;
- CCGT demand;
- prices for CO_2 permits;
- internationalisation of gas supply; and
- LNG availability.

By optimising energy procurement through a diverse portfolio, SSE ensures that its customers are protected from the unavoidable uncertainty that exists in global markets.

Wholesale (continued)
Market-based businesses

Meeting current and future requirements for energy
During 2012/13, EPM was responsible for the deployment of 7,285GWh of output from SSE's renewable portfolio; around 250 million therms of gas would be needed to generate a similar amount of electricity.

With no fuel purchasing requirement, this generation type is increasingly providing a substantive source of energy and a strong long term hedge against the volatility in fossil fuel markets.

In April 2013 SSE completed the acquisition from BP of a 50% non-operational interest in the Sean gas field in the southern North Sea, adding a further 1.1 billion therms of gas reserves to its existing exploration and production assets, and providing an important long-term supply of physical gas at a 'fixed' price.

SSE has also agreed a number of long-term gas supply contracts in recent years including:

- a 10-year contract with Statoil for the annual supply of 500 million cubic metres (mcm) (185Mth) of natural gas which commenced in October 2012; and
- a 10-year gas supply agreement of 790mcm (292Mth) per annum with Shell Energy Europe, commencing in 2015.

SSE continues to seek proactively new capacity and supply contracts to add to its portfolio. The combination of these long-term contracts and assets helps SSE minimise the low liquidity and high volatility risks of international commodity markets, brings greater price stability for customers than would otherwise be the case and supports its commitment to the dividend.

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 SSE has regularly placed 100% of its electricity generation and demand into Nasdaq OMX Group Inc. and Nord Pool Spot AS's N2EX daily auction and traded 80.6TWh in the day ahead auction market in 2012/13. SSE has also introduced a series of trading commitments for smaller suppliers and traded 795GWh with such suppliers in 2012/13.

In taking this action SSE has delivered 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. SSE is also an active participant in wholesale gas markets. It has received no formal communication or information requests from any regulatory authority in connection with the investigation announced in November 2012.

EPM priorities for 2013/14 and beyond

EPM priorities for the coming financial year 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;
- identifying and agreeing new long-term gas supply contracts;
- continuing to support improved market transparency and liquidity initiatives; and
- ensuring compliance with UK and EU financial regulations at all times.

Generation – overview

Managing generation assets according to long-standing principles
SSE's strategic objective for its Generation business is to be the greenest, most flexible, non-nuclear generator.

This objective is underpinned by six core 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 requirements;
- **diversity:** to avoid over-dependency on particular fuels or technologies;
- **flexibility:** to ensure that changes in demand for electricity can be addressed; and
- **sustainability:** to deliver an overall 50% cut in the CO_2 intensity of electricity produced.

In implementing these principles SSE is focused on doing the right things now, while selecting the right projects for the future. This means capital and management resources are employed in areas and at stages where SSE best retains competitive advantage, supports business growth, maximises shareholder value and ensures continued dividend growth.

Maintaining a diverse generation portfolio
Decarbonisation policy at the UK and European level is driving the way energy is converted to electricity; however, there is no 'one size fits all' solution to the achievement of this objective. Rather, SSE is maintaining and investing in a diverse and sustainable portfolio of thermal and renewable generation plant.

In moving to a low-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 weighted towards gas and renewables.

The practical application of these principles means that SSE currently owns or has an ownership interest in over 13,000MW of capacity, which comprised at 31 March 2013:

- 4,350MW of gas- and oil-fired capacity (GB);
- 1,068MW of gas- and oil-fired capacity (Ire);
- 4,370MW of coal-fired capacity (with biomass co-firing capability); and
- 3,240MW of renewable capacity (including hydro, pumped storage, onshore and offshore wind and dedicated biomass).

With this portfolio SSE has the greatest fuel diversity for generating electricity among UK generators and amongst the most flexible. 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 key priority for SSE is a significant and continuing reduction in the carbon intensity of the electricity produced by its generation fleet; in other words reducing significantly its

carbon intensity every decade between now and 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;
- 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.

With high gas prices and low spark spreads for gas-fired generation, during 2012/13 SSE used the portfolio diversity provided by its coal plants to ensure lowest possible cost power generation for its customers. While this has resulted in a short term increase in emissions SSE remains on track to halve its carbon intensity (compared with 2006) by 2020.

More broadly, SSE has formed a coalition with an expanding list of European energy companies to encourage the EU to adopt a greenhouse gas emissions reduction target of 25% (up from 20% at present) by 2020 as part of a long-term move away from fossil fuel-based electricity generation and full decarbonisation by 2050.

Building a more geographically diverse portfolio of assets

As well as diversity of fuel type, SSE now has greater diversity of generation plant in the markets in which it operates, following the acquisition of the assets of Endesa Ireland in October 2012. This provided SSE with 1,068MW of thermal plant in Ireland's Single Electricity Market (SEM) to add to the 500MW of wind capacity it already owned at that stage.

The SEM in Ireland faces similar market conditions to the UK 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 generation.

This allows SSE to operate generation plant in a way that is familiar, while taking a different approach to new investment.

Generation – Great Britain

Addressing challenging market conditions in GB

The market conditions for electricity generation remain challenging, as evidenced by the 16.6% reduction in operating profit* for EPM and Electricity Generation in 2012/13 compared with 2011/12. The extent of SSE's diversified generation portfolio can be seen by the very different issues impacting on its thermal and renewable generation assets and the fact that public policy decisions can have quite different impacts on each portfolio.

Responding to difficult times for thermal generation

2012 saw the lowest spark spreads – the difference between the cost of gas (plus carbon) and the price achieved for the electricity generated from it – in the history of the GB power market. The average day-ahead clean spark was negative in every month except March, giving an average of -£2.29/MWh for the year (based on 48.5% efficiency). This followed two years of below average spark spreads. When combined with high gas prices relative to coal and overall excess capacity in the generation market, this meant much of the UK's gas-generation plant operated at a much lower load factor than in previous years, and older, less efficient plant struggled to cover the fixed costs of staying open.

Many new emissions regulations, including the constraints imposed by the Industrial Emissions Directive and the move towards full auctioning of CO_2 emissions allowances for all generation plant, have begun to weigh heavily on the viability of thermal generation plant.

From 1 April 2013 the UK government introduced a new Climate Change Levy tax rate in the form of the Carbon Price Support Rate. This acts as an additional CO_2 emissions cost of about £5/tonne in 2013 for fossil-fuelled generation in GB, on top of the cost complying with EU ETS. The additional cost is set to rise to about £18 in 2015/16 (the furthest point for which the rate has been declared). This will add further substantial costs to the operation of fossil-fuelled plant, particularly coal. It may, however, provide some relative value increase to renewable and other low-carbon generation. The levy may rise further to give a total effective carbon price of £30 in 2020 (in 2009 prices). However uncertainty about future political intervention in the setting of the price floor limits the impact of the tax as a market signal to further the stated policy objective to provide an incentive to invest in low-carbon power generation by providing greater support and certainty to the carbon price in the UK's electricity generation sector.

Realising the potential of renewable sources of energy

SSE continues to respond to and welcomes the clear policy support for increased renewable penetration in the portfolio mix in GB – delivered through the financial support of the Renewables Obligation (the RO applies also in Northern Ireland).

Following the revisions to the UK's Renewable Obligation Certificates (ROC), the main financial support scheme for renewable energy in the UK, levels from April 2013, the continued delivery of an effective carbon price floor and cost reductions in the supply chain for renewable energy will be of critical importance to the continued growth and contribution of the renewables sector. In addition, the need for appropriate longer-term policy support delivered beyond electricity market reform should not be underestimated, and the viability of the renewables industry remains dependent on its continued existence.

Renewable generation

We now have 3,240MW of renewable energy capacity (onshore wind, offshore wind, hydro and dedicated biomass) in operation, in the UK and Ireland.

See page 54 for more information

Wholesale (continued)
Market-based businesses

Focusing on operations in generation
In the year to 31 March 2013, SSE generation plant in GB (comparisons with previous years) generated:

- 29.3TWh, based on contracted output of electricity from all thermal power stations in which it has an ownership interest (38.4TWh); and
- 6.3TWh, based on contracted output from renewable sources of energy in which it has an ownership interest, including pumped storage (6.4TWh).

During the same year SSE supplied:

- 20.0TWh of electricity to its industrial and commercial customers; and
- 27.0TWh to its small business and household customers.

This means that during 2012/13 SSE:

- generated the equivalent of 76% of the electricity needed to supply all of its customers in GB; and
- generated the equivalent of 132% of the electricity needed to supply its household and small business customers in GB.

Meeting the electricity needs of its electricity customers is at the heart of SSE's EPM and Electricity Generation activities.

Thermal generation

At 31 March 2013, SSE owned or had an ownership interest in 8,720MW of thermal generation plant in Great Britain, comprising (net):

- 4,350MW of gas- and oil-fired generation; and
- 4,370MW of coal-fired generation.

Maintaining effective performance in SSE's gas-fired power stations
With reduced gas-fired generation capacity in operation and lower running periods due to low spark spreads, the amount of electricity generated by gas-fired power stations in which SSE has an ownership or contractual interest, including CHP, was 8.7TWh in 2012/13, (including 3.7TWh from wholly-owned stations), compared with 21.6TWh in the previous year (including 12.5TWh from wholly owned stations).

During 2012/13 SSE's principal wholly-owned and operating gas-fired power station, Peterhead, was available to generate electricity 95% of the time, excluding planned outages, the same availability as in the previous year.

In addition to its wholly-owned gas generation, SSE has joint venture interests in:

- Marchwood, the 840MW CCGT owned by Marchwood Power Ltd, a 50:50 joint venture between SSE and ESB International. During 2012/13, the plant achieved 94% of its maximum availability to operate during the year, the same as in the previous year; and
- Seabank, the 1,140MW CCGT, owned by Seabank Power Limited, a 50:50 joint venture between SSE and Electricity First Limited. During 2012/13, the plant achieved 94% of its maximum availability to operate during the year, compared with 86% in the previous year.

All of the electricity output at both plants is sold under contract to SSE.

In the light of challenging market conditions for gas-fired generation, SSE undertook a comprehensive £100m programme of upgrade works at its Keadby (735MW) and Medway (735MW) gas-fired power stations, which meant that they did not generate any output at all during 2012/13, except for short test-firing operations. The works included upgrades to gas turbines, steam turbines, boilers and process control systems designed to increase the flexibility and efficiency of the plants. The upgrade programmes proceeded successfully and are now complete. Medway was successfully re-commissioned in early May, but SSE has decided not to bring Keadby back into service and instead the plant has been deep mothballed (see below).

Maintaining effective performance in SSE's coal-fired power stations
During 2012/13, SSE's 4,370MW of coal-fired power stations, located at Fiddlers Ferry, Ferrybridge and Uskmouth, generated 20.6TWh of electricity, compared with 16.8TWh during the previous year. The stations achieved 90% of their maximum availability to generate electricity, excluding planned outages, compared with 89% in the previous year.

This increase in output took place against a background of significantly lower gas generation and lower hydro output relative to the same period last year. This demonstrates the considerable value of SSE's coal-fired stations as part of a diverse portfolio.

Complying with the Industrial Emission Directive
All of the capacity at Fiddlers Ferry and Uskmouth and half of the capacity at Ferrybridge (over 3,300MW in total) is able to comply with the Large Combustion Plant Directive (LCPD). All this plant has also been opted-in to the Transitional National Plan under the Industrial Emissions Directive (IED) which provides a number of alternative options for how they will operate through to at least the end of June 2020. SSE has not made a decision on how the plant will operate and this will depend on market conditions and the effects of any future capacity mechanism.

Participating in the EU Emissions Trading Scheme
Across its electricity generation portfolio (taking account of contractual shares), SSE had an allocation of 18.9 million tonnes of CO_2 emissions allowances for the calendar year to 31 December 2012. In the nine months to 31 December 2012, the price of allowances ranged from €5.71 to €9.06/tonne, averaging €7.28/tonne.

From 2013, power generators in most EU countries, including the UK, are not issued with free EU allowances. In the three months to 31 March, the price of permits ranged from €3.32 to €6.45/tonne, averaging €4.68/tonne.

Changing SSE's thermal operations for the future
In advance of its new financial year on 1 April 2013, SSE completed a review of its existing thermal generation assets as well as its biomass plant at Slough.

The primary focus of this review was to ensure that all generation assets continued to contribute to the company's performance by safely delivering the required levels of availability, efficiency, cost effectiveness and, ultimately, sustainable commercial viability.

It concluded that the convergence of challenging market conditions and prolonged public policy uncertainty meant SSE required a significant adjustment to its generation portfolio.

As a result, SSE announced on 21 March 2013 that it had decided to change the operating regime of a number of generation plants, the net effect of which will be the reduction of around 2,000MW of thermal generation capacity in Great Britain over the next year. The key changes to SSE's thermal assets are:

- **Ferrybridge, Yorkshire (coal-fired):** Two 490MW generation units are opted out of the LCPD and are therefore required to close once they have used up their allowed 20,000 operating hours, or by the end of 2015 at the latest. These units are both currently expected to reach their 20,000 allowed operating hours limit by end of the 2013/14 financial year. SSE has therefore notified National Grid that it will be releasing around 1,000MW of electricity Transmission Entry Capacity (TEC) at this site from 31 March 2014.
- **Keadby, Lincolnshire (gas-fired):** Continuing poor market conditions for gas generation, combined with ongoing uncertainty about the timing and future operation of a capacity mechanism for existing gas-fired generation plant, meant that there was no economic reason to bring Keadby back into operation after its extended upgrade. Keadby will therefore be 'deep mothballed' – effectively meaning the plant at the power station will require up to one year to recommission. This decision meant the immediate withdrawal of all 735MW of capacity at Keadby. SSE will continually monitor market conditions but it expects Keadby to remain in this state for at least the next two years. Nevertheless, if and when it is required to generate electricity in the future, Keadby will be able to operate in a more flexible and efficient way as a result of the investment made during 2012/13. SSE would also expect to bring this capacity back into operation before commissioning any new investment in gas-fired capacity.
- **Uskmouth, Gwent (coal-fired):** Uskmouth was forecast to be loss making in 2013/14. However, improvements in market conditions and the productivity of the station suggested that it would be able to operate profitably in the coming year, if changes were made to the operation of the station and steps were taken to reduce ongoing maintenance costs. One of the three units (120MW) therefore ceased generation and closed on 1 April 2013 and by doing so avoided the cost of a major statutory outage that was otherwise planned for 2013/14. Following this change Uskmouth has a generation capacity of 240MW through its two remaining units. Given the ongoing financial challenges at Uskmouth, SSE has also notified National Grid that it will release all 345MW of the TEC for the Uskmouth site from 31 March 2014. This will mean that if market conditions suggest the station is able to operate profitably after this date, SSE will need to purchase the required level of TEC in the open market. A decision on how SSE will operate Uskmouth beyond March 2014 will be taken in early 2014.
- **Peterhead, Aberdeenshire (gas-fired):** Peterhead technically has an installed capacity of 1,840MW. However, because of the impact of high transmission access charges in the north of Scotland, SSE took the decision in March 2010 to release TEC at Peterhead, effectively constraining the available generation capacity of the site to 1,180MW. Transmission access charges continue to be excessively expensive in the north of Scotland and, given the challenging market conditions for gas-fired generation, SSE has decided to reduce Peterhead's TEC to 400MW from 31 March 2014.

The impact of these changes on SSE's employees is being managed using SSE's policy on organisational change. This policy was agreed with trade unions two years ago and operates for the benefit of people in those parts of the Company where reorganisation or restructuring is taking place. It includes an emphasis on opportunities for redeployment and retraining and other options such as job sharing and career breaks.

Making the right investments 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.

With its growing importance, SSE continues to develop a range of CCGT options in Great Britain, for both the medium- and long-term, including sites 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, unless there is a significant change in UK government policy around EMR and the timing and operation of a future capacity mechanism, and clear market signals suggesting the need for increased gas-fired generation capacity, SSE does not expect to take any final investment decisions to construct these projects until at least 2015. 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. Over recent years SSE has also been assessing the potential investment options for its coal-fired generation plants, in order to deliver the full potential value from its portfolio.

In the next few months SSE will conclude a significant trial investment on one 485MW unit at its Fiddlers Ferry site, which, if successful, will reduce the emissions of NO_x and provide the option of increased generation under the IED Transitional National Plan. Further investment in similar technologies could be extended to the other three units at the plant, as well as to the two remaining units at Ferrybridge. At a low capital cost, this investment may provide SSE with significant optionality to operate this coal-fired plant up to and beyond 2020 and support SSE's commitment to a diverse, flexible and cost effective generation portfolio.

Wholesale (continued)
Market-based businesses

Another investment option considered has been conversion to biomass and co-firing. In July 2012 the UK government announced its decision to reduce ROC banding levels for new biomass co-firing. In light of this decision, SSE has concluded that the current economic and policy investment framework will not support the further development of new biomass-based operations at its coal-fired power stations.

SSE continues to maintain options for new dedicated biomass capacity through its joint venture with Forth Ports, called Forth Energy. This seeks to develop combined heat and power stations with up to 300MW of electrical output and 260MW of heat output from biomass capacity at three sites in Scotland.

Generating electricity from multi-fuel

An important pipeline of potential new thermal generation investments for SSE, is multi-fuel. These 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.

In April 2012, SSE and Wheelabrator Technologies Ltd entered into a 50:50 joint venture to develop a new £300m multi-fuel generation facility at SSE's Ferrybridge site. The joint venture – Multifuel Energy Ltd (MEL) – has begun construction of the plant and it is scheduled to be operational in 2015. So far, the joint venture has invested £69m in the project. All the electricity generated by the plant will be sold to SSE. SSE and Wheelabrator continue to consider a range of other investment opportunities and expect to create a pipeline of new development options including an option to develop a further plant on the Ferrybridge site.

In addition to the MEL joint venture, SSE is also pursuing the development of a new 40MW multi-fuel facility at its Slough site. The project is currently at the public consultation stage and a full planning application is expected to be submitted to Slough Borough Council towards the end of 2013.

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

Delivering 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 central to the UK's climate change and energy security objectives.

Against this background, SSE is involved in two important CCS projects:

- **Coal at Ferrybridge:** This project is the UK's largest operating carbon capture project and is the first of its size to be integrated into a working power plant in the UK. The project, which became operational in March 2012, has captured, on average, at the rate of between 90 and 100 tonnes of CO_2 per day over the last year from the equivalent of 5MW of coal-fired power generating capacity.
- **Gas at Peterhead:** SSE is working with Shell UK to develop a gas CCS project at SSE's gas-fired power station in Peterhead. In March 2013, DECC confirmed that the Peterhead project was one of two CCS projects that would progress to the next stage of the UK government's CCS Commercialisation Competition.

  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. SSE will be a strategic partner, investing in the necessary infrastructure at Peterhead power station and providing the flue gas from which the CO_2 will be extracted. This arrangement enables both parties to focus on their respective areas of expertise.

Offshore energy

With Greater Gabbard now operational and a 25.1% stake in another wind farm, Walney, we're now generating more energy from offshore wind than ever.

See page 55 for more information

Renewable generation

Successfully constructing and commissioning capacity for renewable sources of energy

Following a very successful period constructing and commissioning renewable energy projects, SSE had 2,777MW of renewable energy capacity in operation in GB (as well as 463MW in Ireland) by the end of the 2012/13 financial year, including its share of joint ventures. The GB portfolio comprised (net):

- 1,150MW conventional hydro;
- 898MW onshore wind;
- 349MW offshore wind;
- 80MW dedicated biomass; and
- 300MW pumped storage.

Output from over 1,700MW of SSE's renewable portfolio in GB qualifies for ROCs. While the UK government has completed its review of the bands of support provided by the Renewables Obligation, the review will have no impact on existing assets in operation or projects being commissioned that generated their first energy by 31 March 2013, all of which also remain eligible for the existing 20 year support.

Producing electricity from renewable sources

Total electricity output from SSE's renewable resources in GB (excluding pumped storage) was 5,950GWh in 2012/13, compared with 6,072GWh in the previous year – confirming SSE's position as the UK's leading generator of electricity from renewable sources.

In energy terms, the slight decrease in output reflects a return to more normal hydro and wind conditions after the record breaking wet and windy weather experienced during last year. This was partially offset by the impact of additional renewable generation capacity that came into operation in the course of 2011/12 and 2012/13.

Generating electricity from hydro-electric schemes

SSE owns and operates 1,150MW of conventional hydro-electric capacity across 57 hydro-electric power stations in the north of Scotland. A further 300MW comes from its pumped storage facility at Foyers, on Loch Ness. During 2012/13 (comparisons with previous years):

- total output from all of SSE's conventional hydro-electric schemes was 2,836GWh (4,262GWh); and, within this,
- total output from SSE's hydro-electric capacity qualifying for ROCs – just over 500MW – was 1,486GWh (1,954GWh).

While 2011/12 saw a 30-year record output from conventional hydro-electric schemes, rainfall during 2012/13 dropped to below average levels, resulting in 33% less output than the previous year.

Generation at the 100MW Glendoe hydro- electric scheme near Loch Ness, re-started in August 2012, and it produced 100GWh of electricity in the period to 31 March 2013. Indeed, the scheme has now generated more electricity since generation was restored than it did in its initial period of operation.

Restoration of generation took place after the completion of the work undertaken at Glendoe following its interruption in August 2009 as a result of a rock fall in the tunnel carrying water from the scheme reservoir to the power station. SSE is continuing to pursue its legal and insurance options. In particular, it has lodged at the Court of Session notification of its intention to call a comprehensive action against Hochtief Solutions AG and Hochtief (UK) Construction Limited in respect of all losses resulting from the tunnel collapse at Glendoe in 2009.

Producing electricity from onshore wind farms

At 31 March 2013, SSE owned 898MW of onshore wind farm capacity in GB and output from these assets during the previous 12 months was 1,880GWh compared to 1,225GWh in the previous year.

The additional output largely reflects the final commissioning of SSE's 350MW Clyde wind farm, which was officially opened by Scotland's First Minister on 14 September 2012. At a cost of around £500m the wind farm is SSE's largest and is capable of producing over 1,000GWh of electricity during a typical year, enough to supply power to 280,000 homes. Its completion marked SSE's position as the largest generator of electricity from wind across Great Britain and Ireland.

Responding to constraints on the electricity transmission system

Constraints occur when there are limitations in electricity transmission capacity or for reasons of system frequency voltage control or stability. Sustained periods of constraint provide a clear market signal for additional investment in the grid infrastructure.

During 2012/13, constraint payments totalling around £120m were paid to generators of electricity from all fuels across Great Britain. Of this total, around £3m, or less than 3%, was paid to constrained SSE wind generation.

At times of constraint, generators in Great Britain are required to bid in their constrained generation capacity to National Grid. It is SSE's policy to offer appropriate prices at all times for its renewable generation, and it believes that this is the equitable approach for all generators.

Producing electricity from offshore wind farms

Due to the significantly larger scale and cost of both consenting and constructing offshore wind farms compared with onshore, SSE believes the inherent risks are best managed through partnership arrangements. On this basis, SSE has ownership interests in the following operating offshore wind farms:

- Greater Gabbard (504MW), through the partnership Greater Gabbard Offshore Winds Limited (GGOWL), in which SSE has a 50% stake;
- Walney (367MW), through the partnership Walney (UK) Offshore Windfarms Ltd, in which SSE has a 25.1% stake; and
- Beatrice, a demonstration project in which SSE has a 5MW stake.

At 31 March 2013, SSE's total net capacity for generating electricity at offshore wind farms was 349MW. SSE's share of total electricity output from all turbines during the period was 1,066GWh.

Managing the issues at Greater Gabbard

All of the 140 turbines at Greater Gabbard are now fully commissioned and have been energised and operational since September 2012. SSE is responsible for the day-to-day operation of the completed wind farm and in the six months to March 2013, the wind farm was operationally available to generate electricity for 87% of the time. Availability is now regularly exceeding 90% and is expected to improve further during the rest of 2013/14 and beyond. Based on the actual stress levels monitored during the operation of the turbines and a detailed engineering assessment of the impact of these levels on the known defects in some foundations, GGOWL is now confident about the long-term structural integrity of the disputed foundations.

In November 2012, GGOWL received the First Partial Award of Fluor Ltd's claim against it. The Award was in GGOWL's favour, requiring no payment to be made by GGOWL to Fluor Ltd.

GGOWL and Fluor Ltd subsequently reached agreement on all of the outstanding claims relating to the construction of the offshore wind farm. The main claim related to the quality of up to 52 upper foundations (transition pieces) supporting turbines and the quality of up to 35 lower foundations supporting the same turbines. The agreement between GGOWL and Fluor was a positive development and brought to an end the contractual dispute between the two parties.

Transferring offshore cable connections to OFTOs

The Great Britain regulatory regime for the construction and operation of offshore transmission assets requires generators who construct these assets to transfer them to an Offshore Transmission Owner (OFTO) post-construction.

In accordance with this requirement, SSE and its partners have already transferred the OFTO assets associated with Walney and are currently in the process of

Wholesale (continued)
Market-based businesses

transferring the OFTO assets associated with Greater Gabbard. Around half of SSE's share of the proceeds from Walney (£25m) were received in the financial year 2011/12, with a further £26m received at the end of December 2012. Proceeds for Greater Gabbard of around £150m (SSE's share) have been agreed with Ofgem and are expected to be received in the 2013/14 financial year.

Producing electricity from biomass
During 2012/13, SSE's 80MW biomass plant at Slough produced 168GWh of electricity, compared with 156GWh during the previous year. Slough was loss-making in 2012/13 and faced a similar challenging financial position in 2013/14, particularly following the removal of the free allocation of carbon credits.

Following the review of its thermal and biomass assets at the end of March 2013, SSE has decided to decommission two generation units and the associated infrastructure on a phased basis over the next few months. Both units will cease generation completely by October 2013. Slough's remaining boiler and steam turbines will continue to operate as normal and SSE will invest approximately £8m to increase the output and efficiency of this unit and broaden its fuel envelope. The station will provide 20MW of capacity after this upgrade.

Developing new hydro-electric schemes
The Scottish Government's decision to maintain support for output from conventional hydro-electric schemes at 1.0 ROCs/MWh, meant that SSE continued with pre-construction work at its 7.5MW Glasa (formerly known as Kildermorie) hydro-electric project near Ardross in Ross-shire. In May 2013, it announced that it would begin full construction work on the project in the summer of 2013.

In October 2012, the Highland Council confirmed it had no objections to the development of SSE's proposed Coire Glas (Loch Lochy) 600MW pumped storage scheme, and the planning consent will now be determined by the Scottish Ministers. SSE has concluded that Coire Glas is its preferred option for a pumped storage development in the near future.

Coire Glas could offer significant benefits to the Great Britain electricity system in terms of capacity and flexibility, but it remains subject to:

- securing planning consent from the Scottish Government;
- the availability of a timely grid connection date;
- a satisfactory public policy and regulatory framework, including the outcome of the electricity market reform proposals and the transmission charging regime changes envisaged by Ofgem's Project TransmiT; and
- compliance with SSE's financial principles and its Major Projects Governance Framework.

All of this means that a decision on whether to construct Coire Glas is unlikely to be taken before 2015 at the earliest.

Developing new onshore wind farms
At 31 March 2013, SSE's onshore wind farm portfolio in Great Britain comprised around (net):

- 898MW in operation;
- 187MW in construction or pre-construction; and
- 300MW with consent for development.

The following projects are currently in construction or pre-construction and are key components of SSE's portfolio of strategic onshore wind projects in GB:

- **Calliachar (32MW)** – The first turbines have been erected at the site and generated their first energy during March 2013, meaning the site is eligible to receive support through the Renewable Obligation under the existing full 20 year ROC scheme. The project is expected to be completed during the summer of 2013.
- **Keadby (68MW)** – Adjacent to SSE's Keadby gas-fired power station, construction is well under way, with the first turbines expected to be erected and generating energy by the end of the summer 2013. As a result of a delayed grid connection, the project is still able to qualify for full ROC support if, as expected, it successfully generates its first energy by September 2013. The project is scheduled for full completion in 2014.
- **Strathy North (75MW)** – Located in Sutherland, this project will be a significant new development for SSE during 2013/14. Pre-construction works have begun at the site and full construction is anticipated to begin in mid-2013.

SSE had around 300MW of fully consented projects across Great Britain at 31 March 2013. A major proportion of this is SSE's share in the 101 turbine Viking wind farm in Shetland, which is a joint venture with Viking Energy Partnership. Although this project is consented, this determination is currently subject to a Judicial Review. The project also faces the same issues as many island wind farms of high transmission entry costs and extended grid connection dates. No investment decision has therefore been taken on Viking and it is currently unlikely to be fully commissioned before the end of the decade. In addition, SSE acquired the 99MW consented Dunmaglass scheme in May 2013.

SSE has over 600MW of development projects currently in planning, and expects to receive decisions on around 400MW of these during 2013/14. In addition, SSE has around 300MW of new onshore wind farm projects currently in pre-planning.

Developing new offshore wind farms
Offshore wind continues to play an important role in the delivery of low carbon energy for GB. GB has been the global leader in offshore wind since 2008 and with over 3,300MW in operation, it has more installed capacity than the rest of the world combined. A further 3,800MW is currently under construction and a total of up to 18GW is planned by 2020.

SSE has gained valuable experience of offshore wind farm development, construction and operation through the Greater Gabbard and Walney projects, and it is this experience that enables it to exercise informed and disciplined judgement when prioritising projects in its development pipeline.

The next offshore wind farm in SSE's development pipeline is the Galloper project, which is located close to the existing Greater Gabbard development and has a potential capacity of up to 504MW. This project is also a 50:50 partnership with RWE npower Renewables. Significant progress has been made in the planning phases of this project and it now awaits a final decision on planning consent from the Secretary of State for Energy and Climate Change, expected by the end of May 2013. Assuming consent is received, SSE expects to make a final investment decision on the project in the first half of 2014 with the aim of progressing with a development programme that would enable Galloper to retain the option to benefit from the existing ROC regime for offshore wind.

Beyond this, the planning proposal for the 1,000MW Beatrice project located in the Moray Firth, a 75:25 partnership with Repsol Nuevas Energias UK, is currently with Marine Scotland with a planning decision expected in late 2013. The onshore grid connection for this project received consent from Moray Council in February 2013.

SSE is also involved in two consortia that provide it with valuable development rights for potentially up to 4.2GW (net) additional offshore wind farm assets beyond 2020:

- **SeaGreen,** a 50:50 partnership between SSE Renewables and Fluor Limited, which has recently sought consent for two wind farm areas, with a capacity of 525MW each, which represent the first of three phases in the 3.5GW Firth of Forth offshore wind farm.
- **Forewind,** a four-way partnership with RWE npower Renewables, Statoil and Statkraft, which plans to submit consent applications for two wind farm areas, each with a capacity of 1.2GW, which represent the first phase of development of the 9GW Dogger Bank wind farm.

However, decisions by SSE regarding the extent of the build out of this pipeline will be based on its disciplined approach, consistent with its financial principles and focused on taking forward only the best investments and achieving the strongest possible returns to support dividend growth.

Reducing the cost of offshore wind

A robust, sustainable and ultimately lower cost supply chain offers significant value to renewable energy developers and is essential to delivering the UK's offshore wind potential. As GB's largest owner, developer and operator of renewable energy, SSE has an important role to play and is focused on forming strategic alliances and investments to secure this supply chain.

SSE has a number of initiatives to increase the effectiveness, and decrease the cost, of offshore wind deployment, including the development of the UK's national offshore wind testing facility at Hunterston in North Ayrshire. In partnership with Scottish Enterprise and leading turbine suppliers Mitsubishi and Siemens, up to three prototype offshore wind turbines will be tested at the facility for a period of five years. Construction of the facility began in March 2013 and it is expected to be fully operational by the end of 2013.

In seeking to reduce supply chain cost, SSE is giving practical leadership in the delivery of the UK government's ambitious 2020 target to lower the levelised cost of energy from offshore wind to £100/MWh.

Developing marine-based renewable energy

Marine-based wave and tidal technologies are interesting and potentially important longer-term prospects for the next generation of renewable energy technologies, which could start to make a significant energy contribution in the next decade.

SSE has worked with JV partners for a number of years to support the development of potential technologies and sites for marine projects, with development activities focussed on four sites around Orkney's Pentland Firth. Although the technological and site-related issues have proved to be substantive, SSE believes that wave and tidal technologies could ultimately make an important contribution to meeting electricity requirements.

Generation – Ireland

Creating an integrated business in Ireland

The acquisition of Airtricity in 2008 established SSE as a significant participant in the all-island Single Electricity Market (SEM) and created a platform for SSE to create and develop a fully integrated energy business across Ireland. SSE has since built a strong retail business in Ireland and through its long established Ireland-based renewables team, operates over 463MW of renewable generation and manages a substantial pipeline of new renewable developments.

In line with its approach 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.

In October 2012, SSE completed the acquisition from Endesa Generacion SA of the shares of Endesa Ireland Limited, the assets of which included plant in operation, under construction and with consent for development. The acquisition involved a total cash consideration of €350m (£282m) plus €10m (£8m) of deferred consideration.

The acquisition included 1,068MW of operational assets at four sites:

- 620MW fuel oil Tarbert Power Station in County Kerry;
- 240MW fuel oil Great Island Power Station in County Wexford;
- 104MW peaking gasoil Tawnaghmore Power Station in County Mayo; and
- 104MW peaking gasoil Rhode Power Station in County Offaly.

The electricity generated by this plant is traded in the all-island SEM, where a proportion of fixed capital costs are remunerated via a capacity payment mechanism when plant is made available, and variable costs, including fuel and carbon, are remunerated through the energy market.

SSE is now the third largest electricity generation capacity owner on the island of Ireland with around 13% of installed capacity.

Maintaining effective operational performance

At 31 March 2013, SSE owned 463MW of onshore wind farm capacity in Ireland (including 42MW in Northern Ireland) and 1,068MW of thermal generation capacity. Output in 2012/13 was as follows (comparison with previous years):

- 19.5GWh from thermal generation from date of acquisition, October 2012; and
- 1,335GWh from renewable generation (1,545GWh).

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 GB.

Wholesale (continued)
Market-based businesses

Investing in new capacity for generating electricity at Great Island

In addition to the operational generation assets, the Endesa acquisition included a 460MW CCGT currently under construction at Great Island, County Wexford.

Construction at the site is well advanced, with the gas turbine, steam turbine and generator placed on site. A total of €59m was spent on the development from its acquisition by SSE in October 2012 to 31 March 2013. The plant is expected to be commissioned in the second half of 2014, at which time the existing 240MW fuel oil unit at the site will be decommissioned.

SSE will incur capital expenditure of around €140m (£110m) over three financial years to complete the construction of the new CCGT. This is included in its plans to incur capital and investment expenditure in the range of £1.5bn to £1.7bn in each of the years to March 2015.

The 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 is 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 undergo some modifications in order to implement the EU 'target model' in electricity.

Developing new renewable generation in the all-island market

At 31 March 2013, SSE's onshore wind farm development portfolio in Ireland comprised around:

- 80MW in construction or pre-construction; and
- 130MW with consent for development.

Projects under construction in Ireland are Athea (34MW) in County Limerick, and Glenconway (46MW), part of SSE's Slieve Kirk strategic area located in County Derry. Construction at both projects is progressing well. The first energy was exported from Glenconway in March 2013, qualifying it for the full Northern Ireland ROC support mechanism. Athea is on target to generate its first energy in September which would qualify it for the ReFiT support mechanism in RoI.

SSE 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 rapidly growing Irish supply business, Airtricity, in a way that is sustainable.

Generation – future priorities

Optimising the onshore wind farm portfolio

To optimise its portfolio of onshore wind assets, both in operation and development, SSE continues to have a programme of selective acquisitions and disposals.

At the end of March 2013, SSE completed the sale of four wind farms with a total generation capacity of 79.5MW, to a new fund managed by Greencoat Capital, for a total cash consideration of £140.9m. SSE then re-invested £10m in the new fund. As part of the deal, SSE entered into power purchase agreements (PPA) for three of the wind farms totalling 43.5MW (the fourth wind farm already had a PPA with a third party) and will continue to have the operation and maintenance contract for all four wind farms.

The proceeds from this disposal will support further investment in new renewable assets and, in line with its commitment to financial discipline, represent an excellent example of SSE creating ongoing value from its investment programme while improving the liquidity of the market for investment in new renewable developments.

In line with that, in May 2013, SSE reached agreement with Renewable Energy Systems Group (RES) to acquire the Dunmaglass wind farm project, located near Loch Mhor, south of Inverness. The 33 turbine Dunmaglass project received planning consent in December 2010 and off-site pre-construction works have already begun. SSE expects to begin full construction of the wind farm in late 2013 with an expected project completion date of early 2016. Once constructed, the project will have an installed capacity of 99MW and potential load factors of above 40%. The total investment in the project is expected to be around £200m and is consistent with the scale and composition of SSE's planned investment programme to 2015.

Investing in new renewable sources of energy

As SSE moves forward the next phase of its renewable 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. In addition to its own developed sites, SSE will also consider opportunities to acquire projects. These projects would complement SSE's existing generation portfolio and development pipeline, generally have planning consent and be aligned with SSE's financial principles.

With Great Britain and Ireland identified as its core markets, a broad portfolio of development options held in both jurisdictions and 1GW of electricity interconnection between the two markets, SSE has disposed of its interests in Sweden including a 295MW development pipeline of which 80MW had consent for development.

Securing new sources of capital for renewable investment

SSE is committed to maintaining a diverse range of funding sources for its new investments. In line with this it is continuing to develop ways to involve new investors and new sources of capital in its renewable development pipeline.

These include:

- opportunities for involving new partners at the individual project level, particularly for large scale capital intensive projects such as offshore wind;

- establishment of an intermediate holding company for offshore renewable energy, which will remain wholly-owned by SSE for the foreseeable future but will provide it with the flexibility to introduce new sources of funding to support the development portfolio; and
- the recycling of capital through the sale of selected operating assets to investment funds, such as Greencoat Capital, while retaining the electricity output from these assets.

Generation priorities in 2013/14 and beyond

In Generation, SSE's 2013/14 operational 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; and
- operate power stations efficiently to achieve the optimum conversion of primary fuel into electricity.

Investment priorities for the next financial year are to:

- ensure continued high quality project execution on new thermal developments and in particular the achievement of first energy from the Great Island CCGT project before the end of 2013;
- maintain a significant pipeline of onshore wind developments that successfully proceed through development, consent and construction and ultimately deliver around 150MW of new onshore wind farm capacity in 2013/14;
- secure consent for up to 1GW (net) of new offshore wind capacity through the Galloper and Beatrice offshore wind projects; and
- introduce new and potentially diverse sources of funding into the offshore portfolio.

Gas Production

Producing gas to meet the needs of customers

SSE's 2011 acquisition from Hess Limited of North Sea natural gas and infrastructure assets was a measured entry into non-operated upstream assets. In November 2012, it increased its equity interest in three of these assets – Apollo, Minerva and Mercury – to 50% for a total cash consideration of £25.5m.

On 12 April 2013, SSE completed the acquisition of 50% of the Sean gas field from BP, for a total cash consideration of £117.4m.

Following completion of the Sean acquisition, SSE has a Gas Production business that is a top 10 gas producer in the UK, and is in the top 20 for oil and gas production combined.

SSE's portfolio is deliberately 100% gas-weighted, since SSE's primary reason for owning gas assets is to secure a long-term supply of physical gas at a fixed-price, to enable it to effectively meet the energy needs of its customers.

SSE's total portfolio of gas production assets at April 2013 represented approximately three billion therms of proven and probable (2P) reserves.

The volume and production profile of these 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.

In addition to owning these physical assets SSE also has a 5% shareholding in the oil and gas explorer, Faroe Petroleum plc.

SSE is not actively engaged with Faroe Petroleum other than as a shareholder, but is content with the strategy that Faroe Petroleum is pursuing.

Securing output from gas production assets

The Gas Production business continued to perform well in 2012/13 and benefitted from the increased share in the Apollo, Minerva and Mercury gas fields. The increase in the asset base was partially offset by forecast and normal production decline rates from the existing wells.

Total output to 31 March 2013 (which excludes the Sean gas field) was 183.8 million therms, compared with 176.7 million therms in the previous year.

There are a number of maintenance programmes scheduled over the coming year which will improve the longevity and integrity of the original assets acquired from Hess. Scrutiny and control of these activities and working with the operating partners for each field, Perenco, Centrica and Shell, to minimise downtime, is a key objective for 2013/14.

Continuing to expand the Gas Production business

The addition of the Sean asset scaled-up SSE's Gas Production business considerably, with a measured hand-over of the asset essential for all partners and for maximum hydrocarbon recovery.

SSE continues to proactively seek new opportunities to increase its 2P reserve base. The UK and north-west Europe remains the focus for this activity, since it provides a relatively stable tax and fiscal regime and is near to SSE's domestic supply market.

SSE will continue to evaluate gas-weighted opportunities in line with its investment criteria, with a view to growing its Gas Production business at a similar rate over the medium term. As its gas production business grows this may also naturally lead SSE into the operatorship of certain assets if they are deemed appropriate.

SSE has not set a target scale for its Gas Production business, but will grow it in line with its core financial principles 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.

Examining the opportunities in shale gas

Shale gas has the potential to become an important new source of indigenous gas supply for the UK, although SSE does not expect UK output to reach significant volumes until the next decade.

SSE has an exclusive five year off-take agreement with Dart Energy, covering its coal-bed methane (CBM) operation in central Scotland.

While SSE is prepared to enter into similar agreements with future CBM and shale gas operators, it has no such agreements in place currently.

Wholesale (continued)
Market-based businesses

Gas Production priorities for 2013/14 and beyond

Gas production priorities for the coming financial year include:

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

Gas Storage

Providing capacity to store gas
Gas storage provides physical flexibility that enables capacity owners 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 – Hornsea (Atwick) and Aldbrough. The primary objective of these facilities is to maximise safely the availability of the plant to import and export gas.

Hornsea provided up to 313 million cubic metres (mcm) of gas storage capacity to its customers during 2012/13. It accounts for around 6% of the total gas storage capacity in the UK and 12% of deliverability.

Aldbrough is one of the UK's newest and largest onshore gas storage facilities, which SSE (66.6% share) has developed with Statoil (UK) Ltd. All nine caverns are operational and its capacity at March 2013 was 270mcm. It will ultimately have the capacity to store up to 320mcm, and account for up to 20% of the UK's storage deliverability.

Managing operations at Hornsea and Aldbrough
The decline in the profitability of the Gas Storage business in 2012/13, reflects a decline in the price achieved for Standard Bundled Units of storage capacity. This has been driven primarily by a reduction in the spread between summer and winter wholesale gas prices and less volatile shorter-term gas prices. This was off-set by increased capacity available for storage as a result of the progress at the Aldbrough facility.

Both sites continue to operate with good availability to meet commercial requirements, despite ongoing development activities. During 2012/13:

- Hornsea again met 100% of customer nominations with the site 98% available during the key winter period and 86% available overall, except in instances of planned maintenance; and
- Aldbrough met close to 100% of customer nominations and was 90% available overall, while commissioning the final three caverns during the period.

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.

Further gas storage would understandably improve UK gas security of supply and improve price stability. However, the UK already meets the EU Regulation for Security of Supply of Gas and will do so for the foreseeable future. As a result, no new storage is required unless the UK government wishes to introduce a more secure standard.

It is also clear that the market returns for gas storage are already too low to encourage additional capacity to be deployed without UK government support, and SSE believes this situation is unlikely to change in the foreseeable future. As a result, it has urged the UK government to be extremely cautious about designing a mechanism to incentivise gas storage.

SSE is only in favour of intervention which treats equally new and existing plant, and shorter-range and longer-range facilities. Failure to adhere to this principle would distort the market, adversely impacting on existing assets and leading to unintended and undesirable outcomes. As a result of this risk SSE believes that no intervention is preferable to the wrong type of intervention.

As a gas storage operator, SSE considers the main barrier to investment to be the uncertainty of annual revenues required to compensate for large capital investments over a long build period (five to seven years) and the long commercial operation lifetimes required to earn a return. In addition, the act of investing in new gas storage facilities increases capacity and lowers returns for all owners, further discouraging investment. SSE and Statoil will therefore, not make a decision on the development of a second gas storage facility at the Aldbrough site until market conditions improve.

Gas Storage priorities in 2013/14 and beyond

Gas storage priorities for the coming financial year include:

- ensuring on-going high safety standards of operation of the facilities at Hornsea and Aldbrough and the compliant operation of the Gas Storage business;
- continuing to listen to customers, working with them to shape flexible products which cost-effectively support their portfolios;
- maintaining availability and 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 to meet the needs of SSE's customers is at the heart of SSE's Wholesale business. While 2012/13 presented many challenges, continued excellence in operating its portfolio of assets, ongoing progress in the delivery of key assets, including Glendoe and Greater Gabbard, and strategic investments in Ireland and in Gas Production, meant that SSE's activities in Energy Portfolio Management, Electricity Generation, Gas Production and Gas Storage continued to deliver against this primary objective.

It also supported the achievement of SSE's first financial goal of sustained real 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.

Chairman's introduction to SSE corporate governance

High standards of corporate governance are key to running SSE as a successful, responsible and sustainable company, capable of delivering increases in the dividend payable to shareholders in the short, medium and long term.

Lord Smith of Kelvin

High standards of corporate governance are key to running SSE as a successful, responsible and sustainable company, capable of delivering increases in the dividend payable to shareholders in the short, medium and long term.

Our Report for 2012/13 explains SSE's approach to corporate governance with separate reports being included on each of the Board Committees. I would like to focus on five specific areas.

Board changes

First of all, I would like to explain some important changes to the Board. I have paid tribute to the outstanding service of our Chief Executive, Ian Marchant, who is stepping down on 30 June 2013 and is being replaced by Alistair Phillips-Davies. The Board reached the unanimous decision that Alistair should be appointed as Chief Executive. This had the full support of the Nomination Committee, which recognised both the desire for continuity and Alistair's significant experience, having carried out an extensive benchmarking exercise. The role of Gregor Alexander is being expanded to include responsibility for Regulation and Energy Portfolio Management. The Board will then comprise two Executive Directors, five independent non-Executive Directors, and myself as Chairman. We continue to consider carefully the independence of non-Executive Directors, Board diversity, and succession planning, and this is explained in more detail in this report.

UK Governance Code

We are reporting against the UK Corporate Governance Code (the 'Code') which was introduced in June 2010. I am pleased to report that SSE has complied with all the relevant provisions of the Code throughout the year ending 31 March 2013.

A new edition of the Code was published in September 2012. The changes in the new edition covers matters such as Audit Committee requirements, audit contract tendering, business and financial reporting and diversity and inclusion. We will be reporting under the new Code in next year's Annual Report. However, we have already taken steps to comply with the new requirements in relation to diversity and inclusion.

Board evaluation

We carried out an externally facilitated evaluation of the Board this year, and the outcome was satisfactory, but as always with some helpful suggestions for improvement. This is covered in more detail in the How the Board works section (see page 72), but I would like to highlight that the external facilitators, PwC, felt the review was approached in an open and engaging way by the Directors and that in their opinion the Board should feel confident that it is effective. The suggestions from their report are being implemented to ensure we continue to improve.

Time commitment of non-Executives

I have commented in previous years on the commitment of our non-Executive Directors to SSE over and above attendance at Board and Committee meetings. During 2012/13 this has continued to be the case; in fact it has been greater than ever before. Our non-Executive Directors have visited sites throughout SSE, including power stations, gas storage facilities, major capital project sites, and our office-based facilities such as customer service centres. The feedback from these visits is given to the Board, and I believe our employees are genuinely appreciative of the opportunity to meet the non-Executive Directors and explain our range of businesses in more detail.

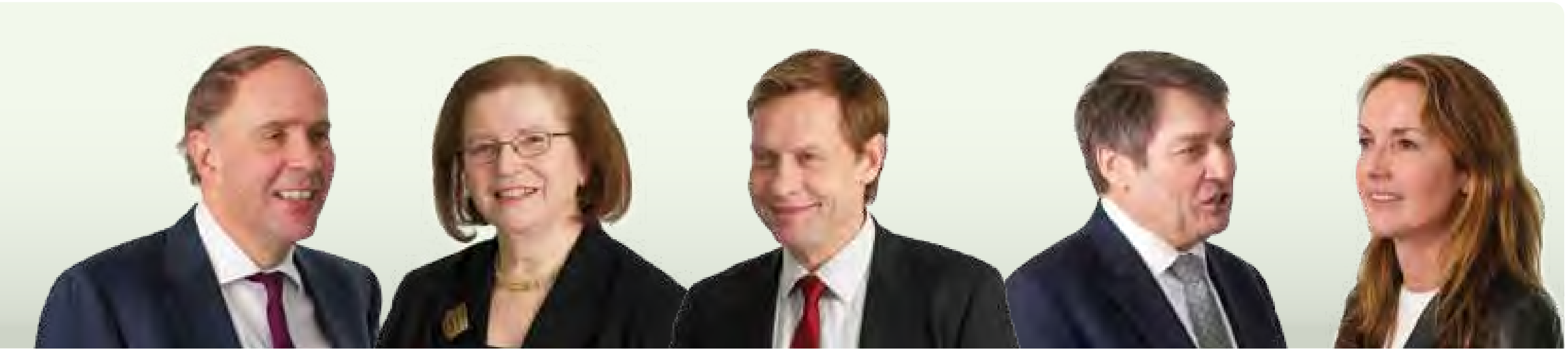
Transparent reporting

Lastly, I am pleased to report that SSE won the 2012 PwC Building Public Trust Award for Executive Remuneration Reporting in the FTSE 100. This is the second time in three years that we have won this, and I believe it demonstrates our continuing commitment to an open and transparent approach to reporting.

Lord Smith of Kelvin
Chairman
21 May 2013

Board of Directors

	Lord Smith of Kelvin Chairman	Ian Marchant Chief Executive	Alistair Phillips-Davies Deputy Chief Executive	Gregor Alexander Finance Director
Nationality	UK	UK	UK	UK
Date of appointment	Non-Executive Director since June 2003. Chairman since January 2005.	Appointed Finance Director in 1998. Chief Executive since October 2002. Ian is stepping down from the Board on 30 June 2013.	Appointed Energy Supply Director in 2002. Generation and Supply Director since December 2010. Deputy Chief Executive since September 2012. Alistair will become Chief Executive on 1 July 2013.	Appointed Finance Director in October 2002.
Committee Membership	Chairman of the Nomination Committee; Member of the Remuneration Committee.	Member of the Nomination Committee.		
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.	Ian joined Southern Electric plc in 1992 and was appointed Finance Director of that board in 1996. He is a chartered accountant.	Alistair has over 16 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. Alistair currently has SSE Board-level responsibility for Generation, Energy Portfolio Management, Retail, Renewables and Energy Demand. He is a chartered accountant.	Gregor has over 22 years' service with the Group, having joined Scottish Hydro-Electric plc in 1990. He is a chartered accountant. Gregor currently has SSE Board-level responsibility for Finance, Human Resources, IT, Procurement and other Group Services. He is the sponsoring Board member for SSE's businesses in Ireland and Chairman of 50%-owned Scotia Gas Networks Ltd.
Key appointments	Chairman of: The Weir Group plc; 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.	Chairman of the Scotland 2020 Delivery Group. Senior Independent Director of John Wood Group plc. Non-Executive Director of Maggie's Cancer Centres.	Director of Energy UK.	Non-Executive Director of Stagecoach Group plc (from April 2013).



Richard Gillingwater CBE **Senior Independent Director**	**Lady Rice CBE** **Non-Executive Director**	**Thomas Thune Andersen** **Non-Executive Director**	**Jeremy Beeton** **Non-Executive Director**	**Katie Bickerstaffe** **Non-Executive Director**
UK	USA and UK	Denmark	UK	UK
Non-Executive Director since May 2007. Senior Independent Director since July 2012.	Non-Executive Director since July 2003. Senior Independent Director from July 2007 to July 2012.	Non-Executive Director since January 2009.	Non-Executive Director since July 2011.	Non-Executive Director since July 2011.
Chairman of the Audit Committee. Member of the Nomination and Remuneration Committees.	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.	Member of Audit, Nomination and Safety, Health and Environment Advisory Committees.	Member of the Nomination and Remuneration Committees.
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 a non-Executive director of P&O, Debenhams, Tomkins, Qinetiq Group and Kidde.	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 spent 32 years at the A.P. Møller-Mærsk Group with an international career ending as CEO and President of Mærsk's oil and gas company. He also served on Mærsk's Board and its Executive Committee from 2005 to 2009. Previously he worked for Mærsk in the Far East, USA and the UK.	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, she served as Director of Marketing, People and Property. Previously Katie 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.
Chairman of Henderson Group plc. Non-Executive Director of Wm Morrison Supermarkets plc. Chairman of the CDC Group. Senior Independent Director of Hiscox Ltd and Helical Bar plc. Trustee of the British Council and a member of the advisory boards of TheCityUK and of the Association of Corporate Treasurers.	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 (from June 2013); and of Big Society Capital Ltd and Scotland's Futures Forum. Member of (Scotland's) First Minister's Council of Economic Advisers and President of the Scottish Council for Development and Industry. Chairman of the Edinburgh International Book Festival and Edinburgh Festivals Forum.	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.	Member of the Court of Strathclyde University. Sits on the advisory boards of PwC and Macquarie, where he is also a consultant. Non-Executive Director of A Proctor Group.	Katie is currently Chief Executive, UK and Ireland Dixons Retail plc.

People and values

Values and responsibilities

Core values

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. These are:

- **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 wellbeing 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.

The team

The Board of Directors and the Management Board

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.

The Management Board is the group of Executive Directors and Managing Directors which is responsible for implementing strategy and policy as agreed by the Board of Directors and for the operational management of all of SSE's businesses. The members of the Board are listed on pages 62 and 63 and the Management Board are listed below.

A total of 60 senior managers report to members of the Management Board. Of these, 15 are women and 45 are men.

All employees

SSE employed 19,795 people on 31 March 2013, an increase of 306 on 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 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, 71% are men and 29% are women. The average age of SSE's employees is 40 years. In 2012/13, there was a 9.2% turnover of employees, compared with 8.2% in the previous year.

Developing and recruiting people

Building the SSE team

During 2012/13, SSE recruited externally a total of 2,200 people to jobs in England, Scotland, Wales, Northern Ireland and the Republic of Ireland. Of the people recruited during the year, 69% were men and 31% were women. 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

Management Board

Mark Mathieson
Managing Director, Networks

Mark Mathieson is Managing Director, Networks. He joined SSE in 1988 and is responsible for SSE's Electricity Networks, Lighting Services and Telecoms businesses.

Rob McDonald
Managing Director, Regulation and Strategy

Rob McDonald is Managing Director, Regulation and Strategy. He joined SSE in 1997 and is responsible for regulation, energy economics, legal services, new ventures and strategy.

Jim McPhillimy
Managing Director, Group Services

Jim McPhillimy is Managing Director, Group Services. He joined SSE in 1995 and is responsible for the Group's corporate services including safety, human resources, IT and procurement.

Will Morris
Managing Director, Retail

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

Martin Pibworth
Managing Director, Energy Portfolio Management

Martin Pibworth is Managing Director, Energy Portfolio Management. He joined SSE in 1998 and is responsible for the operation of SSE's Energy Portfolio Management business.

filled by well 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 Management Board 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 personal lives.

Diversity and inclusion
SSE has established 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 is being 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 2012/13, a coaching and mentoring programme was piloted, to specifically support those returning from maternity leave or women with young families. Those participating in the programme are identifying blockers which could hold them back from realising their ambition and are experiencing an increase in confidence in their own abilities.

In 2013/14, the diversity and inclusion agenda is focused on understanding the skills and employment challenges faced by SSE over the short, medium and long term, and identifying creative solutions to address these. This will include looking at alternative recruitment routes and markets to tap into, structure of working patterns and acceleration of high potential staff within the business. Another key focus for the year ahead will be 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 UK and Ireland in recent years. Overall around 11% of SSE employees are aged under 25 (around 2,100 in total).

SSE supports the Barnardo's Works programme, which aims to give long term unemployed young people the opportunity

Jim Smith
Managing Director, Renewables

Jim Smith is Managing Director, Renewables. He joined SSE in 1988 and is responsible for renewable energy development and construction.

Paul Smith
Managing Director, Generation

Paul Smith is Managing Director, Generation. He joined SSE in 1998 and is responsible for operational generation and gas storage businesses, which include coal, gas, hydro and all operational onshore and offshore wind.

Alan Young
Managing Director, Corporate Affairs

Alan Young is Managing Director, Corporate Affairs. He joined SSE in 2001 and is responsible for corporate communications, public affairs, community programmes and sustainable development policy.

John Morea
Attends SSE's Management Board Meetings

John Morea attends meetings of SSE's Management Board. He is the Chief Executive of SGN, which owns and operates gas distribution networks in Scotland and southern England and in which SSE has a 50% stake.

The Board of SGN

SSE is entitled to appoint four out of the eight Directors on SGN's Board (reflecting its 50% shareholding in SGN). The SSE employees who serve on the Board of SGN are: **Gregor Alexander,** Finance Director; **Natalie Flageul,** Director of Metering; **Rob McDonald,** Managing Director, Regulation and Strategy; and **Jim McPhillimy,** Managing Director, Group Services.

People and values (continued)

to gain comprehensive paid work opportunities, training and industry-related qualifications. Since it began in 2008, a total of over 130 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 and that can be used for their future benefit and for the benefit of SSE. This sustainable creation of jobs is key to SSE. Currently around 340 individuals are progressing through these programmes and the Management Board has agreed an increase in the numbers of participants in these programmes with the introduction of new training programmes planned for 2013/14.

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 future.

Performance management therefore focuses on the skills and competencies of employees, which are critical to SSE and to the energy sector in the UK, 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. 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 has three technical and general training centres, located in Berkshire, Rhondda Cynon Taf and Perthshire. 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 latest training facility, in Rhondda Cynon Taf, is focussed on delivering 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 who are equipped to run a range of technical, customer, business and management training interventions.

During 2012/13, SSE also invested £2.5m in externally provided training and development, taking the total to £7.8m over the last three years. This helped to deliver training to over 4,000 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 an MSc in Leadership and diploma and degree programmes in Business and Customer Management.

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 in place an actively-managed equal opportunities policy, in keeping with the spirit as well as the letter of the law in the UK 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, sexual orientation and gender reassignment. The Employment Equality (Age) Regulations 2006 have now been incorporated into the Equality Act 2010. There were no occasions during 2012/13 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, for example on the Bribery Act provisions.

Employee participation

Employee engagement
SSE recognises the value in attracting and retaining an engaged workforce and runs a Company wide annual externally facilitated survey of employee engagement. The results of the 2012 survey, which had a 90% response rate and was completed by almost 17,700 of the 19,684 employees invited to participate, showed that SSE has an above benchmark employee engagement score of 81%. SSE shares the details of the survey results with all employees and publishes 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. 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.

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 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 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 areas.

Employee benefits

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

- 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 48% and 38% respectively;
- provides opportunities for employees to be involved in its 'Community at Heart' employee volunteering scheme, which allows up to 20,000 days of employee time to be given to assist worthwhile projects within the communities that SSE serves. Volunteering activities in 2012/13 saw teams help create an innovative story-telling area for Inverness Primary School pupils, transform a woodland area near Poole into a sensory garden for nursery children and refurbish dated changing facilities for Newport High School's rugby club; and
- has encouraged all employees to become and remain customers by providing them with a 12% discount on its prices for electricity and gas supply, plus discounts on other SSE products and services such as energy efficiency installations, central heating and wiring maintenance and telephone and broadband services.

In 2012/13, SSE introduced a scheme whereby all eligible employees have the option to waive their employee discount. Instead, SSE will make an annual donation to a fuel poverty charity on their behalf.

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 has created a new initiative to help those in employment build up a pension through their workplace. This requires all employers to enrol their workers into a workplace pension scheme if they are not already in one. From 1 March 2013 SSE re-registered all eligible employees, into a competitive pension scheme. This amounted to around 2,100 employees.

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 and the external environment

Innovation, research and development

In an industry which has seen significant technological advancement in recent decades it is ever more important that, to maintain its position in a competitive market, SSE is engaged in innovation, research and development.

SSE's employees have extensive knowledge, expertise and know-how. New ideas, improvements to process and design and innovation have been key to SSE's successes in the past and are fundamental to the Company's ability to adapt to the challenges of the future.

SSE takes a systematic approach to implementing ideas that add value to the business. This is through its Licence to Innovate scheme, under which any employee can suggest ideas for improving the way SSE operates, consistent with its core values. People with ideas with significant potential are granted a Licence to Innovate, under which they can spend up to two months researching further their proposal. Subject to the outcome of the research, the idea may then be piloted prior to full implementation.

Over 8,400 Licences to Innovate were received from over 3,600 employees during 2012/13, of which 729 were implemented. A number of these Licences have helped create value of around £40m, building on the £70m of value created in the previous year. Others have contributed to improved performance in specific areas such as safety, service and sustainability.

SSE's focus on innovation complements its work in research and development. SSE is, fundamentally, an adopter of technology, choosing to focus on development, demonstration and deployment rather than on basic research. Against this background, SSE has two broad categories of research and development projects:

- thematic, addressing pre-selected knowledge gaps or development needs within SSE; and
- responsive, which arise when an opportunity (and associated funding) emerges that can add value to SSE.

There is a considerable amount of research and development-related work taking place in SSE. In total, during 2012/13, SSE incurred research expenditure with a value of £5.9m, compared to £11.2m in 2011/12.

A snapshot of activity SSE is involved in today shows that the total value of projects is in the order of £300m, spread over several years, depending on project lengths, and made up of funding from multiple partners and public bodies. SSE's contribution to this project portfolio is in the order of £20m to £25m, again spread over several years and including in-kind support. Therefore SSE stands to benefit from projects worth over ten times its own contribution.

Community development and charitable giving

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, south Wales and with over 19,500 employees throughout the UK and Ireland, SSE can make a positive impact to hundreds of local communities.

People and values (continued)

SSE's community development programme has three principal features:

- **Action** – employee volunteering, under which employees are given one day of leave to support community initiatives. During 2012/13, 6,268 volunteer days were given to 622 projects in the UK and Ireland. SSE teams supported a range of projects.
- **Investment** – financial support for community projects and initiatives in regions where renewable energy projects are developed. During 2012/13, SSE provided around £2m to community projects in Great Britain through these funds, supporting initiatives including local sports team kits; the purchase of essential mountain rescue equipment, including a new 4x4 vehicle; and helping renovate a disused cinema, reopening it to help drive visitors to the area and allowing the community to share in the profits.
- **Education** – support the work of schools by promoting safe and responsible use of energy. During 2012/13, SSE established a partnership with Keep Scotland Beautiful. Through the partnership, SSE has sponsored the Eco-Schools initiative which works with schools to change attitudes towards the environment. Furthermore, SSE is supporting the work of the Wood Family Trust in helping to support the Youth and Philanthropy Initiative which engages young people in creating social change.

SSE took the decision not to reopen its visitor facilities in Dorset and Perthshire. Following a detailed review, SSE concluded that, in order to bring the buildings up to modern standards, including the addition of suitable disabled access, a significant investment would be required.

SSE is now seeking to create more sustainable options for delivering a quality education programme to schools and visitors in the future. In particular, it is developing proposals for a brand new visitors' facility close to its hydro-electric power station in Pitlochry.

More information on SSE's community programmes can be found online at www.sse.com/community.

Suppliers and contractors

SSE depends upon an extended team of suppliers and contractors for the long-term success of its business. It aims to promote responsible practices within its supplier and contractor base. SSE's aims in this area include:

- improving contractors' safety performance; and
- reducing the CO_2 footprint.

In support of this, SSE has set up 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 86 of its main suppliers to sign up to the programme.

SSE successfully launched an Open4Business initiative which 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 backed by The Highland Council; Highlands and Islands Enterprise; Inverness Chamber of Commerce; trade bodies including The Scottish Council for Development and Industry (SCDI) and Energy North; and two key contractors, R J McLeod and BAM Nuttall.

More generally, SSE recognises that prompt payment is vital to the cash flow of suppliers, especially smaller businesses within the supply chain. In the UK, the Prompt Payment Code is designed to encourage and promote best practice between organisations and their suppliers and enable suppliers and customers to maintain effective relationships. SSE is committed to the objectives of the Code and to being a signatory to it.

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 (the Code) issued by the Financial Reporting Council in June 2010 (available on the FRC website). The Board confirms that the Company has, throughout the period under review, complied with all provisions set out in the Code.

Leadership

The role of the Board
The Board is collectively responsible to the Company's shareholders for the long term success of the Group and for its overall strategic direction, its values and its 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, including:

- Group strategy;
- annual budget;
- approval of interim and final financial statements;
- interim dividend payments and recommendation of final dividends;
- significant changes in accounting policy and practice;
- the Group's corporate governance and system of internal control;
- Board and Committee membership;
- major acquisitions, mergers, disposals and capital expenditure;
- changes in the capital and structure of the Group;
- significant changes in consumer prices;
- approval of key policies such as safety, health and environment; and
- regulatory matters including approval of Price Control Reviews proposed by Ofgem.

The Schedule of Reserved Matters is reviewed regularly by the Board and is published on the SSE website. It was most recently reviewed at the Board meeting in March 2013.

The Board also has overall responsibility for risk management, which is reported in detail on pages 74 to 79.

The roles of Chairman and Chief Executive
The roles of Chairman and Chief Executive are separate and clearly defined. They were most recently reviewed at the Board meeting in March 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. The Chairman meets with shareholders, analysts and other representatives of institutional investors, and participates in both the interim and annual results presentations and the AGM.

The Chairman regularly meets with managers and employees at various locations throughout the Group.

The Chief Executive
Ian Marchant is the Chief Executive, and leads the other Executive Directors, the Managing Directors and the management team in the day-to-day running and operations of the Group. He 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.

In discharging his responsibilities, the Chief Executive is advised and assisted by the Management Board and its Committees which oversee the operational and financial performance of, and issues facing, the Company. The Management Board and its role is explained on pages 64 and 65.

The role of the Executive Directors
The biographical details of the Executive Directors and details of their relevant experience, are set out on page 62.

The Executive Directors have specific executive responsibilities. As Board members their duties also extend to the whole of the Group's operations and activities and are not limited to their specific executive roles.

Executive Directors' other directorships
Executive Directors may be invited to become non-Executive Directors of other companies. Approval may be given to accept such invitations recognising the benefit to the individual and to the Company. Any such appointments are included in the biographical information set out on page 62 and any fees earned during the year are disclosed in the Remuneration report.

The role of 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.

Role of 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 carried out the Chairman's performance evaluation, together with the other non-Executive Directors and with input from the Executive Directors. He also undertook meetings with investors and management visits during the year. His other responsibilities include being available to shareholders

How the Board works (continued)

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.

The role of the Company Secretary

The Company Secretary reports to the Chairman on board governance matters. 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.

Board and Committee meetings

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 following day and is routinely followed by a meeting of one of the Board Committees such as the Remuneration Committee or the Safety, Health and Environment Advisory Committee.

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 usually last for around one hour and are used to update the Board on business performance and to brief the Board on any current issues. A Board decision or approval may be required at the update conference call if the matter cannot wait until the following scheduled Board meeting. In these circumstances the decision of the Board is recorded by written resolution or minute.

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. Members of the Management Board are invited to attend Board meetings on a rotational basis.

Attendance at Board meetings

The table below sets out the attendance of the Directors at the scheduled Board meetings during 2012/13. In addition to these and the other meetings described above, the Chairman and non-Executive Directors undertake site visits and other meetings related to the Company.

	Attended/scheduled
Lord Smith of Kelvin	6/6
Gregor Alexander	6/6
Thomas Thune Andersen	6/6
Jeremy Beeton	6/6
Katie Bickerstaffe	6/6
Richard Gillingwater	6/6
Ian Marchant	6/6
René Médori *	1/1
Alistair Phillips-Davies	6/6
Lady Rice	6/6

* René Médori retired from the Board on 25 June 2012.

Board Committees

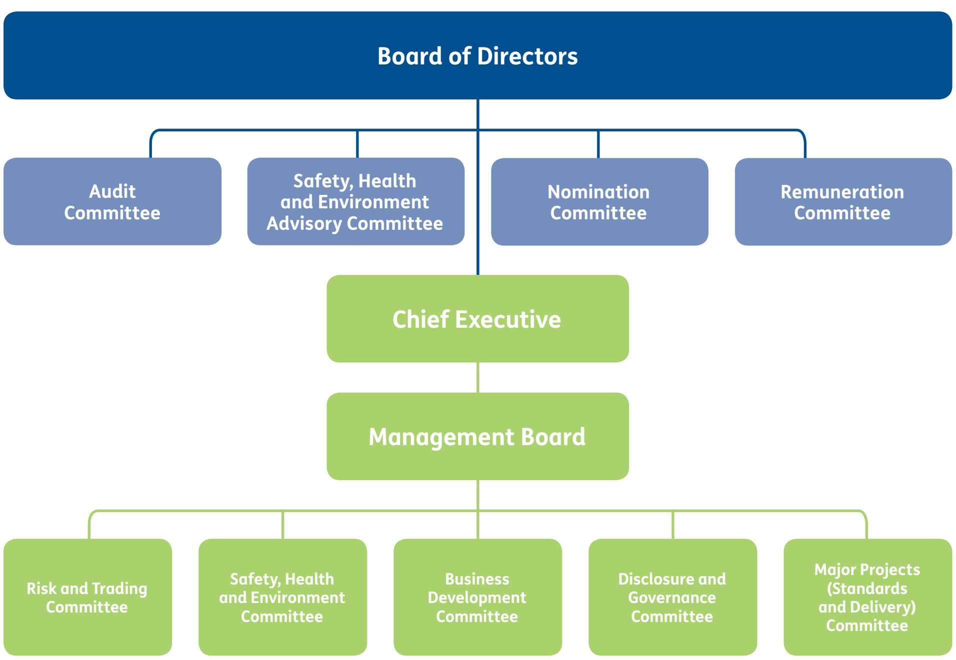
There are four standing committees of the Board. The terms of reference of these committees are set by the Board, are reviewed regularly, and are available on the SSE website. Membership is determined by the Board on the recommendation of the Nomination Committee and in consultation with each Committee chairman. Minutes of Board Committee meetings are included on the agenda of the next Board meeting for information.

The relationship between the Board, its Committees and the management of the Company is summarised in the chart below. The Board Committee reports are set out on pages 80 to 100.

The Management Board

The Management Board is responsible for implementing policy and strategy set by the Board and for the operational management of all SSE's businesses. The Management Board comprises three Executive Directors and eight Managing Directors representing the key areas of the business. The Chief Executive of SGN also attends meetings of the Management Board. The Management Board meets monthly and the minutes of the meeting are provided to the Board for information. There are five standing committees of the Management Board.

Governance structure



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, knowledge and experience is maintained.

On 25 June 2012 René Médori resigned from the Board. On 24 July 2012 Richard Gillingwater took over the role of Senior Independent Director from Lady Rice. Alistair Phillips-Davies, currently Deputy Chief Executive, will become Chief Executive on 1 July 2013 in succession to Ian Marchant who is stepping down after over 10 years in the role. Gregor Alexander, Finance Director will have an expanded role in supporting the Chief Executive in the running of the operations of the group.

Following these changes, the Board will comprise the Chairman, two Executive Directors and five independent non-Executive Directors. This gives the Board a good balance of independence and experience, ensuring that no one individual or group of individuals has undue influence over the Board's decision-making.

Succession planning
The Nomination Committee report sets out the process carried out during the year to verify the continuing independence of the non-Executive Directors and succession plans for the Board. The succession plans for management positions are reviewed each year by the Executive Directors 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 process also identifies the high potential individuals and their development needs.

Board balance
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.

Lady Rice has served on the Board since July 2003. The Board recognises and understands investor concerns over long-serving non-Executive Directors and has considered the length of service of Lady Rice, and continues to view her as independent in character and judgement. Lady Rice's service with the Company enables her to provide an effective and vigorous challenge to management because of her extensive knowledge of the Company's business. Her experience and expertise in Remuneration matters is important in this period of scrutiny of Executive remuneration, change in reporting requirements, and change in Executive roles within the Company. She is a valuable member of the Board, and contributes significantly to the Board's deliberations. The Board is currently undertaking a search for a new non-Executive Director as part of its refreshment programme, and Lady Rice intends to step down from the Board during 2014.

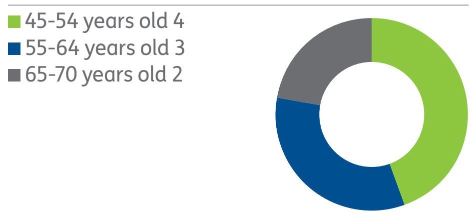
Boardroom diversity
The Davies Report, Women on Boards, published in March 2012 contained a review on the progress made by FTSE Company Boards in relation to gender diversity. The recommendation of the Davies Report is that FTSE 100 Boards should aim for a minimum of 25% female representation by 2015. Female representation on the SSE board is currently 22% and when Ian Marchant steps down from the Board on 30 June 2013 female representation on the Board will be 25%. The Company is committed to the approach on diversity set out in the Davies Review, and will continue to take diversity matters into account for future Board appointments whilst appointing on merit. The Board's statement on diversity is set out on the Company's website, and is as follows:

'The Board comprises three Executive Directors and five non-Executive Directors plus the Chairman. Female representation is 22%. The Davies Review into Women on Boards recommended FTSE 100 Boards should aim for a minimum of 25% of female representation by 2015. SSE endorses this recommendation and we expect to be at least broadly compliant with it. We will continue to appoint Executive and non-Executive Directors to ensure diversity of background and on the basis of their skills and experience.'

Terms of Appointment of the non-Executive Directors
The non-Executive Directors are appointed for specified terms subject to annual re-election. Any term beyond six years for a non-Executive Director is subject to particularly rigorous review and takes into account the need for progressive refreshing of the Board.

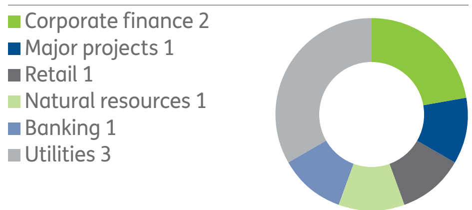
Director induction, training and development
Meetings, briefings and site visits were arranged for the non-Executive Directors during the year. The briefings covered subjects such as operational activities and major projects, and the visits included major project sites, power stations, customer service centres, and gas storage facilities.

Board diversity, by age



Board diversity, by gender

Board diversity, by sector



Board diversity, by nationality

How the Board works (continued)

On joining the Board, 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.

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 require training.

The Company operates performance coaching for some of the Executive Directors and for other members of senior management which is designed to develop and enhance individual and Company performance.

Information and briefings

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 Management Board. 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 Executive Directors and senior management on the full range of business areas. Specialist briefings and presentations were given on areas such as corporate governance, regulatory development, risk, strategy, energy trading, health and safety, major projects, and SSE's major business activities generally. Separate more informal meetings were also held between individual Directors and senior management.

Independent professional advice

There is an agreed procedure for Directors to be able 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 required to be 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, and the Board and Committee evaluation process this year was facilitated by PwC. The evaluation took the form of individual meetings with each of the Directors and members of the Management Board. The outcome of the evaluation process was considered at the Board meeting held in January 2013. The outcome was positive, however there were recommendations for further consideration. These included increasing the profile of the Board within SSE, more training and briefings for the non-Executive Directors in certain areas, specific development plans for each Board member, and reviewing the process for identifying significant future adverse events.

PwC provide ad hoc professional services to the SSE Group, such as tax, systems and general financial consultancy. Given the level and nature of work carried out, there was not considered to be any potential conflict of interest in carrying out the externally facilitated Board evaluation.

The Directors also participated in detailed reviews of individual performance which were carried out in separate meetings with 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

The Board has agreed that each Director shall be subject to annual re-election and as such all Directors (other than Ian Marchant who is stepping down from the Board on 30 June 2013) will stand for re-election at the 2013 AGM. Biographical details for all the Directors are set out on pages 62 and 63.

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.

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 2013. 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.

Accountability

Financial and business reporting

In its reporting to shareholders, the Board recognises its responsibility to present a balanced and understandable assessment of the group's position and prospects. This responsibility covers the Annual Report and Accounts and extends to interim and other price sensitive public announcements and reports to regulators as well as to information required to be presented by statutory requirements. The Business Review on pages 1 to 102 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. This 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 82 and 83.

Relations with shareholders and major stakeholders

Disclosure and Governance Committee

The Disclosure and Governance Committee is a Committee of the Management Board. 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 as well as maintaining high standards of corporate governance. The Committee assists in developing the investor relations strategy and reviews and implements governance developments. The Committee comprises: the Chief Executive; Finance Director; Company Secretary; Managing Director, Corporate Affairs; Head of Investor Relations and Analysis; 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, based on a mutual understanding of objectives. 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 Head 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 2012 and November 2012. The Chairman meets major institutional shareholders and institutional shareholder bodies from time to time to gain a first-hand understanding of key issues.

Richard Gillingwater, 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. Together with the Chairman he had separate meetings with some institutional shareholders. A range of topics were covered at the shareholder meetings including the plans for continued refreshment of the Board.

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 UK 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 ensure that there is in place a framework to enable it to invest in secure and lower-carbon supplies of energy in the UK and Ireland. In pursuing public policy goals, SSE always aims to deploy evidence and arguments that are consistent with its purpose, values and strategy as outlined in this Report and to do so in a way that is appropriate and responsible.

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 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. 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 2013

The 24th AGM of the Company will be held on 25 July 2013 at 12 noon at the Perth Concert Hall, Mill Street, Perth PH1 5HZ. The Notice of Annual General Meeting 2013, 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.

Risk management

All business involves risk; as such risk management is regarded as essential in everything SSE does.

The Board of SSE acknowledges its clear responsibility for risk management. SSE understands that any sustainable and successful business requires clear and effective risk management in all aspects of its activities.

Risk management is first and foremost an integral part of how managers run their activities every day. Therefore SSE focuses on looking at each business area individually and putting in place a framework that works effectively for that area. SSE recognises that this is an ongoing process as it needs to react to changes in the business environment by constantly revisiting its internal processes. This report includes a summary of the developments in SSE's approach to risk management during 2012/13.

The need for good risk governance is critical to ensure the overall business model and operation is effective in practice. Risk management in SSE is characterised by: the clarity of its financial goal; its strategy and business model which help to limit the value at risk; the culture and limited appetite for risk; and its work on risk identification, evaluation and cost effective management.

Limited appetite for risk

SSE's Teamwork value, combined with other factors such as the clear financial goal of sustained real growth in the dividend, means SSE has adopted a limited appetite for, and tolerance of, risk. The appetite varies between businesses. This means that SSE's approach in respect of economically-regulated businesses, which in themselves are lower risk, is more risk averse than is the case in other market-based activities. In these areas, such as electricity generation, SSE might consider taking on additional risk where the risk is very well understood and can be mitigated cost effectively where potential returns are clearly attractive.

Some examples of the way in which appetite/tolerance for risk are limited include:

- energy portfolio management – levels of exposure are strictly monitored through risk models and clear trading and reporting limits;
- major project construction – the Company has in place a detailed governance and risk process for all its large capital projects;
- acquisitions – the Company has a selective and disciplined approach to acquisitions, and sets demanding hurdle rates for expected returns;
- funding – in treasury and funding matters, there is a clear and prudent approach to liquidity levels, and a mix of maturities and currencies; and

- insurance – where available on acceptable terms, insurance policies have been placed maintaining an appropriate balance with self insurance. Additionally, the Insurance department actively seeks to identify new or emerging risks where insurance mitigation may be available.

Risk identification, evaluation, and monitoring

Risks are identified, evaluated and monitored by the relevant business units within SSE, with an overview provided by the Group Audit department for the Audit Committee meetings. Key strategic risks are identified and evaluated by senior management on a regular basis. In addition, the Board reviews all aspects of risk management and internal control twice a year, in March and September.

At its meeting in March 2013, the Board held a specific review of the developments within the Company during the year to ensure best practice risk management is in place; and it reviewed the management sponsoring and reporting arrangements to ensure proper controls are in place. The Board also undertook a review of the Company's principal risks and agreed the list set out in pages 77 to 79.

There are three additional risks that are not listed among the principal risks but which could potentially affect a large number of areas of activity: geopolitical developments; the weather; and reputation:

- Geopolitical developments could have an impact on a number of SSE's activities, such as energy portfolio management or the construction of large capital projects through supply chain impacts. In view of this, SSE's balanced and diverse business model, which is designed amongst other things to avoid dependence on any single technology or fuel, is a key means of seeking to ensure the impact of developments over which SSE can have no control is, in practice, limited;
- The weather could have an impact on the production and consumption of energy in the Electricity Generation and Energy Supply businesses. The extent of this risk is contained by the diversity within SSE's generation portfolio, the further diversity within its renewable energy portfolio, and the balance between its generation and supply activities. The weather could also have an impact on the operation of energy networks, as was exemplified on Arran and Kintyre in March 2013, and management of this risk is factored in to the operational planning of these networks; and
- SSE believes that the most effective way to manage risks to its reputation is to manage effectively its principal Group risks. Corporate reputation is very important for a long-term business such as SSE, but seeking to manage 'reputation' rather than the substance of the issues, which determine a company's reputation, could lead to short-term behaviours or actions which have negative long-term implications. For this reason, SSE does not specify 'reputation' as a risk to be managed. Nevertheless, the need to have regard to the Company's long-term reputation is now explicitly recognised in the definition of the corporate arrogance or hubris principal risk.

During the year, the Group Audit department carried out over 60 separate audits of functions, activities and issues managed by SSE, providing senior management with a robust internal control assurance. Each audit report included agreed management actions to improve the overall management of risk. Group Audit reviews complement the work done by business-specific compliance functions in areas such as Safety, Energy Portfolio Management, Energy Efficiency, Energy Supply, IT and Customer Service.

The effectiveness of the business-specific compliance functions, and the arrangements around them, is kept under review. In line with that, the compliance function relating to Energy Supply has undergone, and continues to undergo, reform in the light of the breaches by SSE of the new Energy Supply licence conditions introduced in 2009 that were highlighted by Ofgem in April 2013.

Review of SSE risk management during the year

As part of the SSE approach to risk management, the Company continues to review and strengthen its risk and internal control processes. Examples of this approach during 2012/13 are:

- All the top 20 risks were reviewed in detail by the Management Board, and at the Board meeting in March 2013. Each principal risk has an assigned risk owner who is a member of the Management Board. The risk owner is responsible for ensuring that key controls for the risk are in place and operating effectively.
- As stated above, the corporate arrogance or hubris risk definition was adapted to include a specific reference to the Company's long-term reputation.
- The credit management risk was replaced with energy affordability, in recognition of the fact economic, social and energy market and policy conditions could make it difficult for households and businesses to pay the cost of electricity and gas, which could have significant implications for SSE.
- The Group Audit department facilitated a review of the existing risk management framework. The output from this review led to the business risk and internal control procedures and guidelines being updated to reflect best practice.
- Risk presentations were given at leadership conferences within the Company to communicate the need for, and required approach to, risk management in SSE.
- All business unit risk registers have been standardised to ensure that evaluation of risk is consistent across SSE and aligned with the top 20 principal risks.
- Risk awareness training was given to all Management Board members and their first line of reports.
- Cyber/information security risk was addressed with a significant investment programme getting under way after being approved in 2012.
- Business continuity planning exercises were carried out.

In April and May 2013, the Management Board and the Board gave extensive consideration to the penalty notice issued to SSE by Ofgem for breaches of licence conditions in its Energy Supply business. They concluded that the breaches arose from a combination of factors, including weaknesses in the operational model, under-estimation of changes in the external environment and insufficiently robust arrangements to ensure compliance. The Management Board and the Board concluded that the steps taken since 2011 to address these issues had been appropriate and agreed additional steps to strengthen further the operations of the Energy Supply business.

Internal control

Risk management depends on a strong system of internal control, which is

Risk management (continued)

fundamental to achieving SSE's strategic objectives. The Board is responsible for the overall system of internal control and risk management, and it either directly, or through its committees, sets performance targets and policies for the management of key risks facing SSE. The system of internal control is designed to manage, rather than eliminate, risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The internal control assurance process below provides an overview of the key committees and related assurance activities currently in place within the Group.

All employees are expected to adhere to the Company's signature risk practices in addition to the SSE SET of values – Safety, Service, Efficiency, Sustainability, Excellence and Teamwork – which are embedded in the culture. The signature risk practices adopted within SSE are outlined as:

- Consistently assess risks using the established evaluation criteria;
- Apply a standard approach to risk control sheets;
- Rigorously evaluate risks on a regular basis using detailed review; and
- Ensure submissions for key decisions include a risk assessment.

Their consistent application is central to all activities in SSE. The Teamwork value, the emphasis on people's knowledge rather than status, and the maintenance of a very experienced team, complemented by the recruitment of additional specialist skills where necessary, are all designed to ensure that the risks associated with operations are fully understood and actively managed. Reporting within the Company is structured so that key issues are escalated through the management team, ultimately to the Board if appropriate.

The key elements of SSE's internal control and financial reporting processes are summarised below:

The Board:

- approves the policies, procedures and framework for the maintenance of a sound and effective system of internal control ensuring:
  - the provision of quality internal reporting to the Audit Committee and other Board Committees by management and Group Audit;
  - the provision of quality reporting by the external Auditors to the Audit Committee;
  - compliance with the Turnbull Guidance on Internal Control; and
  - compliance with statutory and regulatory obligations;
- reviews the significant key risks identified by each business unit as well as the mitigating action against those risks following review by the Audit Committee;
- determines the nature and extent of the significant risks it is willing to take in achieving its strategic objectives;
- approves and regularly reviews and updates SSE's strategy and business development;
- reviews the financial reporting process and performance through: annual operating and capital expenditure budgets; monthly reviews against actual results; analysis of variances; and evaluation of key performance indicators;
- receives regular reports from the Chief Executive, the Finance Director and the Management Board; and
- undertakes an annual evaluation of the Board, its Committees and individual Directors.

The Management Board:

- monitors operational and financial performance of SSE;
- develops and implements: SSE strategy; operational plans; policies; procedures; and budgets;
- assesses and controls all key strategic SSE risks;
- monitors competitive forces in each area of operation;
- receives and reviews reports from its committees, namely: the Risk and Trading Committee; the Safety, Health, and Environment Committee; the Major Projects (Standards and Delivery) Committee; the Disclosure and Governance Committee; and the Business Development Committee; and
- receives and reviews regular presentations and reports from all the main Group businesses.

Role of committees

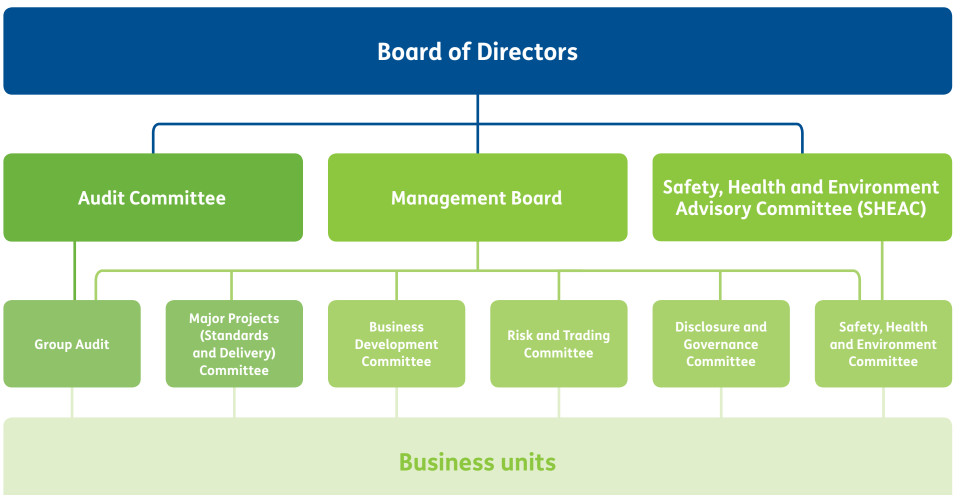
The role of the Audit Committee, and the Safety, Health and Environment Advisory Committee in the Group's system of internal control and risk management is set out in the individual committee reports.

The Risk and Trading Committee reports to the Management Board. The specific remit of the Committee is to support the Company's risk management responsibilities by reviewing the strategic, market, credit, operational and liquidity risks and exposures arising from SSE's energy portfolio management, generation and treasury operations.

The Group Audit department:

- works with the business units to develop and improve risk-management tools and processes in their business operations;
- ensures that business risks are identified, managed and regularly reviewed and that the key risks are reported to the Audit Committee and Board;

Internal control assurance process



SSE SET of values to manage risk

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 wellbeing 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.

- ensures that the business units carry out regular reviews on their internal controls relating to the key risks;
- monitors the effectiveness of SSE's system of internal control through audit reviews, exercises and reports and, where appropriate, action plans to senior managers, Directors, the Audit Committee and external Auditors;
- monitors adherence to SSE's key policies and principles;
- provides the Audit Committee and Board with objective assurance on SSE's control environment;
- undertakes specialist risk based assurance exercises as required; and
- provides risk training to senior management.

The Board's review of internal control

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 Code for the period from 1 April 2012 to 21 May 2013 (being the last practical day prior to the printing of this Annual Report). The Board believes that appropriate action has been taken to address significant failings in SSE's past domestic energy sales activities (see page 75). The Board confirms that no other 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.

Principal risks and their management

Risk definition	Key controls overview	Developments during the year
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.	Safety is the first of SSE's core values. The Safety, Health and Environment Committee of the Management Board is responsible for ensuring SSE's Safety, Health and Environment policy is adhered to.	Awareness of safety, health and environment risk across SSE has been enhanced. A behavioural safety programme is being embedded company-wide and leading performance indicators are increasingly used to target improvements. The Company's focus areas are behavioural safety, contractor safety, and high hazard risks.
Regulatory change An adverse change to the current regulatory framework in all parts of SSE could have a significant effect on its business.	An experienced Regulation Department manages SSE's relationships and interface with Ofgem, Ofwat, Ofcom and other regulators. SSE assesses and anticipates regulatory issues in its decision-making and operations.	During 2012/13, the GB energy regulator Ofgem made decisions on the Retail Market Review and price controls for transmission and gas distribution networks. Following active participation in the regulatory process, SSE has begun implementing these changes.
Legislative change Risks to SSE from unfavourable legislative developments at EU level and in the jurisdictions in which it operates.	SSE has Policy and Public Affairs specialists based in Brussels, London, Edinburgh, Cardiff, Belfast and Dublin who engage openly and constructively with legislators, officials and other policy-makers on all aspects of energy and related environment policy.	The UK government is legislating for a major process of electricity market reform in GB, significant details of which have yet to be confirmed. This means there is significant uncertainty about the future shape of the electricity market in GB. Uncertainty also arises from the fact that a referendum on whether Scotland should become an independent country will take place in September 2014; a 'Yes' vote would extend that uncertainty until the details of Scotland's post-independence relationship with the rest of the United Kingdom are determined.

Risk management (continued)

Principal risks and their management (continued)

Risk definition	Key controls overview	Developments during the year
Energy portfolio management Failure to identify and effectively manage the physical and financial exposures that result from SSE's operational involvement in Generation, Fuel Procurement, Wholesale Trading and Retail Supply.	The Board approves levels of exposure which are strictly monitored through sophisticated reporting and clear reporting limits. The Management Board has a Risk and Trading Committee, with members drawn from a number of key functions across SSE.	The process of the UK energy prices becoming increasingly integrated into the wider global energy market is continuing and as a result there is an increasing focus on macro-economic and geopolitical issues in the ongoing management of the portfolio.
Asset and plant management Loss or extended disruption to key Group Infrastructure caused by failure/loss of containment of key plant.	SSE's Engineering Centre oversees a process of asset life management and risk-based management. Regular testing, review and updating of major incident handling processes takes place. Capital spending and maintenance programmes are maintained and the Risk and Trading Committee provides oversight.	SSE has always emphasised the need for flexibility in its generation assets to ensure that changes in supply of and demand for electricity can be managed. In 2012/13 SSE announced the outcome of the review of its generation fleet to reflect the future sustainability of the fleet in the market conditions.
Networks management Loss or extended disruption to key Group network infrastructure.	Substantial refurbishment and upgrade programmes are designed to prevent network failures. There is a rigorous post-event analysis following each major network event such as storms. Business continuity plans supported by contingency sites and regular testing are well established.	The severe snowstorm in west Scotland in March 2013 represented a big challenge to electricity network resilience. The business continuity plan was deployed successfully, with one of the highlights being the highly successful enhanced plans for customer support and communications that had been developed following a similar event in the winter of 2011/12.
Cyber/information security Unauthorised access or disclosure of data either within the SSE Group or between SSE and external environments and markets.	SSE has in place an actively managed Information Security programme across all of its activities to ensure resilient business operations.	Cyber security has become an increasing focus nationally at Government levels, and SSE has significantly increased its investment in a specific IT Security Programme.
Supply chain Delivery of large-scale investment programme is impacted through failure to establish, contract and maintain adequate supply chains and strategic alliances.	Well-established procurement teams ensure varying supply chains are identified and counterparty exposures monitored.	A supplier relationship model is in place to build relationships with strategic suppliers and put SSE in the position of being a key customer. In the high risk categories long-term contracts are implemented. This is designed to secure supply chains and ensure value for money.
Treasury management Failure to identify and effectively manage treasury and tax exposures and to meet the organisation's funding requirements and obligations.	The Risk and Trading Committee oversees any major changes to treasury policy or objectives. Regular reporting of treasury activity is made to the Audit Committee and Board. Strong internal controls are maintained and independent reviews take place.	SSE continued its approach of maintaining diversity in its funding sources with the issuance of hybrid capital bonds, denominated in Euros and US Dollars in September 2012. In addition, new banking facilities, totalling £650m were signed in March 2013 and will be drawn later in the financial year.
Energy affordability Economic, social and energy market and policy conditions which make it difficult for households and businesses to pay the cost of electricity and gas.	Energy affordability is impacted by issues in the sourcing, production, distribution and supply of electricity and gas. In addition to assessing regularly the likely prevailing economic environment in the years ahead, Managing Directors and their management teams are focused on keeping to a minimum the costs associated with each part of the electricity and gas 'chains'.	In January 2013, the UK Department of Energy and Climate Change published *Policy impacts on prices and bills*, an assessment of how costs to consumers are affected by changes in energy and climate change policy. It acknowledged that energy and climate change policies impact households and businesses through changes in prices for goods and services and changing patterns of consumption, in particular for energy.
Pension liabilities Liabilities increase due to market conditions or demographic changes and investments under perform.	There are periodic formal valuations of pension schemes and contributions supported by continual monitoring of scheme investments and valuations. Performance of investment managers are reviewed regularly by the pension trustees.	Continued improvements of member longevity will likely add to the liabilities of both the Scottish Hydro-Electric and Southern Electric Pension Schemes. Uncertainty of markets in Eurozone could detract from investment performance directly impacting scheme funding levels.
Sector developments Failure to identify/tardiness in identifying step changes in the industry sectors and reacting appropriately.	There is a strong external focus to ensure developments are anticipated and, where appropriate, addressed. Senior managers have responsibility for areas such as policy and research, strategy and business development. Participation in these areas is broad, to ensure all relevant sector developments are addressed.	There are four significant developments which will influence the sector for the long term: electricity market reform; the Retail Market Review and the RIIO model for economic regulation in Great Britain; and the process of harmonisation affecting energy markets on the island of Ireland. SSE continues to input to policy and regulatory developments in each of these areas.

Risk definition	Key controls overview	Developments during the year
Large capital projects management Failure to deliver quality projects on time and on budget.	The deployment and updating of SSE's Major Projects Governance Framework is designed to ensure projects are governed, developed, approved and executed in an effective manner.	Management Board Major Projects (Standards and Delivery) Committee has completed a full year of operation. Its Terms of Reference have been updated to reflect its role in overall portfolio management.
Transformation projects management Failure to deliver quality projects on time and on budget to implement required upgrades to customer systems in relation to Smart Metering and the Energy Supply business requirements.	SSE works with experienced advisers and suppliers and implements a strong governance and assurance framework for all aspects of major change programmes. The approach increasingly reflects the governance framework originally developed for large capital projects. The Management Board Major Projects (Standards and Delivery) Committee reviews all major projects.	The remit of SSE's Project Services team has been extended to include centralised expertise and support for all of SSE's significant projects, including large transformational projects in Retail.
Compliance management Any significant or multiple compliance failures could result in an adverse effect on SSE, including the possibility of financial penalties being levied.	Wide-ranging consultation and review of all relevant regulatory, legal and accounting frameworks takes place. Regulation, Compliance and Group Audit teams develop and monitor compliance processes.	In March 2013, the GB energy regulator proposed changes to its enforcement regime 'to deliver credible deterrence and meaningful consequences for businesses that fail consumers and don't comply'. This is intended to complement its Retail Market Review which includes new enforceable standards of conduct. SSE experienced the consequences of shortcomings in compliance management when it received and accepted in April 2013 a £10.5m penalty for past breaches of Energy Supply licence conditions.
Crisis management Inadequate response to a major emergency/contingency event. If something goes wrong, how well can SSE deal with it?	The corporate Emergency Planning and Response standard is reviewed and issued annually. Regular test exercises are undertaken. A member of the Management Board 'champions' crisis management.	SSE reviewed and refreshed its approach to Business Continuity Planning and will progressively update existing plans. Exercises have been undertaken to practise SSE's response capabilities at all levels in the Company.
Management of joint ventures Failure to effectively manage SSE Joint Venture assets results in reputational damage or destruction in value.	Joint ventures are in themselves a means of managing risk, but SSE's interests in them also require careful management and oversight. This is provided through clear governance arrangements, senior manager representation on Boards, and effective reporting within SSE – to the Management Board and the Board as required.	SSE continues to enter into joint venture arrangements, for large projects including renewable generation, gas storage, thermal generation and oil and gas projects.
Succession planning Not having cover for the Board and the Management Board and their direct reports.	The Nomination Committee of the Board is responsible for reviewing the leadership needs of senior management in general and succession plans for the Executive Directors in particular. The detailed report for this Committee is on pages 80 and 81.	A regular management review of all succession plans for the Group businesses was held during the year for senior roles, and to identify future potential talent within the Group. The successor to the Chief Executive was identified from within SSE. An external appointment to the newly created position of Managing Director, Retail was made during the year.
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.	An integrated Group Services function is in place to ensure optimum resource management, including Safety, HR, IT, Facilities Management and Procurement.	SSE seeks to strike the balance between cost efficiency and investment in adequate resources for the future. A particular focus was IT, where the Director of IT has led the implementation of plans to improve operational performance, service delivery and project delivery.
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.	There is Board oversight of this, and practical application throughout SSE, including through the performance appraisal system, of the 'SSE SET' of core values: Safety, Service, Efficiency, Sustainability, Excellence and Teamwork.	In a continuing environment of austerity in the UK and Ireland, higher unit prices for energy and increasing expectations on the part of customers and stakeholders of large corporations, SSE has recognised the importance of safeguarding its reputation by including an explicit reference to it in the definition of this principal risk.

Nomination Committee Report

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.

Lord Smith of Kelvin

Members and meetings

Membership	Attended/scheduled
Lord Smith of Kelvin	4/4
Thomas Thune Andersen	4/4
Jeremy Beeton	4/4
Katie Bickerstaffe	4/4
Richard Gillingwater	4/4
Ian Marchant	4/4
Lady Rice	4/4

I chair the Nomination Committee. The membership also includes all of the non-Executive Directors and the Chief Executive. The Company Secretary is Secretary to the Nomination Committee.

As Company Chairman, I would not chair the meeting if it was dealing with any matter concerning the chairmanship of the Board. In this case the meeting would be chaired by a non-Executive Director elected by the remaining members. Members of the Committee do not take part in discussions when their own performance or when their continued appointment is being considered.

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.

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.

Activities in 2012/13

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 Richard Gillingwater as a non-Executive Director for a further three year period;
- the independence of Lady Rice as a member and Chairman of the Remuneration Committee given her length of service;
- succession planning of the Board including the process for identifying the criteria for a new Chief Executive and the recommendation for the appointment of Alistair Phillips-Davies to that role; and
- the instruction of a search for a new non-Executive Director as part of the ongoing review of succession and refreshment of the Board.

The recommendation to reappoint Richard Gillingwater was following a rigorous review of his continuing independence.

Lady Rice's continuing independence was considered carefully by the Committee taking account of the fact she has been on the Board since 2003. The Committee's clear view was that she remained

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.

independent, she provides robust challenge, and her knowledge and experience as a Remuneration Committee member is invaluable in a period of change of Executive Directors' roles and responsibilities, and a period of significant developments and in the governance and reporting requirements of remuneration matters. She has agreed to remain on the Board for one more year and intends to stand down in 2014.

The Committee has undertaken a search for a new non-Executive Director as part of the Board refreshment process. The specification for the proposed recruitment of a new non-Executive Director set out certain essential characteristics. The Board's policy on diversity and progress on implementation is explained in detail on page 71 of the Corporate Governance report. Odgers Berndtson were appointed by the Committee to carry out the search for a new non-Executive Director. The Committee was satisfied that Odgers Berndtson had no other connections with the Company which would give rise to a conflict of interest.

The process for Chief Executive succession involved the appointment of Sam Allen Associates to carry out an analysis of the role, development of a profile, and a benchmarking review of potential candidates, including external candidates. The Committee was satisfied that Sam Allen Associates had no other connection with the Company that would give rise to a conflict of interest.

In considering who should succeed Ian Marchant, the Board set clear criteria. SSE's Chief Executive should have:

- detailed understanding of the energy markets in Great Britain and Ireland and of the increasingly global context in which they operate;
- clear ability to learn from experience and to deliver change where needed to meet the requirements of SSE's stakeholders, especially customers;
- successful experience of carrying out a leadership role in a FTSE 100 company and an appreciation of the accountability that goes with leading a major UK-listed company; and
- commitment to the dividend as the best means of remunerating shareholders for their investment.

It was the unanimous recommendation of the Committee that Alistair Phillips-Davies be appointed as Chief Executive in succession to Ian Marchant. In arriving at this recommendation, the Committee considered the above criteria, the scale and profile of the post, and the fit with the culture and leadership style of SSE.

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

Audit Committee Report

The Audit Committee assists the Board in the effective discharge of its responsibilities for financial reporting and internal control, together with the procedures for the identification, assessment and reporting of risks.

Richard Gillingwater

Members and meetings

Membership	Attended/scheduled
Richard Gillingwater	3/3
Thomas Thune Andersen	3/3
Jeremy Beeton	3/3
René Médori *	1/1

* René Médori retired from the Committee on 25 June 2012.

I was pleased to take over from René Médori and become Chairman of the Audit Committee in June 2012.

The Board confirms that each member of the Committee is independent and that the membership meets the requirements of the Code. The Board also confirms that I have recent and relevant financial experience as required by the Code. Each of the other non-Executive Directors on the Committee has, through their other business activities, significant experience in financial matters (see biographies on pages 62 and 63).

The Assistant Company Secretary is Secretary to the Audit Committee. The Finance Director, Head of Group Audit and the external Auditors attend and report at Audit Committee meetings. The Company Chairman regularly attends Audit Committee meetings. Senior management including the Director of Treasury and Operational Finance, Group Financial Controller and Managing Director, Energy Portfolio Management, are regularly invited to present reports.

During the year, the Committee met privately with the external Auditors, and separately with the Head of Group Audit. As Audit Committee Chairman, I report the outcome of Committee meetings to the Board.

Role

The Audit Committee assists the Board in the effective discharge of its responsibilities for financial reporting and internal control, together with the procedures for the identification, assessment and reporting of risks. The Committee has unrestricted access to Company documents and information as well as to management and the external Auditors. The Audit Committee's remit, which is set out in its terms of reference includes responsibility for:

- reviewing the Company's financial reports and formal announcements to ensure they represent an accurate, clear and balanced assessment of the Company's position and prospects;
- monitoring and reviewing the effectiveness of the Company's accounting systems, internal control policies and procedures and risk management systems;
- assessing and reviewing the effectiveness of the Company's internal audit function;
- monitoring and reviewing the objectivity and independence of the external Auditors taking into consideration the scope of their work and fees paid for both audit and non-audit services;
- monitoring and reviewing the significant risks identified by each business unit as well as the mitigating action against those risks;
- monitoring and reviewing the arrangements by which employees can in confidence raise concerns about any possible improprieties in financial and other matters; and
- reviewing the significant financial reporting issues and judgements.

Activities in 2012/13

The Audit Committee had three meetings in the year. The key activities during the year are set out below:

Financial statements

The Committee reviewed:

- the financial statements in the 2012 Annual Report and accounts and the interim results. As part of this review the Committee received from the external Auditors reports on their audit of the Annual Report and accounts and their review of the interim results;
- the impairment of assets and related accounting matters; and
- the annual and interim results announcements.

Control environment and risk management

The Committee reviewed:

- six-monthly reports by Group Audit setting out progress against the Internal Audit Plan, the results of key audits and other significant findings, the adequacy of management's response and the timeliness of resolution of actions;

As part of the Board evaluation process, the operation of the Audit Committee was evaluated, and it was confirmed that the Committee was operating effectively.

- the Internal Audit Plan for the year ending 31 March 2014 and agreed it;
- six-monthly reports from Treasury setting out strategy, market developments, any significant risks and the controls in place to mitigate these risks;
- six-monthly reports from Energy Portfolio Management setting out strategy, market and financial regulation developments, any significant risks and the controls in place to mitigate these risks;
- six-monthly reviews from Group Audit on the Internal Control Risk Assessment setting out the Group Risk Map and Residual Risk Map;
- reports on unbilled energy debtors, aged energy debt and bad energy debt;
- a post-investment appraisal report on a Networks project;
- reports under the Group Whistleblowing Policy and reviewed the implementation of this policy; and
- a report on governance developments relating to audit committees.

External audit process
The Committee reviewed:

- the effectiveness of the overall audit process for 2011/12, meeting with the external Auditors and management separately to identify any areas of concern in the preparation of the financial statements;
- the independence and objectivity of the external Auditors and agreed their terms of appointment, areas of responsibility, associated duties and scope of the audit as set out in the engagement letter for the forthcoming year;
- and agreed the audit fees, fees for non-recurring work and the regulatory reporting fee;
- internal control and key accounting and audit issues; and
- recommendations made by the external Auditors and the adequacy of management's response.

Independence of Auditors
The Committee reviewed:

- changes in the Audit team; and
- the extent of non-audit services provided by the Auditors in accordance with the established policy where:
  - a competitive tender process is required where non-audit fees exceed a threshold of £30,000 for general advice and £75,000 for tax-related advice;
  - the Committee would be satisfied that the work was best handled by the external Auditors because of their knowledge of the Group; and
  - the Committee must be satisfied that the objectivity and independence of the external Auditors would not be affected by the work.

The Audit Committee continued to monitor the level of non-audit work undertaken by the Auditors. The non-audit work awarded during the year included:

- taxation advice including general consultancy, acquisitions and disposals; and
- advice relating to landfill tax compliances.

Full disclosure of the audit and non-audit fees paid during the year is made in Note 5 to the Financial Statements.

External Auditor

Following a competitive tender, KPMG Audit Plc has been the external Auditor of the enlarged Group since 1999. Under its terms of reference, the Audit Committee has responsibility for recommending to the Board the appointment, re-appointment and removal of the external Auditors.

The Audit Committee considers that the relationship with the Auditors is working well and remains satisfied with their effectiveness, expertise and independence. Accordingly, it has not considered it necessary to require the firm to re-tender for the audit work. There are no contractual obligations restricting the Company's choice of external Auditor. The external Auditors are required to rotate the audit partners responsible for the Group audit every five years and the current lead partner has been in place for four years.

KPMG Audit Plc has informed the company that they have initiated a process to streamline their two registered audit firms (KPMG Audit Plc and KPMG LLP). As such, KPMG Audit Plc have notified the company that they are not seeking re-appointment. Consequently, the Audit Committee has recommended, and the Board has approved, the resolutions to appoint KPMG LLP as Auditor of the Company and its subsidiaries, and to authorise the Directors to fix their remuneration, which will be proposed at the forthcoming AGM.

Evaluation

As part of the Board evaluation process, the operation of the Audit Committee was evaluated, and it was confirmed that the Committee was operating effectively.

Richard Gillingwater
Chairman

Safety Health and Environment Advisory Committee Report

The Committee advises the main Board of SSE and works alongside the SHE Committee of the Management Board, which implements SHE Policy within SSE's businesses. The Committee provides a forum for non-Executive Directors to contribute to improving SSE's SHE performance.

Thomas Thune Andersen

Members and meetings

Members	Attended/ scheduled
Thomas Thune Andersen, Committee Chairman	6/6
Jeremy Beeton, Non-Executive Director	6/6
Jim McPhillimy, Managing Director Group Services	6/6
Paul Smith, Managing Director Generation	5/6
Iwan Tukalo, Group SHE Manager (April to December 2012)	4/4
Mark Patterson, Group SHE Manager (January to March 2013)	2/2

The Safety, Health and Environment Advisory Committee (SHEAC) met six times during the year.

The Chief Executive attends when required. The Assistant Company Secretary is Secretary to the Committee.

Function

The SHEAC advises the main Board of SSE and works alongside the SHE Committee of the Management Board, which implements SHE Policy within SSE's businesses. The SHEAC provides a forum for non-Executive Directors to contribute to improving SSE's SHE performance.

All members of the SHEAC share a common goal with SSE's Board: to protect the health and safety of all employees, contractors and 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.

Responsibilities

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 Management Board and other members of the management team with responsibility for SHE management; and
- making recommendations to the Board where action or improvement is needed.

Authority

- The SHEAC has no executive powers but it can recommend executive action it considers necessary to the Board.

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 dissatisfaction 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.

All members of the SHEAC share a common goal with SSE's Board: to protect the health and safety of all employees and contractors and the environment. Together we ensure there is strong SHE leadership within SSE, including an active commitment from the Board and the integration of good SHE management with business decisions.

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 everyone, 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 2012/13. The results in key areas were as follows (previous year's performance in brackets):

- the Lost Time/Reportable Injury Rate (AFR) was 0.05 per 100,000 hours worked (0.02);
- the Total Recordable Injury Rate (TRIR) (covering lost-time, reportable and medical treatment injuries) was 0.14 per 100,000 hours worked (0.11);
- the number of dangerous or potentially dangerous road traffic incidents involving SSE employees driving Company vehicles was 0.16 per 100 vehicles (0.23).

The most common measures of safety performance, AFR and TRIR, increased slightly compared to 2011/12. When viewed against long-term trends there have been significant improvements in performance. Acknowledging the slight decline in 2012/13 performance the SHEAC welcomed the identification of three 'Priorities for 2013/2014' (set out below) to maintain an overall improving performance trend.

It is pleasing to note the reduction in serious incidents involving employees driving Company vehicles; this follows an investment in systems to monitor driving habits and performance in Company vehicles.

During the year SSE has made increasing use of more positive leading indicators of SHE performance and these are used throughout SSE's business to set targets and improve performance. This includes measures specifically designed to monitor improvements in 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 is an increasingly significant issue for SSE. The SHEAC believes SSE must work closely with its contractors in increasing their safety standards.

SSE's contractors' TRIR was 0.50 per 100,000 hours worked, compared with 0.56 the previous year. While this represented an improvement in safety performance, there were two contractor fatalities during 2012/13, both on the major Beauly-Denny Transmission project. These very tragic events have re-emphasised the requirement for improvement in safety performance in 2013/14.

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 2012/13, the average number of days of sickness absence from work was 6.69 days per person, compared with 5.87 the previous year.

Environmental management

SSE's main environmental impact is generally regarded as emissions of CO_2 associated with electricity generation. 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.

A key objective each year is to ensure there are no environmental incidents which result in SSE receiving an enforcement notice from an environmental regulator. There were no such incidents during 2012/13.

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 2012/13, the recycling and recovery rate for SSE's internal waste collection and management process (including office waste and scrap metal from SSE's facilities) increased to 97.8% (96.9% in 2011/12).

Priorities for 2013/14

The key priorities for 2013/2014 are:

- embed 'The Safety Family', by implementing action plans and delivering enhanced behavioural safety training for supervisors across SSE;
- identify and manage high-impact risks, such as asset integrity, process safety and major accident hazards; and
- improve contractor SHE performance, a particularly important issue given the scale and scope of SSE's investment programme, by engaging with this key group in different ways.

Thomas Thune Andersen
Chairman

Remuneration Report
Introduction

The Remuneration Report sets out the Company's policy on Executive Directors' remuneration for the year ended 31 March 2013.

Lady Rice

SSE has always embraced the transparency and accountability that goes with being a FTSE 100 company and so it was particularly encouraging that the Company received in October 2012 the *Building Public Trust Award* for Executive Remuneration Reporting in the FTSE 100. The Award was a clear reminder of the importance of transparent remuneration disclosure, underpinned by a fair and appropriate approach to remuneration itself. This report, and the approach to remuneration that it sets out, has been prepared with that firmly in mind.

Key issues

The Remuneration Committee has had to consider three specific issues in the course of the last year:

- the decision by a long-standing and highly-regarded Chief Executive to step down after 17 years' Board service, including more than 10 as Chief Executive;
- the decision to appoint to the role of Chief Executive an internal candidate who already has more than 10 years of Board service; and
- the announcement by Ofgem that SSE should be fined for non-compliance with its obligations under two Standard Conditions of the Electricity and Gas Supply Licences for varying periods between October 2009 and September 2012.

In dealing with each of these issues, the guiding principle of the Committee has been fairness. On the one hand, the Committee has to reflect the long-term commitment and success of the Executive Directors, who have led the company to deliver 14 successive annual above-inflation dividend increases and extensive operational improvements of real benefit to customers; on the other hand, the Committee has to respond appropriately when things go wrong, as they clearly did for a period in domestic energy sales.

I believe that this is what the Committee has done.

Fair approach

Ian Marchant has been an employee of SSE and one of its predecessor companies for 21 years. Across all of SSE's core values – safety, service, efficiency, sustainability, excellence and teamwork – he can point to an impressive record of progress.

The financial arrangements, which the Committee agreed should be disclosed in SSE's results statement on 22 May 2013, are derived solely from his current terms of remuneration – no more, but actually some less because of his decisions to waive his right to participate in the 2012 Performance Share Plan and to waive any payment under the 2013 Annual Incentive Scheme. The Committee has preserved his participation in the 2011 Performance Share Plan on a pro-rata basis which it believes is fair and appropriate. No termination payment was asked for or given.

Notwithstanding those decisions, the financial sums involved are clearly substantial; but they are what he has earned and accumulated as a result of a long period of service in a complex sector. During this time he has had serious and wide-ranging responsibilities and has discharged them in a highly effective manner. The Committee believes fairness has prevailed.

Fair value

After a rigorous process based on objective criteria, the Board concluded that Alistair Phillips-Davies is the right person to become Chief Executive. Amongst other things, this decision demonstrates the benefit of effective succession planning. With 10 years' service on the Board already, Alistair will bring to his new role extensive knowledge of SSE, detailed understanding of energy markets, clear ability to learn from experience and to deliver change where needed to meet the needs of all of SSE's stakeholders, including customers, and successful experience of a leadership role in a FTSE 100 company. He will, therefore, be able to hit the ground running.

In view of that, and in view of the significantly increased accountabilities that he will have as Chief Executive, it is only fair that he should receive an appropriate increase in salary reflecting the value of the role itself, consistent with the principles of SSE's policy on executive remuneration – and that is exactly what he will receive. The same principle applies in respect of Finance Director, Gregor Alexander, and his additional accountabilities. These changes take effect on 1 July 2013 when their salaries will be increased to reflect their new roles and responsibilities.

The consistent features of simplicity, acceptability and longevity underpinned by the vital principle of fairness have guided the Committee's deliberations in 2012/13.

Fair response
As I have said before, fairness works both ways. While the Executive Directors have ensured SSE's success in so many areas, one activity in one part of the business was, for a period, not of the standard that SSE's values require and that its customers rightly expect: domestic energy sales. The Committee always stays close to the concerns of stakeholders and shareholders.

In 2012/13, the Retail business, of which Energy Supply is part, contributed 23% of SSE's operating profit. In light of the Ofgem decision, the Committee agreed that the Executive Directors' award under the Annual Incentive Scheme for 2012/13 should be reduced by at least that percentage. In addition, the Committee recognised that the issues in Energy Supply fell short of the standards it would expect, and exposed the company to trenchant criticism from a wide range of stakeholders. It concluded that this should also be reflected in the reduced payment of the Annual Incentive scheme. The Executive Directors' overall award was therefore reduced by 40% in total. The Committee believes this represents a fair response to the issues in one of SSE's Retail businesses, given the significant progress made in other parts of the SSE group, including its Networks and Wholesale businesses.

Consistent features
While the Committee has been considering these specific issues it has also retained its focus on the consistent features of remuneration in SSE.

The first is simplicity. What Executive Directors are paid is made up of just four elements: base salary, plus benefits in kind; pension rights; an annual incentive scheme, with cash and shares; and a long-term incentive scheme, with shares. This provides the right balance between fixed and variable remuneration. Two of the four elements are performance-related and the whole package is about reinforcing SSE's core values of safety, service, efficiency, sustainability, excellence and teamwork.

The second feature is acceptability. The Remuneration Committee is specifically mindful of this period of austerity in the wider economy and of the breadth of views on remuneration. We pay attention to the external environment at the same time as we also seek to do what is right in a large, highly complex business – and one that pays dividends to shareholders. The Executive Directors at SSE are clearly well paid, and a key feature of remuneration policy is to make sure they are not overpaid, especially given the sector in which they operate. For this reason, their reward is kept below market median for FTSE 20-50 companies (excluding financial services).

The third is longevity. SSE is a long-term business. This means it is important that remuneration for the Executive Directors and other senior managers reflects and encourages sustained, long-term commitment balanced with consideration of the environment within which SSE operates. It is not our goal to make SSE the kind of company people work for simply because they can make more money with it than elsewhere, but it is our responsibility to make sure people do not lose out because they are loyal and committed over the long term.

These consistent features – simplicity, acceptability and longevity – underpinned by the vital principle of fairness have guided the Committee's deliberations in 2012/13 and will continue to do so in the new financial year and beyond.

Lady Rice CBE
Chairman

Remuneration Report (continued)
Introduction

Role of the Remuneration Committee

Governance

The Remuneration Committee's composition, responsibilities and operation complied with Section D of the UK Corporate Governance Code. In forming remuneration policy, the Committee has given full consideration to the best practice provisions set out in the Code. This report sets out the Company's policy on Executive Directors' remuneration for the year ended 31 March 2013 and complies with the regulations made under the Companies Act 2006. The report will be presented at the AGM on 25 July 2013 for approval and shareholders will be able to ask questions on the report at the AGM.

Members and meetings

Membership	Attended/scheduled
Lady Rice (Committee Chairman)	5/5
Richard Gillingwater	5/5
Lord Smith of Kelvin	5/5
Katie Bickerstaffe	5/5

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.

2012 voting

At the SSE Annual General Meeting held on 26 July 2012, shareholders approved the Remuneration Report for the year ended 31 March 2012. Below is the result of the resolution, which required a simple majority of the votes to be cast in favour in order for the resolution to be passed.

Votes for	%	Votes against	%
556,243,654	98.9%	6,166,812	1.1%

Terms of Reference of the Committee

- sets the Total Remuneration Policy on behalf of the Board;
- approves the detailed remuneration terms of the Executive Directors including their service contract and the impact on senior management remuneration;
- approves the remuneration of the Chairman, however the Chairman is not present for discussions on his own remuneration;
- approves the design and performance targets of incentive schemes;
- grants awards under the Company's Long-term Incentive Plan to all senior managers; and
- reviews the total remuneration of the Management Board and other senior executives below Board level.

Advisors

- the Chief Executive, the Director of Human Resources, and SSE's Head of Reward, advised the Committee on matters relating to the appropriateness of awards 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 £75,550 in relation to their work for the Committee. They were appointed by the Committee. Deloitte LLP also provides ad hoc tax advice to SSE plc. 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 independent; and
- Bank of America Merrill Lynch provided advice on shareholder views. 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.

Shareholder consultation

Lady Rice, on behalf of the Committee, undertook a consultation with a number of institutional shareholders in April and May 2013 regarding a broad range of remuneration issues including the leaving arrangements for Ian Marchant, the appointment terms for Alistair Phillips-Davies and Gregor Alexander in their new roles, and changes to the Dividend

Remuneration agenda 2012/13

	Regular items	Other items
May	Directors Remuneration Report. Approval of Performance Share Targets and 2012 Grants. Approval of Vesting Awards. 2012 annual incentive out-turn approval.	Discussion around introduction of clawback. SSE response to BIS consultation.
November	External governance environment update. Performance Share Plan forecasts.	Review of Remuneration Consultants Group Code of Conduct.
January		Discussion around leaving arrangements for Ian Marchant.
March (2 meetings)	Review of Chief Executive's salary and Chairman's fee. Establishment of the 2013/14 annual incentive performance targets.	Review of remuneration arrangements for Alistair Phillips-Davies and Gregor Alexander following change of responsibilities.

Remuneration Report (continued)
Remuneration in 2012/13

The Committee fully embraces the objectives of the Department of Business, Innovation and Skills (BIS) in creating a transparent and consistent approach to full reporting. We have aimed to adopt a number of the draft recommendations in this report.

Per Share (DPS) metric in the 2013 Performance Share Plan. Lady Rice and the Committee find these 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 has been helpful in informing the Committee's decisions.

Employee representatives
The Head of Reward provided an update to all SSE-recognised trade unions in March 2013 explaining the Company's position on Executive remuneration. This covered many of the policy positions explained in this report. He explained the Committee's view on current items such as the recent Department of Business, Innovation and Skills (BIS) proposals on Executive remuneration, career shares, clawback, the remuneration position regarding the outgoing CEO and the approach to senior management pay and benefits. The Company will continue to liaise with employee representative bodies in the future and welcomes their views and opinions on remuneration issues.

At a glance

How has this Remuneration Report been put together?
In January 2012 the UK government recommended that remuneration reports should comprise two sections: one setting out how remuneration policy has been implemented in the previous year (for SSE, 2012/13); and one setting out future policy for Executive remuneration. With sections on Remuneration in 2012/13 (pages 89 to 93) and on Remuneration for 2013/14 and beyond (pages 94 to 97), this Report follows that structure.

What are the principles of the SSE Executive Remuneration Policy?
- attract and retain Executive Directors who run the Company effectively for the benefit of shareholders, customers and employees;
- adopt a competitive and straightforward approach to total remuneration, which meets shareholder expectations;
- reinforce the culture and teamwork to deliver the long-term growth and sustainability 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.

What was new in 2012/13?
Ian Marchant's retirement was announced in January 2013. The remuneration terms to be applied on exit are derived from his terms of employment or through the rules of the relevant incentive plans. The Committee agreed that the terms should be disclosed in SSE's results statement on 22 May 2013.

Specifically, Ian Marchant will continue to receive his salary until he steps down on 30 June 2013. He will also have the opportunity to receive a pro-rata annual incentive payment based on the Committee's assessment of his performance up to 30 June. Ian Marchant's terms of employment provide for a pension of around £420,000 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, Ian Marchant has the option to request that the SEPS element of his pension is payable from age 55. If this request is made it would be subject to actuarial reduction.

Ian Marchant also has the option to request that the portion of his pension provided through the UURBs is paid as a commuted lump sum. If Ian Marchant makes this request, the Committee would consider the financial health of the Company and, if appropriate, would offer him a cash-out payment, which in its judgement and that of its actuaries was deemed to be broadly cost neutral to SSE.

Ian Marchant will for the purposes of his share plans be treated as a good leaver and based on the number of months that he will have been employed he will be entitled to receive 27/36ths of any award that may vest under the 2011 Performance Share Plan. At his request, participation in the 2012 plan, where he could have received 15/36ths of any award that may vest, has been cancelled.

The Committee also noted that Ian Marchant decided to waive his annual incentive payment for 2012/13 (see page 95).

Alistair Phillips-Davies will replace Ian Marchant as Chief Executive and Gregor Alexander will also take on increased responsibilities in his expanded role in supporting and deputising for the Chief Executive in July 2013. With this in mind, their remuneration arrangements were reviewed, resulting in both receiving increases in basic salary to £755,000 and £610,000 respectively with effect from July 2013. They received no increase in salary on 1 April 2013 and their next formal salary review will be in April 2014.

The Committee also considered revised Performance Share Plan criteria to take account of the dividend policy from April 2013. The Committee introduced a revised DPS target to align to the policy. This has been discussed with key stakeholders as part of the Committee Chairman's consultation exercise. The new target will mean a threshold payout of 25% for achieving DPS growth at RPI, rising to 100% payout if RPI plus 4% is achieved.

When considering the level of vesting at the end of the performance period, the Committee will ensure that a suitable level of dividend cover has been maintained throughout the performance period.

The Committee continued to discuss the evolving developments in respect of the BIS proposals on Executive Remuneration. The Committee agreed to adopt a number of the proposals at an early stage rather than wait until they become a formal requirement in 2014.

The Committee was also mindful that a number of the BIS proposals remain in draft form at the time of writing this report.

Remuneration Report (continued)
Remuneration in 2012/13

What is SSE's Total Executive Remuneration Policy?
Summary of remuneration policy

Fixed remuneration

Base salary

Pension – final salary

Benefits-in-kind – car, private medical

Variable remuneration

Short-term – annual

Annual Incentive Scheme – 75% maximum cash and 25% deferred shares

Linked to individual and team performance, corporate, financial and operational measures

Long-term – three years

Performance Share Plan (PSP) – 3 years

25% linked to relative FTSE 100 TSR, 25% MSCI Eur. Utilities TSR, 25% dividend growth, 25% adjusted annual EPS growth

Minimum shareholding requirement equal to 100% base salary

What did the Executive Directors earn during the year ending 31 March 2013?

	Ian Marchant		Gregor Alexander		Alistair Phillips-Davies	
	2013 £000s	2012 £000s	**2013 £000s**	2012 £000s	**2013 £000s**	2012 £000s
Annual remuneration						
Base salary	**870**	840	**545**	516	**545**	516
Benefits	**20**	19	**16**	16	**16**	16
Annual incentive	**0**	210	**206**	163	**206**	136
Total annual remuneration	**890**	1,069	**767**	695	**767**	668
Vested long-term remuneration						
Performance share plan	**1,059**	0	**609**	0	**609**	0
Total remuneration	**1,949**	1,069	**1,376**	695	**1,376**	668
Pension						
Pension value increase	**680**	380	**500**	340	**460**	320
Total including pension	**2,629**	1,449	**1,876**	1,035	**1,836**	988

Why have the totals increased in 2013?
The main reason for the growth in total earnings from 2012 to 2013 is due to the PSP vesting at 51% in 2013 compared with zero in 2012, reflecting a three-year measurement period.

There is also an increase in the pension values year on year. This represents Ian Marchant moving from a pay freeze in 2011 to a 3.5% increase in 2012 and 10% increases in base salary for Gregor Alexander and Alistair Phillips-Davies in 2012 following increased responsibility in their roles after the departure of the Chief Operating Officer in 2011.

The pension value represents the cash value of pension accrued over one year times a multiple of 20 in line with anticipated statutory reporting requirements. Current statutory reporting on pensions is shown in Table B (page 98) which describes the value of pension accrued over one year under the heading 'Increase in year including inflation'.

Note
Benefits relate to car and private medical insurance.

Annual Incentive represents the total value awarded for the year. 75% of this value will be paid as cash in June 2013 and the remaining 25% will be used to fund the purchase of shares which are deferred for a period of 3 years. The deferred shares are not subject to further performance conditions and will be payable in 2016 should the director remain in employment with the company. Ian Marchant decided to waive his annual incentive for 2012/2013 which would have been £329,000.

PSP value is the number of shares vesting including dividend shares accrued at the closing market price on 28 March 2013 of £14.84 (initial grant price in 2010 was £10.79).

How do the earnings of the Executive Directors compare with other financial dispersals?

	2009 £m	2010 £m	2011 £m	2012 £m	**2013 £m**
Executive Directors' earnings[1]	8.2	6.3	5.4	4.2	**6.3**
Dividends to shareholders	551.9	618.5	659.8	716.9	**770.5**
Capital and investment expenditure	1,279.8	1,315.2	1,443.7	1,706.9	**1,485.5**
Contribution to government revenues in UK[2]	402.0	460.7	343.8	396.4	**312.0**
Staffing costs[3]	627.8	684.5	737.0	747.3	**783.8**

1. On same basis as 'What did the Executive Directors earn?' table above.
2. Includes Corporation Tax, Employer's National Insurance Contributions and Business Rates.
3. Wages and salaries and share-based remuneration for all employees, as per Note 7(i) of the accounts, excluding Executive Directors.

Why do Executive Directors' earnings appear to have gone up so much in 2012/13?

The main reason for the year-on-year increase in Executive Directors' earnings is the fact that SSE's financial performance over three years meant there was an award of 51% of the maximum under the Performance Share Plan for 2010-13, whereas there was no such payout in the previous year, under the PSP for 2009-12.

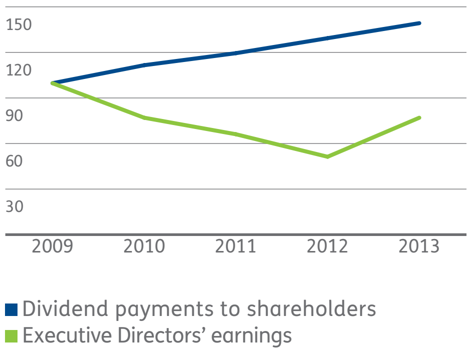
What issues did the Remuneration Committee take account of in making its decisions?

The Remuneration Committee Chairman's Introduction on page 86 and the table on page 88 summarises the issues that the Committee took account of in making its decisions for 2012/13. The Committee also considered carefully and in detail the appropriate appointment terms for Alistair Phillips-Davies and Gregor Alexander in their respective new roles. When considering incentive payment levels the Committee reviewed positive aspects of performance, including effective teamworking, achievement of important personal objectives and another increase in adjusted profit before tax*. It did however, for a second year running also have to consider the financial and reputational impact of the Ofgem decision in relation to Domestic Energy Sales, and the most appropriate way to respond to this issue.

How has SSE presented one single figure for total remuneration for each Executive Director?

The calculation of what Executive Directors earned in 2012/13 is made up of salary, benefits-in-kind, the cash value of pension accrued over one year times a multiple of 20 (which is the anticipated method of statutory calculation), the award under the Annual

Executive Directors' earnings compared with dividend payments



Incentive Scheme for 2012/13 and shares vesting under the Performance Share Plan (2010) in 2012/13. This is in line with the proposals outlined by BIS.

The table opposite sets out what each Executive Director earned in 2012/13 on this basis.

What is the position with regard to members of the Management Board?

In addition to the three Executive Directors, SSE has eight Managing Directors who are also members of the Management Board, the role of which is summarised on pages 62 and 63. On the same basis as that used for determining Executive Directors' earnings in 2012/13, the total earnings of the eight Managing Directors in 2012/13 was around £4.5m.

How does Executive Directors' remuneration compare with other financial dispersals?

BIS has said that, to provide context, companies should outline how remuneration for Executive Directors compares with other dispersals such as dividends, capital and investment expenditure, taxation and general staffing costs.

SSE has set out the position for each of these areas in the table above. It shows that for every £1 spent on Executive Directors' earnings by SSE in 2012/13, £50 was paid in tax, £124 was spent on employee costs, £122 was made in dividend payments to shareholders and £236 was spent on capital and investment expenditure.

SSE's contribution to government revenues in the UK is also included in the table, and the overall position on taxation is set out on page 25. In addition:

- Executive Directors' earnings as described in this report are subject to taxation in the UK; and
- in line with the countries in which it has substantial commercial operations, SSE is liable for taxation in the UK and Ireland.

Remuneration Report (continued)
Remuneration in 2012/13

Remuneration and performance

Executive Directors' salary and incentive plans 2012/13

Performance measure	Purpose – link to strategy	Policy and decisions
Base salary		
	Reflects market data, role, business and individual performance measured against SSE's strategy as set out on pages 2 to 30.	Following an increase in responsibilities, Alistair Phillips-Davies and Gregor Alexander will receive increases in July when Ian Marchant departs. There were no increases for them as at 1 April 2013. Following the annual review in March 2013 the salary for the Chief Executive was increased by 2.5%, in line with the pay budget for the wider SSE senior management team.
Annual Incentive Scheme (Maximum award 100% of base salary)		**38% of maximum awarded**
The Annual Incentive Scheme 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.	The performance targets are clearly linked to SSE's strategy, which is to deliver sustained real growth in the dividend through the efficient operation of, and investment in, a balanced range of energy businesses.	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 (60%)** Sustained real dividend growth can only be delivered if it is supported by an adequate level of adjusted profit before tax*. At the same time, the long-term nature of SSE's dividend commitments means that adjusted profit before tax* has to be earned in a way that is responsible and durable.	**Corporate performance (max 60%)** During 2012/13, SSE delivered a 5.1% increase in the dividend per share and a 5.6% increase in adjusted profit before tax*. This means it achieved its first financial objective of annual above-inflation dividend increases for the 14th consecutive year. The increase in adjusted profit before tax* was the biggest since 2007/08 and was also the 14th consecutive increase. In addition to enabling it to pay dividends, on which investors like pension schemes depend, adjusted profit before tax* allows SSE to improve its operations for the benefit of customers, invest in the energy infrastructure that customers will depend on in the future and employ people throughout the United Kingdom and Ireland.
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 (20%)** SSE believes it will only be successful financially if it exercises a wider corporate responsibility to others, such as customers and employees, on whom its success ultimately depends. Its core values summarise this approach.	**Teamwork performance (max 20%)** During 2012/13: **Safety:** the Total Recordable Injury Rate increased but the rate of road traffic accidents involving company vehicles decreased; **Service:** SSE was the leading large supplier in customer service surveys; **Efficiency:** outstanding performance in restoring electricity supplies in Arran and Kintyre in March; **Sustainability:** continued progress in the development and deployment of more sustainable sources of energy; **Excellence:** increasing success in converting innovative ideas into new business practices; and **Teamwork:** independently assessed Employee Engagement Index score up from 73% to 81%.
Personal objectives (20%) SSE believes personal objectives should form a part of the Annual Incentive Scheme. 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 (20%)** Personal objectives set during the year covered areas such as performance in respect of safety, customer service and delivery of new sources for generating electricity from renewable sources. Success in each of these areas is central to SSE's emphasis on efficient operations and investment to support dividend growth.	**Personal objectives (max 20%)** During 2012/13, the Executive Directors, in addition to their normal responsibilities, have been working individually and collectively to ensure that SSE is well-prepared for the management changes that will take place on 1 July 2013. SSE is well-placed for those changes.

Remuneration and performance

Executive Directors' salary and incentive plans 2012/13

Performance measure	Purpose – link to strategy	Policy and decisions
Annual Incentive Scheme (continued)		**38% of maximum awarded**
When determining overall performance against incentives what other factors did the committee consider during the year? Whilst recognising strong underlying performance of the business, it is key to the Committee that profit is earned in the correct manner. As such, the Committee gave detailed consideration to the issue of the Ofgem authority decision in relation to domestic energy customers.		**Impact of Ofgem decision** On the basis of the above, the Executive Directors would qualify for an Annual Incentive Scheme payment of 63% of the maximum. The Remuneration Committee concluded that the breaches in Energy Supply licence conditions set out by Ofgem on 3 April 2013 fell below the standard it would expect and also exposed SSE to significant criticism from key stakeholders. Therefore this should result in the Annual Incentive Scheme payment being reduced by 40% to 38% of the maximum.
Performance Share Plan 2010-2013 (Maximum award 150% of base salary)		**51% of maximum awarded**
For awards granted in 2010, performance is measured against the following criteria over a three-year period.	The elements of TSR, EPS and DPS reflect relative and absolute measures of performance.	Maximum award of 150% of base salary each year. Awards are released to the extent performance conditions are met.
Total Shareholder Return (TSR) 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	The relative TSR measure is dependent on SSE's relative long-term share price performance and dividend return. It is therefore directly linked to the strategic objective of sustained real dividend growth.	**TSR FTSE 100 (max 25%)** Out-turn between median and upper quartile of FTSE 100 constituents at rank 32, and 79% of TSR element awarded.
Total Shareholder Return (TSR) 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 performance is compared to a dedicated peer group of around 30 UK and other European utilities (the MSCI Europe Utilities) and provides a sector emphasis whilst continuing to bring a market perspective to the plan.	**TSR MSCI (max 25%)** Out-turn above upper quartile of MSCI constituents and 100% of TSR element awarded;
Adjusted earnings per share* (EPS) • 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 growth of RPI +2% is not achieved	Adjusted EPS* is used to monitor SSE's performance over the medium term because it is straightforward: it defines the amount of profit after tax that has been earned for each Ordinary Share. Profit is required to support the payment of, and increases in, the dividend.	**EPS (max 25%)** Out-turn growth below the EPS minimum growth target RPI+2%, and 0% of EPS element awarded.
Dividend per Share (DPS) • 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	The DPS growth target reflects the Company's objective to deliver strong real dividend growth in the future (while maintaining a dividend cover consistent with its established range). In assessing performance against DPS the Committee was satisfied that a reasonable level of dividend cover has been maintained during the performance period.	**DPS (max 25%)** Out-turn growth above the DPS minimum growth target off RPI+2% at 2.05%, and 26% of DPS element awarded.

Remuneration Report (continued)
Remuneration for 2013/14 and beyond

2013/14 and beyond

During 2013/14 the Committee will:

- consider the incoming CEO's views on what the long-term strategy means for the accountabilities of senior managers and for ensuring effective long-term performance;
- continue to review its Total Remuneration Policy to ensure it is aligned to the long-term needs of the business, shareholders and customers; and
- continue to engage with key stakeholders.

Total Remuneration Policy

Total Remuneration Policy is integral to overall HR Strategy and the SSE set of core values are supported in the objectives, plan design and application of the policy.

The principles
The core principles of the Company's remuneration policy are outlined in the 'At a glance' section on page 89 together with policy details and charts which illustrate performance variation between the target and maximum values of the packages.

The policy comprises:

- base salary and benefits;
- a defined benefit pension plan;
- an Annual Incentive Scheme; and
- a long-term incentive plan.

The current incentive plans are shown in the table on pages 92 and 93.

Total Remuneration Policy
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 goal is to retain Executive Directors who are motivated by the long-term success of the Company, rather than short-term remuneration.

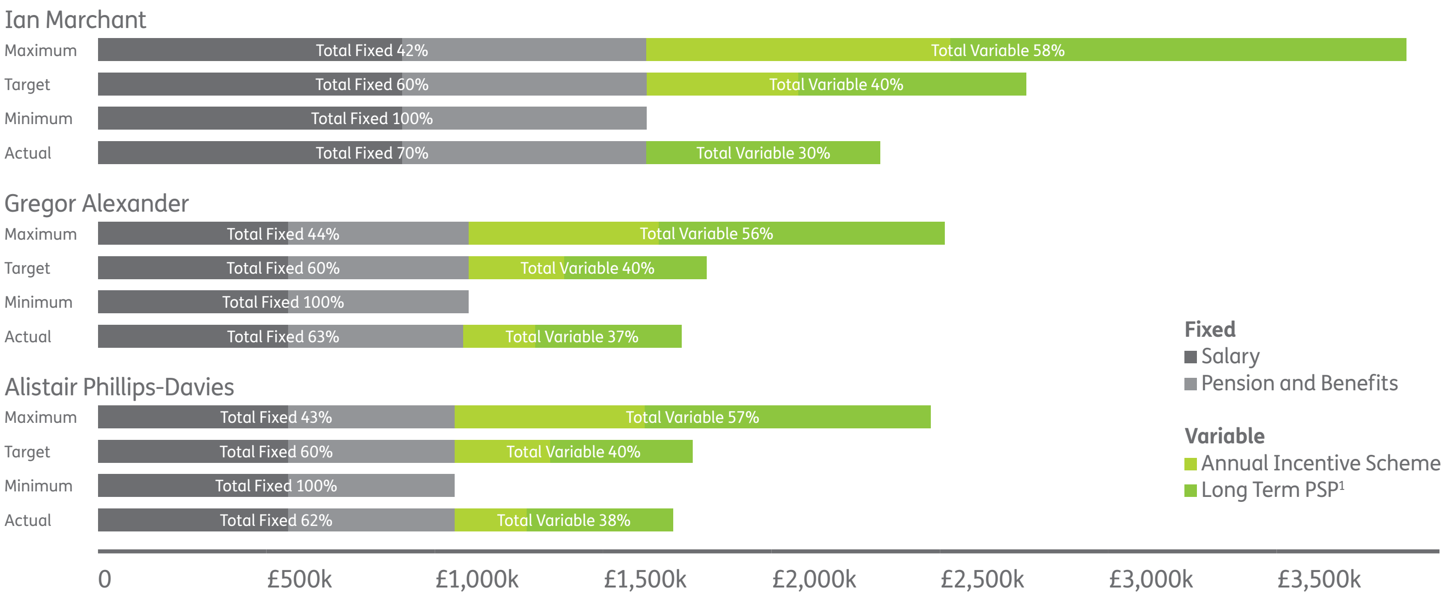
This policy and goal reflect the SSE culture in which Executive Directors and Senior Managers are motivated by developing the Company for the future, and explains why long-term growth and sustainability of the business are of such importance when determining remuneration policy.

- The Committee reviews regularly the total compensation, including pensions, of the Executive Directors compared to FTSE benchmarks to make sure that the Company is not disadvantaged by the current position nor are there any adverse consequences stemming from the long service of the leadership team.
- A number of institutional shareholders were consulted on key aspects of the Total Remuneration Policy as part of a regular dialogue between shareholders and the Remuneration Committee, and shareholder feedback was taken into account by the committee when making decisions.
- As a matter of policy the Committee takes account of any changing or increasing responsibilities when determining the appropriate remuneration.
- The Committee reviews the long-term total reward of the Executive Directors, to ensure that it is suitably aligned with the long-term performance of the business.

The balance of fixed and variable remuneration
Taking into account the SSE business profile, the Remuneration Committee believes that around 40% of the total remuneration should be performance-related, increasing up to around 60% for exceptional performance as shown in the table below as this rewards performance sufficiently without causing undue risk taking.

Senior executives, managers and employees
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. There is a wider group of senior executives who have a significant influence on Group performance.

Balance of fixed and variable remuneration: Directors' scenario charts



1. Excluding impact of share price and dividend.

The Committee seeks assurance that there is a consistency of approach to remuneration and that remuneration is of sufficient value to attract and retain key executives for the longer term.

Base salary

The Committee is mindful of the remuneration of different groups of employees and considers wider internal pay arrangements and other relevant external indices such as inflation in the process of reviewing base salary for the Executive Directors.

The Committee conducted a review of salaries for Executive Directors in March 2013. It considered the following factors in the light of recent market and governance trends, and increased responsibilities:

- the Executive Directors continue to deliver a strong financial performance with significant results to shareholders in a difficult trading year with dividend growth exceeding RPI inflation for the fourteenth consecutive year;
- management and Collective Agreements which provide an average 3.5% salary increase this year; and
- in line with policy, total remuneration and basic salary, when benchmarked where relevant to FTSE 20-50 excluding financial services, remain behind market median for the Executive Directors.

In selecting and appointing the right leadership team to take SSE forward, the Committee was minded to offer a fair and competitive package, reflecting the role and the experience of the candidate.

After taking careful consideration of all factors, the Committee decided to increase the base salary of the Chief Executive by 2.5%, in line with the wider senior employee population, effective from 1 April 2013. After detailed and careful deliberation on the issue of the salary levels for the new appointments, Alistair Phillips-Davies' salary will be increased to £755,000 with effect from 1 July 2013 when he assumes his new role as Chief Executive and Gregor Alexander's salary will be increased by 12% to £610,000 on the same date for his significant additional responsibilities.

Current incentive plans

Annual Incentive Scheme

In line with the need to achieve the correct balance of fixed and variable remuneration, the purpose of the Annual Incentive Scheme is to reward Executive Directors' performance during the year, based on an analysis of corporate performance, team working and personal objectives. Performance is considered in the context of targets set in each of the areas at the start of the financial year. In addition, the Remuneration Committee considers Executive Directors' management of, and performance in, all of the business issues that arose during the year.

For 2012/13, the total annual incentive paid to the Executive Directors was in the range of 0%-38% of salary, compared to 20%-30% in the previous year, both against a maximum payable of 100%. The incentive payable for 2012/13 reflects the elements in respect of team working and performance against personal objectives. 'Executive Directors' salary and incentive plans 2012/13', on pages 92 and 93, sets out performance metrics used in the assessment of the annual incentive for the year.

Based on business performance the Executive Directors would have been eligible to receive a payment in the range of 63% of maximum opportunity but the Committee decided to reduce this by 40% in light of the Ofgem decision regarding sales processes for domestic energy customers. While the Committee had also reduced incentive levels in 2011/12 as a result of the sales compliance issues, it recognises that SSE has got things wrong, and believes that it is appropriate to implement a further reduction in 2012/13.

The Committee has also sought assurances that the Company is reviewing incentive arrangements for employees with leadership responsibilities in the area of Domestic Energy Sales.

In addition, in recognition that it is his last year in employment at SSE, and wishing to give back to employees in SSE, Ian Marchant has requested that the remaining portion of his incentive payment, £329,000 be waived, with the value of the payment being used to set up a new fund to provide support and funding for personal development opportunities for current and future employees of SSE. The opportunities to be provided will be clearly additional to those that are currently available through the Company. The Committee is supportive of this, and has agreed to this request.

The Committee will continue to be mindful of and exercise its discretion to reduce or withhold an incentive, if it is not satisfied that the Company is holding itself to the very high standards that the Committee expects and demands of SSE.

For 2013/14, the structure of the annual incentive will remain the same as in 2012/13. The maximum annual incentive payable will be 100% of salary, split between:

- corporate performance (60%);
- team working (20%); and
- personal objectives (20%).

In any single year, it is expected that the annual incentive paid will be around 50% of Executive Directors' salary for on-target performance. The annual incentive is paid 75% in cash, and 25% deferred into shares which vest after three years, subject to continued service. The Committee retains the discretion to vary this award level in exceptional circumstances.

Long-term incentive plan

The Performance Share Plan rewards Executive Directors and other senior executives over a three-year period for the continued profitable growth of SSE as measured by Earnings Per Share (EPS), Total Shareholder Return (TSR) compared to the FTSE 100, TSR compared with the MSCI European Utilities Index and Dividend Per Share (DPS). Awards equivalent to 150% of salary are granted annually to Executive Directors and at lower rates to other senior executives.

Awards will be released after three years subject to meeting demanding performance conditions relating to the Company's relative performance. This is in line with the need to achieve the correct balance of fixed and variable remuneration.

Since 2010, awards have had four performance criteria of 25% each. Threshold vesting delivers 25% of each element, with full vesting delivering 100% of each element as follows:

- relative TSR performance compared to FTSE 100 (threshold vesting for median performance and full vesting for upper quartile performance);

Remuneration Report (continued)
Remuneration for 2013/14 and beyond

- relative TSR performance compared to a selected peer group of UK and other European utilities (threshold vesting for median performance and full vesting for upper quartile performance);
- EPS growth of RPI plus 2% (threshold vesting) to 8% (full vesting); and
- dividend per share growth of RPI plus 2% (threshold vesting) to 6% (full vesting).

The 2010 PSP award vested at 51% of maximum. Further details are given in the table on page 90 of the report.

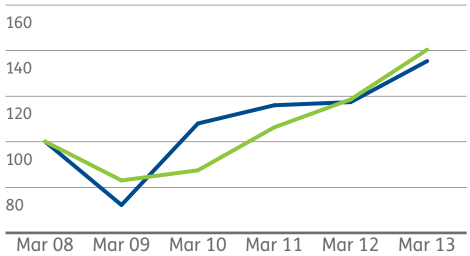
As previously stated, the Committee agreed to an amendment to the PSP target from 2013 onwards. The revised DPS target will have a threshold payout of 25% for achieving DPS growth at RPI, rising to 100% payout if RPI plus 4% is achieved. When considering the level of vesting at the end of the performance period, the Committee will ensure that a reasonable level of dividend cover has been maintained throughout the performance period.

The Committee has in place from 2012 onwards the power to review the final award of shares, when they vest, made under the Annual Incentive Scheme and the Performance Share Plan and to operate a 'claw back' if it deems appropriate.

Share ownership policy
Employee share ownership is a key part of Total Remuneration Policy and is designed to help maintain long-term employee commitment and business understanding, offering the opportunity to benefit from any growth in shareholder value.

- The interests of the Executive Directors and other senior executives are closely aligned with those of other shareholders. The Performance Share Plan, the deferral of 25% of the annual incentive award and participation in all employee share schemes facilitate this alignment.
- The Executive Directors and certain other senior executives are required to maintain a shareholding equivalent to one year's salary built up within a reasonable timescale. Consent to sell shares is not normally given (unless in exceptional circumstances or to fund a connected tax liability) until this level of shareholding is reached.
- It is also expected that all non-Executive Directors should hold a minimum of 2,000 shares in the Company.

SSE TSR performance: 31 March 2008 to 31 March 2013



■ SSE
■ FTSE 100
Source: Datastream

- As reported on page 67, 48% of SSE employees are members of the Share Incentive Plan.
- 38% of employees are members of the Sharesave Scheme.

Directors' shareholdings as percentage of annual salary

	2013 % salary	2012 % salary
Ian Marchant	**379**	367
Gregor Alexander	**266**	242
Alistair Phillips-Davies	**294**	268

2013 – Based on a share price at 28 March 2013 of £14.84.
2012 – Based on a share price at 31 March 2012 of £13.29.

All-employee share schemes
Executive Directors are eligible to participate in the Company's all-employee share schemes on the same terms as other employees. These schemes comprise:

- 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 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; and
- 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.

Funding of share schemes and dilution
Shares are purchased in the market to satisfy the exercise of awards under the deferred Annual Incentive Scheme, the Performance Share Plan, and the SIP.

The Company's Sharesave Scheme uses unissued shares to satisfy the exercise of share options. As at 31 March 2013, there were approximately six million share options outstanding under this scheme, and if all the outstanding options were exercised this would amount to 0.65% of the issued share capital of the Company at that date.

Pensions policy
Pension planning is an important part of the remuneration strategy 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. Each employee is encouraged to join and remain a member of the relevant pension plan and SSE is encouraged by high employee participation rates of over 90%.

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 HM Revenue and Customs 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.

Full details of the Executive Directors' pension plans can be found in Table B of the audited information on page 98.

Service contracts

It is the Company's policy that Executive Directors have service contracts with the Company which can be terminated on 12 months' notice given by either party.

The Committee is updating the contracts to reflect changes to employment law and will issue updated contracts to Alistair Phillips-Davies and Gregor Alexander effective 1 July 2013. There will be no material changes to their existing terms and conditions.

The current Executive Directors' service contracts contain the key items shown in the table opposite.

Length of service

	Industry service	Length of Board service
Ian Marchant	21	17 years*
Gregor Alexander	22	10 years
Alistair Phillips-Davies	16	11 years

* Including two years as Finance Director of Southern Electric plc.

The Company may at its discretion terminate any Executive Director's contract by making a payment in lieu of notice equal to the base salary which would have been received during the notice period (excluding any annual incentive and any other emolument referable to the employment). Payment may be made in staged payments, and will either reduce or cease completely where the departing Executive Director gains new employment.

If an Executive Director's employment terminates in certain circumstances such as death, ill-health or other circumstances that the Committee deems appropriate, the PSP shares will be reduced to reflect the point during the three-year performance period when the Director's employment ends and will remain subject to performance. If the Executive Director's employment ends for any other reason, PSP share awards will lapse.

In March 2013 Ian Marchant decided to relinquish in full his entitlement to any award under the 2012 PSP which may vest in 2015. He decided to do this so that all aspects of his remuneration will be concluded during the financial year 2013/14.

In the event of a change of control of the Company, performance in the PSP will be measured to that date and the award will normally be scaled down to reflect the period prior to the change of control.

Outside 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 2012/13 Ian Marchant was a non-Executive Director with John Wood Group plc, and received £46,250 in fees.

Gregor Alexander was appointed as a non-Executive Director with Stagecoach Group plc with effect from 1 April 2013. He is also Chairman of Scotia Gas Networks and receives no additional fees for this.

Non-Executive Directors

The non-Executive Directors have letters of appointment, and are appointed for fixed terms of three years, subject to retirement by rotation and re-appointment at AGMs.

They do not participate in the Annual Incentive Scheme, deferred Annual Incentive Scheme, any of the share option schemes, or contribute to any Group pension scheme although as indicated above they are required to hold 2,000 Company shares.

The fees of the independent non-Executive Directors are agreed by the Board. The non-Executive Directors do not participate in the review process for their fees. The fee for the Chairman is agreed by the Remuneration Committee.

Service contract key items

Provision	Detailed terms
Notice period	• 12 months by either Company or Director
Termination payment	• Up to 12 months' salary (excluding any annual incentive or other emolument) • Payment in lieu of notice in staged payments subject to the Executive gaining new employment • No special change of control provisions • Obligation on departing Executives to mitigate loss
Remuneration	• Salary, pension and benefits • Company car or cash allowance • Participation in Annual Incentive Scheme, employee share schemes and Executive incentive plans • Private health insurance
Non-competition	• During employment and for six months after leaving
Contract dates	• All contracts dated 11 March 2005

Remuneration Report (continued)
Remuneration in detail

The fees are reviewed against companies of similar size and complexity. To be consistent with wider remuneration policy, fees are set at below median.

Fee history

	2013 £000s	2012 £000s
Board	**56**	54
Audit Committee Chairmanship	**14**	14
Remuneration Committee Chairmanship	**12**	12
SHEAC Committee Chairmanship	**8**	–
Senior Independent Director	**10**	10
Company Chairman	**353**	341

With an expanding Committee workload, the Board decided to introduce a Chairmanship fee of £10,000 per annum for the Safety, Health and Environment Advisory Committee (SHEAC). This fee was introduced on 1 June 2012.

From 1 April 2013, the fees for all non-Executive Director roles were increased by 2.5% in line with the average salary increase of SSE's wider management population in general. Reasonable travelling and other expenses for costs incurred in the course of their duties are reimbursed.

The Auditors are required to report on the information contained in Tables A, B and D.

The following is information relating to the pension of Gregor Alexander as a participant in the HM Revenue & Customs approved Scottish Hydro-Electric Pension Scheme.

(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 Directors' pensions of Ian Marchant and Alistair Phillips-Davies, as participants in the HM Revenue & Customs approved Southern Electric Group of the Electricity Supply Pension Scheme.

(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).

All the Executive Directors have unfunded retirement benefits which are included in their pension benefits above with provision in respect of their accrued value included in the Company's Balance Sheet.

Table A – Directors' remuneration excluding LTIP and pension information

	2013				2012
	Salary/fee £000s	Cash incentives £000s	Benefits £000s	**Total £000s**	Total £000s
Executive Directors					
Ian Marchant	870	0[1]	20	**890**	1,017
Gregor Alexander	545	154	16	**715**	655
Alistair Phillips-Davies	545	154	16	**715**	634
Colin Hood (retired 31/10/11)	–	–	–	**–**	481
Non-Executive Directors					
Thomas Thune Andersen	66	–	–	**66**	54
Jeremy Beeton	56	–	–	**56**	41
Katie Bickerstaffe	56	–	–	**56**	41
Richard Gillingwater	74	–	–	**74**	54
Lady Rice	72	–	–	**72**	76
Lord Smith of Kelvin	353	–	–	**353**	341
René Médori (retired 25/6/12)	17	–	–	**17**	68
	2,654	308	52	**3,014**	3,462

Notes
In addition to the annual cash bonus amounts for this year, Gregor Alexander and Alistair Phillips Davies will be awarded £51,000 in the form of deferred shares in respect of the bonus due to them for 2012/13. These share awards will not be made until June 2013 and therefore the number of shares to which they will be entitled will not be known until that date. These shares will, subject to continued employment, be released on the third anniversary of grant in June 2016.

1. Ian Marchant decided to waive any entitlement to incentives in the year. He would have been paid £329,000.

Table B – Directors' pension information

	Accrued benefit				Transfer value of accrued benefit			
	Years of industry service	**At 31 March 2013 £000s**	Increase in year including inflation £000s	Increase in year excluding inflation £000s	**At 31 March 2013 £000s**	At 31 March 2012 £000s	Increase less Directors' contributions £000s	Increase in year excluding inflation £000s
Ian Marchant	21	**422**	34	22	**10,457**	9,188	1,250	570
Gregor Alexander	22	**255**	25	19	**5,900**	4,999	882	463
Alistair Phillips-Davies	16	**200**	23	17	**4,373**	3,676	678	427

The transfer value of the accrued benefit has increased over the year. There has been no change in the Directors' pension entitlements over the year and the increase in value is largely the result of the change in financial conditions and updated valuation since 31 March 2012, notably the significant reduction in bond yields. If bond yields were to go up, the value would go down.

Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the table above. If a member's accrued fund exceeds the lifetime allowance (LTA), the benefits payable by the scheme from that excess will be subject to a higher rate of income tax. The Company has maximised the use of the allowance to provide Executive Directors with the maximum benefits via the registered schemes.

Table C – Directors' share interests

	31 March 2013		31 March 2012	
	Shares held	**Shares under option**	Shares held	Shares under option
Gregor Alexander	**97,787**	**198,170**	93,915	204,019
Thomas Andersen	**2,000**	**–**	2,000	–
Jeremy Beeton	**4,000**	**–**	4,000	–
Katie Bickerstaffe	**2,000**	**–**	2,000	–
Richard Gillingwater	**2,000**	**–**	2,000	–
Ian Marchant	**222,439**	**235,742**	232,023	349,978
Alistair Phillips-Davies	**107,886**	**197,550**	104,062	202,483
Lady Rice	**5,875**	**–**	5,533	–
Lord Smith of Kelvin	**22,600**	**–**	22,600	–
René Médori (retired 25/6/12)	**2,050**	**–**	2,050	–

Notes
From 31 March 2013 to 21 May 2013, the following changes to the interests of Directors took place:

Under a standing order for reinvestment of an ISA, on 8 April 2013, Gregor Alexander acquired 14 shares.

Under the Share Incentive Plan (SIP) on 5 April 2013 Ian Marchant and Gregor Alexander each acquired 15 shares and Alistair Phillips-Davies acquired 14 shares, and on 3 May they each acquired 14 shares.

The Register of Directors' Interests (which is open to shareholders' inspection) contains full details of Directors' shareholdings and options to subscribe for shares.

Table D (page 100) 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 2013.

René Médori's holding covers to the date of leaving on 25 June 2012.

Remuneration Report (continued)
Remuneration in detail

Table D – 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 2012	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 2013
Ian Marchant	DBP 2006[2]	02/06/2009	02/06/2012	10,730	–	–	–	10,730[4]	–
	DBP 2006[2]	02/06/2010	02/06/2013	11,482	–	–	–	–	11,482
	DBP 2006[2]	14/06/2011	14/06/2014	9,388	–	–	–	–	9,388
	DBP 2006[2]	22/06/2012	22/06/2015	–	–	3,796[3]	–	–	3,796
	PSP[1]	02/06/2009	May 2012	107,302	–	–	107,302	–	–
	PSP[1]	02/06/2010	May 2013	116,774	–	–	–	–	116,774
	PSP[1]	14/06/2011	May 2014	93,889	–	–	–	–	70,417[6]
	PSP[1]	22/06/2012	May 2015	–	–	94,360[3]	94,360[5]	–	–
	Sharesave	30/06/2010	01/10/2013– 31/03/2014	413	871p	–	–	–	413
Gregor Alexander	DBP 2006[2]	02/06/2009	02/06/2012	6,169	–	–	–	6,169[4]	–
	DBP 2006[2]	02/06/2010	02/06/2013	6,602	–	–	–	–	6,602
	DBP 2006[2]	14/06/2011	14/06/2014	5,533	–	–	–	–	5,533
	DBP 2006[2]	22/06/2012	22/06/2015	–	–	2,953[3]	–	–	2,953
	PSP[1]	02/06/2009	May 2012	61,698	–	–	61,698	–	–
	PSP[1]	02/06/2010	May 2013	67,145	–	–	–	–	67,145
	PSP[1]	14/06/2011	May 2014	55,336	–	–	–	–	55,336
	PSP[1]	22/06/2012	May 2015	–	–	59,065[3]	–	–	59,065
	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]	02/06/2009	02/06/2012	6,169	–	–	–	6,169[4]	–
	DBP 2006[2]	02/06/2010	02/06/2013	6,602	–	–	–	–	6,602
	DBP 2006[2]	14/06/2011	14/06/2014	5,533	–	–	–	–	5,533
	DBP 2006[2]	22/06/2012	22/06/2015	–	–	2,461[3]	–	–	2,461
	PSP[1]	02/06/2009	May 2012	61,698	–	–	61,698	–	–
	PSP[1]	02/06/2010	May 2013	67,145	–	–	–	–	67,145
	PSP[1]	14/06/2011	May 2014	55,336	–	–	–	–	55,336
	PSP[1]	22/06/2012	May 2015	–	–	59,065[3]	–	–	59,065
	Sharesave	29/06/2012	01/10/2017 – 31/03/18	–	1,065p	1,408	–	–	1,408

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 – 2,076 shares, Gregor Alexander – 1,192 shares, Alistair Phillips-Davies – 1,192 shares.

1. The performance conditions applicable to awards under the PSP since 2007 are described on page 92. The 2009 award under the PSP did not vest.
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 1,376p.
4. The market value of a share on the date on which these awards were realised was 1,372p.
5. Ian Marchant waived his 2012 PSP award over 94,360 shares on 28 March 2013.
6. 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 28 March 2013 was 1,484p and the range for the year was 1,294p to 1,488p. 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 £377,549.27 (2012 – £337,628.68).

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

Lady Rice CBE
Remuneration Committee Chairman
21 May 2013

Other statutory information

Principal activities
SSE plc is the holding company of the Group. Its subsidiaries are organised into the main businesses of:

- Networks – the economically-regulated transmission and distribution of electricity and gas and other related networks;
- Retail – the supply of electricity, gas and other services to household and business customers; and
- Wholesale – the production, storage and generation of energy and energy portfolio management.

Business review
The Company is required to set out a fair review of the business of the Group and a description of the principal risks and uncertainties facing the Group (known as a Business Review). The Business Review is required to set out a balanced and comprehensive analysis of the development and performance of the Group's business during the financial year ended 31 March 2013 and of the position of the Group at the end of that financial year. The information that fulfils these requirements, and is deemed to be the Directors' Report, is contained within pages 1 to 102 of this Annual Report. The management report for the year, as required by the Disclosure and Transparency Rules, is incorporated by reference within the Directors' Report.

Directors
The Directors during the year and at the date of this report are:

Executive
Ian Marchant (Chief Executive)
Gregor Alexander
Alistair Phillips-Davies

Non-Executive
Lord Smith of Kelvin (Chairman)
Thomas Thune Andersen
Jeremy Beeton
Katie Bickerstaffe
Richard Gillingwater (Senior Independent Director)
Lady Rice
René Médori (resigned 25 June 2012)

At the 2013 AGM all of the current Directors (apart from Ian Marchant) will retire and offer themselves for re-appointment. Ian Marchant will resign from the Board on 30 June 2013. Alistair Phillips-Davies will assume the position of Chief Executive on 1 July 2013. Biographical details of all Directors are set out on pages 62 and 63. Details of the service contracts for the Executive Directors and the letters of appointment for the non-Executive Directors are set out in the Remuneration Report on pages 97 and 98 respectively.

The interests of the Directors in the Ordinary Shares of the Company at 31 March 2013 are set out in the Remuneration Report on page 100.

Results and dividends
The Group profit attributable to Ordinary Shareholders for the financial year amounted to £425.9m. The Directors recommend a final dividend of 59.0p per Ordinary Share which, subject to approval at the AGM, will be payable on 27 September 2013 to shareholders on the Register of Members at close of business on 2 August 2013. With the interim dividend of 25.2p per Ordinary Share paid on 22 March 2013, this makes a total dividend of 84.2p 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 at 31 March 2013, 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 2012 AGM to purchase its own shares within certain limits. During 2012/13, 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 AGM on 25 July 2013, and this remains a benchmark against which financial decisions are taken.

Substantial shareholdings
As at 21 May 2013 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.

Creditor payment policy
It is the Company's policy that payment terms are agreed at the outset of a transaction and are adhered to; that bills are paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement. The number of suppliers' days represented by trade creditors was 35 days at 31 March 2013. SSE is signing up to the Prompt Payment Code.

Accounting policies, financial instruments and risk
Details of the Group's accounting policies, together with details of financial instruments and risk, are provided in notes 1 to 3 and 33 to the Financial Statements.

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

Substantial shareholdings

Entity	Number of shares*	Percentage*	Nature of holding
The Capital Group Companies, Inc	85,895,986	8.96%	Indirect
Legal & General Group Plc	37,426,851	3.99%	Direct
Norges Bank	29,138,248	3.02%	Direct

* At date of disclosure by relevant entity.
Since the date of disclosure to the Company, the interests of the shareholders listed above may have increased or decreased.

Other statutory information (continued)

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. The Company is not aware of any contractual or other agreements which are essential to its business which ought to be disclosed in this Directors' Report.

Details of any post balance sheet events are provided in Note 36 to the Financial Statements.

Auditors

KPMG Audit Plc has informed the Company that they have initiated a process to streamline their two registered audit firms (KPMG Audit Plc and KPMG LLP). As such, KPMG Audit Plc have notified the Company that they are not seeking re-appointment. Consequently, the Audit Committee has recommended, and the Board has approved, the resolutions to appoint KPMG LLP as Auditor of the Company and its subsidiaries, and to authorise the Directors to fix their remuneration, which will be proposed at the forthcoming AGM.

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.

By Order of the Board

Vincent Donnelly
Company Secretary
21 May 2013

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 Directors' Report, 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 Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

Ian Marchant
Chief Executive
21 May 2013

Gregor Alexander
Finance Director

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Independent Auditor's report
to the members of SSE plc

We have audited the financial statements of SSE plc for the year ended 31 March 2013 set out on pages 105 to 184. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 102, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
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 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with 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.

Opinion on other matters prescribed by the Companies Act 2006
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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the Corporate Governance Statement set out on pages 61 to 100 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:
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; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:
- the Directors' statement, set out on page 101, in relation to Going Concern;
- the part of the Corporate Governance Statement on pages 61 to 100 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

John Luke (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
191 West George Street, Glasgow G2 2LJ
21 May 2013

Consolidated income statement
for the year ended 31 March 2013

	Note	2013 Before exceptional items and certain remeasurements £m	2013 Exceptional items and certain remeasurements (Note 6) £m	2013 Total £m	2012 Before exceptional items and certain remeasurements £m	2012 Exceptional items and certain remeasurements (Note 6) £m	2012 Total £m
Revenue	4	28,304.6	–	28,304.6	31,723.9	–	31,723.9
Cost of sales		(25,612.5)	(691.3)	(26,303.8)	(29,222.1)	(903.3)	(30,125.4)
Gross profit		2,692.1	(691.3)	2,000.8	2,501.8	(903.3)	1,598.5
Operating costs	5	(1,236.7)	(105.6)	(1,342.3)	(1,130.3)	(82.0)	(1,212.3)
Other operating income		11.8	–	11.8	8.0	–	8.0
Operating profit before jointly controlled entities and associates		1,467.2	(796.9)	670.3	1,379.5	(985.3)	394.2
Jointly controlled entities and associates:							
Share of operating profit		315.6	(16.5)	299.1	278.3	–	278.3
Share of interest		(152.3)	–	(152.3)	(146.5)	–	(146.5)
Share of movement on derivatives		–	8.7	8.7	–	14.2	14.2
Share of tax		(51.0)	25.6	(25.4)	(44.9)	38.3	(6.6)
Share of profit on jointly controlled entities and associates	16	112.3	17.8	130.1	86.9	52.5	139.4
Operating profit	4,5	1,579.5	(779.1)	800.4	1,466.4	(932.8)	533.6
Finance income	8	235.5	–	235.5	250.1	–	250.1
Finance costs	8	(455.3)	20.3	(435.0)	(425.7)	(89.5)	(515.2)
Profit before taxation		1,359.7	(758.8)	600.9	1,290.8	(1,022.3)	268.5
Taxation	9	(313.4)	201.8	(111.6)	(324.8)	319.6	(5.2)
Profit for the year		1,046.3	(557.0)	489.3	966.0	(702.7)	263.3
Attributable to:							
Ordinary shareholders of the parent		982.9	(557.0)	425.9	900.5	(702.7)	197.8
Other equity holders		63.4	–	63.4	65.5	–	65.5
Basic earnings per share (pence)	11			44.7p			21.1p
Diluted earnings per share (pence)	11			44.6p			21.1p
Interim dividend paid per share (pence)	10			25.2p			24.0p
Final dividend proposed per share (pence)	10			59.0p			56.1p
				84.2p			80.1p

The accompanying notes are an integral part of these financial statements.

Consolidated statement of comprehensive income
for the year ended 31 March 2013

	2013 £m	2012 £m
Profit for the year	**489.3**	263.3
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Actuarial losses on retirement benefit schemes	**(50.2)**	(161.1)
Taxation on actuarial losses on defined benefit pension schemes	**4.4**	30.3
	(45.8)	(130.8)
Share of jointly controlled entities and associates actuarial gains on retirement benefit schemes	**11.9**	5.6
Share of jointly controlled entities and associates taxation of actuarial gains on retirement benefit schemes	**(3.1)**	(3.9)
	8.8	1.7
Items that will be reclassified subsequently to profit or loss:		
Gains/(losses) on effective portion of cash flow hedges	**46.4**	(15.3)
Transferred to assets and liabilities on cash flow hedges	**0.7**	0.2
Taxation on cash flow hedges	**(11.4)**	4.0
	35.7	(11.1)
Share of jointly controlled entities and associates (loss) on effective portion of cash flow hedges	**(0.4)**	(20.8)
Share of jointly controlled entities and associates taxation on cash flow hedges	**(0.1)**	3.7
	(0.5)	(17.1)
Exchange difference on translation of foreign operations	**22.6**	(65.3)
Movement on net investment hedge	**(7.3)**	29.8
Taxation on net investment hedge	**1.3**	(7.7)
	16.6	(43.2)
Other comprehensive income/(loss), net of taxation	**14.8**	(200.5)
Total comprehensive income for the period	**504.1**	62.8
Attributable to:		
Ordinary shareholders of the parent	**440.7**	(2.7)
Other equity holders	**63.4**	65.5
	504.1	62.8

Balance sheets
as at 31 March 2013

		Consolidated		Company	
	Note	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Assets					
Property, plant and equipment	14	**9,838.3**	9,153.1	**–**	–
Biological assets	15	**3.4**	3.4	**–**	–
Intangible assets:					
Goodwill	13	**635.8**	627.5	**–**	–
Other intangible assets	13	**282.2**	218.8	**–**	–
Equity investments in associates and jointly controlled entities	16	**913.2**	911.7	**190.0**	190.0
Loans to associates and jointly controlled entities	16	**1,244.0**	1,191.9	**1,208.5**	1,140.0
Other investments	16	**46.7**	36.1	**18.0**	18.0
Investments in subsidiaries	17	**–**	–	**2,426.8**	2,349.1
Trade and other receivables	20	**–**	–	**4,341.9**	3,790.6
Deferred tax assets	26	**155.4**	222.1	**96.8**	115.9
Derivative financial assets	33	**382.4**	348.0	**151.7**	94.7
Non-current assets		**13,501.4**	12,712.6	**8,433.7**	7,698.3
Other intangible assets	13	**368.4**	365.7	**–**	–
Inventories	19	**291.7**	323.7	**–**	–
Trade and other receivables	20	**4,953.0**	5,174.6	**3,802.9**	2,935.6
Cash and cash equivalents	21	**538.7**	189.2	**289.2**	14.3
Derivative financial assets	33	**940.8**	851.2	**65.1**	12.2
Current assets held for sale	18	**2.3**	68.0	**–**	–
Current assets		**7,094.9**	6,972.4	**4,157.2**	2,962.1
Total assets		**20,596.3**	19,685.0	**12,590.9**	10,660.4
Liabilities					
Loans and other borrowings	25	**1,544.6**	708.6	**1,414.1**	440.1
Trade and other payables	22	**5,047.6**	5,182.7	**2,971.4**	2,514.9
Current tax liabilities	23	**286.8**	231.8	**17.9**	10.7
Provisions	27	**60.1**	55.3	**–**	–
Derivative financial liabilities	33	**1,011.2**	817.6	**–**	8.5
Current liabilities		**7,950.3**	6,996.0	**4,403.4**	2,974.2
Loans and other borrowings	25	**4,540.4**	5,537.0	**3,282.1**	4,223.4
Deferred tax liabilities	26	**806.6**	921.8	**–**	–
Trade and other payables	22	**341.4**	332.7	**–**	–
Provisions	27	**229.5**	182.3	**–**	–
Retirement benefit obligations	31	**705.8**	731.9	**185.9**	196.2
Derivative financial liabilities	33	**473.4**	399.2	**253.5**	206.3
Non-current liabilities		**7,097.1**	8,104.9	**3,721.5**	4,625.9
Total liabilities		**15,047.4**	15,100.9	**8,124.9**	7,600.1
Net assets		**5,548.9**	4,584.1	**4,466.0**	3,060.3
Equity:					
Share capital	28	**482.1**	472.3	**482.1**	472.3
Share premium		**857.9**	862.0	**857.9**	862.0
Capital redemption reserve		**22.0**	22.0	**22.0**	22.0
Hedge reserve		**5.8**	(29.4)	**41.0**	5.8
Translation reserve		**11.6**	(5.0)	**–**	–
Retained earnings		**1,982.7**	2,100.8	**876.2**	536.8
Equity attributable to Ordinary shareholders of the parent		**3,362.1**	3,422.7	**2,279.2**	1,898.9
Hybrid capital	30	**2,186.8**	1,161.4	**2,186.8**	1,161.4
Total equity attributable to equity holders of the parent		**5,548.9**	4,584.1	**4,466.0**	3,060.3

These financial statements were approved by the Board of Directors on 21 May 2013 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 2013

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 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	–	–	–	–	–	425.9	**425.9**	63.4	**489.3**
Other comprehensive income/(loss)	–	–	–	35.7	16.6	(45.8)	**6.5**	–	**6.5**
Share of jointly controlled entities and associates other comprehensive income/(loss)	–	–	–	(0.5)	–	8.8	**8.3**	–	**8.3**
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**

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 2011	468.4	859.8	22.0	(1.2)	38.2	2,652.2	**4,039.4**	1,161.4	**5,200.8**
Profit for the year	–	–	–	–	–	197.8	**197.8**	65.5	**263.3**
Other comprehensive (loss)	–	–	–	(11.1)	(43.2)	(130.8)	**(185.1)**	–	**(185.1)**
Share of jointly controlled entities and associates other comprehensive income/(loss)	–	–	–	(17.1)	–	1.7	**(15.4)**	–	**(15.4)**
Total comprehensive income for the year	–	–	–	(28.2)	(43.2)	68.7	**(2.7)**	65.5	**62.8**
Dividends to shareholders	–	–	–	–	–	(716.9)	**(716.9)**	–	**(716.9)**
Scrip dividend related share issue	3.6	(3.6)	–	–	–	88.2	**88.2**	–	**88.2**
Distributions to hybrid capital holders	–	–	–	–	–	–	**–**	(65.5)	**(65.5)**
Issue of shares	0.3	5.8	–	–	–	–	**6.1**	–	**6.1**
Credit in respect of employee share awards	–	–	–	–	–	13.5	**13.5**	–	**13.5**
Investment in own shares	–	–	–	–	–	(4.9)	**(4.9)**	–	**(4.9)**
At 31 March 2012	**472.3**	**862.0**	**22.0**	**(29.4)**	**(5.0)**	**2,100.8**	**3,422.7**	**1,161.4**	**4,584.1**

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 2012	**472.3**	**862.0**	**22.0**	**5.8**	**536.8**	**1,898.9**	**1,161.4**	**3,060.3**
Profit for the year	–	–	–	–	866.5	**866.5**	63.4	**929.9**
Other comprehensive income/(loss)	–	–	–	35.2	(20.1)	**15.1**	–	**15.1**
Total comprehensive income for the period	–	–	–	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**

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 2011	468.4	859.8	22.0	19.2	420.5	**1,789.9**	1,161.4	**2,951.3**
Profit for the year	–	–	–	–	739.0	**739.0**	65.5	**804.5**
Other comprehensive (loss)	–	–	–	(13.4)	(2.6)	**(16.0)**	–	**(16.0)**
Total comprehensive income for the period	–	–	–	(13.4)	736.4	**723.0**	65.5	**788.5**
Dividends to shareholders	–	–	–	–	(716.9)	**(716.9)**	–	**(716.9)**
Scrip dividend related share issue	3.6	(3.6)	–	–	88.2	**88.2**	–	**88.2**
Distributions to hybrid capital holders	–	–	–	–	–	**–**	(65.5)	**(65.5)**
Issue of shares	0.3	5.8	–	–	–	**6.1**	–	**6.1**
Increase in investment in subsidiaries	–	–	–	–	13.5	**13.5**	–	**13.5**
Investment in own shares	–	–	–	–	(4.9)	**(4.9)**	–	**(4.9)**
At 31 March 2012	**472.3**	**862.0**	**22.0**	**5.8**	**536.8**	**1,898.9**	**1,161.4**	**3,060.3**

Cash flow statements
for the year ended 31 March 2013

		Consolidated		Company	
	Note	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Cash generated from/(absorbed by) operations before working capital movements	12	**1,953.5**	1,839.2	**(28.8)**	(33.6)
Decrease/(Increase) in inventories		**47.6**	(107.3)	**–**	–
Decrease/(Increase) in receivables		**250.1**	(133.7)	**(1,436.6)**	(582.7)
(Decrease)/increase in payables		**(110.3)**	342.9	**380.2**	(278.9)
Increase in provisions		**22.8**	5.9	**–**	–
Cash generated from/(absorbed by) operations		**2,163.7**	1,947.0	**(1,085.2)**	(895.2)
Dividends received from jointly controlled entities and associates		**87.0**	111.4	**30.0**	65.0
Dividends received from subsidiaries		**–**	–	**931.7**	682.6
Interest received		**88.5**	108.3	**440.9**	397.7
Interest paid		**(245.5)**	(242.2)	**(274.8)**	(267.6)
Income taxes paid		**(114.6)**	(211.4)	**(148.8)**	(212.8)
Payment for consortium relief		**(1.9)**	(4.9)	**–**	–
Net cash from operating activities		**1,977.2**	1,708.2	**(106.2)**	(230.3)
Cash flows from Investing activities					
Purchase of property, plant and equipment		**(1,303.3)**	(1,501.2)	**–**	–
Purchase of other intangible assets		**(317.1)**	(400.9)	**–**	–
Deferred income received		**7.5**	0.5	**–**	–
Proceeds from sale of property, plant and equipment		**2.0**	22.2	**–**	–
Proceeds from sale of investments		**–**	23.5	**–**	–
Proceeds from sale of business and subsidiaries	18	**153.8**	185.5	**–**	–
Loans to jointly controlled entities	16	**(88.6)**	(138.6)	**(76.8)**	(118.9)
Purchase of businesses and subsidiaries	18	**(358.4)**	(3.6)	**–**	–
Cash included in disposals		**5.4**	–	**–**	–
Cash included in Held for sale assets		**–**	(3.9)	**–**	–
Investment in jointly controlled entities and associates		**(13.5)**	(138.8)	**–**	–
Loans and equity repaid by jointly controlled entities		**31.6**	25.9	**8.3**	8.4
Increase in other investments		**(10.6)**	(2.1)	**–**	–
Net cash from investing activities		**(1,891.2)**	(1,931.5)	**(68.5)**	(110.5)
Cash flows from financing activities					
Proceeds from issue of share capital		**5.7**	6.1	**5.7**	6.1
Dividends paid to Company's equity holders		**(515.3)**	(628.7)	**(515.3)**	(628.7)
Hybrid capital dividend payment		**(63.4)**	(65.5)	**(63.4)**	(65.5)
Issue of Hybrid Capital		**1,025.4**	–	**1,025.4**	–
Employee share awards share purchase		**(7.7)**	(4.9)	**(7.7)**	(4.9)
New borrowings		**517.1**	1,024.1	**445.0**	835.8
Repayment of borrowings		**(694.7)**	(393.0)	**(440.1)**	(106.8)
Net cash from financing activities		**267.1**	(61.9)	**449.6**	36.0
Net increase/(decrease) in cash and cash equivalents		**353.1**	(285.2)	**274.9**	(304.8)
Cash and cash equivalents at the start of year	21	**185.5**	471.6	**14.3**	319.1
Net increase/(decrease) in cash and cash equivalents		**353.1**	(285.2)	**274.9**	(304.8)
Effect of foreign exchange rate changes		**0.1**	(0.9)	**–**	–
Cash and cash equivalents at the end of year	21	**538.7**	185.5	**289.2**	14.3

The accompanying notes are an integral part of these financial statements.

Notes on the financial statements
for the year ended 31 March 2013

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 12 to 60. The consolidated financial statements for the year ended 31 March 2013 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 21 May 2013. 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 £855.4m. 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 161.

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 pages 113 and 114.

2. Summary of significant new accounting policies and reporting changes

The principal accounting policies applied in the preparation of these financial statements are set out below and in the Accompanying Information section (A1) on pages 173 to 181.

New standards, amendments and interpretations

There are no new standards, amendments or interpretations that are effective for the first time for the current financial year that have had a material impact on the Group.

At the date of authorisation of these financial statements, there were a number of new standards, amendments to existing standards and interpretations in issue that have not been applied in preparing these consolidated financial statements. The group has no plan to adopt these standards earlier than the effective date. Those that are most relevant to the Group are set out below.

- IAS 19, 'Employee benefits', was amended in June 2011 and is effective for annual periods beginning on or after 1 January 2013. For defined benefit plans, the Group will change its measurement principles by replacing the interest costs and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability including the IFRIC 14 Liability. There will also be a corresponding change in the amount recognised in other comprehensive income, so that the net impact on total comprehensive income and net assets will be nil. If this standard had been applied to the year ended 31 March 2013, it is estimated the interest income would have been reduced by approximately £34m.
- IFRS 10, 'Consolidated Financial statements', which establishes a single control model that applies to all entities including special purpose entities and requirements management to exercise judgement over which entities are required to be consolidated. IFRS 11 is effective for annual periods beginning on or after 1 January 2014.
- IFRS 11, 'Joint arrangements', under IFRS 11 the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore subsequent accounting. The Group may need to reclassify its joint arrangements, which may lead to changes in current accounting for these interests. IFRS 11 is effective for annual periods beginning on or after 1 January 2014.

Notes on the financial statements (continued)
for the year ended 31 March 2013

2. Summary of significant new accounting policies and reporting changes (continued)

- IFRS 12, 'Disclosures of interests in other entities' brings together all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2014.
- IFRS 13, 'Fair value measurement', provides consistency by making available a single source of guidance on how fair value is measured. IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. IFRS 13 is effective for annual periods beginning on or after 1 January 2013.

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. In December 2011, the IASB decided that IFRS 9 will be effective for annual periods beginning on or after 1 January 2015. The date for EU adoption is not yet known.

The Group is continuing to assess the impact the standards and amendment will have on future financial statements.

Changes to presentation of financial statements

Income statement presentation

The presentation of cost of sales and operating costs has been changed. The impact on the income statement for the previous year is to decrease cost of sales by £242.3m (to £29,222.1m) and increase operating costs by £242.3m (to £1,130.3m). The reason for the change is to reclassify (as operating costs) costs associated with back office activities such as sales processing, compliance and other indirect costs related to the Energy Supply business and other overhead costs associated with activities in Ireland. The change has been made to reflect the way these costs are reported to management and to improve the relevance of the income statement presentation.

Cash flow statement presentation

The presentation of the cash flow statement on page 110 has been changed to focus on the significant cash movements after cash generated from operations. The reconciliation from profit for the year to cash generated from operations before working capital movements is included at Note 12 (a). This presentation has been adopted to improve the relevance of the main statement to users of the financial statements. An additional table explaining the reconciliation of the movement in cash and cash equivalents to the movement in adjusted net debt has been included at Note 12(b) to aid understanding of the group's financial position.

Intangible assets disclosure

The disclosure of intangible assets at Note 13 has been amended by changing the presentation of acquired brand assets. These assets, which were previously shown separately, are now included in 'Other Intangible Assets'. The brand values associated had a net book value of £3.7m at 31 March 2012 and are not considered to be material items.

Property, plant and equipment disclosure

The presentation of property, plant and equipment at Note 14 has been amended to include the net book value of assets under construction as a separate column in the main tabular disclosure. This has the effect of requiring a restatement of the comparative values. Assets under construction that are commissioned and enter operation in the financial year are transferred from the newly created column to the relevant category of assets in the table. Capital additions in the year comprise both additions to assets still in construction, additions to commissioned operational assets and other directly incurred capital costs. The disclosure has been adopted to improve the relevance of the table to users and for consistency with internal reporting.

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 most critical of these accounting judgement and estimation areas are noted.

Accounting judgements

(i) Exceptional items and certain remeasurements

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 remeasurements 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. 'Certain remeasurements' are remeasurements 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 based on an 'adjusted profit before tax' measure. This is reconciled to reported profit before 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. 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 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.

(iii) Wind farm disposals

In the current year and in previous years, the Group has disposed of 100% of the equity in various wind farm companies, including those included in the significant disposal described at Note 18b. At the same time as disposing of these interests, the Group has entered into long-term offtake arrangements for certain of these wind farms for a proportion of the output from the wind farms. The Directors have judged that these arrangements are not leasing arrangements as the Group is not purchasing substantially all of the economic output of the wind farms.

(iv) 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.

Notes on the financial statements (continued)
for the year ended 31 March 2013

3. Critical accounting judgements and key sources of estimation uncertainty (continued)
Estimation uncertainty
(i) Revenue recognition

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. 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) Retirement benefits

The assumptions in relation to the cost of providing post-retirement benefits during the period are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the earnings of the Group. The value of scheme assets is impacted by the asset ceiling test which restricts the surplus that can be recognised to assets that can be recovered fully through refunds or reductions in future contributions.

(iii) Impairment testing

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.

In assessing for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit (CGU). The recoverable amount of the assets, or the appropriate CGU, is measured as the higher of their fair value less costs to sell and value in use. Value in use calculations require the estimation of future cash flows to be derived from the respective CGUs 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 the 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. Where assets under review are able to be assessed independently, for example thermal generation plants, 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.

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.

(iv) Provisions and contingencies

The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37. The Group has entered into a number of commodity contracts relating to specific assets. Where the unavoidable costs of meeting the obligations under the contracts exceed the expected net revenues from the assets, in the normal course of business, an onerous provision will be been recognised. The 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.

(v) 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.

(vi) 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

The measure of profit used by the Board is adjusted operating profit which is before exceptional items, remeasurements arising from IAS 39 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.

Notes on the financial statements (continued)
for the year ended 31 March 2013

4. Segmental information (continued)
(a) Revenue by segment

External revenue 2012 £m	Inter-segment revenue (i) 2012 £m	Total revenue 2012 £m		External revenue 2013 £m	Inter-segment revenue (i) 2013 £m	Total revenue 2013 £m
			Networks			
542.1	336.9	879.0	Electricity Distribution	647.0	348.8	995.8
117.7	0.1	117.8	Electricity Transmission	139.1	0.1	139.2
249.0	49.4	298.4	Other Networks	246.3	68.5	314.8
908.8	**386.4**	**1,295.2**		**1,032.4**	**417.4**	**1,449.8**
			Retail			
7,787.3	23.1	7,810.4	Energy Supply	8,602.1	35.1	8,637.2
280.4	184.8	465.2	Energy-related Services	246.0	203.2	449.2
8,067.7	**207.9**	**8,275.6**		**8,848.1**	**238.3**	**9,086.4**
			Wholesale			
22,664.2	4,447.5	27,111.7	Energy Portfolio Management and Electricity Generation	18,356.9	4,420.4	22,777.3
30.3	51.9	82.2	Gas Storage	19.4	93.4	112.8
3.0	99.3	102.3	Gas Production	3.7	114.4	118.1
22,697.5	**4,598.7**	**27,296.2**		**18,380.0**	**4,628.2**	**23,008.2**
49.9	264.3	314.2	Corporate unallocated	44.1	247.9	292.0
31,723.9	**5,457.3**	**37,181.2**	**Total**	**28,304.6**	**5,531.8**	**33,836.4**

(i) Significant inter-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. And 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: 2013 – £458.0m; 2012 – £454.3m) is not recorded in the revenue line in the income statement.

Revenue by geographical location is as follows:

	2013 £m	2012 £m
UK	**27,528.5**	31,069.7
Ireland and mainland Europe	**776.1**	654.2
	28,304.6	31,723.9

4. Segmental information (continued)
(b) Operating profit/(loss) by segment

	2013				
	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	512.8	–	512.8	–	512.8
Electricity Transmission	93.3	–	93.3	–	93.3
Gas Distribution	234.1	(160.1)	74.0	27.4	101.4
Other Networks	35.9	–	35.9	–	35.9
	876.1	**(160.1)**	**716.0**	**27.4**	**743.4**
Retail					
Energy Supply	364.2	–	364.2	(4.3)	359.9
Energy-related Services	45.9	(0.2)	45.7	(31.7)	14.0
	410.1	**(0.2)**	**409.9**	**(36.0)**	**373.9**
Wholesale					
Energy Portfolio Management and Electricity Generation	451.5	(43.0)	408.5	(767.2)	(358.7)
Gas Storage	18.4	–	18.4	–	18.4
Gas Production	39.6	–	39.6	–	39.6
	509.5	**(43.0)**	**466.5**	**(767.2)**	**(300.7)**
Corporate unallocated	(12.9)	–	(12.9)	(3.3)	(16.2)
Total	**1,782.8**	**(203.3)**	**1,579.5**	**(779.1)**	**800.4**

	2012				
	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	396.5	–	396.5	–	396.5
Electricity Transmission	73.7	–	73.7	–	73.7
Gas Distribution	234.8	(164.5)	70.3	48.5	118.8
Other Networks	32.1	–	32.1	–	32.1
	737.1	**(164.5)**	**572.6**	**48.5**	**621.1**
Retail					
Energy Supply	271.7	–	271.7	(20.0)	251.7
Energy-related Services	49.9	(0.2)	49.7	(40.0)	9.7
	321.6	**(0.2)**	**321.4**	**(60.0)**	**261.4**
Wholesale					
Energy Portfolio Management and Electricity Generation	541.5	(26.7)	514.8	(869.3)	(354.5)
Gas Storage	23.8	–	23.8	(30.0)	(6.2)
Gas Production	42.6	–	42.6	(22.0)	20.6
	607.9	**(26.7)**	**581.2**	**(921.3)**	**(340.1)**
Corporate unallocated	(8.8)	–	(8.8)	–	(8.8)
Total	**1,657.8**	**(191.4)**	**1,466.4**	**(932.8)**	**533.6**

(i) The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives and tax from 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 (2012 – £33.4m), 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 (£1.0m before tax; 2012 – £0.9m before tax).

Notes on the financial statements (continued)
for the year ended 31 March 2013

4. Segmental information (continued)
(c) Capital expenditure by segment

Capital additions to Intangible Assets 2012 £m	Capital additions to Property, Plant and Equipment 2012 £m		Capital additions to Intangible Assets 2013 £m	Capital additions to Property, Plant and Equipment 2013 £m
		Networks		
–	347.5	Electricity Distribution	–	364.9
–	228.7	Electricity Transmission	–	334.2
–	–	Gas Distribution	–	–
–	48.0	Other Networks	–	52.8
–	624.2		–	751.9
		Retail		
–	–	Energy Supply	45.4	15.3
–	25.7	Energy-related Services	–	15.4
–	25.7		45.4	30.7
		Wholesale		
539.8	664.3	Energy Portfolio Management and Electricity Generation	482.5	456.7
–	51.0	Gas Storage	–	33.0
–	6.1	Gas Production	–	7.2
539.8	721.4		482.5	496.9
0.1	105.2	Corporate unallocated	1.1	73.7
539.9	1,476.5	**Total**	529.0	1,353.2
–	(16.5)	(Decrease)/increase in prepayments related to capital expenditure	–	(3.9)
–	41.2	Decrease/(increase) in trade payables related to capital expenditure	–	(46.0)
(139.1)	–	Less: Other non-cash additions	(211.9)	–
400.9	1,501.2	**Net cash outflow**	317.1	1,303.3

Capital additions does 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 (2013 – £300.9m; 2012 – £503.7m). 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.

4. Segmental information (continued)
(d) Items included in operating profit by segment

	Depreciation/Impairment on Property, Plant and Equipment			Amortisation/ Impairment of Intangible Assets		
	Before exceptional items 2013 £m	Exceptional charges 2013 £m	**Total 2013 £m**	Before exceptional items 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**

	Depreciation/Impairment on Property, Plant and Equipment			Amortisation/ Impairment of Intangible Assets		
	Before exceptional items 2012 £m	Exceptional charges 2012 £m	**Total 2012 £m**	Before exceptional items 2012 £m	Exceptional charges 2012 £m	**Total 2012 £m**
Networks						
Electricity Distribution	224.6	–	**224.6**	–	–	**–**
Electricity Transmission	26.7	–	**26.7**	–	–	**–**
Gas Distribution	–	–	**–**	–	–	**–**
Other Networks	29.7	–	**29.7**	5.1	–	**5.1**
	281.0	**–**	**281.0**	**5.1**	**–**	**5.1**
Retail						
Energy Supply	–	–	**–**	3.2	–	**3.2**
Energy-related Services	4.7	30.0	**34.7**	0.1	–	**0.1**
	4.7	**30.0**	**34.7**	**3.3**	**–**	**3.3**
Wholesale						
Energy Portfolio Management and Electricity Generation	212.4	275.1	**487.5**	2.3	106.6	**108.9**
Gas Storage	8.8	–	**8.8**	–	30.0	**30.0**
Gas Production	30.5	–	**30.5**	–	22.0	**22.0**
	251.7	**275.1**	**526.8**	**2.3**	**158.6**	**160.9**
Corporate unallocated	24.4	–	**24.4**	2.8	–	**2.8**
Total	**561.8**	**305.1**	**866.9**	**13.5**	**158.6**	**172.1**

The Group's share of Scotia Gas Networks Limited depreciation (2013 – £55.0m; 2012 – £57.9m) and amortisation (2013 – £4.8m; 2012 – £4.8m) is not included within operating costs.

Notes on the financial statements (continued)
for the year ended 31 March 2013

5. Other operating income and cost

Total Group costs before exceptional items and certain remeasurements can be analysed thus:

	2013 £m	2012 restated £m
Cost of sales	**25,612.5**	29,222.1
Distribution costs	**476.4**	432.9
Administration costs	**760.3**	697.4
Operating costs	**1,236.7**	1,130.3
Total costs	**26,849.2**	30,352.4

Group operating profit is stated after charging (or crediting) the following items:

	2013 £m	2012 £m
Depreciation and impairment of property, plant and equipment (Note 14) (i)	**570.8**	561.8
Exceptional impairment charges (Note 6)	**561.3**	478.6
Impairment of inventories (Note 19)	**3.6**	1.1
Research costs	**5.9**	11.2
Operating lease rentals (Note 35)	**193.3**	169.9
Release of deferred income in relation to capital grants and historic customer contributions	**(16.8)**	(14.7)
Loss/(gain) on disposal of property, plant and equipment	**0.1**	(4.6)
Loss on disposal of fixed asset investments	**–**	2.1
(Gain) on disposal of businesses and subsidiaries	**(8.2)**	(5.5)
Amortisation and impairment of intangible assets (Note 13) (i)	**5.9**	13.5

(i) Does not include exceptional impairment charges.

Auditor's remuneration:

	2013 £m	2012 £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 services	**0.1**	0.1
Other tax advisory services	**0.1**	–
	1.0	0.9
Total remuneration paid to Auditor	**1.3**	1.2

Tax service fees incurred in the year were £0.2m (2012 – £0.1m). Audit-related assurance services include fees incurred in relation to regulatory accounts and returns required by Ofgem. A description of the work of the Audit Committee is set out on pages 82 and 83 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.

6. Exceptional items and certain remeasurements

(i) Exceptional items

In the year to 31 March 2013, the following exceptional items were recorded:

Impairments and other charges: On 21 March 2013, the Group announced the results of a comprehensive review of generation operations. This review was conducted in the context of challenging energy market conditions including continued extremely low 'spark spreads', the early introduction of the Carbon Price Floor at a high level, the ongoing constraints on coal plant arising from the Industrial Emissions Directive and the ongoing uncertainty around the Electricity Market Reform proposals. The conclusions of the review were that around 2,000MW of the Group's existing thermal generation capacity will cease operation during the 2013/14 financial year, with the main stations affected being Ferrybridge, Keadby, Slough, Uskmouth and Peterhead. Related to this, the Group has reassessed the carrying value of its associate investments at Barking Power Limited and Derwent Cogeneration Limited. Accordingly, combined impairment charges of £306.9m have been recognised of which £277.9m relates to property, plant and equipment and £33.0m relates to investments (less £4.0m of related deferred tax). In addition to this, further impairment charges of £84.6m were recognised following a detailed review of the group's investments (£25.8m), property, plant and equipment (£25.4m), intangible assets (£25.5m) and other assets (£7.9m). This included further impairment of legacy Metering assets (£23.4m), charges related to wind development pipeline assets (£20.0m) and the reassessment of the recoverable value of certain associate investments and other assets (£41.2m).

The Group recognised current asset impairments and other related charges in relation to the settlement of certain claims associated with the outage at Medway power station in 2008/09 (£43.0m). In addition, the group recognised charges 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 for restructuring related to the announcement on 21 March 2013, doubtful debts, project exit costs and potential contractual settlement were recognised (£44.3m).

Changes 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. The March 2011 Budget accelerated the reductions and the March 2012 Budget confirmed a further acceleration of the reduction in rate to 24% effective from 1 April 2012. The Finance Act 2012 confirmed the reduction to 23% as being effective from 1 April 2013. This was substantively enacted on 17 July 2012. A revised rate of 22% is expected to be enacted by 2014.

As the rate change to 23% has been substantively enacted it has the effect of reducing the group's net deferred tax liabilities recognised at 31 March 2013 by £22.0m (£45.7m). It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction due to legislation not being enacted, although this will further reduce the Group's future current tax charge and the reduce the Group's deferred tax liabilities/assets accordingly.

In the year to 31 March 2012, the following exceptional items were recorded:

Exceptional charges were recognised in relation to the impairment of goodwill (£49.3m), property, plant and equipment (£305.1m), current receivables (£5.0m), held for sale assets (£9.9m) and intangible assets (£109.3m). These were recognised as a result of the long-term view of spark spreads at Medway and Keadby, leading to a change the way in which the plants are operationally configured, and also following the goodwill impairment review of the Gas Storage CGU and updated development expectations associated with legacy Metering assets (£30.0m) and North Sea exploration assets (£22.0m). In addition, further impairment charges in respect of the station running hours at Ferrybridge and in respect of the future prospects for the European wind portfolio were recognised. Carbon dioxide emissions allowances recognised as intangible assets purchased to cover the emissions liabilities at the Group's thermal plants were impaired based on prevailing market prices.

Exceptional charges were also recognised in relation to commodity contracts associated with thermal Generation assets (£37.4m). In addition costs associated with Retail restructuring and the impairment of other financial assets (£35.6m) were recognised as exceptional in the year to 31 March 2012.

(ii) Certain remeasurements

Certain remeasurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category includes the movement on derivatives as described in Note 33.

Notes on the financial statements (continued)
for the year ended 31 March 2013

6. Exceptional items and certain remeasurements (continued)

(iii) Taxation

The Group has separately recognised the tax effect of the exceptional items and certain remeasurements summarised above.

These transactions can be summarised thus:

	2013 £m	2012 £m
Exceptional items (i)		
Impairments and other charges:		
Impairment of Generation assets and other related market costs	**(496.7)**	(396.6)
Impairment of Other assets	**(64.6)**	(82.0)
Provisions for onerous contracts, restructuring and other liabilities	**(6.9)**	(73.0)
Impairment of Investments in Associates (share of result, net of tax)	**(12.5)**	–
Share of effect of change in UK corporation tax on deferred tax liabilities and assets of associate and joint venture investments	**23.8**	42.0
	(556.9)	(509.6)
Certain remeasurements (ii)		
Movement on operating derivatives (Note 33)	**(228.7)**	(433.7)
Movement on financing derivatives (Note 33)	**20.3**	(89.5)
Share of movement on derivatives in jointly controlled entities (net of tax)	**6.5**	10.5
	(201.9)	(512.7)
Exceptional items before taxation	**(758.8)**	(1,022.3)
Exceptional items (iii)		
Effect of change in UK corporation tax rate on deferred tax liabilities and assets	**22.0**	45.7
Taxation on other exceptional items	**129.6**	137.4
	151.6	183.1
Taxation on certain remeasurements	**50.2**	136.5
Taxation	**201.8**	319.6
Exceptional items after taxation	**(557.0)**	(702.7)

7. Directors and employees

(i) Staff costs

	Consolidated	
	2013 £m	2012 £m
Staff costs:		
Wages and salaries	**638.3**	614.7
Social security costs	**61.3**	62.2
Share-based remuneration (Note 32)	**16.0**	13.5
Pension costs (Note 31)	**68.2**	56.9
	783.8	747.3
Less: capitalised as property, plant and equipment	**(114.8)**	(123.2)
	669.0	624.1

Employee numbers:

	Consolidated		Company	
	2013 Number	2012 Number	2013 Number	2012 Number
Numbers employed at 31 March	**19,795**	19,489	**3**	3

7. Directors and employees (continued)

The average number of people employed by the Group (including Executive Directors) during the year was:

	Consolidated		Company	
	2013 Number	2012 Number	**2013 Number**	2012 Number
Networks				
Distribution	**2,173**	2,085	**–**	–
Transmission	**295**	201	**–**	–
Other Networks	**387**	361	**–**	–
	2,855	2,647	**–**	–
Retail				
Energy Supply	**5,828**	6,389	**–**	–
Energy-related Services	**7,098**	7,203	**–**	–
	12,926	13,592	**–**	–
Wholesale				
Electricity Generation and Energy Portfolio Management	**1,912**	1,370	**–**	–
Gas Storage	**93**	86	**–**	–
Gas Production	**3**	4	**–**	–
	2,008	1,460	**–**	–
Corporate unallocated	**1,980**	1,948	**3**	4
Total	**19,769**	19,647	**3**	4

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 86 to 100. 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.

Notes on the financial statements (continued)
for the year ended 31 March 2013

8. Finance income and costs
Recognised in income statement

	2013 Before exceptional items and certain remeasurements £m	2013 Exceptional items and certain remeasurements £m	2013 Total £m	2012 Before exceptional items and certain remeasurements £m	2012 Exceptional items and certain remeasurements £m	2012 Total £m
Finance income:						
Return on pension scheme assets	**134.1**	**–**	**134.1**	147.4	–	147.4
Interest income from short term deposits	**1.7**	**–**	**1.7**	2.0	–	2.0
Foreign exchange translation of monetary assets and liabilities	**12.9**	**–**	**12.9**	–	–	–
Other interest receivable:						
Scotia Gas Networks loan stock	**33.3**	**–**	**33.3**	33.4	–	33.4
Other jointly controlled entities and associates	**25.4**	**–**	**25.4**	23.8	–	23.8
Other receivable	**28.1**	**–**	**28.1**	43.5	–	43.5
	86.8	**–**	**86.8**	100.7	–	100.7
Total finance income	**235.5**	**–**	**235.5**	250.1	–	250.1
Finance costs:						
Bank loans and overdrafts	**(22.5)**	**–**	**(22.5)**	(25.0)	–	(25.0)
Other loans and charges	**(302.7)**	**–**	**(302.7)**	(280.3)	–	(280.3)
Interest on pension scheme liabilities	**(142.3)**	**–**	**(142.3)**	(149.8)	–	(149.8)
Notional interest arising on discounted provisions	**(7.7)**	**–**	**(7.7)**	(7.8)	–	(7.8)
Finance lease charges	**(37.1)**	**–**	**(37.1)**	(38.4)	–	(38.4)
Foreign exchange translation of monetary assets and liabilities	**–**	**–**	**–**	(0.3)	–	(0.3)
Less: interest capitalised (i)	**57.0**	**–**	**57.0**	75.9	–	75.9
Total finance costs	**(455.3)**	**–**	**(455.3)**	(425.7)	–	(425.7)
Changes in fair value of financing derivative assets or liabilities at fair value through profit or loss	**–**	**20.3**	**20.3**	–	(89.5)	(89.5)
Net finance costs	**(219.8)**	**20.3**	**(199.5)**	(175.6)	(89.5)	(265.1)
Finance income	**235.5**	**–**	**235.5**	250.1	–	250.1
Finance costs	**(455.3)**	**20.3**	**(435.0)**	(425.7)	(89.5)	(515.2)
Net finance costs	**(219.8)**	**20.3**	**(199.5)**	(175.6)	(89.5)	(265.1)

(i) The capitalisation rate applied in determining the amount of borrowing costs to capitalise in the period was 5.38% (2012 – 5.36%).

Recognised in equity

	2013 £m	2012 £m
Gain/(loss) on effective portion of cash flow hedges (i)	**46.4**	(15.3)
Share of jointly controlled entity/associate (loss) on effective portion of cash flow hedges (i)	**(0.4)**	(20.8)
	46.0	(36.1)

(i) Before deduction of tax.

8. Finance income and costs (continued)

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

	2013 £m	2012 £m
Net finance costs	**(199.5)**	(265.1)
(add)/less:		
Share of interest from jointly controlled entities and associates:		
Scotia Gas Networks loan stock	**(33.3)**	(33.4)
Other jointly controlled entities and associates	**(119.0)**	(113.1)
	(152.3)	(146.5)
Movement on financing derivatives	**(20.3)**	89.5
Adjusted finance income and costs	**(372.1)**	(322.1)
(add)/less:		
Return on pension scheme assets	**(134.1)**	(147.4)
Interest on pension scheme liabilities	**142.3**	149.8
Notional interest arising on discounted provisions	**7.7**	7.8
Finance lease charges	**37.1**	38.4
Hybrid coupon payment (Note 30)	**(63.4)**	(65.5)
Adjusted finance income and costs and hybrid coupon payments for interest cover calculations	**(382.5)**	(339.0)

9. Taxation

Analysis of charge recognised in the income statement:

	Before Exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	2013 £m	Before Exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	2012 £m
Current tax						
UK corporation tax	**243.5**	**(50.6)**	**192.9**	224.2	(16.9)	207.3
Adjustments in respect of previous years	**(23.5)**	**–**	**(23.5)**	(22.3)	–	(22.3)
Total current tax	**220.0**	**(50.6)**	**169.4**	201.9	(16.9)	185.0
Deferred tax						
Current year	**67.9**	**(129.2)**	**(61.3)**	93.3	(257.0)	(163.7)
Effect of change in tax rate	**–**	**(22.0)**	**(22.0)**	–	(45.7)	(45.7)
Adjustments in respect of previous years	**25.5**	**–**	**25.5**	29.6	–	29.6
Total deferred tax	**93.4**	**(151.2)**	**(57.8)**	122.9	(302.7)	(179.8)
Total taxation charge	**313.4**	**(201.8)**	**111.6**	324.8	(319.6)	5.2

Notes on the financial statements (continued)
for the year ended 31 March 2013

9. Taxation (continued)
The charge for the year can be reconciled to the profit per the income statement as follows:

	2013 £m	2013 %	2012 £m	2012 %
Group profit before tax	**600.9**	**–**	268.5	–
Less:				
Share of results of associates and jointly controlled entities	**(130.1)**	**–**	(139.4)	–
Profit before tax	**470.8**	**–**	129.1	–
Tax on profit on ordinary activities at standard UK corporation tax rate of 24% (2012 – 26%)	**113.0**	**24.0**	33.6	26.0
Tax effect of:				
Change in rate of UK corporation tax	**(22.0)**	**(4.7)**	(45.7)	(35.4)
Expenses not deductible for tax purposes	**15.8**	**3.4**	16.8	13.0
Impact of supplementary corporation tax	**24.2**	**5.1**	22.7	17.6
Impact of foreign tax rates and foreign dividends	**3.2**	**0.7**	(3.8)	(2.9)
Adjustments to tax charge in respect of previous years	**2.0**	**0.4**	7.3	5.7
Hybrid capital coupon payments	**(15.4)**	**(3.3)**	(16.6)	(12.9)
Consortium relief not paid for	**(6.6)**	**(1.4)**	(8.6)	(6.7)
Other items	**(2.6)**	**(0.5)**	(0.5)	(0.4)
Group tax charge and effective rate	**111.6**	**23.7**	5.2	4.0

The adjusted current tax charge is arrived at after the following adjustments:

	2013 £m	2013 %	2012 £m	2012 %
Total taxation charge	**111.6**	**23.7**	5.2	4.0
Effect of adjusting items (see below)	**–**	**(15.8)**	–	(3.6)
Total taxation charge on adjusted basis	**111.6**	**7.9**	5.2	0.4
add/(less):				
Share of current tax from jointly controlled entities and associates	**3.6**	**0.3**	11.5	0.9
Exceptional items	**151.6**	**10.7**	183.1	13.7
Tax on movement on derivatives	**50.2**	**3.6**	136.5	10.2
Deferred tax (excluding share of jointly controlled entities)	**(93.4)**	**(6.6)**	(122.9)	(9.2)
Adjusted current tax charge and effective rate	**223.6**	**15.9**	213.4	16.0

The adjusted effective rate is based on adjusted profit before tax being:

	2013 £m	2012 £m
Profit before tax	**600.9**	268.5
(add)/less:		
Exceptional items and certain remeasurements	**758.8**	1,022.3
Share of tax from jointly controlled entities and associates before exceptional items and certain remeasurements	**51.0**	44.9
Adjusted profit before tax	**1,410.7**	1,335.7

Tax (credit)/charge recognised directly in equity

	2013 £m	2012 £m
Relating to:		
Pension scheme actuarial movements	**(4.4)**	(30.3)
Cash flow and net investment hedge movements	**12.8**	3.7
	8.4	(26.6)

All tax recognised directly in equity is deferred tax.

10. Dividends
Ordinary dividends

	Year ended 31 March 2013 Total £m	Settled via Scrip £m	Pence per Ordinary share	Year ended 31 March 2012 Total £m	Settled via Scrip £m	Pence per ordinary share
Interim – year ended 31 March 2013	**241.2**	**82.5**	**25.2**	–	–	–
Final – year ended 31 March 2012	**529.3**	**172.7**	**56.1**	–	–	–
Interim – year ended 31 March 2012	**–**	**–**	**–**	224.8	76.3	24.0
Final – year ended 31 March 2011	**–**	**–**	**–**	492.1	11.9	52.6
	770.5	**255.2**		716.9	88.2	

The final dividend of 56.1p per Ordinary share declared in the financial year ended 31 March 2012 (2011 – 52.6p) was approved at the Annual General Meeting on 26 July 2012 and was paid to shareholders on 21 September 2012. 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 25.2p per Ordinary share (2012 – 24.0p) was declared and paid on 22 March 2013 to those shareholders on the SSE plc share register on 23 January 2013. 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 59.0p per Ordinary share (which equates to a dividend of £568.9m, based on the number of issued Ordinary shares at 31 March 2013) 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 2013 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 2013. All earnings are from continuing operations.

Adjusted earnings per share
Adjusted earnings per share has been calculated by excluding the charge for deferred tax, items disclosed as exceptional, and the impact of certain remeasurements as described in Note 6.

	Year ended 31 March 2013 Earnings £m	Year ended 31 March 2013 Earnings per share pence	Year ended 31 March 2012 Earnings £m	Year ended 31 March 2012 Earnings per share Pence
Basic	**425.9**	**44.7**	197.8	21.1
Exceptional items and certain remeasurements (Note 6)	**557.0**	**58.5**	702.7	74.9
Basic excluding exceptional items and certain remeasurements	**982.9**	**103.2**	900.5	96.0
Adjusted for:				
Deferred tax (Note 8)	**93.4**	**9.8**	122.9	13.1
Deferred tax from share of jointly controlled entities and associates results	**47.4**	**5.0**	33.4	3.6
Adjusted	**1,123.7**	**118.0**	1,056.8	112.7
Basic	**425.9**	**44.7**	197.8	21.1
Dilutive effect of outstanding share options	**–**	**(0.1)**	–	–
Diluted	**425.9**	**44.6**	197.8	21.1

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

	31 March 2013 Number of shares (millions)	31 March 2012 Number of shares (millions)
For basic and adjusted earnings per share	**952.0**	937.8
Effect of exercise of share options	**1.9**	1.5
For diluted earnings per share	**953.9**	939.3

Notes on the financial statements (continued)
for the year ended 31 March 2013

12. Notes to the Group cash flow statement
(a) Reconciliation of Group operating profit to cash generated from operations

		Consolidated		Company	
	Note	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Profit for the year		**489.3**	263.3	**929.9**	804.5
Add back: taxation	9	**111.6**	5.2	**35.3**	8.9
Add back: net finance costs	8	**199.5**	265.1	**(172.5)**	(51.5)
Operating profit		**800.4**	533.6	**792.7**	761.9
Less share of profit of joint ventures and associates		**(130.1)**	(139.4)	**–**	–
Operating profit before jointly controlled entities and associates		**670.3**	394.2	**792.7**	761.9
Movement on operating derivatives		**228.7**	433.7	**–**	–
Pension service charges less contributions paid		**(84.5)**	(100.2)	**(47.7)**	(47.9)
Exceptional impairment of assets		**561.3**	478.6	**–**	–
Other exceptional items		**6.9**	73.0	**187.9**	–
Depreciation of assets		**570.8**	561.8	**–**	–
Amortisation and impairment of intangible assets		**5.9**	13.5	**–**	–
Impairment of inventories		**3.6**	1.1	**–**	–
Release of provisions		**(0.6)**	(7.3)	**–**	–
Release of deferred income		**(16.8)**	(14.7)	**–**	–
Charge in respect of employee share awards (before tax)		**16.0**	13.5	**–**	–
Loss/(profit) on disposal of property, plant and equipment		**0.1**	(4.6)	**–**	–
Loss on disposal of investments		**–**	2.1	**–**	–
(Profit) on disposal of business and subsidiaries		**(8.2)**	(5.5)	**–**	–
Income from investment in subsidiaries, jointly controlled entities and associates		**–**	–	**(961.7)**	(747.6)
Cash generated from/(absorbed by) operations before working capital movements		**1,953.5**	1,839.2	**(28.8)**	(33.6)

(b) Reconciliation of net increase in cash and cash equivalents to movement in adjusted net debt and hybrid capital

		Consolidated	
	Note	**2013 £m**	2012 £m
Increase/(decrease) in cash and cash equivalents		**353.1**	(285.2)
Add:			
New borrowings	25	**(517.1)**	(1,024.1)
Repayment of borrowings	25	**694.7**	393.0
Issue of Hybrid Capital	30	**(1,025.4)**	–
Non-cash movement on borrowings		**(32.3)**	(40.7)
(Decrease)/increase in cash held as collateral	20	**(64.9)**	91.8
Movement in adjusted net debt and hybrid capital		**(591.9)**	(865.2)

Non-cash movement on borrowings includes revaluation of fair value items, exchange movements and accreditation of index linked bonds.

13. Goodwill and other intangible assets

Consolidated

	Goodwill £m	Allowances and certificates £m	Development assets £m	Other intangibles £m	Total £m
Cost:					
At 1 April 2011	727.8	342.0	323.5	76.6	1,469.9
Additions	–	503.7	36.1	0.1	539.9
Acquisitions (Note 18)	0.3	–	3.6	–	3.9
Transfer to Property Plant and Equipment (Note 14)	–	–	(52.5)	–	(52.5)
Disposals/utilised	–	(391.7)	–	–	(391.7)
Exchange adjustments	(8.8)	–	(2.5)	(2.9)	(14.2)
At 31 March 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**
Aggregate amortisation and impairment:					
At 1 April 2011	(42.5)	(16.4)	(62.1)	(50.2)	(171.2)
Charge for the year	–	–	(2.3)	(11.2)	(13.5)
Exceptional impairment (Note 6)	(49.3)	(71.9)	(37.4)	–	(158.6)
At 31 March 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)**
Carrying amount:					
At 31 March 2013	**635.8**	**368.4**	**216.0**	**66.2**	**1,286.4**
At 31 March 2012	627.5	365.7	206.4	12.4	1,212.0
At 1 April 2011	685.3	325.6	261.4	26.4	1,298.7

The Company does not hold intangible assets.

Intangible assets have been analysed as current and non-current as follows:

	2013 £m	2012 £m
Current	**368.4**	365.7
Non-current:		
Goodwill	**635.8**	627.5
Other	**282.2**	218.8
	1,286.4	1,212.0

Notes on the financial statements (continued)
for the year ended 31 March 2013

13. Goodwill and other intangible assets (continued)
(a) Impairment review of goodwill and basis of other impairment reviews
Goodwill is allocated to those cash-generating units (CGUs) expected to benefit from the respective business combination 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	2013 £m	2012 £m
Ireland wind farms	Electricity Generation and Energy Portfolio Management	**153.1**	153.1
UK wind farms	Electricity Generation and Energy Portfolio Management	**199.9**	199.9
UK Supply	Energy Supply	**187.0**	187.0
UK Generation	Electricity Generation and Energy Portfolio Management	**10.1**	10.1
Gas Storage	Gas Storage	**26.2**	26.2
Exploration and Production	Gas Production	**38.1**	38.1
Other Networks[1]	Other Networks	**10.6**	10.6
Energy-related Services[1]	Energy-related Services	**2.5**	2.5
Ireland Supply[1]	Energy Supply	**8.3**	–
		635.8	627.5

1. Represents goodwill balances related to acquisitions of Telecoms, Streetlighting (Other Networks) and Contracting businesses (Energy-related services) businesses and the Phoenix gas supply acquisition in the current financial year (£8.3m), which represents related deferred tax items. The amount of goodwill related to 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, it is concluded that no impairment is required.

The recoverable amounts of the UK Supply, Gas Storage and Exploration and Production CGUs are determined by reference to value-in-use calculations. The impairment review of the UK Generation CGU has been discontinued and is commented upon below. The value-in-use calculations use, as a starting point, pre-tax cash flow projections based on the Group's five year business model as approved by the Board. The Group's business 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 various 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 individual CGUs are assessed by management and 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 discounted accordingly.

The key assumptions used for the main value-in-use calculations are as follows:

Cash-generating unit	Operating segment	2013 Discount rate (%)	2012 Discount rate (%)	2013 and 2012 Cash flow projection period (years)
Ireland and UK wind farms (onshore and offshore)	Electricity Generation and Energy Portfolio Management	7.0%-9.0%	7.0%-9.0%	Up to 25
UK Supply	Energy Supply	7.3%	8.3%	5
UK Generation (excluding wind)	Electricity Generation and Energy Portfolio Management	7.3%	8.3%	Up to 15
Gas Storage	Gas Storage	7.3%	8.3%	25
Exploration and Production	Gas Production	8.0%-10.0%	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 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.

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:

All 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 UK) 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 these specific market factors, the basis of review of the respective CGUs is identical. The goodwill associated with the rest of Europe has been fully impaired in previous years.

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 UK wind CGUs include wind farms in operation and both CGUs include projects in the construction phase or in the development portfolio phase. These development projects are those which have not received consent or have not concluded all environmental or planning studies and as a consequence the associated cash flows have been probability adjusted.

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 available market information, continuing government support mechanisms for wind 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 amounts of the UK and Ireland wind farm CGUs exceeded the respective 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.

UK 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 new 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 historic and projected gross margin percentages. Revenues are based on the expected market share derived from the market share at the time of the approval of the business model adjusted for forecasted growth. Growth in customer numbers is moderate over the forecast period and cash outflows associated with increased customer service are incorporated accordingly. This growth rate is supported by reference to both past performance and management expectation.

Outcome of test

The recoverable amount of the UK 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.

UK Generation (excluding wind)

Goodwill of £10.1m is carried by the Group in relation to acquired deferred tax temporary differences. No other goodwill balances related to the UK Generation CGU were held at March 2011 and March 2012. The operational plants in Electricity Generation and Energy Portfolio Management are operated as part of the integrated business segment. All main thermal generation plants exhibiting indications of impairment due to market conditions and operational deployment decisions 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. Initial cash flow projections are based on gross margins expected to be achieved in the period of the five year business 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 business plan period are based on expected demand for gas storage and take into account published and projected gas wholesale prices, planned capital expenditure required to maintain the value of the facility and estimated operating costs.

Notes on the financial statements (continued)
for the year ended 31 March 2013

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 from generating plants. However, no further impairment has been recognised in the financial year following consideration of the immediate and longer term economic viability of the CGU. An impairment charge of £30.0m was recognised in the previous financial year and reasonably possible changes in assumptions could further impair the remaining goodwill balance of £26.2m. 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.

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 or oil, 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 (2012 – £71.9m) against the value of carbon emissions allowances held following the impairment reviews of its thermal generation assets and the economic prospects for those plants. This is commented in more detail at Note 6.

(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. The acquisitions in the year are summarised in Note 18. Exceptional impairment charges of £25.5m were recognised in relation to UK wind farm developments (£20.0m) and other development projects (£5.5m). In the prior year, an exceptional charge was recognised in relation to a prospective oil field and an offshore wind project (£37.4m).

(iii) Other intangible assets

Included within other intangible assets are brands, customer lists, contracts, application software licence 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.

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 31 March 2011	5,014.7	616.5	241.6	5,859.3	481.0	961.3	13,174.4
Additions	–	–	–	76.1	–	1,400.4	1,476.5
Transfer from Intangible Assets (Note 13) (iv)	–	–	–	–	–	52.5	52.5
Transfer from Assets under Construction	785.4	6.3	18.1	371.0	60.5	(1,241.3)	–
Disposals	(0.2)	–	(2.6)	(0.4)	(35.4)	–	(38.6)
Exchange rate adjustments	(28.8)	–	–	–	(2.0)	–	(30.8)
At 31 March 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 (iii)	(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**
Depreciation:							
At 1 April 2011	1,781.9	59.0	39.7	2,491.9	288.8	–	4, 661.3
Charge for the year	208.5	39.3	7.2	288.4	18.4	–	561.8
Exceptional impairments (v)	275.1		–	–	30.0	–	305.1
Disposals (iii)	(0.2)	–	(1.8)	(0.4)	(33.6)	–	(36.0)
Exchange rate adjustments	(10.0)	–	–	–	(1.3)	–	(11.3)
At 31 March 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**

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 2013	**3,793.0**	**716.6**	**211.4**	**4,311.5**	**185.4**	**620.4**	**9,838.3**
At 31 March 2012	3,515.8	524.5	212.0	3,526.1	201.8	1,172.9	9,153.1
At 1 April 2011	3,232.8	557.5	201.9	3,367.4	192.2	961.3	8,513.1

(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 £42.4m, (2012 – £37.6m).

(ii) Gas storage and production assets include decommissioning costs with a net book value of £53.2m (2012 – £68.6m).

(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.

Notes on the financial statements (continued)
for the year ended 31 March 2013

14. Property, plant and equipment (continued)

(v) Assets displaying indications of impairment, such as the SSE's main gas-fired and coal-fired generation plants and legacy Metering assets, are impairment reviewed under the value-in-use methodology.

The current year property, plant and equipment impairment charges in relation to the Keadby, Medway, Peterhead, Fiddler's Ferry and Ferrybridge thermal generation plants reflects the challenging market conditions for those plants and the operational strategy announced by the Group in March 2013. 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 gas prices, coal and oil prices as well as carbon emissions costs. Forecasts of availability and efficiency are based on management expectation and past performance. The valuations assume a recovery of market conditions in the latter period of the current decade. The discount rates applied was a pre-tax real rate of 7.3%. Total exceptional impairments of £303.3m (2012 – £305.1m) were recognised.

(vi) Assets under construction have been re-presented within the table on page 133 to aid understanding of these items. Assets under construction at the balance sheet date does not include expenditure on economically-regulated network assets.

The Company does not hold any property, plant or equipment.

Included within property, plant and equipment are the following assets held under finance leases:

Cost	Power generation assets £m	Network assets £m	Metering assets and other equipment £m	Total £m
At 1 April 2011 and 1 April 2012	387.8	5.0	7.0	399.8
Additions	–	–	–	–
At 31 March 2013	**387.8**	**5.0**	**7.0**	**399.8**
Depreciation				
At 31 March 2011	29.8	5.0	7.0	41.8
Charge for the year	18.5	–	–	18.5
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**
Net book value				
At 31 March 2013	**321.0**	**–**	**–**	**321.0**
At 31 March 2012	339.5	–	–	339.5
At 1 April 2011	358.0	–	–	358.0

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.

	£m
At 1 April 2012 and 31 March 2013	**3.4**

The pre-tax discount rate used in determining the fair value in 2013 was 8% (2012 – 8%). A 2.0% decrease/(increase) in the discount rate would increase/(decrease) the fair value of biological assets by approximately £0.5m (2012 – £0.5m). No trees were harvested during the year. The Company does not hold any biological assets.

16. Investments
(a) Associates and Joint Ventures

	Equity			Loans			
	SGN £m	Other JCEs and associates	**Equity total £m**	SGN £m	Other JCEs and associates £m	**Loans total £m**	**Total £m**
Share of net assets/cost							
At 31 March 2011	191.0	569.8	**760.8**	266.9	857.7	**1,124.6**	**1,885.4**
Additions	–	155.5	**155.5**	–	138.6	**138.6**	**294.1**
Repayment of shareholder loans	–	–	**–**	–	(25.9)	**(25.9)**	**(25.9)**
Conversion of loan to equity	–	35.4	**35.4**	–	(35.4)	**(35.4)**	**–**
Disposal of shareholder loan	–	–	**–**	–	(10.0)	**(10.0)**	**(10.0)**
Transfer to Held For Sale	–	(7.5)	**(7.5)**	–	–	**–**	**(7.5)**
Dividends received	(65.0)	(46.4)	**(111.4)**	–	–	**–**	**(111.4)**
Share of profit after tax	118.8	20.6	**139.4**	–	–	**–**	**139.4**
Share of other reserves adjustments	(12.2)	(3.2)	**(15.4)**	–	–	**–**	**(15.4)**
Disposal	–	(38.6)	**(38.6)**	–	–	**–**	**(38.6)**
Exchange rate adjustments	–	(6.5)	**(6.5)**	–	–	**–**	**(6.5)**
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 after tax	101.5	28.6	**130.1**	–	–	**–**	**130.1**
Share of other reserves adjustments	8.3	(1.3)	**7.0**	–	–	**–**	**7.0**
Disposal	–	(26.5)	**(26.5)**	–	–	**–**	**(26.5)**
Impairment	–	(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**

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 2011	190.0	–	**190.0**	266.9	762.6	**1,029.5**	**1,219.5**
Increase in shareholder loans	–	–	**–**	–	118.9	**118.9**	**118.9**
Repayment of shareholder loans	–	–	**–**	–	(8.4)	**(8.4)**	**(8.4)**
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**

Notes on the financial statements (continued)
for the year ended 31 March 2013

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:

	2013			2012		
	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Operating Profit	**468.1**	**–**	**468.1**	469.6	–	469.6
Finance Costs: excluding loan stock	**(188.7)**	**17.4**	**(171.3)**	(193.0)	28.3	(164.7)
Finance Costs: interest on loan stock	**(66.5)**	**–**	**(66.5)**	(66.8)	–	(66.8)
Profit before tax	**212.9**	**17.4**	**230.3**	209.8	28.3	238.1
Taxation	**(64.8)**	**37.4**	**(27.4)**	(69.2)	68.7	(0.5)
Profit for the year	**148.1**	**54.8**	**202.9**	140.6	97.0	237.6
SSE share of profit	**74.0**	**27.4**	**101.4**	70.3	48.5	118.8

As an investor, SSE plc received £33.3m (2012 – £33.4m) 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 2013	**6,120.0**	**114.7**	**(342.7)**	**(5,267.0)**
31 March 2012	5,870.4	159.8	(429.3)	(5,135.5)

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 2013	**445.2**	**2,326.7**	**(1,417.4)**	**(1,005.4)**	**562.1**	**89.1**
31 March 2012	133.6	1,721.8	(135.7)	(1,195.3)	268.4	40.7
Associates						
31 March 2013	**116.7**	**1,126.5**	**(56.1)**	**(37.9)**	**179.9**	**0.2**
31 March 2012	114.1	203.3	(45.5)	(42.5)	186.8	2.7

In addition to Scotia Gas Networks, the Group has investments in a number of materially significant joint ventures and associates. At 31 March 2012, the Group had provided loans of £761.6m (2012 – £740.3m) to Greater Gabbard Offshore Winds Limited, £124.7m (2012 – £132.9m) to Marchwood Power Limited and had invested equity and loans of £261.0m (2012 – £298.3m) in Walney (UK) Offshore Winds Limited.

16. Investments (continued)

(b) Other investments

Consolidated

	Faroe Petroleum £m	BIFab £m	Other £m	Total £m
At 31 March 2011	18.0	11.0	10.6	39.6
Additions in the year	–	–	2.1	2.1
Disposals	–	–	(5.6)	(5.6)
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**

Other investment additions in the year includes £10.0m invested in Greencoat Capital following disposal of certain wind farms (Note 18a).

Company

	Faroe Petroleum £m	Total £m
At 31 March 2012 and at 31 March 2013	**18.0**	**18.0**

17. Subsidiary undertakings

Details of the principal subsidiary undertakings are disclosed in the Accompanying Information section (A3) on page 183.

Investment in subsidiaries

Company

	Total £m
At 31 March 2011	2,318.4
Increase in existing investments (i)	30.7
At 31 March 2012	2,349.1
Increase in existing investments (i)	16.0
Transfers in (ii)	61.7
At 31 March 2013	**2,426.8**

(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 (2013 – £16.0m, 2012 – £13.5m) and shares issued in the subsidiary SSE E&P (UK) Limited in the prior year (2012 – £17.2m).

(ii) Equity in SSE Renewables Limited was transferred from SSE Renewables Group (UK) Limited at book value during the year.

Service concession arrangements

Details of the Group's service concession arrangements are disclosed in the Accompanying information Note (A3) on page 183.

Notes on the financial statements (continued)
for the year ended 31 March 2013

18. Acquisitions, disposals and held-for-sale assets

(a) Acquisitions

On 9 October 2012, the Group acquired 100% of the shares of Endesa Ireland Limited from Endesa Generacion SA for total consideration of £281.8m cash and £8.0m of deferred consideration. The business consists of four thermal generation plants in operation and a 460MW CCGT plant under construction (Great Island). The acquisition contributes towards the Group's aim of operating a balanced generation and supply business in Ireland. Following the acquisition the Company changed its name from Endesa Ireland Limited to SSE Generation Ireland Limited.

	£m
Assets acquired:	
Property, Plant and Equipment	268.2
Intangible Assets	25.3
Inventories	19.2
Cash	0.5
Other working capital items	15.5
Provisions	(26.4)
Deferred tax	(12.5)
Net Assets	**289.8**

The acquired business contributed £38.0m to revenue and £11.0m to operating profit in the year to 31 March 2013.

During the financial year, the Group acquired a number of other businesses and assets which are not considered material. On 22 June 2012, the Group acquired the Phoenix gas supply business in Northern Ireland for cash consideration of £29.3m and on 1 December 2012, the Group increased its stake to 50% in three producing North Sea gas fields for a net cash consideration of £25.5m. Other businesses were acquired in the year for cash consideration of £3.8m. A cash deposit of £18.0m in relation to the Sean gas field acquisition (see Note 36) was paid on 28 January 2013.

(b) Disposals

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 arrangements 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 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.

(c) Held-for-sale assets

At 31 March 2012, a number of wind generation and development assets were presented as held-for-sale following the decision of the Group's management to sell the respective companies and their related assets. In the year to 31 March 2013, the Group disposed of the majority of these items in the transactions noted at (b). The assets and liabilities classified as held for sale, and the comparative balances at 31 March 2012, are as follows:

	2013 £m	2012 £m
Property, Plant and Equipment	**2.3**	5.5
Equity investment in jointly controlled entities	**–**	58.3
Cash and cash equivalents	**–**	3.9
Other net current liabilities	**–**	0.3
	2.3	68.0

18. Acquisitions, disposals and held-for-sale assets (continued)

(d) Acquisitions and disposals in the previous year

(i) Acquisitions in the previous year

In the prior year, the Group acquired full ownership of three wind farm development companies including the acquisition of the remaining holding in St John's Hill Limited, a 50% owned joint venture that was designated as held-for-sale at March 2011. Total consideration paid for these businesses was £3.6m. The net assets acquired can be summarised in the following table:

	£m
Assets acquired:	
Goodwill	0.3
Intangible development assets	3.6
Deferred tax	(0.3)
Net Assets	**3.6**

St John's Hill Limited was subsequently disposed for cash consideration of £2.3m, which gave rise to a £0.3m gain on disposal.

(ii) Disposals in the prior year

In addition to the disposal of St John's Hill Limited, the Group disposed of three 100% owned wind farms for cash consideration of £176.4m on 14 April 2011. These wind farms were disclosed as held for sale assets at 31 March 2011. No gain or loss was recognised on the transaction. Consideration of £6.8m was received in respect of additional disposals of subsidiary investments, which realised a gain on disposal of £5.2m.

19. Inventories

	Consolidated	
	2013 £m	2012 £m
Fuel and consumables	**272.5**	308.2
Work in progress	**31.9**	26.1
Goods for resale	**2.6**	2.8
Less: provisions held	**(15.3)**	(13.4)
	291.7	323.7

The Group has recognised £1,519.4m within cost of sales in the year (2012 – £1,505.5m) and have also recognised £3.6m (2012 – £1.1m) relating to stock write-downs and increases in provisions held. The Company does not hold any inventories.

20. Trade and other receivables

	Consolidated		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Current assets				
Retail debtors	**825.6**	690.5	**–**	–
Wholesale trade receivables	**1,854.7**	2,553.3	**–**	–
Other trade receivables	**134.8**	101.3	**–**	–
Trade receivables	**2,815.1**	3,345.1	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**3,782.5**	2,917.8
Other receivables	**306.0**	286.7	**20.4**	17.8
Cash held as collateral	**55.0**	119.9	**–**	–
Prepayments and accrued income	**1,776.9**	1,422.9	**–**	–
	4,953.0	5,174.6	**3,802.9**	2,935.6
Non-current assets				
Amounts owed by subsidiary undertakings	**–**	–	**4,341.9**	3,790.6
	4,953.0	5,174.6	**8,144.8**	6,726.2

Other receivables includes financial assets totalling £39.9m (2012 – £21.8m). 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.

Notes on the financial statements (continued)
for the year ended 31 March 2013

21. Cash and cash equivalents

	Consolidated		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Bank balances	**517.8**	158.9	**289.2**	9.4
Call deposits	**20.9**	30.3	**–**	4.9
Cash and cash equivalents	**538.7**	189.2	**289.2**	14.3

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	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Cash and cash equivalents (from above)	**538.7**	189.2	**289.2**	14.3
Bank overdraft (Note 25)	**–**	(3.7)	**–**	–
Cash and cash equivalents in the statement of cash flows	**538.7**	185.5	**289.2**	14.3

22. Trade and other payables

	Consolidated		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Current liabilities				
Amounts due to subsidiary undertakings	**–**	–	**2,899.7**	2,463.2
Trade payables	**2,531.4**	3,212.5	**–**	–
Other creditors	**1,418.9**	1,344.6	**71.7**	51.7
Accruals and deferred income (i)	**1,097.3**	625.6	**–**	–
	5,047.6	5,182.7	**2,971.4**	2,514.9
Non-current liabilities				
Accruals and deferred income (ii)	**341.4**	332.7	**–**	–
	5,389.0	5,515.4	**2,971.4**	2,514.9

(i) Current accruals and deferred income includes customer contributions of £16.0m (2012 – £15.2m) and government grants of £1.0m (2012 – £0.6m).

(ii) Non-current accruals and deferred income includes customer contributions of £211.3m (2012 – £221.2m) and government grants of £6.9m (2012 – £5.0m).

23. Current tax liabilities

	Consolidated		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Corporation tax	**286.8**	231.8	**17.9**	10.7

24. Construction contracts

	2013 £m	2012 £m
Contracts in progress at balance sheet date:		
Amounts due from contract customers included in trade and other receivables (Note 20)	**47.1**	29.3
Amounts due to contract customers included in trade and other payables (Note 22)	**(33.4)**	(26.7)
Contract costs incurred plus recognised profits less recognised losses to date	**286.7**	201.6
Less: Progress billings	**(298.8)**	(209.0)
	(12.1)	(7.4)

In the year to 31 March 2013, contract revenue of £488.2m (2012 – £462.9m) was recognised.

At 31 March 2013, retentions held by customers for contract work amounted to £2.0m (2012 – £1.8m). Advances received from customers for contract work amounted to £3.6m (2012 – £12.9m).

The Company does not hold any construction contracts.

25. Loans and other borrowings

	Consolidated		Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Current				
Bank overdraft	**–**	3.7	**–**	–
Other short-term loans	**1,529.2**	693.1	**1,414.1**	440.1
	1,529.2	696.8	**1,414.1**	440.1
Obligations under finance leases	**15.4**	11.8	**–**	–
	1,544.6	708.6	**1,414.1**	440.1

	2013 £m	2012 £m	2013 £m	2012 £m
Non-current				
Loans	**4,225.4**	5,206.7	**3,011.6**	3,955.2
Obligations under finance leases	**315.0**	330.3	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**270.5**	268.2
	4,540.4	5,537.0	**3,282.1**	4,223.4
Total loans and borrowings	**6,085.0**	6,245.6	**4,696.2**	4,663.5
Cash and cash equivalents (Note 21)	**(538.7)**	(189.2)	**(289.2)**	(14.3)
Unadjusted Net Debt	**5,546.3**	6,056.4	**4,407.0**	4,649.2
Add/(less):				
Hybrid capital (Note 30)	**2,186.8**	1,161.4	**2,186.8**	1,161.4
Obligations under finance leases	**(330.4)**	(342.1)	**–**	–
Cash held as collateral (Note 20)	**(55.0)**	(119.9)	**–**	–
Adjusted Net Debt and Hybrid Capital	**7,347.7**	6,755.8	**6,593.8**	5,810.6

Notes on the financial statements (continued)
for the year ended 31 March 2013

25. Loans and other borrowings (continued)
(i) Borrowings
Borrowing facilities

The Group has an established €1.5bn Euro Commercial Paper programme. Paper can be issued in a range of currencies and is swapped back into Sterling. The Group has £1.0bn (2012: £1.0bn) of committed credit facilities in place, maturing in August 2015, which provide a backup to the commercial paper programme and at 31 March 2013 these facilities were undrawn. In addition the Group has a further £650m of bank facilities that will be drawn down in the course of next year at which point they will become term loans.

In the year the Group undertook a US private placement for a total consideration of $700m (£446m) which was split over four tranches with a weighted average maturity of 10.3 years and an all-in funding cost of around 4.25% once swapped to Sterling.

Analysis of borrowings

Loans and borrowings – Consolidated

	2013 Weighted average interest rate (vi)	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
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
5.75% Eurobond repayable 5 February 2014	5.75%	700.0	726.6	699.2
Total current		1,530.0	1,585.1	1,529.2
Non-current				
Bank loans – non-amortising (v)	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
Between two and five years		139.4	136.0	139.3
Bank loans – non-amortising (v)	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
US Private Placement 16 April 2019	3.66%	67.0	72.6	66.7
4.25% Eurobond repayable 14 September 2021	4.25%	300.0	331.0	296.7
US Private Placement 16 April 2022	4.31%	162.7	179.0	162.1
5.875% Eurobond repayable on 26 September 2022	5.88%	300.0	373.0	297.4
US Private Placement 16 April 2024	4.44%	204.1	224.0	203.5
8.375% Eurobond repayable on 20 November 2028	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
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
Fair value adjustment (vi) (Note 33)		–	–	47.9
Total non-current		4,200.2	5,014.5	4,225.4
Total		5,730.2	6,599.6	5,754.6

25. Loans and other borrowings (continued)

Loans and borrowings – Consolidated

	2012 Weighted average interest rate (vi)	2012 Face value £m	2012 Fair value £m	2012 Carrying amount £m
Current				
Bank overdrafts (i)	0.50%	3.7	3.7	3.7
Other short-term loans – amortising (ii)	6.04%	4.1	4.3	4.1
Other short-term loans – non-amortising (iii)	2.46%	676.1	678.4	675.2
Non-recourse funding (iv)	5.73%	13.8	13.8	13.8
Total current		697.7	700.2	696.8
Non-current				
Bank loans – amortising (ii)	5.79%	1.4	1.5	1.4
Bank loans – non-amortising (v)	4.92%	370.2	382.2	370.7
6.125% Eurobond repayable on 29 July 2013	6.13%	500.3	530.0	499.6
5.75% Eurobond repayable 5 February 2014	5.75%	700.0	747.9	698.2
Non-recourse funding (iv)	5.88%	59.4	59.4	59.4
Between two and five years		1,631.3	1,721.0	1,629.3
Bank loans – non-amortising (v)	2.61%	526.6	552.2	526.6
Non-recourse funding (iv)	6.30%	188.7	188.7	188.7
5.000% Eurobond repayable on 1 October 2018	5.00%	500.0	553.2	496.5
4.25% Eurobond repayable 14 September 2021	4.25%	300.0	307.7	296.4
5.875% Eurobond repayable on 26 September 2022	5.88%	300.0	349.1	297.1
8.375% Eurobond repayable on 20 November 2028	8.38%	500.0	709.6	493.1
5.50% Eurobond repayable on 19 June 2032	5.50%	350.0	387.8	350.2
4.625% Eurobond repayable on 20 February 2037	4.63%	325.0	315.3	323.6
6.25% Eurobond repayable on 27 August 2038	6.25%	350.0	413.7	345.8
4.454% Index linked loan repayable on 27 February 2044	4.46%	110.4	188.9	110.4
1.429% Index linked bond repayable on 20 October 2056	1.72%	118.4	120.4	117.8
Over five years		3,569.1	4,086.6	3,546.2
Fair value adjustment (vi) (Note 33)				31.2
Total non-current		5,200.4	5,807.6	5,206.7
Total		5,898.1	6,507.8	5,903.5

(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 2012 and 2015.

(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 are as noted. The weighted average interest rates for the Group (including swaps) for the year ended 31 March 2013 was 5.26% (2012 – 5.06%).

Notes on the financial statements (continued)
for the year ended 31 March 2013

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	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Amounts payable:				
Within one year	**51.2**	48.8	**15.4**	11.8
Between one and five years	**199.1**	199.9	**73.0**	66.5
After five years	**373.4**	423.2	**242.0**	263.8
	623.7	671.9	**330.4**	342.1
Less: future finance charge	**(293.3)**	(329.8)		
Present value of lease obligations	**330.4**	342.1		

The Group entered into a power purchase agreement categorised as a finance lease with Marchwood Power Ltd 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. £18.9m (2012 – £19.6m) 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 2011	767.9	131.5	(173.8)	181.0	906.6
Acquisitions	–	–	–	0.3	0.3
(Credit)/charge to Income Statement	(64.9)	(131.0)	28.4	(12.3)	(179.8)
(Credit)/charge to equity	–	(4.7)	(30.3)	8.4	(26.6)
Exchange adjustments	–	–	–	(0.8)	(0.8)
At 31 March 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**

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 2011	(9.9)	(62.3)	1.1	(51.0)	(122.1)
(Credit)/charge to Income Statement	(16.4)	9.7	(0.1)	11.1	4.3
(Credit)/charge to equity	(3.6)	5.5	–	–	1.9
At 31 March 2012	(29.9)	(47.1)	1.0	(39.9)	(115.9)
Charge/(credit) 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)**

(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	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Deferred tax liabilities	**806.6**	921.8	**–**	–
Deferred tax assets	**(155.4)**	(222.1)	**(96.8)**	(115.9)
Net deferred tax liabilities/(asset)	**651.2**	699.7	**(96.8)**	(115.9)

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 £47.4m (2012 – £33.4m charge).

A deferred tax asset has not been recognised on £66.0m of trading losses (2012 – £56.3m) due to uncertainty around the availability of future profits in the companies concerned.

27. Provisions

	Decommissioning (i) £m	Contracting provisions (ii) £m	Onerous contracts (iii) £m	Other (iv) £m	Total £m
Consolidated					
At 1 April 2012	151.9	24.1	37.4	24.2	237.6
Charged in the year	0.3	8.9	–	47.7	56.9
Unwind of discount	7.7	–	–	–	7.7
Released during the year	–	–	–	(0.6)	(0.6)
Acquired	25.1	–	–	4.7	29.8
Utilised during the year	–	(1.7)	(37.4)	(2.7)	(41.8)
At 31 March 2013	**185.0**	**31.3**	**–**	**73.3**	**289.6**
At 31 March 2013					
Non-current	185.0	16.0	–	28.5	229.5
Current	–	15.3	–	44.8	60.1
	185.0	**31.3**	**–**	**73.3**	**289.6**
At 31 March 2012					
Non-current	151.9	13.0	–	17.4	182.3
Current	–	11.1	37.4	6.8	55.3
	151.9	24.1	37.4	24.2	237.6

Notes on the financial statements (continued)
for the year ended 31 March 2013

27. Provisions (continued)

(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 Endesa Ireland and the increase in SSE's share of certain gas fields have been recognised in the year.

(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.

(iii) The Group utilised provisions of £37.4m held in relation to onerous contracts in the year. The initial recognition of these provisions was as exceptional charges and accordingly the utilisation credit has been included in exceptional items (Note 6).

(iv) Other provisions include balances held in relation to insurance and warranty claims and costs associated with licence condition breaches. In the year, provisions totalling £47.7m were recognised in relation to restructuring costs related to the closure of certain thermal generation plants, exit costs in relation to certain investments and developments and legal and contractual disputes with £44.3m being recognised as exceptional charges (Note 6). The Group also has an employer financed retirement benefit provision for pensions for certain Directors and former Directors and employees, which is valued in accordance with IAS 19.

The Company does not hold provisions.

28. Share capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 1 April 2012	944.7	472.3
Issue of shares (i)	19.6	9.8
At 31 March 2013	**964.3**	**482.1**

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 56.1p per Ordinary share (in relation to year ended 31 March 2012) and the interim dividend of 25.2p (in relation to the current year) under the terms of the Company's Scrip dividend scheme. This resulted in the issue of 13,213,634 and 5,920,120 new fully paid Ordinary shares respectively (2012: 907,008 and 6,273,193). In addition, the Company issued 0.5m (2012 – 0.6m) shares during the year under the savings-related share option schemes for a consideration of £5.7m (2012 – £6.1m).

During the year, on behalf of the Company, the employee share trust purchased 0.6m shares for a total consideration of £7.7m (2012 – 0.4m shares, consideration of £4.9m). At 31 March 2013, the trust held 3.5m shares (2012 – 3.6m) which had a market value of £51.9m (2012 – £48.0m).

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 108 and 109).

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 £866.5m (2012 – £739.0m). As allowed by section 408 of the Companies Act 2006, the Company has not presented its own income statement.

30. Hybrid capital

	2013 £m	2012 £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**	–
EUR 750m 5.625% perpetual subordinated capital securities	**598.2**	–
	2,186.8	1,161.4

On 18 September 2012 the Company issued €750m EUR and $700m USD bonds (hybrid capital). This added to the GBP and EUR hybrid capital bonds that were issued in 20 September 2010. 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 at their principal amounts on 1 October 2015 or 1 October 2020 or any subsequent coupon payment date.

30. Hybrid capital (continued)

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).

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. Coupon payments of £63.4m (2012 – £65.5m) in relation to the capital issued on 20 September 2010 were made on 1 October 2012. 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 to fund the Group's ongoing capital investment and acquisitions.

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	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Scottish Hydro-Electric (Company)	Defined benefit	**(136.6)**	(68.8)	**(185.9)**	(196.2)
Southern Electric	Defined benefit	**(26.7)**	(164.1)	**(519.9)**	(535.7)
		(163.3)	(232.9)	**(705.8)**	(731.9)
IFRIC 14 movement		**113.1**	71.8		
Net actuarial loss and movement in IFRIC 14 liability		**(50.2)**	(161.1)		

The Scottish Hydro-Electric Pension Scheme net liability of £185.9m (2012 – £196.2m) is presented after an IFRIC 14 minimum funding requirement of £189.3m (2012 – £302.4m).

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 2010
Valuation carried out by	Hymans Robertson	Aon Hewitt
Value of assets based on valuation	£1,374.5m	£1,183.5m
Value of liabilities based on valuation	£1,621.2m	£1,666.6m
Valuation method adopted	Projected Unit	Projected Unit
Average salary increase	Inflation curve plus 1.5% pa	5.2%
Average pension increase	RPI	3.7%
Value of fund assets/accrued benefits	84.8%	71.0%

Notes on the financial statements (continued)
for the year ended 31 March 2013

31. Retirement benefit obligations (continued)

Both schemes have been updated to 31 March 2013 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 2013	At 31 March 2012
Rate of increase in pensionable salaries	**4.7%**	4.7%
Rate of increase in pension payments	**3.2%**	3.2%
Discount rate	**4.1%**	4.6%
Inflation rate	**3.2%**	3.2%

The assumptions relating to longevity underlying the pension liabilities at 31 March 2013 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 2013 Male	At 31 March 2013 Female	At 31 March 2012 Male	At 31 March 2012 Female
Currently aged 65	**24**	**25**	24	25
Currently aged 45	**26**	**28**	26	28

The impact on the schemes liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2013		At 31 March 2012	
	Increase/decrease in assumption	Effect on scheme liabilities	Increase/decrease in assumption	Effect on scheme liabilities
Discount rate	**0.1%**	**+/- 1.9%**	0.1%	+/- 1.8%
Longevity	**1 year**	**+/- 3.2%**	1 year	+/- 2.9%

Valuation of combined Pension Schemes

	Consolidated				Company			
	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 2012 %	Value at 31 March 2012 £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 2012 %	Value at 31 March 2012 £m
Equities	**6.7**	**1,109.0**	7.0	1,040.3	**7.0**	**407.2**	7.0	406.6
Government bonds	**3.0**	**883.0**	3.3	939.4	**3.0**	**736.0**	3.3	636.9
Corporate bonds	**4.1**	**812.0**	4.6	481.2	**4.1**	**281.9**	4.6	189.7
Other investments	**3.7**	**314.1**	4.3	234.2	**4.6**	**140.9**	4.3	122.0
Total fair value of plan assets		**3,118.1**		2,695.1		**1,566.0**		1,355.2
Present value of defined benefit obligation		**(3,634.6)**		(3,124.6)		**(1,562.6)**		(1,249.0)
Pension (liability)/asset (pre IFRIC 14)		**(516.5)**		(429.5)		**3.4**		106.2
IFRIC 14 liability (i)		**(189.3)**		(302.4)		**(189.3)**		(302.4)
Deficit in the scheme		**(705.8)**		(731.9)		**(185.9)**		(196.2)
Deferred tax thereon		**162.3**		175.7		**42.8**		47.1
Net pension liability		**(543.5)**		(556.2)		**(143.1)**		(149.1)

(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 in the Scottish Hydro-Electric scheme.

31. Retirement benefit obligations (continued)

Movements in the defined benefit obligation during the year:

	Consolidated		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
At 1 April	**(3,124.6)**	(2,758.0)	**(1,249.0)**	(1,086.7)
Movements in the year:				
Service costs	**(40.8)**	(37.8)	**(20.6)**	(17.7)
Member contributions	**(7.6)**	(7.8)	**(3.2)**	(3.3)
Benefits paid	**112.5**	112.8	**40.1**	40.1
Interest on pension scheme liabilities	**(142.3)**	(149.8)	**(57.1)**	(59.2)
Actuarial (losses)	**(431.8)**	(284.0)	**(272.8)**	(122.2)
At 31 March	**(3,634.6)**	(3,124.6)	**(1,562.6)**	(1,249.0)

Movements in scheme assets during the year:

	Consolidated		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
At 1 April	**2,695.1**	2,463.6	**1,355.2**	1,221.1
Movements in the year:				
Expected return on pension scheme assets	**134.1**	147.4	**63.8**	69.6
Assets distributed on settlement	**(112.5)**	(112.8)	**(40.1)**	(40.1)
Employer contributions	**125.3**	138.0	**47.7**	47.9
Member contributions	**7.6**	7.8	**3.2**	3.3
Actuarial gains	**268.5**	51.1	**136.2**	53.4
At 31 March	**3,118.1**	2,695.1	**1,566.0**	1,355.2

Charges/(credits) recognised:

	Consolidated		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Current service cost (charged to operating profit)	**40.8**	37.8	**20.6**	17.7
	40.8	37.8	**20.6**	17.7
Charged/(credited) to finance costs:				
Expected return on pension scheme assets	**(134.1)**	(147.4)	**(63.8)**	(69.6)
Interest on pension scheme liabilities	**142.3**	149.8	**57.1**	59.2
	8.2	2.4	**(6.7)**	(10.4)

History of (deficit)

	Consolidated					Company				
	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m	**2013 £m**	2012 £m	2011 £m	2010 £m	2009 £m
Total fair value of plan assets	**3,118.1**	2,695.1	2,463.6	2,298.3	1,786.8	**1,566.0**	1,355.2	1,221.1	1,118.8	860.0
Present value of defined benefit obligation	**(3,634.6)**	(3,124.6)	(2,758.0)	(2,762.3)	(1,929.8)	**(1,562.6)**	(1,249.0)	(1,086.7)	(1,113.6)	(729.5)
IFRIC 14 Liability	**(189.3)**	(302.4)	(374.2)	(256.3)	(130.5)	**(189.3)**	(302.4)	(374.2)	(256.3)	(130.5)
(Deficit) in the scheme	**(705.8)**	(731.9)	(668.6)	(720.3)	(273.5)	**(185.9)**	(196.2)	(239.8)	(251.1)	–

Return on assets

As required by IAS 19, the expected return on assets is based on the long-term expectation of returns for each asset class at the beginning of the year. The return on equities is 3.7% per annum in excess of the yield on government bonds. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation at 31 March 2013.

Notes on the financial statements (continued)
for the year ended 31 March 2013

31. Retirement benefit obligations (continued)
The actual return on Pension Scheme assets is as follows:

	Consolidated		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Actual return on Pension Scheme assets	**402.6**	198.5	**200.0**	123.0

History of experience gains and losses

	Consolidated					Company				
	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m	**2013 £m**	2012 £m	2011 £m	2010 £m	2009 £m
Total actuarial (losses) and gains recognised in the Statement of Comprehensive Income before adjustment for taxation	**(163.3)**	(232.9)	109.1	(383.0)	(359.0)	**(136.6)**	(68.8)	92.3	(161.6)	(188.4)
Experience (losses)/gains on scheme liabilities	**(57.4)**	17.3	52.7	(59.8)	0.8	**(54.4)**	6.2	26.9	(49.7)	–
Experience gains/(losses) on scheme assets	**268.5**	51.1	14.7	394.1	(412.2)	**136.2**	53.4	23.1	200.4	(190.0)

The cumulative actuarial losses recognised in the Statement of Comprehensive Income before adjustment for taxation since the adoption of IAS 19 is £1,047.4m losses (2012 – £997.2m).

Defined contribution scheme
The total contribution paid by the Group to defined contribution schemes was £27.4m (2012 – £19.1m).

Employer financed retirement benefit (EFRB) pension costs
The increase in the year in relation EFRB was £3.7m (2012 – £5.4m). This is included in other provisions (Note 27).

Staff costs analysis
The pension costs in Note 7 can be analysed thus;

	2013 £m	2012 £m
Service costs	**40.8**	37.8
Defined contribution scheme payments	**27.4**	19.1
	68.2	56.9

Expected contribution in the year to 31 March 2014
The Group currently expects to make contributions of £48.1m and £78.1m to the Scottish Hydro-Electric Pension Scheme and the Southern Electric Pension Scheme in the year to 31 March 2014, respectively. These contributions include deficit repair contributions of £29.5m and £56.7m respectively.

32. Employee share-based payments
The 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.

32. Employee share-based payments (continued)

(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.

In addition to the shares purchased on behalf of the employee, the Company will also match the purchase up to a maximum of 6 (previously 5) shares ('Matching' shares) per month. These shares are also held in trust and become free of liability to income tax and national insurance on their fifth anniversary. If an employee leaves during the first three years, or removes his/her 'partnership' shares, these 'matching' shares are forfeited.

In addition to the above, the following special awards of free shares have been made:

Award made	31 March 2007	31 March 2008
Free shares per employee	20	10
Date at which employee must still be employed to receive award (in addition to 31 March)	30 May 2007	1 August 2008

These awards were made to all employees in recognition of their contribution to the success of the Group. Under the arrangements for the awards, the shares are held in trust for five years and become free of liability to income tax and national insurance on their fifth anniversary. These shares may be withdrawn at any point during years four and five, but income 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.

(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		2 June 2009	2 June 2010	2 June 2011	2 June 2012
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 + 9%	RPI + 8%	RPI + 8%	RPI + 8%
	25% vesting	RPI + 3%	RPI + 2%	RPI + 2%	RPI + 2%
Dividend per share growth (iii)	Full vesting	–	RPI + 6%	RPI + 6%	RPI + 6%
	25% vesting	–	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 FTSE 100 companies for the 2009 award and TSR target relative to other FTSE 100 companies and MSCI Europe Utilities (a dedicated peer group of UK and other European utilities) Index for all other awards over the relevant performance period. 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.

Notes on the financial statements (continued)
for the year ended 31 March 2013

32. Employee share-based payments (continued)

(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 £16.0m (2012 – £13.5m) was recognised in the Income Statement in relation to these schemes, £1.9m (2012 – £1.4m) of this was in relation to the Directors of the Company.

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 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 at 31 March 2012

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)
14 July 2005	886	26,554	–	(3,318)	(23,236)	–	1 October 2010	31 March 2011
11 July 2006	999	517,837	–	(485,772)	(5,293)	26,772	1 October 2011	31 March 2012
10 July 2007	1,306	190,752	–	(216)	(190,536)	–	1 October 2010	31 March 2011
10 July 2007	1,306	264,679	–	(392)	(16,676)	247,611	1 October 2012	31 March 2013
17 July 2008	1,274	178,681	–	(74,697)	(11,497)	92,487	1 October 2011	31 March 2012
17 July 2008	1,274	270,597	–	(150)	(24,775)	245,672	1 October 2013	31 March 2014
30 June 2009	1,042	308,351	–	(7,382)	(24,123)	276,846	1 October 2012	31 March 2013
30 June 2009	1,042	562,907	–	(2,664)	(46,839)	513,404	1 October 2014	31 March 2015
30 June 2010	871	771,919	–	(4,320)	(65,287)	702,312	1 October 2013	31 March 2014
30 June 2010	871	2,946,250	–	(5,222)	(178,675)	2,762,353	1 October 2015	31 March 2016
29 June 2011	1,105	–	426,347	–	(40,328)	386,019	1 October 2014	31 March 2015
29 June 2011	1,105	–	765,339	(45)	(53,423)	711,871	1 October 2016	31 March 2017
		6,038,527	1,191,686	(584,178)	(680,688)	5,965,347		

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,433p (2012 – 1,291p) 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 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**		

As at 31 March 2012

Award date	Option price (pence)	Outstanding at start of year	Granted	Exercised	Outstanding at end of year	Date from which exercisable	Expiry date
10 July 2007	1,306	144	–	(144)	–	1 October 2010	31 March 2011
17 July 2008	1,274	442	–	(442)	–	1 October 2011	31 March 2012
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
		2,535	–	(586)	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 2006		July 2007		July 2008		July 2009		July 2010		July 2011		July 2012	
	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	217p	227p	287p	313p	304p	339p	244p	269p	231p	246p	171p	163p	182p	159p
Expected volatility	19%	19%	25%	25%	28%	28%	35%	35%	19%	19%	18%	18%	18%	18%
Risk free rate	4.7%	4.7%	5.8%	5.7%	4.9%	5.0%	2.7%	2.9%	1.4%	2.2%	1.2%	2.1%	0.4%	0.9%
Expected dividends	4.8%	4.8%	5.3%	5.2%	4.1%	4.2%	4.1%	4.2%	1.7%	2.2%	6.1%	6.1%	5.9%	5.8%
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	1,180p	1,180p	1,460p	1,460p	1,397p	1,397p	1,139p	1,139p	1,089p	1,089p	1,393p	1,393p	1,391p	1,391p
Strike price	999p	999p	1,306p	1,306p	1,274p	1,274p	1,042p	1,042p	871p	871p	1,105p	1,105p	1,065p	1,065p

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			
	2013		2012		**2013**		2012	
	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	**1,899,009**	**1,219**	1,752,503	1,205	**1,008**	**1,091**	1,320	1,135
Granted during the year	**610,162**	**1,395**	522,744	1,315	**216**	**1,393**	240	1,320
Forfeited during the year	**(90,652)**	**1,263**	(92,419)	1,194	**–**	**–**	–	–
Exercised during the year	**(96,718)**	**1,255**	(98,585)	1,304	**–**	**–**	(342)	1,287
Transfer to pool during the year	**(195,345)**	**1,506**	(185,234)	1,328	**(180)**	**1,507**	(210)	1,311
Outstanding at end of year	**2,126,456**	**1,240**	1,899,009	1,219	**1,044**	**1,240**	1,008	1,091
Exercisable at end of year	**645,462**	**1,301**	802,911	1,581	**414**	**1,301**	192	1,260

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 2013

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			
	2013		2012		2013		2012	
	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	**262,277**	**1,187**	308,163	1,224	**90**	**1,098**	120	1,151
Forfeited during the year	**–**	**–**	(1,860)	1,225	**–**	**–**	–	–
Exercised during the year	**22,682**	**1,432**	(43,976)	1,310	**–**	**–**	(30)	1,310
Transfer to pool during the year	**(146,731)**	**1,474**	(50)	1,000	**(60)**	**1,474**	–	–
Outstanding at end of year	**138,228**	**1,417**	262,277	1,187	**30**	**1,417**	90	1,098
Exercisable at end of year	**138,228**	**1,417**	262,277	1,187	**30**	**1,417**	90	1,098

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			
	2013		2012		2013		2012	
	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	**395,755**	**1,198**	463,855	1,270	**68,208**	**1,177**	92,165	1,251
Granted during the year	**95,681**	**1,383**	134,328	1,342	**9,210**	**1,383**	20,454	1,342
Forfeited during the year	**(18,434)**	**1,196**	(14,403)	1,144	**–**	**–**	–	–
Exercised during the year	**(126,788)**	**1,177**	(188,025)	1,484	**(23,068)**	**1,174**	(44,411)	1,545
Outstanding at end of year	**346,214**	**1,257**	395,755	1,198	**54,350**	**1,229**	68,208	1,177
Exercisable at end of year	**2,298**	**1,327**	1,867	1,277	**–**	**–**	–	–

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			
	2013		2012		2013		2012	
	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	**2,040,423**	**1,185**	1,992,484	1,226	**854,380**	**1,177**	875,064	1,233
Granted during the year	**656,437**	**1,383**	580,614	1,342	**212,490**	**1,383**	204,561	1,342
Forfeited during the year	**(738,000)**	**1,204**	(476,916)	1,505	**(311,174)**	**1,174**	(225,245)	1,545
Exercised during the year	**(49,293)**	**1,174**	(55,759)	1,545	**–**	**–**	–	–
Outstanding at end of year	**1,909,567**	**1,246**	2,040,423	1,185	**755,696**	**1,236**	854,380	1,177

Of the outstanding options at the end of the year, none were exercisable.

32. Employee share-based payments (continued)

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.

(v) Long Term Incentive Plan

	2013		2012	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	225,687	1,342	–	–
Granted during year	50,986	1,383	225,687	1,342
Forfeited during year	(29,806)	1,342	–	–
Outstanding at end of year	246,867	1,350	225,687	1,342

Of the outstanding options at the end of the year, none were exerciseable. 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 2013, the Group's long term credit rating was A3 stable outlook for Moody's and A- negative outlook for Standard & Poors. 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 14 to 27 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, US Dollars and Euros as well as private placements and medium term bank loans predominately 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 £1.65bn of committed bank facilities of which £0.65bn are new bank facilities entered into during this year and are required to be draw down during 2013 at which point they will become term loans. The remaining £1.0bn relates 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.

During the year the Group completed in April 2012 a private placement of senior notes with 22 US based investors for a total consideration of \$700m (£446m) over four tranches with a weighted average maturity of 10.3 years and an average all in rate of around 4.25% once swapped to Sterling. The Group also successfully issued in September 2012 further hybrid capital securities comprising \$700m (£427.2m) and €750m (£598.2m), with an all-in Euro funding cost of around 5.6% per annum.

The Group capital comprises:

	2013 £m	2012 £m
Total borrowings (excluding finance leases)	5,754.6	5,903.5
Less: Cash and cash equivalents	(538.7)	(189.2)
Net debt (excluding hybrid capital)	5,215.9	5,714.3
Hybrid capital	2,186.8	1,161.4
Equity attributable to shareholders of the parent	3,362.1	3,422.7
Total capital	10,764.8	10,298.4

Notes on the financial statements (continued)
for the year ended 31 March 2013

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 covenants:

- **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 2.5:1.

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 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 Management Board comprising three Executive Directors and senior managers 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:

	2013 Amortised cost or other (i) £m	2013 Classified as trading (ii) £m	2013 Total carrying value £m	2013 Fair value £m	2012 Amortised cost or other (i) £m	2012 Classified as trading (ii) £m	2012 Total carrying value £m	2012 Fair value £m
Financial assets								
Current								
Trade receivables	**2,815.1**	**–**	**2,815.1**	**2,815.1**	3,345.1	–	3,345.1	3,345.1
Other receivables	**39.9**	**–**	**39.9**	**39.9**	21.8	–	21.8	21.8
Cash collateral	**55.0**	**–**	**55.0**	**55.0**	119.9	–	119.9	119.9
Cash and cash equivalents	**538.7**	**–**	**538.7**	**538.7**	189.2	–	189.2	189.2
Derivative financial assets	**–**	**940.8**	**940.8**	**940.8**	–	851.2	851.2	851.2
	3,448.7	**940.8**	**4,389.5**	**4,389.5**	3,676.0	851.2	4,527.2	4,527.2
Non-current								
Unquoted equity investments	**28.7**	**–**	**28.7**	**28.7**	18.1	–	18.1	18.1
Loans to associates and jointly controlled entities	**1,244.0**	**–**	**1,244.0**	**1,244.0**	1,191.9	–	1,191.9	1,191.9
Derivative financial assets	**–**	**382.4**	**382.4**	**382.4**	–	348.0	348.0	348.0
	1,272.2	**382.4**	**1,654.6**	**1,654.6**	1,210.0	348.0	1,558.0	1,558.0
	4,721.4	**1,323.2**	**6,044.6**	**6,044.6**	4,886.0	1,199.2	6,085.2	6,085.2
Financial liabilities								
Current								
Trade payables	**(2,531.4)**	**–**	**(2,531.4)**	**(2,531.4)**	(3,212.5)	–	(3,212.5)	(3,212.5)
Bank loans and overdrafts	**(1,529.2)**	**–**	**(1,529.2)**	**(1,530.0)**	(696.8)	–	(696.8)	(700.2)
Finance lease liabilities	**(15.4)**	**–**	**(15.4)**	**(15.4)**	(11.8)	–	(11.8)	(11.8)
Derivative financial liabilities	**–**	**(1,011.2)**	**(1,011.2)**	**(1,011.2)**	–	(817.6)	(817.6)	(817.6)
	(4,076.0)	**(1,011.2)**	**(5,087.2)**	**(5,088.0)**	(3,921.1)	(817.6)	(4,738.7)	(4,742.1)
Non-current								
Loans and Borrowings (iii)	**(4,177.5)**	**(47.9)**	**(4,225.4)**	**(5,062.4)**	(5,175.5)	(31.2)	(5,206.7)	(5,807.6)
Finance lease liabilities	**(315.0)**	**–**	**(315.0)**	**(315.0)**	(330.3)	–	(330.3)	(330.3)
Derivative financial liabilities	**–**	**(473.4)**	**(473.4)**	**(473.4)**	–	(399.2)	(399.2)	(399.2)
	(4,492.5)	**(521.3)**	**(5,013.8)**	**(5,850.8)**	(5,505.8)	(430.4)	(5,936.2)	(6,537.1)
	(8,568.5)	**(1,532.5)**	**(10,101.0)**	**(10,938.8)**	(9,426.9)	(1,248.0)	(10,674.9)	(11,279.2)
Net financial liabilities	**(3,847.1)**	**(209.3)**	**(4,056.4)**	**(4,894.2)**	(4,540.9)	(48.8)	(4,589.7)	(5,194.0)

(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)
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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:

	2013 Amortised cost or other (i) £m	2013 Classified as trading (ii) £m	2013 Total carrying value £m	2013 Fair value £m	2012 Amortised cost or other (i) £m	2012 Classified as trading (ii) £m	2012 Total carrying value £m	2012 Fair value £m
Financial assets								
Current								
Cash and cash equivalents	289.2	–	289.2	289.2	14.3	–	14.3	14.3
Amounts owed by subsidiary undertakings	3,782.5	–	3,782.5	3,782.5	2,917.8	–	2,917.8	2,917.8
Derivative financial assets	–	65.1	65.1	65.1	–	12.2	12.2	12.2
	4,071.7	65.1	4,136.8	4,136.8	2.932.1	12.2	2,944.3	2,944.3
Non-current								
Amounts owed by subsidiary undertakings	4,341.9	–	4,341.9	4,341.9	3,790.6	–	3,790.6	3,790.6
Loans to associates and jointly controlled entities	1,208.5	–	1,208.5	1,208.5	1,140.0	–	1,140.0	1,140.0
Derivative financial assets	–	151.7	151.7	151.7	–	94.7	94.7	94.7
	5,550.4	151.7	5,702.1	5,702.1	4,930.6	94.7	5,025.3	5,025.3
	9,622.1	216.8	9,838.9	9,838.9	7,862.7	106.9	7,969.6	7,969.6
Financial liabilities								
Current								
Bank loans and overdrafts	(208.9)	–	(208.9)	(226.6)	(440.1)	–	(440.1)	(391.7)
Eurobonds	(1,205.2)	–	(1,205.2)	(1,241.8)	–	–	–	–
Amounts owed to subsidiary undertakings	(2,899.7)	–	(2,899.7)	(2,899.7)	(2,463.2)	–	(2,463.2)	(2,463.2)
Derivative financial liabilities	–	–	–	–	–	(8.5)	(8.5)	(8.5)
	(4,313.8)	–	(4,313.8)	(4,368.1)	(2,903.3)	(8.5)	(2,911.8)	(2,863.4)
Non-current								
Eurobonds	(1,930.6)	–	(1,930.6)	(2,489.5)	(3,126.7)	–	(3,126.7)	(3,611.1)
Bank loans	(1,033.1)	(47.9)	(1,081.0)	(1,046.8)	(797.3)	(31.2)	(828.5)	(861.9)
Amounts owed to subsidiary undertakings	(270.5)	–	(270.5)	(270.5)	(268.2)	–	(268.2)	(268.2)
Derivative financial liabilities	–	(253.5)	(253.5)	(253.5)	–	(206.3)	(206.3)	(206.3)
	(3,234.2)	(301.4)	(3,535.6)	(4,060.3)	(4,192.2)	(237.5)	(4,429.7)	(4,947.5)
	(7,548.0)	(301.4)	(7,849.4)	(8,428.4)	(7,095.5)	(246.0)	(7,341.5)	(7,810.9)
Net financial assets/(liabilities)	2,074.1	(84.6)	1,989.5	1,410.5	767.2	(139.1)	628.1	158.7

(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 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 Services Authority (FSA) 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 2013, the Group's Energy Portfolio Management activities had pledged £248.5m (2012 – £254.4m) of cash collateral and letters of credit and had received £33.2m (2012 – £54.3m) 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.

Notes on the financial statements (continued)
for the year ended 31 March 2013

33. Capital and financial risk management (continued)

Concentrations of risk

Trade receivables recorded by reported segment held at the 31 March were:

	2013 £m	2012 £m
Networks		
Electricity Distribution	**101.7**	80.1
Electricity Transmission	**3.4**	0.8
Other Networks	**28.4**	20.2
	133.5	101.1
Retail		
Energy Supply	**696.2**	579.1
Energy-related Services	**129.4**	111.4
	825.6	690.5
Wholesale		
Energy Portfolio Management and Electricity Generation	**1,852.5**	2,551.0
Gas Storage	**2.2**	2.3
Gas Production	**–**	–
	1,854.7	2,553.3
Corporate Unallocated	**1.3**	0.2
Total	**2,815.1**	3,345.1

The Retail segment accounts for 29.3% (2012 – 20.6%) of the Group's trade receivables. Trade receivables associated with the Group's 9.47 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 less than 8% (2012 – less than 9%) of the total trade receivables.

The ageing of trade receivables at the reporting date was:

	2013 £m	2012 £m
Not past due	**2,534.1**	3,121.1
Past due but not individually impaired:		
0 – 30 days	**173.1**	140.5
31 – 90 days	**65.3**	53.9
Over 90 days	**189.9**	166.9
	2,962.4	3,482.4
Less: allowance for impairment	**(147.3)**	(137.3)
Net Trade receivables	**2,815.1**	3,345.1

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 £39.9m (2012 – £21.8m). The Company does not have trade receivables.

33. Capital and financial risk management (continued)

The movement in the allowance for impairment of trade receivables was:

	2013 £m	2012 £m
Balance at 1 April	**137.3**	144.2
Increase in allowance for impairment	**52.3**	46.7
Impairment losses recognised	**(49.3)**	(57.0)
Recovery of impairment loss previously recognised	**2.3**	4.2
Acquired allowance	**4.7**	–
Foreign exchange movements	**–**	(0.8)
Balance at 31 March	**147.3**	137.3

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. In addition to the borrowing facilities listed at Note 25, the Group has £100m of uncommitted bank lines and a £15m overdraft facility.

During the year the Group (through SSE plc) completed in April 2012 a private placement of senior notes with US based investors for a total consideration of $700m (£446m) as well as successfully issuing in September 2012 hybrid capital securities comprising $700m (£427.2m) and €750m (£598.2m). The US Private placement senior notes consist of four tranches with a weighted average maturity of 10.3 years and an all-in-rate of 4.25% while the hybrid capital securities provided an all-in Euro funding cost of around 5.6% per annum. Furthermore during March 2013 the SSE Group secured £650m of additional bank facilities which will be drawn down in the course of 2013, at which point they will become term loans, and in April 2013 SSE increased it's bilateral facility with Bank of China from £100m to £200m. As a result of the above increases in committed bank facilities the Group now has £1.75bn of committed facilities available to draw.

Over the course of the financial year to 31 March 2014, the Group has around £1.5bn of debt reaching maturity. New Bank Facilities of £650m have been agreed and are expected to be drawn in this period. In addition, 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. Given the new bank facilities already agreed, the committed bank facilities 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 £6.0bn of medium to long term debt and hybrid capital since July 2008, and the Group's credit rating. The statement of Going Concern is included in the Directors' Corporate Governance report on pages 61 to 101.

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.

Notes on the financial statements (continued)
for the year ended 31 March 2013

33. Capital and financial risk management (continued)

As at 31 March 2013, the value of outstanding cash collateral in respect of mark-to-market related margin calls on exchange traded positions was £55.0m (2011 – £119.9m).

The contractual cash flows shown in the following tables are the contractual undiscounted cash flows under the relevant financial instruments. Where the contractual cash flows are variable based on a price, foreign exchange rate or index in the future, the contractual cash flows 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 cash flows 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 cash flows 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 cash flow forecasts for the purposes of considering Liquidity Risk as noted above.

The following are the undiscounted contractual maturities of financial liabilities, including interest and excluding the impact of netting agreements:

Liquidity risk	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	2012 Carrying value £m	2012 Contractual cash flows £m	2012 0-12 months £m	2012 1-2 years £m	2012 2-5 years £m	2012 > 5 years £m
Financial liabilities												
Loans and borrowings												
Bank overdrafts	–	–	–	–	–	–	3.7	(3.7)	(3.7)	–	–	–
Commercial paper and cash advances	–	–	–	–	–	–	440.1	(441.0)	(441.0)	–	–	–
Bank loans – floating	386.5	(411.6)	(4.4)	(90.7)	(9.9)	(306.6)	411.5	(457.4)	(32.0)	(6.8)	(103.3)	(315.3)
Bank loans – fixed	1,070.0	(1,640.0)	(317.5)	(32.4)	(129.8)	(1,160.3)	836.8	(1,237.9)	(246.4)	(307.9)	(40.7)	(642.9)
Unsecured bonds – fixed	3,931.6	(7,036.6)	(226.0)	(1,426.3)	(465.8)	(4,918.5)	3,918.2	(7,036.6)	(226.0)	(1,426.3)	(465.8)	(4,918.5)
Non-recourse funding	318.6	(318.7)	(13.7)	(13.8)	(51.5)	(239.7)	262.0	(262.5)	(14.0)	(14.0)	(45.6)	(188.9)
Fair value adjustment	47.9	–	–	–	–	–	31.2	–	–	–	–	–
	5,754.6	(9,406.9)	(561.6)	(1,563.2)	(657.0)	(6,625.1)	5,903.5	(9,439.1)	(963.1)	(1,755.0)	(655.4)	(6,065.6)
Finance lease obligations	330.4	(623.6)	(51.2)	(49.9)	(149.2)	(373.3)	342.1	(671.8)	(48.8)	(51.2)	(148.7)	(423.1)
	6,085.0	(10,030.5)	(612.8)	(1,613.1)	(806.2)	(6,998.4)	6,245.6	(10,110.9)	(1,011.9)	(1,806.2)	(804.1)	(6,488.7)
Derivative financial liabilities												
Operating derivatives designated at fair value	1,220.9	3,572.5	4,005.2	(303.1)	(113.4)	(16.2)	983.3	1,974.3	1,489.6	102.7	393.3	(11.3)
Interest rate swaps used for hedging	50.3	(50.3)	(24.3)	(5.7)	(17.0)	(3.3)	25.4	(25.4)	(9.9)	(6.1)	(2.5)	(6.9)
Interest rate swaps designated at fair value	213.2	(213.2)	(11.9)	(11.9)	(35.1)	(154.3)	191.5	(191.5)	(9.6)	(9.5)	(24.6)	(147.8)
Forward exchange contracts held for hedging	0.2	(14.6)	(12.8)	(1.8)	–	–	8.1	(620.6)	(490.5)	(101.6)	(28.5)	–
Forward exchange contracts designated at fair value	–	–	–	–	–	–	8.5	(866.6)	(736.1)	(130.5)	–	–
	1,484.6	3,294.4	3,956.2	(322.5)	(165.5)	(173.8)	1,216.8	270.2	243.5	(145.0)	337.7	(166.0)
Other financial liabilities												
Trade payables	2,531.4	(2,531.4)	(2,531.4)	–	–	–	3,212.5	(3,212.5)	(3,212.5)	–	–	–
	2,531.4	(2,531.4)	(2,531.4)	–	–	–	3,212.5	(3,212.5)	(3,212.5)	–	–	–
Total	10,101.0	(9,267.5)	812.0	(1,935.6)	(971.7)	(7,172.2)	10,674.9	(13,053.2)	(3,980.9)	(1,951.2)	(466.4)	(6,654.7)
Derivative financial assets												
Financing derivatives	(216.8)	(1,470.3)	(1,099.3)	(304.1)	(66.1)	(0.8)	(101.7)	(169.2)	(50.9)	(41.2)	(55.5)	(21.6)
Operating derivatives designated at fair value	(1,106.4)	(5,498.0)	(4,925.0)	(311.9)	(247.2)	(13.9)	(1,097.5)	(4,847.9)	(3,559.0)	(682.7)	(574.1)	(32.1)
	(1,323.2)	(6,968.3)	(6,024.3)	(616.0)	(313.3)	(14.7)	(1,199.2)	(5,017.1)	(3,609.9)	(723.9)	(629.6)	(53.7)
Net total (i)	8,777.8	(16,235.8)	(5,212.3)	(2,551.6)	(1,285.0)	(7,186.9)	9,475.7	(18,070.3)	(7,590.8)	(2,675.1)	(1,096.0)	(6,708.4)

(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	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	2012 Carrying value £m	2012 Contractual cash flows £m	2012 0 – 12 months £m	2012 1-2 years £m	2012 2-5 years £m	2012 > 5 years £m
Financial liabilities												
Loans and borrowings												
Commercial paper and cash advances	–	–	–	–	–	–	440.1	(441.0)	(441.0)	–	–	–
Bank loans – floating	361.5	(386.4)	(4.2)	(65.7)	(9.9)	(306.6)	361.5	(406.3)	(6.4)	(6.4)	(78.2)	(315.3)
Bank loans – fixed	880.5	(1,141.2)	(232.6)	(27.1)	(113.0)	(768.5)	435.8	(516.9)	(20.7)	(223.1)	(24.6)	(248.5)
Unsecured bonds – fixed	3,163.1	(4,907.2)	(1,396.6)	(119.1)	(357.4)	(3,034.1)	3,126.7	(5,172.3)	(190.0)	(1,390.3)	(357.4)	(3,234.6)
Fair value adjustment	47.9	–	–	–	–	–	31.2	–	–	–	–	–
	4,453.0	(6,434.8)	(1,633.4)	(211.9)	(480.3)	(4,109.2)	4,395.3	(6,536.5)	(658.1)	(1,619.8)	(460.2)	(3,798.4)
Derivative financial liabilities												
Interest rate swaps used for hedging	49.6	(49.6)	(23.6)	(5.7)	(17.0)	(3.3)	25.2	(25.2)	(8.4)	(5.5)	(2.5)	(8.8)
Interest rate swaps designated at fair value	203.7	(203.7)	(11.5)	(11.5)	(34.0)	(146.7)	173.0	(173.0)	(8.7)	(8.7)	(22.1)	(133.5)
Forward exchange contracts held for hedging	0.2	(14.6)	(12.8)	(1.8)	–	–	8.1	(620.6)	(490.5)	(101.6)	(28.5)	–
Forward exchange contracts designated at fair value	–	–	–	–	–	–	8.5	(866.6)	(736.1)	(130.5)	–	–
	253.5	(267.9)	(47.9)	(19.0)	(51.0)	(150.0)	214.8	(1,685.4)	(1,243.7)	(246.3)	(53.1)	(142.3)
Other financial liabilities												
Amounts due to subsidiary undertakings	3,170.2	(3,170.2)	(2,899.7)	(270.5)	–	–	2,731.4	(2,731.4)	(2,463.2)	(268.2)	–	–
	3,170.2	(3,170.2)	(2,899.7)	(270.5)	–	–	2,731.4	(2,731.4)	(2,463.2)	(268.2)	–	–
Total	7,876.7	(9,872.9)	(4,581.0)	(501.4)	(531.3)	(4,259.2)	7,341.5	(10,953.3)	(4,365.0)	(2,134.3)	(513.3)	(3,940.7)
Derivative financial assets												
Financing derivatives	(216.8)	(1,470.3)	(1,099.3)	(304.1)	(66.1)	(0.8)	(106.9)	(169.2)	(50.9)	(41.2)	(55.5)	(21.6)
Net total	7,659.9	(11,343.2)	(5,680.3)	(805.5)	(597.4)	(4,260.0)	7,234.6	(11,122.5)	(4,415.9)	(2,175.5)	(568.8)	(3,962.3)

(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 customers, or to procure fuel to produce electricity for the Energy Supply 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 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 gas production assets and through flexibility from the Group's fleet of generation assets.

Short-term exposures arise from the requirement to match volumes of procured gas, electricity and power station fuel with demand for gas and electricity by the Energy Supply business customers, which can vary from expectations and result in a requirement to close the resulting positions at unfavourable prices. This aspect of commodity risk is 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.

Notes on the financial statements (continued)
for the year ended 31 March 2013

33. Capital and financial risk management (continued)

Longer-term exposures are managed through the Group's generation plant and 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.

	2013		2012	
	Base price (i)	Reasonably possible increase/ decrease in variable	Base price (i)	Reasonably possible increase/ decrease in variable
Commodity prices				
UK gas (p/therm)	**68**	**+/- 4**	69	+/- 6
UK power (£/MWh)	**57**	**+/- 3**	57	+/- 6
UK coal (US$/tonne)	**99**	**+/- 6**	121	+/- 7
UK emissions (€/tonne)	**5**	**+/- 2**	8	+/- 3
UK oil (US$/bbl)	**98**	**+/- 8**	105	+/- 11

(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:

	2013		2012	
	Impact on profit (£m)	Impact on equity (£m)	Impact on profit (£m)	Impact on equity (£m)
Incremental profit/(loss)				
Commodity prices combined – increase	**96.2**	**–**	227.6	–
Commodity prices combined – decrease	**(96.2)**	**–**	(227.6)	–

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:

	2013 £m	2012 £m
Forward foreign exchange contracts	**1,954.4**	2,119.5

The Group's exposure to foreign currency risk was as follows:

	2013						2012				
	¥m	DKK (million)	SEK (million)	€m	$m	CHF (million)	¥m	DKK (million)	€m	$m	CHF (million)
Loans and borrowings	**43,000.0**	**–**	**–**	**604.5**	**100.0**	**–**	46,000.0	–	923.6	248.3	10.0
Purchase and commodity contract commitments	**–**	**70.8**	**37.1**	**529.9**	**1,307.0**	**–**	–	106.7	578.8	2,019.1	44.8
Gross exposure	**43,000.0**	**70.8**	**37.1**	**1,197.4**	**1,407.0**	**–**	46,000.0	106.7	1,502.4	2,267.4	54.8
Forward exchange/swap contracts	**43,000.0**	**70.8**	**37.1**	**915.2**	**1,322.3**	**–**	46,000.0	106.7	893.9	1,559.1	54.8
Net exposure (in currency)	**–**	**–**	**–**	**282.2**	**84.7**	**–**	–	–	608.5	708.3	–
Net exposure (in £m)	**–**	**–**	**–**	**238.1**	**55.8**	**–**	–	–	507.4	442.9	–

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.

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

Notes on the financial statements (continued)
for the year ended 31 March 2013

assumptions presented above:

	Equity		Income Statement	
	At 31 March 2013 £m	At 31 March 2012 £m	**At 31 March 2013 £m**	At 31 March 2012 £m
US Dollars	**–**	–	**4.7**	36.4
Euro	**42.7**	41.1	**(22.6)**	0.6
DKK	**–**	–	**–**	–
¥	**–**	–	**–**	–
CHF	**–**	–	**–**	–
	42.7	41.1	**(17.9)**	37.0

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. 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 floating rate borrowings mainly comprise cash advances from the European Investment Bank (EIB).

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:

	2013 Carrying amount £m	2012 Carrying amount £m
Interest bearing/earning assets and liabilities:		
– fixed	**(5,351.1)**	(4,815.8)
– floating	**(276.8)**	(1,336.7)
	(5,627.9)	(6,152.5)
Represented by:		
Cash and cash equivalents	**538.7**	189.2
Derivative financial liabilities	**(129.5)**	(127.3)
Loans and borrowings	**(5,706.7)**	(5,872.3)
Finance lease obligations	**(330.4)**	(342.1)
	(5,627.9)	(6,152.5)

Following from this, the table below represents the expected impact of a change in 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.

33. Capital and financial risk management (continued)

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.

	2013 £m	2012 £m
Income statement	7.1	11.9
	7.1	11.9

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:

	2013 £m	2012 £m
Operating Derivatives		
Total result on operating derivatives (i)	33.7	142.0
Less: Amounts settled (ii)	(262.4)	(575.7)
Movement in unrealised derivatives	(228.7)	(433.7)
Financing Derivatives (and hedged items)		
Total result on financing derivatives (i)	(755.0)	(1,288.7)
Less: Amounts settled (ii)	775.3	1,199.2
Movement in unrealised derivatives	20.3	(89.5)
Net income statement impact	(208.4)	(523.2)

(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.

Notes on the financial statements (continued)
for the year ended 31 March 2013

33. Capital and financial risk management (continued)

The derivative financial assets and (liabilities) are represented as follows:

	2013 £m	2012 £m
Derivative financial assets		
Non-current	**382.4**	348.0
Current	**940.8**	851.2
	1,323.2	1,199.2
Derivative liabilities		
Non-current	**(473.4)**	(399.2)
Current	**(1,011.2)**	(817.6)
Total derivative liabilities	**(1,484.6)**	(1,216.8)
Net (liability)	**(161.4)**	(17.6)

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 (ie as prices) or indirectly (ie 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	51.5	1,054.9	–	**1,106.4**
Interest rate derivatives	–	134.0	–	**134.0**
Foreign exchange derivatives	–	82.8	–	**82.8**
	51.5	1,271.7	–	**1,323.2**
Financial liabilities				
Energy derivatives	(80.5)	(1,140.4)	–	**(1,220.9)**
Interest rate derivatives	–	(263.5)	–	**(263.5)**
Foreign exchange derivatives	–	(0.2)	–	**(0.2)**
Loans and borrowings	–	(47.9)	–	**(47.9)**
	(80.5)	(1,452.0)	–	**(1,532.5)**

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 2013.

(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.

33. Capital and financial risk management (continued)

The following table indicates the contractual maturities of the expected transactions and the qualifying cash flow hedges associated:

Cash flow hedges

	2013 Carrying amount	2013 Expected cash flows	2013 0-12 months	2013 1-2 years	2013 2-5 years	2013 > 5 years	2012 Carrying amount	2012 Expected cash flows	2012 0-12 months	2012 1-2 years	2012 2-5 years	2012 > 5 years
Interest rate swaps:												
Liabilities	(0.7)	(0.7)	(0.7)	–	–	–	(2.2)	(2.2)	(1.6)	(0.6)	–	–
Forward exchange contracts:												
Assets	47.4	(658.0)	(474.7)	(60.5)	(82.0)	(40.8)	9.0	(257.9)	(64.6)	(48.9)	(84.9)	(59.5)
Liabilities	(0.2)	(14.6)	(12.8)	(1.8)	–	–	(8.1)	(620.6)	(490.5)	(101.6)	(28.5)	–
	47.2	(672.6)	(487.5)	(62.3)	(82.0)	(40.8)	0.9	(878.5)	(555.1)	(150.5)	(113.4)	(59.5)

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 (2013 – £6.0m loss, 2012 – £29.8m gain). Gains and losses on the ineffective portion of the hedge are recognised immediately in the income statement (2013 – £nil, 2012 – £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 2013 £m	Purchase of goods and services 2013 £m	Amounts owed from 2013 £m	Amounts owed to 2013 £m	Sale of goods and services 2012 £m	Purchase of goods and services 2012 £m	Amounts owed from 2012 £m	Amounts owed to 2012 £m
Jointly controlled entities:								
Seabank Power Ltd	27.2	(99.5)	2.9	8.9	34.7	(94.8)	0.1	9.1
Marchwood Power Ltd	22.5	(85.5)	0.3	6.0	46.8	(80.5)	0.2	4.0
Greater Gabbard Offshore Winds Ltd	–	(90.0)	–	33.4	0.0	(24.4)	0.0	15.4
Scotia Gas Networks Ltd	57.6	(157.2)	9.2	15.1	59.2	(154.3)	7.3	13.9
Other Joint Ventures	42.1	–	9.8	–	42.0	0.0	0.2	0.3
Associates	29.6	(38.3)	1.2	2.4	42.4	(44.5)	11.8	21.4

The transactions with Seabank Power Limited, Marchwood Power Limited and Greater Gabbard Offshore Winds Limited relate to 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.

Notes on the financial statements (continued)
for the year ended 31 March 2013

34. Related party transactions (continued)
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, is set out below in aggregate.

	2013 £m	2012 £m
Short-term employment benefits		
Executive Directors	**1.9**	2.8
Other Management Board members	**2.5**	1.6
	4.4	4.4

Key management personnel are responsible for planning, directing and controlling the operations of the Group. From 1 January 2011 these personnel were identified as the Management Board, which is made up of the Executive Directors, eight (2012 – seven) Managing Directors and also attended by the Chief Executive Officer of Scotia Gas Networks Limited.

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 Directors' Remuneration Report. The Executive Directors are employed by the Company.

Information regarding transactions with post-retirement benefit plans is included in Note 31.

35. Commitments and contingencies
(i) Capital commitments

	2013 £m	2012 £m
Capital expenditure:		
Contracted for but not provided	**741.0**	828.0

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:

	2013 £m	2012 £m
Amount included in the income statement relating to the current year leasing arrangements		
Minimum lease payments – power purchase agreement	**132.2**	116.0
Other lease payments	**61.1**	53.9
	193.3	169.9

35. Commitments and contingencies (continued)

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:

	2013 £m	2012 £m
Power purchase agreements		
Within one year	**86.8**	134.2
In second to fifth years inclusive	**333.9**	336.4
After five years	**–**	82.2
	420.7	552.8
Other leases		
Within one year	**54.4**	55.3
In second to fifth years inclusive	**96.2**	103.1
After five years	**201.9**	206.5
	352.5	364.9
Total		
Within one year	**141.2**	189.5
In second to fifth years inclusive	**430.1**	439.5
After five years	**201.9**	288.7
	773.2	917.7

The average power purchase agreement lease term is 5 years (2012 – 4 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.

(iii) Guarantees and indemnities

SSE plc has provided guarantees on behalf of subsidiary, joint venture and associated undertakings as follows:

	2013 £m	2012 £m
Borrowings	**855.7**	400.0
Performance of contracts	**1,124.6**	1,127.4
Purchase of gas	**30.5**	40.5

In the year to 31 March 2013, the Group had drawn down £446.6m from its US Private Placement facility. SSE Energy Supply Limited and SSE Generation Limited, both wholly owned subsidiaries of the Company, have entered into guarantee and indemnity agreements with the various purchasers for the amount drawn down. In the year to 31 March 2012, the Group had drawn down £400m from its European Investment Bank facility. SSE Renewables Holdings Limited and SSE Generation Limited, both wholly owned subsidiaries of the Company, have entered into guarantee and indemnity agreements with the European Investment Bank for the amounts drawn down. The current year's guarantee amount includes 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 and has also provided a guarantee to Perenco UK Limited in respect of the Minerva, Apollo and Mercury Fields.

Notes on the financial statements (continued)
for the year ended 31 March 2013

35. Commitments and contingencies (continued)
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.

The Group has a contingent liability in respect of a contractual dispute with an electricity generation counterparty. The Group has contested the validity of the dispute claim by the counterparty and believes its position is robust. However the likelihood and extent of any potential liability is not yet known and will only be confirmed following the conclusion of the dispute process.

36. Post balance sheet events
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 for a total cash consideration of £117.4m, which reflects the value of the asset based on an effective economic date of 1 January 2012 (£180m), less the value of the gas produced between 1 January 2012 and the completion date of the transaction.

Accompanying information
for the year ended 31 March 2013

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.

Accompanying information (continued)
for the year ended 31 March 2013

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.

A1. Basis of consolidation and significant accounting policies (continued)

Accounting policies (continued)

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.

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 176.

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 and expected returns on pension scheme assets recognised in the income statement. Finance costs comprise interest payable on borrowings and finance leases, the release of discounting on provisions, interest on pension scheme liabilities 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.

Accompanying information (continued)
for the year ended 31 March 2013

A1. Basis of consolidation and significant accounting policies (continued)

Accounting policies (continued)

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 equity.

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.

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.

(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.

A1. Basis of consolidation and significant accounting policies (continued)

Accounting policies (continued)

(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 and 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.

(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 remeasured 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.

Accompanying information (continued)
for the year ended 31 March 2013

A1. Basis of consolidation and significant accounting policies (continued)
Accounting policies (continued)
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. 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.

(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 CO_2 ('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 current 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 remeasurement being recognised in the income statement.

The carbon allowance intangible asset is surrendered at the end of the compliance period to the extent required 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.

A1. Basis of consolidation and significant accounting policies (continued)

Accounting policies (continued)

(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 licences 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	5-10
Customer lists	5
Contracts	Shorter of contract term or 5

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. For property, plant and equipment assets exhibiting indications of impairment, the review of impairment will be performed annually until there is evidence that any potential impairment loss has been appropriately recognised.

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.

The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in finance income and finance costs, respectively. 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.

Accompanying information (continued)
for the year ended 31 March 2013

A1. Basis of consolidation and significant accounting policies (continued)
Accounting policies (continued)
(iii) Equity and equity-related compensation benefits
The Group operates a number of employee share schemes as described in the Remuneration Report and Note 32. 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 remeasured 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 remeasurement 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 remeasurement 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.

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.

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 remeasurement being recognised in the income statement in cost of sales.

A1. Basis of consolidation and significant accounting policies (continued)

Accounting policies (continued)

(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.

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. No provision is recognised where the residual value of the asset exceeds the clear-up costs associated with decommissioning.

Accompanying information (continued)
for the year ended 31 March 2013

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 2013 Holding %	31 March 2012 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
PriDE (SERP) Limited (ii)	England and Wales	**50.0**	50.0	Defence estates contractor
Seabank Power Limited (iii)	England and Wales	**50.0**	50.0	Electricity generation
Associates				
Walney (UK) Offshore Windfarms Limited (v)	England and Wales	**25.1**	25.1	Offshore wind development
Barking Power Limited (i)	England and Wales	**30.4**	30.4	Electricity generation
Derwent Cogeneration Limited (i)	England and Wales	**49.5**	49.5	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 Limited (or subsidiaries).

A3. Subsidiary undertakings

Details of the principal subsidiary undertakings are as follows:

	Country of incorporation	2013 Holding %	2012 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**	–	Electricity generation
Keadby Generation Limited (viii)	England and Wales	**100**	100	Electricity generation
Southern Electric Gas Limited (vi)	England and Wales	**100**	100	Gas supply
Clyde Windfarm (Scotland) Limited (xi)	Scotland	**100**	100	Renewable electricity generation
Griffin Wind Farm Limited (xii)	Scotland	**100**	100	Renewable electricity generation
SSE Renewables Holdings Limited (i)	Ireland	**100**	100	Renewables holding company
SSE Renewables Developments (UK) Limited (ix)	Northern Ireland	**100**	100	Wind generation development
SSE Renewables (Ireland) Limited (iii)	Ireland	**100**	100	Wind generation development
Airtricity Limited (iii)	Ireland	**100**	100	Energy supply
Airtricity Energy Supply (Northern Ireland) Limited (x)	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) Keadby Power Limited.
(ix) SSE Renewables Holdings (UK) Limited.
(x) SSE Renewables Group (UK) Limited.
(xi) SSE Renewables Developments (UK) Limited.
(xii) Griffin Wind Farm (Holdings) Limited.

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

Accompanying information (continued)
for the year ended 31 March 2013

A3. Subsidiary undertakings (continued)
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 these 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 acquired 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 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.

Shareholder information

Shareholder enquiries
Share Registrar:
Capita Registrars, The Registry,
34 Beckenham Road, Beckenham,
Kent BR3 4TU

Telephone: 0845 143 4005
Email: sse@capitaregistars.com

Financial calendar
Annual General Meeting/Interim Management Statement
25 July 2013

Ex-dividend date
31 July 2013

Record date
2 August 2013

Final date for receipt of Scrip Elections (in respect of the 2012/13 final dividend)
30 August 2013

Payment date
27 September 2013

Half-year results announcement
13 November 2013 (provisional date)

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 2012/13, SSE made a donation of over £16,500 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 obtain copies of the Annual Report 2013, free of charge, from the Company Secretary, SSE plc, Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ or by accessing the Company's website at www.sse.com.

FTSE4Good

FTSE Group confirms that SSE has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent environmental, social and governance criteria, and are positioned to capitalise on the benefits of responsible business practice.

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