SSE plc
Preliminary results for the year to 31 March 2014
21 May 2014

This report sets out the preliminary results for SSE plc for the year to 31 March 2014. SSE's core purpose is to provide the energy people need in a reliable and sustainable way and the report below includes updates on operations and investments in its Networks, Retail and Wholesale businesses.

Lord Smith of Kelvin, Chairman of SSE, said:
"SSE is listening to and helping customers with the longest ever household energy price freeze in the Great Britain market; we have well-defined plans for net investment of around £5.5bn over the next four years in maintaining, upgrading and building the electricity assets customers depend on; and we are committed to giving investors a fair return through an annual dividend that at least keeps pace with inflation.

"The issues facing the energy sector are very challenging. Nevertheless, customers, investors, regulators, politicians and SSE all want the same thing: an energy market that works for customers, and is trusted and seen to do so. We believe SSE is not part of the problem but part of the solution to meeting the energy needs of customers in Great Britain and Ireland."

See news.sse.com for the following blogs: A story worth telling; A year is a long time in energy; and Playing our part.

Finance – SSE Group
The key financial results for the year to 31 March 2014 are in line with the expectations set out in the Notification of Close Period published on 26 March 2014 (comparisons with the previous year, unless otherwise stated):

- Adjusted earnings per share* rose by 4.1% to 123.4 pence;
- Adjusted profit before tax* rose by 9.6% to £1,551.1m;
- Reported profit before tax rose by 0.7% to £575.3m;
- Investment and capital expenditure increased by 6.5% to £1.583bn;
- Adjusted net debt and hybrid capital rose by £311.5m to £7.659bn; and
- Full-year dividend increased by 3.0% to 86.7 pence per share.

*Adjusted profit before tax describes profit before tax before exceptional items (£747.2m), re-measurements arising from IAS 39 (£212.0m) and after the removal of taxation on profits from jointly-controlled entities and associates (£11.6m). Following the adoption of IAS 19R, adjusted profit before tax is stated excluding interest costs on net pension scheme liabilities (£28.2m).

Finance – business-by-business operating profit
For the year to 31 March 2014 (comparisons with the previous year, unless otherwise stated); operating profit is before payment of interest and tax:

Networks – operating profit of £955.4m, up 9.3%
- Electricity Transmission operating profit rose by 47.6% to £136.7m, reflecting the major increase in investment in the asset base since 2010, resulting in higher income;
- Electricity Distribution operating profit decreased by 0.9% to £ 507.0m, reflecting the level and timing of revenue received and storm-related costs;
- SSE's share of Scotia Gas Networks' operating profit rose by 18.2% to £276.6m, reflecting efficiencies achieved and a positive start to the new Price Control that began in April 2013; and
- Other Networks operating profit fell by 2.2% to £35.1m.

Retail – operating profit of £292.0m, down 28.6%
- Energy Supply operating profit fell by 32.2% to £246.2m, reflecting lower use of energy by customers and higher costs including the cost of gas; and
- Energy-related Services operating profit fell by £0.1m to £45.8m.

Wholesale – operating profit of £634.6m, up 24.8%
- Energy Portfolio Management and Electricity Generation operating profit rose by 10.1% to £496.1m, largely reflecting increased output of energy from renewable sources;

- Gas Production operating profit rose from £39.6m to £130.2m, reflecting output from the increased asset base resulting from acquisitions, in particular the purchase of a 50% interest in the Sean gas production assets in April 2013; and
- Gas Storage operating profit fell by 54.9% to £8.3m; this business continues to be affected by the fact there are smaller seasonal differentials in gas prices.

Operations – providing the energy people need

In the year to 31 March 2014 (comparisons in brackets with the previous year, unless otherwise stated):

- **Safety:** SSE's Total Recordable Injury Rate was 0.12 per 100,000 hours worked (0.14);
- **Networks**: the number of Customer Minutes Lost in the Scottish Hydro Electric Power Distribution area was 77 (73); in the Southern Electric Power Distribution area it was 67 (65);
- **Networks**: SSE restored electricity supplies to customers following a record eight exceptional winter weather events affecting the Scottish Hydro Electric and Southern Electric Power Distribution areas;
- **Retail**: SSE's number of electricity and gas customer accounts in markets in Great Britain and Ireland fell from 9.47 million to 9.10 million;
- **Retail**: average consumption of electricity by SSE's household customers in Great Britain was estimated to be 3,991kWh (4,299kWh); average consumption of gas by SSE's household customers in Great Britain was estimated to be 465 therms (544 therms).
- **Wholesale**: total electricity output* from gas and oil fired power stations was 10.1TWh (8.7TWh); from coal-fired power stations output was 16.6TWh (20.6TWh); and
- **Wholesale**: total electricity output* from renewable sources (conventional and pumped storage hydro electric schemes, onshore and offshore wind farms and dedicated biomass plant) was 9.4TWh (7.6TWh), reflecting additional capacity in operation, including at Greater Gabbard, and wetter and windier weather conditions.

* Output from electricity generating plant in which SSE has an ownership interest (output based on SSE's contractual share).

Investment – maintaining, upgrading and building energy assets customers need

In the year to 31 March 2014, SSE's capital and investment expenditure totalled £1,582.5m, compared with £1,485.5m in the previous year:

- **Networks**: Investment in electricity networks totalled £657.5m. SSE's subsidiary Scottish Hydro Electric Transmission has made significant progress in its section of the Beauly-Denny replacement line, with almost all of the foundations laid, three quarters of the 539 towers erected and over half of the route wired.
- **Retail**: Investment in retail totalled £99.9m. SSE has continued to make significant investment in new systems to deliver enhanced services to customers and support the installation of smart meters in the years to 2020.
- **Wholesale**: Investment in electricity generation totalled £616.5m. Work is progressing well at SSE's 460MW CCGT development at Great Island in the South-East of Ireland, which is expected to be commissioned later this year.

Capital and investment in the Wholesale segment included expenditure totalling £51.5m in: Gas Production (£40.9m); and Gas Storage (£10.6m). Separately, SSE acquired a 50% stake in the Sean gas production assets for £127.6m (including working capital).

SSE's capital investment and expenditure for 2014/15 is currently forecast to total around £1.6bn and then average up to £1.3bn (net of asset/business disposals) in the years to and including 2017/18.

Undertaking a value programme to ensure SSE is well-positioned for the future

On 26 March 2014, SSE announced a value programme with two important features to help ensure it is well-positioned for the period to 2020 and beyond:

- disposing of assets and businesses which are not core to its future plans or result in a disproportionate financial burden or present opportunities to release capital to support future investment; and
- securing annual savings in overheads that will total, in the first instance, around £100m by the end of 2015/16.

The value programme is under way, and the financial outlook which it supports remains the same as set out in March.

Financial outlook

SSE uses adjusted earnings per share* to monitor financial performance over the medium term because it defines the amount of profit after tax that has been earned for each Ordinary share. It currently expects adjusted earnings per share* in 2014/15 to be around or slightly greater than that in 2013/14. In view of the wider energy sector conditions, however, SSE continues to recognise that its ability to deliver increases in adjusted earnings per share* is subject to greater risk in 2015/16 and 2016/17.

Shareholders have either invested directly in SSE or, as owners of the company, enabled it to borrow money from debt investors to finance investment in maintaining, upgrading and building energy assets that customers depend on. SSE aims to give them a return on their investment through the payment of dividends. As stated in March 2014, SSE's objective for 2014/15 and subsequent years is to deliver a full-year dividend increase of at least RPI inflation.

Working to fulfil SSE's core purpose

SSE has today (21 May) submitted and published (see sse.com) its response to Ofgem's consultation on the proposal to make a market investigation reference to the Competition and Markets Authority (CMA) in respect of the supply and acquisition of energy in Great Britain. In the event of a CMA referral, while the CMA is doing its work, SSE will continue to work with customers, politicians, regulators, investors and other stakeholders to help achieve greater political and regulatory stability for the GB energy market, for the benefit of customers and the investment in the country's energy system that they need.

It will do this while making a significant contribution to the economy in the UK and Ireland. An independent study by PwC released on 19 May and available on sse.com found that in the year to March 2013, SSE contributed £9.1bn to the UK GDP in 2012/13 and supported 112,000 jobs. These are significant economic impacts, and important to the UK economy as a whole. Also important to the UK economy is fairness in employment, and it is for this reason that SSE became, in September 2013, the first energy company and, at that time, the largest UK-listed company by market capitalisation, to become an accredited Living Wage employer. SSE's employees are committed to fulfilling the company's core purpose, which is to provide the energy people need in a reliable and sustainable way.

Further information

Disclaimer

This financial report contains forward-looking statements about financial and operational matters. Because they relate to future events and are subject to future circumstances, these forward-looking statements are subject to risks, uncertainties and other factors. As a result, actual financial results, operational performance and other future developments could differ materially from those envisaged by the forward-looking statements.

Investor Timetable

Annual Report on sse.com/investors	12th June 2014
AGM (Perth) and IMS	17th July 2014
Ex-dividend date	23rd July 2014
Record date	25th July 2014
Final date for Scrip elections	22nd August 2014
Payment date	19th September 2014
Notification of Close Period	30th September 2014
Results for six months to 30 September	12th November 2014

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Location: The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED

Webcast facility
You can join the webcast by visiting www.sse.com and following the link on the homepage.

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Online information
News releases and announcements are made available on SSE's website at www.sse.com. You can also follow the latest news from SSE through Twitter at www.twitter.com/sse.

STRATEGY AND FINANCE

Strategy

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

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

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

Maintaining a balanced range of energy businesses
SSE has three reportable segments covering its Networks, Retail and Wholesale businesses:

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

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

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

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

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

and reporting of the performance of these businesses. Longer term, SSE remains open-minded about further reform that is in the clear interests of customers.

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

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

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

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

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

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

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

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

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

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

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

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

In participating in the continuing development of, and debates on, energy markets and energy policy at EU level and in the UK and Ireland, SSE's approach will be founded on the definition of its Sustainability core value, focused on the achievement of its long-term priorities and directed towards the achievement of the maximum possible confidence in the energy sector.
SSE is therefore open-minded about further reform that is in the clear interests of customers and it will look for ways of responding constructively to political and regulatory initiatives.

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

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

Constitutional developments could include the Scottish referendum on 18 September, about which SSE remains strictly neutral, resulting in a decision that Scotland should leave the UK and become a separate country. In April 2014, the UK government published its *Scotland analysis: Energy* paper which stated that 'Scotland, Wales and England currently enjoy a fully integrated Great Britain (GB) energy market....If Scotland becomes an independent state, the current integrated GB energy system could not continue as it is now'.

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

In addition SSE, in common with other energy companies, is exposed to a range of geo-political, market and other risks which it will continue to manage through financial and operational discipline. In respect of the possible retail price freeze legislation, RIIO-ED1 and the expected CMA investigation,

SSE will continue to argue strongly for policies and decisions that are fair to energy bill payers and to investors and support the delivery of secure, lower carbon and affordable supplies of energy over the long term.

Working for a new, lasting settlement on the energy market in Great Britain
SSE has today (21 May) submitted and published (see sse.com) its response to Ofgem's consultation on the proposal to make a market investigation reference to the CMA in respect of the supply and acquisition of energy in Great Britain. SSE hopes that the CMA does not focus solely on the household energy market, but that its work covers small businesses and industrial and commercial customers and that it looks at all parts of the energy supply chain that are not economically-regulated.

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

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

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

Dividend Per Share and Adjusted Earnings Per Share*

Increasing the dividend for 2013/14
SSE's first financial responsibility to its shareholders is to give them a return on their investment through the payment of dividends. The Board is recommending a final dividend of 60.7p per share, to which a Scrip alternative is offered, compared with 59.0p in the previous year, an increase of 2.9%. This will make a full-year dividend of 86.7p per share, which is:

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

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

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

Adjusted earnings per share* has the straightforward benefit of defining the amount of profit after tax that has been earned for each Ordinary Share and so provides an important measure of underlying financial performance. In addition to financial performance, however, SSE's adjusted earnings per share* 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 2014, SSE's adjusted earnings per share* were 123.4p, based on 965.5 million shares, compared with 118.5p, based on 952.0 million shares, in the previous year. As stated in its Notification of Close Period in March 2014, SSE expects adjusted earnings per share* in 2014/15 to be around or slightly greater than in 2013/14.

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

Adjusted Profit Before Tax*

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

As a result, 'adjusted profit before tax*'

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

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

	Mar 14 £m	Mar 13 £m restated	Mar 12 £m restated
Adjusted Profit before Tax*	**1,551.1**	**1,415.1**	**1,338.1**
Movement on derivatives (IAS 39)	(212.0)	(199.7)	(509.0)
Exceptional items	(747.2)	(584.7)	(551.6)
Interest on net pension liabilities (IAS19R)	(28.2)	(34.9)	(43.6)
Share of JCEs and Associates tax	11.6	(24.5)	(4.8)
Reported Profit before Tax*	575.3	571.3	229.1

Adjusted Profit before Tax*	1,551.1	1,415.1	1,338.1
Adjusted Current Tax Charge	(236.7)	(223.6)	(213.4)
Adjusted Profit after Tax*	**1,314.4**	**1,191.5**	**1,124.7**
Less: attributable to other equity holders	**(122.9)**	**(63.4)**	**(65.5)**
Adjusted Profit After Tax attributable to ordinary shareholders	**1,191.5**	**1,128.1**	**1,059.2**
Reported Profit after Tax**	323.1	402.7	167.3
Number of shares for basic and adjusted EPS (million)	965.5	952.0	937.8
Adjusted EPS* - pence	**123.4**	**118.5**	**112.9**
Basic EPS – pence	**33.5**	**42.3**	**17.8**

**After distributions to hybrid capital holders

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Delivering Adjusted Profit Before Tax* in 2014/15

SSE believes profit is not an end in itself, but a means to an end. In addition to enabling it to provide new services for customers and invest in maintaining, upgrading and building assets and pay tax, profit also supports the dividend, which is the key means through which SSE gives shareholders a return on their investment.

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

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

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

Investment and Capital Expenditure

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

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

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

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

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

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

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

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

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

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

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

- economically-regulated expenditure on electricity transmission networks;
- economically-regulated electricity distribution expenditure plus essential maintenance of other assets; and
- expenditure that is already committed to development of new assets (this currently includes the CCGT at Great Island in Ireland, SSE's share of the new multi-fuel plant at Ferrybridge and onshore wind farm capacity).

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

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

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

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

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

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

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

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

In 2013/14, a 50% share of SGN's capital and replacement expenditure was £160.9m, compared with £199.0m in the previous year. During 2013/14, SGN's RAV increased to £4.88bn (SSE share: £2.44bn), up from £4.78bn (SSE share: £2.39bn) when it was acquired.

Financial management and balance sheet

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

[1] including hybrid coupon

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

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

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

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

The United Kingdom remains SSE's main area of operation, although business activities in the Republic of Ireland are also substantial. In February 2014 the UK government and opposition parties stated that they could not recommend the remaining UK entering into a currency union with an

independent Scotland if Scotland decided to leave the UK. This means that if there is a Yes vote in September's referendum, at least some of the future earnings of SSE's Scottish businesses appear likely to be in a different currency. This would require SSE to take steps to ensure that its financial and other contracts continue to reflect the underlying currency denomination of its assets and cashflows.

Transactional foreign exchange risk arises in respect of:

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

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

Managing net debt and maintaining cash flow

SSE's adjusted net debt and hybrid capital was £7.66bn at 31 March 2014, compared with £7.35bn at 31 March 2013. Fundamentally, this increase reflects the quantum and phasing of capital and investment projects to maintain, upgrade and build new assets that energy customers depend on and which support annual increases in the dividend payable to shareholders. It was less than it otherwise could have been as a result of the uptake of the interim dividend Scrip (see 'Keeping SSE well-financed' below), higher-than-forecast dividends received from joint ventures and associates and efficient working capital management.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[1]Jointly Controlled Entities

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

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

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

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

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

During 2013/14, employer cash contributions amounted to:

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

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

Tax

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

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

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

SSE pays taxes in the Republic of Ireland, in relation to its operations there, having paid £20.6 m during the year to 31 March 2014, and £11.3 million in the previous year. SSE also indirectly contributed £59.6m to UK government tax revenues through its significant investment in joint ventures and associates. This compares with £57.3m in the previous year. SSE also collected a further £279.7m of employment, environment and other taxes to add to its total tax contribution.

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

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

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

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

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

Priorities and Outlook for 2014/15

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

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

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

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

Focusing on the right financial priority for 2014/15
By taking into account all of SSE's stakeholders and focusing on what's important to them, SSE has the best possible means to give shareholders a return on their investment through increasing dividends for years to come.

NETWORKS

Networks Key Performance Indicators	Mar 14	Mar 13 restated[1]
ELECTRICITY TRANSMISSION		
Operating profit* - £m	136.7	92.6
Regulated Asset Value (RAV) - £m	1,330	1,050
Capital expenditure - £m	349.2	334.2
Connection offers provided in required period	54	73
ELECTRICITY DISTRIBUTION		
Operating profit* - £m	507.0	511.6
Regulated Asset Value (RAV) - £m	3,050	2,915
Capital expenditure - £m	308.3	288.8
Customer minutes lost (SHEPD)	77	73
Customer minutes lost (SEPD)	67	65
Customer interruptions (SHEPD)	75	69
Customer interruptions (SEPD)	68	62
SCOTIA GAS NETWORKS		
Operating profit* (SSE's share) - £m	276.6	234.1
Regulated Asset Value (SSE's share) - £m	2,440	2,392
Capital and replacement expenditure (SSE's share)- £m	160.9	199.0
Uncontrolled gas escapes attended within one hour %	98.7	98.4
SGN gas mains replaced - km	1,088	1,124
OTHER NETWORKS		
Operating profit* - £m	35.1	35.9
Capital expenditure - £m	54.6	52.8

[1] Operating profit restated following the adoption of IAS 19R

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

Economically-regulated network companies with a growing Regulated Asset Value
SSE has an ownership interest in five economically-regulated energy network companies:

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

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

- £1,330m for electricity transmission;
- £3,050m for electricity distribution; and
- £2,440m for gas distribution (being 50% of SGN's total RAV).

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

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

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

Electricity Transmission

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

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

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

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

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

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

- **Beauly-Denny:** Excellent progress is being made on the construction of SHE Transmission's part of the replacement line from Beauly to Wharry Burn, with the route running through some of the highest and most challenging terrain in Great Britain. Almost all of the foundations are complete, with anticipated full completion in the next few weeks; three quarters of the 539 towers have been erected; and over half of the route wired. Total regulated spend of £508.3m has been invested so far. In line with the conditions associated with the planning consent, good progress is being made with the work to remove over 100km of overhead lines in

Highland Scotland. Based on expenditure to date and known issues including the interface with SP Transmission's section of the line, it is still expected the final cost will be over £675m. Further discussions continue to take place with SP Transmission and Ofgem on the coordination with the network in the south of Scotland and the timescales and full cost of completion.

- **Beauly to Blackhillock to Kintore**: The replacement of the 275kV conductors to allow an increase in the capacity of the network to transmit electricity is also well under way with over 50% of the project already complete and anticipated energisation in 2015. Ofgem has given capital funding approval of £94m (2013/14 prices) for this development.
- **Beauly to Mossford:** Good progress is being made on the upgrade with phase one complete, including the commissioning of Corriemoillie substation within the Ofgem funding allowance. Phase two, including the rebuilding of the overhead line, is on programme for completion in 2015 and Ofgem has given capital funding approval of £53m (2013/14 prices) for this phase.
- **Kintyre-Hunterston**: This network reinforcement, including the subsea cable from Crossaig on the Kintyre peninsula around the north coast of Arran to Hunterston, is well under way with completion of the platform for the substation and landing point for the subsea cable in Kintyre. The current programme anticipates that the reinforcement will be operational by 2016. Ofgem has given capital funding approval of £205.6m (2013/14 prices).

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

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

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

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

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

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

In recognition of this challenge, the UK government has confirmed additional support through an enhanced Islands Strike Price for onshore wind and has issued a consultation indicating its position that the islands should not be subject to the competitive allocation, competing with onshore wind on

the mainland. This, aligned with the strong wind resource in the north of Scotland, has led SHE Transmission to continue to work with the UK government and Scottish government to help find a solution to the policy and regulatory hurdles being faced by developers on the Scottish islands.

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

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

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

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

Electricity Distribution

Performance in Scottish and Southern Energy Power Distribution (SSEPD) The performance of SSE's two electricity distribution companies during the year to 31 March 2014 was as follows (comparisons with the same period to 2013):

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

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

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

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

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

Managing the Networks during the wettest winter on record

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

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

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

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

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

Investing in network resilience

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

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

Keeping costs down and improving customer service for RIIO ED1

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

SSEPD submitted a business plan in June 2013 and in November Ofgem announced that the plan had not been selected for 'fast-track'. Nevertheless, SSEPD is encouraged that, as with previous Price Controls, the business is recognised as one of the leading companies on cost efficiency and that a

number of proposals in key areas such as connections and customer service have been accepted in full. The outcome of the decision has been used to review a number of areas and a revised business plan was submitted in March 2014. Key proposals include:

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

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

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

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

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

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

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

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

- ensure that there is adequate capacity to meet changing demands on the electricity system; and
- make progress on the deployment of innovative investment in smart grids.

Gas Distribution

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

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

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

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

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

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

This investment will allow SGN to:

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

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

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

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

Gas Distribution priorities in 2014/15 and beyond
During 2013/14, SGN refreshed its company goals. Its key priorities are now to:

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

Other Networks

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

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

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

Other Networks (including 'Enterprise') priorities in 2014/15 and beyond
SSE Contracting, Lighting Services, Utility Solutions and Telecoms have specific priorities for 2014/15, but across all of them there is a continuing need to:

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

Networks – Conclusion

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

RETAIL

Retail Key Performance Indicators

Energy Supply	Mar 14	Mar 13 restated[1]
Operating profit* - £m	246.2	363.2
Electricity customer accounts(GB domestic) - m	4.66	4.87
Gas customer accounts (GB domestic) – m	3.21	3.35
Energy customers (GB business sites) – m	0.42	0.43
All-Island Energy market customers (Ire) – m	0.81	0.82
Total energy customer accounts (GB, Ire) – m	**9.10**	**9.47**
Electricity supplied household average (GB) – kWh	3,991	4,299
Gas supplied household average (GB) – th	465	544
Household/small business aged debt (GB, Ire) - £m	117.8	90.4
Customer complaints to third parties (GB)[2]	1,208	942

[2] Energy Ombudsman, Consumer Focus and Consumer Direct

Energy related services		
Operating profit* - £m	45.8	45.9
Home Services customer accounts (GB) – m	0.37	0.42
Meters read – m	14.1	14.4
SSE Contracting Order Book	85.0	88.0

[1] Operating profit restated following the adoption of IAS 19R

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

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

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

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

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

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

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

Energy Supply

Fulfilling key responsibilities as an energy supplier
The key responsibilities of the Energy Supply business are to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Delivering the Energy Company Obligation (ECO)

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

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

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

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

Helping vulnerable customers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Northern Ireland (gas):** SSE Airtricity is the regulated supplier of natural gas to 120,000 household and business accounts in the Greater Belfast area - approximately 75% of gas customers in Northern Ireland. The setting of SSE Airtricity's regulated gas prices, including any changes to those prices, requires the formal approval of Northern Ireland's Utility Regulator under a defined annual Price Control review process. On 1 April 2013 SSE Airtricity's regulated gas prices increased by 8.5% following approval by the Utility Regulator. In February 2014 SSE Airtricity announced that it would hold regulated prices for its domestic and small business customers at current levels until the next interim Price Control review by the Regulator in October 2014. This means that SSE Airtricity's gas customers in NI will enjoy stable prices for a period of at least 18 months since the company last changed its tariffs. It also demonstrates the price stability delivered to its NI gas customers since it acquired Phoenix Supply Ltd. in June 2012.
- **Northern Ireland (electricity)**: in this regulated electricity market, SSE Airtricity increased its prices by 17.8% from 1 July 2013. This followed Regulator-approved changes to the regulated electricity tariff and followed a decrease of similar proportions nine months previously, in October 2012. SSE Airtricity echoed the view of the First Minister and Deputy First Minister that it wanted to see greater stability in NI electricity pricing.
- **Republic of Ireland:** SSE Airtricity increased its gas prices by 2% from 1 October 2013 following an increase in regulated gas prices approved by the Republic's Commission for Energy Regulation. In the deregulated electricity market the company announced a 3.5% increase in its domestic prices from 1 November 2013 as a result of sustained rises in networks costs and wholesale prices.

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

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

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

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

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

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

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

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

Energy-Related Services

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

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

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

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

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

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

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

WHOLESALE

Wholesale Key Performance Indicators	Mar 2014	Mar 2013 restated[1]
Energy Portfolio Management (EPM) and Electricity Generation		
EPM and Generation operating profit* - £m	496.1	450.6
EPM and Generation capital expenditure and investment - £m	616.5	610.7
EPM		
Total wholesale electricity traded on N2EX Auction - GWh	96,682	80,591
Total wholesale electricity traded with small suppliers - GWh	833	795
GENERATION		
Gas- and oil-fired generation capacity (GB) – MW	4,262	4,350
Gas- and oil-fired generation capacity (Ire) – MW	1,068	1,068
Coal-fired generation capacity (inc biomass co-firing) - MW	3,009	4,370
Renewable generation capacity GB and Ire (inc pump storage) - MW	3,326	3,240
Total electricity generation capacity (GB and Ire) – MW	**11,665**	**13,028**
Gas power station availability - %	92	9
Coal power station availability - %	84	90
Onshore wind farm availability %	97	97
Hydro storage at end March - %	75	49
Gas- and oil-fired (inc CHP) output (GB and Ire) - GWh	10,111	8,709
Coal-fired (inc biomass co-firing) output- GWh	16,576	20,627
Total output from thermal power stations (GB and Ire) - GWh	**26,687**	**29,336**
Conventional hydro output – GWh	3,753	2,836
Wind energy output (GB and Ire) – GWh	5,367	4,281
Dedicated biomass output – GWh	67	168
Total output of renewable energy (GB and Ire) – GWh	**9,188**	**7,285**
Total output from pumped storage – GWh	**252**	**300**
Total Generation output – all plant - GWh	**36,127**	**36,921**

Note 1: Capacity is wholly-owned and share of joint ventures
Note 2: Output is electricity from power stations in which SSE has an ownership interest (output based on SSE's contractual share)
Note 3: Capacity includes 735MW of mothballed plant at Keadby and 1,180MW at Peterhead (while TEC for these stations is zero and 400MW respectively from 1st April 14.).
Note 4: Capacity excludes Ferrybridge units 1 and 2 (c. 980MW) and Uskmouth (c.360MW) which ceased operations at the end of March 2014.

	Mar 2014	Mar 2013 restated[1]
GAS PRODUCTION		
Gas production operating profit* - £m	130.2	39.6
Gas production – m therms	414.1	183.8
Gas production capital investment – £m	40.9	7.2
GAS STORAGE		
Gas storage operating profit* - £m	8.3	18.4
Gas storage customer nominations met - %	100	100
Gas storage capital investment - £m	10.6	33.1

[1] Operating profit restated following the adoption of IAS 19R

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

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

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

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

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

Financial performance in Wholesale
During the year to 31 March 2014 operating profit* in Wholesale was £634.6m. This comprised (comparisons with 2013/14):

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

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

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

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

- the extent of economic growth, which has a direct impact on energy demand;

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

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

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

Energy Portfolio Management (EPM)

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

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

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

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

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

EPM priorities for 2014/15 and beyond
EPM short term priorities include:

- securing a stable and predictable supply of energy to meet SSE's customers' needs;
- driving business change to respond effectively to new UK and EU regulations;
- responding to market evolution and change;

- identifying and agreeing new long term energy supply contracts; and
- continuing to support improved market transparency and liquidity initiatives.

Generation – Great Britain and Ireland Overview

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

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

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

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

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

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

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

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

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

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

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

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

Generation – Great Britain

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

- 26.7TWh, based on contracted output of electricity from all thermal power stations in which it has an ownership interest (29.3TWh); and
- 8.1TWh, based on contracted output from renewable sources of energy in which it has an ownership interest, including pumped storage (6.3TWh).

THERMAL GENERATION

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

- 4,262MW of gas- and oil-fired generation, including 750MW of mothballed plant at Keadby and 1180MW at Peterhead which from April 2014 has only 400MW of TEC; and
- 3,009MW of coal-fired generation. The c.1,360MW reduction in coal capacity is due to closure of Uskmouth and Ferrybridge Units 1 and 2 in March 2014.

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

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

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

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

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

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

In July 2013, Ofgem proposed new interim mechanisms - the Supplemental Balancing Reserve (SBR) and Demand-Side Balancing Reserve - to deal with any shortfalls in generation capacity in advance of

the planned introduction of the Capacity Market in 2018. The tender process for these mechanisms was due to be held in March 2014 but has been delayed, with the first tenders now expected in June 2014.

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

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

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

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

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

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

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

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

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

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

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

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

Selecting some plant for the LLD, while maintaining other plant within the TNP, provides a number of alternative options for how these plants will operate in the future. SSE will monitor the development of the TNP over the next two years and, as key elements are finalised, will review whether it is appropriate

to also move the plant at Ferrybridge into the TNP. Any decisions will also be informed by market conditions and the effects of a future capacity mechanism.

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

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

Making the right investment decisions in gas-fired power stations
Despite currently experiencing short term market challenges, gas-fired plant will play an increasingly important role in electricity generation driven by its:

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

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

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

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

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

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

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

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

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

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

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

RENEWABLE GENERATION

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

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

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

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

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

Managing the impact of market conditions and the public policy framework
SSE continues to respond to policy support for increased renewable generation capacity in the portfolio mix in GB, currently delivered through the financial support of the Renewables Obligation (the RO applies also in Northern Ireland). The new Contracts for Difference (CfD) support mechanism, due to be accessible from October 2014, is still being finalised. Absolute support will be limited by the Levy Control Framework budget which has the reasonable objective of controlling costs to customers from

government energy policies. However it also means that less support will be available for new renewable generation in the future.

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

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

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

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

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

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

In addition to these projects under construction, SSE has:

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

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

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

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

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

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

- **Galloper:** SSE has decided not to take beyond the current phase of development its interest in the Galloper project (340MW, a 50:50 partnership between SSE and RWE Innogy). In the context of its wider capital and investment programme, SSE does not currently believe that the costs of constructing and operating Galloper, and the revenue likely to be earned from it once built will provide a return on SSE's capital investment that will enable the project to compete successfully against other projects in SSE's wider investment portfolio over Galloper's planned construction timeline. As a result, SSE is working with its partner and other stakeholders to secure the maximum possible value for its interest in the project.
- **Round 3** SSE currently participates in the development of two of the projects allocated under The Crown Estate's Round 3 site allocation process: **SeaGreen** (3,500MW), a 50:50 partnership between SSE Renewables and Fluor Limited, which has submitted consent applications to Marine Scotland for two wind farm areas in the Firth of Forth with a capacity of 525MW each in the 3.5GW Firth of Forth zone; and
  Forewind (7,200MW), a four-way partnership with RWE Innogy, Statoil and Statkraft, which has submitted a consent application to the Planning Inspectorate for four wind farm projects of up to 1,200MW each on Dogger Bank. SSE has decided that it will continue to support the progress of development work on SeaGreen and Forewind with the objective of securing the necessary consents for construction, but that it will not extend beyond that the scope of its commitments to the projects in the near term.
- **Islay:** SSE had proposed to develop an offshore wind farm off the coast of Islay with capacity of up to 690MW and while it will continue to work with other stakeholders in relation to the development, it will not be investing further in the project in the foreseeable future.

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

Generation – Ireland

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- comply fully with all safety standards and environmental requirements;
- ensure power stations are available to respond to customer demand and market conditions;

- operate power stations efficiently to achieve the optimum conversion of primary fuel into electricity; and
- continue to show discipline in the development of and investment in new generation projects.

Gas Production

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

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

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

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

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

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

Gas Storage

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

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

anticipated that the Aldbrough facility will ultimately provide the ability to store up to a maximum of around 320mcm, and account for around 20% of the UK's storage deliverability.

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

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

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

Gas Storage priorities in 2014/15 and beyond
Gas storage priorities for the financial year and beyond include:

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

Wholesale – Conclusion

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

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

Consolidated Income Statement
for the year ended 31 March

	Note	2014 Before exceptional items and certain re-measurements £m	2014 Exceptional items and certain re-measurements (note 6) £m	2014 Total £m	2013 Before exceptional items and certain re-measurements restated (note 3) £m	2013 Exceptional items and certain re-measurements (note 6) £m	2013 Total restated (note 3) £m
Revenue	5	**30,585.0**	**-**	**30,585.0**	28,304.6	-	28,304.6
Cost of sales		**(27,799.3)**	**(560.2)**	**(28,359.5)**	(25,612.5)	(691.3)	(26,303.8)
Gross profit		**2,785.7**	**(560.2)**	**2,225.5**	2,692.1	(691.3)	2,000.8
Operating costs		**(1,316.0)**	**(303.0)**	**(1,619.0)**	(1,240.5)	(105.6)	(1,346.1)
Other operating income		**4.5**	**-**	**4.5**	11.8	-	11.8
Operating profit before jointly controlled entities and associates		**1,474.2**	**(863.2)**	**611.0**	1,463.4	(796.9)	666.5
Jointly controlled entities and associates:							
Share of operating profit		**405.9**	**(34.9)**	**371.0**	315.6	(16.5)	299.1
Share of interest		**(147.9)**	**-**	**(147.9)**	(156.1)	-	(156.1)
Share of movement on derivatives		**-**	**3.1**	**3.1**	-	8.7	8.7
Share of tax		**(58.2)**	**69.8**	**11.6**	(50.1)	25.6	(24.5)
Share of profit on jointly controlled entities and associates		**199.8**	**38.0**	**237.8**	109.4	17.8	127.2
Operating profit	5	**1,674.0**	**(825.2)**	**848.8**	1,572.8	(779.1)	793.7
Finance income	7	**133.1**	**-**	**133.1**	101.4	-	101.4
Finance costs	7	**(342.4)**	**(64.2)**	**(406.6)**	(344.1)	20.3	(323.8)
Profit before taxation		**1,464.7**	**(889.4)**	**575.3**	1,330.1	(758.8)	571.3
Taxation	8	**(382.9)**	**253.6**	**(129.3)**	(307.0)	201.8	(105.2)
Profit for the year		**1,081.8**	**(635.8)**	**446.0**	1,023.1	(557.0)	466.1
Attributable to:							
Ordinary shareholders of the parent		**958.9**	**(635.8)**	**323.1**	959.7	(557.0)	402.7
Other equity holders		**122.9**	**-**	**122.9**	63.4	-	63.4
Basic earnings per share (pence)	10			**33.5p**			42.3p
Diluted earnings per share (pence)	10			**33.3p**			42.2p
Interim dividend paid per share (pence)	9			**26.0p**			25.2p
Final dividend proposed per share (pence)	9			**60.7p**			59.0p
				86.7p			84.2p

The accompanying notes are an integral part of the financial information in this announcement

Consolidated Statement of Comprehensive Income
For the year ended 31 March

	2014 £m	2013 restated (note 3) £m
Profit for the year	**446.0**	466.1
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Actuarial gains/(losses) on retirement benefit schemes	**19.0**	(23.5)
Taxation on actuarial losses on defined benefit pension schemes	**(23.5)**	(2.0)
	(4.5)	(25.5)
Share of jointly controlled entities actuarial (losses)/gains on retirement benefit schemes	**(29.2)**	15.7
Share of jointly controlled entities taxation of actuarial gains/(losses) on retirement benefit schemes	**6.2**	(4.0)
	(23.0)	11.7
Items that will be reclassified subsequently to profit or loss:		
(Losses)/gains on effective portion of cash flow hedges	**(54.5)**	46.4
Transferred to assets and liabilities on cash flow hedges	**(0.8)**	0.7
Taxation on cashflow hedges	**12.6**	(11.4)
	(42.7)	35.7
Share of jointly controlled entities and associates gain/(loss) on effective portion of cash flow hedges	**13.2**	(0.4)
Share of jointly controlled entities and associates taxation on cashflow hedges	**(3.3)**	(0.1)
	9.9	(0.5)
Losses on revaluation of available for sale investments, net of taxation	**(5.1)**	-
Exchange difference on translation of foreign operations	**(22.6)**	22.6
Gains/(losses) on net investment hedge	**16.2**	(7.3)
Taxation on net investment hedge	**(3.7)**	1.3
	(10.1)	16.6
Other comprehensive (loss)/income, net of taxation	**(75.5)**	38.0
Total comprehensive income for the period	**370.5**	504.1
Attributable to:		
Ordinary shareholders of the parent	**247.6**	440.7
Other equity holders	**122.9**	63.4
	370.5	504.1

Consolidated Balance Sheet

as at 31 March

	Note	2014 £m	2013 £m
Assets			
Property, plant and equipment		**10,316.6**	9,838.3
Biological assets		**-**	3.4
Intangible assets:			
Goodwill		**585.1**	635.8
Other intangible assets		**304.2**	282.2
Equity investments in associates and jointly controlled entities		**1,543.5**	913.2
Loans to associates and jointly controlled entities		**521.6**	1,244.0
Other investments		**42.3**	46.7
Deferred tax assets		**207.3**	155.4
Derivative financial assets		**368.4**	382.4
Non-current assets		**13,889.0**	13,501.4
Other intangible assets		**433.7**	368.4
Inventories		**393.0**	291.7
Trade and other receivables		**4,262.4**	4,953.0
Cash and cash equivalents		**442.5**	538.7
Derivative financial assets		**1,261.2**	940.8
Current assets held for sale		**332.5**	2.3
Current assets		**7,125.3**	7,094.9
Total assets		**21,014.3**	20,596.3
Liabilities			
Loans and other borrowings	13	**618.7**	1,544.6
Trade and other payables		**4,954.3**	5,047.6
Current tax liabilities		**315.2**	286.8
Provisions		**134.3**	60.1
Derivative financial liabilities		**1,470.2**	1,011.2
Liabilities held for sale		**19.2**	-
Current liabilities		**7,511.9**	7,950.3
Loans and other borrowings	13	**5,676.3**	4,540.4
Deferred tax liabilities		**709.6**	806.6
Trade and other payables		**416.2**	341.4
Provisions		**261.4**	229.5
Retirement benefit obligations	17	**637.7**	705.8
Derivative financial liabilities		**681.7**	473.4
Non-current liabilities		**8,382.9**	7,097.1
Total liabilities		**15,894.8**	15,047.4
Net assets		**5,119.5**	5,548.9
Equity:			
Share capital	15	**487.4**	482.1
Share premium		**861.5**	857.9
Capital redemption reserve		**22.0**	22.0
Hedge reserve		**(27.0)**	5.8
Translation reserve		**1.5**	11.6
Retained earnings		**1,587.3**	1,982.7
Equity attributable to ordinary share holders of the parent		**2,932.7**	3,362.1
Hybrid capital	14	**2,186.8**	2,186.8
Total equity attributable to equity holders of the parent		**5,119.5**	5,548.9

The accompanying notes are an integral part of the financial information in this announcement

Consolidated Statement of Changes in Equity
for the year ended 31 March 2014

Statement of changes in equity	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid Capital £m	Total £m
At 1 April 2013	482.1	857.9	22.0	5.8	11.6	1,982.7	**3,362.1**	2,186.8	**5,548.9**
Profit for the year	-	-	-	-	-	323.1	**323.1**	122.9	**446.0**
Other comprehensive (loss)/income	-	-	-	(42.7)	(10.1)	(9.6)	**(62.4)**	-	**(62.4)**
Share of jointly controlled entities and associates other comprehensive income				9.9	-	(23.0)	**(13.1)**	-	**(13.1)**
Total comprehensive income for the year	-	-	-	(32.8)	(10.1)	290.5	**247.6**	122.9	**370.5**
Dividends to shareholders	-	-	-	-	-	(819.6)	**(819.6)**	-	**(819.6)**
Scrip dividend related share issue	4.8	(4.8)	-	-	-	130.2	**130.2**	-	**130.2**
Distributions to hybrid capital holders	-	-	-	-	-	-	**-**	(122.9)	**(122.9)**
Issue of shares	0.5	8.4	-	-	-	-	**8.9**	-	**8.9**
Credit in respect of employee share awards	-	-	-	-	-	15.5	**15.5**	-	**15.5**
Investment in own shares	-	-	-	-	-	(12.0)	**(12.0)**	-	**(12.0)**
At 31 March 2014	**487.4**	**861.5**	**22.0**	**(27.0)**	**1.5**	**1,587.3**	**2,932.7**	**2,186.8**	**5,119.5**

Statement of changes in equity	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings (restated note 3) £m	Total attributable to ordinary shareholders (restated note 3) £m	Hybrid Capital £m	Total (restated note 3) £m
At 1 April 2012	472.3	862.0	22.0	(29.4)	(5.0)	2,100.8	**3,422.7**	1,161.4	**4,584.1**
Profit for the year	-	-	-	-	-	402.7	**402.7**	63.4	**466.1**
Other comprehensive income/(loss)	-	-	-	35.7	16.6	(25.5)	**26.8**	-	**26.8**
Share of jointly controlled entities and associates other comprehensive income	-	-	-	(0.5)	-	11.7	**11.2**	-	**11.2**
Total comprehensive income for the year	-	-	-	35.2	16.6	388.9	**440.7**	63.4	**504.1**
Dividends to shareholders	-	-	-	-	-	(770.5)	**(770.5)**	-	**(770.5)**
Scrip dividend related share issue	9.6	(9.6)	-	-	-	255.2	**255.2**	-	**255.2**
Distributions to hybrid capital holders	-	-	-	-	-	-	**-**	(63.4)	**(63.4)**
Issue of shares	0.2	5.5	-	-	-	-	**5.7**	-	**5.7**
Issue of hybrid capital	-	-	-	-	-	-	**-**	1,025.4	**1,025.4**
Credit in respect of employee share awards	-	-	-	-	-	16.0	**16.0**	-	**16.0**
Investment in own shares	-	-	-	-	-	(7.7)	**(7.7)**	-	**(7.7)**
At 31 March 2013	**482.1**	**857.9**	**22.0**	**5.8**	**11.6**	**1,982.7**	**3,362.1**	**2,186.8**	**5,548.9**

Consolidated Cash Flow Statement

for the year ended 31 March

	Note	**2014 £m**	2013 £m
Cash generated from operations before working capital movements	11	**2,032.3**	1,953.5
(Increase)/decrease in inventories		**(104.1)**	47.6
Decrease in receivables		**303.8**	250.1
Increase/(decrease) in payables		**195.0**	(110.3)
(Decrease)/increase in provisions		**(18.9)**	22.8
Cash generated from operations		**2,408.1**	2,163.7
Dividends received from jointly controlled entities and associates		**364.3**	87.0
Interest received		**113.8**	88.5
Interest paid		**(284.3)**	(245.5)
Income taxes paid		**(147.1)**	(114.6)
Payment for consortium relief		**(26.4)**	(1.9)
Net cash from operating activities		**2,428.4**	1,977.2
Cash flows from Investing activities			
Purchase of property, plant and equipment		**(1,432.3)**	(1,303.3)
Purchase of other intangible assets		**(403.8)**	(317.1)
Deferred income received		**7.2**	7.5
Proceeds from sale of property, plant and equipment		**-**	2.0
Proceeds from sale of business and subsidiaries		**3.2**	153.8
Loans to jointly controlled entities		**(83.9)**	(88.6)
Purchase of businesses and subsidiaries		**(109.6)**	(358.4)
Cash included in disposals		**-**	5.4
Investment in jointly controlled entities and associates		**(10.0)**	(13.5)
Loans and equity repaid by jointly controlled entities		**19.4**	31.6
Increase in other investments		**(0.7)**	(10.6)
Net cash from investing activities		**(2,010.5)**	(1,891.2)
Cash flows from financing activities			
Proceeds from issue of share capital		**8.9**	5.7
Dividends paid to company's equity holders		**(689.4)**	(515.3)
Hybrid capital dividend payment		**(122.9)**	(63.4)
Issue of Hybrid Capital		**-**	1,025.4
Employee share awards share purchase		**(12.0)**	(7.7)
New borrowings		**1,815.8**	517.1
Repayment of borrowings		**(1,514.8)**	(694.7)
Net cash from financing activities		**(514.4)**	267.1
Net (decrease)/increase in cash and cash equivalents		**(96.5)**	353.1
Cash and cash equivalents at the start of year		**538.7**	185.5
Net (decrease)/increase in cash and cash equivalents		**(96.5)**	353.1
Effect of foreign exchange rate changes		**-**	0.1
Cash and cash equivalents at the end of year		**442.2**	538.7
Cash and cash equivalents in balance sheet		**442.5**	538.7
Bank overdrafts		**(0.3)**	-
Cash and cash equivalents as above		**442.2**	538.7

(i) Bank overdrafts are reported on the balance sheet as part of current loans and borrowings. For cash flow purposes, these have been included as cash and cash equivalents.

Notes to the Preliminary Statement

for the year ended 31 March 2014

1. Financial Information

The financial information set out in this announcement does not constitute the Group's consolidated financial statement for the years ended 31 March 2014 or 2013 but is derived from those accounts. Consolidated financial statement for the year ended 31 March 2013 have been delivered to the Registrar of Companies, and those for the year ended 31 March 2014 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2014. This preliminary announcement was authorised by the Board on 20 May 2014.

2. Basis of preparation

The financial information set out in this announcement has been extracted from the consolidated financial statements of SSE plc for the year ended 31 March 2014. These consolidated financial statements were prepared under the historical cost convention excepting certain assets and liabilities stated at fair value and in accordance with International Financial Reporting Standards and their interpretations as adopted by the European Union (adopted IFRS). This consolidated financial information has been prepared on the basis of accounting policies consistent with those applied in the consolidated financial statements for the year ended 31 March 2013 with the exception of the newly effective accounting standards, amendments and interpretations disclosed in Note 3. The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The financial information has therefore been prepared on a going concern basis. The financial statements are presented in pounds sterling.

3. Standards, amendments and interpretations

3.1 Effective in financial year ended March 2014

(i) IAS 19 (revised)

IAS 19 (revised): ‘Employee benefits' amends the accounting for employee benefits with the main change being the replacement of the interest cost on defined benefit obligations and the expected return on pension scheme assets with a net interest cost calculated on a net liability basis. This has the impact of increasing net finance costs reported in the income statement. A corresponding change is recognised through Other Comprehensive Income (OCI). In addition, there are a number of smaller changes including the requirement to recognise certain scheme expenses in operating costs as opposed to in OCI. The Group has applied the standard retrospectively in accordance with the transitional provisions and the comparatives have been restated accordingly. The restatement impact on the Group can be summarised as follows:

Extract of Consolidated condensed Income statement

	Year ended 31 March 2013		
	Reported	Impact of applying IAS 19R	**Restated**
	£m	£m	**£m**
Operating profit/(loss) before jointly controlled entities and associates	**670.3**	**(3.8)**	**666.5**
Jointly controlled entities and associates:			
Share of operating profit	299.1	-	299.1
Share of interest	(152.3)	(3.8)	(156.1)
Share of movement on derivatives	8.7	-	8.7
Share of tax	(25.4)	0.9	(24.5)
Share of profit on jointly controlled entities and associates	130.1	(2.9)	127.2
Operating profit/(loss)	**800.4**	**(6.7)**	**793.7**
Finance income	235.5	(134.1)	101.4
Finance costs	(435.0)	111.2	(323.8)
Profit/(loss) before taxation	**600.9**	**(29.6)**	**571.3**
Taxation	(111.6)	6.4	(105.2)
Profit/(loss) for the year	**489.3**	**(23.2)**	**466.1**
Attributable to:			
Equity holders of the parent	425.9	(23.2)	402.7
Other equity holders	63.4	-	63.4
Basic earnings/(loss) per share (pence)	44.7p	(2.4)	42.3p
Diluted earnings/(loss) per share (pence)	44.6p	(2.4)	42.2p

3. Standards, amendments and interpretations effective in 2014 (continued)

(i) IAS 19 (revised)

Extract of Consolidated Condensed Statement of Comprehensive Income

	Year ended 31 March 2013		
	Reported	Impact of applying IAS19R	**Restated**
	£m	£m	**£m**
Profit/(loss) for the year	**489.3**	**(23.2)**	**466.1**
Other comprehensive income:			
Actuarial losses on retirement benefit schemes	(50.2)	26.7	(23.5)
Taxation on actuarial losses on defined benefit pension schemes	4.4	(6.4)	(2.0)
Share of jointly controlled entities actuarial gains on defined benefit pension schemes (net of tax)	8.8	2.9	11.7
Other comprehensive income in the year	51.8	-	51.8
	14.8	**23.2**	**38.0**
Total comprehensive income attributable to equity holders of the parent	**504.1**	**-**	**504.1**

Extract of Note 11 Reconciliation of group operating profit to cash generated from operations

	Year ended 31 March 2013		
	Reported	Impact of applying IAS19R	**Restated**
	£m	£m	**£m**
Profit/(loss) for the year	**489.3**	**(23.2)**	**466.1**
Add back: taxation	111.6	(6.4)	105.2
Add back: net finance costs	199.5	22.9	222.4
Pension service charges net of contributions paid	(84.5)	3.8	(80.7)
Less: share of profit of jointly controlled operations and associates	(130.1)	2.9	(127.2)
Other movements (see note 11)	1,367.7	-	1,367.7
Cash generated from operations before working capital movements	**1,953.5**	**-**	**1,953.5**

The impact on the year to 31 March 2014 has been an increase in operating costs of £4.0m and an increase in net finance costs of £22.0m with an equal and opposite decrease in costs recognised through other comprehensive income.

(ii) Amendment to IAS 1
'Amendment to IAS 1: Presentation of financial statements - Presentation of items of other comprehensive income'. The Group has applied this amendment retrospectively and the comparatives have been represented accordingly. Within the Group statement of comprehensive income, items are now separated into 'Items that will be or have been recycled to the Group Income Statement' and 'Items that will not be recycled to the Group Income Statement'.

(iii) IFRS 13
IFRS 13: 'Fair value measurement' has measurement and disclosure requirements that the Group was required to adopt for the March 2014 year-end onwards.

3.2 Effective in financial year ended 31 March 2015 and in future

(i) IFRS 10, 11 and 12
IFRS 10: 'Consolidated financial statements', IFRS 11: 'Joint arrangements', IFRS 12: 'Disclosures of interests in other entities', and subsequent revisions to IAS 27: 'Separate financial statements' and IAS 28: 'Investments in associates and joint ventures' are new and revised standards that SSE will mandatorily be required to adopt in the year to 31 March 2015. The Group has not adopted these standards early in these statements. The most significant changes anticipated for the Group relate to the adoption of IFRS 11. Under this new standard, certain of the Group's jointly controlled entities and associates, currently equity accounted, will be classified as joint operations. Joint operations arise where the venturers are deemed to have joint control and have rights to the assets and obligations for the liabilities of the arrangement as opposed to having rights to the net assets and obligations for the liabilities of the operation. Accordingly, a joint operator will recognise its share of the operation's assets, liabilities, revenue and expenses in the consolidated Financial Statements rather than its net share of the result of the venture. The Group has assessed that certain of its significant investments which are currently equity accounted, such as Greater Gabbard Offshore Winds Limited, are likely to fall within this category under the new standard. Discussions are also ongoing with certain venture partners to confirm treatment in respect of specific arrangements. This will result in the material restatement of the Group's Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Comprehensive Income and Consolidated Cash Flow Statements. It should be noted that as the Group currently reports its adjusted profit measures including its respective shares of operating profit, interest and tax of the affected investments, no change is anticipated to arise in respect of the measures reported internally and in the Annual Report in respect of underlying performance. A full explanation of the restatements arising from the adopted IFRS 11, and the other new standards, will be included in the Group's Condensed Interim Statements for the six month period to 30 September 2014.

At the date of authorisation of these financial statements, there are no other IFRSs or IFRIC interpretations that are effective for the first time for the current financial period that have had a material impact on the Group. The Group has not early adopted any standard, interpretation or amendments that have been issued but are not yet effective.

3.2 Effective in financial year ended 31 March 2015 and in future (continued)

(i) IFRS 10, 11 and 12 (continued)
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.

4. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The Group's key accounting judgement and estimation areas are noted with the most Significant Financial Judgement areas as specifically discussed by the Audit Committee being highlighted separately.

Significant Financial Judgements

The Financial Statements have been prepared considering the following **Significant Financial Judgements** which include areas of estimation uncertainty and accounting judgement:

(i) Revenue recognition – Estimation Uncertainty
Revenue on energy sales includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. This will have been estimated by using historical consumption patterns and takes into consideration industry reconciliation processes for total consumption by supplier and differences between estimated and actual meter data. At the balance sheet date, the estimated consumption by customers will either have been billed (estimated billed revenue) or accrued (unbilled revenue). Management apply judgement to the measurement of the quantum of the estimated consumption and to the valuation of that consumption. The judgements applied, and the assumptions underpinning these judgements are considered to be appropriate. However, a change in these assumptions would impact upon the amount of revenue recognised.

(ii) Valuation of trade receivables – Estimation Uncertainty
The basis of determining the provisions for bad and doubtful debts are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to the income statement.

(iii) Impairment testing and valuation of certain Non-Current Assets – Estimation Uncertainty
The Group reviews the carrying amounts of its goodwill, other intangible assets and property, plant and equipment to determine whether there is any indication that the value of those assets is impaired. In conducting the reviews, the Group makes judgements and estimates in considering the recoverable amount of the respective assets or cash-generating units (CGUs). The key assets under review are goodwill, thermal power generation assets, wind farm CGUs and specific assets, gas storage assets and exploration and production (E&P) assets. Changes to the estimates and assumptions on factors such as power, gas, carbon and other commodity prices, volatility of gas prices, plant running regimes and load factors, expected 2P reserves, discount rates and other inputs could impact the assessed recoverable value of assets and CGUs and consequently impact the Group's income statement and balance sheet.

(iv) Treatment of disputes and claims – Accounting Judgement
The Group is exposed to the risk of litigation and contractual disputes through the course of its normal operations. The Group considers each instance separately in accordance with legal advice and will provide or disclose information as deemed appropriate. Changes in the assumptions around the likelihood of an outflow of economic resources or the estimation of any obligation would change the values recognised in the financial statements.

(v) Retirement benefits – Estimation Uncertainty
The assumptions in relation to the cost of providing post-retirement benefits during the period are based on the Group's best estimates and are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the level of the retirement benefit obligation recorded and the cost to the Group of administering the schemes. The value of scheme assets are impacted by the asset ceiling test which (a) restricts the surplus that can be recognised to assets that can be recovered fully through refunds and (b) may increase the value of scheme liabilities where there are minimum funding liabilities in relation to agreed contributions.

Other key accounting judgements

Other key judgements and policy decisions applied in the preparation of these Financial Statements include the following:

Exceptional items and certain re-measurements
As permitted by IAS 1 'Presentation of financial statements', the Group has disclosed additional information in respect of jointly controlled entities and associates, exceptional items and certain re-measurements on the face of the income statement to aid understanding of the Group's financial performance.

An item is treated as exceptional if it is considered unusual by nature and scale and of such significance that separate disclosure is required for the financial statements to be properly understood. These items will be non-recurring and will include items such as asset or CGU impairment charges, restructuring costs or contractual settlements. Certain re-measurements are re-measurements arising on certain commodity, interest rate and currency contracts which are accounted for as held for trading or as fair value hedges in accordance with the Group's policy for such financial instruments. This excludes commodity contracts not treated as financial instruments under IAS 39 where held for the Group's own use requirements.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Other key accounting judgements (continued)

ii) Adjusted measures
The Directors assess the performance of the reportable segments ('Operating profit by segment', Note 5(b)) based on an 'adjusted profit before interest and tax' measure. This is the basis used for internal performance management and is believed to be appropriate for explaining underlying performance. The adjusted profit before interest and tax is reconciled to reported profit before interest and tax by adding back exceptional items, remeasurements arising from IAS 39 and after the removal of taxation on profits from jointly controlled entities and associates. Following the adoption of IAS 19 (revised), as detailed at Note 3 (i), 'adjusted profit before tax', which is the key measure of Group financial performance, will now be presented after adding back the net interest costs associated with defined benefit schemes. This represents a change in the current year and all comparative measures have been restated accordingly. In addition, adjusted profit after tax will be reported on a basis consistent with this change.

The Directors also present details of an 'adjusted earnings per share' measure, which is based on basic earnings per share before exceptional items, remeasurements arising from IAS 39, the net interest costs associated with IAS 19 (revised) and after the removal of deferred taxation. The adjusted measures are considered more reflective of the Group's underlying performance, are consistent with way the Group is managed and avoids volatility arising from IAS 39 fair value measurements.

(iii) Business Combinations and acquisitions
Business combinations and acquisitions require a fair value exercise to be undertaken to allocate the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of this purchase price to the identifiable assets and liabilities with any unallocated portion being recorded as goodwill.

(iv) Energy Company Obligation (ECO) costs
The Energy Company Obligation ('ECO') legislation, in force since 1 January 2013, requires qualifying energy suppliers to meet defined targets by providing measures to improve the energy efficiency of and level of carbon emissions from UK domestic households. The targets for the Group's Energy Supply business are set based on historic customer information with delivery of the measures being required by 31 March 2017. The Group believes it is not technically obligated to provide those measures until the end of the delivery period, which has been extended by two years by the Government to 31 March 2017. As a consequence and applying applicable accounting standards, the costs of ECO are recorded when measures are delivered or other qualifying expenditure has been incurred.

Other areas of estimation uncertainty

(i) Provisions and contingencies
The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37. Provisions are calculated based on estimations. The evaluation of the likelihood of the contingent events has required best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseeable developments, this likelihood could alter.

(ii) Decommissioning costs
The estimated costs of decommissioning at the end of the useful lives of the assets is reviewed periodically. Decommissioning costs in relation to gas exploration and production assets are based on expected lives of the fields and costs of decommissioning and are currently expected to be incurred predominantly between 2017 and 2030.

(iii) Gas and liquids reserves
The volume of proven and probable gas and liquids reserves is an estimate that affects the unit of production depreciation of producing gas and liquids property, plant and equipment. This is also a significant input estimate to the associated impairment and decommissioning calculations.. The impact of a change in estimated proven and probable reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If proven and probable reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

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 below.

Notes to the Preliminary Statement
for the year ended 31 March 2014

5. Segmental information

The Group's operating segments are those used internally by the 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, and Ireland 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.

a) Revenue by segment

	External revenue 2014 £m	**Intra-segment revenue (i) 2014 £m**	**Total revenue 2014 £m**	External revenue 2013 £m	Intra-segment revenue (i) 2013 £m	Total revenue 2013 £m
Networks						
Electricity Distribution	704.1	311.7	1,015.8	647.0	348.8	995.8
Electricity Transmission	185.2	-	185.2	139.1	0.1	139.2
Other Networks	294.4	51.7	346.1	246.3	68.5	314.8
	1,183.7	**363.4**	**1,547.1**	1,032.4	417.4	1,449.8
Retail						
Energy Supply	8,465.0	26.7	8,491.7	8,602.1	35.1	8,637.2
Energy-related Services	263.2	203.9	467.1	246.0	203.2	449.2
	8,728.2	**230.6**	**8,958.8**	8,848.1	238.3	9,086.4
Wholesale						
Energy Portfolio Management and Electricity Generation	20,608.5	4,246.0	24,854.5	18,356.9	4,420.4	22,777.3
Gas Storage	9.0	82.6	91.6	19.4	93.4	112.8
Gas Production	7.8	255.7	263.5	3.7	114.4	118.1
	20,625.3	**4,584.3**	**25,209.6**	18,380.0	4,628.2	23,008.2
Corporate unallocated	47.8	276.0	323.8	44.1	247.9	292.0
Total	**30,585.0**	**5,454.3**	**36,039.3**	28,304.6	5,531.8	33,836.4

(i) Significant intra-segment revenue is derived from use of system income received by the Electricity Distribution business from Energy Supply; Other Networks provide Telecoms infrastructure charges to other Group companies; Energy Supply provides internal heat and light power supplies to other Group companies; Energy-related Services provides Contracting, Metering and other services to other Group companies; Energy Portfolio Management and Electricity Generation provides power and gas to the Energy Supply segment; Gas Storage provide the use of Gas Storage facilities to Energy Portfolio Management and Electricity Generation; Gas Production sells gas from producing North Sea fields to the Energy Portfolio Management and Electricity Generation segment. Corporate unallocated provides corporate and infrastructure services to the operating businesses. All are provided at arm's length basis.

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for the year ended 31 March 2014

5. Segmental information (continued)

a) Revenue by segment (continued)

Revenue within Energy Portfolio Management and Electricity Generation includes revenues from generation plant output and the gross value of all wholesale power and gas sales including settled physical and financial trades. These are entered into to optimise the performance of the generation plants and to support the Energy Supply segment. Purchase trades are included in cost of sales.

Revenue from the Group's investment in Scotia Gas Networks (SSE share being: 2014 – £553.1m; 2013 – £458.0m) is not recorded in the revenue line in the income statement.

b) Operating profit/(loss) by segment

2014	Adjusted operating profit reported to the Board	JCE / Associate share of interest and tax (i)	Before exceptional items and certain re-measurements	Exceptional items and certain re-measurements	Total
	£m	£m	£m	£m	£m
Networks					
Electricity Distribution	507.0	-	507.0	(7.1)	**499.9**
Electricity Transmission	136.7	-	136.7	(1.0)	**135.7**
Gas Distribution	276.6	(163.1)	113.5	68.9	**182.4**
Other Networks	35.1	-	35.1	(33.0)	**2.1**
	955.4	**(163.1)**	**792.3**	**27.8**	**820.1**
Retail					
Energy Supply	246.2	-	246.2	(43.2)	**203.0**
Energy-related Services	45.8	(0.1)	45.7	(57.8)	**(12.1)**
	292.0	**(0.1)**	**291.9**	**(101.0)**	**190.9**
Wholesale					
Energy Portfolio Management and Electricity Generation	496.1	(42.9)	453.2	(600.2)	**(147.0)**
Gas Storage	8.3	-	8.3	(137.7)	**(129.4)**
Gas Production	130.2	-	130.2	-	**130.2**
	634.6	**(42.9)**	**591.7**	**(737.9)**	**(146.2)**
Corporate unallocated	(1.9)	-	(1.9)	(14.1)	**(16.0)**
Total	**1,880.1**	**(206.1)**	**1,674.0**	**(825.2)**	**848.8**

2013 Restated (note 3i)	Adjusted operating profit reported to the Board	JCE / Associate share of interest and tax (i)	Before exceptional items and certain re-measurements	Exceptional items and certain re-measurements	Total
	£m	£m	£m	£m	£m
Networks					
Electricity Distribution	511.6	-	511.6	-	511.6
Electricity Transmission	92.6	-	92.6	-	92.6
Gas Distribution	234.1	(163.0)	71.1	27.4	98.5
Other Networks	35.9	-	35.9	-	35.9
	874.2	(163.0)	711.2	27.4	738.6
Retail					
Energy Supply	363.2	-	363.2	(4.3)	358.9
Energy-related Services	45.9	(0.2)	45.7	(31.7)	14.0
	409.1	(0.2)	408.9	(36.0)	372.9
Wholesale					
Energy Portfolio Management and Electricity Generation	450.6	(43.0)	407.6	(767.2)	(359.6)
Gas Storage	18.4	-	18.4	-	18.4
Gas Production	39.6	-	39.6	-	39.6
	508.6	(43.0)	465.6	(767.2)	(301.6)
Corporate unallocated	(12.9)	-	(12.9)	(3.3)	(16.2)
Total	1,779.0	(206.2)	1,572.8	(779.1)	793.7

(i) The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives and tax from jointly controlled entities and associates. The share of Scotia Gas Networks Limited interest includes loan stock interest payable to the consortium shareholders (included in Gas Distribution). The Group has accounted for its 50% share of this, £33.3m (2013 - £33.3m), as finance income (note 7).
The Group's share of operating profit from jointly controlled entities and associates has been recognised in the Energy Portfolio Management and Electricity Generation segment other than that for Scotia Gas Networks Limited, which is recorded in Gas Distribution, and PriDE (South East Regional Prime), which is recognised in Energy-related Services (£0.6m before tax; 2013 – £1.0m before tax).

Notes to the Preliminary Statement
for the year ended 31 March 2014

6. Exceptional items and certain re-measurements

i) Exceptional items

In the year to 31 March 2014, the following exceptional items were recorded:

Impairments and other charges: On 26 March 2014, the Group announced its intention to dispose of a number of non-core assets and businesses and to identify further operational efficiencies as part of its value programme. This was to allow the Group to focus on its core businesses and to ensure the Group is well-positioned for future challenges arising from the energy 'trilemma' of security of supply, decarbonisation and affordability. Businesses identified included SSE's portfolio of PFI street lighting contracts and other businesses such as the data centre activity in Telecoms and the gas connections business which is part of the capital 'recycling' programme. SSE also announced its decision to scale back its commitment in relation to offshore wind projects including its share of the Galloper, Seagreen and Forewind joint ventures. The announcement also referred to a programme of voluntary early release which would have the effect of reducing headcount by around 500 employees across all business areas. A number of these assets and businesses have been designated as 'held for sale' and are disclosed as such on the face of the balance sheet and at note 12c.

In addition to this, the Group has conducted a further significant review of its operational plant with a specific focus on thermal power generation plant and gas storage facilities. These plants are considered to be at specific risk due to ongoing low 'spark' spreads, increasing uncertainty over coal generation viability, changes arising from market reform including the creation of a Capacity Market in 2018 and the Supplemental Balancing Reserve and the ongoing economic issues associated with gas storage.

The Group has therefore recognised exceptional charges in respect of thermal generation plant of £238.4m and gas storage facilities of £137.7m including the impairment of goodwill (£26.2m) and the impairment of its interest in thermal generation jointly controlled entities of £15.7m. Following the announcement of its intentions relating to offshore wind developments, further impairments and charges of £125.5m have been recognised in relation to renewables assets including £20m relating to goodwill. In addition, the group has recognised impairment charges of a further £36.2m across its energy supply and metering business in respect of development expenditure associated with system and software development.

Other exceptional charges of £132.1m were recognised in relation to the 26 March 2014 announcement including a restructuring provision of £52.9m, associated with both the voluntary early release scheme and other business closures and recognition of losses and costs associated with exit from non-core businesses of £79.2m. A provision for the settlement of a contractual dispute, of £46.4m, was also recognised. The total exceptional charges associated with the 26 March 2014 announcement were £257.6m, being the £132.1m charges noted plus the £125.5m associated with the scaling back of the Group's interest in renewables developments.

In the year to 31 March 2013, the following exceptional items were recorded:

Impairments and other charges: Following a comprehensive review of generation operations, it was announced that around 2,000MW of the Group's thermal generation capacity would close in the current financial year with the main stations affected being Ferrybridge, Keadby, Slough, Uskmouth and Peterhead. Related to this, the Group reassessed the carrying value of its associate investments at Barking Power Limited and Derwent Cogeneration Limited. As a result, combined impairment charges of £306.9m were recognised. In addition, impairment charges of £84.6m were recognised in relation to legacy metering assets, wind development pipeline assets, certain associate investments and other assets. The Group also recognised exceptional charges following the settlement of contractual claims (£43.0m) and in relation to the impairment of carbon dioxide emissions allowances purchased to cover the emissions liabilities at the Group's thermal plants (£139.3m). Provisions for onerous contracts, restructuring and other liabilities. On review of the Group's provisions at 31 March 2013, certain provisions for onerous contracts were released (£37.4m) and other provisions were recognised (£44.3m).

ii) Certain re-measurements

Certain re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category includes the movement on derivatives (and hedged items) as described in note 16. Only certain of the Group's energy commodity contracts are deemed to constitute financial instruments under IAS 39. As a result, while the Group manages the commodity price risk associated with both financial and non-financial commodity contracts, it is only commodity contracts that are designated as financial instruments under IAS 39 that are accounted for on a fair value basis with changes in fair value reflected in profit (as part of 'certain re-measurements') or equity. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts.

iii) Change in UK corporation tax rates

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate would reduce from 28% to 24% over a period of four years starting in 2011. Subsequent Budgets have accelerated the reductions and the 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2013 and substantive enactment of the rates of 21% and 20% with effect from 1 April 2014 and 1 April 2015, respectively, took place on 3 July 2013.

As the changes have been substantively enacted, they have had the effect of reducing the Group's net deferred tax liabilities recognised at 31 March 2014 by £33.6m (with an income statement impact of £52.6m) and the Group's share of associate and jointly controlled investment deferred tax liabilities by £70.5m. The income statement impact of the reduction in rate from 24% to 23% effective in the previous year was recorded as £22.0m and with £23.8m being the impact in relation to the Group's share of jointly controlled entity deferred tax.

6. Exceptional items and certain re-measurements (continued)

iv) Taxation
The Group has separately recognised the tax effect of the exceptional items and certain re-measurements summarised above.

These transactions can be summarised thus:

	2014 £m	2013 £m
Exceptional items (i)		
Impairment of Generation assets and associated costs	**(238.4)**	(433.7)
Impairment of Renewable Generation assets and associated costs	**(125.5)**	(20.0)
Impairment of Gas Storage assets	**(137.7)**	-
Impairment of Other assets	**(73.3)**	(64.6)
Provisions for restructuring, exit costs and other liabilities	**(91.0)**	(6.9)
Provisions for and settlement of contractual disputes	**(46.4)**	(43.0)
	(712.3)	(568.2)
Impairment of Investments in Associates (share of result, net of tax)	**(34.9)**	(12.5)
	(747.2)	(580.7)
Share of effect of change in UK corporation tax on deferred tax liabilities and assets of associate and joint venture investments	**70.5**	23.8
	(676.7)	(556.9)
Certain re-measurements (ii)		
Movement on operating derivatives (note 16)	**(150.9)**	(228.7)
Movement on financing derivatives (note 16)	**(64.2)**	20.3
Share of movement on derivatives in jointly controlled entities (net of tax)	**2.4**	6.5
	(212.7)	(201.9)
Exceptional items before taxation	**(889.4)**	(758.8)
Taxation (iii)		
Effect of change in UK corporation tax rate on deferred tax liabilities and assets	**52.6**	22.0
Taxation on other exceptional items	**137.3**	129.6
	189.9	151.6
Taxation on certain re-measurements	**63.7**	50.2
	253.6	201.8
Exceptional items after taxation	**(635.8)**	(557.0)

Notes to the Preliminary Statement
for the year ended 31 March 2014

7. Finance income and costs

Recognised in income statement	2014			2013		
	Before Exceptional items and certain re-measure ments £m	**Exceptional items and certain re-measure ments £m**	**Total £m**	Before Exceptional items and certain re-measure ments (restated note 3) £m	Exceptional items and certain re-measure ments (restated note 3) £m	Total Restated (note 3) £m
Finance income:						
Interest income from short term deposits	**1.7**	-	**1.7**	1.7	-	1.7
Foreign exchange translation of monetary assets and liabilities	**19.3**	-	**19.3**	12.9	-	12.9
Other interest receivable:						
Scotia Gas Networks loan stock	**33.3**	-	**33.3**	33.3	-	33.3
Other jointly controlled entities and associates	**22.1**	-	**22.1**	25.4	-	25.4
Other receivable	**56.7**	-	**56.7**	28.1	-	28.1
	112.1	-	**112.1**	86.8	-	86.8
Total finance income	**133.1**	-	**133.1**	101.4	-	101.4
Finance costs:						
Bank loans and overdrafts	**(18.5)**	-	**(18.5)**	(22.5)	-	(22.5)
Other loans and charges	**(310.8)**	-	**(310.8)**	(302.7)	-	(302.7)
Interest on pension scheme liabilities	**(26.8)**	-	**(26.8)**	(31.1)	-	(31.1)
Notional interest arising on discounted provisions	**(9.5)**	-	**(9.5)**	(7.7)	-	(7.7)
Finance lease charges	**(35.7)**	-	**(35.7)**	(37.1)	-	(37.1)
Less: interest capitalised (i)	**58.9**	-	**58.9**	57.0	-	57.0
Total finance costs	**(342.4)**	-	**(342.4)**	(344.1)	-	(344.1)
Changes in fair value of financing derivative assets or liabilities at fair value through profit or loss	-	**(64.2)**	**(64.2)**	-	20.3	20.3
Net finance costs	**(209.3)**	**(64.2)**	**(273.5)**	(242.7)	20.3	(222.4)
Finance income	**133.1**	**-**	**133.1**	101.4	-	101.4
Finance costs	**(342.4)**	**(64.2)**	**(406.6)**	(344.1)	20.3	(323.8)
Net finance costs	**(209.3)**	**(64.2)**	**(273.5)**	(242.7)	20.3	(222.4)

(i) The capitalisation rate applied in determining the amount of borrowing costs to capitalise in the period was 4.88% (2013 – 5.38%).

Adjusted net finance costs are arrived at after the following adjustments:

	2014 £m	2013 £m
Net finance costs	**(273.5)**	(222.4)
(add)/less:		
Share of interest from jointly controlled entities and associates:		
Scotia Gas Networks loan stock	**(33.3)**	(33.3)
Other jointly controlled entities and associates	**(114.6)**	(122.8)
	(147.9)	(156.1)
Interest on pension scheme liabilities	**26.8**	31.1
Share of interest on net pension liabilities in jointly controlled entities	**1.4**	3.8
Movement on Financing derivatives	**64.2**	(20.3)
Adjusted net finance costs	**(329.0)**	(363.9)
Notional interest arising on discounted provisions	**9.5**	7.7
Finance lease charges	**35.7**	37.1
Hybrid coupon payment	**(122.9)**	(63.4)
Adjusted net finance costs for interest cover calculations	**(406.7)**	(382.5)

The interest on net pension liabilities for the year ended 31 March 2014 £26.8m (2013 - £31.1m) representsthe respective charges under IAS 19R. The restatement adjustments in Note 3 (£23.2m, March 2013) represent the increase in interest costs associated with the adoption of IAS 19R.

Notes to the Preliminary Statement
for the year ended 31 March 2014

8. Taxation

Analysis of charge recognised in the income statement:

	Before Exceptional items and certain re-measure ments £m	**Exceptional items and certain re-measure ments £m**	**2014 £m**	Before Exceptional items and certain re-measure ments £m	Exceptional items and certain re-measure ments £m	2013 (restated note3i) £m
Current tax						
UK corporation tax	**248.1**	**(24.8)**	**223.3**	243.5	(50.6)	192.9
Adjustments in respect of previous years	**(21.4)**	**-**	**(21.4)**	(23.5)	-	(23.5)
Total current tax	**226.7**	**(24.8)**	**201.9**	220.0	(50.6)	169.4
Deferred tax						
Current year	**147.5**	**(162.0)**	**(14.5)**	61.5	(129.2)	(67.7)
Effect of change in tax rate	**-**	**(52.6)**	**(52.6)**	-	(22.0)	(22.0)
Adjustments in respect of previous years	**8.7**	**(14.2)**	**(5.5)**	25.5	-	25.5
Total deferred tax	**156.2**	**(228.8)**	**(72.6)**	87.0	(151.2)	(64.2)
Total taxation charge	**382.9**	**(253.6)**	**129.3**	307.0	(201.8)	105.2

The charge for the year can be reconciled to the profit per the income statement as follows:

	2014 £m	**2014 %**	2013 £m	2013 %
Group profit before tax	**575.3**		571.3	
Less: share of results of associates and jointly controlled entities	**(237.8)**		(127.2)	
Profit before tax	**337.5**		444.1	
Tax on profit on ordinary activities at standard UK corporation tax rate of 23% (2013 – 24%)	**77.6**	**23.0**	106.6	24.0
Tax effect of:				
Change in rate of UK corporation tax	**(52.6)**	**(15.6)**	(22.0)	(5.0)
Expenses not deductible for tax purposes	**74.4**	**22.0**	15.8	3.6
Impact of supplementary corporation tax	**80.9**	**24.0**	24.2	5.4
Impact of foreign tax rates and foreign dividends	**(3.1)**	**(0.9)**	3.2	0.7
Corporation tax relief on PRT paid	**(5.5)**	**(1.7)**	-	-
Adjustments to tax charge in respect of previous years	**(8.3)**	**(2.5)**	2.0	0.4
Hybrid capital coupon payments	**(27.8)**	**(8.2)**	(15.4)	(3.5)
Consortium relief not paid for	**-**	**-**	(6.6)	(1.5)
Other items	**(6.3)**	**(1.8)**	(2.6)	(0.6)
Group tax charge and effective rate	**129.3**	**38.3**	105.2	23.5

The adjusted current tax charge is arrived at after the following adjustments:

	2014 £m	**2014 %**	2013 £m	2013 %
Total taxation charge	**129.3**	**38.3**	105.2	23.5
Effect of adjusting items (see below)		**(30.0)**	-	(16.1)
Total taxation charge on adjusted basis	**129.3**	**8.3**	105.2	7.4
add/(less):				
Share of current tax from jointly controlled entities and associates	**10.0**	**0.6**	3.6	0.3
Exceptional items	**189.9**	**12.2**	151.6	10.7
Tax on movement on derivatives	**63.7**	**4.2**	50.2	3.6
Deferred tax (excluding share of jointly controlled entities and associates)	**(156.2)**	**(10.0)**	(87.0)	(6.2)
Adjusted current tax charge and effective rate	**236.7**	**15.3**	223.6	15.8

The adjusted effective rate is based on adjusted profit before tax being:

	2014 £m	2013 (restated note 3) £m
Profit before tax	**575.3**	571.3
add:		
Exceptional items and certain re-measurements	**889.4**	758.8
Share of tax from jointly controlled entities and associates before exceptional items and certain re-measurements	**58.2**	50.1
Interest on pension scheme liabilities	**26.8**	31.1
Share of interest on net pension liabilities in jointly controlled entities and associates	**1.4**	3.8
Adjusted profit before tax	**1,551.1**	1,415.1

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for the year ended 31 March 2014

9. Dividends

Ordinary dividends	**Year ended 31 March 2014 Total £m**	**Settled via scrip £m**	**Pence per ordinary share**	Year ended 31 March 2013 Total £m	Settled via scrip £m	Pence per ordinary share
Interim – year ended 31 March 2014	**251.0**	**112.4**	**26.0**	-	-	-
Final – year ended 31 March 2013	**568.6**	**17.8**	**59.0**	-	-	-
Interim – year ended 31 March 2013	**-**	**-**	**-**	241.2	82.5	25.2
Final – year ended 31 March 2012	**-**	**-**	**-**	529.3	172.7	56.1
	819.6	**130.2**		770.5	255.2	

The final dividend of 59.0p per ordinary share declared in the financial year ended 31 March 2013 (2012– 56.1p) was approved at the Annual General Meeting on 25 July 2013 and was paid to shareholders on 27 September 2013. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the cash dividend under the terms of the Company's scrip dividend scheme.

An interim dividend of 26.0p per ordinary share (2013 – 25.2p) was declared and paid on 21 March 2014 to those shareholders on the SSE plc share register on 24 January 2014. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the interim cash dividend under the terms of the Company's scrip dividend scheme.

The proposed final dividend of 60.7p per ordinary share (which equates to a dividend of £591.8m based on the number of issued ordinary shares at 31 March 2014) in is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

10. Earnings per Share

Basic earnings per share
The calculation of basic earnings per ordinary share at 31 March 2014 is based on the net profit attributable to Ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 March 2014. All earnings are from continuing operations.

Adjusted earnings per share
Adjusted earnings per share has been calculated by excluding the charge for deferred tax, the interest on net pension liabilities under IAS 19R and the impact of exceptional items and certain re-measurements (note 6).

	Year ended 31 March 2014 Earnings £m	**Year ended 31 March 2014 Earnings per share pence**	Year ended 31 March 2013 Earnings £m (restated note 3)	Year ended 31 March 2013 Earnings per share Pence (restated note 3)
Basic	**323.1**	**33.5**	402.7	42.3
Exceptional items and certain re-measurements (note 6)	**635.8**	**65.8**	557.0	58.5
Basic excluding exceptional items and certain re-measurements	**958.9**	**99.3**	959.7	100.8
Adjusted for:				
Interest on net pension scheme liabilities (note 7)	**26.8**	**2.8**	31.1	3.3
Share of interest on net pension scheme liabilities in jointly controlled entities (note 7)	**1.4**	**0.1**	3.8	0.4
Deferred tax (note 8)	**156.2**	**16.2**	87.0	9.1
Deferred tax from share of jointly controlled entities and associates results	**48.2**	**5.0**	46.5	4.9
Adjusted	**1,191.5**	**123.4**	1,128.1	118.5
Basic	**323.1**	**33.5**	402.7	42.3
Dilutive effect of outstanding share options	**-**	**(0.2)**	-	(0.1)
Diluted	**323.1**	**33.3**	402.7	42.2

The weighted average number of shares used in each calculation is as follows:

	31 March 2014 Number of shares (millions)	31 March 2013 Number of shares (millions)
For basic and adjusted earnings per share	**965.5**	952.0
Effect of exercise of share options	**6.1**	1.9
For diluted earnings per share	**971.6**	953.9

Notes to the Preliminary Statement
for the year ended 31 March 2014

11. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of group operating profit to cash generated from operations

	Note	**2014 £m**	2013 Restated (note 3) £m
Profit for the year		**446.0**	466.1
Add back: taxation	8	**129.3**	105.2
Add back: net finance costs	7	**273.5**	222.4
Operating profit		**848.8**	793.7
Less share of profit of joint ventures and associates		**(237.8)**	(127.2)
Operating profit before jointly controlled entities and associates		**611.0**	666.5
Movement on operating derivatives		**150.9**	228.7
Pension service charges less contributions paid		**(75.9)**	(80.7)
Exceptional charges		**712.3**	568.2
Depreciation of assets		**614.5**	570.8
Amortisation and impairment of intangible assets		**18.1**	5.9
Impairment of inventories		**2.0**	3.6
Release of provisions		**(0.7)**	(0.6)
Release of deferred income		**(16.8)**	(16.8)
Charge in respect of employee share awards (before tax)		**15.5**	16.0
Loss/(profit) on disposal of property, plant and equipment		**-**	0.1
Loss/(profit) on disposal of business and subsidiaries		**1.4**	(8.2)
Cash generated from/(absorbed by) operations before working capital movements		**2,032.3**	1,953.5

(b) Reconciliation of net increase in cash and cash equivalents to movement in adjusted net debt and hybrid capital

	2014 £m	2013 £m
(Decrease)/increase in cash and cash equivalents	**(96.2)**	353.1
Add:		
New borrowings	**(1,815.8)**	(517.1)
Repayment of borrowings	**1,514.8**	694.7
Issue of hybrid capital	**-**	(1,025.4)
Non-cash movement on borrowings	**89.5**	(32.3)
(Decrease) in cash held as collateral	**(3.8)**	(64.9)
Movement in adjusted net debt and hybrid capital	**(311.5)**	(591.9)

Non-cash movement on borrowings includes revaluation of fair value items, exchange movements and accretion of index-linked bonds.

Cash held as collateral refers to amounts deposited on commodity trading exchanges which are reported within Trade and other receivables on the face of the balance sheet.

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for the year ended 31 March 2014

12. Acquisitions, disposals and held for sale assets

a. Acquisitions

On 12 April 2013, the Group, through its wholly-owned subsidiary SSE E&P UK Limited, completed the acquisition from BP of a 50% working interest in the Sean gas field in the Southern North Sea. Following completion settlement including working capital items, the final cash consideration paid for the business was £127.6m, which included £18.0m paid on deposit on 28 January 2013. The acquisition enhances the Group's presence in the upstream gas sector and provides an additional source of primary fuel to effectively meet the energy demands of the Group.

	£m
Assets acquired:	
Property, plant and equipment	72.9
Other working capital items	(6.2)
Provisions	(27.3)
Deferred tax	88.2
Net Assets	**127.6**

The acquired business contributed £110.0m to revenue and £65.1m to operating profit in the period to 31 March 2014. Profit after tax was £1.8m for the period to 31 March 2014. As the business was purchased on 12 April 2013, the additional impact on the Group of a full year's operating contribution would not have been significantly greater than that reported.

b. Disposals

During the year, the group disposed of a number of wind farm assets for combined cash consideration of £3.2m and deferred consideration of £1.3m, which resulted in a net gain on disposal of £1.1m.

c. Held-for-sale assets and liabilities

In its statement on 26 March 2014, the Group announced a programme of asset and business disposals in relation to certain non-core activities aimed at simplifying the Group and with a view to securing operational savings and reducing net debt. As a consequence, a number of assets and liabilities associated with those activities which are deemed to be available for immediate sale have been separately presented on the face of the Balance Sheet at 31 March 2014. The assets recorded have been stated at their fair value less costs to sell. The aggregated pre-tax profit contribution of the held for sale assets and businesses in the year to 31 March 2014 was £1.2m.

The assets and liabilities classified as held for sale, and the comparative balances at 31 March 2013, are as follows:

	Energy Portfolio Management and Electricity Generation £m	**Other Networks £m**	**Total 2014 £m**	Total 2013 £m
Property, plant and equipment	16.8	45.5	**62.3**	-
Forestry assets	3.4	-	**3.4**	-
Other intangible assets	5.1	0.4	**5.5**	2.3
Non-current assets	**25.3**	**45.9**	**71.2**	2.3
Inventories	0.5	0.3	**0.8**	-
Trade and other receivables	3.0	257.4	**260.4**	-
Non trade debtors	0.1	-	**0.1**	-
Current assets	**3.6**	**257.7**	**261.3**	-
Total assets	**28.9**	**303.6**	**332.5**	2.3
Trade and other payables	-	(14.9)	**(14.9)**	-
Provisions	-	(0.7)	**(0.7)**	-
Current liabilities	**-**	**(15.6)**	**(15.6)**	-
Deferred tax liabilities	(0.5)	(2.2)	**(2.7)**	-
Provisions	(0.9)	-	**(0.9)**	-
Non-current liabilities	**(1.4)**	**(2.2)**	**(3.6)**	-
Total liabilities	**(1.4)**	**(17.8)**	**(19.2)**	-
Net assets	**27.5**	**285.8**	**313.3**	2.3

The assets and liabilities identified as held for sale at 31 March 2014 include a number of offshore and onshore developments and certain thermal power generation plants (all fully within the 'Energy Portfolio Management and Electricity Generation' segment). In addition, the assets and liabilities identified as held for sale also include the Telecoms data centre business, the gas network connections activity and a number of the Group's PFI streetlighting contracts (all within the 'Other Networks' segment). It is envisaged that the Group's disposal programme will continue over the following two years with the divestment of further non-core assets and businesses to follow.

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for the year ended 31 March 2014

13. Loans and other borrowings

	2014 £m	2013 £m
Current		
Bank overdraft	**0.3**	-
Other short-term loans	**600.3**	1,529.2
	600.6	1,529.2
Obligations under finance leases	**18.1**	15.4
	618.7	1,544.6
Non current		
Loans	**5,365.5**	4,225.4
Obligations under finance leases	**310.8**	315.0
	5,676.3	4,540.4
Total loans and borrowings	**6,295.0**	6,085.0
Add:		
Cash and cash equivalents	**(442.5)**	(538.7)
Unadjusted Net Debt	**5,852.5**	5,546.3
Add/(less):		
Hybrid capital (note 14)	**2,186.8**	2,186.8
Obligations under finance leases	**(328.9)**	(330.4)
Cash held as collateral	**(51.2)**	(55.0)
Adjusted Net Debt and Hybrid Capital	**7,659.2**	7,347.7

Borrowing facilities

During the year the Group issued two Eurobonds, a 7 year €600m bond maturing June 2020 with a coupon of 2.00%, which remains as Euro debt and a 'long' 8 year €500m bond maturing February 2022 with a coupon of 2.375% and an all-in funding cost of 3.564% after being swapped to Sterling. During the year the Group arranged a further £200m of bank facilities and together with the £650m of bank facilities that were arranged in the previous year, the combined £850m was drawn down in the year as floating rate term loans with maturities of 8 years (£150m) and an average of 1.5 years (£700m) respectively. The Group has also increased its committed facilities from £1.0bn to £1.5bn by increasing the Revolving Credit Facility from £0.9bn to £1.3bn and its bilateral facility from £0.1bn to £0.2bn. Both these facilities have been extended to 2018.

In addition the Group has an established €1.5bn Euro commercial programme (paper can be issued in a range of currencies and swapped into Sterling). The Group has £1.5bn (2013 - £1.0bn) of committed credit facilities in place, maturing in April and July 2018, which provide a back up to the commercial paper programme and at 31 March 2014 these facilities were undrawn.

14. Hybrid Capital

	2014 £m	2013 £m
GBP 750m 5.453% perpetual subordinated capital securities	**744.5**	744.5
EUR 500m 5.025% perpetual subordinated capital securities	**416.9**	416.9
USD 700m 5.625% perpetual subordinated capital securities	**427.2**	427.2
EUR 750m 5.625% perpetual subordinated capital securities	**598.2**	598.2
	2,186.8	2,186.8

The Company issued £750m and €500m hybrid capital bonds on 20 September 2010 and €750m and $700m hybrid capital bonds on 18 September 2012. Each bond has no fixed redemption date but the Company may, at its sole discretion, redeem all, but not part, of these capital securities at their principal amount. The date for the discretionary redemption of the capital issued on 18 September 2012 is 1 October 2017 and every five years thereafter. The 20 September 2010 issued capital may be redeemed fully (not in part) at their principal amounts on 1 October 2015 or 1 October 2020 or any subsequent coupon payment date.

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: (i) redemption; or, (ii) dividend payment on ordinary shares. Interest will accrue on any deferred coupon.

For the capital issued on 20 September 2010 and the EUR 750m capital issued on 18 September 2012, coupon payments are expected to be made annually in arrears on 1 October in each year. For the USD 700m capital issued on 18 September 2012, coupon payments are expected to be made bi-annually in arrears on 1 April and 1 October each year. The purpose of both issues was to strengthen SSE's capital base and fund the Group's ongoing capital investment and acquisitions.

Coupon payments of £24.2m (2013 – nil) in relation to the USD Capital issued on 18 September 2012 were paid on 2 April 2013 and 1 October 2013. In addition coupon payments of £98.7m (2013 - £63.4m) in relation to the other hybrid capital bonds were made on 1 October 2013.

15. Share capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 1 April 2013	964.3	482.1
Issue of shares (i)	10.6	5.3
At 31 March 2014	**974.9**	**487.4**

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

(i) Shareholders were able to elect to receive ordinary shares in place of the final dividend of 59.0p per ordinary share (in relation to year ended 31 March 2013) and the interim dividend of 26.0p (in relation to the current year) under the terms of the Company's scrip dividend scheme. This resulted in the issue of 1,128,181 and 8,551,629 new fully paid ordinary shares respectively (2013: 13,213,634 and 5,920,120). In addition, the Company issued 0.9m (2013 – 0.5m) shares during the year under the savings-related share option schemes for a consideration of £8.8m (2013 - £5.7m)

During the year, on behalf of the Company, the employee share trust purchased 0.8m shares for a total consideration of £12.0m (2013 – 0.6m shares, consideration of £7.7m). At 31 March 2014, the trust held 3.2m shares (2013 – 3.5m) which had a market value of £46.6m (2013 - £51.9m).

16. Capital and Financial Risk Management

Capital management

The Board's policy is to maintain a strong balance sheet and credit rating so as to support investor, counterparty and market confidence and to underpin future development of the business. The Group's credit ratings are also important in maintaining an efficient cost of capital and in determining collateral requirements throughout the Group. As at 31 March 2014, the Group's long term credit rating was A3 stable outlook for Moody's and A- negative outlook for Standard & Poors. On 29 April 2014, the Group's long term credit ratings of A3 with Moody's was put on negative outlook.

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 £1.5bn of committed bank facilities which relate to the Group's revolving credit and bilateral facilities that can be accessed at short notice for use in managing the Group's short term funding requirements; however, these committed facilities remain undrawn for the majority of the time.

The Group capital comprises :

	2014 £m	2013 £m
Total borrowings (excluding finance leases)	**5,966.1**	5,754.6
Less : Cash and cash equivalents	**(442.5)**	(538.7)
Net debt (excluding hybrid capital)	**5,523.6**	5,215.9
Hybrid capital	**2,186.8**	2,186.8
Cash held as collateral	**(51.2)**	(55.0)
Adjusted Net Debt and Hybrid Capital	**7,659.2**	7,347.7
Equity attributable to shareholders of the parent	**2,932.7**	3,362.1
Total capital	**10,591.9**	10,709.8

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.

16. Capital and Financial Risk Management (continued)

Financial risk management

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board established the Risk and Trading Committee, a standing committee of the Executive Committee comprising two Executive Directors and senior managers from the Energy Portfolio Management Finance functions, to oversee the control of these activities. This committee is discussed further in the Corporate Governance section of the Annual 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.

For financial reporting purposes, the Group has classified derivative financial instruments into two categories, operating derivatives and financing derivatives. Operating derivatives relate to qualifying commodity contracts which includes certain contracts 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 interim income statement can be summarised thus:

	2014 **£m**	2013 £m
Operating derivatives		
Total result on operating derivatives (i)	**(785.4)**	33.7
Less: amounts settled (ii)	**634.5**	(262.4)
Movement in unrealised derivatives	**(150.9)**	(228.7)
Financing derivatives (and hedged items)		
Total result on financing derivatives (i)	**(754.7)**	(755.0)
Less: amounts settled (ii)	**690.5**	775.3
Movement in unrealised derivatives	**(64.2)**	20.3
Net income statement impact	**(215.1)**	(208.4)

(i) Total result on derivatives in the income statement represents the total amounts (charged) or credited to the income statement in respect of operating and financial derivatives.

(ii) Amounts settled in the year represent the result on derivatives transacted which have matured or been delivered and have been included within the total result on derivatives.

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16. Capital and Financial Risk Management (continued)

Financial risk management(continued)

The fair values of the primary financial assets and liabilities of the Group together with their carrying values are as follows:

	2014 Carrying Value £m	**2014 Fair Value £m**	2013 Carrying Value £m	2013 Fair Value £m
Financial Assets				
Current				
Trade receivables	**2,759.3**	**2,759.3**	2,815.1	2,815.1
Other receivables	**29.0**	**29.0**	39.9	39.9
Cash collateral	**51.2**	**51.2**	55.0	55.0
Cash and cash equivalents	**442.5**	**442.5**	538.7	538.7
Derivative financial assets	**1,261.2**	**1,261.2**	940.8	940.8
	4,543.2	**4,543.2**	4,389.5	4,389.5
Non-current				
Unquoted equity investments	**24.3**	**24.3**	28.7	28.7
Loans to associates and jointly controlled entities	**521.6**	**521.6**	1,244.0	1,244.0
Derivative financial assets	**368.4**	**368.4**	382.4	382.4
	914.3	**914.3**	1,655.1	1,655.1
	5,457.5	**5,457.5**	6,044.6	6,044.6
Financial Liabilities				
Current				
Trade payables	**(2,496.2)**	**(2,496.2)**	(2,531.4)	(2,531.4)
Bank loans and overdrafts	**(600.6)**	**(600.6)**	(1,529.2)	(1,530.0)
Finance lease liabilities	**(18.1)**	**(18.1)**	(15.4)	(15.4)
Derivative financial liabilities	**(1,470.2)**	**(1,470.2)**	(1,011.2)	(1,011.2)
	(4,585.1)	**(4,585.1)**	(5,087.2)	(5,088.0)
Non-current				
Loans and Borrowings	**(5,365.5)**	**(6,014.7)**	(4,225.4)	(5,062.4)
Finance lease liabilities	**(310.8)**	**(310.8)**	(315.0)	(315.0)
Derivative financial liabilities	**(681.7)**	**(681.7)**	(473.4)	(473.4)
	(6,358.0)	**(7,007.2)**	(5,013.8)	(5,850.8)
	(10,943.1)	**(11,592.3)**	(10,101.0)	(10,938.8)
Net financial liabilities	**(5,485.6)**	**(6,134.8)**	(4,056.4)	(4,894.2)

Fair Value Hierarchy
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from unadjusted quoted market prices for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

Fair Value Hierarchy

Financial Assets	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Energy derivatives	107.3	1,466.4	-	**1,573.7**
Interest rate derivatives	-	47.9	-	**47.9**
Foreign exchange derivatives	-	8.0	-	**8.0**
Equity instruments	-	43.0	-	**43.0**
	107.3	**1,565.3**	**-**	**1,672.6**
Financial Liabilities				
Energy derivatives	(113.9)	(1,725.3)	-	**(1,839.2)**
Interest rate derivatives	-	(286.6)	-	**(286.6)**
Foreign exchange derivatives	-	(26.1)	-	**(26.1)**
Loans and Borrowings	-	(43.4)	-	**(43.4)**
	(113.9)	**(2,081.4)**	**-**	**(2,195.3)**

There were no significant transfers out of level 1 into level 2 and out of level 2 into level 1 during the year ended 31 March 2014.

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17. Retirement Benefit Obligations

Valuation of combined Pension Schemes

	Long- term rate of return expected at 31 March 2014 %	**Value at 31 March 2014 £m**	Long- term rate of return expected at 31 March 2013 %	Value at 31 March 2013 £m
Equities	**7.2**	**967.9**	6.7	1,109.0
Government bonds	**3.5**	**920.0**	3.0	883.0
Corporate bonds	**4.3**	**814.1**	4.1	812.0
Other investments	**1.3**	**555.3**	3.7	314.0
Total fair value of plan assets		**3,257.3**		3,118.0
Present value of defined benefit obligation		**(3,693.9)**		(3,634.5)
Pension liability before IFRIC 14		**(436.6)**		(516.5)
IFRIC 14 liability (i)		**(201.1)**		(189.3)
Deficit in the schemes		**(637.7)**		(705.8)
Deferred tax thereon		**127.5**		162.3
Net pension liability		**(510.2)**		(543.5)

(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.

Movements in the defined benefit asset obligations and assets during the year:

	2014 Assets £m	**2014 Obligations £m**	**2014 Total £m**	2013 Assets restated £m	2013 Obligations restated £m	2013 Total restated £m
at 1 April	**3,118.0**	**(3,634.5)**	**(516.5)**	2,695.0	(3,124.5)	(429.5)
Included in Income Statement						
Current service costs	**-**	**(56.2)**	**(56.2)**	-	(44.1)	(44.1)
Past service costs	**-**	**(0.6)**	**(0.6)**	-	(0.2)	(0.2)
Interest income/(cost)	**128.0**	**(147.0)**	**(19.0)**	124.5	(141.7)	(17.2)
	128.0	**(203.8)**	**(75.8)**	124.5	(186.0)	(61.5)
Included in Other Comprehensive Income						
Actuarial loss/(gain) arising from:						
Demographic assumptions	**-**	**(12.4)**	**(12.4)**	-	-	-
Financial assumptions	**-**	**14.8**	**14.8**	-	(374.4)	(374.4)
Experience assumptions	**-**	**13.3**	**13.3**	-	(57.5)	(57.5)
Return on plan assets excluding interest income	**7.3**	**-**	**7.3**	281.1	-	281.1
	7.3	**15.7**	**23.0**	281.1	(431.9)	(150.9)
Other						
Contributions paid by the employer	**132.7**	**-**	**132.7**	125.3	-	125.3
Scheme participants contributions	**1.1**	**(1.1)**	**-**	7.6	(7.6)	-
Benefits Paid	**(129.8)**	**129.8**	**-**	(115.5)	115.5	-
	4.0	**128.7**	**132.7**	17.4	107.9	125.3
At 31 March	**3,257.3**	**(3,693.9)**	**(436.6)**	3,118.0	(3,634.5)	(516.5)

Charges / (credits) recognised:

	2014 £m	2013 Restated £m
Current service cost (charged to operating profit)	**56.8**	44.3
	56.8	44.3
(Credited)/charged to finance costs:		
Interest on pension scheme assets	**(128.0)**	(124.5)
Interest on pension scheme liabilities	**147.0**	141.7
IFRIC 14 impact on net interest	**7.8**	13.9
	26.8	31.1

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18. Capital commitments

	2014 £m	2013 £m
Capital expenditure:		
Contracted for but not provided	**625.1**	622.3

Contracted for but not provided capital commitments includes the fixed contracted costs of the Group's major capital projects. In practice contractual variations may arise on the final settlement of these contractual costs.

19. Related party transactions

The following transactions took place during the year between the Group and entities which are related to the Group but which are not members of the Group. Related parties are defined as those in which the Group has control, joint control or significant influence over.

	Sale of goods and services 2014 £m	**Purchase of goods and services 2014 £m**	**Amounts owed from 2014 £m**	**Amounts owed to 2014 £m**	Sale of goods and services 2013 £m	Purchase of goods and services 2013 £m	Amounts owed from 2013 £m	Amounts owed to 2013 £m
Jointly controlled entities:								
Seabank Power Ltd	**22.9**	**(108.7)**	**1.2**	**9.1**	27.2	(99.5)	2.9	8.9
Marchwood Power Ltd	**33.5**	**(94.5)**	**0.2**	**8.1**	22.5	(85.5)	0.3	6.0
Greater Gabbard Offshore Winds Ltd	**5.4**	**(121.0)**	**-**	**37.0**	-	(90.0)	-	33.4
Scotia Gas Networks Ltd	**58.7**	**(175.2)**	**15.7**	**0.7**	57.6	(157.2)	9.2	15.1
Other Joint Ventures	**36.5**	**-**	**1.1**	**0.3**	42.1	-	9.8	-
Associates	**1.5**	**(28.2)**	**1.1**	**2.5**	29.6	(38.3)	1.2	2.4

The transactions with Seabank Power Limited, Marchwood Power Limited and Greater Gabbard Offshore Winds Limited relate to the contracts for the provision of energy or the tolling of energy under power purchase arrangements. Scotia Gas Networks Limited has operated the gas distribution networks in Scotland and the South of England from 1 June 2005. The Group's gas supply activity incurs gas distribution charges while the Group also provides services to Scotia Gas Networks in the form of a management service agreement for corporate services, stock procurement services and the provision of the capital expenditure on the development of front office management information systems.

The amounts outstanding are trading balances, are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.