

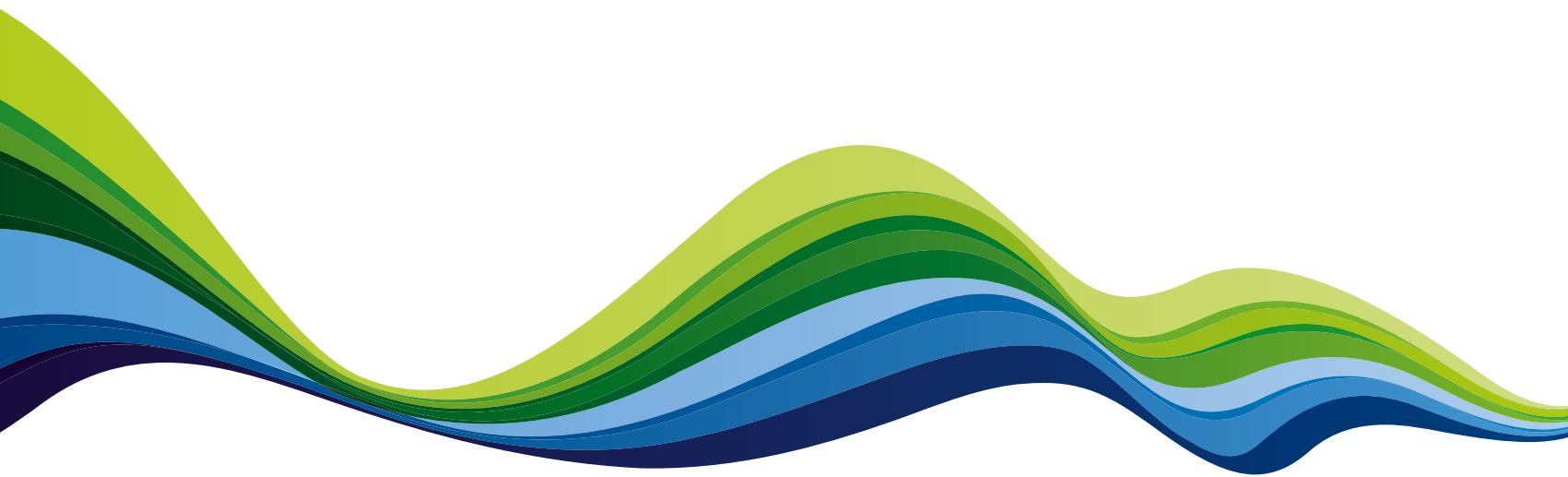


# Providing the energy people need

SSE plc Annual Report 2015



# At SSE, our purpose is to provide the energy people need in a reliable and sustainable way.



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## An overview of the year

### Efficient operations

At the heart of SSE's business are core operations. In 2014/15 it produced enough electricity to power 8.6 million homes; delivered electricity to 3.7 million homes, office and businesses; supplied electricity and gas to 8.58 million customer accounts; and provided energy-related services to around 250,000 customers.



### Disciplined investment

Central to SSE's strategy is efficient investment in a balanced range of energy businesses to help deliver a sustainable energy system for the UK and Ireland. In the five years to 31 March 2015, SSE's investment and capital expenditure has totalled over £7.7bn.



### Balanced business

SSE has reportable segments covering Wholesale, Networks and Retail (including Enterprise) businesses. This means SSE has a broad platform from which to deliver the levels of profitability and long term value required to support annual dividend growth.



### Geographic focus

SSE's focus is to operate and invest in a balanced range of energy-related businesses in the UK and Ireland.



Total Recordable Injury Rate per 100,000 hours worked in 2014/15

**0.12**

Safety is SSE's first priority. During 2014/15, the Total Recordable Injury Rate among SSE employees was at the same level as the previous year.

Electricity networks capital expenditure

**£794.8m**

SSE invested almost £1.5bn in 2014/15 modernising, upgrading and maintaining essential energy infrastructure in the UK and Ireland. Over half of this investment was made in its Networks business.

Adjusted profit before tax\*

**£1,564.7m**

In 2014/15, SSE's adjusted profit before tax\* increased slightly by 0.9%. SSE's Wholesale, Networks and Retail segments were all profitable.

\* See full explanation of adjusted profit before tax and adjusted earnings per share on pages 112 and 113.

Completion of SSE's first new thermal power station in Ireland

**464MW**

SSE has invested over €350m to deliver Ireland's newest and most efficient gas fired power station at Great Island in Co. Wexford.

## Chairman's statement

Lord Smith of Kelvin

# Focused on the needs of customers and investors

SSE's core purpose is to provide the energy people need in a reliable and sustainable way. In fulfilling this purpose, SSE requires the support of shareholders, to whom this report is addressed. It summarises SSE's performance in 2014/15 and looks ahead to 2015/16 and beyond.

There is no doubt that 2014/15 saw a remarkable confluence of events for SSE: confirmation that the Competition and Markets Authority (CMA) would investigate the supply and acquisition of energy in Great Britain; the Scottish independence referendum; Ofgem's decision to approve SSE's largest ever capital project; the final stages of the electricity distribution price control process; the first-ever auction for provision of electricity generation capacity; and the intense debate about the energy sector in the run-up to the UK general election.

Throughout these events, SSE had three priorities: work constructively with legislators, regulators, consumer bodies and other stakeholders to secure practical changes that will benefit energy bill payers now and in the future; fulfil successfully its core purpose of providing the energy people need in a reliable and sustainable way; and deliver a financial performance to support the continuing remuneration of shareholders' investment through the payment of dividends.

SSE's approach to the CMA investigation and the political debate about energy has been to demonstrate how the energy market in Great Britain is generally well-functioning and benefiting customers, while highlighting a number of areas where there may be potential for reforms that produce additional benefits for customers. While the CMA process still has some way to go and the UK general election has only just taken place, SSE believes that there is now an opportunity to achieve a stable policy and regulatory framework that gives customers confidence, allows regulators to regulate and encourages investors to invest in the Great Britain energy market.

SSE's business is focused on the provision of energy and related services to customers in homes, offices and businesses across the UK and Ireland. Encouraging progress was made in 2014/15, with the successful launch of the new Enterprise division to bring together SSE's services in competitive markets for industrial and commercial customers; achieving periods of best-ever performance in minimising the number and duration of power cuts experienced by Networks customers; and extending to at least July 2016 the freeze on household energy prices in Great Britain so that there won't have been an increase for more than two and a half years.

SSE's commitment to the dividend is clear: the financial objective of the Company's 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 in the assets that will help meet the energy needs of customers

in the UK and Ireland over the long term. I am pleased that the Board is recommending a final dividend that will take the full-year dividend for 2014/15 to 88.4 pence per share; and I am equally pleased that SSE's commitment to future investment remains strong, with plans to invest around £5.5bn (net) in the four years to 2018.

In summary, 2014/15 brought the challenges expected at the start of the year; and more challenges are on the horizon as SSE looks forward to the rest of 2015/16 and beyond. I have no doubt those challenges will be met. The Company's business model is robust; the management team is strong; and in its employees SSE has a remarkable group of talented, committed and enthusiastic people focused on doing the right thing by the customers on whom the Company ultimately depends.

It has been my privilege to be SSE's Chairman for 10 years. In my first Annual Report as Chairman, I wrote that SSE had experienced much change over the previous two years. Change has certainly been the hallmark of the 10 years since then and will no doubt continue to be so. The Company is in a good shape to be successful during the next phase of change, and I am delighted that Richard Gillingwater has agreed to lead the Board as Chairman. He has a long-standing association with and interest in the energy sector, as well as a breadth of experience in other sectors and organisations, from which the Board and SSE will benefit greatly.

There is no doubt that the next few years will bring many challenges for Richard, the Board, the management team and employees, but SSE's clear purpose, simply-stated strategy and core values will stand it in very good stead for the long term, as will its commitment to giving customers service it is proud of and to remunerating shareholders for their investment through the dividend.

### Lord Smith of Kelvin

Chairman



**Deputy Chairman,  
Richard Gillingwater CBE**

Richard Gillingwater will become Chairman of SSE plc on completion of the Company's Annual General Meeting in July, subject to being re-elected to the Board at the meeting. Here he answers some questions about how he sees the role of Chairman and some of the future issues facing SSE.

**Your appointment as Chairman was announced last November. How useful has the transition period been?**

In a long-term industry like energy, effective transition is very important. Robert and I have always worked well together as part of an effective Board in which strong and constructive relationships already exist. Since November, I have met shareholders, regulators, politicians, customer representatives and employees, which has given me a really good set of insights. I'm fully up to speed on the key issues that the Board will have to consider in the rest of this financial year and beyond. I've also taken the opportunity to scale back some other commitments so I can give the necessary focus to SSE. In summary, I think the transition is going very well.

**What do you think you will bring to the role of Chairman?**

I obviously bring a degree of continuity in the leadership of the Board and accumulated knowledge and understanding of the business and the issues it faces. At the same time, I have been involved with a wide range of organisations in areas as varied as investment management, retailing, manufacturing and higher education. I hope, therefore, that I will be able to combine depth of understanding with diversity of experience and outlook and that this, in turn, will ensure that the management team gets the right blend of support and challenge. Regulation and Government Policy are important to SSE and I hope my experience of both will be useful.

**In what ways would you like to see the Board of SSE develop in the coming years?**

I'm a strong advocate of the benefits that effective corporate governance gives to companies and I hope to lead a Board that is open-minded and progressive with regard to future developments in this area. I want to ensure that SSE maintains a Board that has a good range of skills complementary to SSE's activities and needs. I am a strong believer in the importance of diversity of thinking and background, including gender, round the boardroom table. I regard succession planning and encouraging good talent management as very important aspects of the Board's role. Finally, I want to make sure that the Board supports effective decision-making in SSE so that the Company does the right thing by shareholders and customers alike.

**Could the CMA market investigation and the UK general election lead to big changes for SSE?**

The answer to that is obviously yes; but regulation and politics are facts of life in energy and I am optimistic that the next year provides a good opportunity for regulators and politicians to agree a lasting settlement for the energy sector that will be good for customers and good for investors as well. In any event, SSE is always open and constructive when it comes to politics and regulation, and will, rightly, remain so. With a new Government and following the outcome of the CMA investigation, the Board will have the first opportunity for a while to stand back and look at the breadth of SSE's operations in the light of a more settled outlook for the industry.

**What do you think is the biggest issue facing SSE as a UK-listed company?**

In common with most large organisations, there is a clear need for SSE to do more to restore customers' trust in it as a provider of essential services. Part of the issue is that SSE itself has made mistakes in the past; but there is also the wider trust question affecting businesses in almost any sector. As Chairman, I'll aim to do everything I can to understand the concerns of SSE's key stakeholders and ensure that their concerns and priorities are reflected in decisions that are taken around the Board table. Restoring trust will be no easy task, but I think SSE has a strong set of values and has made a lot of progress in the last few years, and I want to play my part in helping to build on that.

**In addition to governance and values, the Board is responsible for the overall strategic direction of the company, so do you foresee any changes while you are Chairman?**

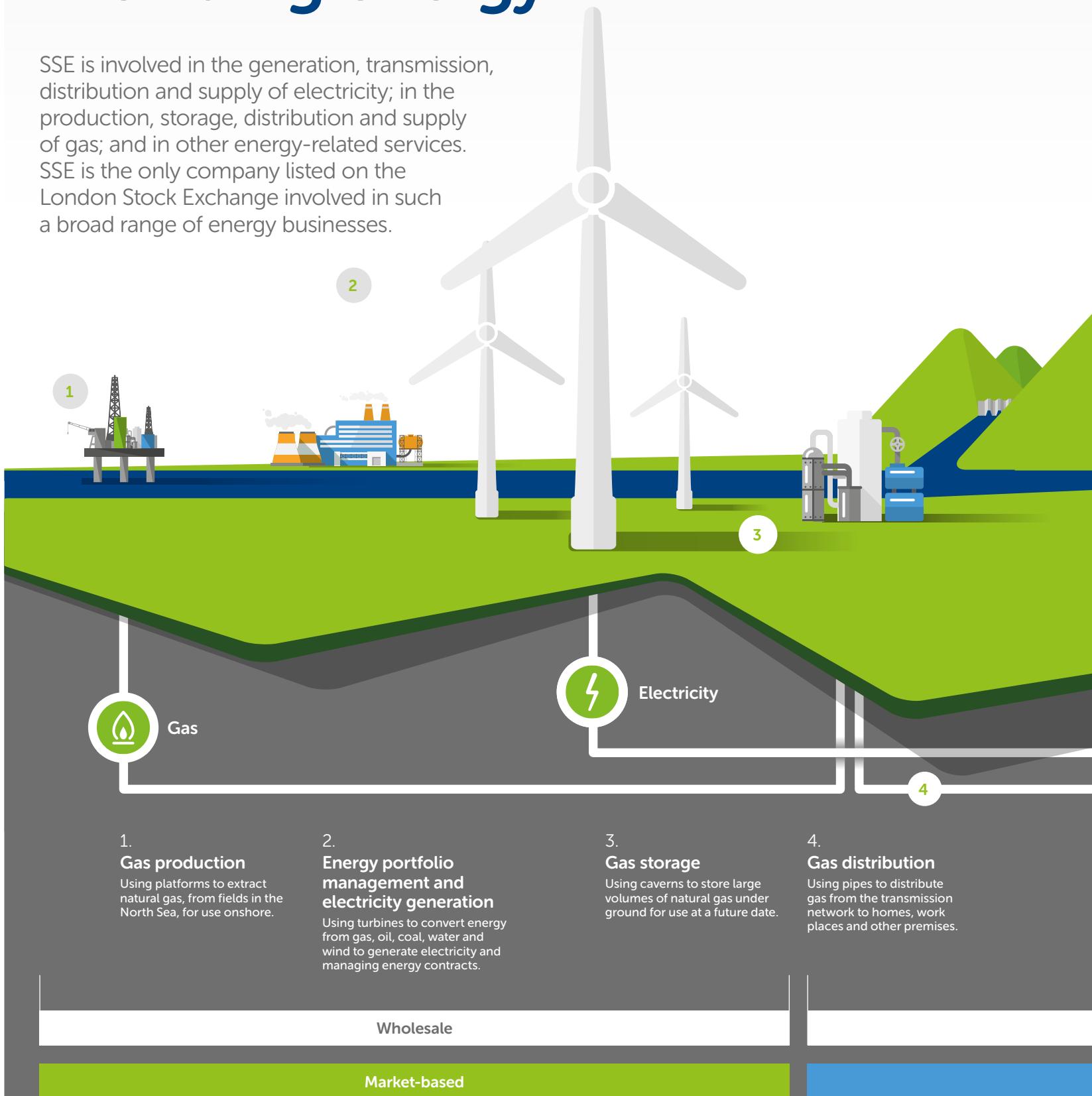
SSE's strategy has been fundamentally the same since it was formed in 1998: the Company is an energy provider that likes to be involved in a variety of businesses in that sector in identified markets. I don't expect any of that to change. Within that broad framework, the Company has had different priorities at different times: for a period, it was investment in renewable energy; this is now surpassed by investment in electricity transmission. It would be irresponsible of the Board not to keep strategy under review; at the same time, it would be equally irresponsible to jettison the key features of a strategy that has stood SSE in such good stead for so many years.

## Our business explained

Energy businesses in three segments

# Providing energy

SSE is involved in the generation, transmission, distribution and supply of electricity; in the production, storage, distribution and supply of gas; and in other energy-related services. SSE is the only company listed on the London Stock Exchange involved in such a broad range of energy businesses.



## Wholesale 1-3

### Energy production, generation and storage

SSE provides energy and related services for customers in wholesale energy markets in Great Britain and Ireland. It delivers this through Energy Portfolio Management and Electricity Generation, Gas Production and Gas Storage. Amongst other things, it is the leading generator of electricity from renewable sources across the UK and Ireland.

► For more information see pages 28 to 37.

## Networks 4-6

### Transmission and distribution of energy

SSE has an ownership interest in the energy networks businesses in electricity transmission in the north of Scotland, electricity distribution in the north of Scotland and southern central England and in gas distribution in Scotland and southern England. These 'regionally-defined' businesses are subject to economic regulation by Ofgem.

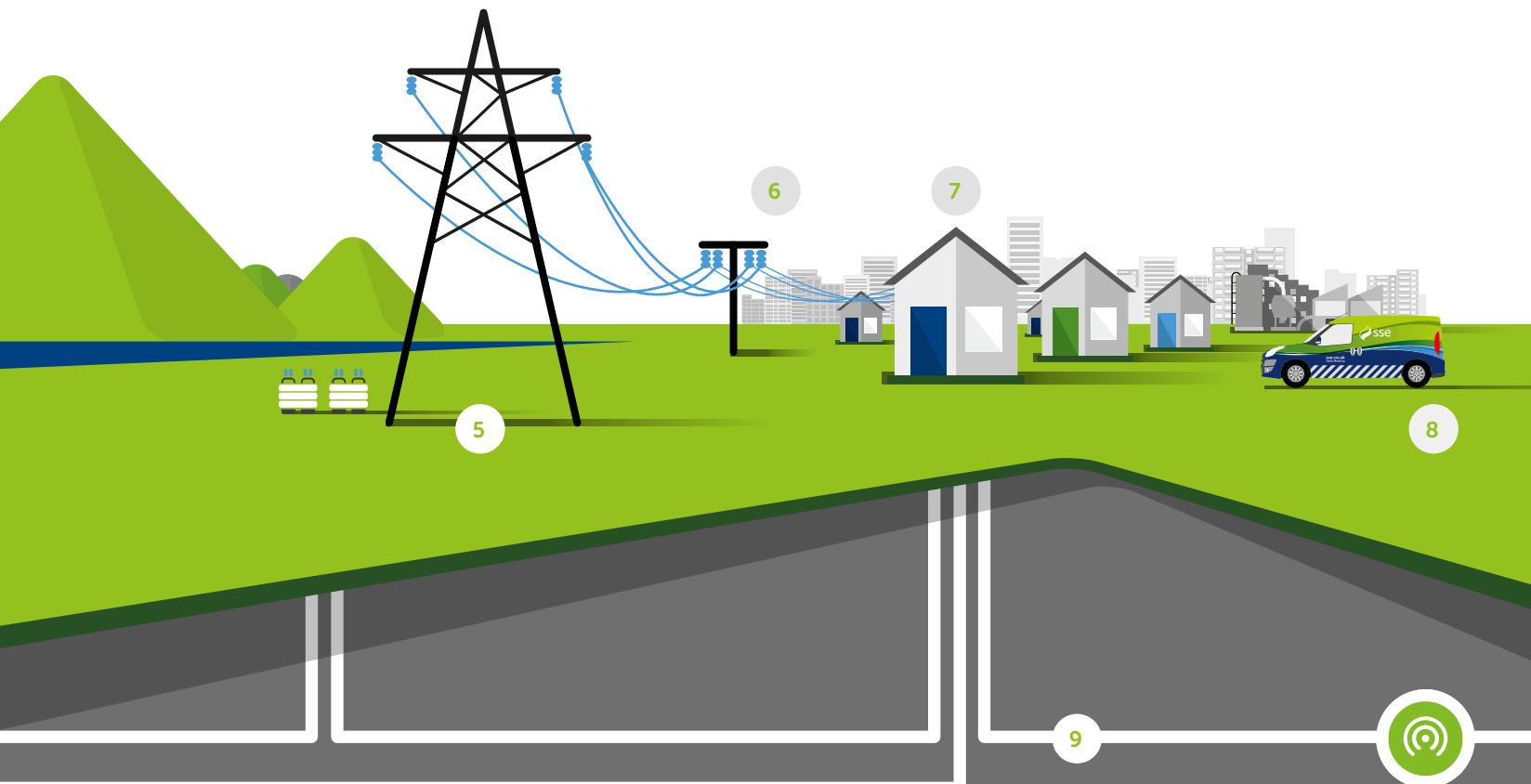
► For more information see pages 38 to 45.

## Retail 7-9

### Supply of energy and related services to consumers

SSE supplies electricity, gas and related services such as telecoms in markets in Great Britain and Ireland. It is focused on attracting and retaining customers through excellent service and a brand people trust. It also incorporates SSE Enterprise, which brings together key SSE services for industrial, commercial and public sector customers.

► For more information see pages 46 to 55.



### 5. Electricity transmission

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

### 6. Electricity distribution

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

### 7. Energy supply

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

### 8. Energy-related services

Providing energy-related products and services to households and small businesses.

### 9. Enterprise

Bringing together key SSE services for industrial, commercial and public sector customers.

Networks

Retail

Economically-regulated

Market-based

## Strategy

# Focused on creating long-term value

### Core purpose

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

### Consistent strategy

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

### Financial objective

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

► [For more information see pages 16 to 22.](#)

### Long-term values

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

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

### Core purpose

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

### Consistent strategy

Efficient operations

Disciplined investment

Balanced business

Geographic focus

### Financial objective

Annual dividend growth

### Long-term values



Safety



Service



Efficiency



Sustainability



Excellence



Teamwork

## 2014/15 Strategic priorities

### Efficient operations

At the heart of SSE's business are core operations: in 2014/15 it produced enough electricity to power 8.6 million homes; delivered electricity to 3.7 million homes, offices and businesses; supplied electricity and gas to 8.58 million customer accounts and, through its Enterprise business, provided energy-related services to around 250,000 customers.

This operational focus means SSE has to:

- focus first and foremost on safety of people and maintaining the integrity of plant and equipment;
- secure efficient use of money, materials and energy in its Wholesale businesses; and
- put customers at the heart of the Networks and Retail (including Enterprise) businesses.

SSE also seeks to secure operational efficiency through the breadth and depth of understanding of the energy sector secured by having a broad and balanced range of businesses.

#### Key development in 2014/15

SSE's Total Recordable Injury Rate per 100,000 hours worked by employees was 0.12, compared with 0.12 in 2013/14 and 0.14 in 2012/13. This was, however, overshadowed by the loss of an employee's life in a road traffic collision in February 2015.

#### Total Recordable Injury Rate – per 100,000 hours worked



#### Key priority in 2015/16

In addition to safe working, make substantial progress in upgrading the quality of service Networks and Retail customers can expect in the future.

### Disciplined investment

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

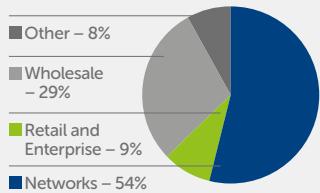
- in line with SSE's commitment to strong financial management;
- complementary to SSE's existing portfolio of assets and consistent with the maintenance of a balanced range of assets within SSE's businesses;
- consistent with developments in public policy and regulation; and
- governed, developed and executed in an efficient and effective manner.

In the five years to 31 March 2015, SSE's investment and capital expenditure has totalled over £7.7bn. In 2014/15, this has resulted in a significantly expanded asset base, including the addition of 68MW in wind farm capacity to generate electricity; and £530m in the Regulated Asset Value of its electricity networks.

#### Key development in 2014/15

SSE's subsidiary Scottish Hydro Electric Transmission confirmed that it would accept Ofgem's proposals for the funding of the new Caithness-Moray link at a cost of £1.12bn, which is SSE's biggest-ever capital project.

#### Investment and capital expenditure composition in 2014/15 – %



#### Key priority in 2015/16

Ensure the safe and sustainable development, construction and commissioning of new assets in electricity generation and transmission.

### Balanced business

SSE has reportable segments covering Wholesale, Networks and Retail (including Enterprise) businesses. The balance between these activities means that:

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

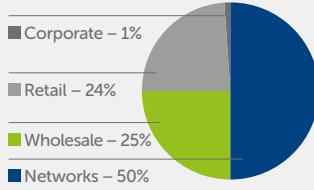
This means SSE has a broad platform from which to deliver the levels of profitability and long term value required to support annual dividend growth. Moreover, the risks to the achievement of that growth are contained by that balance and by the diversity of SSE's businesses, assets and investment options.

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

#### Key development in 2014/15

To expand its Enterprise business, SSE acquired for £66m the Energy Solutions Group which designs, installs, maintains and supports building management systems and solutions for industrial, commercial and public sector customers.

#### Operating profit composition in 2014/15



#### Key priority in 2015/16

Maintain a diverse balance between Wholesale, Networks and Retail businesses and support the long-term growth for Enterprise.

### Geographic focus

SSE's strategy is to operate and invest in a balanced range of energy-related businesses in the UK and Ireland. Across these countries there are two principal energy markets: Great Britain and Ireland with, for example, a common electricity wholesale market across Ireland and Northern Ireland.

Total interconnection of the two markets consists of:

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

Operating and investing in the UK and Ireland gives 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 it serves. In addition, it positions SSE well if and when there is greater harmonisation of energy markets.

#### Key development in 2014/15

Progress towards the completion and commercial operation of SSE's first new thermal power station in Ireland, at Great Island, County Wexford, resulted in it being fully commissioned in April 2015.

#### Economic contribution in 2014/15

**UK: £8.8bn**  
**Ireland: €954m**

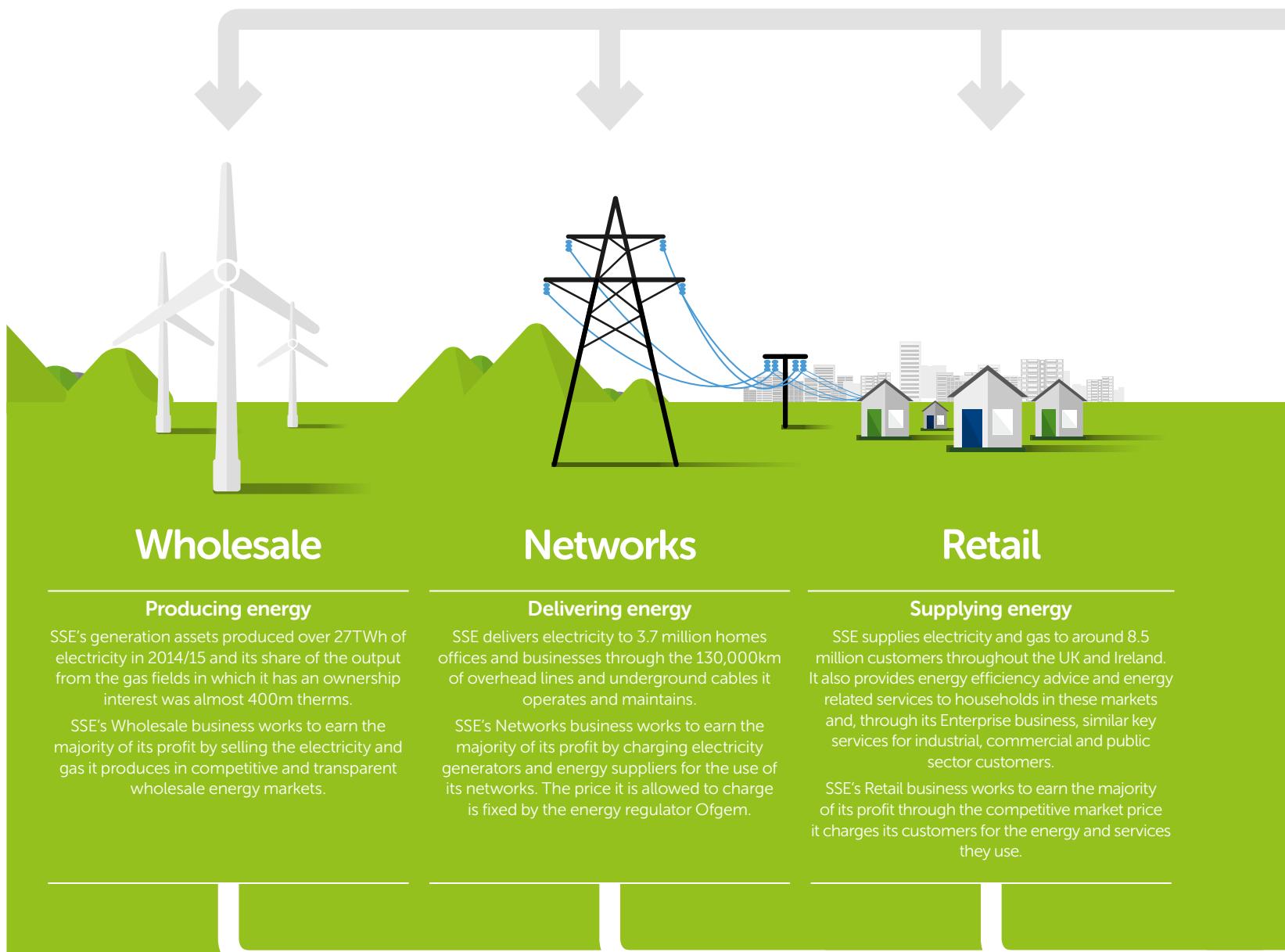
#### Key priority in 2015/16

Full and constructive engagement in any market reforms arising from the newly-elected UK government, the CMA market investigation in Great Britain and the new Integrated Single Electricity Market planned for Ireland.

## Our value chain explained

How we work for customers, communities and investors

# Earning a profit and using it in a responsible way



## How SSE shares the value it creates

SSE's core purpose is to provide the energy people need in a reliable and sustainable way. In fulfilling this core purpose, SSE aims to offer value to its customers, create value for investors and employees, and contribute value to society. An independent study, published in May 2015, found that SSE's activities had contributed over £27bn to the UK economy in the last three years and supported on average over 110,000 jobs each year.

SSE is able to sustain this level of contribution because it is profitable. In 2014/15, SSE delivered adjusted profit before tax\* of £1,564.7m – full details are set out on pages 18 and 19. Beyond the economic contribution SSE makes, the profit SSE

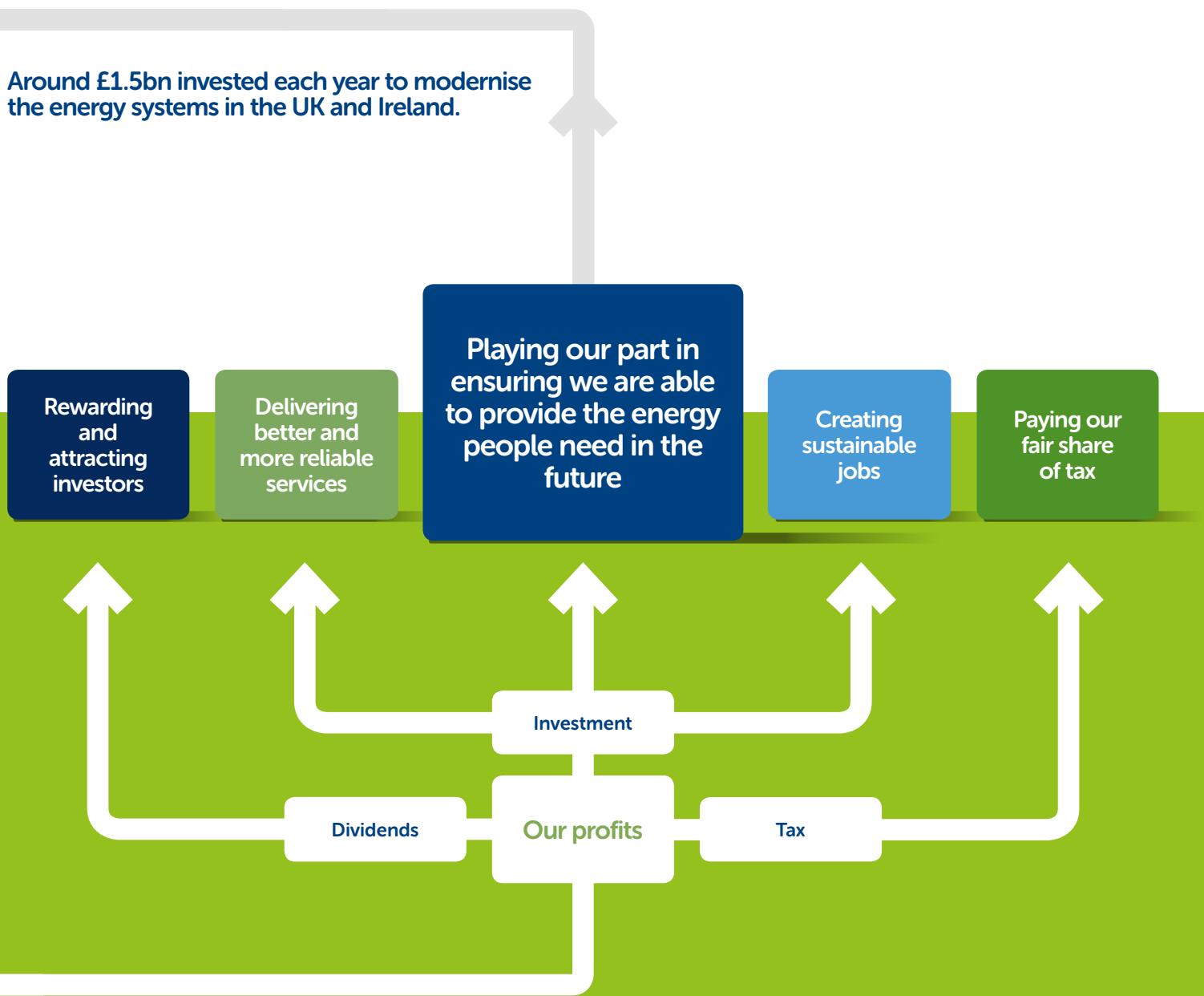
earns from producing, delivering and supplying energy also enables it to do five key things.

- 1. Investing in a sustainable energy system –** SSE plans to invest £1.75bn in 2015/16 to play its part in modernising, upgrading and maintaining the energy systems in the UK and Ireland.
- 2. Delivering better and more reliable services for customers –** Investment in smart meters and digital technology will enable SSE to maintain its record for good customer service in its Retail business and investment in new technology and management systems are delivering improved customer service and reliability across its Networks business.

**3. Creating sustainable jobs –** SSE's commitment to investing in its human capital is demonstrated by its commitment to paying the Living Wage and creating one of the strongest apprenticeship programmes in the UK.

- 4. Paying its fair share of tax –** In 2014/15 SSE paid over £506m in tax to government in the UK and SSE is the first FTSE 100 company to be accredited with the Fair Tax Mark in recognition of its responsible approach to paying Corporation tax.
- 5. Rewarding and attracting investors –** SSE aims to deliver to shareholders annual dividend increases that at least keep pace with inflation to give them a return on the investment they make.

**Around £1.5bn invested each year to modernise the energy systems in the UK and Ireland.**



## Being responsible

# What SSE does, matters

SSE has an essential purpose at its core – providing the energy people need. This purpose brings significant challenges and responsibilities. SSE has a responsibility to customers, employees, communities and shareholders to ensure this need is met in a sustainable way, both now and for the long term.

This is why SSE works hard to help make sure the lights remain on, energy costs are affordable and the environmental impact of producing energy is kept to a minimum. It is also why SSE seeks to make a positive difference to people's lives by being responsible in all that it does. Providing energy brings challenges; SSE aims to meet them responsibly.



Sustainability has been a guiding value in SSE for many years. It helps establish the right standards for how the business is run and is a driver of SSE's broader strategic aims. This value is defined as:

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

### Being responsible in all that we do

To help people see more clearly how a sustainable approach is at the core of what SSE does, it has developed the 'Responsible House'.

The roof is SSE's long established core purpose, supported by its Sustainability value – one of SSE's six core values.

The aim is for SSE to make a positive difference to people's lives by being responsible in all that it does. Nine core areas (bricks) have been identified which best demonstrate SSE's commitment to acting in a responsible way and to describe how it is doing this.

The foundation is what SSE considers its first responsibility – Do No Harm. This is the minimum that a responsible company that wants a sustainable future needs to deliver. This covers a commitment to working safely and ensuring its operations cause no harm to the immediate environment. Everything else SSE does in seeking to be a responsible company is built on this foundation.

More detail on SSE's action as a Responsible Operator, Employer, Buyer and Community Member can be found on pages 56 to 65.

All aspects of SSE's approach to sustainability are covered in the 'Being Responsible' supplement to this Annual Report and on [sse.com/beingresponsible](http://sse.com/beingresponsible)

**Responsible employer****Paying the Living Wage  
is the right thing to do**

SSE is one of the UK's largest Living Wage employers and that means its employees – and increasingly its contracted employees – earn an hourly rate that exceeds the national minimum wage. The Living Wage is set by the Living Wage Foundation on an annual basis and is calculated according to the basic cost of living in the UK.

SSE's motivation for paying the Living Wage is simple. It is a matter of basic fairness that people should get a wage they can live off. SSE believes paying the Living Wage makes an important contribution to reducing in-work poverty throughout the UK.

It also makes sound business sense, with clear evidence that it improves retention, reduces recruitment costs, and increases

the productivity and motivation of all employees – not just those who have benefitted from the policy.

When SSE first made this commitment in 2013 it became the UK's largest Living Wage employer. Since then SSE has worked closely with the Living Wage Foundation to encourage many other large organisations to take this step. But at the start of 2015, SSE remained the only major energy supplier in the UK to have made this pledge.

SSE is now rolling out the commitment to pay the Living Wage across its £2bn-a-year supply chain. As of 1 April 2014, all eligible contracts tendered include a Living Wage clause.

► More information see pages 62 to 64.

**Responsible profits****First FTSE 100 company  
to be awarded the  
Fair Tax Mark**

In October 2014 SSE became the first FTSE 100 company to be accredited with the Fair Tax Mark, the world's first independent assessment process for identifying companies that are making a genuine effort to be open and transparent about their tax affairs.

SSE's starting point on tax is the recognition that, as a provider of an essential service that every member of society depends on, it has a responsibility to contribute to the societies in which it operates.

Through the combination of detailed, user friendly analysis; clear statements regarding SSE's attitude in relation to tax; and now external Fair Tax Mark accreditation, SSE is confident that anyone can assess how the tax payable on its profits is arrived at and what factors impact upon it.

More importantly, SSE hopes people can be satisfied that its approach to paying tax is fair and, as a result, be confident that SSE is a responsible UK taxpayer.



► More information see page 22.

**Responsible operator****'A' rating from CDP for  
our approach to managing  
climate change impacts**

There is no getting away from the fact that as one of the UK's largest generators of electricity SSE is responsible for the emission of a large amount of CO<sub>2</sub>. But it is also the UK's largest generator of renewable electricity and has invested over £2.6bn in renewable generation assets over the last five years.

In October 2014 SSE was included in CDP's global Climate Performance Leadership Index, one of the most important annual assessments of how global organisations are leading the way in managing their impact on the environment.

CDP gave SSE an 'A' rating for its performance in 2013/14.

CDP's annual report is produced on behalf of over 700 major global investors with total assets of over US\$92tn under management. CDP independently assessed over 2,000 companies globally in 2014 with just 187 achieving an 'A' rating.

What the 'A' performance rating from CDP demonstrates, is that SSE recognises the impact its activities have on the environment and that it is taking meaningful action to improve this impact.



► More information see pages 59 to 61.

## Risk management

# Managing risk to deliver long term value

To ensure success, any business must fully understand and manage the key risks that it faces and make decisions with a proper consideration of these.

Everyone in SSE has a responsibility for the management of risk – identifying and protecting the business from outcomes which could threaten the achievement of objectives or compromise the SSE SET of core values. During the course of the year, SSE further developed its framework for risk management to increase risk awareness and to provide structure and support for risk management activities across the organisation. As part of this work, a comprehensive review of SSE's Group Principal Risks was carried out, and full Divisional and Group Risk Appetite Statements have been developed to ensure proper alignment of strategy and objectives with risk taking at all levels.

### Risk appetite

No business is risk-free, and indeed the achievement of SSE's goals necessarily involves taking risks. SSE will however only accept risk where it is appropriate, well-understood, can be effectively managed and offers commensurate reward.

Each of SSE's business divisions has a distinctly different risk profile. For example, the Networks business is heavily regulated and is characterised by stable, inflation-linked cashflows whereas the Wholesale business is heavily exposed to energy market and commodity risk. Affordability, transformation and political risk particularly affect the Retail business, while Enterprise is exposed to the risks that come with rapid growth in a highly competitive market place.

The key elements of SSE's strategy – including the diversity of energy businesses within the SSE Group described above, as well as its

financial framework – are fully reflective of its risk appetite:

- SSE seeks to avoid over-exposure to any single part of the energy sector and therefore maintains a balanced range of economically regulated and market-based energy businesses;
- production, storage, transmission, distribution, supply and related services provide a balanced portfolio of business activities whilst keeping the depth of focus on a single sector – energy; and
- Great Britain and Ireland give SSE a geographic markets focus and a clear understanding of the risks and opportunities in those markets.

In areas where SSE is exposed to risks that it has little or no appetite for, although it has implemented high standards of control and mitigation, the nature of these risks mean that they cannot be eliminated completely.

In determining its appetite for specific risks, the Board is guided by three key principles:

1. Risks should be consistent with SSE's strategy, financial objective and core values;
2. Risks should only be accepted where appropriate reward is achievable on the basis of objective evidence; and
3. Risks should be actively managed and monitored through the appropriate allocation of management and other resources.

The Board has overall responsibility for determining the nature and extent of the risk it is willing to take and for ensuring that risks are managed effectively across the Group.



## Principal risks

A detailed review of SSE's principal risks was completed in 2014/15. The process involved face to face workshops with senior managers from across the Group, followed by review from divisional leadership teams, the Executive Committee and SSE Board.

This review identified 10 principal risks – being those which have a potential to threaten the SSE Group's business model, future performance,

solvency or liquidity. The review also considered risks which could compromise the SSE SET of core values.

In addition to direct impacts, the principal risks can also pose a significant threat to the reputation of the Group, affecting its relationship with customers, investors, regulators and other key stakeholders. To achieve success as a long-term sustainable business, maintaining a good reputation and a positive relationship with these

groups is critical and any damage to SSE's reputation is highly likely to be reflected by reduced performance.

It should be noted that risks which are not currently known to SSE, or risks which are currently deemed to be of lower significance, can also impact on the business either as a consequence of an individual event or due to a series of relatively minor issues.

## SSE's principal risks

A detailed review of SSE's principal risks was completed in 2014/15. This review identified the following 10 principal risks, which will form the basis of SSE's future strategic risk management approach.

### Commodity prices

The Group's Wholesale and Retail businesses are exposed to volatility in the commodity markets.

### Energy affordability

The Group continues to face ongoing challenges to provide energy that is secure, reliable and affordable.

### Funding shortfall

The Group is dependent on the continuing availability of capital to meet funding requirements and obligations.

### Human and relationship capital management

The Group is reliant on attracting, developing and retaining a competent and responsible workforce.

### Industry and company transformation

The Group must continually adapt to industry developments, technology innovations and changing customer needs.

### Infrastructure failure

The Group is reliant on the availability of critical IT and network infrastructure to support ongoing operations and cash flow.

### Major projects quality

Successful delivery of the Group's capital programme relies on the quality and performance of key suppliers and technology.

### Pension liability

The Group has a number of defined benefit Pension schemes currently in deficit.

### Political and regulatory change

The markets in which the Group operates are subject to regulatory and legislative intervention at both domestic and EU level.

### Safety and environmental management

Many Group operations are undertaken in hazardous environments with the potential for injury or damage to the environment.



## Questions and answers

with the SSE Executive Team

# Answering key questions

In the year to March 2015, SSE had two Executive Directors: Chief Executive Alistair Phillips-Davies and Finance Director Gregor Alexander. Here they answer some of the key questions facing both SSE and the energy industry now and in the future:



### Watch the video

Alistair talks about SSE's full-year results.  
[www.vimeo.com/sseplc](http://www.vimeo.com/sseplc)

#### How would you describe the performance of SSE in 2014/15?

**Alistair:** I always expected to describe this financial year as 'tough' and of course it was. A Competition and Markets Authority investigation, volatility in commodities markets, intense competition in retail markets, and heightened political uncertainty from the Scottish referendum and the UK general election combined to create a tricky operating environment. But for SSE it was also an encouraging year too. Work on the key Caithness-Moray transmission link has begun, our newest generation plant, Great Island in Ireland has been commissioned and we've begun to build a brand for the future; all of which create the opportunity for increased earnings for the future.

**Gregor:** I'd say it was a reasonable performance given the circumstances. Despite tough market conditions we have been able to deliver solid business results at the same time as being a responsible company that does the right thing by its employees and its customers.

#### Every year, SSE says it puts safety first. Do you believe that was the case in 2014-15?

**Alistair:** The importance of safety to the culture and ethos of SSE as an organisation cannot be overstated and in terms of performance 2014/15 was one of our best-ever years for safety. In statistical terms, SSE compares well amongst our peers but that becomes irrelevant to any individual who is hurt, has a life changing injury or to a family who must live with the consequences of a loved one being killed at work. Everyone at SSE was greatly affected by the death of a colleague, whilst driving between our Inverness depot and his home. I am determined that we will constantly learn and work to make sure safety is front of mind, all of the time. Putting safety first means we get our perspective on life right and it puts our priorities in the right order.

#### You are in the middle of a CMA market investigation, never a comfortable place for any industry. How is SSE managing the risk of different possible outcomes?

**Alistair:** Throughout the CMA process, SSE has continued to listen to our customers, considered the submissions of other parties and led the way in terms of engagement with the CMA. This has allowed us to more fully understand the range of possible outcomes and prepare for change but more importantly to help ensure customers are at the heart of the debate.

I hope for an outcome that is clear and has the support of the whole market but most of all I hope for one that provides a long settlement. That may mean more change to the industry than some will be comfortable with. The greatest risk, I believe, is that the outcome does not draw a line under the public concern relating to the energy industry. It is in everyone's interests that an enduring industry structure is found that commands the consent and support of the majority.

**SSE argues that it took a 'bold' step in freezing energy prices in March 2014. With energy supply customer numbers falling since, how can that decision be justified?**

**Alistair:** SSE's price freeze was hugely important. At the time, we promised to freeze prices but, if we could, to reduce them too. That's exactly what we've done. Customers were very clear. They wanted to know for sure that energy prices would stop going up – and the freeze gave them that guarantee. We can only begin to rebuild trust with customers by responding to the issues they are concerned about. The fall in gas prices allowed us to cut prices by 4.1% coupled with a further promise to cap prices at the current level until at least July 2016. Market conditions are highly competitive and steps like the price freeze help provide a platform for increased success in those markets in the future.

**Given the continuing political risk SSE faces and other expected challenges in the months and years to come, how sure can you be that you will be able to fulfil your dividend promise to shareholders in the short and medium term?**

**Alistair:** Energy is an essential service so of course there is persistent and perennial political and regulatory risk for SSE. SSE focuses solely on the markets in the UK and Ireland, and we believe that means we are more closely attuned to public opinion, which of course, affects political opinion. We work very hard to take a positive, practical and reforming approach to relations with government, regulators and politicians which, we believe, helps to mitigate the business risks of unexpected political or regulatory intervention.

**Gregor:** SSE's dividend policy – to deliver annual increases in the dividend that at least keep pace with RPI inflation over the long term – is our most important financial target. While it gives a reasonable and appropriate reward for the investment of our shareholders, it also guides the way in which we run our business. We are long-termist in the best sense of the word and I am just as concerned about those dividends in 2020 and beyond, as I am for the financial year 2015/16.

**The first auction for electricity generation capacity was a key milestone in electricity market reform in GB. How do you see this impacting on your strategy in the period to 2020 and beyond?**

**Alistair:** The new Capacity Market is the right way to help ensure the country continues to have stable, secure supplies of electricity. One of the changes it introduces is the way that electricity generators receive income – generators will make some of their money from the market, and some from providing capacity. This provides more stable, predictable revenues for investors, but means it will be almost impossible to build a new gas-fired power station without securing a capacity agreement first. This changes the way in which we will look at new build opportunities.

**The Networks businesses have always been considered the reliable and predictable part of the SSE group. They now appear subject to greater regulatory and political uncertainty. How do you intend to manage the risks associated with that?**

**Gregor:** I am disappointed that the CMA has had to become involved in the eight-year electricity distribution price control, particularly given the work we had done to contribute to a significant distribution cost reduction to customers across our distribution networks. Nevertheless, we will work constructively to achieve the best outcome for customers and in the meantime the Networks business is focussed on delivering cost reductions and improvements in service that customers require right now.

The most effective way to manage political and regulatory risk in the networks business is to focus on delivery. That means delivering high quality service to customers, operating at the efficiency frontiers and, in the event of storms and faults, to restore supplies as quickly as possible.

**Do you consider impacts other than simply financial metrics when assessing the performance of the Company?**

**Gregor:** This year, in what we understand is a first for a FTSE100 company, SSE is reporting its economic contribution alongside its financial results. In 2014/15 SSE contributed £8.8bn to the UK economy and €954m to the Irish economy, and supported over 106,000 jobs and 6,400 jobs respectively. Of course, there is more to our impacts than simply the economic ones and details of these are fully integrated into this report. We want to broaden our reporting as our understanding of our social, environmental and economic impact grows.

**SSE has made a few headlines last year in becoming the first FTSE100 Company to achieve the Fair Tax mark. Why was that necessary?**

**Alistair:** In the post-crash era, consumers are suspicious of the motivations of big business and we all need to work harder to regain their trust. Tax avoidance is a totemic issue the public cares about. That is why SSE has worked so hard with outside organisations to raise its own minimum standards with regards tax disclosure. There is a world of difference between aggressive tax avoidance and sensible tax planning. Tax avoidance means bending the rules but tax planning is simply using tax rules in the way in which they were intended to be used. Given public concern on the abuse of tax rules I hope SSE's shareholders can take comfort that SSE, through the Fair Tax Mark criteria, is mitigating the risk of being affected by tighter tax regulations in the future.

**Gregor:** As you can see from the enhanced disclosure in this Annual Report we have much greater transparency of the corporation tax we pay, the explanations for our tax rates and greater clarity between the UK and Ireland.

This disclosure is a direct result of the standards that are required by our Fair Tax Mark accreditation, and we welcome the extra rigour that process has given. We wanted an independent assessment that demonstrated SSE is undertaking ethical and transparent practices and the Fair Tax Mark provides this.

**Where will you find the opportunities for growth in the medium term?**

**Alistair:** I am optimistic for the future. The UK energy industry is still undergoing radical transformation but the settling down of Electricity Market Reforms means there is the opportunity of a stable platform for investment. The UK economy is growing and a clear CMA outcome can boost the UK retail market. The potential in networks should not be underestimated. The Caithness-Moray transmission line represents the largest ever investment by SSE. We also continue to grow in Ireland, with the Great Island power station coming on line. SSE has consistently taken a highly prudent and disciplined approach to growth. We develop options for investment and then, very carefully, agree to invest. We've learned a lot from the past few years of major project development, and now, I believe, we can describe it as a core competence of SSE.

**What part do you see the new Enterprise business playing in SSE's future?**

**Alistair:** I am confident about the growing contribution Enterprise can make to the SSE group in the years to come. The acquisition of ESG (Energy Solutions Group) in July was an important step as it bolstered SSE's services in competitive markets for industrial and commercial customers. Managing energy costs and environmental impact are as big a priority for our large commercial customers as it is for our domestic customers with whom we already have a strong track record. As a responsible company focused on the long term, we believe it is in SSE's interests to make the consumption of energy more sustainable for everyone.

**With Lord Smith leaving the Board this year, after 13 years, it could be described as the end of an era for SSE. What impact do you think it will have?**

**Alistair:** Robert's contribution to SSE has been immense. He has steered the Board through more than a decade of change, supporting company development and growth. He has been Chairman as SSE has tackled a wide range of issues and evolved as a business and at all times has done that in good spirit and with wise counsel. Our Board is in good shape, driven by his leadership, and I know both Gregor and I are looking forward to working with Richard Gillingwater as we lead SSE through its next development phase. On behalf of everyone associated with the Company, I would like to thank Robert for everything he has done for SSE and I wish him very well for the future.

## Financial overview

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

### Strategy

#### Maintaining a clearly-defined strategic framework

SSE's established core purpose is to provide the energy people need in a reliable and sustainable way. At the heart of its strategy is delivery of efficient operation of, and investment in, a balanced range of businesses across the energy sector, in production, storage, transmission, distribution, supply and related services, focused on Great Britain and Ireland. In practice:

- **Operating and investing efficiently** is how SSE serves its customers and makes investments to meet customers' long-term energy needs and also earn the profit that allows it to give a return to investors;
- **Maintaining a balanced range of businesses across the energy sector** means SSE serves customers and operates assets and does not become over-exposed to any one part of the energy sector but can pursue opportunities or contain risk 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 the investment, mainly in electricity generation and electricity networks, that will help to meet the needs of energy customers in the UK and Ireland over the long term. In the five years since 1 April 2010, this investment totalled over £7.7bn.

#### Operating within a clearly-defined financial framework

SSE operates within a clearly-defined financial framework, focused on the dividend, dividend cover and the balance sheet:

- **Dividend:** SSE's financial focus is 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 is able to look beyond short-term value and profit maximisation in any one year and maintain a disciplined, responsible and long-term approach to the management of, and investment in, business activities.

- **Dividend cover:** Ultimately dividends are paid out of earnings and, over the long term, earnings should increase to support dividend growth. For this reason, SSE believes that its dividend per share should be covered by adjusted earnings per share\* at a level that is sustainable. In 2016/17, however, the risks to which adjusted earnings per share\* are subject mean that its dividend cover could, in some circumstances, be closer to around 1.2 times. Over the three years to 2018, SSE expects that its dividend cover could range from around 1.2 times to around 1.4 times. It continues to believe that a long-term target range for dividend cover of a range around 1.5 times is the correct one to aim for, and that will underlie its business decisions in 2015/16 and beyond.
- **Balance sheet:** Focusing on the dividend and dividend cover are appropriate for a business in a long-term sector such as energy and, as a long-term business, SSE believes that it should maintain a strong balance sheet, illustrated by its commitment to the current criteria for a single A credit rating. SSE 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 and the maintenance of an appropriate level of dividend cover.

#### Earning profit in a responsible way

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 2014/15, SSE's Total Recordable Injury Rate (TRIR) per 100,000 hours worked by employees

was 0.12, the same as in the previous year. As a result, 42 employees were injured in the course of their work during the year. Overshadowing all of this, however, is the fact one employee lost his life as a result of a road traffic collision on the A9 and the sympathies of everyone associated with SSE remain with his family and friends. The correct response to work-related injuries and death is to seek to achieve injury-free working, and that remains SSE's ultimate goal.

In addition to safety at work, SSE believes in fairness at work, and in September 2013 it became the largest (at that time) UK-listed accredited Living Wage employer. In April 2015, SSE published a report, Valuable People, which included the first valuation of human capital undertaken by a leading UK listed company and which showed that the value of SSE's human capital is around £3.4bn. As well as fairness at work, SSE believes in fairness in society and in October 2014 became the first FTSE 100 company to be awarded the Fair Tax Mark. There is a greater expectation on the part of society that companies should be environmentally responsible and in October 2014 it was announced that SSE had achieved an 'A' rating in the CDP Climate Change Index, one of the most important annual assessments of how large companies are managing their climate change impact.

More broadly, SSE's contribution to UK Gross Domestic Product in 2014/15 totalled around £8.8 bn, taking the total for the last three years to £27.4bn. In the Republic of Ireland it was €954m in 2014/15. The company currently employs directly over 19,900 people and supports over 106,000 jobs across the UK and 6,400 jobs in Ireland.

#### Engaging constructively in political and regulatory developments

The energy sector has been the subject of significant political and regulatory scrutiny since it was privatised, with the Energy Act 2013 being the most recent legislation to affect the sector. While political and regulatory change is never without risk, the formation of a new UK government, along with the forthcoming conclusion of the Competition and Markets Authority (CMA) investigation into the supply and acquisition of electricity in Great Britain, present a major opportunity to achieve a stable policy and regulatory framework that gives customers confidence, allows regulators to regulate and encourages investors to invest in the Great Britain energy market.

SSE therefore welcomes the new UK government's continued support for the CMA investigation, which should be based on a robust process, extensive consultation and independent analysis. The CMA itself is expected to publish provisional findings and possible remedies (if required) in the next few weeks.



## Case study

# SSE's £8.8bn contribution to the UK economy

**SSE has long known that it makes a substantial direct and indirect contribution to the UK economy through its operations, its investment and the people it employs.**

An independent study conducted by professional services firm PwC during 2014 established that SSE contributed a total of £27bn to the UK economy over the past three years. The report examined the direct contribution of SSE to UK employment and GDP. It also considered the indirect economic impact of SSE's supply chain spending by analysing where this expenditure was made.

The latest update to this analysis has established that in 2014/15, SSE made a further contribution of £8.8bn to

UK GDP, representing 0.6% of the UK economy; and its activities supported around 106,000 jobs throughout the UK.

As a responsible company, SSE seeks to maximise at a national and local level the economic benefits that are created by its activities. This analysis from PwC is one of a number of impact studies conducted by SSE in 2014/15 to better understand the social, environmental and economic impact of its activities; with the objective of helping to identify areas where SSE can enhance this impact in future years. More detail on the results of these impact studies can be found on [sse.com/being responsible](http://sse.com/being-responsible) reporting and data.

There will then be a further period of stakeholder engagement and analysis before any final proposals are published.

While SSE understands the new UK government's intention to end any new public subsidy for onshore wind farms it is an established and important feature of government in the UK that there should be open and dynamic policy-making and that there should be substantive discussion with stakeholders and experts to enable Ministers to take well-informed and robust decisions that also avoid unintended consequences and SSE is optimistic that the new UK government will pursue its energy policy objectives, including those relating to onshore wind farms, in a measured and constructive way.

In terms of the UK government and the CMA investigation, SSE will continue to argue for policies and decisions that are: fair to energy bill payers and investors; and support the delivery of reliable and sustainable supplies of energy over the long term.

### Dividend per share and adjusted earnings per share\*

#### Increasing the dividend for 2014/15

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 61.8p per share, to which a Scrip alternative is offered, compared with 60.7p in the previous year, an increase of 1.8%. This will make a full-year dividend of 88.4p per share which is: an increase of 2% compared with 2014/15, which is in line with RPI inflation; and covered 1.40 times by SSE's adjusted earnings per share\*.

#### Targeting dividend increases of at least RPI inflation in 2015/16 and beyond

The stated financial goal of SSE's strategy is to deliver annual increases in the dividend and its target for 2015/16 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).

#### Focusing on 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, interest costs on net pension liabilities, exceptional items and the impact of re-measurements arising from International Accounting Standard (IAS) 39.

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:

## Financial overview continued

- hybrid capital securities qualify for recognition as equity and so, in SSE's reported results, charges for the coupon associated with them are presented within dividends, but this cost is 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 2015, SSE's adjusted earnings per share\* was 124.1 pence, based on 981.8 million shares, compared with 123.4p, based on 965.5 million shares, in the previous year.

SSE continues to recognise that adjusted earnings per share\* is subject to significant uncertainties in 2015/16 and the years immediately following. On 8 May 2015 the consensus of 20 sector analysts' forecasts for SSE's adjusted earnings per share in 2015/16 was around 115 pence. The nature of energy provision means that financial results in any single year are always subject to well documented uncertainties (see 'Delivering Adjusted Profit Before Tax in 2015/16 below), meaning it generally seeks to provide a financial outlook later in the financial year. Nevertheless, SSE is targeting adjusted earnings per share\* for 2015/16 of least 115 pence.

SSE also continues to recognise that adjusted earnings per share\* will remain subject to significant uncertainties which mean that its dividend cover could range from around 1.2 times to around 1.4 times over the three years to 2018 (based on dividend increases that at least keep pace with RPI inflation). Nevertheless, and on that basis, SSE believes that a long-term target for dividend cover of a range of around 1.5 times is the right one to aim for.

### Adjusted profit before tax\*

#### Measuring adjusted profit before tax\*

These financial results for 2014/15 are reported under IFRS, as adopted by the EU. SSE focuses on profit before tax before exceptional items, re-measurements arising from IAS 39, excluding interest costs on net pension liabilities and after the removal of taxation on profits from joint ventures and associates. 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.

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.

### Reconciliation of adjusted profit before tax\* and reported profit before tax

	March 15 £m	March 14 £m Restated	March 13 £m Restated
<b>Adjusted profit before tax*</b>	<b>1,564.7</b>	1,551.1	1,415.1
Movement on derivatives	(105.3)	(212.0)	(199.7)
Exceptional items	(674.6)	(747.2)	(584.7)
Interest on net pension liabilities	(14.0)	(28.2)	(34.9)
Share of JVs and associates tax	(35.6)	28.8	(16.6)
<b>Reported profit before tax*</b>	<b>735.2</b>	592.5	579.2
Adjusted profit before tax*	1,564.7	1,551.1	1,415.1
Adjusted current tax charge	(224.8)	(236.7)	(223.6)
<b>Adjusted profit after tax*</b>	<b>1,339.9</b>	1,314.4	1,191.5
Less: attributable to other equity holders	(121.3)	(122.9)	(63.4)
<b>Adjusted profit after tax attributable to ordinary shareholders</b>	<b>1,218.6</b>	1,191.5	1,128.1
<b>Adjusted EPS* – pence</b>	<b>124.1</b>	123.4	118.5
Reported profit after tax**	543.1	323.1	402.7
<b>Basic EPS – pence</b>	<b>55.3</b>	33.5	42.3
Number of shares for basic and adjusted EPS (million)	981.8	965.5	952.0

\* See full explanation of adjusted profit before tax and adjusted EPS on pages 112 and 113.

\*\* After distributions to hybrid capital holders.

The tables on this page reconcile SSE's adjusted profit before tax\* to its reported profit before tax and also set out the adjusted 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 non-cash interest costs on net pension liabilities can also be observed.

Reported profit measures for the comparative periods have been restated following a change in the accounting classification of the Group's joint operation Greater Gabbard Offshore Winds Limited under IFRS 11. No impact on adjusted profit measures has arisen from this change.

### Delivering adjusted profit before tax\*

Adjusted profit before tax\* increased slightly by 0.9%, from £1,551.1m to £1,564.7m in 2014/15. SSE's Wholesale, Networks and Retail segments were all profitable. Although comparisons are made with the previous financial year, it should be noted that year on year comparisons may also reflect the cumulative impact of issues arising or decisions taken in earlier financial years. Moreover, SSE's objective is not to maximise profit in any one year but to earn a sustainable level of profit over the medium term.

The decline in operating profit in Wholesale reflects in particular: lower output of electricity from renewable and thermal energy sources;

and lower day ahead prices achieved for gas produced. Moreover, very difficult market conditions affecting thermal plant, such as low 'spark' spreads, have persisted for several years and resulted in thermal plant being loss-making over the financial year.

The increase in operating profit in Networks reflects in particular investment in the asset base of Electricity Transmission resulting in higher income which was only partly offset by the negative impact of the timing of revenue recovery in Electricity Distribution in 2013/14 and 2014/15.

The increase in operating profit in Retail, restoring it to a level similar to that achieved in 2012/13, followed an increase in household electricity and gas tariffs in November 2013 and reflects a number of factors, including operational and cost efficiencies, which were partially offset by the impact of mild weather and a reduction in the number of customers.

The 'Enterprise' division within the SSE Group brings together under new leadership SSE's services in competitive markets for industrial and commercial customers through an integrated approach. As a result of this change, activities previously reported under 'Other Networks' have been combined with electrical contracting, previously reported under 'Energy-

### Operating profit by segment

	March 15 £m	March 14 £m Restated	March 13 £m Restated
Wholesale	473.8	634.6	508.6
Networks	936.8	920.3	838.3
Retail	456.8	327.1	445.0
Corporate unallocated	14.0	(1.9)	(12.9)
<b>Total operating profit</b>	<b>1,881.4</b>	1,880.1	1,779.0

related Services', to create an 'Enterprise' segment which, as customer-facing businesses in competitive markets, is reported under 'Retail'.

### Impact of the movement on derivatives (IAS 39)

The adverse movement on derivatives under IAS 39 of £105.3m shown in the table above and on the face of the Income Statement has arisen partly from deterioration in the fair value of forward commodity purchase contracts of £67.8m which are 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 2015, primarily electricity and gas, was a liability of £333.3m compared to a liability on similar contracts at 31 March 2014 of £265.4m. 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, a net adverse movement on the fair valuation of interest and currency derivatives of £37.5m arising from the relative strengthening of Sterling and the net position on interest rate swaps was recognised in the year to 31 March 2015. 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

In the year to 31 March 2015, SSE recognised asset impairment and related charges totalling £674.6m. This includes £313.5m in relation to SSE's coal-fired plants at Ferrybridge and Fiddler's Ferry, £163.9m in relation to the Aldbrough gas storage facility, and £106.1m relating to the Sean North Sea gas production assets. Further charges of £109.9m have been recognised, including the effect of the rationalisation of SSE's CCGT development options such as the Seabank 3 development near Bristol and the Abernethy gas fired generation development in South Wales which did not secure a capacity agreement in the December 2014 auction.

The valuation of the Ferrybridge power station was impacted by the 31 July 2014 fire and both of SSE's coal-fired plants have been subject to increasingly difficult economic conditions which have been exacerbated by the inability of both units at Ferrybridge and one unit at Fiddler's Ferry to secure an agreement to provide capacity from October 2018 to September 2019 in the first of the capacity auction run by DECC in December 2014. The result of these factors can be seen in the difficult decision announced

today to end coal fired generation at Ferrybridge power station by next March.

The North Sea gas production assets have been impaired predominantly due to declining wholesale gas prices and the gas storage facility has been impacted by reduced short term price volatility in the wholesale gas market.

Other exceptional charges of £56.0m were recognised in the financial year in relation to provisions associated with various contractual and legal disputes. SSE also benefitted from the recognition of £74.8m of exceptional credits in relation to the disposal of businesses and assets that were held for sale at 31 March 2014 before recognition of related provisions which included gains in relation to the seven street lighting PFIs sold to Equitix in November.

### Delivering adjusted profit before tax in 2015/16

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 to pay tax, profit also supports the dividend, which is the key means through which SSE gives shareholders a return on their investment. Shareholders require a return on their investment because they have either invested directly in SSE or, as owners of the company, have enabled it to borrow money from debt investors to finance the investment, mainly in electricity generation and electricity networks, that will help to meet customers' energy needs over the long term.

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 July 2016, SSE's adjusted profit before tax\* for 2015/16 as a whole is likely to be determined mainly by issues in its market-based Wholesale and Retail businesses. An increase in the amount of capacity for renewable energy in operation is

expected to contribute to an increase in operating profit in EPM and Electricity Generation in 2015/16 compared with the preceding year, while the reduction in household gas prices in Great Britain in April 2015 is likely to contribute to a decline in operating profit in Energy Supply. More broadly, many of the issues in Wholesale and Retail are influenced by the weather (see above) and SSE's actual level of adjusted profit before tax in 2015/16 is likely to be determined by:

- the impact of wholesale prices for energy;
- 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.

### Investment and capital expenditure

#### 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 clearly 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 including the introduction of competition for support for low carbon electricity through CFDs; and
- governed, developed, 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.

### Investment and capex summary

	March 15 Share %	March 15 £m	March 14 £m
Thermal Generation	11%	<b>160.6</b>	276.6
Renewable Generation	16%	<b>239.0</b>	339.9
Gas Storage	1%	<b>14.3</b>	10.6
Gas Production	1%	<b>21.0</b>	40.9
<b>Total Wholesale</b>	<b>29%</b>	<b>434.9</b>	668.0
Electricity Transmission	32%	<b>467.2</b>	349.2
Electricity Distribution	22%	<b>327.6</b>	308.3
<b>Total Networks</b>	<b>54%</b>	<b>794.8</b>	657.5
Energy Supply and related services	7%	<b>109.6</b>	99.9
Enterprise	2%	<b>25.1</b>	54.6
<b>Total Retail</b>	<b>9%</b>	<b>134.7</b>	154.5
Other	8%	<b>110.9</b>	102.5
<b>Total investment and capital expenditure</b>	<b>100.0%</b>	<b>1,475.3</b>	1,582.5
50% of SGN capital/replacement expenditure		<b>169.9</b>	160.9

## Financial overview continued

### Investing in energy assets that the UK and Ireland need

In March 2014, SSE said that it expected its investment and capital expenditure will total around £5.5bn (net of disposal proceeds received) over the four years to 2017/18, although the phasing of capital expenditure and the value of disposals may vary. During the year there was investment of:

- £160.6m in thermal generation, including investment of £29.5m in the construction of the new Combined Cycle Gas Turbine at Great Island and £40.5m in the construction of the multi-fuel generation facility adjacent to Ferrybridge power station;
- £239.0m in renewable generation, a significant part of which was invested in new onshore wind farms such as the 33-turbine Strathy North wind farm in Sutherland;
- £14.3m in gas storage and £21.0m in gas production;
- £467.2m in electricity transmission, which includes £108m of regulated spend on replacing SSE's section of the Beauly-Denny replacement line;
- £327.6m in electricity distribution, the majority of which was spent on system upgrades such as the £19m project to install 15km of new underground cables between Isleworth and Ealing;
- £109.6m in energy supply and related services which includes work associated with preparation with the roll-out of smart meters and improving digital services for customers; and
- £25.1m in Enterprise, mainly on investments in non regulated networks.

### Disposing of assets to support future investment

SSE's programme of disposal of assets which are not core to its future plans, which result in a disproportionate burden, or which could release capital for future investment, is well under way. Agreements with a total value of over £475m have already been reached or concluded to dispose of assets such as SSE Pipelines Ltd and equity in PFI street lighting contracts. The disposal of such assets is taken into account in the total expected net capex referred to above of £5.5bn across the four years to March 2018, although the phasing of capital expenditure and value of disposals may vary. Proceeds and debt reduction from these planned and completed disposals are expected 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 currently 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.

### Allocating capital and investment expenditure in 2015/16 and beyond

Looking across its Networks, Retail and Wholesale businesses, SSE expects that its capital and investment expenditure will total around £1.75bn in 2015/16, with the principal reason for the increase being in Electricity Transmission, where construction work on the link between Caithness and Moray is getting under way, and total around £5.5bn (net) over the four years to 31 March 2018. This includes:

- economically-regulated expenditure on electricity transmission networks, such as Caithness-Moray, and on electricity distribution networks;
- essential maintenance of other assets such as power stations; and
- expenditure that is already committed to development and completion of new assets (including around 600MW (construction and pre-construction) of onshore wind farm capacity) and the enhancement and deployment of systems to improve customer service in Energy Supply and Energy-related Services.

SSE's commitment to financial discipline means that it will monetise value from existing investments and assets in order to support future investment in other assets to which it decides to commit over the next few years, where that will enhance adjusted earnings per share\* over the long term.

SSE believes that a capital and investment programme on this scale, financed in part 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:

- well maintained existing and new modern capacity for generating electricity;
- renewable sources of energy, supporting a reduction in the CO<sub>2</sub> intensity of electricity generated;
- a hedge against prices for fossil fuels;
- additions to the asset base in key businesses, including economically-regulated electricity networks; and
- additional cashflows and profits to support continuing dividend growth.

### Financial management and balance sheet

### 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. SGN is self-financing and all external debt relating to it is separate from SSE's balance sheet. Nevertheless, it is a very substantial business which gives SSE a major interest in economically-regulated gas distribution.

In 2014/15, a 50% share of SGN's capital and replacement expenditure was £169.9m, compared with £160.9m in 2013/14. During the year, SGN's RAV increased to £4.9bn (SSE share: £2.46bn), up from £2.9bn (SSE share: £1.45bn) when it was acquired in 2005.

### Financial management and balance sheet

#### Maintaining a prudent treasury policy

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

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 financial instruments being used to achieve the desired out-turn interest rate profile. At 31 March 2015, 83% 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.

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 any material transactional foreign exchange risks through the use of forward currency purchases and/or financial 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.

	March 15	March 14 Restated	March 13 Restated
<b>Adjusted net debt and hybrid capital (£m)</b>	<b>(7,568.1)</b>	<b>(7,642.8)</b>	<b>(7,347.7)</b>
Average debt maturity (years)	9.9	10.7	10.6
Adjusted interest cover <sup>1</sup> (excluding SGN)	5.3	5.1	5.3
Shares in issue at 31 March (m)	993.0	974.9	964.3
Shares in issue (weighted average) (m)	981.8	965.5	952.0

<sup>1</sup> Including hybrid coupon

## Managing net debt and maintaining cash flow

SSE's adjusted net debt and hybrid capital was £7.57bn at 31 March 2015, compared with £7.64bn on the same date in 2014, £7.35bn in 2013 and £6.76bn in 2012. This means SSE's adjusted net debt and hybrid capital has increased by just over £800m over the last three years, during which it has undertaken capital and investment expenditure totalling more than £4.5bn.

Fundamentally, the level of SSE's net debt reflects the quantum and phasing of capital and investment projects to maintain, upgrade and build new assets in the UK and Ireland that energy customers depend on and which support annual increases in the dividend payable to shareholders. In recent years, it has been contained by a strong focus on value for money in capital investment projects, effective working capital management, asset disposals (see 'Disposing of assets to support future investment' on the previous page) and a reduced requirement to pay dividends as cash (see 'Keeping SSE well-financed' below).

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

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

SSE's objective is to maintain a reasonable range of debt maturities. Its average debt maturity, excluding hybrid securities, at 31 March 2015 was 9.9 years, compared with 10.7 years at 31 March 2014.

SSE's debt structure remains strong, with around £5bn of medium/long term borrowings in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans.

The balance of SSE's adjusted net debt is financed with short-term bank debt. SSE's adjusted net debt includes cash and cash equivalents totalling £1,512.3m. Around £1,162.0m of medium-to-long term borrowings will mature in 2015/16.

In addition, an option to extend a £500m term loan was invoked, pushing the maturity out by one year, from September 2014 to September 2015.

## Keeping SSE well-financed

Rating Agency	Rating
Moody's	A3 Negative outlook
Standard & Poor's	A- Stable outlook

## Adjusted net debt and hybrid capital

	March 15 £m	March 14 £m Restated	March 13 £m Restated
<b>Adjusted net debt and hybrid capital</b>	<b>(7,568.1)</b>	(7,642.8)	(7,347.7)
Less: hybrid capital	<b>3,371.1</b>	2,186.8	2,186.8
<b>Adjusted net debt</b>	<b>(4,197.0)</b>	(5,456.0)	(5,160.9)
Less: outstanding liquid funds	<b>(71.7)</b>	(51.2)	(55.0)
Add: finance leases	<b>(319.7)</b>	(328.9)	(330.4)
<b>Unadjusted net debt</b>	<b>(4,588.4)</b>	(5,836.1)	(5,546.3)

SSE believes that maintaining a strong balance sheet, illustrated by its commitment to the current criteria for a single A credit rating, such as a funds from operations/debt ratio of 20%-23% (Standard & Poor's) and a retained cash flow/debt ratio of 13% (Moody's), is a key financial principle. In October 2014, Standard & Poor's revised its outlook on SSE to 'stable' from 'negative' and affirmed SSE's 'A-' ratings. In February 2015, Moody's affirmed SSE's A3 rating with 'negative' outlook.

SSE's principal sources of debt funding at 31 March 2015 were:

- bonds – 38%;
- hybrid capital securities – 37%;
- European Investment Bank loans – 8%;
- US private placement – 5%; and
- index-linked debt, long term project finance and other loans – 12%.

SSE has a long-standing commitment to maintaining financial discipline and diversity of funding sources and to moving quickly to select financial options that are consistent with this, including issuing new bonds and loans. In line with this, in February 2015, it successfully launched an issue of hybrid capital securities, an equity financial instrument which is perpetual and subordinate to all senior creditors. The dual tranche issue comprised £750m and €600m with an all-in funding cost to SSE of 4.02% per annum (this compares with the 5.60% all-in funding cost of SSE's existing hybrid securities issued in 2010 and 2012) with issuer first call dates of 1 October 2015 and 1 October 2017 respectively.

## Adjusted net finance costs

	March 15 £m	March 14 £m Restated	March 13 £m Restated
<b>Adjusted net finance costs</b>	<b>316.7</b>	329.0	363.9
Add/(less):			
Movement on derivatives	<b>44.2</b>	64.2	(20.3)
Share of JV/Associate interest	<b>(124.2)</b>	(137.5)	(145.1)
Interest on net pension liabilities (IAS 19R)	<b>14.0</b>	28.2	34.9
Reported net finance costs	<b>250.7</b>	283.9	233.4
<b>Adjusted net finance costs</b>	<b>316.7</b>	329.0	363.9
Add/(less):			
Finance lease interest	<b>(34.2)</b>	(35.7)	(37.1)
Notional interest arising on discounted provisions	<b>(14.0)</b>	(9.5)	(7.7)
Hybrid coupon payment	<b>121.3</b>	122.9	63.4
Adjusted finance costs for interest cover calculation	<b>389.8</b>	406.7	382.5

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.

The Scrip dividend take-up in August 2014, relating to the final dividend for the year to 31 March 2014, and in February 2015, relating to the interim dividend for the year to 31 March 2015, resulted in a reduction in cash dividend funding of just under £255.6m, with 17.1 million 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 £875.3m and has resulted in the issue of 65.9 million Ordinary shares. SSE is seeking shareholders' approval at the forthcoming Annual General Meeting to extend the Scrip Dividend Scheme from 2015 to 2018.

## 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 in the year 31 March 2015 were £316.7m, compared with £329.0m in the same period in 2014 reflecting the lower average interest rate in the period.

Coupon payments relating to hybrid capital are presented as distributions to other equity holders and are reflected within adjusted earnings per share\* when paid.

## Financial overview continued

The average interest rate for SSE, excluding JV/Associate interest, during the year was 4.21%, compared with 4.71% for the previous year. Based on adjusted interest costs, SSE's adjusted interest cover was (previous year's comparison in brackets):

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

Excluding shareholder loans, SGN's net debt at 31 March 2015 was £3.55bn, and within the adjusted net finance costs of £316.7m, the element relating to SGN's net finance costs was £91.0m compared with £94.4m in the previous year, after netting loan stock interest payable to SSE. Its contribution to SSE's adjusted profit before tax\* was £194.0m compared with £182.2m in 2013/14.

### Contributing to employees' pension schemes

In line with the IAS 19R treatment of pension scheme assets, liabilities and costs, net pension scheme liabilities of £664.6m have been recognised in the balance sheet at 31 March 2015, before deferred tax. This compares to a liability of £637.7m at 31 March 2014. During 2014/15, employer cash contributions amounted to:

- £57.6m for the Scottish Hydro Electric scheme, including deficit repair contributions of £29.5m; and
- £92.0m for the Southern Electric scheme, including deficit repair contributions of £58.5m.

### Tax

#### Being a fair 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 seeks to maintain a good relationship with HM Revenue & Customs and with the Office of the Revenue Commissioners, based on trust and cooperation.

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

#### Reconciliation of adjusted current and reported tax charges

	March 15 £m	March 14 £m Restated	March 13 £m Restated
<b>Adjusted current tax charge</b>	<b>224.8</b>	236.7	223.6
Add/(less)			
Share of JVs/Associates tax	(35.6)	28.8	(16.6)
Deferred tax including share of JVs and Associates	82.0	141.8	107.8
Tax on exceptional items/certain re-measurements	(200.4)	(260.8)	(201.8)
<b>Reported tax charge</b>	<b>70.8</b>	146.5	113.0

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.

In the three years to 31 March 2015, SSE's tax paid to government in the UK, including Corporation Tax, Employers' National Insurance Contributions and Business Rates totalled £1.25bn, including £506.2m in 2014/15. SSE pays taxes in the Republic of Ireland, in relation to its operations there, and paid £47.7m during the same three years.

In October 2014, SSE became the first FTSE 100 company to be awarded the Fair Tax Mark. It was launched in February 2014 and is the world's first independent accreditation process for identifying companies making a genuine effort to be open and transparent about their tax affairs. In complying with the Fair Tax Mark criteria SSE is providing information that moves its disclosure well beyond the current requirements of UK company law to ensure that it provides all its stakeholders with the information they need to properly appraise its tax affairs.

#### Setting out SSE's tax position

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\*, is 14.4%, compared with 15.3% in 2013/14, on the same basis.

#### Priorities and outlook for 2015/16 and beyond

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

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 Wholesale, Networks and Retail customers, SSE's priorities for 2015/16 are to:

- ensure further steps to simplify and streamline its business are successfully delivered, with further opportunities identified;

- adapt successfully to the progressive implementation of the UK government's agreed energy policies;
- work for a progressive and enduring outcome from the CMA investigation into the energy market in Great Britain, for the benefit of customers and investors alike;
- ensure that the development and construction of new electricity generation assets makes good progress;
- deliver in a timely manner the required investment in the transmission system in the north of Scotland;
- make a good start to the new Electricity Distribution Price Control while monitoring progress of the ED1 Appeal; and
- ensure that the transformation of systems required under smart metering makes good progress and continue to develop digital services to a standard which customers expect.

#### Conclusion

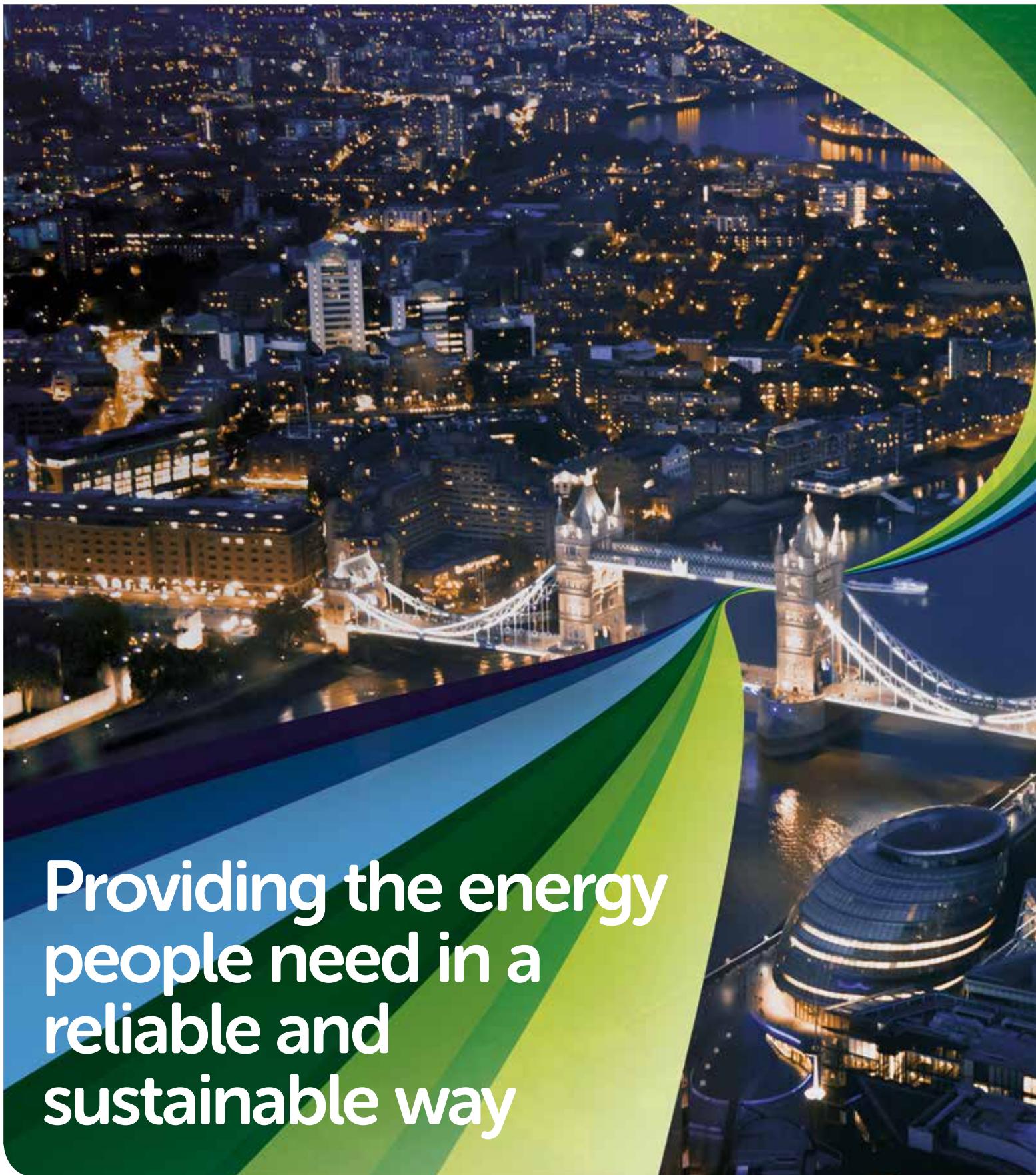
SSE's three business segments – Wholesale, Networks and Retail (including Enterprise) – have one core purpose: to provide the energy people need in a reliable and sustainable way. SSE believes that success in fulfilling this core purpose enables it to earn a profit which it can then put to good use for the benefit of customers, other stakeholders and investors. This helps to ensure that SSE is in a good position to achieve its first financial objective for shareholders: annual increases in the dividend that at least keep pace with RPI inflation in 2015/16 and beyond.

#### Disclaimer

This 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.

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**Providing the energy  
people need in a  
reliable and  
sustainable way**

# Why weather matters to SSE

The weather in the UK and Ireland has a direct and significant influence on SSE's core business of producing, delivering and supplying energy. Monitoring the weather is therefore integral to SSE's business operations.

It is the role of SSE's dedicated meteorologist to analyse global weather models, the jet stream, sea surface temperatures and microclimates in order to predict future weather patterns and their potential business impact.

Monitoring and understanding weather patterns allows SSE to:

- Predict the demand for energy from its customers;
- Establish short, medium and long term

forecasts for electricity generation output from its renewable generation assets;

- Prepare to keep the lights on in times of extreme weather; and
- Ensure it can continue to provide energy to its customers in a sustainable, reliable and safe way.

The three main forecast models SSE's meteorologist monitors are wind, rainfall and temperature.



## Wind

**Generating electricity:** Onshore and offshore wind farms account for the largest proportion of SSE's renewable generation output. Wind patterns therefore influence the absolute amount of renewable energy SSE is able to generate and influences the mix of generation it deploys at any given point in time.

**Keeping the lights on:** As a network operator in the north of Scotland and in central southern England, extreme wind in these areas can have a significant impact on SSE's transmission and distribution assets. Analysing the weather in advance allows the company to mobilise people and resources to areas which might be affected by the high winds, to ensure customers remain on supply or are reconnected quickly.

## Rainfall

**Generating electricity:** SSE has a proud 70 year history of hydroelectric generation in the north and west of Scotland. The operation and productivity of SSE's hydroelectric power stations is therefore entirely dependant on the volume and frequency of rainfall in this area. Through the use of dams in many cases SSE is able to store this renewable resource for use at peak times during the year.

**Keeping the lights on:** Excessive rainfall has the potential to cause disruption to SSE's network through flooding and damage to underground cables. Forecasting when heavy rain is due is important for SSE so it can assemble its engineers in response.

## Temperature

**Supplying energy:** Prolonged periods of lower temperatures or above average temperatures can significantly impact total demand for energy. Changes in demand require an equivalent increase in the supply of electricity and gas in order to maintain a balanced energy system. Seasonal demand changes have a direct impact on SSE's generation output but unexpected significant fluctuations in daily temperatures require generation assets that have a flexible and fast response.

**Energy forecasting:** As is standard practice in the energy sector, SSE's energy portfolio managers buy gas and fuel up to two years in advance. Effective forecasting of long term temperatures, via modelling analysis, helps improve the accuracy of long term energy forecasts and the effectiveness of SSE's energy procurement.

**Keeping the lights on:** Understanding future temperature variations helps SSE predict snow, ice or lightning. These weather events can have a major impact on SSE's networks and being prepared plays a significant role in helping to keep customers' lights on.

## Wind



### What happened in 2014/15?

- In August 2014, wind battered most of the UK and Ireland, with wind speeds at 119% of the average for that month.
- December 2014 and January 2015 were above average too.
- The north of the UK bore the brunt of some significant storms in mid-December, mid-January and late February.
- Other months in 2014/15 were near or below average for wind.

### What was the impact?

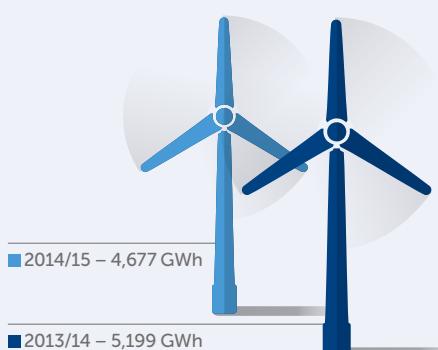
- Onshore and offshore wind generation performed reasonably well throughout the financial year.
- Overall, wind generation output was 4,677GWh.
- Scottish and Southern Energy Power Distribution tackled a number of storms throughout the course of the winter, restoring power to over 100,000 homes. Despite the high winds, its customers only lost 69 minutes this year in the north of Scotland, and 57 minutes this year in its network area in central southern England.

#### Output of wind energy – GWh

**4,677**  
-10%

#### Average wind speeds

Wind speeds in Scotland and Northern Ireland were around average, but lower than the previous year, contributing to lower output of electricity from SSE's wind farms.



## Rainfall



### What happened in 2014/15?

- Scotland provisionally had its sixth wettest winter in a series from 1910.
- October was the wettest in Scotland since 1954. December 2014 and January 2015 also saw significant rainfall.
- Annual rainfall in the north of Scotland was 113% of the 1981-2010 average.
- The north of Scotland had its wettest August on record (1910).

### What was the impact?

- Hydro generation, mostly situated in the north of Scotland, performed very well throughout 2014/15.
- Overall, conventional hydro generation output was 3,726GWh.
- Heavy rainfall, accompanied by wind and lightning, associated with the 'weather bomb' in October 2014, caused a significant number of faults across SSE's electricity network, particularly in the north and west of Scotland.

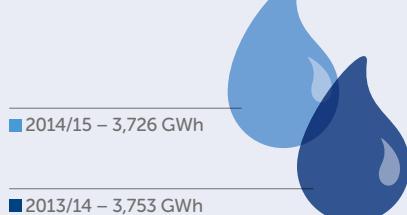
#### Output of hydro energy – GWh

**3,726**  
-0.7%

#### Average hydro output

**3,448GWh**

The 30 year average output from its SSE's hydro assets (inc average output from Glendoe since 2012) is 3,448GWh.



## Temperature



### What happened in 2014/15?

- The mean temperature in the UK was 0.75C above the 1981-2010 climatology.
- Of the 12 months between 1 April 2014 and 31 March 2015, six had temperatures more than one degree Celsius above average, and only two months were below average (August and March).
- November was the fifth warmest in the UK in a series from 1910.
- December 2014 to March 2015 values were near average.
- Sunshine: The UK enjoyed the sunniest winter in records dating back to 1929.

### What was the impact?

- The prolonged warmer weather delayed people turning their heating on.
- Demand for gas was less throughout November, but returned to normal levels during December and beyond.
- Overall SSE estimates that weather impacts resulted in a 3% reduction in the amount of gas domestic customers consumed in 2014/15.

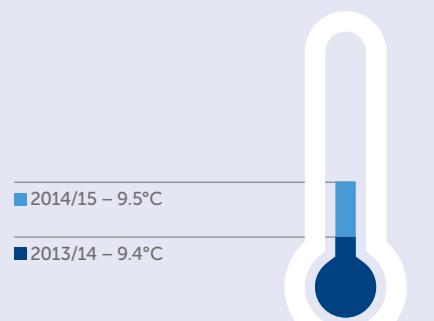
#### 2014/15 UK average temperature – °C

**9.5°C**  
+0.1%

#### UK average temperature

**8.75°C**

The annual UK average temperature, based on the 1981-2010 climatology, is 8.75°C.



## Key indicators

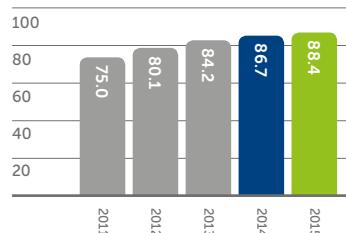
### Strategic performance:

The key indicators for 2014/15 set out here and opposite demonstrate SSE's performance in respect of its first financial responsibility to shareholders – annual dividend growth – and in respect of its core purpose of providing the energy people need in a reliable and sustainable way.

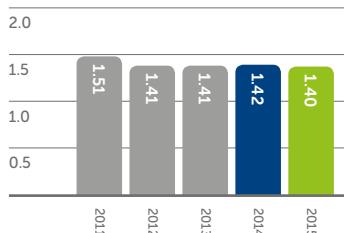
Graphs reflect restatement for the adoption of IAS 19R.

### Dividend

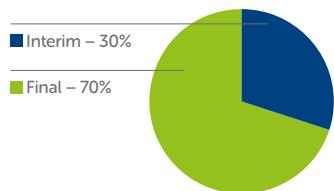
Dividend per share – pence



Dividend cover – times

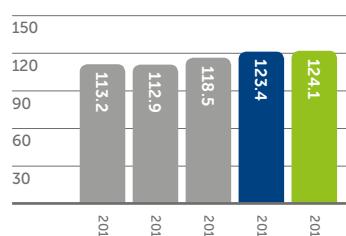


Dividend composition – %

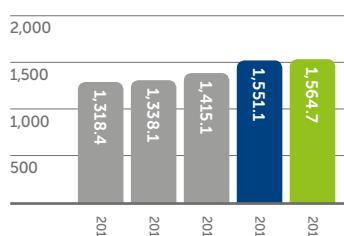


### Profit

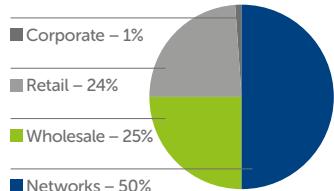
Adjusted earnings per share\* – pence



Adjusted profit before tax\* – £m



Operating profit\* composition – %

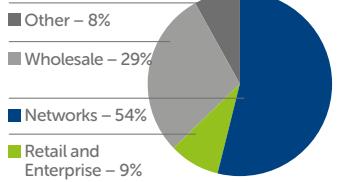


### Investment

Capital expenditure and investment – £m



Capital expenditure and investment composition – %

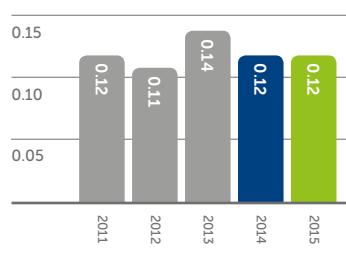


Net Debt and Hybrid Capital – £m



### Safety

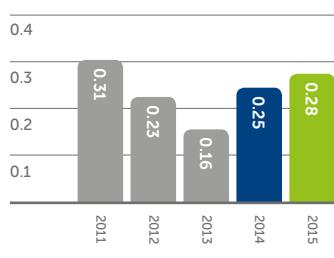
SSE Total Recordable Injury Rate – per 100,000 hours worked



Contractor Total Recordable Injury Rate – per 100,000 hours worked



Serious road traffic incidents – per 100 vehicles

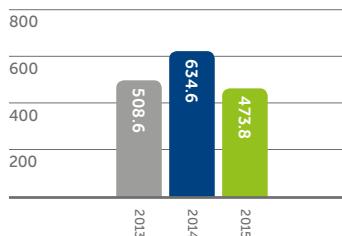


## Segmental performance:

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

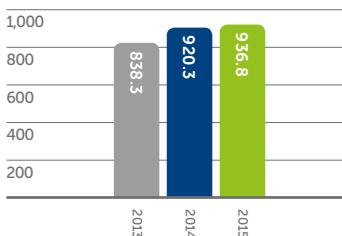
### Wholesale

Operating profit\* – £m



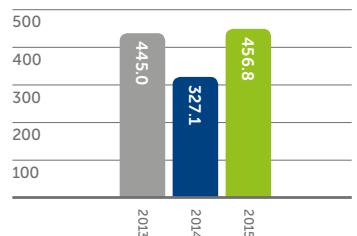
### Networks

Operating profit\* – £m

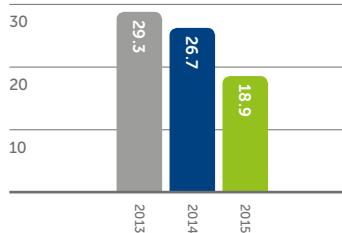


### Retail

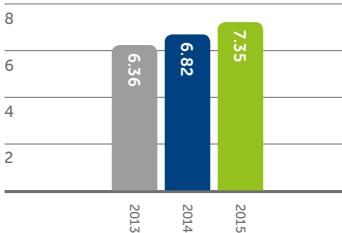
Operating profit\* – £m



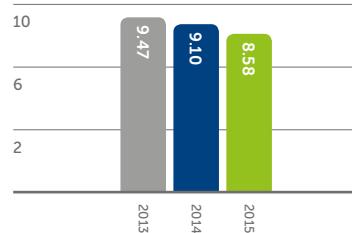
Thermal generation output – TWh



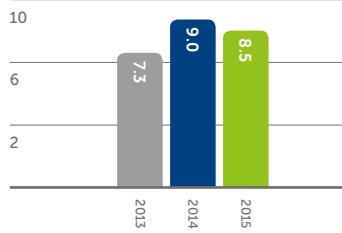
Regulated Asset Value – £bn



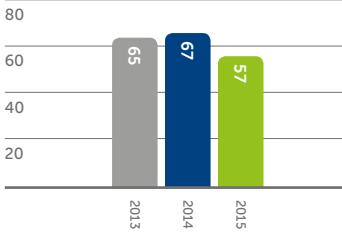
Energy customer accounts – millions



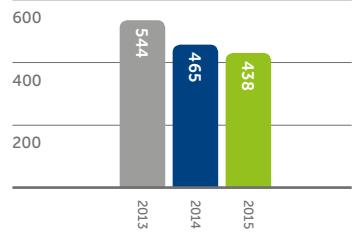
Renewable generation output – TWh



Network customer minutes lost (south)



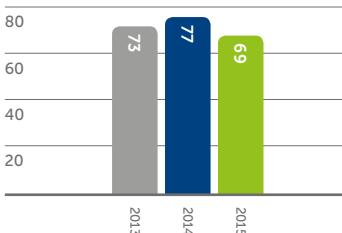
Gas supplied (household average, GB) – therms



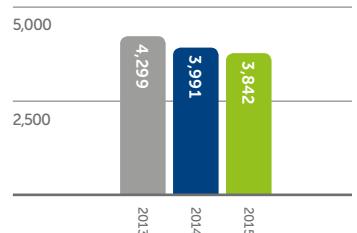
Gas production output – million therms



Network customer minutes lost (north)



Electricity supplied (household average) – KWh



# Wholesale

## Securing and producing the energy people need



### Overview

#### Energy production, generation and storage

SSE provides energy and related services for customers in wholesale energy markets in Great Britain and Ireland. It delivers this through Energy Portfolio Management and Electricity Generation, Gas Production and Gas Storage. Amongst other things, it is the leading generator of electricity from renewable sources across the UK and Ireland.

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Wholesale operating profit\*  
– £m

**473.8**  
**-25.3%**

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

---

Total Generation capacity  
– MW

**11,733**  
**+0.6%**

SSE's generation capacity (including its share of joint ventures) incorporates 5,330MW of gas-fired generation, 3,394MW of renewable generation, and 3,009MW of coal-fired generation.



Total Generation output  
– TWh

**27.6**  
**-25.4%**

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

Renewable generation capacity  
– MW

**3,394**  
**+2.0%**

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

Renewable generation output  
– TWh

**8.7**  
**-6.6%**

Renewable generation output covers conventional hydro electric schemes and pumped storage on and offshore, wind farms and dedicated biomass plant. Output is affected by the amount of plant in operation and by weather conditions.

Gas production  
– million therms

**397.9**  
**-3.9%**

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

## Wholesale continued

### Wholesale key indicators

	March 15	March 14
<b>Energy Portfolio Management (EPM) and Electricity Generation</b>		
EPM and Generation operating profit* – £m	<b>433.3</b>	496.1
EPM and Generation capital expenditure and investment – £m	<b>399.6</b>	616.5
<b>Generation</b>		
Gas- and oil-fired generation capacity (GB and Ire) – MW	<b>5,330</b>	5,330
Coal-fired generation capacity (inc. biomass co-firing) – MW	<b>3,009</b>	3,009
Renewable generation capacity GB and Ire (inc. pump storage) – MW	<b>3,394</b>	3,326
<b>Total electricity generation capacity (GB and Ire) – MW</b>	<b>11,733</b>	11,665
Gas power station availability – %	<b>96</b>	92
Coal power station availability – %	<b>74</b>	84
Onshore wind farm availability – %	<b>97</b>	97
Hydro storage at end March – %	<b>77</b>	75
Gas- and oil-fired (inc. CHP) output (GB and Ire) – GWh	<b>9,788</b>	10,111
Coal-fired (inc. biomass co-firing) output – GWh	<b>9,143</b>	16,576
<b>Total output from thermal power stations (GB and Ire) – GWh</b>	<b>18,931</b>	26,687
Conventional hydro output – GWh	<b>3,726</b>	3,753
Wind output (GB and Ire) – GWh	<b>4,677</b>	5,199
Dedicated biomass output – GWh	<b>63</b>	67
<b>Total output of renewable energy (GB and Ire) – GWh</b>	<b>8,466</b>	9,019
Total output from pumped storage – GWh	<b>190</b>	252
<b>Total Generation output all plant – GWh</b>	<b>27,587</b>	35,958
<b>Notes</b>		
1 Capacity is wholly-owned and share of joint ventures.		
2 Output is electricity from power stations in which SSE has an ownership interest (output based on SSE's contractual share).		
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 1 April 14) and excludes 464MW at Great Island (net increase 224MW) operational from 17 April 2015.		
4 Capacity excludes Ferrybridge units 1 and 2 (c. 980MW) and 2 units at Uskmouth (c. 230MW) which ceased operations at the end of March 2014.		
5 Wind output excludes 268GWh of constrained off generation in 2014/15 and 243GWh in 2013/14.		
<b>Gas production</b>		
Gas production operating profit* – £m	<b>36.6</b>	130.2
Gas production – m thermjs	<b>397.9</b>	414.1
Gas production capital investment – £m	<b>21.0</b>	40.9
<b>Gas storage</b>		
Gas storage operating profit* – £m	<b>3.9</b>	8.3
Gas storage customer nominations met – %	<b>100</b>	100
Gas storage capital investment – £m	<b>14.3</b>	10.6

### Sustainably sourcing and producing energy

SSE's long-term objective for its Wholesale segment is for it to make a sustainable contribution to the implementation of SSE's core purpose and financial goals, through excellence in the provision, storage and delivery of energy and related services for customers in wholesale energy markets in Great Britain and Ireland.

This is achieved through maintaining a diverse portfolio of assets, contracts and innovative energy solutions; and the ability to respond quickly and effectively to changing market conditions and opportunities.

SSE's Wholesale segment delivers this through: **Energy Portfolio Management (EPM) and Electricity Generation.**

EPM is responsible for ensuring SSE has the energy supplies it requires to meet the needs of customers; procuring the fuel required by the generation plants that SSE owns or has a contractual interest in; selling the power output from this plant; where appropriate, securing value and managing volatility in volume and price through the risk-managed trading of energy-related commodities; and providing energy solutions and services.

**Electricity Generation** is responsible for: the operation and management of SSE's generation assets, their maintenance and ensuring these assets are available when required and able to meet contractual obligations; and developing future opportunities.

In addition, also within Wholesale, **Gas Production** is responsible for the efficient delivery of gas from the physical gas fields that SSE has a shared ownership in and developing future opportunities; and **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.

The markets in which SSE's Wholesale businesses operate continue to be impacted by a number of key long-term trends, including an uncertain macroeconomic environment; volatile commodity prices; increasing government intervention and competition; and the continued journey to a low carbon economy.

This has resulted in an environment that is increasingly dynamic, but which will in turn give rise to attractive opportunities for those who have the assets, capabilities and attributes required by key stakeholders. SSE's Wholesale segment will therefore continue to review its portfolio in the context of market and regulatory conditions going forward to ensure it can continue to meet its objectives.

Market and regulatory conditions could be impacted by the outcome of the CMA investigation into the supply and acquisition of energy in Great Britain, which is examining issues in wholesale as well as retail markets. SSE believes that the energy markets are generally well-functioning while being supportive of reforms that produce additional benefits for competition, customers and participants. The CMA is currently expected to produce its final report around the end of 2015.

In line with its commitment to transparency in performance management and reporting; and in keeping with the ongoing evolution of its business, SSE has completed the incorporation of a new subsidiary company for energy portfolio management, SSE EPM Limited, which will sit alongside the separately disclosed Energy Supply and Generation activities of the Group and will produce separately audited accounts from April 2015 onwards. SSE is also ensuring that the financial arrangements between its companies continue to be clear and transparent.

### Financial performance in Wholesale

During the year to 31 March 2015 operating profit\* in Wholesale was £473.8m. The principal issues relating to operating profit in SSE's Wholesale businesses are as follows:

## Wholesale operating profit\*

	March 15	March 14	March 13
EPM and Electricity Generation* – £m	<b>433.3</b>	496.1	450.6
Gas Production* – £m	<b>36.6</b>	130.2	39.6
Gas Storage* – £m	<b>3.9</b>	8.3	18.4
<b>Total Wholesale operating profit</b>	<b>473.8</b>	634.6	508.6

- **EPM and Electricity Generation** – lower output from renewable energy primarily due to lower average wind speeds compared to the previous year; lower coal-fired power station output as a result of the March 14 closure of Units 1 and 2 at Ferrybridge and the Ferrybridge Unit 4 fire in July 2014; and lower 'dark spreads' (the difference between the cost of coal and emissions allowances and the price received for electricity generated) across the year all contributed to the fall in operating profit;
- **Gas Production** – day ahead wholesale gas prices were around one third lower on average than for the same period last year which is the main reason for the significant fall in operating profit. Overheads also increased by c. £10m in the year due to additional costs in the Bacton area; and
- **Gas Storage** – 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.

## Energy Portfolio Management (EPM)

### Maintaining a diverse energy portfolio

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 seeks to manage the impact of these variables by maintaining a diverse and well-balanced portfolio of contracts, trading positions and assets, both long and short term. In doing so, SSE has:

- greater ability to manage wholesale energy price volatility, thereby protecting customers 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 contained by the balanced nature of SSE's energy businesses.

In recent years, SSE has typically required around seven million therms of gas per day to supply its customers and to fuel its power stations, and around 130GWh of electricity per day to supply all its customers. EPM has three primary routes to competitively and sustainably procure the fuels and energy it needs to meet this demand:

- **assets:** including upstream gas exploration and production and thermal and renewable electricity 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.

Managing risks associated with energy procurement across these three routes is a key challenge for EPM. By optimising energy procurement through a diverse portfolio, SSE ensures that, to an extent, its customers are protected from the unavoidable volatility that exists in global markets.

### Responding to market opportunities

A number of key long-term trends, including an uncertain macroeconomic picture; volatile commodity prices; intense competition and increasing government intervention; and the continued journey to a low carbon economy, have resulted in wholesale markets which are increasingly dynamic. This creates attractive opportunities for those who have the assets, capabilities and attributes required by key stakeholders. EPM will continue to proactively seek out these opportunities through a range of activities including contractual agreements and the provision of system services.

### Managing market issues in 2014/15

Global energy markets continued to be volatile in 2014/15, with knock-on impacts for UK markets and customers. Spot and day-ahead gas prices, which had reduced through the end of the winter 2013/14 period, continued to fall into the summer of 2014/15 and beyond, with day-ahead prices dropping to below 35p/therm in early July, their lowest level since September 2010. This trend, broadly, continued through the winter with prices averaging 50.5p/therm over Winter 14 compared to 63.8p/therm the previous winter.

This reduction in prices was initially driven by mild weather over the previous winter period (2013/14) and gas storage levels, which were at their highest level in five years going into summer 2014. Another mild winter, coupled with geopolitical events, most notably the fall in the global oil price, has kept downward pressure on commodity prices.

Changes to the gas price have impacted the profitability of electricity generation and gas production assets. 2014/15 saw an uplift in 'spark spreads' – the difference between the cost of gas and emissions allowances used by a CCGT

and the value of the power produced – compared to the historically low levels of 2013/14 which had resulted in greater use of coal-fired plant. This uplift in 'spark spreads' combined with the April 2014 increase in the Carbon Price Support Rate (see below) resulted in greater use of gas-fired generation relative to coal. The long-term trend points to gas continuing to enjoy this comparative advantage.

### 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. For three years 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. In taking this action SSE has helped to deliver a new level of market transparency and liquidity which is now sufficient for independent retailers and does not represent any kind of barrier to market entry.

### EPM priorities for the remainder of 2015/16 and beyond

EPM's 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, RoI and EU regulations;
- responding to market evolution and change;
- identifying and agreeing new long term opportunities; and
- continuing to support improved market transparency and liquidity initiatives.

### Generation – Great Britain and Ireland overview

#### Managing and developing Generation assets to meet key priorities

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:

- **compliance:** with all safety standards and environmental and regulatory requirements;
- **diversity:** to avoid over-dependency on particular fuels or technologies;
- **capacity:** to contribute to the requirements of the GB and Irish electricity systems;
- **availability:** to respond to system demand and market conditions;
- **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<sub>2</sub> intensity of electricity generated through the cost efficient decarbonisation of its generation fleet.

## Wholesale continued

### Electricity generation capacity

	March 15	March 14
Gas-fired generation capacity (GB) – MW	<b>4,262</b>	4,262
Gas- and oil-fired generation capacity (Ire) – MW	<b>1,068</b>	1,068
Coal-fired generation capacity (GB) (inc. biomass co-firing) – MW	<b>3,009</b>	3,009
Renewable generation capacity GB and Ire (inc. pump storage) – MW	<b>3,394</b>	3,326
<b>Total electricity generation capacity (GB and Ire) – MW</b>	<b>11,733</b>	11,665

Capacity excludes Ferrybridge units 1 and 2 (c. 980MW) and 2 units at Uskmouth (c.230MW) which ceased operations at the end of March 2014.

SSE's generation assets are underpinned by a strong engineering focus on asset life and ongoing equipment monitoring to maximise efficiency.

### Maintaining a diverse Generation portfolio

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.

With this portfolio SSE continues to have significant fuel diversity for producing electricity and retains a very flexible asset fleet. It also makes SSE the largest generator of electricity from renewables across the UK and Ireland.

### Generation – Great Britain (thermal)

#### Managing the impact of marketplace conditions and the public policy framework

Uncertainty around market conditions and the public policy framework affecting electricity generation in Great Britain have continued to create challenging conditions for SSE's thermal and renewables businesses.

As detailed above changes to commodity prices resulted in the running hours and relative profitability of gas stations increasing at the expense of coal stations during 2014/15. There have also been a number of public policy interventions in recent years that impact on both the development and operation of thermal plant. These include:

- **Carbon Price Support:** On 1 April 2013 the UK government increased the Carbon Price Support (CPS) rate in line with the level confirmed in Budget 2013. This added a cost of £9.55/tonne of CO<sub>2</sub> emissions in 2014/15 for fossil-fuelled generation in Great Britain,

on top of the cost of complying with the EU ETS. The CPS rate has risen to c.£18/tonne in 2015/16; but the 2014 Budget announced that it would then be frozen until 2018/19, instead of increasing as previously proposed.

- **Capacity Market:** In December 2014 the first Capacity Auction for generation capacity in GB was held. This competitively determined the volume of plant (49.3GW) which would take on a capacity obligation, and the level of capacity payment (£19.40/kW) these will receive for successfully providing capacity. A total of 4.4GW of SSE's 7.2GW pre-qualified plant were successful in the auction, and will receive a total of £85m if they deliver this capacity in 2018/19.

### 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 Supplemental Balancing Reserve (SBR) which began last 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.

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 they will signal 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 that they will fulfil this responsibility. 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.

### Managing gas-fired power stations

SSE has three wholly-owned gas-fired power stations: Keadby (Lincolnshire; 735MW); Medway (Kent; 700MW) and Peterhead (Aberdeenshire; 1,180MW). In addition, SSE has a 50% stake in gas-fired power stations at Marchwood (840MW total capacity) and Seabank (1,164MW). All of the stations' output is contracted to SSE and in 2014/15 these stations generated a total of 7.5GWh of electricity. Each of SSE's three wholly-owned gas-fired power stations has recently undergone, or is undergoing, an investment programme:

- Keadby has been mothballed since March 2014. In March 2015 SSE announced that it would look at options available to return the station to service for the winter of 2015/16 and intends this to happen by the end of October 2015; a final decision will be taken later this year. The station has taken on a capacity obligation for 2018/19;
- Medway is operational, and has taken on a capacity obligation for 2018/19; and
- Peterhead reduced its TEC (Transmission Entry Capacity) to 400MW from 1 April 2014, which has prevented the station from participating in the electricity market since then due to its current configuration. Previously announced investment to alter this configuration is under way, and will allow 400MW of Peterhead's capacity to participate in the market from the end of October 2015.

In addition Peterhead has secured a number of contracts to provide support services to National Grid:

- In May 2014 SSE signed a contract with National Grid to provide ancillary support services to the electricity system in the north of Scotland for one year.
- This contract was terminated on 28 October 2014 when SSE signed a contract to provide up to 780MW of capacity to National Grid's Supplemental Balancing Reserve (SBR)

### GB thermal output

	March 15	March 14
Total Gas and oil-fired (inc. CHP) output (GB) – GWh	<b>9,537</b>	10,085
Coal-fired (inc. biomass co-firing) output – GWh	<b>9,143</b>	16,576
<b>Total output from thermal power stations (GB) – GWh</b>	<b>18,680</b>	26,661
Gas and oil-fired (inc. CHP) output (GB) from fully owned stations included above – GWh	<b>2,000</b>	4,729

service, a contract which it successfully executed over the winter.

- In March 2015 Peterhead was awarded a contract to provide voltage support to the electricity system in the north of Scotland between April 2016 and September 2017.

Peterhead's ability to successfully support National Grid, together with the ongoing investment in Carbon Capture and Storage at the station (see below), illustrates its strategic, long-term value to the UK. It also demonstrates that there are options for existing assets outside of the Capacity Market process.

Despite experiencing challenges in recent years, and despite expected longer-term changes in the way electricity is generated and used, it is still anticipated that gas-fired power stations will eventually play an increasingly important role in electricity generation. As a result, SSE will continue to maintain an option for CCGT, in Great Britain, at Keadby 2 (Lincolnshire). It will not, however, make any significant additional commitments to the project unless it is entered into and is successful in the Capacity Market auction process. This means SSE will be reviewing its options for Abernedd (South Wales), and is putting all development work at Seabank 3 (Bristol) on hold.

### **Contributing to the development of Carbon Capture and Storage**

SSE is continuing to work with Shell UK as a strategic partner in the proposed CCS project at SSE's gas-fired power station in Peterhead. The project aims to create the first commercial-scale application of CCS technology at a gas-fired power station anywhere in the world by capturing up to one million tonnes of CO<sub>2</sub> annually. Shell is leading the development of the project, and will take responsibility for the construction of the CO<sub>2</sub> capture plant and thereafter the operation, transport and storage elements of the project.

Front End Engineering Design (FEED) work has been ongoing throughout the 2014/15, and the project team is in discussions with the UK Government about securing the next stage of support through its CCS Commercialisation programme.

### **Managing coal-fired power stations**

SSE has two wholly-owned coal-fired power stations: Ferrybridge (Yorkshire; 1,014MW) and Fiddler's Ferry (Lancashire, 1,995MW):

- all of the above capacity at Fiddler's Ferry and Ferrybridge is compliant with the Large Combustion Plant Directive (LCPD) and able to continue to generate electricity beyond 2015;
- the capacity at Fiddler's Ferry (as well as all of SSE's gas-fired power generating plant) has been opted in to the Transitional National Plan (TNP) for emissions and dust; and

- the above capacity at Ferrybridge has been opted in to the Limited Life Derogation option under the Industrial Emissions Directive (IED).

None of Ferrybridge's capacity was successful in the Capacity Market auction, whilst 1,294MW (de-rated) of Fiddler's Ferry (3 out of its 4 units) did take on capacity obligations for 2018/19. SSE has consistently said that the cost of the Carbon Price Support, along with the constraints imposed by the Industrial Emissions Direction, the introduction of full auctioning of EU emissions allowances, and the age of the stations, have been weighing heavily on the long-term viability of coal assets.

As a result it announced, in March 2015, that it would carry out a comprehensive and detailed review of its coal generation assets. SSE's review examined a number of factors including current and future economic viability; compliance with emissions regulations; the existing and likely future policy framework; SSE's own long-term decarbonisation and business objectives; and the impact on SSE's employees and the local communities within which the assets are based.

Based on the conclusions of this review SSE has, regrettably, made the difficult decision to cease coal-fired electricity generation at Ferrybridge by 31 March 2016. The emissions abatement equipment on one of the two units at the station, Unit 4, was badly damaged during a serious fire at the site in 2014. SSE has been pursuing options to reinstate this equipment, but this activity will now stop, although the work to demolish the damaged equipment will continue. As a result, Unit 4 will be removed from service with immediate effect. Unit 3 will return to service in August 2015 following successful completion of the planned outage which began in April 2015.

SSE currently employs 172 people at its coal-fired operations at Ferrybridge. It is expected that some will be redeployed to elsewhere in the SSE group, including Keadby power station, or will have a continuing role beyond March 2016 in managing the closure and decommissioning of the plant. SSE will also offer voluntary release on enhanced terms, and seek to avoid compulsory redundancies.

SSE remains committed to the Ferrybridge site, and the local community in which it sits. The £300m Ferrybridge Multifuel 1 project is due to be fully commissioned in the second half of 2015, and will provide 50 full-time jobs at the site, with more created in the supply chain. It supported over 500 jobs at the peak of construction, and involved around 30 local companies. The Ferrybridge Multifuel 2 project, currently being developed at the site, would create similar benefits if it is granted planning consent (a planning decision is due in 2015, see below).

While factors such as compliance with emissions regulations; the existing and likely future policy framework; SSE's own long-term decarbonisation and business objectives apply equally to coal-fired operations at both Ferrybridge and Fiddler's Ferry, this announcement does not impact on existing operations at Fiddler's Ferry. It has a derogation under the Transitional National Plan which allows it to remain open within specific environmental and operating constraints; and a contract for the station to provide 1,294 MW of de-rated capacity for one year from October 2018 was secured in the Capacity Market Auction in December 2014. The retention of some coal-fired capacity contributes to the diversity of SSE's generation portfolio and maintains Fiddler's Ferry's contribution to the security of electricity supplies. The capacity at the station will, therefore, be entered into the next Capacity Market Auction, at the end of 2015.

### **Investing for the future through 'multi-fuel'**

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.

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. 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.

As noted above, the SSE and Wheelabrator Technologies Inc. 50:50 joint venture – Multifuel Energy Ltd (MEL) – is currently commissioning a £300m (69MW) multi-fuel generation facility adjacent to SSE's existing Ferrybridge coal power station. Construction of the facility is complete, the commissioning programme is well under way and the plant is expected to be fully operational in autumn this year. The station has taken on a capacity obligation for 2018/19.

**A Development Consent Order (DCO)**  
Application for a second multi-fuel facility at the Ferrybridge site has been submitted to the Planning Inspectorate with a final decision expected by the autumn.

## Wholesale continued

# Investing in sustainable communities

**SSE's community investment programme delivers financial support to a diverse range of community projects near to its renewable energy developments.**

More than 25 local SSE community funds have distributed over £18m across 1,200 projects in the last 10 years.

In 2014, SSE launched the SSE Sustainable Development Fund, with the aim of supporting larger scale transformational projects at a regional level – allowing the benefits of its renewable energy developments to be accessible to a wider area. The fund supports projects that deliver significant and sustainable benefits in at least one of three core areas: skills development and job creation; community renewable energy schemes; and enhancements to the natural and built environment. It is open to all non-profit making

organisations, community groups and charities working in the regions covered by the fund.

The fund launched in the Highland region in May 2014. The first round of awards totalled over £1m and included start-up grants of £5,000 for projects such as the surfing centre in Thurso, and larger grants like the £225,000 awarded to Scottish Canals for a new visitor centre, shop and five bespoke retail units for start-up businesses in Fort Augustus.

The SSE Sustainable Development Fund has since expanded to three new local authority regions – Scottish Borders, Perth and Kinross, and North Lincolnshire. The fund is expected to deliver around £50m in funding for strategic regional projects over the next 25 years.

## Generation – Great Britain (renewable)

### Producing electricity from renewable sources

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.

### Managing the impact of market conditions and the public policy framework

SSE continues to operate under the policy support regime for renewable generation capacity in GB, currently delivered through the Renewables Obligation (RO) (the RO applies also in Northern Ireland); and the recently introduced Contracts for Difference (CfD) mechanism.

SSE believes the CfD to be a viable, long-term support mechanism for low carbon generation. However, the mechanism's design changes the way that investments in renewables are evaluated by both developers and providers of finance, including SSE. Absolute support for low carbon technologies is limited by the Levy Control Framework budget which has the reasonable objective of controlling costs to customers from government energy policies. This also means that there is competition for support contracts. In addition, the contract terms will impact the way in which renewable projects are developed and constructed.

SSE chose not to participate in the first CfD auction round, but will continue to analyse its portfolio with a view to participating in future.

### Optimising the renewable development portfolio

Since April 2007, SSE has invested nearly £4bn in renewable generation. As it moves forward to 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.

In order to support future investment in onshore wind assets SSE will, as outlined in March 2014, recycle capital by adding to its established programme of selective disposals of operational onshore wind assets and those in development. Recent activity includes the agreement to sell Langhope Rig, a 16MW construction project, to GE Financial Services in March 2015.

### Developing renewable energy schemes onshore

In addition to projects in development (see below), the following projects were in construction at 31 March 2015 and are key components of SSE's portfolio of strategic onshore wind projects in GB:

- **Strathy North** (67MW) – Located in Sutherland, main site construction is under way and the site is due for completion in 2015.



- **Dunmaglass** (94MW) – Main construction at this site south of Inverness is progressing well; the site is scheduled for completion in 2016.

SSE has a number of projects at different stages in the development cycle. These include:

- **Clyde Extension (pre-construction)** (up to 172MW) – this project, an extension of SSE's operational Clyde wind farm, was consented by Scottish Ministers in July 2014. In May 2015 a final investment decision (FID) was taken to proceed with the project. It is expected to be fully operational by the end of 2016.
- **Stronelaig (with consent)** (up to 240MW) – located in the Great Glen in the Highlands the project was consented by Scottish Ministers in June 2014. In August the John Muir Trust announced it had lodged a petition to the Court of Session asking for this decision to be judicially reviewed. SSE is participating fully in the legal process and a decision is expected before the end of the year.
- **Bhlaraidh (pre-construction)** (up to 108MW) – located in the Great Glen this project was consented by Scottish Ministers in January 2014. SSE is progressing the project towards a final investment decision in 2015.
- **Viking (with consent)** (up to 457MW – SSE share 50%) – located in Shetland the project has been involved in a prolonged legal dispute since it was consented by Scottish Ministers in April 2012. In February 2015 the Scottish Supreme Court dismissed the legal challenge. SSE, along with its Joint Venture partner, will now continue to develop the project in 2015.
- **Strathy South (in planning)** (up to 133MW) – in July 2014 the Highland Council's Northern Planning Committee raised an objection to the project, which is located in Sutherland, adjacent to SSE's Strathy North site. This objection is now being examined further at a Public Local inquiry, and SSE is participating fully in this process.

Whilst current policy and market signals do not favour investment in new pumped storage, SSE continues to explore the conditions for investment to allow progress with its 600MW consented pumped storage scheme at Coire Glas in the Scottish Highlands.

### Developing renewable energy capacity offshore

In 2014/15 SSE's efforts and resources have been focused on progressing the Beatrice project (up to 664MW) planned for the outer Moray Firth; and obtaining consents for the Dogger Bank (Forewind Phase 1 and 2) and Seagreen Phase 1 projects. It has successfully achieved these objectives.

### Renewable generation (GB)

	March 15	March 14
Conventional hydro capacity – MW	1,150	1,150
Onshore wind capacity – MW	1,008	940
Offshore wind capacity – MW	355	355
Dedicated biomass capacity – MW	38	38
<b>Renewable capacity – MW</b>	<b>2,551</b>	<b>2,483</b>
Renewable capacity qualifying for ROCs – MW	c.1,900	c.1,900
Pumped storage capacity – MW	300	300
Pumped storage output – GWh	190	252
Conventional hydro output – GWh	3,726	3,753
Onshore wind output – GWh	2,219	2,511
Offshore wind output – GWh	1,191	1,338
Biomass output GB – GWh	63	67
<b>Renewable output – GWh</b>	<b>7,199</b>	<b>7,669</b>

Wind output excludes 268GWh of constrained off generation in 2014/15 and 243GWh in 2013/14

The scale of offshore wind, and its long-held commitment to maintaining a diverse portfolio of generation assets, means SSE does not currently believe it is prudent to construct multiple offshore wind projects in parallel. In the near term SSE will therefore continue to focus on progressing the Beatrice project. It will continue to minimise development spend on the other projects in which it has an interest but will review the position if a positive final investment decision (FID) for Beatrice is made in early 2016.

### Preparing Beatrice for a final investment decision

In April 2014, the UK government announced that Beatrice had been successful in securing an Investment Contract (or early CfD). Securing this contract has enabled SSE and its partners to continue to invest in the engineering and procurement work required to maintain progress towards a final investment decision (FID) in early 2016.

In November 2014, SSE agreed to sell 25% of the Beatrice Offshore Wind Farm (BOWL) to fund management company Copenhagen Infrastructure Partners (CIP). The sale was consistent with SSE's strategic approach to the project announced in March 2014, and secured a strong additional partner to take the project forward. After the divestment, SSE owns a 50% share of the BOWL project; CIP owns 25% with Repsol maintaining its ownership of the remaining 25%.

### Onshore wind farm development pipeline (GB)

	March 15	March 14
In operation – MW	1,008	940
In construction or pre-construction – MW	457	246
With consent for development – MW	475	358
In planning – MW	over 150	over 500
Pre-planning – MW	over 200	around 300

A final investment decision (FID) will only be made if the project provides the return on capital investment required to be compatible with the risks involved.

### Other offshore projects being managed

In addition to Beatrice, SSE has an interest in three further offshore wind farm developments. In the near-term, SSE will undertake minimal development work on these projects now that relevant planning consents have been secured.

**Galloper** (340MW, 50:50 partnership between SSE and RWE Innogy). In September 2014 SSE announced it would exit the project on pre-agreed terms once RWE Innogy has made a Final Investment Decision. SSE is working with RWE Innogy to explore alternative opportunities for the project.

**Seagreen** (3,500MW – a 50:50 partnership between SSE Renewables and Fluor Limited). Consent for the Phase 1 in the zone (totalling 1,050MW) was granted by Scottish Ministers in October 2014.

**Forewind** (7,200MW – a four-way partnership with RWE Innogy, Statoil and Statkraft). Consent for the first two projects within the development – Creyke Beck A & B (2,400MW) – was granted in February 2015, with a decision on the next two projects expected in August.

## Wholesale continued

### Generation – Ireland

#### Producing electricity for the Single Electricity Market

Through the last months of 2014/15 SSE carried out final commissioning tests on the new 464MW Great Island CCGT unit (grid connection capacity set at 431MW), with the station being handed over for commercial operation on 17 April 2015. The commissioning of the new unit coincided with the retirement of the old 240MW HFO unit.

The new CCGT station, which is now among the cleanest and most efficient natural gas power plants on Ireland's national grid, will generate enough electricity to power the equivalent of half a million Irish homes and the transition from heavy fuel oil to gas improves the carbon intensity of SSE's fleet.

SSE is the third largest generator by capacity on the island and also trades across the interconnectors between GB and Ireland.

#### Delivering and developing new capacity for electricity generation

**Galway Wind Park (in construction)** (174MW) – project with JV partners Coillte has started construction and, once completed, will be the Ireland's largest wind farm. This completion date will qualify the project to be supported under the REFIT II support scheme.

**Tieveanemanta (in construction)** (32MW) – Located in County Tyrone, this 32MW project is due to be commissioned in 2017, thereby qualifying for NIRO support.

**Slieve Kirk Extension (consented)** (9MW) – SSE recently received planning for the extension, which will bring the total installed capacity at the site to 83MW in 2017.

#### Engaging in the ISEM reform process

Reform of Ireland and Northern Ireland's SEM market is required in order to comply with the EU Electricity Target Model. The regulators in each jurisdiction have progressed the Integrated SEM (I-SEM) project over the course of 2014/15, with the new market due to be introduced by the end of 2017.

SSE has been heavily involved in all stages of the consultation process and will remain engaged throughout the project, advocating an optimum design for customers and industry stakeholders.

Separately to reform of the market arrangements, the regulators and System Operators are involved in a project to review the ancillary services necessary to achieve Ireland's 2020 target.

### SSE Irish Generation capacity and output

	March 15	March 14
Onshore wind capacity (NI) – MW	88	88
Onshore wind capacity (ROI) – MW	456	456
<b>All Ireland wind capacity – MW</b>	<b>544</b>	544
Thermal capacity (ROI) – MW	1,068	1,068
<b>All Ireland generation capacity – MW</b>	<b>1,612</b>	1,612

Excludes 464MW at Great Island (net increase 224MW) operational from 17 April 2015.

Onshore wind output (NI) – GWh	212	208
Onshore wind output (ROI) – GWh	1,055	1,142
<b>All Ireland wind output – GWh</b>	<b>1,267</b>	1,350
Thermal output (ROI) – GWh	251	25
<b>All Ireland generation output – GWh</b>	<b>1,518</b>	1,375

### Onshore wind farm development pipeline (All Ireland)

	March 15	March 14
In operation – MW	544	544
In construction or pre-construction – MW	152	116
With consent for development – MW	33	56
In planning – MW	c. 80	c. 100
Pre-planning – MW	over 150	over 150

### Generation priorities in GB and Ireland for 2015/16 and beyond

- Comply fully with all safety standards and environmental requirements;
- Ensure power stations are available to respond to customer demand, market conditions and contractual obligations;
- Operate power stations efficiently to achieve the optimum conversion of primary fuel into electricity;
- Manage effectively the transition of Ferrybridge power station towards closure and decommissioning; and
- Ensure new assets are commissioned and operate successfully.

around one third lower than the previous year. Overheads also increased in the year due to additional costs in the Bacton area.

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 upstream business and will continue to evaluate opportunities in line with its investment criteria and financial discipline.

### Gas Production

	March 15	March 14
Operating profit* – £m	36.6	130.2
Production – m therms	397.9	414.1
Capital investment – £m	21.0	40.9

### Producing from North Sea assets

SSE's upstream portfolio is 100% gas weighted, and at 31 March 2015, it was estimated to hold in excess of 2.2 billion therms of reserves.

Total output in the year to 31 March 2015 was 397.9 million therms, compared with 414.1 million therms in the previous year. This slight fall in production in 2014/15 was due to a natural decline in the field output.

The reduction in operating profit (£36.6m compared to £130.2m) from gas production during the period was mainly a result of lower day ahead wholesale gas prices which were

### Monitoring developments gas production

SSE currently has no involvement in any shale gas operations. It is, however, continuing to monitor the development of shale gas in the UK and the proposed fiscal and tax regimes surrounding its potential exploitation.

### Gas Production priorities for 2015/16 and beyond

Gas Production priorities for the 2015/16 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

	March 15	March 14
Operating profit* – £m	<b>3.9</b>	8.3
Customer nominations met – %	<b>100</b>	100
Capital investment – £m	<b>14.3</b>	10.6

### Delivering gas storage services from Hornsea and Aldbrough

Both sites have continued to operate to meet the needs of its customers through 2014/15:

- Hornsea (Atwick) again met 100% of customer nominations with the site 98% available during the winter period except in instances of planned maintenance and 87% available over the full year; and
- Aldbrough met 100% of customer nominations and was 87% available overall except in instances of planned maintenance. Following temporary removal of two of the site caverns during the previous year, these were both in commercial operation by the end of the year.

However, the economic environment for gas storage facilities has continued to be challenging during the year – as illustrated by the significant reductions in operating profit reported by SSE's gas storage business. Operators have been faced with low operating returns due to unfavourable market conditions, combined with an increasing

cost base as a result of ageing asset investment requirements and the decision by the Valuation Office Agency during the period to effectively double business rates for most gas storage facilities in the UK.

In the light of these challenges, alongside the requirements to continue to invest to ensure the highest standards of asset management are maintained, SSE has been reviewing its gas storage business on an ongoing basis to ensure that it continues to provide valuable flexibility and hedging services to its customers and hence the wider UK gas market, while being as well positioned as possible to take advantage of future market developments.

SSE has, as a result, identified that the costs of operating, maintaining and upgrading the older withdrawal plant at its Hornsea (Atwick) facility are not currently supported by market returns and, as such, announced in March 2015 its decision to mothball 33% of the withdrawal capacity of the site (6mcm/d) with effect from 1 May 2015. This change to the site's capability will alter the shape of the storage service it can offer, creating a greater value product for SSE's gas storage customers.

As previously announced, this decision will result in a reduction in Gas Storage employee numbers

of around 12. SSE is currently working with affected employees in order to achieve this reduction through voluntary means where possible, with good progress being made.

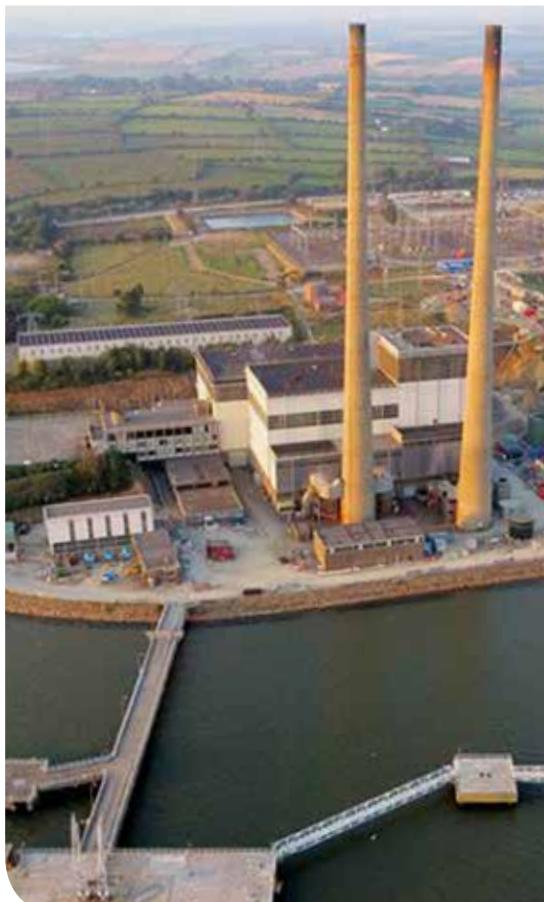
### Gas Storage priorities in 2015/16 and beyond

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 and effective operation of the Gas Storage business; and
- continuing to listen to existing and potential customers, working with them to shape flexible products which add value to their portfolios.

### Wholesale – Conclusion

Creating sustainable, long-term value from wholesale markets for SSE and its customers is at the heart of SSE's Wholesale businesses. The responsible production, storage and delivery of energy and related services; a focus on meeting the needs of its customers; ongoing rigour in the development and delivery of new, and re-evaluation of existing, assets to optimise its portfolio, mean that SSE's activities across its Wholesale businesses continue to support the group's core purpose and first financial objective of annual growth in the dividend payable to shareholders.



## An efficient new gas-fired power station for Ireland

**SSE's new Combined Cycle Gas Turbine (CCGT) power station at Great Island, Co. Wexford, Ireland entered into full commercial operation in April 2015.**

The 464MW-rated CCGT station, which is one of the cleanest and most efficient gas-fired power plant on Ireland's national grid, will generate enough energy to power the equivalent of half a million Irish homes.

Commercial operation marked the culmination of months of commissioning activities following more than two years of construction. The project was acquired by SSE in October 2012 from Endesa Ireland in the very early stages of construction. Since then almost three million working

hours have been expended by the entire project team and at its peak over 1,200 contractors were employed on-site. The project has now been successfully delivered on budget and to the highest safety and environmental standards, in line with SSE's core values of Safety, Efficiency and Excellence.

The commissioning of the new CCGT plant coincided with the immediate retirement of the existing 240MW heavy fuel oil power plant which was first commissioned at Great Island almost 50 years ago, in 1967. The decommissioning of the existing plant and the addition of the new gas-fired plant to SSE's generation fleet, significantly decarbonises electricity generation in the all-island Single Electricity Market.

# Networks

Keeping the lights on  
and supporting growth

## Overview

### Transmitting and distributing energy

SSE has an ownership interest in the energy networks businesses in electricity transmission in the north of Scotland, electricity distribution in the north of Scotland and southern central England and in gas distribution in Scotland and southern England. These 'regionally defined' businesses are subject to economic regulation by Ofgem.

Networks operating profit\* – £m

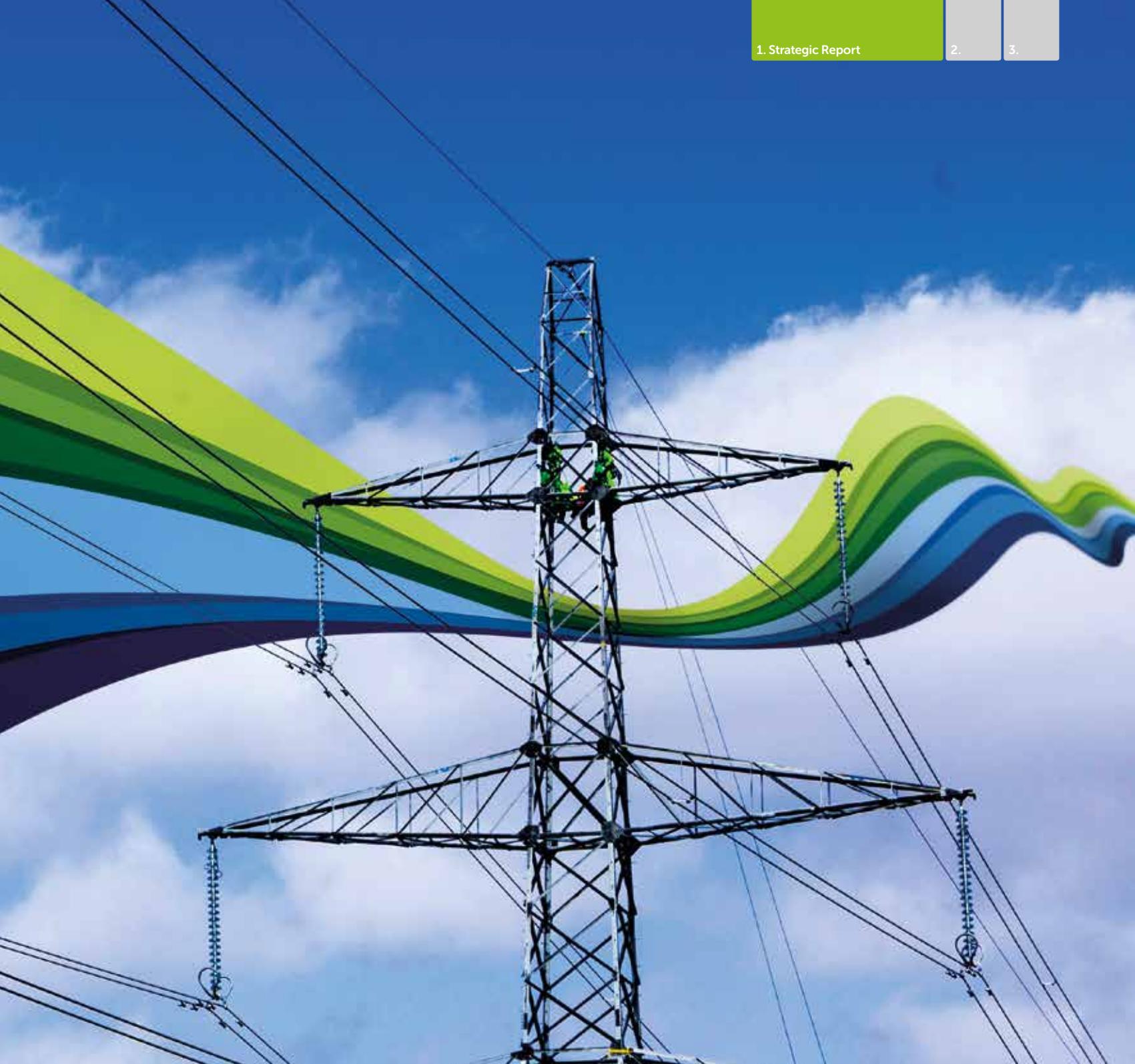
**£936.8m**  
**+1.8%**

SSE is involved in: electricity transmission; electricity distribution and gas distribution (through Scotia Gas Networks).

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

**£7.35bn**  
**+7.8%**

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



Customer minutes lost (north)

**69**  
-10.4%

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

Customer minutes lost (south)

**57**  
-14.9%

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

Distribution networks capital expenditure – £m

**£327.6m**  
+6.3%

SSE owns and invests in two electricity distribution networks companies: Scottish Hydro Electric Power Distribution and Southern Electric Power Distribution.

Transmission networks capital expenditure – £m

**£467.2m**  
+33.8%

SSE owns and invests in the transmission network in the north of Scotland through Scottish Hydro Electric Transmission.

## Networks continued

Network key indicators	March 15	March 14
<b>Electricity transmission</b>		
Operating profit* – £m	<b>184.1</b>	136.7
Regulated Asset Value (RAV) – £m	<b>1,732</b>	1,330
Capital expenditure – £m	<b>467.2</b>	349.2
Connection offers provided in required period	<b>97</b>	54
<b>Electricity distribution</b>		
Operating profit* – £m	<b>467.7</b>	507.0
Regulated Asset Value (RAV) – £m	<b>3,159</b>	3,050
Capital expenditure – £m	<b>327.6</b>	308.3
Electricity Distributed – TWh	<b>39.6</b>	40.4
Customer minutes lost (SHEPD) – average per customer	<b>69</b>	77
Customer minutes lost (SEPD) – average per customer	<b>57</b>	67
Customer interruptions (SHEPD) – per 100 customers	<b>70</b>	75
Customer interruptions (SEPD) – per 100 customers	<b>60</b>	68
<b>Scotia gas networks</b>		
Operating profit* (SSE's share) – £m	<b>285.0</b>	276.6
Regulated Asset Value (SSE's share) – £m	<b>2,459</b>	2,440
Capital and replacement expenditure (SSE's share) – £m	<b>169.9</b>	160.9
Uncontrolled gas escapes attended within one hour – %	<b>98.7</b>	98.7
SGN gas mains replaced – km	<b>1,042</b>	1,088

### 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 SGN in which SSE has a 50% stake.

### 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 businesses is £7,350m, up £530m from £6,820m at 31 March 2014, comprising around:

- £1,732m for electricity transmission;
- £3,159m for electricity distribution; and
- £2,459m 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 Price Control mechanism is complex and demanding, these lower-risk, economically-regulated, geographically-defined businesses provide

a financial backbone and operational focus for SSE and balance its activities in the competitive Wholesale and Retail markets.

The Networks businesses are core to SSE's strategy in the short-, medium- and long-term but they face challenges of increasing scale and complexity in the years ahead. To ensure they get the level of senior management input they need to address those challenges, the leadership of these businesses was re-shaped in December 2014, including the appointment of a new Managing Director.

### Financial performance in Networks

During 2014/15 operating profit\* in Networks was £936.8m, contributing 49.8% of SSE's total operating profit. This comprised (comparisons with the same period last year):

### Networks operating profit

	March 15	March 14	March 13
Transmission operating profit* – £m	<b>184.1</b>	136.7	92.6
Distribution operating profit* – £m	<b>467.7</b>	507.0	511.6
SGN operating profit* (SSE's share) – £m	<b>285.0</b>	276.6	234.1
<b>Total Networks Operating Profit* – £m</b>	<b>936.8</b>	920.3	838.3

### Electricity Transmission

	March 15	March 14
Operating profit* – £m	<b>184.1</b>	136.7
Regulated Asset Value (RAV) – £m	<b>1,732</b>	1,330
Capital expenditure – £m	<b>467.2</b>	349.2
Connection offers provided in required period	<b>97</b>	54

### Electricity Transmission

#### Increasing operating profit\* for Scottish Hydro Electric Transmission

In SHE Transmission, operating profit\* increased by 34.7% to £184.1m. This reflects the increase in regulated revenue as a result of the major programme of capital investment undertaken in recent years. Since the current RIIO T1 Price Control started in April 2013, SHE Transmission's capital investment has totalled £816.4m. For 2015/16 as a whole, SHE Transmission expects to invest over £600m, including the first full year of construction on the Caithness to Moray transmission link.

#### Managing SHE Transmission through a period of rapid growth

SHE Transmission is responsible for maintaining and investing in the transmission network that serves around 70% of the land mass of Scotland, including 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.

As a result of the requirement to connect large volumes of dispersed renewable energy generation, SSE has committed to a major programme of investment in electricity transmission infrastructure in the SHE Transmission area to support the transition to lower carbon electricity generation, increase security of supply and promote economic growth.

SSE maintains a significant portfolio of work to develop and construct local connections for new generation sites across SHE Transmission's licence area. In the year, 97 new connection offers were provided in the required period.

### Delivering the Beauly-Denny line

Transmission Investment for Renewable Generation (TIRG) is a mechanism that preceded Strategic Wider Works (see below) to provide a framework for funding large transmission projects. SHE Transmission has one project in

construction under this mechanism – the replacement of the Beauly-Denny line between Beauly and Wharry Burn, near Dunblane. It is on programme to complete the majority of its outstanding works associated with the Beauly-Denny network reinforcement in the summer of 2015. SHE Transmission has, to date, successfully constructed 537 new towers along its section of the 220km overhead line route and has safely energised and integrated 127km of overhead line between Beauly and Tummel Bridge substations.

In February 2014, The Highland Council served SSE with a noise abatement notice regarding the substation at Beauly. SSE announced in August 2014 that it would invest around £2.5m in noise abatement equipment. This equipment has been installed and SSE and The Highland Council are continuing to monitor its impact.

Construction of two remaining towers and fitting a further 16km of overhead conductor will complete the 400kV works in SHE Transmission's area. Energisation of the final 93km section is dependent on completion of Scottish Power Transmission works to the south of Wharry Burn, which SP Transmission reports are scheduled to be completed in November 2015. The remaining rationalisation schemes located at Beauly, Amulree and in the Cairngorms National Park remain on course to be completed during 2015. Works to dismantle the original 132kV overhead line and to reinstate land used during construction are progressing with a target completion date in 2016.

Based on expenditure to date £616.3 m and known issues, including the interface with SP Transmission's section of the line, the forecast cost is now not expected to exceed £680m. Further discussions continue to take place with SP Transmission and Ofgem on coordination with the networks in the south of Scotland; and the timescales and full cost of completion. SHE Transmission is in discussion with Ofgem regarding recovery of efficiently incurred costs following completion of the construction works.

#### **Delivering under Strategic Wider Works**

SHE Transmission is now two years into the RIIO-T1 Price Control. Under this framework Ofgem recognises the requirement for SHE Transmission to significantly expand its network over the period of the price control to facilitate the growth of renewable generation in the north of Scotland in order to meet national renewable energy targets. The exact timing and scale of growth can be fluid and dependent on the changing requirements of developers.

To allow these projects to be delivered in this dynamic environment, Ofgem developed the Strategic Wider Works mechanism whereby it considers on a case-by-case basis the evidence presented by SHE Transmission to decide whether a project is needed. It then considers SHE Transmission's proposed solution in detail,

## Working safely at height

**Safety is the number one priority at SSE. And when you consider the remote areas it operates in you can understand why.**

SHE Transmission is responsible for the operation of transmission lines in some of the most challenging landscapes in the country. None more so than the Corrieyairack Pass, south east of Fort Augustus. The pass rises to over 2,500ft and is on the route of the replacement Beauly to Denny transmission line.

When replacing the previous transmission line, engineers from SHE Transmission constructed a total of 70 electrical towers over the pass, including the highest in the UK. They endured challenging terrain and harsh weather as they worked their way to the summit.

Work began in 2010 and finished in October 2014. The construction included a total of a 21 miles access track and 70 foundations on which the towers were built.

The team collaborated with stakeholders including SEPA, Historic Scotland and Scottish National Heritage to minimise any environmental impact during construction. This included establishing a protected wildlife species plan and a land reinstatement programme.

Despite working in remote surroundings and enduring harsh weather, combined with the logistics of working at the top of a mountain, the Corrieyairack Pass construction project was completed on time and due to the extensive and careful planning and meticulous preparation, no safety incidents occurred.



## Networks continued

scrutinises the costs and approves funding. SHE Transmission is currently delivering three major projects under the Strategic Wider Works mechanism:

### **Caithness-Moray:**

In December 2014, Ofgem announced its approval of capital funding of £1,118m (2013/14 prices) for the upgrade of SHE Transmission's network between Caithness and Moray, including a High Voltage Direct Current (HVDC) subsea cable beneath the Moray Firth. The project will enable the connection of up to 1,200MW of additional generation capacity in the north of Scotland and the islands. It is scheduled to be operational by the end of 2018. Contracts have now been awarded for all main elements of the work. Enabling works are under way at converter station sites in Caithness and Moray; and at substation sites in Caithness, Sutherland and Ross-shire. Early exploratory drilling at the Noss Head landfall of the subsea cable in Caithness has helped to identify the optimal location to minimise risk during the installation process. Manufacture of the specialised subsea and onshore cables required is under way. Enabling works for onshore cable installation in Caithness are due to begin later in 2015. The first revenues will be received in 2015/16.

### **Kintyre-Hunterston:**

Construction of the new substation building at Crossaig is complete and transformer deliveries took place in March and April 2015. All 50 steel towers between Crossaig and Carradale have been constructed and onshore cable installation in Kintyre was completed in April 2015. Marine cable installation and remaining onshore works at Hunterston, in conjunction with SP Transmission, are scheduled to allow energisation by the end of 2015. Ofgem has given capital funding approval of £207m (nominal prices).

### **Beauly-Mossford:**

All substation and underground cable works are now complete. The replacement overhead line is on schedule to be completed in late 2015. Ofgem has given capital funding approval of £68m (nominal prices) for the works.

### **Working on future transmission links**

SHE Transmission has a number of further projects at advanced stages in the development process. These projects will be submitted for consideration by Ofgem once the necessary conditions are in place to support a needs case.

### **Western Isles:**

SHE Transmission continues to work with all stakeholders on the development of grid links to the Scottish Islands, particularly through the work of the Scottish Islands Renewables Delivery Forum. In order to enable generation developers to commit to funding island connections, the UK and Scottish Governments are actively working

on the delivery of an islands onshore wind strike price with associated budget allocation. The UK Government is expected to confirm the position (including EU State Aid approval) this summer, enabling developers to bid for CfDs in the auction scheduled to open in October. SHE Transmission already has well-developed proposals for a cable connection between Beauly and the Isle of Lewis. Work is under way with Ofgem to allow submission of a needs case in December 2015 to enable delivery of this potential project.

### **Shetland:**

The delivery of a transmission connection between Shetland and mainland Scotland is subject to the same conditions that are being addressed through the work of the Scottish Island Renewables Delivery Forum. As in the case of the Western Isles connection, SHE Transmission has a well-developed proposal for the installation of an HVDC circuit between Noss Head in Caithness and Upper Kergord in Shetland. An option exists with a preferred supplier to deliver the cable within generation developers' timescales. Subject to resolution of the policy issues affecting island generators, SHE Transmission is working with Ofgem to prepare a needs case for submission in December 2015 to allow timely delivery of the connection.

### **East Coast:**

SHE Transmission is planning to undertake works on the existing 275kV East Coast Transmission line to increase the capacity available from these circuits. The line runs from Blackhillock in Moray to Kincardine in Fife. Development of a needs case submission is under way for what is envisaged to be the first phase of works. This will also consider the optimal timing for longer-term investment to upgrade the assets to 400kV as further generation is connected.

SHE Transmission has a number of additional potential SWW reinforcements at earlier stages in the planning and development process. It continues to work with communities and other interested parties to identify the best available options to progress the necessary consent applications in order to meet the needs of generators.

### **Responding to proposed regulatory changes for electricity transmission**

In its Final Conclusions on Integrated Transmission Planning and Regulation (ITPR) published in March 2015, Ofgem confirmed its position on significant changes proposed to the regulation of electricity transmission, and that it will take steps to implement:

- an enhanced role for the System Operator in identifying system needs and development of options to meet them;
- measures to mitigate the conflict of interest with the System Operator's role;

- a broad framework for the regulation of transmission asset delivery; and
- expanded use of competitive tendering where Ofgem believes it can drive efficiency, with a focus on new substantial assets that can be easily identified and separated from the surrounding network.

Ofgem issued its formal consultation on the licence modifications to enhance the role of the System Operator and mitigate arising conflicts of interest in April 2015, with these modifications currently envisaged to take effect later this year. The other changes remain subject to further, more detailed development by Ofgem and DECC (the Department of Energy and Climate Change). SHE Transmission will continue to engage with these parties as their proposals develop in order to understand at the earliest opportunity the potential impact on SHE Transmission's future investment programme.

### **Supporting sustainable growth**

SHE Transmission is committed to maximising the positive economic and social impact of its work and the lasting benefits it can deliver for the communities it works in. In the course of the efficient delivery of its construction programme, it actively promotes opportunities for the local supply chain and supports a diverse range of training and employment opportunities in the local and regional economies. To measure and enhance its impact, SHE Transmission has commissioned work which showed that the Beauly-Denny project is delivering Gross Value Added for the UK of around £528m (2010 prices) and has supported an average of 2,000 jobs each year over seven years.

### **Electricity Transmission priorities for 2015/16 and beyond**

For SHE Transmission, the core activity for the rest of this decade will be construction. Against this background, its priorities for the rest of 2015/16 and beyond are to:

- meet key milestones in projects under construction, in a way that is consistent with all safety and environmental requirements;
- provide an excellent service to all generation and demand customers who rely on its network;
- 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 and regulatory 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

	March 15	March 14
Operating profit* – £m	<b>467.7</b>	507.0
Regulated Asset Value (RAV) – £m	<b>3,159</b>	3,050
Capital expenditure – £m	<b>327.6</b>	308.3
Electricity distributed – TWh	<b>39.6</b>	40.4
Customer minutes lost (SHEPD) – average per customer	<b>69</b>	77
Customer minutes lost (SEPD) – average per customer	<b>57</b>	67
Customer interruptions (SHEPD) – per 100 customers	<b>70</b>	75
Customer interruptions (SEPD) – per 100 customers	<b>60</b>	68

### Performance in Scottish and Southern Energy Power Distribution (SSEPD)

In a year of relatively mild weather which included several periods of high winds affecting in particular the north of Scotland, SSEPD's networks achieved a reduction in both the number of supply interruptions and the average time each customer was without power.

The decrease in operating profit principally results from a reduction in revenue across the two networks compared with 2013/14 and higher ongoing depreciation charges.

If, in any year, regulated networks 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. In 2013/14 the two networks over-recovered regulated revenue by £25m and this was reflected in the 2014/15 tariffs. During 2014/15 there was an under recovery of approximately £38m, meaning the year on year comparison has been impacted by around £63m as a result of timing of revenue collection. Due to a change in the regulatory framework the £38m under recovery in 2014/15 will not be reflected in customer charges until 2016/17.

### Volume of electricity distributed

The total volume of electricity distributed by the two companies in the year to 31 March 2015 was 39.6TWh, compared with 40.4 in the previous year. Under the electricity Distribution Price Control for 2010-15, the volume of electricity distributed does not affect companies' overall allowed revenue (although it does have an impact on the timing of revenue collection).

### Investing in distribution network resilience

Capital expenditure in electricity distribution networks was £327.6m in the year to 31 March 2015, taking the total for the 2010-15 Price Control to £1,441m. The RAV of SSE's electricity distribution networks at the end of the 2010-15 price control is estimated at £3,159m.

SSEPD's network in the north of Scotland includes 111 subsea distribution cables which are critical to serving customers in 59 island communities.

During 2014/15, SSEPD invested £6.9m in the replacement of the cable connecting the Scottish mainland with Jura, which also supplies the islands of Islay and Colonsay. It expects to complete remaining work to protect the new cable during 2015. It has engaged actively with the development of Scotland's National Marine Plan to ensure that marine licensing arrangements recognise the interests of customers in a secure and cost efficient energy network serving the islands.

Investment also included the widespread roll-out of innovative new technology capable of delivering significant benefits to customers. For example, during 2014/15 SSEPD installed 2,100 Bidoyng smart fuses on its low voltage networks. Under certain fault conditions, the smart fuse allows automatic restoration of customer supplies within three minutes. It also allows faster and more efficient location of underground cable faults and can allow detection of imminent faults before they result in unplanned power interruptions. SSEPD is currently the largest user of this technology in Great Britain, reflecting its commitment to the timely application of innovations that enhance customer service and deliver operational efficiencies.

**Responding to feedback from customers**  
SSEPD recognises the particular importance of its performance when exceptional weather events cause widespread disruption to customer supplies. Following extensive consultation in the first half of 2014 and via constructive engagement with DECC and Ofgem storm reviews, SSEPD's 'Reconnecting with Customers' initiative has resulted in faster electricity supply restoration, enhanced customer welfare support and clearer communications during storm events.

These improvements were recognised by stakeholders following exceptional weather events which affected the north of Scotland during 2014/15. The most recent of these events occurred in early March 2015 and resulted in the fastest ever restoration of supplies following a 'Category 2' event in the north of Scotland, with over 110 high voltage faults tackled and all customers' supplies restored within 24 hours. SSEPD has also heavily promoted its Priority Services for vulnerable customers and worked

with other agencies to identify customers with medical or other needs that require special attention during a power outage.

In addition it has invested in improved customer communications by:

- further developing the industry-leading Power Track app, which gives real time information on outages by postcode;
- introducing a new rolling news website for up-to-the-minute information during storms; and
- delivering more and earlier information through customer contact centres and social media channels about power restoration times.

SSEPD remains focused on listening to its customers and delivering continuing improvements, both to the resilience of its network and to the service it provides when power cuts occur. This work is in line with the new RIIO-ED1 price control, under which financial incentives for customer satisfaction will be an increasingly significant contributor to revenues.

### Keeping costs down and improving customer service for RIIO ED1

The DPCR5 price control period came to an end on 31 March 2015 and SSEPD is starting to tackle the challenges and earn the potential rewards of the new RIIO-ED1 regime which began on 1 April 2015 and will run until 31 March 2023.

SSEPD has long supported the incentive-based RIIO framework for networks' price controls given the clear benefits to customers of increased transparency and greater focus on outputs and innovation. It is clear from the reduction in network allowed revenue under the RIIO-ED1 settlement, the subsequent fall in underlying 2015/16 charges and the service improvements required that customers will benefit from this process.

On 3 March 2015 British Gas lodged an appeal with the CMA on the RIIO-ED1 final determination affecting five Distribution Network Operator groups, including SSEPD.

SSEPD is focused on achieving the efficiencies required by the new price control and ensuring that investors receive a fair return on the funding needed to operate and invest in the distribution networks for customers' benefit. It will engage with the CMA as required to help ensure that any outstanding issues are addressed in the right way and that the GB energy sector continues to benefit from a stable and transparent regulatory framework. The CMA's determination of the appeal will not have an impact on distribution companies' base revenues in 2015/16.

### Co-operating with investigation

On 20 January 2015, SSE plc was notified that the Gas and Electricity Markets Authority had launched an investigation into whether SSE plc

## Networks continued

and the energy companies in SSE plc's group which provide electricity connections services had breached Chapter II of the Competition Act 1999 and/or Article 102 Treaty on the Functioning of the European Union in respect of the provision of non-contestable connections services in the Southern Electric Power Distribution area. The investigation is ongoing.

### Working for a new energy solution for Shetland

Since April 2014 SSEPD has been working closely with Ofgem to prepare an open competitive process to obtain from the market the lowest cost and most efficient solution to meet the future energy needs of customers on its network in Shetland from 2019. The future solution will take into account learning and enduring elements from the Northern Isles News Energy Solutions (NINES) project, which was developed to reduce maximum demand and enable the connection of more renewable energy generators in the context of the isolated island network. SSEPD is also working with Ofgem to determine the best approach in considering the timing and potential impact of a mainland transmission cable link.

Following public consultation with customers and market participants, final preparations for the competitive process are at an advanced stage. The Pre-Qualification Stage began in April 2015 and, subject to final agreement with Ofgem, an invitation to tender will be issued in June 2015. SSEPD is committed to working with Ofgem, communities and interested parties to conduct the required process and to deliver long-term, timely arrangements to meet the future needs of its Shetland customers.

### Electricity Distribution priorities in 2015/16 and beyond

During 2015/16 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, particularly by improving reliability so that the number and duration of power cuts is kept to a minimum;
- ensure that the networks are managed as efficiently as possible, delivering required outputs while maintaining tight controls over day-to-day operational expenditure;
- implement the changes required to deliver the cost efficiencies and customer service improvements to deliver a fair return to investors under the new RIIO-ED1 price control;
- ensure that there is adequate capacity to meet challenging demand on the electricity system; and
- continue progress on the deployment of innovative technology.

## Being part of a bigger team

### Team work is at the heart of SSE's response to severe weather events that result in customers' supply of power being cut off.

Before, during and after severe weather, engineers, call centre employees and customer engagement teams from SSE's Networks businesses all come together to make sure people remain safe during any power outage and have their supply reconnected as quickly as possible.

The team working approach also extends beyond the company. SSE's Networks businesses have established vital working partnerships with local authorities, emergency services and resilience and community groups across its distribution areas in the north of Scotland and central southern England. This ensures its customers,

especially those on its priority services register, are looked after while they are without supply.

As a result of the storms in 2014/15 SSE's Networks businesses engaged face-to-face with more than 6,000 customers, serving them more than 4,000 meals from its own catering vans in addition to providing food at local hotels, restaurants and takeaways and serving more than 7,000 drinks.

The businesses have established close working relationships with Age UK, Energy Action and Energy Action Scotland, MacMillan Cancer Support and the British Red Cross to help fund an agreed programme of crisis response activities. These will go to supporting vulnerable customers who find the loss of power during an emergency situation.



## 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, level of support through a managed service agreement.

The increase in SGN's operating profit\* reflects the timing of allowed revenue recovery, continued good operational performance and efficiencies. In terms of operational performance, 98.7% of uncontrolled gas escapes were attended within one hour of notification, the same as last year, both exceeding the Ofgem standard of 97%.

A small but growing part of SGN's operating profit\* is derived from non-GB regulated activities. In February 2015, SGN and its partner Mutual Energy were awarded conveyance licences for the Northern Ireland Gas to the West project. This investment of around £250m will involve the construction of 200km of high and intermediate pressure pipeline and 500km of gas mains and services, bringing natural gas to around 40,000 customers in eight medium-sized towns west of Belfast for the first time. Construction is planned to begin during 2015 and continue into 2017, with the first connections planned towards the end of 2016 and first revenue earned in 2017.

### Implementing the new Gas Distribution Price Control

SGN is focused on ensuring its outputs under the new RIIO framework are met, incentives are maximised and innovation is delivered effectively while running an efficient, safe and reliable network.

SGN's investment programme is key to this and, within overall cost allowances of over £4.6bn (at 2012/13 prices), Ofgem has allowed around £2.8bn over the eight year price control which runs until 2021 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 better communicate its work to 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 31 March 2015, SGN's total RAV is estimated at £4.9bn (SSE share £2.46bn). During 2014/15, SGN invested £339.8m (SSE share £169.9m) in capital expenditure and mains and service replacement projects, compared with £321.8m (SSE share £160.9m) in 2013/14. The majority

### SGN

	March 15	March 14
Operating profit* (SSE's share) – £m	<b>285.0</b>	276.6
Regulated Asset Value (SSE's share) – £m	<b>2,459</b>	2,440
Capital and replacement expenditure (SSE's share) – £m	<b>169.9</b>	160.9
Uncontrolled gas escapes attended within one hour – %	<b>98.7</b>	98.7
SGN gas mains replaced – km	<b>1,042</b>	1,088

of the mains replacement expenditure was incurred under the Iron Mains Risk Reduction Programme (IMRRP) which was started in 2002. This requires that iron gas mains within 30 metres of homes and premises must be replaced over a 30 year period. In 2014/15, SGN replaced 1,042km of its metallic gas mains with modern polyethylene plastic pipe.

### Innovating to deliver sustainability and efficiency

SGN continues to extend the delivery of biogas through its network, with 10 working biogas plants connected to date. Biogas is expected to play a key role in meeting 2020 decarbonisation targets, while also contributing to the security and affordability of the UK's energy supply. During the year, SGN opened its first biomethane injection site at Portsdown Hill, Hampshire, enabling highly efficient use of biogas with potential for wider application of conditioning technology to other forms of gas in the future. SGN aims to supply 250,000 customers with green gas by 2021 and currently supplies around 67,000 homes.

Through Ofgem's Network Innovation Competition, SGN is also delivering two pioneering projects with potential to deliver substantial benefits to customers in the years ahead. The 'Opening up the gas market' project will deliver a 12 month trial to explore widening the range of gases that can be delivered through the network, with potential to enhance security of supply and deliver a significant annual saving for UK gas customers.

During 2014/15, SGN became the first UK gas distribution company to use the innovative robotics tool CISBOT, which allows inspection and maintenance tasks to be carried out inside a live gas main, minimising associated road excavations and removing the need for disruption to customer supplies.

### Gas Distribution priorities

During 2015/16, SGN's priorities are to:

- deliver excellent levels of safety and operational performance;
- create an inclusive and engaged team, proud to work for SGN;
- 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.

### Networks – Conclusion

The continuing success of SSE's economically-regulated 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 efficiency, innovation and investment, in turn, underpin SSE's ability to target annual dividend increases of at least RPI inflation.



# Retail

Doing more for  
our customers



## Overview

### Supplying Energy and other services

SSE supplies electricity, gas and related services such as telecoms in markets in Great Britain and Ireland. It is focused on attracting and retaining customers through excellent service and a brand people trust. It also incorporates SSE Enterprise, which brings together key SSE services for industrial, commercial and public sector customers.

Retail operating profit\*  
– £m

**£456.8m**  
**+39.7%**

SSE is involved in the supply of electricity, gas and other energy related services to household customers and, through its Enterprise business, to industrial and commercial customers.

Enterprise profit  
– £m

**£70.4m**  
**+23.9%**

Enterprise brings together key SSE services for industrial, commercial and public sector customers.

Energy customer accounts  
– millions

**8.58m**  
**-5.7%**

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

Debt overdue by more than six months – £m

**£106.2m**  
**-9.8%**

SSE aims to engage as early as possible with customers who are struggling with debt through agreeing payment arrangements that lower balances from the outset and helping to spread the cost of energy over the year.

Financial assistance for vulnerable customers – £m

**£51.3m**  
**+1.6%**

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

Meters read  
– millions

**13m**  
**-7.8%**

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

## Retail continued

### Retail key indicators

	March 15	March 14 Restated
<b>Energy Supply</b>		
Operating Profit* – £m	<b>368.7</b>	246.2
Electricity customer accounts (GB domestic) – m	<b>4.37</b>	4.66
Gas customer accounts (GB domestic) – m	<b>2.96</b>	3.21
Energy customers (GB business sites) – m	<b>0.45</b>	0.42
All-Island energy market customers (Ire) – m	<b>0.80</b>	0.81
Total energy customer accounts (GB, Ire) – m	<b>8.58</b>	9.10
Electricity supplied household average (GB) – kWh	<b>3,842</b>	3,991
Gas supplied household average (GB) – th	<b>438</b>	465
Household/small business aged debt (GB, Ire) – £m	<b>106.2</b>	117.8
Customer complaints to third parties (GB) <sup>1</sup>	<b>1,528</b>	1,208

<sup>1</sup> Energy Ombudsman, Consumer Focus and Consumer Direct

### Energy related services

Operating profit*# – £m	<b>17.7</b>	24.1
Home Services customer accounts (GB) – m	<b>0.35</b>	0.37
Meters read – m	<b>13.0</b>	14.1

### Enterprise

Operating profit*# – £m	<b>70.4</b>	56.8
SSE Contracting Order Book – £m	<b>97</b>	85

# Operating profit for the year to March 2014 restated in line with establishment of Enterprise division and as set out in the Notification of Close Period on 29 September 2014

SSE aims to earn a medium-term (i.e. three to five years) average profit margin of around 5% across the whole of its Energy Supply business. As demonstrated by the extension of its unconditional freeze on standard household energy prices in Great Britain, originally introduced in March 2014 and now extended until at least July 2016, SSE is responding to customer concerns over future increases in the cost of energy. Guaranteeing such unprecedented price stability and peace of mind for customers would not be possible without taking a longer-term approach to managing costs. Costs and therefore profitability in Energy Supply are inherently volatile and SSE therefore continues to focus on performance over the medium term, i.e. a three to five year average.

Operating profit for Energy Related Services fell by £6.4m, reflecting a reduction in customer numbers in Metering, Telecoms and Home Services. Some of the activities within Energy-related Services also support SSE's aim to be a supplier of energy and essential services, offering customers energy and non-energy propositions.

Operating profit for the new Enterprise division was £13.6m higher than that reported in 2013/14, due to the one-off benefit of the disposal of the gas connections business on 1 September 2014.

### Preparing 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.

SSE expects to publish its CSS for 2014/2015 before 31 July. The CSS, which will be reviewed by SSE's auditors KPMG under guidelines set by Ofgem and reconciled to SSE's published financial statements for absolute transparency, is expected to show that SSE's profit margin in its domestic electricity and gas supply business in Great Britain was 6.0% (before tax) in 2014/15.

This means that SSE's operating profit from the supply of electricity and gas to a household in Great Britain was an average of £69 during 2014/15. From this profit, SSE is required to pay tax and interest. Across the six years since the CSS was introduced in 2009/10, up to and including March 2015, SSE expects to have made an average profit margin of 5.1%.

Particularly for asset-light businesses like Energy Supply, SSE firmly believes that profit margin earned before interest and taxes (EBIT margin) is the most effective way to measure profitability because:

### Supplying energy and essential services across the Great Britain and Ireland markets

SSE is one of the largest energy suppliers in the competitive markets in Great Britain and in Ireland. At 31 March 2015, it supplied electricity and gas to 8.58 million household and business accounts. It also provides other energy-related products and services to 350,000 household and business customers.

As an energy and essential services supplier, the principal purpose of the Retail business is to meet the needs of its customers in a reliable and sustainable way; in doing so, it is focused on attracting and retaining customers by offering industry-leading customer service, value for money and strong energy and non-energy propositions under a recognised and differentiated brand.

### Financial performance in Retail

During the year to 31 March 2015 operating profit\* in Retail was £456.8m.

In 2014/15, SSE's profit margin (operating profit as a percentage of revenue) in Energy Supply

was 4.6% (before tax) compared with 2.9% in 2013/14 and 4.2% in 2012/13. Energy Supply profit margin has averaged 3.9% over both the past five and three years.

The recovery in Retail performance follows an increase in household electricity and gas tariffs in November 2013 and a sustained focus on operational efficiency through 2014/15, particularly in the Energy Supply business, which, after a difficult 2013/14, earned a profit margin closer to the more typical level reported for 2012/13. Profit in Energy Supply is naturally volatile and, in fact, SSE expects to see a reduction in Energy Supply profit during 2015/16 following its reduction in household gas prices in Great Britain in April 2015.

SSE is an efficient energy supplier committed to maintaining relatively low operating costs in order to make a fair profit. Early analysis of the Consolidated Segmental Statements submitted to Ofgem by other obligated energy suppliers suggests that SSE's indirect costs per customer are around 20% lower than the average across the rest of the major suppliers. On the strength of running its business efficiently for customers,

### Retail operating profit\*

	March 15	March 14 Restated	March 13 Restated
Energy Supply* – £m	<b>368.7</b>	246.2	363.2
Energy related services* – £m	<b>17.7</b>	24.1	29.3
Enterprise* – £m	<b>70.4</b>	56.8	52.5
<b>Total retail operating profit*</b>	<b>456.8</b>	327.1	445.0

- it is widely accepted as the most appropriate measure for this sector, and is relied upon by both industry analysts and investors;
- it takes into account all costs associated with the supply of energy, including overhead and non-variable costs, depreciation and amortisation; and
- there is greater availability of data on an EBIT basis, increasing the robustness of any benchmarking analysis and enabling simple like-for-like comparisons to improve transparency and understanding.

## Energy Supply and Energy Related Services

### Fulfilling SSE's responsibilities as an energy supplier

SSE appreciates that its customers rely on its core products of electricity and gas to power and heat their homes in order to live comfortably. It takes this responsibility very seriously and has therefore sought first and foremost to offer all its customers peace of mind about their future energy costs at a time when energy affordability remains a serious concern.

In March 2014, SSE became the only energy supplier in Great Britain to offer an unconditional commitment not to increase standard household energy prices until 2016, and in January 2015 extended this promise further still, until at least July 2016. This is the longest price commitment of its nature the GB energy market has ever seen. By July 2016, SSE's standard household prices will not have gone up for more than two and a half years; prices will have, in fact, been cut at least twice in that period.



## Playing our part in the Glasgow 2014 Commonwealth Games

The Glasgow 2014 Commonwealth Games were, in the words of Commonwealth Games Federation President Prince Imran of Malaysia: "The biggest and best ever."

SSE's sponsorship of Glasgow 2014 was something completely new and different for a company that had never undertaken such a major sport sponsorship before. SSE successfully played its part in helping to deliver a stunning Commonwealth Games and make Glasgow 2014 an event that will live long in the memories of everyone who was there.

A once-in-a-lifetime volunteering opportunity arose from Glasgow 2014, with many employees undertaking

support roles before, during and after the Games: 60 employees became 'Clydesiders' and, with SSE support, between them spent a total of 629 days volunteering; and in recognition of their outstanding contribution to their local communities, 20 employees were given the unique opportunity of being torch bearers in the Queen's Baton Relay.

The SSE activity that will truly leave a lasting legacy is its Next Generation programme. In partnership with SportsAid, 100 young athletes will be supported in their development into competitive sport and have already experienced some great opportunities to be mentored by some of their sporting heroes thanks to the programme.

## Retail continued

### SSE Energy Supply customer account numbers

	March 15	March 14
Electricity customer accounts(GB domestic) – m	<b>4.37</b>	4.66
Gas customer accounts (GB domestic) – m	<b>2.96</b>	3.21
Energy customers (GB business sites) – m	<b>0.45</b>	0.42
All-Island energy market customers (Ire) – m	<b>0.80</b>	0.81
<b>Total SSE Energy Customers</b>	<b>8.58</b>	9.10

Guaranteeing not to increase prices for such a long period of time requires a responsible, long-term approach to managing all of the costs of supplying energy; SSE therefore continues to believe that its commitment should also be judged over the long term. In the meantime, SSE will continue to pass on savings where possible and make the most competitive offers it can, whilst providing absolute peace of mind for those customers who prefer the flexibility of a standard variable tariff.

SSE would like to extend its price freeze again, or even cut prices if further costs can be taken out of energy supply, and will work with the new UK government or indeed any stakeholder to find such solutions. 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, with the impact likely to worsen as policy costs on energy bills increase into the latter part of this decade. SSE has therefore continued to call for more of these levies to be moved into general taxation, making bills cheaper and fairer for those less able to pay.

### Supplying energy to customers across Great Britain and Ireland

In the year to 31 March 2015, SSE's energy customer accounts in Great Britain and Ireland fell from 9.10 million to 8.58 million.

SSE's total customer base is now the same size as it was in 2008, having peaked at 9.65 million in March 2011. The decline in customer account numbers reflects the increasingly challenging and highly competitive market conditions in Great Britain, in which there are 10 suppliers of scale (with over 250,000 customers) competing to retain and gain customers. This is in addition to a growing number of smaller suppliers, who are exempt from the cost of certain government social and environmental policies, and therefore have a competitive advantage, and a strong focus by other suppliers on Internet Comparison Sites. At the same time, the dynamics of the energy market are undergoing a fundamental transformation with the rise of digital technologies and smart metering.

For SSE, the corollary of this has been a period during which it has focused on offering both

new and existing customers stability and peace of mind while laying the foundations for future growth. Having driven further operational efficiencies through 2014/15, SSE is now making significant investments in improving the customer experience with new, state-of-the-art digital platforms, an enhanced customer relationship management (CRM) system and more engaging communications. With these tools in place, SSE is well placed to compete for customers.

All of this reaffirms SSE's view, which it has put to the Competition and Markets Authority (CMA) that the retail energy market in Great Britain is working in the interests of consumers. Whilst SSE recognises that the CMA's analysis of the retail market is still in development, its characterisation of the retail sector so far does not reflect SSE's experience or market realities. It is clear that customers are very engaged with the market and are exercising their ability to switch and benefit from supplier competition in a tough and evolving marketplace.

SSE continues to have an appetite for change that is in the genuine interest of customers and is engaging constructively with the CMA to help identify ways in which the market can be further improved for customers, as well as seeking to ensure that analysis of important issues such as sector profitability or the potential savings available to customers by switching is conducted robustly, fairly and representatively.

### Meeting customers' need for energy

SSE estimates its household customers in Great Britain used, on average in the year to 31 March 2015:

	March 15	March 14
Electricity supplied household average (GB) – kWh	<b>3,842</b>	3,991
Gas supplied household average (GB) – th	<b>438</b>	465

Relatively low consumption was driven by a continuation of the mild weather conditions that have characterised the two years to March 2015. This is illustrated by the fact that in the year to 31 March 2015, the UK mean temperature was 0.7 degrees Celsius above the 1981-2010 climatology (based on provisional Met Office data).

While annual consumption varies considerably based on the weather, customers' use of electricity and gas is now more than 13% lower than it was five years ago (measured on an underlying year-on-year basis), largely due to the impact of structural, technological and behavioural energy efficiency improvements. The impact of ongoing efforts to help customers use energy more efficiently is also reflected in the fact that, on a weather-corrected basis, energy consumption by SSE's household customers in 2014/15 was the lowest since 2006.

### Putting customers first

At the same time, SSE is doing what it can to provide customers with value for money, peace of mind and industry-leading customer service. To that end, in the year to 31 March 2015, SSE has:

- announced a 4.1% average reduction in standard household gas prices from 30 April 2015;
- committed to cap these prices at their new level until at least July 2016, extending its already unprecedented freeze on standard household energy prices;
- launched an industry-leading offer of two years' free unlimited broadband to give customers additional value and deepen customer relationships;
- introduced 'continuous improvement hubs' through which customer service advisers, who help customers every day, are encouraged to identify ways in which the customer experience can be enhanced;
- began identifying repeat callers so that their queries can be picked up immediately by the appropriate teams and resolved more swiftly; and
- decided to introduce a new system to tackle call waiting by enabling customers to request a call back rather than holding on in a queue.

This focus on continuous improvement and putting customers first has been acknowledged by three independent reports in 2014/15:

- in June 2014, SSE was named best major energy supplier for customer service satisfaction for the fourth year in a row in the National Customer Satisfaction Index UK (NCSI-UK);
- in September 2014, Ofgem published the results of its Complaints to Energy Companies report, which found SSE was the only major supplier to improve its performance since their last survey two years earlier; and
- Citizens Advice reported that SSE was again the best performing major energy supplier for complaints in the Energy Supplier Performance report with a score of 44.5 per 100,000 customers for the period from October to December 2014. To put this into context, the next best performing supplier had a score of 72.3.

Although disappointingly the overall number of complaints to third parties increased during 2014/15, SSE continues to perform far better than the rest of the industry, accounting for around 2% of all Ombudsman complaints in March 2015 despite having a market share of over seven times that amount. That said, SSE is determined to improve its complaints performance and, partly through the initiatives outlined above, aims to reduce the overall number of customer complaints in 2015/16.

### Treating customers fairly

Underpinning SSE's approach to dealing with customers is the principle, now enshrined in energy supply licences, of treating customers fairly. The Treating Customers Fairly standards continue to be embedded in SSE's decision-making, from the Board through to the Executive Committee and throughout the organisation. SSE published its updated Treating Customers Fairly Statement in August 2014 and has since been working on further improvements for customers, which will help form the basis of its TCF statement for 2015. These include:

- being among the first energy suppliers to reduce voluntarily the amount of time it takes to switch supplier to just 17 days, inclusive of the two-week 'cooling off' period;
- committing to refer customer complaints to an internal 'centre of excellence' whenever a same-day resolution is not possible;
- the joint publication with the Dementia Services Development Centre at Stirling University of a handbook offering heating and lighting tips to people living with dementia and their carers;
- a commitment to roll out enhanced disability and equality training to ensure customer service advisers can provide the best possible support to elderly or disabled customers;
- the introduction of new video call facilities to enable real-time, face-to-face conversations with customers who have impaired hearing; and
- an end to charges for the removal of prepayment meters, subject to customers successfully completing a credit check.

### Working with customers to manage energy-related debt

At 31 March 2015, 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 £106.2m, compared with £117.8m at 31 March 2014. A bad debt charge of £65.3m was recognised in the period (compared to £67.8m in the same period last year).

Debt levels have stabilised following an increase in 2013/14, reflecting the lower consumption of energy during this period, as well as SSE's efforts to engage with customers with arrears as early as possible, agreeing payment arrangements that have lower balances from the outset and

helping to spread the cost of energy across the year. SSE will continue to work sympathetically and constructively with customers who are struggling with debt, making better use of data and insight to target proactive customer contact more effectively.

### Helping vulnerable customers

SSE helps customers in need to manage their energy costs in a number of other ways: The Warm Home Discount (WHD) scheme enables pensioners and vulnerable customers to receive help with their fuel bills in the form of a £140 rebate. As part of the WHD Scheme, SSE's Priority Assistance Fund provides additional support to low income and vulnerable customers, including debt relief, free energy efficient appliances, and help with bespoke payment arrangements. More than 330,000 customers received assistance from SSE worth over £51.3 million through these initiatives and partnership projects with National Energy Action (NEA), Citizens Advice and the Home Heat Helpline.

SSE also operates a free Careline priority service, dedicated to helping customers who are elderly, disabled or have special medical needs. It takes a proactive approach to monitoring top-up behaviour of its prepayment customers to minimise the risk of 'self-disconnection'. Between the start of December and the end of February (or longer if the weather is unseasonably cold), SSE has a no-disconnection policy covering all household customers.

In September 2014, SSE announced, along with other suppliers, that it would use any future unclaimed credit balances which cannot be returned to customers to help provide additional support for vulnerable customers. It committed, in advance, a total of £8.8m to cover the next two years and has already spent more than £8m providing relief to vulnerable customers struggling with debt.

### Working to reduce customers' energy consumption

Helping customers use energy more efficiently is the most sustainable way to keep bills low over the longer term. With that in mind, SSE was pleased to meet, ahead of the 31 March 2015 deadline, all of its targets under the first phase of the Energy Company Obligation (ECO), which mandates energy suppliers with more than 250,000 customer accounts to install energy efficiency measures in customers' homes. SSE is now focused on delivering against its targets for the final phase of the current ECO scheme before 31 March 2017.

In the first two years of ECO ending 31 March 2015, SSE has:

- promoted the installation of almost 250,000 energy efficiency measures, including loft, cavity and solid wall insulation and boiler replacements;

- helped improve the energy efficiency of over 210,000 homes across Great Britain;
- delivered energy efficiency improvements equivalent to 4.59 MtCO<sub>2</sub> saved; and
- provided around £850m of notional lifetime bill savings for vulnerable customers.

In December 2014, SSE agreed a settlement with Ofgem under which it made a contribution of £1.75m to support vulnerable customers after it did not meet on time its targets under the previous Community Energy Saving Programme (CESP). SSE committed to learning from this and to working hard to ensure that other obligations such as ECO are delivered on time.

It is clear that, beyond 2017, the UK will need to continue to improve the energy efficiency of its building stock. With the existing ECO scheme coming to an end in 2017 and no successor scheme currently in place, this represents a valuable window of opportunity to review and improve upon previous initiatives to drive take-up of energy efficiency measures. SSE is keen to engage constructively with the new UK government and any interested parties on ways to achieve this, but believes that in principle any scheme should:

- be funded progressively through taxation, taking into account an individual's ability to pay;
- be as cost-effective as possible;
- ensure that the benefits are targeted primarily at the most vulnerable households;
- minimise administrative complexity, for example by introducing deemed scoring;
- minimise the risk to customers of fraud; and
- be designed to ensure a smooth transition between schemes.

### Rolling out smart meters to customers across Great Britain

The rollout of smart meters to every home in Great Britain represents a unique opportunity to transform the relationship between customers and the energy they use. Empowering customers with real-time data about their energy usage, providing them with more accurate bills and unlocking innovation in tariffs and propositions, smart meters have the potential to drive ever greater consumer engagement with energy.

In preparation for the introduction of the critical infrastructure that will enable mass rollout to begin, SSE has been focused primarily on building and testing systems and gradually ramping up delivery, in line with its strategy of 'doing it once and doing it right'. At 31 March 2015, SSE had installed over 40,000 smart meters in customers' homes. In the coming year ending 31 March 2016, it expects to install a further 210,000 smart meters to bring the cumulative total to 250,000.

## Retail continued

# Proud to make a difference

**In October 2014, SSE embarked upon its first large-scale advertising campaign for the SSE brand.**

Through the use of 'Maya', a unique computer generated character, the 'Proud to make a difference' campaign has encouraged people to look at energy with fresh eyes, and highlighted the actions SSE has been taking to make a difference for customers.

The campaign has spanned TV, radio, billboards, print media and various

digital and social media formats. The adverts have been viewed over 1.7 million times online, and it is estimated that 58% of people in the UK will have heard the radio adverts, 75% of people will have seen the billboards, and 59% will have read the adverts in the papers.

Industry research has shown that the campaign reached over 25 million people, ensuring the 'Proud to make a difference' campaign has been hugely successful in building the SSE brand.

With the cost of the rollout being levied on customer bills, and with the net benefit of smart meters largely dependent on consumers embracing the technology, it is critical that the programme is delivered in a way which is both cost-effective and customer-centric. In other words, if the cost of the programme increases, or consumers become disengaged with the technology, the business case will be eroded and the opportunity will have been missed.

SSE has consistently stated that achieving a cost-effective and customer-centric rollout will require a delivery window of five unconstrained years. However, despite ongoing delays to critical infrastructure such as that provided by the Data Communications Company (DCC), and other constraints still inhibiting suppliers' ability to install smart meters at volume, the end target of 100% of homes by 2020 has not moved. This means that the delivery window is shrinking; with less time to achieve the same target, the only logical outcome is that costs will increase and the customer experience will be worse than it would otherwise have been.

In order to ensure that the crucial smart opportunity is not missed, while remaining supportive of the role of DCC, SSE is calling for:

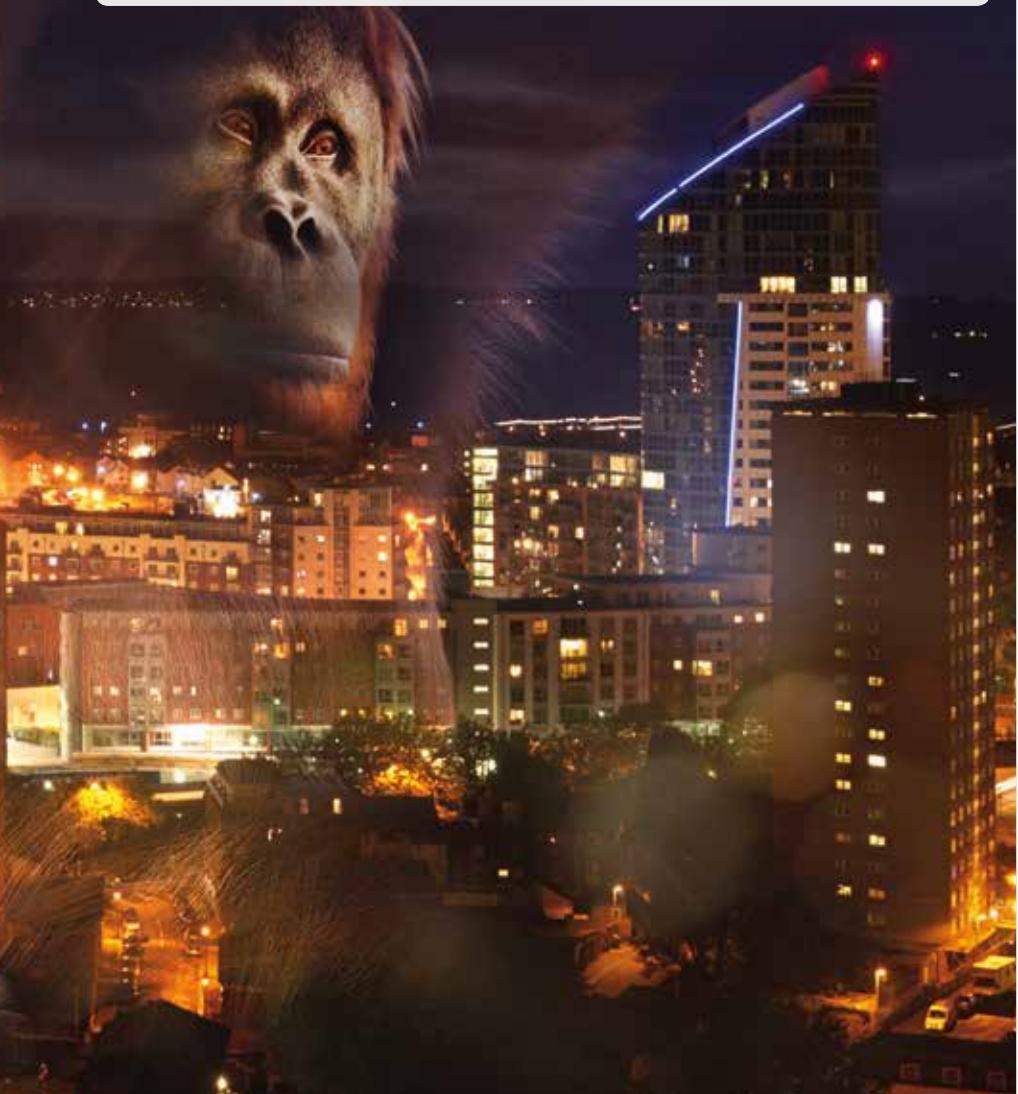
- delays to the front end of the delivery window to be reflected at the back end such that suppliers have a period of five years unconstrained in which to deliver their obligations;
- a reversion to the EU requirements to deliver smart meters to 80%, rather than 100%, of homes by 2020 in order to prevent cost escalations; and
- the programme to be subject to a review to provide sufficient assurance that it is being delivered in a way which achieves its aim of being cost-effective and net positive for customers.

### **Investing in becoming a market-leading retailer of energy and essential services**

In the context of a fiercely competitive market for energy, SSE has a clear strategy to differentiate itself and create value by becoming a market-leading, digital and diversified retailer of energy and essential services. With energy, telephone, broadband, gas boiler and electrical maintenance and installation offers already in place, it is uniquely positioned to offer a complete suite of essential services in the home. Throughout this period of consolidation, SSE has been investing in laying the foundations for growth in an integrated GB 'domestic' business, bringing together its energy and non-energy businesses to create broader, deeper and more valuable customer relationships.

To that end, in the 12 months to March 2015, SSE has:

- launched a new brand campaign in both Great Britain and Ireland;



- continued to invest in a fundamental overhaul of its digital channels in order to create a simple, seamless and intuitive customer experience and provide the best possible service at the lowest possible cost;
- introduced a new customer relationship management (CRM) platform to enable it to make better use of data, understand more fully its customer base and tailor communications and propositions to the needs of different customers;
- invested in new systems to support the national expansion of its home services offering; and
- developed and reopened sales channels and processes that will facilitate assured and compliant growth.

### **Building a brand that customers know and trust**

In order to become a market-leading, digital and diversified supplier of energy and essential services, SSE needs to be a household brand that customers know and trust. The launch in October 2014 of the company's first-ever national television advertising campaign was therefore a significant step on this journey.

Complementing the brand campaign and further enhancing the value it offers customers, SSE has continued to develop its sponsorship activities and in March was announced as one of the official sponsors of ITV's coverage of the 2015 Rugby World Cup.

Having increased awareness of SSE as a leading national brand, SSE's brand campaign and sponsorship activities provide SSE with a valuable platform from which to launch new products and services as it seeks to attract and retain customers. This is especially important for home services, where a new national offering, underpinned by improved CRM capabilities and market-leading propositions, mean the business is well positioned for growth having already begun to stabilise customer numbers.

### **Providing tailored services for business customers**

SSE has made good progress with its strategy for developing Business Supply, as it seeks to become a business that offers solutions across the energy value chain to its customers, working with them as their energy partner rather than simply their energy supplier.

In 2014/15, SSE has continued to drive improvements for its small business customers, ending 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. Unlike some suppliers, SSE also publishes its Variable Business Rates clearly on its website to help smaller businesses benchmark and compare prices simply.

SSE is continuing to engage positively with the UK government, the Federation of Small Businesses and leading Third Party Intermediaries (TPIs) in order to understand better the needs of its customers and identify further ways in which it can make improvements for small business customers.

Looking ahead, as it moves into the delivery stage of its development plan, SSE will be launching a new portfolio management and energy analytics tool which will allow customers direct access to their data, as well as providing the opportunity for data hosting. In 2015/16, it is also looking to accelerate its growth as a business gas supplier by entering the daily metered sector.

### **Supplying energy and energy-related services to customers in Ireland**

SSE's retail brand SSE Airtricity is the second largest energy provider in Ireland and the only energy supply brand to operate in all of the competitive gas and electricity markets across the island. At 31 March 2015, SSE Airtricity supplied electricity and gas to 802,000 household and business accounts in the Republic of Ireland (ROI) and Northern Ireland (NI).

In addition to being the largest single provider of wind power in the all-island Single Electricity Market (SEM), with 40% of the electricity it supplies coming from renewable sources, SSE Airtricity is also a market-leader in award-winning digital service with around 65% of all customer interactions performed via the company's online, digital and mobile platforms.

Highly competitive market conditions, in particular in the Republic, which has seen the emergence of new domestic market entrants in the deregulated gas and electricity markets, led to a reduction in SSE Airtricity customer numbers in the first half of the year. The launch of its new brand campaign in October marked a return to growth, however, and by year end SSE Airtricity continued to have an all-island share by customer numbers of 21% of the total combined gas and electricity markets.

In addition to electricity and gas, SSE Airtricity offers energy-related products and services including natural gas boiler and heating services such as repair and installation. During the year the company completed a buyout of its successful joint venture SSE Airtricity Energy Services. This company is positioned for future expansion and to that end has been fully integrated into SSE's existing operations.

In early 2015 SSE Airtricity announced changes to its standard energy prices in each of the markets in which it operates in Ireland and Northern Ireland:

- Northern Ireland (gas): 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. From 1 April 2013 SSE Airtricity's natural gas prices have been frozen, providing customers stability and peace of mind for a period of two years. In February 2015, SSE Airtricity announced it was reducing its regulated natural gas prices for its household and small business customers by 7.8% on average with effect from 1 April 2015, saving £53 for a typical household natural gas customer. The next interim Price Control review will be conducted by the company and the NI Utility Regulator in October 2015;

- Northern Ireland (electricity): Also in February 2015, SSE Airtricity announced it was reducing its standard electricity prices by 8% from 1 April 2015, saving £55 for a typical household electricity customer; and
- Republic of Ireland: In January 2015 SSE Airtricity announced it was reducing its prices for around 440,000 household customers in Ireland's highly competitive and deregulated energy markets by 4% for natural gas and by 2% for electricity. The price cuts, which took effect from 1 April 2015, equate to a typical annual saving of €58 for customers on SSE Airtricity's most popular Direct Debit and eBilling Dual Fuel Standard tariffs.

### **Operating a national metering business**

SSE's metering business undertakes meter reading operations and meter operator work in all parts of the UK. Because metering currently involves being at customers' premises, there are significant operational issues and risks associated with this activity. The number of SSE electricity and gas supply customers who receive bills based on actual meter readings stands at 96.2%, compared to 96.7% last year. SSE Metering has also installed over 25,500 AMR (automatic meter reading) meters which are read remotely. In the 12 months to 31 March, SSE collected 7.8 million electricity readings and 5.2 million gas readings.

### **Energy Supply and Energy Related Services priorities in 2015/16 and beyond**

For 2015/16, SSE's key priorities in Energy Supply and Energy Related Services remain to:

- acquire and retain customers through competitively priced, compelling propositions, industry-leading customer service, and enhanced Customer Relationship Management (CRM) driven by better use of data and segmentation;
- build successfully the new brand and maximise the opportunity this presents to engage with customers, the public and all of SSE's stakeholders and illustrate that SSE is committed to progressive reform in energy;
- engage constructively with the CMA with a view to delivering the right outcomes for energy customers and investors;
- take the digital opportunity by creating an effortless online customer experience and

## Retail continued

- developing best-in-class applications, products and services; and
- take costs out of supplying energy, both internally by driving operational efficiencies and externally, working with the new government to ensure that energy policies are as cost-effective as possible and, ultimately, funded more progressively through taxation.

### **Enterprise Introduction**

SSE Enterprise provides services in Mechanical & Electrical Contracting, Energy Solutions, Lighting, Utilities and Telecoms. It helps businesses achieve energy savings and provides knowledge and expertise which enables businesses to become more sustainable. SSE Enterprise has a significant self-delivery capability enabling it to provide engineering excellence in sensitive environments including hospitals, data centres, refineries and core utilities. Its solutions are designed, engineered and delivered to the particular needs of the customer.

### **Financial performance in SSE Enterprise**

SSE Enterprise's businesses were previously reported under 'Other Networks and 'Energy-related Services'. In 2014/15, this Enterprise segment, including SSE Enterprise Energy Solutions for eight months (see below), delivered operating profit of £70.4m, compared with £56.8m in 2013/14. This followed the disposal of the gas connections business in September 2014.

### **Enabling SSE Enterprise to focus on core opportunities**

In order to enable SSE Enterprise to focus on the opportunities which are core to its future plans, SSE sold during 2014/15 its gas transportation business, a data centre in Hampshire and its equity interest in special purpose entities for the delivery of seven street lighting projects for a total of around £390m, including proceeds received and debt reduced. SSE is progressing the sale of equity in its two remaining streetlighting PFI projects.

### **Building a new division focused on business customers**

SSE Enterprise brings together the services SSE offers to compete in competitive markets for industrial, commercial and public sector customers. SSE Enterprise seeks to provide 'essential services for business, delivered with energy'. As a nationwide business, SSE Enterprise employs 3,500 skilled engineers and technicians, serving more than 250,000 customers, across more than 50 locations.

SSE Enterprise has an established track record of delivering solutions for customers in energy and related services for the retail, financial, public and utilities sectors. The acquisition of the energy management company Energy

Solutions Group (ESG), since re-named SSE Enterprise Energy Solutions, in July 2014, added new capabilities to the business.

Creating a 'shared value' philosophy with customers is a driving force within SSE Enterprise. It focuses on creating a long-term relationship through key account managers for its larger and more complex customers.

SSE Enterprise's principal businesses are: SSE Enterprise Contracting (SSEC) is one of the UK's leading mechanical and electrical contractors, delivering services ranging from small works to major design and build projects. SSEC is also the largest street lighting contractor responsible for managing over one million lamps in 24 local authorities located across England, Wales and Scotland, and a further 28 authorities in the Republic of Ireland.

SSE Enterprise Telecoms (SSEET) provides class-leading connectivity and data centre services from a 13,800km private fibre optic network connected to more than 65 data centres and 240 points of presence spanning the UK. With its extensive telecoms and data centre operational expertise, it offers commercial security with unrivalled in-house engineering teams. It also offers modern businesses the bespoke connectivity and communication solutions they need to succeed.

SSE Enterprise Utilities (SSEEU) is a multi -utility service provider with extensive experience and expertise in working with all domestic, retail and commercial industry sectors. It works with developers in England, Scotland and Wales providing infrastructure solutions, carbon reduction and capital investment, from major electrical, gas and water infrastructure to extensive heat networks. It is firmly established as one of the country's largest operators of an Independent Gas Transporter network with over 140,000 connections; and it now runs 12 district heating schemes throughout the UK with more to follow.

SSE Enterprise Energy Solutions (SSEES) is the UK's leading supplier of building control solutions. It designs, installs and optimises building management technologies which deliver efficient operating environments for its customers. Customers benefit from reduced cost of technology deployment, increased comfort and productivity of their employees and more effective management of escalating energy costs. The business previously traded as The Energy Solutions Group and was acquired by SSE in July 2014. It is now committed to becoming the UK's leading provider of energy management solutions for business customers. In line with increasing pressures on customers to understand and comply with changing legislation, such as the Energy Saving Opportunity Scheme (ESOS), reduce costs and understand multiple complex

data sources, the business has invested significantly in the development of new customer propositions and services.

### **Setting the right priorities for SSE Enterprise**

The focus for Enterprise in 2015/16 is on realising the benefits from consolidation of activities and developing effective customer relationship management and thereby laying the foundations for sustainable business growth in the period to 2020 and beyond.

### **Retail – Conclusion**

The energy market in Great Britain and Ireland continues to face great competitive, political and regulatory pressure. However, as a progressive company, SSE is responding positively to these challenges – delivering for customers with a two and a half year price freeze while getting its own house in order by driving through operational efficiencies and making the investments required to thrive in the future energy market.



## Ideas at work

**Every day leading businesses and public services help keep the UK running. SSE Enterprise delivers the fundamental energy-related business services that many of these organisations need to operate effectively.**

Birmingham's Bullring is one of the largest shopping centres in the UK. At 1.2 million square feet, with 160 stores, this iconic destination draws millions of visitors every year, but it also draws on a lot of electricity. That's why its

developers needed a robust, economic solution for its utilities infrastructure.

SSE Enterprise demonstrated the scale and skills required to build and operate a multi-utility network for the centre.

For larger projects in and around most major UK cities, SSE Enterprise is also able to support the development of utilities infrastructure, giving developers the technical backing of a major national organisation and the potential for substantial financial savings.

## Sustainability overview

# Sustainability

Meeting economic, social  
and environmental responsibilities

SSE has an essential purpose at its core – providing the energy people need – and a responsibility to ensure this need is met in a sustainable way.

As an energy provider and a leading Company, SSE's economic, social and environmental impacts are significant and subject to scrutiny and debate, which in turn create expectations on the part of customers, politicians, regulators and other stakeholders.

SSE seeks to proactively meet these expectations and to fulfil its core purpose by being responsible in

its day-to-day operations and decision-making, and by being transparent about the impact it is making. The reporting of SSE's sustainability impacts (financial and non-financial) is integrated throughout this Annual Report. Details of the significant social, environmental and economic impacts of each business are included in the relevant business overview sections.

SSE also wants to make information about its sustainability impacts more accessible and transparent for all stakeholders. The following pages provide an overview of key areas of sustainability that are known to be of particular interest to stakeholders.

Further detail on SSE's responsible approach is provided in the Being Responsible supplement to this



report and through the dedicated area on SSE's website – [sse.com/](http://sse.com/) being responsible. These resources also contain: data and KPIs which support SSE's sustainable approach; policy statements covering key issues such as bribery, diversity, human rights and corporate governance; and relevant case studies.

Total carbon emissions  
– tonnes CO<sub>2</sub>e

**16.74m**  
**-34%**

Total scope 1,2 and 3 carbon emissions from SSE's operations. Carbon intensity from SSE's generation also fell 17.7%.

Employee engagement index

**73%**  
**-5%**

Results from annual, company-wide, externally facilitated, employee engagement survey. In 2014/15 the participation rate was 92%.

Total taxes paid – £m

**£506.2m**  
**+17%**

Total taxes paid (including employment taxes, business rates, environment taxes and corporation taxes) in 2014/15 were £506.2m.

## Sustainability overview continued

# 2014/15 highlights

### Responsible Service Provider

**Doing more to provide essential services reliably and affordably**

**Energy price freeze extended to July 2016**

Freezing energy prices until at least July 2016 is the longest unconditional energy price commitment ever made to household customers in Great Britain.

**Dementia training**

100 people in SSE's customer service team received specialist training in supporting customers with dementia.

**Working hard to keep the lights on 24 hours a day**

During 2014/15, SSE's electricity distribution customers experienced fewer interruptions to their electricity supply and, where interruptions occurred, had on average a 13% reduction in the total time spent without power.

### Responsible Operator

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

**'A' rated by CDP**

CDP has given SSE an 'A' rating for its performance in managing its response to climate change and included SSE in the 2014 Climate Performance Leadership Index.

**Reducing carbon emissions**

SSE has committed to reduce the carbon intensity of its generation by 50% (compared to 2006 levels) by 2020. It achieved an 18% reduction in intensity in 2014/15.

**UK and Ireland's largest generator of renewable electricity**

SSE produced more renewable electricity than any other company in the UK and Ireland in 2014/15 (8,655 MWh), from the most diverse range of sources.

### Responsible Employer

**Creating sustainable employment and a great place to work**

**Ground-breaking Human Capital report published**

A report published by SSE and PwC in March 2015 established that the value of SSE's Human Capital was £3.4bn.

**SSE remains a Living Wage employer**

All SSE's employees receive at least the Living Wage.

**£11.7m invested in new apprenticeships in 2014/15**

146 new apprentices began their career with SSE in 2014/15. In total SSE has invested over £64m in its apprenticeship scheme since 2007.

### Responsible Community Member

**An active contributor to the communities we are part of**

**Investing in communities**

In 2014/15 SSE's community benefit schemes in the UK and Ireland contributed almost £4m to local communities near its developments and over £18m has been invested in the last 10 years.

**5,000 days donated to UK and Irish charities**

Employees participating in SSE's 'Be the Difference' volunteering programme donated a total of over 5,000 days to local charities, community groups and sports clubs across the UK and Ireland.

### Responsible Profits

**Earning profits that serve a purpose**

**First FTSE 100 company to be accredited with the Fair Tax Mark**

In 2014/15 total taxes paid by SSE were £506.2m (including corporation taxes, employment taxes, business rates and environmental taxes).

**An £8.8bn contribution to the UK economy in 2014/15**

Over the past three years SSE has contributed over £27bn to the UK economy and supported on average 110,000 jobs each year.

**An essential component of UK savings and pension funds**

Around 90% of the top fund managers in the UK receive dividends from SSE.

### Responsible Investment

**Focusing on the long term and accounting for all our impacts**

**Investing around £4m per day in new energy infrastructure**

In total, over the last five years SSE has invested more than it has made in profit.

**Over £230m invested in renewable energy in 2014/15**

SSE has invested over £2.6bn in renewable energy in the last five years, adding over 1,150MW of new renewable capacity in the UK and Ireland.

**Accounting4Sustainability**

SSE has had a leading role in the development of the A4S guide to embedding sustainability into the decision making process for capex investment.

### Responsible Developer

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

**Keadby wind farm sustainability impact report**

SSE published its first sustainability impact report covering the environmental, social and economic impact of England's largest wind farm.

**Meeting the needs of the local community**

In partnership with the North Sutherland Community Forestry Trust, SSE delivered over 100 tonnes (volume) of winter firewood to 83% of the community neighbouring its Strathy North wind farm development.

**Promoting biodiversity**

SSE's electricity transmission business has developed standardised Species Protection Plans for all its construction projects. In 2014/15 SSE published its first Biodiversity report to reinforce the proactive steps it takes to promote and enhance biodiversity.

### Responsible Buyer

**Procuring what we need in the right way**

**Maximising impact on local economies**

SSE's award winning Open4Business online portals have awarded over £60m in contracts to local businesses in the last two years.

**Driving the Living Wage through a £2bn annual supply chain**

Every relevant contract tendered since 1 April 2014 has included a requirement for suppliers to pay the Living Wage to their employees working regularly on SSE sites.

**Setting high standards**

SSE's Responsible Procurement Charter aims to ensure all its suppliers act ethically, sustainably and within the law.

### Responsible Governance

**Transparent about doing what is right**

**Code of Business Practice**

SSE's code of business practice makes clear to everyone working in SSE the importance of doing the right thing.

**New risk management framework**

SSE has reviewed and published the 10 principal risks that it must manage in a responsible way in order to deliver long term value.

**A well governed company**

SSE complies fully with the provisions of the UK Corporate Governance Code 2012; with the exception of the provision covering the award of its external audit contract which it explains fully in its Audit Committee report.

# Responsible operator

Being the operator of a broad range of energy assets involves working on challenging sites, responding to issues of concern such as climate change and managing wider environmental impacts connected with the use of resources. SSE aims to take a responsible approach to addressing each of these issues so that people are safe, environmental challenges are tackled and resources are used effectively.

## Safety

Safety is SSE's first value and priority, and it is the foundation of SSE's approach to being a responsible business. Its safety core value is defined as:

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

Responsibility for safe working starts with the Chief Executive and extends to every person in the organisation. The SSE Board is advised by the Safety, Health and Environment Advisory Committee (SHEAC) on policy, targets and strategy for improved performance. This committee is a balanced mix of senior executives and non-executive directors.

To effectively manage safety, SSE needs both rigour in systems and passion to make them work. This is achieved through a positive safety culture based on fairness, trust and co-operation; and through the rigorous application of a robust Safety Management System which focuses on Policy, People, Processes, Plant and Performance.

## The Safety Family

SSE's fundamental principle is that safety risks are best managed by those who create and work with the risk and that everyone has their part to play in supporting these people. To meet this challenge every employee, every supervisor and every manager needs to fulfil their responsibilities for their safety and the safety of others. This concept is encapsulated in SSE's 'Safety Family' programme.

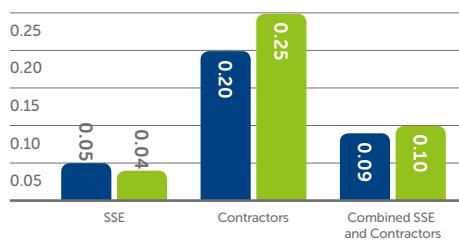
The Safety Family programme was introduced in early 2011, and is a unique, discussion-based behavioural change programme that is designed to equip and empower individuals to bring about changed working practices. Over the past four years all 20,000 employees across SSE have been introduced to the programme and had the opportunity to fully engage with it. During 2014/15 the Safety Family Programme was particularly focused on equipping Supervisors with the skills to coach and communicate with their teams on safety issues. In the last year, over 1,800 supervisors have benefited from this bespoke active learning programme.

## Performance in 2014/15

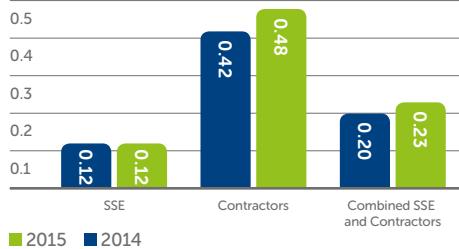
SSE's overall safety goal is 100% injury free working, by both SSE's employees and the contractors working on SSE's major sites and developments.

SSE's two most important measures of safety performance, AFR and TRIR, were similar to 2013/14 with a slight improvement

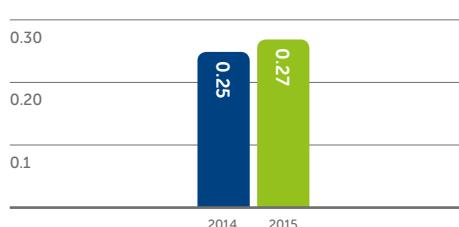
### Lost Time/Reportable Injury Rate (AFR)



### Total Recordable Injury Rate (TRIR) (covering Lost-Time, reportable and medical treatment injuries)



### Number of dangerous or potentially dangerous road traffic incidents involving SSE employees driving Company vehicles (rate per 100 vehicles)



in AFR (serious incidents). When viewed against long-term trends there have been significant improvements in performance of both AFR and TRIR. Contractor TRIR and AFR, and combined SSE and Contractor TRIR and AFR rates slightly increased when compared to 2013/14.

There was an increase in the number of serious incidents involving employees driving Company vehicles, reverting to the performance levels experienced in 2010/11. Driving consistently features as a significant risk across SSE and sadly an employee died in a road traffic collision whilst at work. Improving RTC performance is a key focus across SSE.

Whilst noting the slight improvement in SSE AFR performance the SHEAC welcomed the focus on SSE's enduring goals for 2015/16 (set out below) to sustain an overall improving SHE performance.

## Focused on improved performance

During 2014/15 SSE established a new framework of enduring goals, designed to continually drive improvement in safety performance.

These include:

- measures focused on the **process safety** connected with the operation and maintenance of plant and equipment, particularly plant with high impact risks such as SSE's gas storage and generation assets;
- the delivery of signature practices which define how SSE and its **contractors** will work together to keep people and the environment safe;
- a continued focus on a step change in the number of serious incidents connected with the **driving** of company vehicles, building on the driving behaviour project launched across the company in 2014/15; and
- reinforcing the positive behaviour change being achieved through SSE's **Safety Family** programme.

Alongside the enduring goals for safety performance, the new framework also identifies areas of focus for Occupational Health and Well-being, Environmental Management and Crisis Management.

## Sustainability overview continued

### Responsible operator continued

#### Responding to the challenge of climate change

SSE knows it has an important role to play in helping address the potential impacts of climate change and in particular helping the UK move towards a less carbon-intensive energy system.

Removing carbon from electricity generation in an affordable way is essential to mitigate the worst affects of climate change. That is why SSE has committed to reducing the carbon intensity of its electricity generation by 50% by 2020, using 2006 performance as its baseline, and is on target to achieve this. SSE is already the largest generator of renewable energy in the UK and Ireland, having invested almost £4bn in the last seven years.

SSE's performance in managing climate change impacts and the proactive approach it is taking to identifying and managing the potential risks associated with climate change, led CDP to award SSE an 'A' rating in 2014 and include SSE in its inaugural global Climate Performance Leadership Index.

SSE's longer term support for a less carbon intensive energy system is significantly influenced by the legal and regulatory frameworks being developed and implemented by the UK

Government and European Commission. SSE is involved in these debates and has a role to play in the process of bringing about positive change. Through direct contact and in partnership with others, SSE has called on European Governments to bring forward tangible actions in line with legally-binding long term greenhouse gas targets to help minimise the risks that climate change could have on the economy and wider society. SSE has made clear that an important part of this process is for the EU to restore the EU ETS as the central driver of carbon abatement.

More generally, the potential risks and opportunities that these policy changes represent are well understood by SSE and are a significant part of its risk management and strategic decision making processes.

#### Using resources responsibly Carbon reporting

In 2014/15 SSE achieved a 34% reduction in its total carbon emissions (scope 1,2 and 3). Overall scope one gross carbon emissions from its operations were reduced by 36%, largely as a result of significantly lower year-on year output from SSE's coal-fired generation plant (see page 32 for further details). Although SSE's overall generation output was also lower, the significant drop in coal-fired emissions meant that the

carbon intensity of SSE's generation fell 17.7% to 474.1 gCO<sub>2</sub>e/kWh – its lowest level since 2009.

Full details of SSE's CO<sub>2</sub> emissions are provided in the table below.

Following significant coal-fired generation plant closures at the end of March 2014, SSE's renewable generation capacity (3,394MW) now exceeds its coal-fired generation capacity (3,009MW). SSE's renewable generation assets (including hydro pumped storage) generated 8,655MWh of electricity in 2014/15, over 31% of SSE's entire generation output, displacing the equivalent of over five million tCO<sub>2</sub>e.

For a full commentary on SSE's generation output and performance, see pages 28 to 37 in the Wholesale section.

#### Controlling emissions

SSE is reducing air emissions as a result of the change in its energy generation mix (moving from coal to gas), the increased use of renewable energy and the use of operating practices and technologies that reduce or remove air pollutants. In 2014/15 SSE's thermal generation sites emitted 9,977 tonnes of sulphur dioxide and 16,871 tonnes of oxides of nitrogen.

#### CO<sub>2</sub> emissions – tonnes (000's)

	1 April 2013 to 31 March 2015			1 April 2012 to 31 March 2014		
	CO <sub>2</sub>	CO <sub>2</sub> e	Total CO <sub>2</sub>	CO <sub>2</sub>	CO <sub>2</sub> e	Total CO <sub>2</sub>
Generation <sup>1</sup>	12,903	97	13,000	20,499	165	20,664
Other Scope 1	70	9	79	49	9	58
<b>Scope 1 Total</b>	<b>12,973</b>	<b>106</b>	<b>13,079</b>	<b>20,548</b>	<b>174</b>	<b>20,722</b>
Distribution Network Losses	1,178	0	1,178	1,099	0	1,099
Other Scope 2	66	0	66	64	0	64
<b>Scope 2 Total</b>	<b>1,244</b>	<b>0</b>	<b>1,244</b>	<b>1,163</b>	<b>0</b>	<b>1,163</b>
Scope 3 New additions (well to tank fuel purchased)	2,407	0	2,407	3,487	0	3,487
<b>Scope 3 Total</b>	<b>2,426</b>	<b>0</b>	<b>2,426</b>	<b>3,505</b>	<b>0</b>	<b>3,505</b>
<b>Total Emissions</b>	<b>16,643</b>	<b>106</b>	<b>16,749</b>	<b>25,215</b>	<b>174</b>	<b>25,389</b>
<i>Intensity ratios</i>						
Emissions Relative to gross turnover (tCO <sub>2</sub> e/£m)				529		830
Emissions Relative to MW output (kgCO <sub>2</sub> e/MWh)				474		576

#### Notes

- 1 The figure for generation emissions adjusts the figure from SSE-owned generation (in GB and Ireland) to include energy bought in under power purchase agreements. The figure corresponds to the contracted position set out elsewhere in the report (see page 30).
- 2 Scope 1 comprises generation, operational vehicles, sulphur hexafluoride, fuel combustion, gas consumption in buildings.
- 3 Scope 2 comprises distribution losses, electricity consumption in buildings and substations.
- 4 Scope 3 comprises business flights, rail journeys and car miles, 'well to tank' emissions associated with fuel transport and losses associated with the electricity consumption in Scope 2.
- 5 Scope 3 numbers restated for 2013/14 to reflect inclusion of 'well to tank' emissions in Scope 3.
- 6 Emissions intensity relative to MW is calculated against generation emissions only, rather than total emissions.
- 7 GHG emissions from SGN's activities are not included here. Those emissions are reported in SGN's annual report.
- 8 GHG emissions arising from the losses across the SHETL owned transmission network are not included since the network is operated by National Grid Company.
- 9 The figures have been assured to the CEMARS standard by Achilles Group Limited, consistent with ISO14064-1 and the Greenhouse Gas Protocol.

This compares to 24,233 tonnes of sulphur dioxide and 29,969 tonnes of oxides of nitrogen in 2013/14. SSE plans to lower emissions further through continued investment in improvements in combustion processes and renewable energy.

### Managing water use

Water availability is becoming a significant issue for SSE's stakeholders. SSE uses water for four main purposes:

- to cool its generation plants;
- as process water for a variety of operations;
- as a source of energy in hydro generation schemes; and
- for amenities in offices and buildings.

At thermal generation plants the majority of the water is used for cooling. The better the cooling that can be achieved the higher the thermal efficiency of the plant, resulting in a wide range of environmental benefits, including reduced emissions to air and reduced production of waste and secondary materials per unit electricity produced. To ensure water is returned to the source in the same (or better) condition as it was taken, it is monitored and managed in accordance with the requirements of the site specific environmental permits. Issues associated with water availability for cooling purposes are likely to increase in significance in future. Against a background of ensuring sustainable water management, Defra and the Welsh Government are undertaking a review of abstraction arrangements in England and Wales with a view to reform. SSE will continue to engage constructively with this process.

At hydro generation sites water is taken from rivers and lochs and returned to the water environment after being run through the turbines to generate electricity. There is negligible consumption of

water in this process. To ensure water quality is not affected and potential impacts on biodiversity are mitigated, SSE undertakes a range of activities to manage the water environment. This includes providing compensation flows below dams and intakes; delivering shorter periods of higher flows (freshets) to encourage movement of migratory fish species; operating fish passes; and controlling the timing of engineering and other works so they do not occur during sensitive life stages of species.

In total in 2014/15, SSE abstracted 27.11 billion m<sup>3</sup> (27.91 billion m<sup>3</sup> for 2013/14) of water for all its activities. The vast majority, 27.09 billion m<sup>3</sup>, was returned to the environment.

The majority of this water, 27.03 billion m<sup>3</sup> (27.57 billion m<sup>3</sup> for 2013/14), is used by SSE's hydro operations (such as Ericht Dam below) and all this water is returned to the environment.

In 2014/15 SSE's thermal operations (prior year in brackets):

- abstracted 82.16 million m<sup>3</sup> (345.14 million m<sup>3</sup>)
- consumed 19.36 million m<sup>3</sup> (15.88 million m<sup>3</sup>)
- returned 62.80 million m<sup>3</sup> (329.26 million m<sup>3</sup>) to the environment.

### Environmental management

The breadth of SSE's operations means that it is subject to a number of environmental regulations. As a result it seeks to work constructively with a range of environmental regulators, including the Environment Agency, DEFRA and the Scottish Environment Protection Agency (SEPA). The primary focus remains on meeting permit conditions associated with SSE's operations and minimising the impact of operations and projects in environmentally sensitive areas.

To help focus on the management of environmental risk, SSE has adopted an internal classification of environment related incidents, which reflect their scale and impact and are aligned with those used by SSE's principal regulators. It has established performance measures for both SSE and contractor operations.

SSE received one prohibition notice in 2014/15 relating to the operation of its anaerobic digestion plant in Rogerstone, South Wales. This was removed following corrective action. There were no environmental prosecutions issued against SSE during 2014/15.

### Research and development

SSE has a practical, partnership-based approach to research and development, which is focussed on key issues affecting the energy sector in the UK and Ireland, such as Carbon Capture and Storage (CCS), active network management and smart metering. These activities should secure meaningful outcomes that contribute to meeting customer needs and address the key issues of the energy 'trilemma'.

SSE is, fundamentally, an adopter of technology, choosing to focus on demonstration and deployment of technology that delivers proven benefits for customers and stakeholders.

It is involved in a range of research and development-related activities in all three of its core businesses, that are closely aligned with its core purpose of providing the energy people need in a reliable and sustainable way. Detail of these activities is contained within the relevant business overview section.



## Sustainability overview continued

# Responsible employer

SSE's long-term success depends on being able to retain, develop and attract employees with the skills and commitment necessary to meet the needs of customers and achieve other business goals. It aims to do this by being a responsible employer that recognises the contribution an engaged workforce makes to its achieving its business goals and to society as a whole.

### Valuable people

SSE wants to be a great place to work; characterised by the engaged, motivated and committed people who already work throughout the company and an ability to attract a talented and diverse range of new people to meet changing business needs.

That is why SSE has clear priorities for how it:

- engages with the people who work for SSE and recognises the different needs they have;
- creates sustainable employment opportunities that attract a talented and diverse range of new people into all levels of the business;
- invests for the future to ensure each individual can perform to the best of their ability; and
- ensures it is constantly seeking to do the right things, particularly in how people are treated throughout the company.

SSE has a very particular ethos regarding its people. It follows an in-house operational model which means it prefers to directly employ the people it needs, does not out-source core work and does not offshore core work outside of the UK or Ireland; it strives to create sustainable jobs and seeks to limit redundancy through the use of redeployment and retraining; and it invests in the long term value of employees and seeks to grow its own talent.

This approach is deeply embedded within the culture of SSE and plays an important role in the value SSE's employees create.

### Understanding the value of SSE's human capital

Many companies claim that their people are their greatest asset. During 2014/15 SSE became the first major company in the UK, and one of less than a handful globally, to quantify the

economic value of the people it employs – full details can be found in the report published in March 2015 'Valuable people: Understanding SSE's Human Capital' (see sse.com).

SSE now knows the value of the 'Human Capital' it employed on 1 April 2014 was £3.40bn. It has also identified some of the key drivers of this value over time, including the value that can be created from investing in this asset. For example, this analysis has established that for every £1 SSE invests in its Apprenticeship programme, £4.29 of economic value is created and shared between wider society, SSE and the individual.

This new knowledge helps demonstrate the business case for SSE's people strategy. It endorses the concept of 'human capital', evidences the value of creating sustainable employment, and will continue to shape SSE's Human Resource strategies in the future.

### Engaging employees

SSE's long-established teamwork value is the primary driver of positive employee engagement throughout its range of businesses:

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

### A great place to work

SSE's annual company-wide, externally facilitated employee engagement survey had an exceptional 92% response rate in 2014 and the results showed that SSE has an employee engagement index of 73% – the benchmark level for UK private sector companies. Safety is SSE's number one value and this is clearly recognised by SSE's employees, with 94% believing that SSE takes safety seriously.

72% of employees believe they work in a business unit committed to working efficiently. This is a 12% increase from last year and demonstrates SSE's focus on continually driving improved efficiency and its employees' commitment to support this.

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

### Partnering with employee representatives

SSE has a positive partnership approach with four recognised trade unions across a number of different collective bargaining tables. This includes a well-established Joint Negotiating and Consultative Committee (JNCC) which involves lay and full-time representatives from four recognised trade unions. The JNCC is supported by Joint Business Committees which seek to deal with key employment issues within each of SSE's main business groups.

All SSE's employees are able to seek membership of trade unions and the majority are currently represented by these organisations. The company understands the importance of involvement and open communication and works with employee representatives to enable employees to understand the business and their crucial role in contributing towards its success.

### Meeting employees different needs

SSE aims to support its employees through its employee benefit packages but recognises the different needs across its workforce.

SSE is proud to be one of the UK's largest Living Wage employers – guaranteeing that all employees will receive at least the Living Wage

### SSE's workforce: Key statistics

	Total employees	Geographic split	Gender split (% male/female)	Average age	Annual retention rate	Total recruitment
2014/15	19,965	UK – 97% ROI – 3%	70/30	40	87%	2,319
2013/14	19,894	UK – 96% ROI – 4%	70/30	41	91%	2,157

rate, which is independently set to ensure people can cover the basic cost of living in the UK. SSE believes paying the Living Wage makes an important contribution to reducing in-work poverty throughout the UK (see page 11).

In keeping with SSE's commitment to creating sustainable jobs for the long term, it has taken proactive measures to help employees plan and save for their financial future. It has proactively enrolled all new employees into its pension schemes since 2005. Employee pension contributions attract contributions from the Company and also offer free life cover. These proactive measures have resulted in 97% of employees choosing to look after their future by saving in one of SSE pension schemes.

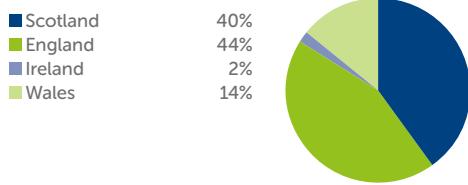
SSE offers a range of benefits which help employees share in the ongoing success of SSE. These include both an employee Share Incentive Plan and a Sharesave Scheme. Employee participation in these schemes is now 52% and 41% respectively.

SSE's full range of employee benefits reflects the differing needs and interests of its employees. Particular focus is given to contributing positively towards employees' wellbeing. Employees have the opportunity to buy additional holidays, medical cover, gym memberships, as well as discounts on products and services for the home and family life. Recognising that employees can require advice and support for a range of personal and professional reasons, a free comprehensive employee assistance programme is also available.

### Opportunities for flexible working

SSE has a wide variety of flexible working arrangements in place across all of its businesses. This includes over 1900 employees (85% women; 15% men) working some form of part-time hours to meet their personal circumstances. In addition, SSE's career break policy has enabled employees to take time out to spend with their family, travel, study and work within their communities with the peace of mind that they have employment to return to.

### Recruitment 2014/15



### Sustainable employment

#### Attracting diverse new talent

SSE's ethos is to grow and develop the skills it needs from within the organisation and to support that it attracts new talent to fill employment opportunities it has created or

to provide key skills or perspectives that can not be found from within SSE.

During 2014/15 SSE recruited externally a total of 2,319 people into roles across the UK and Ireland. Significant areas of recruitment included Customer Services and Energy Networks.

### Managing performance

SSE has in place a wide-ranging performance management system, designed to make sure that all employees are able to fulfil their potential and contribute as much as possible to the achievement of SSE's goals and the delivery in practice of SSE's values. Above all this system aims to ensure the safe operation of SSE's businesses and the reliable provision of services to all its customers.

Alongside assessing performance against agreed objectives, the process assesses the extent to which every individual, including the senior management team, demonstrate and support SSE's core values of Safety, Service, Excellence, Sustainability, Efficiency and Teamwork. The process also focuses on the development of the skills and competencies which are critical to the future success of SSE and to the energy sector in the United Kingdom and the Republic of Ireland.

### Investing for the future Tackling skills shortages

Around 50% of the energy industry's skilled workforce is expected to retire by 2023. To ensure it has the right mix of skilled employees for the future, SSE offers a range of structured development programmes suited to the development needs of school leavers, apprentices, trainee engineers and graduates. The focus of each programme is to ensure that those participating gain skills which create sustainable career opportunities that can be used for their future benefit and for the benefit of SSE. Every trainee who starts on a programme with SSE is guaranteed a full time position with the company on successful completion of their programme.

Over £11m was invested in these programmes in 2014/15 and currently, 550 individuals are progressing through them. A total of £64m has been invested since 2007. SSE will expand these programmes for 2015/16, with the creation of around 200 new opportunities and the planned introduction of new training programmes.

The value of SSE growing its own in this way is evidenced by the very high retention rates it achieves. Retention rates for the Apprentice and Technical Staff Trainee (TST) programmes are above 90%, against a national average of 76%. The Graduate programme has a retention rate of 78% which is 14% above the national average, and in 2014/15 SSE received an award from the Institute of Engineering Technology in

recognition of running an accredited and sustainable Graduate programme for the last ten years.

The impact of SSE's Apprentice and TST programmes was assessed in SSE's groundbreaking Human Capital report. This found that for every £1 SSE invests in its TST programme, £7.65 of economic value is created and shared between wider society, SSE and the individual. For its Apprenticeship programme the impact is £4.29 for each £1 invested.

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

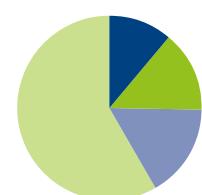
### Giving everyone the best opportunity to succeed

SSE is committed to providing the support any employee needs to develop their competences and skills, and through this their contribution to SSE. It has extensive in-house training capabilities, including three technical and general training centres located in Berkshire, Rhondda Cynon Taf and Perthshire. These centres are equipped to run a range of technical, customer service, and management training programmes which enable people to train in the type of work environment in which they will work, in a realistic, controlled and safe way. These programmes are supplemented by user-driven e-learning programmes which also cover specialist topics such as diversity, risk management, anti-bribery and corruption policies, and business separation.

During 2014/15, over 45,000 training interventions were delivered, split over the following four areas:

### Internal Training Provision

Management	5,047
Technical	6,544
Customer Service	7,383
E-Learning	26,440



Where necessary, SSE also invests in external training programmes. In 2014/15 a total of £1.1m was invested in almost 5,000 training interventions; on top of the £11m investment made in targeted development programmes. Typically these interventions support the development of specialist and professional skills or provide SSE with completely new skill sets – such as the specialist disability awareness training delivered to over 100 employees across all of our major Customer Service Centres during 2014/15.

## Sustainability overview continued

### Responsible employer continued

#### Doing the right thing

##### Ethical working

SSE seeks to act honestly and with integrity in its dealings within the Company, and with customers, investors, regulators and business partners. SSE sets very high standards of behaviour and employees are given clear guidance on best ethical practice through a regularly updated 'Doing the right thing' code of business practice. This outlines SSE's policy on such things as equality, bribery, anti competitive behaviour and the company's whistleblowing policy. SSE also keeps employees and managers updated with key changes to employment policy and legislative requirements through the use of e-learning which, for example, has been used to train all managers on the Bribery Act provisions.

##### Human rights

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

##### Equal opportunities

SSE has in place a comprehensive range of policies to safeguard the interests of employees and potential employees. Like many responsible organisations it has an actively-managed equal opportunities policy, in keeping with the spirit, as well as the letter, of the law in the United Kingdom and elsewhere. This is designed to ensure fair and equal treatment of employees and potential employees across the seven protected characteristics, as defined in the Equality Act 2010. It seeks to develop these policies and practices over time, in line with the emergence of new guidance and evidence of responsible practices.

##### Promoting diversity and inclusion

SSE recognises the positive business benefits that arise from different views, perspectives and ways of working, from a mix of people from different personal and cultural backgrounds. Encouraging more difference in SSE assures broader debate, leading to better decisions, which results in better delivery and performance.

It is business critical that SSE actively encourages greater diversity, but to be successful SSE must also ensure it is inclusive in how this diversity is recognised, encouraged, developed and supported.

#### Progress in 2014/15

SSE has a long standing commitment to promoting greater diversity, but its statistics indicate that there is much progress yet to be made:

- Of the available workforce in the UK and Ireland 51% are women, yet only 30% of the people employed in SSE are women.
- Of the senior management team, 30% are women. There are 66 direct reports to SSE's Executive Directors and Managing Directors – 20 women and 46 men.
- A large proportion of the available workforce in the UK and Ireland is over 35, but the majority of SSE's new recruits are under 35.
- A large proportion of SSE's energy supply customers are over 50, but SSE's customer service teams are predominantly under 30.

During 2014/15 SSE committed significant resources to researching, and better understanding, the challenges it faces on diversity and inclusion. This included extensive in-house survey work on attitudes and views on diversity, more detailed data gathering, internal research through business forums, interviewing many of SSE's 'generation Y' employees and working with external facilitators to benchmark SSE's approach and performance.

#### Priority areas for action

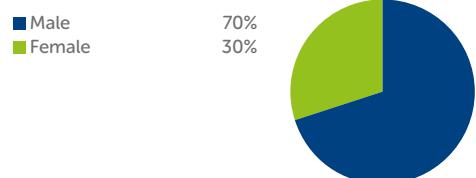
Ensuring that SSE delivers improved levels of diversity and inclusion is the responsibility of SSE's Executive Committee. In response to the review and analysis undertaken in 2014 a new strategy and plan of action was agreed in March 2015.

Over the next year SSE will focus on the following key initiatives:

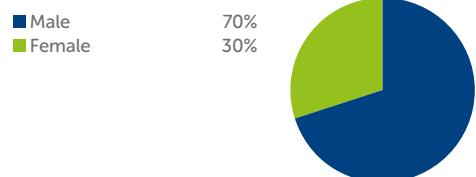
- **Setting new targets** – SSE will adopt a series of new targets in each business to help ensure greater diversity in terms of age, gender and ethnicity. Targets will be ambitious but achievable and will apply to key areas including management, graduates and apprentices. For example, only 10% of SSE's current female workforce are in positions that pay £40,000 FTE (full time equivalent) or more. SSE has set an overall target to increase this to 25% by 2025.
- **Creating a more flexible workplace** – diverse working groups within each business area will review and establish how flexible working arrangements can be more widely promoted in each business area.
- **Addressing this issue at entry level** – helping encourage greater take-up of key subject areas, skills and technical competencies, at all levels of education, to ensure there is a broader and more diverse talent pool for SSE's recruitment and development programmes to draw from.

- **Ensuring all recruitment is fair** – establishing new external recruitment and internal appointment processes to ensure, amongst other things, that the shortlist for every job in SSE is gender diverse. SSE also intends to pilot the practice of 'blind' CV's, where CVs given to recruiting managers do not include names, gender or age.

#### SSE employee gender diversity



#### SSE Senior Management gender diversity



# Responsible buyer

SSE aims to be a responsible procurer of goods and services and to treat the companies it does business with in an ethical and fair way. SSE procures over £2bn of goods and services every year. This provides SSE with considerable ability to encourage responsible business practices through its supply chain and to work in partnership with all its suppliers to achieve long term sustainable benefits.

## Responsible procurement

### Responsible procurement charter

Through its responsible procurement charter SSE sets clear standards that ensure its relationships with contracting businesses are conducted ethically, sustainably and within the law. The charter covers areas such as health and safety, bribery and corruption, employment practices, conflicts of interest and environmental impact. The charter makes clear that SSE also expects its suppliers to comply with all applicable local laws and regulations and to respect internationally recognised human and labour rights.

To further support this charter SSE is developing a 'Responsibility Dashboard' which will track and benchmark, from internal and external data

sources, major suppliers' performance on several responsibility criteria including carbon emissions, taxation, compliance, employment policies and environmental impact.

### Prompt payment code

Recognising that prompt payment is critical to many suppliers, particularly smaller companies, SSE has voluntarily signed up to Institute of Credit Management's Prompt Payment Code in the UK.

### Encouraging responsible business practice

#### Living Wage

SSE became an accredited Living Wage employer in 2013. From 1 April 2014 all new relevant contracts issued by SSE are Living Wage compliant, ensuring employees of contractors working regularly on SSE's sites are paid at least the Living Wage.

#### Contractor safety

SSE's overriding commitment to the safety of its employees also extends to the employees of contractors working on its sites. Contractor safety performance is included in Board level reporting and is key performance indicator. SSE's approach

is to set high standards, work in partnership with its contractors to improve performance and engage with exemplar companies to learn and incorporate best practice.

### CEMARS

SSE is annually accredited through the Certified Emissions Management and Reduction Scheme (CEMARS) and proactively encourages all its suppliers to seek this accreditation or an equivalent measure of the actions they are taking to improve their environmental impact.

### Supporting local supply chains

SSE is committed to achieving the highest levels of engagement with local suppliers. SSE's award-winning Open4Business portal specifically targets small to medium enterprises and is an easy-to-use platform through which local companies can do business with SSE and its core contractors. The portal is open to potential suppliers in Highlands and Islands and North of England regions and allows local suppliers to view SSE opportunities, register as a supplier and respond to notices free of charge. During its first two years of operation, over £60m of local contracts have been awarded through the portal.

# Responsible community member

Like any other responsible member of the community, SSE seeks to make a positive difference by being an active contributor to the communities it operates within.

## Being the difference

With around 20,000 employees throughout the UK and Ireland, SSE continues to make a positive impact across a wide range of local communities. SSE employees are empowered to 'Be the difference' for the causes, charities and communities they care about.

## Volunteering

SSE's volunteering programme enables employees to take a day off from work to support community initiatives that are important to them. During 2014/15, over 5,000 volunteering days were used to support 542 projects across the UK and Ireland. Initiatives included over 100 people assisting with the renovation of the Community Lido in Hillsea and providing marshalling support for the annual Maggies Bike & Hike event around Loch Ness.

## Fundraising

SSE's matched funding programme enables employees to support charities and local groups by matching their fundraising efforts with a

donation from SSE. The programme, launched in October 2014, has provided matched funds of almost £25,000 across a variety of national causes and many local sports clubs and community groups.

## Investing in communities

SSE operates an industry leading community investment programme, delivering financial support to a diverse range of community projects near to its renewable developments. Over 25 local community funds and a regionally-focused Sustainable Development Fund are all managed in-house.

Through its community investment funds, in 2014/15 SSE provided almost £4m to community projects in the UK and Ireland, supporting initiatives such as: energy efficiency programmes; local apprenticeship schemes; and infrastructure upgrades such as rural broadband and lifeline services.

The SSE Sustainable Development Fund aims to support larger scale transformational projects at a regional level – see case study on page 34. The fund launched in the Highland region last year and during 2014/15 expanded to three new local authority areas – Scottish Borders, Perth and

Kinross, and North Lincolnshire. The fund is expected to deliver around £50m in funding for strategic regional projects over the next 25 years.

Following the storms of December 2013 which caused severe disruption across the UK network, SSE's Network business established a new Resilient Communities fund, to support communities in its network distribution areas in preparing for future emergency weather events. It will fund initiatives that will improve community resilience in dealing with extreme weather events. The fund is expected to distribute £1.3m over the next two years.

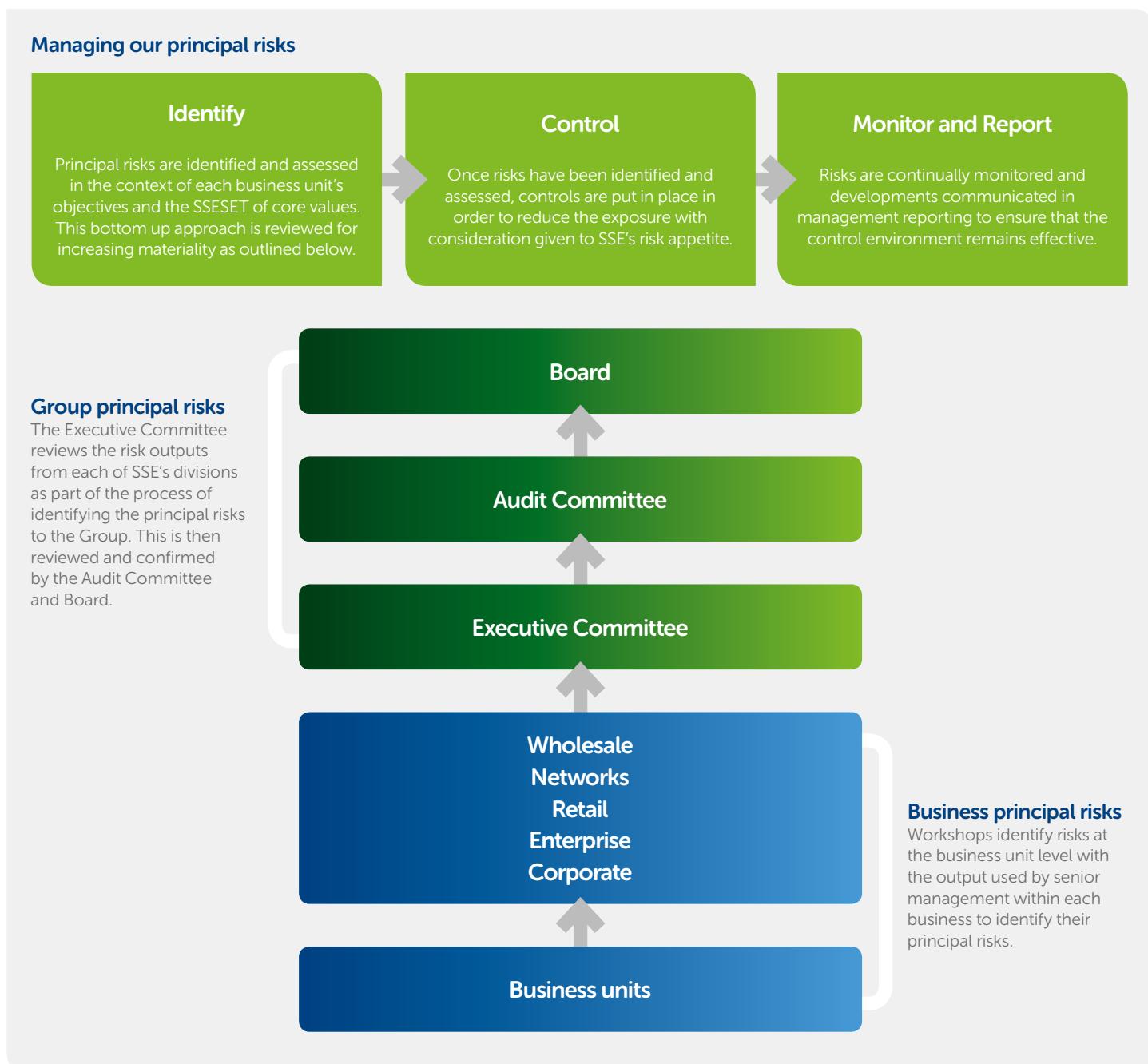
## SSE's heritage

SSE is acutely aware that it is the custodian of a legacy arising from over 70 years of association with communities across the country. Preserving that heritage is the first priority, with the digitalisation of both the Hydro and Southern archive almost complete. A new company archive will open to the public in the summer of 2015 and it is anticipated that these archives will provide valuable content for a proposed new SSE visitor centre at Pitlochry, in Scotland.

## Principal risks

# Understanding and managing our principal risks

A detailed review of SSE's principal risks was completed in 2014/15. The review identified 10 principal risks which have the potential to threaten SSE Group's business model, future performance, solvency or liquidity. A detailed definition, outline of potential impact and action to mitigate each risk is outlined in this section. An overview of SSE's approach to managing risk is provided on pages 12 and 13.



## Commodity prices

### What is the risk?

Exposures to the physical volume and price risk of certain commodities – including electricity, gas, coal, CO<sub>2</sub> emissions permits and oil – arise from two main sources.

Firstly, there is a requirement to match volumes of purchased gas and electricity with customer demand. This exposure is influenced by a number of factors including customer numbers, the weather and changes in energy use.

In addition, exposures arise due to the difference in the cost of fuel and other commodities required for generation, and the electricity revenue derived from SSE's long-life generation asset investments.

A significant proportion of SSE's profitability, including return on investment in power generation assets as well as the ability to price competitively in the retail market, is dependent on the successful management of these exposures. A sub-optimal trading strategy could lead to significant financial loss, loss of customers and increased political scrutiny.

The markets for these commodities are driven by global supply and demand, itself influenced by a number of complexities including geopolitical events, global economic growth, the weather and technology. The global commodity price makes up a significant part of the energy cost to the customer. Increasing commodity prices affect the overall affordability of energy and can have an impact on demand and customers' ability to pay.

### How does SSE mitigate it?

- SSE uses Value at Risk (VaR) measures to monitor and control exposures to commodity price and volume. Trading limits are set by the Board and managed through the Risk and Trading Committee (RTC).
- Commodity positions are assessed on a daily basis by an independent Risk Management team who also manage breaches of limits according to a defined escalation and governance process.
- The RTC takes an active role in approving trading/hedging strategies and maintains a framework of individual trader limits, counter-party credit limits and cumulative trading limits.
- SSE's Capital Allocation Group ensures – and makes recommendations to the Executive Committee on – the efficient use and allocation of capital in the Wholesale business. Decisions to invest in long term generation assets are taken by the Board and consider a number of potential commodity price scenarios which are developed using internal and third party expertise.
- SSE has an Energy Economics department which provides commodity price forecasts which are used to inform decisions on trading strategy and asset investment.
- SSE works to develop innovative tariff structures, underpinned by a commodity trading strategy, aimed at providing customers with prices which are both competitive and stable.

## Energy affordability

### What is the risk?

Energy costs make up around 5% of the average UK household expenditure, a figure which for the poorest fifth of households rises to 11% (2012 ONS figures). The total cost of energy is driven by a number of factors, including commodity costs, infrastructure costs, energy sector overheads and Government levies aimed at supporting measures for the reduction of carbon emissions and increased energy efficiency.

SSE is involved in all points of the value chain for energy in the UK and Ireland including production, storage, transmission, distribution, supply and related services. The decisions SSE takes in delivering these investments and services contribute to the overall cost of energy to the consumer. SSE is equally committed to keeping the cost of energy as affordable as possible, both now and over the long term, as it is to delivering the standard of service required by a modern economy.

If the cost of conventional energy production does not remain competitive, there is likely to be increasing pressure from alternative sources of energy as well as public and political pressure. This could have a significant effect on the long term performance of all areas of the business with knock on effects to both demand and the customers' ability to pay.

### How does SSE mitigate it?

- SSE works to develop innovative tariff structures, underpinned by a commodity trading strategy, aimed at providing customers with prices which are both competitive and stable.
- SSE actively argues for political action to drive down non-commodity related costs which make up a significant part of the average bill, including government-sponsored environmental and social policies and its smart meter roll-out costs. To protect customers, particularly the most vulnerable, SSE believes that these policies should be funded through general taxation and be related to people's ability to pay.
- SSE's customer charter sets out the steps it takes to support customers who are having difficulty paying their bills, encouraging early engagement to work together on an arrangement that allows payments to be sensibly managed.
- SSE's generation business operates a balanced portfolio of assets which reduces the reliance on a single technology or fuel type in turn helping to reduce volatility in the overall costs of energy.
- Through the Distribution Price Control Review process, SSE has proposed significant reductions in the distribution component of electricity bills and improvements in the standard of service that customers will receive from their network operators. Ofgem's final determinations propose a real reduction in the distribution share of the average household bill which is a significant contributor to the overall cost of energy.

## Principal risks continued

### Funding shortfall

#### What is the risk?

SSE's policy is to ensure that it has at all times funds available to meet its liabilities when these fall due under both normal and stressed conditions, without incurring unacceptable costs or risking damage to its reputation.

SSE typically funds refinancing and future borrowing requirements by issuing senior bonds and hybrid capital. In addition, it utilises bank borrowings, index-linked loans and private placements. If these sources of funding were unavailable to meet either increases in overall borrowing requirements or to refinance maturing debt it could impact on SSE's ability to meet its commitments and in turn could force a curtailment of its capital investment programme, adversely impact credit ratings and ultimately affect SSE's ability to trade.

#### How does SSE mitigate it?

- SSE's approach to managing liquidity is to ensure that the Group has available committed borrowings and facilities equal to at least 105% of forecast borrowings over a rolling 6 month period.
- This approach is informed by detailed medium to long term cash forecasting which takes into account anticipated changes in business activity, markets and funding position.
- The Board, through the Audit Committee, considers the medium term funding plan including a detailed market update report in May each year.
- SSE maintains a group of relationship banks who support the company's financing activities through their ongoing participation in committed lending facilities which currently total £1.5bn.
- SSE seeks to maintain a diversified portfolio of debt to avoid over-reliance on any one market. This allows it to build relationships with, and create competition between, debt providers.
- The Board's policy is to maintain a strong balance sheet and credit rating to support investor, counter-party and market confidence and to underpin the future development of the Group. The current average age of SSE's debt is around 10 years.

### Human and relationship capital management

#### What is the risk?

SSE's people are one of its most valuable assets, playing a major part in the continued success of the business and it is those people who will deliver the business transformation critical to delivering on strategy. The actions of SSE's people influence the relationship it has with customers as well as the wider reputation of the business, both of which are central to SSE's differentiation in a competitive market.

There is increasing competition for skilled individuals, both within the energy sector and increasingly from other industries. If SSE cannot retain, attract and develop diverse talent, it will have an impact on both the development plans for the business and the continuity of existing operations. Poorly executed knowledge transfer between colleagues, particularly in parts of the business with an ageing demographic, could lead to reduced performance and may threaten SSE's plans for improvement.

Everyone at SSE is expected to comply with legislation, regulation and internal policy, including the SSESET of values, and it is important that everyone is responsible and acts with integrity at all times. The current pace of political and regulatory change, combined with the inherent complexity of SSE's activities, make it increasingly important that everyone at SSE is able to readily question the status quo and always strive for continuous improvement.

In many cases SSE's activities involve being welcomed into customers' homes and afforded a level of trust, something that it takes very seriously. There are certain roles in which misjudged or malicious behaviour could lead to significant financial impact or a loss in investor confidence, particularly in energy portfolio management and in passing significant accounting judgements.

#### How does SSE mitigate it?

- SSE looks to employ, train, develop and retain a diverse and talented workforce and provide them with the support they need to deliver business objectives in a responsible way.
- SSE's business leaders are expected to undertake regular succession planning reviews. At a Group level, SSE continues to develop its approach to the management of talent, identifying the current depth across the organisation and looking at strategies to enhance this. Currently employing around 650 trainees across the business, SSE is an active member of the National Skills Academy for Power, an industry joint training and skills development group which develops common standards and attraction strategies for key energy sector roles.
- SSE has strong governance systems in place which minimise the potential for malicious activity, including independent monitoring of compliance and trading activity, segregation of duties, and robust hiring and performance management processes.
- SSE has a Whistleblowing policy which allows anyone, either internal or external, to report any suspicions they have of any wrongdoing.
- The Audit Committee reviews all key accounting judgements made as part of the preparation of the Annual Report and Accounts.

## Industry and company transformation

### What is the risk?

The energy sector is undergoing constant technological improvement and political and regulatory change. It is important that SSE is able to stay at the forefront of the industry by identifying emerging trends, developing strategies to exploit competitive opportunities and question the status quo, striving for continuous improvement in all areas of activity.

In Retail markets, competitive pressure means a failure to keep up with fast-developing customer needs and new technologies could reduce SSE's market share and adversely affect service levels to customers. The advent of smart metering and the changing needs of the customer require a reorganisation of people, processes and supporting systems.

In the Networks business, SSE has proposed significant reductions in overall cost and improvements in the standard of service that customers can expect to receive. To achieve this, it needs to deliver major cost efficiencies and improvements in customer service. Longer term, any large-scale adoption of smaller-scale distributed (local) generation could result in increased pressure on revenues and overheads which may adversely affect return on investment.

In the GB generation market, it will be critical to understand and adopt the latest, most efficient technologies to maximise competitiveness for revenue support payments. An inability to do so could pose a threat to SSE's capital investment plans and threaten its position in the market as a significant electricity generator.

SSE's Enterprise business was created to integrate expertise in contracting, lighting services, utility solutions, telecoms and business relationship management, forming a new standalone business-to-business arm of SSE.

The projects to deliver these business transformations are large and complex. It is vital that SSE successfully delivers these in order to give customers the services they require whilst maintaining an efficient cost to serve. Failure to do this could result in falling sales and customer numbers due to a lack of price competitiveness and a poor reputation for service. Poor service standards would in turn impact on revenues through foregone incentive payments as well as damaging SSE's relationship with customers, Regulators and other key stakeholders.

These projects will draw on resources from across SSE and poor management of these resources, poor integration or inadequate scoping of project requirements and benefits could impact on business as usual activities, increase project costs and adversely affect service standards.

### How does SSE mitigate it?

- SSE continues to monitor and engage with both industry and the supply chain on developments in key product areas.
- SSE's Networks Division has a dedicated Future Networks team who primarily look at incremental technologies aimed at increasing the reliability and efficiency of network assets.
- SSE has created a Transformation Governance Framework. Building on the success of its Large Capital Projects Framework, this provides a consistent process and tool-set to manage change within the organisation from first principles to benefit realisation.
- SSE continues to develop the strategy setting process to ensure it considers a wide range of possible directions for the energy sector and the products and services that it provides.

## Infrastructure failure

### What is the risk?

SSE is reliant on a number of key IT systems to support ongoing operations and cash flow. In particular the customer management system, the main trading support systems and real-time network management systems are critical. A loss of any of these systems could be caused by malicious activity, software or hardware issues including telecoms network connectivity and power supply issues to data centres, or poor operational performance. Interruption of service or compromise of these systems for any reason could significantly affect the service levels provided to customers, could affect operation of the electricity network, compromise sensitive customer data, divert resource from the business as contingency plans are implemented and in some cases may affect a material proportion of the Group's cash flow.

SSE's electricity network is one of the UK's critical national infrastructure assets, central to the functioning of a modern economy. Ensuring the security of this asset is vital as is its safe, efficient, reliable and compliant operation in order to maintain the confidence of Regulators, politicians, customers, investors, and ultimately to protect SSE's licences to operate.

### How does SSE mitigate it?

- Business Units and IT Service Delivery Teams work together to agree appropriate service level agreements for business critical services. Operational Key Performance Indicators (KPIs), are monitored and any incidents are reported and tracked.
- Key technology and infrastructure risks are incorporated into the design of systems and are regularly appraised by IT with risk mitigation plans recommended.
- Technology reviews are undertaken to evaluate software and hardware longevity and the need for any additional resilience planning.
- SSE conducts regular internal and third party testing of the security of the IT network and systems.
- SSE is an active member of a number of security forums including the Centre for the Protection of National Infrastructure. Where sites are designated critical to national infrastructure, SSE has an enhanced level of security in place, monitored by a dedicated NSI gold registered facility.
- The Group has crisis management and business continuity plans in place which are designed for the management of, and recovery from, any interruption events.

## Principal risks continued

### Major projects quality

#### What is the risk?

SSE continues to deliver its capital investment programme with a number of ongoing construction and IT projects nearing completion and its single biggest construction project, the Caithness-Moray high voltage transmission link, now underway.

It is critical that these projects are delivered on time and on budget, supported by its Large Capital Projects Governance Framework. In addition, SSE needs to ensure that projects are built to a high quality standard as they generally have an economic life of between 15 and 30 years and in many cases longer.

SSE will typically manage the development process and organise the delivery of the project by 3rd party contractors, taking a pro-active oversight role during the construction phase.

Whilst this model ensures that the correct skills are leveraged, SSE has experienced supplier failures in the past most notably in terms of quality control. Whilst contractual warranties will cover the faulty components, there is often a significant unrecoverable cost associated with these events in addition to potential impacts to the service SSE can provide to customers. Added to this, any quality defects may not show up until sometime after the construction of an asset resulting in an expensive and disruptive process of recovery.

#### How does SSE mitigate it?

- SSE has a Large Capital Projects Governance framework in place which ensures a consistent approach to project development and delivery and includes a statement of Supplier Quality Requirements.
- Any main contract suppliers are subject to a number of verification processes which include quality assessments.
- SSE's standard practice is to ensure it has the contractual right to inspect any manufacturing facility, be present at all tests and inspections and require the supplier to provide verification of various criteria including the origin and history of materials used and the competency of the workforce.
- In major projects, SSE generally manages the insurance placement by organising owner controlled insurance. This allows it to have greater control and flexibility over the provisions in place. SSE also sees the insurance market as an important source of information on the reliability of technology and uses this to inform the design process.
- Once new assets are commissioned, SSE's dedicated Engineering Centre of Excellence monitors the operational performance of assets to provide early visibility of any significant issues.
- Strategic spares, agreed in conjunction with the suppliers, operators and subject matter experts, are in place to mitigate the impact of any quality issues.

### Pension liabilities

#### What is the risk?

SSE operates defined benefit pension schemes. At present, in aggregate, there is an actuarial deficit between the value of the projected liabilities of these schemes and the value of the assets that they hold.

The deficit can be affected by a number of factors including asset volatility, changes in bond yields, fluctuations in interest rates and inflation, and changes in the life expectancy of scheme members.

An increase in the deficit may require SSE to increase the amount of cash contributions payable to these schemes, resulting in a reduction in the amount available to satisfy its other obligations or service future growth.

A full update on the position of the schemes is included in note 30 to the Annual Report and Accounts.

#### How does SSE mitigate it?

- Each defined benefit scheme has a Board of Trustees which acts independently of the Group.
- The schemes each have investment advisors in place who have developed road-maps with the intention of the schemes becoming fully funded (i.e. no longer reliant on SSE), within twenty years.
- SSE has a Pensions Scheme Committee (PSC) chaired by SSE's Finance Director which meets quarterly. The PSC exists to ensure that SSE's approach to the management of its pension scheme obligations is fair and consistent. The PSC is attended by the Chairmen of the Southern Electric, Scottish Hydro-Electric and Scotia Gas Networks pension schemes, as well as senior company appointed trustees and managers from SSE's in-house Pensions department.

## Political and regulatory change

### What is the risk?

The markets in which SSE operates are subject to a high degree of regulatory and legislative intervention at both domestic and EU level. This legal framework can change explicitly with the introduction of new or revised legislation, or indirectly due to evolving interpretation and legal precedent.

Changes, either explicit or indirect, can lead to additional reporting requirements, the creation of new products or market structures and can have a significant effect on the profitability of SSE's asset base. Any such changes may require amendments to SSE's policies, procedures and operating practices and any failure to act and maintain compliance could result in regulatory action, damage to SSE's reputation and impact upon its operations.

The pace of change in, as well as the complexity of, the energy sector is increasing; following the progressive implementation of electricity market reform, the GB market is the subject of investigation by the Competition and Markets Authority (CMA) which is due to conclude at the end of 2015 and which could result in further significant changes to the structure of the market.

Energy policy and the legislation which may result from manifesto policies was a key focus in the run up to the 2015 UK General Election. Whilst it will take some time to become clear, any ongoing ambiguity with regard to the market and its framework makes sustainable long-term strategy planning more challenging and can have an impact on investor confidence.

In addition to energy specific measures, SSE must also understand and comply with consumer, financial and health and safety legislation and regulation, amongst others.

### How do we mitigate it?

- SSE has dedicated Corporate Affairs, Regulation, Legal and Compliance departments in place that provide advice to the Wholesale, Networks, Retail and Enterprise businesses on the interpretation of political and regulatory changes and take the lead in engagement with regulators, politicians, officials and other stakeholders.
- There is regular engagement with the Board and Executive Committee on political and regulatory developments which may impact on SSE's operations or strategy.
- SSE takes a pro-active role in seeking to address sector-wide issues, as evidenced by the publication of its manifesto, "Proposals to deliver affordable, secure and low-carbon energy" which set out SSE's recommendations to ensure a sustainable energy market in the future.
- SSE has a dedicated CMA project team, to manage the high volume of information gathering and analysis required to engage with the Authority and support its investigations. This team draws on expertise from across SSE and will play a key role in ensuring it is able to quickly and effectively integrate the investigation's outcome into its operations and strategy.
- SSE actively argues for political action to drive down non-commodity related costs which make up a significant part of the average customer energy bill, including government-sponsored environmental and social policies and its smart meter roll-out costs. To protect customers, particularly the most vulnerable, SSE believes these policies should be funded through general taxation and related to people's ability to pay.

## Safety and environmental management

### What is the risk?

SSE's operations are in many cases undertaken in hazardous environments. It constructs, maintains and operates complex assets including hydro dams, power stations and major gas storage facilities. These assets require the storage of a significant volume of water, fuel, oil and other chemicals, and any uncontrolled release of these could result in injury to staff, contractors or members of the public and damage to the environment.

SSE also owns interests in offshore oil and gas exploration and production assets, the operation of which is undertaken by partners who are proven and approved industry operators. SSE's ownership interest means it has a responsibility to ensure a high safety standard is adopted in order to prevent incidents and to protect its interests and liabilities more generally.

### How does SSE mitigate it?

- Safety is the Group's number one value and is overseen by the Safety, Health and Environment Committee and supported by the Board's Safety Health and Environment Advisory Committee.
- SSE's dedicated Engineering Centre of Excellence reviews and develops plans to ensure the integrity of its assets is maintained and is independent of the operations teams.
- SSE undertakes regular hazard studies on key areas of exposure with support and oversight provided by the Group Safety, Health and Environment team.
- For exploration and production assets offshore where SSE is not the operator, there are a number of assurance measures in place to ensure that the proven and approved operator partners maintain and adopt high standards for their safe management and operation. This includes regular engagement across all disciplines, with an emphasis on safety and technical assurance facilitated by audits and verification using both internal and third party resources.
- The Group has crisis management and business continuity plans in place, which are designed for the management of, and recovery from, significant safety or environmental interruption events.

By order of the Board

**Sally Fairbairn**

Company Secretary  
19 May 2015

## Chairman's introduction to SSE corporate governance

# A strong corporate governance culture is fundamental to SSE's success allowing it to be a values-based, responsible, transparent and sustainable company.

### Introduction

We believe that creating a strong corporate governance culture is fundamental to SSE's success, allowing it to be a values-based, responsible, transparent and sustainable company. The Governance Report and Board Committee Reports which follow, provide explanations of how we have applied the main principles of The UK Corporate Governance Code 2012 (the Code) and details can be found on the following pages with respect to: Leadership (page 73); Effectiveness (page 78 and Nomination Committee pages 82 and 83); Accountability (page 79 and Audit Committee pages 84 to 87); Remuneration (pages 90 to 108); and Relations with Shareholders (page 81).

### The UK Corporate Governance Code

SSE is fully supportive of the "comply or explain" model outlined in the Code, which is issued by the Financial Reporting Council and is available in full on their website at [www.frc.org.uk](http://www.frc.org.uk).

The Code provides organisations with flexibility and the opportunity to adopt governance practices that are appropriate in supporting the effective operation of the business. For the reporting year 2014/15 I am pleased to confirm compliance with the Code, with the exception of provision C3.7, whereby the external audit contract should be put out to tender at least every 10 years. A detailed explanation of the non-compliance, along with the anticipated timeline for the tender of the external audit contract can be found in the Audit Committee Report on pages 84 to 87.

The Code was subject to revision in September 2014, making changes to the areas of Directors' remuneration, risk management and internal control – including the requirement for a viability statement, and engagement with shareholders upon a significant vote against any resolution. The 2014 version of the Code applies to SSE from 1 April 2015, and the Board considered the new requirements at its meeting in January this year.

### Risk

We have carried out substantial work during 2014/15 to improve both the approach to risk management and the system of internal control. This has included further development of the processes applied in the identification of SSE's principal risks. A full description is detailed in the Strategic Report on pages 12, 13 and 66.

### Board evaluation

Evaluation is a critical element in confirming that we have an effective and responsible Board, capable of making the right decisions, to ensure SSE is well positioned to continue to deliver for the benefit of our shareholders. An internal Board evaluation was carried out in 2014/15. Measuring against the objectives set last year, I am pleased with the progress made by the Board and have identified further areas for improvement which will form part of the Board agendas going forward. The evaluation confirmed that the Board and its Directors operate effectively and support our overall strategic direction, values and governance. In line with best practice an external evaluation will be carried out during 2015/16.

### Board changes and succession planning

As I detailed in last years report, we welcomed Peter Lynas to the Board as a non-Executive Director on 1 July 2014. At the conclusion of the AGM on 17 July 2014 both Lady Rice and Thomas Thune Andersen stepped down from the Board. Details of the changes to the composition of Board Committees made during the year, along with plans for ongoing refreshment are explained in the respective reports.

The Board's ongoing succession plan, including Richard Gillingwater's appointment to Deputy Chairman on 1 January 2015 and then Chairman on 23 July 2015, subject to being re-elected as a director by shareholders, and the plans underway to appoint a new non-Executive Director who will also assume the role of Senior Independent Director, can be found in the report of the Nomination Committee on pages 82 and 83.

### Stepping down

I joined the Board in 2003 and have served as Chairman since 2005. In November 2014 I announced my intention to stand down and the Board have overseen a rigorous process in the appointment of my successor. I'm delighted that Richard Gillingwater will assume the role upon my departure at the completion of the AGM on 23 July 2015. This is earlier than planned following my appointment as Chairman to another UK listed company. Richard was made Deputy Chairman in January of this year and will continue to act as Senior Independent Director to the Board until taking on the Chairmanship. Having worked alongside Richard since he joined the Board in 2007, I believe the wealth of experience and knowledge he will bring to the role to be invaluable and I wish him every success.

### Lord Smith of Kelvin

Chairman



## How the Board works

### Leadership

#### The role of the Board

The Board is collectively responsible to the Company's shareholders for the long-term success of SSE and for its overall strategic direction, values and governance. It provides the leadership necessary for the Group to meet its business objectives, whilst ensuring that a sound system of internal control and risk management is in place. The work of the Board is underpinned by SSE's core purpose, to provide the energy people need in a reliable and sustainable way. The powers and duties of the Directors are determined by legislation and by the Company's Articles of Association. A formal schedule of matters is specifically reserved for decision by

the Board. Establishing a schedule assists the Board in the effective discharge of its duties, by documenting which decisions are for Board approval and which decisions can be delegated to management. Oversight of delegated matters is retained through the provision of reports from Executive Directors and the Executive Committee. Matters reserved exclusively for Board consideration include:

- Group strategy;
- annual budget;
- approval of interim and full financial statements;
- interim dividend payments and recommendation of final dividends;
- significant changes in accounting policy and practice;

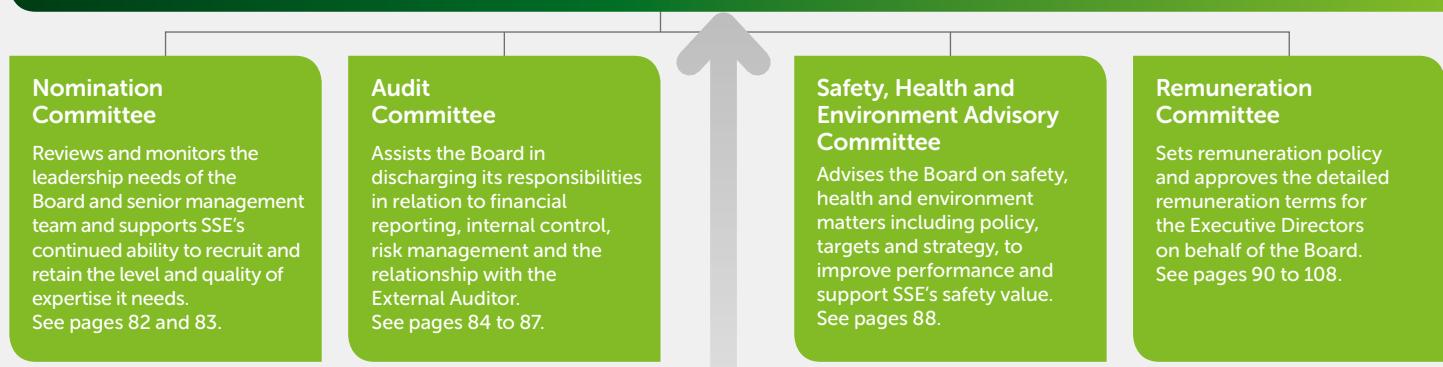
- the Group's corporate governance risk management and system of internal control;
- significant changes in consumer prices;
- changes in capital structure of the Group;
- Board and Committee membership;
- major acquisitions, mergers, disposals and capital expenditure;
- approval of key policies such as safety, health and environment; and
- regulatory matters including price control reviews proposed by Ofgem.

This schedule is reviewed regularly by the Board and is published on the SSE website along with the Articles of Association.

### SSE's corporate governance structure

#### Board of Directors

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



#### Executive Committee

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

Safety, Health and Environment Committee	Risk and Trading Committee	Risk Committee Ireland	Large Capital Projects Committee	Capital Allocation Group	Governance and Disclosure Committee	Information Security Steering Group
Reviews safety, health and environment performance against targets and implements the strategy for improved performance to support SSE's safety value.	Supports management of risks by reviewing the market, credit, operational and liquidity risks and issues arising from Energy Portfolio Management, Wholesale, Retail and treasury operations.	Reviews business operations in Ireland, ensuring optimal performance is achieved by managing and understanding the inherent risks facing new and existing business activities.	Ensures projects are governed, developed, approved and executed in ways that are compliant with SSE's Large Capital Projects Governance Framework.	Assesses the requirement for, and efficient use of, capital for investments in the Wholesale business and makes recommendations to the Executive Committee.	Oversees and advises on governance best practice, corporate conduct and disclosure, monitors compliance and develops investor relations strategy.	Recommends and implements the appropriate control environment to ensure protection from specific and strategic cyber security risks.

## Board of Directors

**Lord Smith of Kelvin**  
Chairman



**Richard Gillingwater CBE**  
Deputy Chairman and Senior  
Independent Director



**Alistair Phillips-Davies**  
Chief Executive



**Gregor Alexander**  
Finance Director



### Nationality

UK

UK

UK

UK

### Date of appointment

Non-Executive Director since June 2003. Chairman since January 2005.

Non-Executive Director since May 2007. Senior Independent Director since July 2012. Deputy Chairman since January 2015.

Appointed an Executive Director in January 2002 and appointed Chief executive in July 2013.

Appointed Finance Director in October 2002.

### Committee Membership

Chairman of the Nomination Committee. Member of the Remuneration Committee.

Chairman of the Remuneration Committee. Member of the Nomination and Audit Committees.

Member of the Nomination Committee.

Member of the Nomination Committee.

### Background

Lord Smith has held a number of senior positions in a range of financial services organisations, including Morgan Grenfell Private Equity, Morgan Grenfell Asset Management and Deutsche Asset Management. He is a chartered accountant and a past president of the Institute of Chartered Accountants of Scotland. He was Chairman of the trustees of the National Museums of Scotland and Glasgow 2014 Limited, the organising committee for the Commonwealth Games. He led the Smith Commission in 2014.

Richard was, most recently, Dean of Cass Business School, London. Prior to this he spent 10 years at Kleinwort Benson, before moving to BZW, in due course, becoming joint Head of Corporate Finance and, latterly, Chairman of European Investment Banking at Credit Suisse First Boston. He has previously served as Chief Executive then Chairman of the Shareholder Executive. He has been the Chairman of CDC Group and a non-Executive director of P&O, Debenhams, Tomkins, Qinetiq Group and Kidde.

Alistair has over 18 years' service with the Group, having joined Southern Electric plc in 1997. Prior to that he worked for HSBC and National Westminster Bank in corporate finance and business development roles in London and New York. He has extensive experience in the energy sector and in growing businesses in the Wholesale, Retail and Enterprise and other commercial areas of SSE. In addition he has led many of the Group's most significant transactions since the merger in 1998 which formed the Group. As Chief Executive he is responsible for delivering the strategy of the Group and leading on safety; operational performance; and development of the people and culture agendas in SSE. He is a chartered accountant and former Chairman of the Energy Retail Association.

Gregor has over 24 years' service with the Group, having joined Scottish Hydro-Electric plc in 1990. He is a chartered accountant.

Gregor has SSE Board-level responsibility for Finance, Investor Relations, Risk, Audit and Insurance, Procurement and Logistics, IT, and Corporate Business Services. He is the sponsoring Board member for SSE's businesses in Ireland, Chairman of the Scottish and Southern Energy Power Distribution Board and Chairman of 50%-owned Scotia Gas Networks Ltd.

### Key appointments

Chairman of: UK Green Investment Bank plc, IMI plc and Forth Ports Limited.

Chancellor of the University of Strathclyde.

Chairman of Henderson Group plc. Senior Independent Director of Helical Bar plc. He has resigned as Senior Independent Director of Hiscox Ltd with effect from 20 May 2015 and as a non-Executive Director of Wm Morrison Supermarkets plc with effect from 4 June 2015, in order to ensure that he has the appropriate capacity to Chair SSE. Pro-Chancellor of the Open University.

Director of Energy UK and member of the Accenture Global Energy Board.

Non-Executive Director of Stagecoach Group plc.

**Jeremy Beeton CB**  
Non-Executive Director



**Nationality**  
UK

**Katie Bickerstaffe**  
Non-Executive Director



UK

**Dame Susan Bruce DBE**  
Non-Executive Director



UK

**Peter Lynas**  
Non-Executive Director



UK

#### Date of appointment

Non-Executive Director since July 2011.

Non-Executive Director since July 2011.

Non-Executive Director since September 2013.

Non-Executive Director from 1 July 2014.

#### Committee Membership

Chairman of the Safety, Health and Environment Advisory Committee. Member of the Remuneration and Nomination Committees.

Member of the Nomination and Remuneration Committees.

Member of the Audit, Nomination and Safety, Health and Environment Advisory Committees.

Chairman of the Audit Committee. Member of the Nomination Committee.

#### Background

Jeremy was the Director General of the UK Government Olympic Executive, the lead government body for coordinating the 2012 London Olympics.

Previously Jeremy was Principal Vice President of Bechtel Ltd, where he had responsibility for the management and delivery of Bechtel's civil engineering projects in infrastructure and aviation business lines.

Jeremy is a civil engineer.

From 2008 to 2012, Katie served as Director of Marketing, People and Property (Dixons). Previously she was Managing Director of Kwik Save Ltd and Group Retail Director and Group HR Director at Somerfield plc. Her earlier career included roles at Dyson Ltd, PepsiCo Inc and Unilever PLC.

Sue has had an extensive career in local government and has held a number of senior positions including Chief Executive at East Dunbartonshire Council and Aberdeen City Council before taking up the role of Chief Executive at the City of Edinburgh Council. Sue has given notice of her retirement from local government and she will leave by October 2015 in her 40th year of service.

Sue has an M.Phil. Politics/Government; LLB, Scots Law; D. Univ (Hon) and is a Fellow of the RSA.

Peter joined GEC-Marconi in 1985 as a Financial Accountant at the manufacturing operation in Portsmouth and in 1998 was appointed Finance Director of Marconi Electronic Systems prior to the completion of the British Aerospace/Marconi merger.

He was a Board director of Marconi's European joint venture companies, Alenia Marconi Systems and Matra Marconi Space, and has been a Chairman of the trustee board of a major pension scheme.

Peter is a Fellow of the Chartered Association of Certified Accountants.

#### Key appointments

Member of the Court of Strathclyde University.

Sits on the Advisory Board of PwC, the Supervisory Board of Imtech and is Chairman of Merseylink Ltd.

Non-Executive Director of A Proctor Group Ltd and non-Executive Director of John Laing Group plc.

Chief Executive, UK and Ireland Dixons Carphone plc.

Chief Executive, The City of Edinburgh Council; non-Executive Director of The Scottish Council for Development and Industry; Chair of Young Scot; Visiting Professor, The International Institute of Public Policy, University of Strathclyde.

Group Finance Director of BAE Systems plc and a member of the BAE Systems Inc Board in the US.

## How the Board works continued

### The Board committees

There are four standing committees of the Board to which certain responsibilities are delegated, as outlined in SSE's corporate governance structure on page 73. Delegation of matters to specific committees of the Board ensures that all areas receive necessary focus, followed by recommendation to the Board as appropriate. The terms of reference of these

committees are set by the Board, reviewed regularly and are available in full on the SSE website. Membership is determined by the Board on the recommendation of the Nomination Committee and in consultation with the relevant Committee Chairman. At meetings of the full Board, the Committee Chairman is responsible for communicating key matters requiring Board attention.

### Division of responsibilities

The roles of Chairman and Chief Executive are separate and clearly defined, and the roles were reviewed during 2014. An overview of the governance roles and responsibilities of the Board members and Company Secretary throughout the reporting year are outlined below.

#### **Chairman** Lord Smith of Kelvin

##### The role of Chairman involves:

- leadership, operation and governance of the Board;
- setting the agenda for Board meetings ensuring that they operate effectively, providing appropriate opportunity for challenge and debate to support sound decision making;
- ensuring constructive relations exist between the Executive and non-Executive Directors;
- identifying individual Director training needs and overseeing the performance evaluation;
- meeting with shareholders, analysts and other representatives of institutional investors;
- participating in both the interim and annual results presentations and the AGM; and
- meeting with managers and employees at various locations throughout the Group.

#### **Deputy Chairman and Senior Independent Director** Richard Gillingwater

##### The Deputy Chairman deputises for the Chairman and provides support to his role where required and the role of Senior Independent Director involves:

- providing a sounding board for the Chairman;
- serving as an intermediary to other Directors when necessary;
- being available to shareholders if they have any concerns which are unable to be resolved through the normal channels of Chairman, Chief Executive or Finance Director or if contact through these channels is deemed inappropriate; and
- attending meetings with investors and participating in management visits and specifically in 2014/15 he provided guidance to the CMA project team.

#### **Non-Executive Directors** Jeremy Beeton, Katie Bickerstaffe, Sue Bruce and Peter Lynas

##### The role of the non-Executive Directors involves:

- scrutinising, measuring and reviewing the performance of management;
- constructively challenging and assisting in the development of strategy proposed by the Executive Committee;
- reviewing the Group financial information, ensuring systems of internal control and risk management are appropriate and effective;
- reviewing the succession planning for the Board; and
- serving on various Committees of the Board.

## Roles and responsibilities

#### **Chief Executive** Alistair Phillips-Davies

##### The Chief Executive is responsible for:

- leading the management team in the day-to-day running and operations of the Group;
- delivering strategy as agreed by the Board;
- representing the Company to external stakeholders, shareholders, customers, suppliers, regulatory and government authorities and the community; and
- leading the Executive Committee and its sub-Committees which oversee the operational and financial performance of, and issues facing, the Company.

#### **Finance Director** Gregor Alexander

##### The Finance Director is responsible for:

- deputising for the CEO;
- leading the finance management teams;
- leading and supporting the functions of: Procurement and Logistics; Risk, Audit and Insurance; Investor Relations and Company Secretarial; Corporate Business Services; and IT; and
- representing the Company externally; including to investors, in relation to financial and other business matters.

#### **Company Secretary** Sally Fairbairn

##### The Company Secretary is responsible to the Board for:

- compliance with Board procedures;
- advising and keeping the Board up to date on all corporate governance developments;
- facilitating the Directors' induction programme and assisting with professional development;
- considering Board effectiveness in conjunction with the Chairman;
- communicating results of the Board and Committee evaluations; and
- providing advice, services and support to all Directors as and when required.

## The Directors

The non-Executive Directors are chosen for their diversity of skills and experience and are appointed for a fixed term of three years subject to annual re-election by shareholders. This term may be renewed by mutual agreement. The non-Executive Directors' appointment letters are available on the SSE website. The Board appoints one of the non-Executive Directors to be the Senior Independent Director (SID), who in addition to the responsibilities of non-Executive Director has specific roles as outlined in the diagram opposite.

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

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

### Board meetings and activity

The Board has six scheduled Board meetings each year, with an update conference call in the alternate months between the scheduled meetings. These calls are used to update the Board on business performance, to brief the Board on any current issues, and may include matters for decision or approval.

Board meeting attendance for 2014/15, is set out in the table opposite. In the event of non attendance due to unforeseen circumstances or prior commitments which could not be rearranged, the Director will provide comments and feedback to the Chairman, Committee Chairman or Company Secretary who ensures that the comments received are raised at the meeting. Details of attendance at Board Committee meetings are set out in the respective reports that follow.

The Board agendas follow a forward plan but are flexible to ensure that the matters to be considered are discussed at the correct time within the year. Signature practices at every Board meeting include, reports from: the CEO; the Finance Director; and from the business with regards to compliance and related developments. Examples of the areas of focus for the reporting year are outlined opposite.

Other related developments which received particular attention from the Board included the focus on 'treating customers fairly' in Energy Supply, in line with Standards of Conduct introduced by Ofgem in 2013. In March 2015, the Board reviewed progress with regard to 'treating customers fairly' and, amongst other things, agreed that the Deputy Chairman should meet SSE's TCF (Treating Customers Fairly) Customer Forums to gauge first hand customers' perspectives on SSE's approach to 'treating customers fairly'.

### Board attendance

Members	On the Board since	Position	Attended/ scheduled
Lord Smith of Kelvin	2003	Chairman	6/6
Gregor Alexander	2002	Executive Director	6/6
Jeremy Beeton	2011	Independent NED	6/6
Katie Bickerstaffe	2011	Independent NED	6/6
Sue Bruce <sup>1</sup>	2013	Independent NED	4/6
Richard Gillingwater	2007	Deputy Chairman and SID	6/6
Peter Lynas <sup>2</sup>	2014	Independent NED	4/5
Alistair Phillips-Davies	2002	Executive Director	6/6
Lady Rice <sup>3</sup>	2003	Independent NED	2/2
Thomas Thune Andersen <sup>4</sup>	2009	Independent NED	1/2

- 1 Sue Bruce was unable to attend two Board meetings during the year. One due to her roles as Counting Officer for Edinburgh Constituencies and Depute Counting Officer for Scotland for the Referendum. These roles were clarified prior to her appointment as non-Executive Director and the Board understood that any meetings conflicting with this role would result in non attendance. The second meeting was not attended due to unforeseen health circumstances.
- 2 Peter Lynas joined the Board on 1 July 2014. Peter Lynas was unable to attend one Board meeting during the year due to a pre-determined commitment through his executive role with BAE Systems. This was disclosed and acknowledged by the Board prior to appointment.
- 3 Lady Rice retired from the Board on 17 July 2014.
- 4 Thomas Thune Andersen retired from the Board on 17 July 2014 and was unable to attend one meeting during the year which was approved by the Board.

### Board activity

#### Areas of focus      Examples of matters considered and/or approved by the Board

<b>Strategy</b>	<ul style="list-style-type: none"> <li>- Disposals to deliver business simplification</li> <li>- Acquisitions to deliver business growth</li> <li>- Price freeze</li> <li>- Focused strategy session</li> <li>- Political, policy and economic landscape</li> <li>- RIIO ED1 Price Control</li> </ul>
<b>Leadership</b>	<ul style="list-style-type: none"> <li>- Recommendations on Chairman succession</li> <li>- Deputy Chairman and Chairman appointment</li> <li>- Progress on appointment of a new non-Executive Director</li> <li>- Senior management succession</li> <li>- Diversity planning</li> </ul>
<b>Finance</b>	<ul style="list-style-type: none"> <li>- Annual and half year results</li> <li>- Annual budget</li> <li>- Significant financial judgements</li> <li>- Funding strategy and Going Concern</li> <li>- Fair, balanced and understandable statement</li> </ul>
<b>Engagement</b>	<ul style="list-style-type: none"> <li>- Significant Stock Exchange announcements</li> <li>- Consideration of AGM business for shareholder approval</li> <li>- Annual Report</li> <li>- Feedback of meetings with analysts, investors and stakeholders</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>- Board evaluation</li> <li>- Corporate governance developments</li> <li>- Conflicts of interest</li> <li>- Committee membership</li> <li>- Terms of Reference</li> </ul>
<b>Risk</b>	<ul style="list-style-type: none"> <li>- Risk policy and process</li> <li>- Safety</li> <li>- Risk acceptability and risk appetite</li> <li>- Principal risks and mitigations</li> <li>- IT/Cyber Security</li> </ul>

## How the Board works continued

### The Executive Committee



**Jim McPhillimy**  
Managing Director,  
Enterprise

Jim McPhillimy joined SSE in 1995 and is responsible for safety, SSE Contracting, Lighting Services, Utility Solutions, Telecoms, Water and business relationship management.



**Will Morris**  
Managing Director,  
Retail

Will Morris joined SSE in 2012 and is responsible for the customer facing Retail business in Energy Supply and Energy-related Services.



**Colin Nicol**  
Managing Director,  
Distribution

Colin Nicol joined SSE in 2010 and is responsible for SSE's electricity distribution networks. Colin represents the Networks business at the Executive Committee.



**Martin Pibworth**  
Managing Director,  
Wholesale

Martin Pibworth joined SSE in 1998 and is responsible for Energy Portfolio Management, Generation Operations and Development, Gas Production and Gas Storage.

### Company Secretary



**Sally Fairbairn**  
Company Secretary and  
Director of Investor  
Relations

Sally Fairbairn joined SSE in 1997. Sally and her team provide company secretarial support and services to the Group and are the contact point for the investment community.

### Strategy session

Throughout the year the Board and Executive Committee carried out an iterative strategy review process, part of which included a dedicated strategy session held in September 2014. The Board reviewed and developed strategy for the business areas of Networks, Wholesale, Retail and Enterprise, with each Managing Director presenting an overview of the key strategic elements and related risks within the specific divisions. The Board reviewed and challenged the strategy presented by each business division and assessed the overall alignment to the Group's core purpose, strategy and financial objective – to deliver to shareholders annual dividend growth equal to at least RPI inflation.

### The Executive Committee

The Executive Committee was established in February 2014, and is responsible for implementing policy and strategy as agreed by the Board and for the operational management of all of SSE's businesses. The Executive Committee is supported by seven sub-Committees, the roles of which are described on page 73. The membership of the Executive Committee comprises: the two Executive Directors; and the Managing Directors of Distribution, Enterprise, Retail and Wholesale – all of whom are persons discharging managerial responsibilities. In addition, the Managing Director, Corporate Affairs, is invited to attend meetings and provide relevant briefings. The Company Secretary is Secretary to the Executive Committee. In a commitment to monitor and improve performance, a rigorous evaluation of the Executive Committee was carried out in December 2014. The output confirmed that the Executive Committee worked effectively as a team and identified potential areas for development to ensure its effectiveness is maintained.

### Effectiveness

#### The composition of the Board

The Board currently comprises: the Chairman; the Deputy Chairman and Senior Independent Director; two Executive Directors; and four independent non-Executive Directors. SSE is committed to making well-informed, high-quality decisions in line with best practice in corporate governance, and as such the composition of the Board and its Committees is regularly reviewed to ensure that the balance and mix of skills, independence, knowledge and experience allows this to be achieved. Details of changes in Board membership are outlined in the Nomination Committee Report on pages 82 and 83.

SSE's Board level diversity and its policy on diversity and Board balance are also disclosed in the report of the Nomination Committee.

#### Independence

The Nomination Committee Report explains the process carried out during the year to verify the continuing independence of the non-Executive Directors. The Board considers that the Chairman was independent on appointment and all non-Executive Directors are independent in line with the criteria as set out in the Code. The continuing independent and objective judgement of the non-Executive Directors was confirmed as part of the annual Board evaluation process which is outlined in more detail on page 79.

#### Director induction, training and development

On joining the Board, non-Executive Directors receive a comprehensive induction tailored to their individual requirements. Peter Lynas completed a two day programme on appointment, which was facilitated by both the Chairman and Company Secretary and comprised:

- briefings on strategy, finance, internal audit and investor relations from the Chief Executive and Finance Director;
- overview of the key business areas from Managing Directors including site visits to Energy Portfolio Management, Retail Customer Service and the Emergency Control Room;
- a regulatory update on the CMA project;
- meeting with the Company Secretary to review the Group's governance and policies;
- specific Audit Committee training in conjunction with the Finance Director and Committee Secretary, involving business and group structure updates and meetings with the External Auditor; and
- details of the principal risks and operational issues from the Director of Risk, Audit and Insurance.

Directors are expected to develop and refresh their knowledge and skills on an on-going basis with developmental needs being reviewed as part of the annual Board evaluation process. The necessary resources are made available should any Director wish additional training.

The Company operates performance coaching for the Executive Directors and for other members of senior management, which is designed to develop and enhance individual and company performance.

#### Information and briefings

Keeping up to date with key business developments is essential for Directors to maintain and enhance their effectiveness. Examples of specialist briefings and matters considered by the Board can be found on page 77 within Board activity. The Board also receives regular updates on the progress and performance of investments

including a detailed key performance indicator report from senior management.

Site visits were arranged for the individual non-Executive Directors during the year to gain an additional understanding of SSE's business. During 2014/15 these included site visits to Sloy and Ferrybridge power stations, customer service sites, Energy Portfolio Management as well as attendance at SSE's annual safety conference.

#### **Independent professional advice**

There is an agreed procedure for Directors to take independent professional advice if necessary, at the Company's expense. The prior approval of the Chairman is required where the cost of such advice is likely to exceed £10,000. Any advice obtained shall be made available to

the other members of the Board, if the Board so requests. This procedure was not used during the year.

#### **Evaluation of the Board, Committees and Directors**

The Board, its Committees and the individual Directors participate in an annual evaluation of performance.

The Board evaluation is an objective, formal and rigorous process and includes a feedback mechanism, ensuring that leadership of the Company remains effective. The evaluation strives to assess not only the mix of skills, experience and knowledge in Board and Committee composition but also diversity in approach to key issues. An externally facilitated

evaluation occurs every three years (as recommended by the Code), with the last external evaluation being conducted during 2012. In 2014 an internally facilitated Board and Committee evaluation was carried out. The outcome of the evaluation process was considered at the Board meeting held in January 2015, with subsequent recommendations made as detailed below.

Each Director confirmed the Board to be effective and confirmed their agreement with the objectives ahead of an externally facilitated review in 2015/16.

Each Director also participated in detailed reviews of individual performance which were carried out by the Chairman. The process for evaluating the Chairman was managed by Richard Gillingwater, the Deputy Chairman and Senior Independent Director, which involved a separate meeting with the non-Executive Directors and included feedback from the Executive Directors.

#### **Directors' conflicts of interest**

During the year a review of the Directors' interests and appointments was carried out by the Company Secretary and a report was provided to the Nomination Committee for review and recommendation to the Board. The Board then considered and authorised each Director's reported actual or potential conflicts of interest at their meeting in January 2015. Each Director abstained from approval of their own position. The Board continues to monitor and review actual and potential conflicts of interest on a regular basis and Directors are responsible for notifying the Company Secretary if they become aware of an actual or potential conflict situation or a change in circumstances relating to an existing authorisation. Biographical details for all the Directors, including details of their external directorships are set out on pages 74 and 75.

#### **Accountability**

##### **Financial and Business Reporting**

The Board recognises its responsibility for preparing the Annual Report and Accounts and to present a fair, balanced and understandable assessment of the Group's position and prospects. This assessment also extends to interim results statements and other price sensitive public announcements, reports to regulators and information to be presented by statutory requirements. The Directors statement set out on page 111 recognises and confirms these responsibilities and further details of the Fair, Balanced and Understandable assurance framework used by the Directors can be found in the Audit Committee report on page 87. The Strategic Report on pages 1 to 71 sets out explanations of the basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives. As such, the Annual Report is intended to provide the information necessary to enable an assessment of

#### **Board evaluation**



Objectives set for 2014/15	Progress achieved	Objectives set for 2015/16
<b>Strategy:</b> Review the arrangements for discussing strategy and consider the depth of reviews of external risk.	A dedicated strategy session was held during the year with management representation from each of the business areas.	The session should be carried forward annually with regular updates continuing as an agenda item.
<b>Board meetings:</b> Consider time allocation of specific agenda items and business location of Board and Committee meetings.	Agendas set in consideration of the economic and political landscape throughout the year, with the use of different Group sites as locations for meetings.	Continue to monitor the structure and content of agendas and continue to increase the variety of SSE locations visited by the non-Executive Directors.
<b>Diversity and succession planning:</b> Monitor the diversity and composition of the Board and senior management with consideration to succession planning.	Diversity including gender has been monitored in succession plans and in recommendations for Board appointments, and is a key element of the ongoing talent management programme.	Monitor succession plans for the Board and undertake a search for a new non-Executive Director, receive regular updates on talent management progress.
<b>Risk:</b> Review the risk management framework and system of internal controls.	An extensive risk management review has taken place in conjunction with Group Risk and the Board approved both the Risk Appetite Statement and the Group's 10 Principal Risks.	Receive updates on the effectiveness of the enhanced risk management framework, reviewing the need for further development.

## How the Board works continued

the Company's performance, the business model and its strategy. The responsibilities of the External Auditor, KPMG, in relation to financial reporting are set out in the Auditors report on pages 199 to 201.

### Risk Management and Internal Control

The Group Risk Management and Internal Control Framework is underpinned by the principle that everyone in SSE has a responsibility for the management of risks. To ensure the Group's success, it is critical that the risks to the business are understood and effectively managed and that decisions are taken with full consideration of the risks involved. The Risk Management Framework provides guidance to the Group to support an increased awareness of their risks and to ensure that the accountability, ownership and control of those risks are at an appropriate level. It ensures that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company.

Page 66 of the Strategic Report sets out the process by which the principal risks are managed.

The high level structure of SSE's system of internal control is outlined in the diagram below. It comprises a number of elements with the SSE Group businesses, including their Governance and decision making structure, at the centre.

The Board is responsible for ensuring that there is an effective risk management framework in place, including maintaining a sound system of internal control. These processes and systems are also applied in relation to the financial reporting process as described more fully in the Audit Committee report which is set out on pages 84 to 87. It should be noted that whilst there is a commitment to ensuring that these systems remain robust and effective, they are designed to manage rather than eliminate the risk of failure to achieve our objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

To support regular review of the risk management framework the Board in particular:

- agrees and communicates policies and procedures for the management of risk and operation of internal control systems;
- reviews the principal risks facing the Group and key mitigating actions;
- determines the risk appetite of the Group;
- receives regular update reports on risk management activities from senior management; and
- reviews the effectiveness of internal reporting.

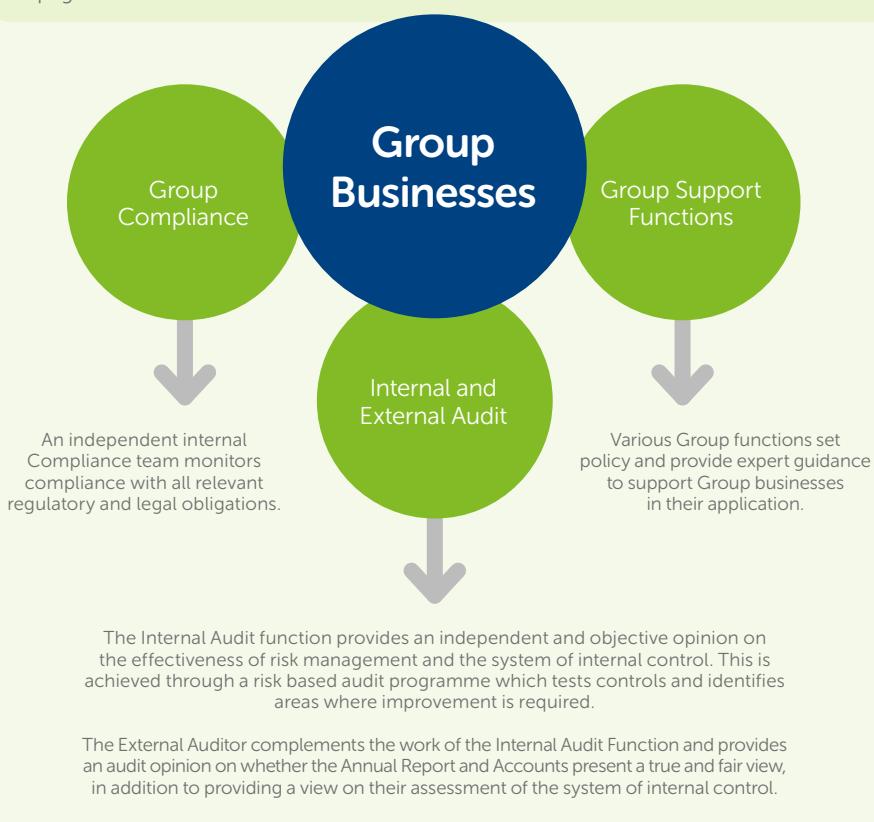
During the year, in addition to the activities described above, the Board has overseen a number of developments within the Group Risk Management Framework, including:

- a review of Group level risk management policies and procedures, including the main process used for identifying the principal risks facing the business (see Strategic Report pages 66 to 71); and,
- the development of a detailed risk appetite statement (see Strategic Report pages 12 and 13).

### SSE's system of internal control

Each of SSE's Group businesses has the responsibility to identify and manage the risks which have the potential to threaten the achievement of their objectives, or compromise the SSESET of core values as part of their day to day operations.

The Group Businesses are supported in this activity by the Group Risk Management Framework under direction from various parts of the Governance structure as outlined on page 73.



### Board's review of internal control

The Board and Audit committee have reviewed the effectiveness of the Company's risk management and system of internal control in line with the requirements of the Code, for the period from 1 April 2014 to 19 May 2015 (being the last practical day prior to printing of this Annual Report) and confirm that the processes described above, which accord with the Turnbull guidance, have been in place throughout that period. The review covered all material controls, including financial, operational and compliance controls and no significant failings or weaknesses were identified. Further details of the process used in reaching this view can be found in the Audit Committee Report on pages 86 to 89.

The risk and internal control procedures described in this report have not been extended to cover the Group's interests in joint ventures. The Group has Board representation on its joint venture companies where separate systems of risk management and internal control have been adopted and in more significant undertakings, such as our 50% share in SGN, the Board receives regular updates on these.

### Going Concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The financial statements are therefore prepared on a Going Concern basis. Further details of the Group's liquidity position and Going Concern review are provided in Note 32 to the financial statements.

### The UK Corporate Governance Code 2014

The updated version of the Code was released

in September 2014 and will apply to SSE for the year beginning 1 April 2015. Work will be carried out in the coming year to reflect the changes in relation to financial reporting, risk management and internal control.

## **Relations with shareholders and major stakeholders**

### **Governance and Disclosure Committee**

The Governance and Disclosure Committee is a sub-Committee of the Executive Committee. The Committee manages governance developments, advises on matters relating to external affairs and assists in developing the investor relations strategy. It is responsible for overseeing the Company's compliance with regulatory and legal requirements including those arising from SSE's listing on the London Stock Exchange surrounding the release and control of announcements and other information of interest to shareholders and the investment community. The Governance and Disclosure Committee comprises: the Chief Executive; the Finance Director; the Company Secretary and Director of Investor Relations; the Managing Director, Corporate Affairs; the Managing Director, Corporate and Business Services; the Director of HR; the Director of Risk, Audit and Insurance; the Director of Legal Services; and the Deputy Company Secretary is Secretary to the Committee. The Committee meets as required and had five meetings in the year.

### **Dialogue with shareholders**

The Company continues to maintain an effective dialogue with shareholders. The Board believes that this is fundamental to ensuring that the Company's strategy is understood and that any questions or issues are dealt with in a constructive way. It is also essential that the views of shareholders are communicated to all members of the Board in order that their expectations are recognised.

The Company maintains regular contact with institutional shareholders, fund managers and analysts led by the Chief Executive and Finance Director. This is primarily delivered through a programme of analyst calls and presentations; one to one shareholder meetings and small group meetings throughout the year. The Company Secretary and Director of Investor Relations has day-to-day responsibility for communications with institutional shareholders and targets bi-annual meetings with the 30 largest shareholders. Analyst reports and shareholder feedback highlighting opinions and issues are distributed to Managing Directors and the Board. This allows the Board and senior management to form a view of the priorities and concerns of SSE's shareholders.

The Chairman participated in the Company's results presentations in May and November

## **The AGM**

<b>Annual General Meeting</b>	<b>Overview</b>
17 July 2014 Perth Concert Hall, Perth	<ul style="list-style-type: none"> <li>- Full Director attendance</li> <li>- Lady Rice and Thomas Thune Andersen stepped down from the Board</li> <li>- At least 95.26% of votes received for the re-election of all other Directors</li> <li>- Highest votes in favour: 99.98% to receive the report and accounts</li> <li>- Lowest votes in favour: 83.80% to authorise allotment of shares</li> </ul>
23 July 2015 Perth Concert Hall, Perth	<ul style="list-style-type: none"> <li>- Lord Smith of Kelvin final attendance as Chairman before stepping down</li> <li>- 14 Ordinary and 4 Special Resolutions to be considered by shareholders</li> </ul>

2014. The Chairman and the Deputy Chairman and Senior Independent Director will also attend the May 2015 presentation. In preparation for his new role, Richard Gillingwater offered meetings to the 10 largest shareholders and met with a number of them to discuss their opinions on governance and the challenges facing SSE over the next few years. As Senior Independent Director he is also available to shareholders if they have concerns that contact through the normal channels has either failed to resolve or is deemed inappropriate.

### **Communications with investors**

SSE's website contains up-to-date information for shareholders and other interested parties including share price information, announcements and news releases, investor and analyst presentations, information on shareholder services and contact details. The Company's Annual Report and other shareholder circulars are also published on the SSE website.

Shareholders have a choice in how to receive their company communications such as the Annual Report. The Company recognises the benefit of electronic communications and encourages shareholders to receive electronic communication. Currently 97% of shareholders receive company communications such as the Annual Report and Notice of Annual General Meeting from the SSE website.

### **Annual General Meeting**

The AGM provides an opportunity for the Board to meet with shareholders and present an update on the performance and plans of the Company. Shareholders are invited to ask questions at the AGM and to meet the Directors and senior managers in order to communicate their views. The Notice of Annual General

Meeting, which contains full explanations of the business to be conducted at the AGM, is set out in a separate shareholder circular. Voting is conducted by means of an electronic handset and in the event of a significant vote against any resolution, appropriate steps will be taken to understand and address any underlying shareholder concerns.

Details of the AGM 2014 and upcoming AGM can be found in the table above.

### **Communications with other stakeholders**

The Directors have a programme of events to meet with a range of external stakeholders representing the public sector, investment community, environmental affairs, and consumer interests. The purpose of these events is to discuss the Company's position on a range of business, policy and public interest issues and to learn more about stakeholders' views, hear their suggestions and address any areas of concern.

More generally, working with public policy makers is a vital area for the Company, given the high profile of energy and environment related issues in the United Kingdom and elsewhere and SSE does this in several ways including submission of consultation responses, meetings and dialogue with different government and non-government organisations, as well as active participation in relevant trade associations and other bodies.

In all of its engagement with stakeholders, SSE seeks to adopt a straight forward and transparent approach, seeking outcomes that bring lasting benefits to customers and support the fair remuneration of investment in energy in the UK and Ireland.

## Nomination Committee Report

The Nomination Committee's role is to review the leadership needs of the Board and senior management of SSE and to support the Company's continued ability to recruit and retain the level and quality of expertise it needs.

### Members and meetings

Members	Independent non-Executive Director	Member since	Attended/scheduled
Lord Smith of Kelvin <sup>1</sup> (Committee Chairman)	No	Mar 2004	5/5
Gregor Alexander <sup>2</sup>	No	July 2014	4/4
Jeremy Beeton <sup>2</sup>	Yes	July 2014	4/4
Katie Bickerstaffe	Yes	Sep 2011	5/5
Sue Bruce <sup>3</sup>	Yes	July 2014	2/4
Richard Gillingwater	Yes	Sep 2008	5/5
Peter Lynas <sup>4</sup>	Yes	July 2014	3/4
Alistair Phillips-Davies	No	July 2013	5/5
Lady Rice <sup>5</sup>	No	July 2014	1/1

<sup>1</sup> Lord Smith of Kelvin was considered independent on appointment as Chairman.

<sup>2</sup> The membership of the Committee changed to that of the full Board on 17 July 2014.

<sup>3</sup> Sue Bruce was unable to attend two Committee meetings during the year. One due to her roles as Counting Officer for Edinburgh Constituencies and Depute Counting Officer for Scotland for the Referendum. These roles were clarified prior to her appointment as non-Executive Director and the Board understood that any meetings conflicting with this role would result in non attendance. The second meeting was not attended due to unforeseen health circumstances.

<sup>4</sup> Peter Lynas was unable to attend one Committee meeting during the year due to a pre-determined commitment through his executive role with BAE Systems. This was disclosed and acknowledged by the Board prior to appointment.

<sup>5</sup> Lady Rice retired from the Board on 17 July 2014.

### Introduction

There have been five meetings of the Nomination Committee during the year which have considered various changes to the membership of the Board and its Committees.

We welcomed Peter Lynas to the Board on 1 July 2014 upon his appointment as a non-Executive Director and he has chaired the Audit Committee since 17 July 2014.

Following the AGM on 17 July 2014 Lady Rice and Thomas Thune Andersen both stepped down from the Board, and the Nomination Committee advised on the appointment of Chairmen for the Remuneration Committee and the Safety, Health and Environment Advisory Committee. Richard Gillingwater and Jeremy Beeton assumed these roles respectively.

In November 2014 Richard Gillingwater's appointment as Deputy Chairman was announced along with his planned succession to Chairman; now due to take place in July 2015. Full details surrounding the succession and the steps taken by the Nomination Committee to ensure full independence are explained in this report.

Following the changes outlined above, the Board now comprises the Chairman, Deputy Chairman and Senior Independent Director, two Executive Directors and four non-Executive Directors.

In keeping with best practice a full internal Board evaluation was carried out during the year, which included a review of all Board Committees. I am pleased to confirm it concluded that we operate effectively and will ensure that this continues, in our role to support the leadership needs of the Company.

Going forward in 2015/16 the Nomination Committee continues work to refresh the Board. We will also continue to review membership of the Board Committees, with particular regard to the change in Chairman.

### Lord Smith of Kelvin

Chairman of the Nomination Committee

### Role

The Nomination Committee's role is to review the leadership needs of the Board and senior management of SSE, to support the Company's continued ability to recruit and retain the level and quality of expertise it needs. The Nomination Committee's remit, which is set out in its terms of reference, includes responsibility for:

- reviewing the structure, size and composition of the Board and its Committees and making recommendations to the Board on any desired changes;
- reviewing the succession plans for the Executive Directors and senior management;
- making recommendations to the Board on suitable candidates to fill vacancies for both non-Executive and Executive Directors;
- ensuring that the procedure for appointing new Directors is rigorous and transparent and that appointments are made on merit and against objective criteria, including independence and diversity of candidates;
- reviewing potential conflicts of interest of Directors; and
- reviewing the external commitments of the Directors and the time required to discharge their responsibilities effectively.

### Composition

The membership of the Nomination Committee was refreshed during the year to include all members of the Board. The table opposite details the membership and meeting attendance for the year. The Company Secretary is Secretary to the Nomination Committee.

### Activities in 2014/15

The Nomination Committee had five meetings during the year. The business covered at the meetings included the following:

- the search for a new Chairman as successor to Lord Smith of Kelvin;
- the renewal of the letter of appointment for Lord Smith of Kelvin as non-Executive Director and Chairman, until stepping down following the AGM in July 2015;
- a review of any declared or potential conflicts of interests of the Directors;
- a review of Board Committee membership, including changes in Chairmanship for the Audit, Remuneration and Safety, Health and Environment Advisory Committee;
- the search for a new non-Executive Director as part of the ongoing review of succession and refreshment of the Board;
- a review of independence of all the non-Executive Directors; and
- the update and approval of changes in Executive Committee membership.

### Succession planning

The Nomination Committee aims to plan ahead for changes in Board membership and takes responsibility for the programme to refresh Board membership and ensure the skills, knowledge and experience is both maintained and appropriate.

Before a Board appointment is made, the Nomination Committee evaluates the skills, knowledge and experience of the Board to ensure that any new appointment complements these qualities. Candidates from a wide range of backgrounds are considered and appointments are made on merit, with due regard given to the benefits of diversity on the Board, including gender.

The selection process uses the services of a professional search firm specialising in Board-level recruitment and generally involves interviews with a number of candidates.

When the Nomination Committee deals with any matter concerning the Chairmanship of the Board another non-Executive Director, chosen by the remaining members, chairs the meeting. Members of the Nomination Committee do not take part in discussions when their own performance or their continued appointment is being considered.

The Nomination Committee also reviews senior management succession planning and leadership needs in the course of its work taking into account the risks and opportunities facing the Company, and from this identifies the skills and expertise required. The succession plans for management positions are reviewed to ensure roles are refreshed with the best candidates, taking account of a range of factors such as background, experience, qualifications and gender. The Company's talent management programme helps provide a robust succession process and development plans for individuals to assist with career aspirations.

## Board succession in 2014/15 and 2015/16

The Chairman's succession was conducted independently, with no participation from Lord Smith of Kelvin throughout the process. All discussions concerning the appointment were chaired by Katie Bickerstaffe and Richard Gillingwater was absent from those relating to his candidacy. Sam Allen Associates, an external search agency with no other connection to the Company, conducted an extensive benchmarking process of persons meeting the desired criteria as agreed by the Nomination Committee, which included, among other things, sector experience, knowledge of Government and regulation and chairing experience.

Following deliberation, it was the unanimous view of the Nomination Committee that the extensive, in-depth business knowledge, experience of Government, regulation and chairing two significant companies, coupled with the continuity that Richard Gillingwater would bring to the position, made him the preferred candidate and this was in the best interests of the Company. It is the view of the Nomination Committee that Richard Gillingwater

will be independent on appointment in July 2015 and in anticipation of his new role as Chairman, he will be stepping down from his two major non-executive roles at Hiscox Ltd and Wm Morrisons Supermarkets plc.

Following confirmation that the change in Chairman is to take place immediately following SSE's AGM in July 2015, the Nomination Committee has been focused on searching for a new non-Executive Director who could take on the role of Senior Independent Director. The process is well advanced and is being carried out in conjunction with Sam Allen Associates. The Board currently expects to announce the appointment of a new non-Executive Director around the time of the AGM. Upon appointment Richard Gillingwater will step down from the Audit Committee and from his position as Chairman of the Remuneration Committee. In light of Katie Bickerstaffe's existing role and experience relating to Remuneration matters, it is the view of the Nomination Committee that she is the preferred candidate to take on the role of Chairperson of the Remuneration Committee. Katie Bickerstaffe was not involved in any of the discussions surrounding this appointment.

The changes outlined above, have been approved by the Board and will take effect after the AGM. The composition of the Board Committees will remain under review and be changed as necessary to ensure compliance with the Code.

## Independence

The independence of non-Executive membership was considered and reviewed at the January meeting of the Nomination

Committee, with each member abstaining from their own evaluation. Lord Smith of Kelvin was considered independent on appointment as Chairman in 2005 and this remains the view of the Nomination Committee until his succession in July 2015.

## Diversity

The Nomination Committee reviews the diversity within the organisation as a whole including the talent management pipeline and that of senior management in line with Company policy. Regular updates have been provided to both the Board and the Executive Committee during the year, surrounding the ongoing work that is being carried out on diversity and inclusion within the Group. An action programme is currently being developed to review areas such as fair recruitment and explore the potential for targets within each business area to increase diversity. The Board's statement on diversity and an overview of the company's policy on diversity and equality are both set out on the SSE website. Further details can be found on page 64 of the Strategic Report.

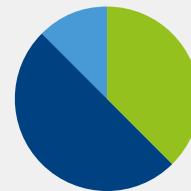
## Board diversity

The recommendation of the Davies Report on Women on Boards is that FTSE 100 Boards should aim for a minimum of 25% female representation by 2015. Female representation on the SSE Board is currently in line with this recommendation. The Company is committed to the approach on diversity set out in the Davies Report, and will continue to take diversity into account for future Board appointments whilst recruiting on merit. An overview of the diversity within the SSE Board is detailed below.

### Membership diversity

#### Board diversity, by age

- 45-54 years old (3)
- 55-64 years old (4)
- 65-74 years old (1)



#### Board diversity, by sector

- Utilities (2)
- Banking (1)
- Corporate finance (1)
- Major projects (1)
- Retail (1)
- Public sector (1)
- Defence (1)



#### Board diversity, by gender

- Male (6)
- Female (2)



#### Length of tenure

- 0-3 years (2)
- 3-6 years (2)
- 6-9 years (1)
- 9+ years (3)



## Audit Committee Report

The Audit Committee assists the Board in discharging its responsibilities in relation to financial reporting, internal control, risk management and the relationship with the External Auditor.

### Members and meetings

Members	Independent non-Executive Director	Member since	Attended/scheduled
Peter Lynas <sup>1</sup> (Committee Chairman)	Yes	July 2014	2/2
Jeremy Beeton <sup>2</sup>	Yes	November 2011	1/1
Sue Bruce <sup>3</sup>	Yes	July 2014	2/2
Richard Gillingwater	Yes	May 2007	3/3
Thomas Thune Andersen <sup>4</sup>	Yes	February 2009	1/1

<sup>1</sup> Peter Lynas joined the Board on 1 July 2014 and became Chairman of the Audit Committee on 17 July 2014.

<sup>2</sup> Jeremy Beeton ceased to be a member of the Audit Committee on 17 July 2014.

<sup>3</sup> Sue Bruce became a member of the Audit Committee on 17 July 2014.

<sup>4</sup> Thomas Thune Anderson retired from the Board on 17 July 2014.

### Introduction

I am pleased to present our report which describes the role, composition and activities of the Audit Committee during the year.

I became Chairman of the Audit Committee in July 2014, and have worked closely with my predecessor (who has continued as a member of the Audit Committee) in gaining a solid understanding of the business and the issues it faces. The ongoing plans to refresh the membership of the Audit Committee are explained in this report, along with the other changes which were also made to the composition of the Committee in July 2014.

During the year the Audit Committee has focused upon five key areas. First, it reviewed the Group's financial reporting and challenged the accounting judgements, especially those in relation to the significant financial judgements as described on page 86. Secondly, it monitored and reviewed the effectiveness of the Internal Audit function, including approval of the annual audit plan. Thirdly, it assessed the effectiveness of the External Auditor, including their independence, objectivity and effectiveness, and made a recommendation to the Board on the timescales for tendering the external audit contract. Fourthly, it reviewed the proposed amendments made to the Group's risk management and system of internal control including a revised set of principal risks and risk appetite statement. Finally, it considered a range of governance developments affecting the activities of the Audit Committee going forward and factored these into its updated annual work plan.

We will of course continue to keep our activities under review to ensure the work of the Audit

Committee assists the Board and supports the delivery of SSE's strategy, values and governance.

### Peter Lynas

Chairman of the Audit Committee

### Role

The Audit Committee is authorised by the Board to:

- review the integrity of the interim and annual financial statements;
- review the appropriateness of accounting policies and practices;
- review the significant issues and judgements considered in relation to the financial statements including how they were addressed;
- review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable;
- review and monitor the effectiveness of the Internal Audit function, including approval of the annual audit plan;
- review and monitor the objectivity and independence of the External Auditor, including the policy to govern the provision of non-audit services;
- review and monitor the effectiveness of the external audit process and the ongoing relationship with the External Auditor;
- review and make recommendations to the Board on: the tendering of the external audit contract; and the appointment, remuneration and terms of engagement of the External Auditor;
- review and monitor the effectiveness of the risk management and internal control framework; and

- establish and oversee appropriate whistleblowing and fraud prevention arrangements.

### Composition

Members of the Audit Committee are appointed by the Board following recommendation by the Nomination Committee. The current membership of the Audit Committee is set out in the table opposite. The chairmanship and membership of the Audit Committee was refreshed when Thomas Thune Andersen stood down from the Board on 17 July 2014. Peter Lynas took over the position of Chairman from Richard Gillingwater, who continues to be a member of the Audit Committee. In addition, Sue Bruce became a member of the Audit Committee on 17 July 2014 and Jeremy Beeton ceased to be a member on the same date.

The Board confirmed that each member of the Audit Committee is independent and that the membership meets the requirements of the Code. Each member of the Audit Committee has, through their other business activities, significant experience in financial matters (see biographies on pages 74 and 75). Peter Lynas is considered by the Board to have recent and relevant financial experience as the current Group Finance Director of BAE Systems plc and a Fellow of the Chartered Association of Certified Accountants. The Board also considers that Richard Gillingwater has recent and relevant financial experience as required by the Code.

On joining the Audit Committee, new members receive an induction tailored to their individual requirements which covers an overview of the business, its financial dynamics, principal risks and their management, and a separate meeting with the External Auditor. Tailored induction programmes for Peter Lynas and Sue Bruce were delivered during the year. Members of the Audit Committee receive regular briefings from management on matters such as governance developments, treasury, Energy Portfolio Management and accounting policies and practices.

As part of the ongoing refreshment of the composition of the Audit Committee, Richard Gillingwater will cease to be a member when he becomes Chairman of SSE on completion of the AGM, subject to being re-elected to the Board at the meeting. SSE intends to appoint a new non-Executive Director around the time of the AGM and membership of the Audit Committee will be refreshed at this point.

### Meetings and activities in 2014/15

The Audit Committee met three times during the year and details of members' attendance is set out in the table above. The Deputy Company Secretary is secretary to the Audit Committee. Meetings are also routinely attended by the: Company Chairman; Chief Executive; Finance Director; Managing Director, Finance; Director

of Risk, Audit and Insurance; and the External Auditor, KPMG LLP (KPMG). Other senior managers including the: Managing Director, Wholesale; Managing Director, Energy Portfolio Management; Group Financial Controller; and Director of Compliance are also invited to attend certain meetings in order to provide a deeper level of insight into certain key issues.

The Audit Committee meets with the External Auditor and management separately at least once a year in order to get feedback on the relationship and assess the effectiveness of the external audit process.

The Chairman of the Audit Committee meets separately with the Finance Director, Director of Risk, Audit and Insurance and the External Auditor on a regular basis to ensure the work of the Audit Committee is focused on key and emerging issues.

As part of the process of working with the Board and to maximise effectiveness, meetings of the Audit Committee take place in advance of Board meetings. The Audit Committee Chairman provides an update to the Board after each meeting and raises any recommendations along with a summary of the key issues discussed. Minutes of Audit Committee meetings are provided to the Board and External Auditor.

### **Annual work plan**

Following the changes made to the composition and chairmanship of the Audit Committee in July 2014, the Committee Chairman in consultation with the Deputy Chairman and Senior Independent Director and Finance Director reviewed the annual work plan of the Audit Committee and proposed some adjustments to the meeting structure and the business being considered. Following this review, a detailed work plan was approved by the Audit Committee at its meeting in February 2015. During 2015/16, the number of Audit Committee meetings will be increased from three to four. In addition to regular updates, each meeting will have a theme based on the reporting and audit cycle, including: internal audit planning; full year results; external audit planning; and half year results.

The key matters considered by the Audit Committee during the year principally fell under the five main areas as set out below:

### **Financial reporting and significant financial judgements**

#### **Financial reporting**

The Audit Committee assisted the Board with the effective discharge of its responsibilities for financial reporting. To fulfil this responsibility during the year, the Audit Committee considered and challenged:

- the integrity of the interim and annual financial statements and accompanying reports to shareholders;
- the appropriateness of the accounting policies and practices used;

- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- areas in which significant judgements had been applied or matters raised for discussion by the External Auditor, including those set out in the table on page 86;
- letters of representation issued by management to the External Auditor; and
- whether the Annual Report and Accounts were fair, balanced and understandable and provided the information necessary for shareholders to assess the company's performance, business model and strategy.

In carrying out this review, the Audit Committee received reports from members of the Group Finance Team and the External Auditor setting out their views on the accounting treatments and judgements included in the financial statements.

During the year, SSE received a letter from the FRC which raised a number of queries following its review of the 2014 Annual Report. The Chairman of the Audit Committee assisted management in reviewing and drafting a response to the FRC letter which included commitments by the Company to provide additional information and explanation in the 2015 Annual Report (and going forward as required).

### **Fair, Balanced and Understandable assurance framework**

The Audit Committee reviewed and the Board approved the assurance framework used to assist the directors discharge the requirement to state that the Annual Report and Accounts are fair, balanced and understandable. The main components of the assurance framework which were used to assist with the preparation of 2015 Annual Report and Accounts are highlighted below:

- comprehensive guidance issued to contributors;
- a verification process dealing with the factual content;
- comprehensive reviews undertaken independently by the Company's Director of Legal Services and Director of Strategy Development to consider messaging and balance;
- comprehensive reviews undertaken by the Company's brokers and the External Auditor to ensure consistency and balance;
- inclusion of a glossary of terms to aid understanding; and
- comprehensive review by the Directors and the senior management team.

The Audit Committee and Board received confirmation from management that the assurance framework described above had been adhered to.

### **Significant financial judgements**

After discussion with management and the External Auditor, the significant areas of

judgment reviewed and considered by the Audit Committee in relation to the 2015 financial statements, and how these were addressed are set out on page 86.

### **Internal Audit**

The Internal Audit function is independent and operates a risk-based methodology to review internal control and risk management processes and procedures. The Audit Committee is responsible for reviewing and monitoring the effectiveness of the Internal Audit function, including approval of the annual audit plan. To fulfil this responsibility during the year, the Audit Committee reviewed:

- progress against the 2014/15 audit plan, the results of audits and significant findings, the adequacy of management's response to matters raised and the time taken to resolve these matters;
- reports from Internal Audit on the assessment of the risk management framework and the internal control environment, including details on the level of alignment between significant risks to the organisation and the audit plan;
- the audit plan for 2015/16 which includes a fixed and flexible element in order to provide capacity to respond to changing business requirements and new and emerging risks;
- the Internal Audit Charter and approved an updated version outlining the independence, authority and responsibilities of the Internal Audit function; and
- the expertise and resources available to the Internal Audit function.

The Director of Risk, Audit and Insurance has management responsibility for the Internal Audit function. In addition to the normal corporate reporting structure, the Director of Risk, Audit and Insurance is given the right of direct access to the Audit Committee, Chief Executive, and Company Chairman. During the year, the Audit Committee considered his views on the effectiveness and resourcing of the Internal Audit function, together with an overview of areas for future development.

After taking into account all the above matters, the Audit Committee concluded that it is fully satisfied with the effectiveness of the Internal Audit function, and supports ongoing developments to further enhance its effectiveness, including a comprehensive quality assessment to ensure conformity with recognised internal audit standards, to be conducted by an external organisation during 2015/16.

### **External Audit**

KPMG was appointed as the External Auditor in 1999 through a competitive tender process following the merger which formed SSE. KPMG was re-appointed by shareholders at the 2014 AGM, and have acted as the External Auditor of the Group throughout the year. The External Auditor is required to rotate the lead audit partner every five years. The Audit Committee

## Audit Committee Report continued

monitors this rotation, and confirms that the current lead audit partner is in the first year of his term and will reach his five year term, and will therefore cease to act, on completion of the audit for the financial year ended 31 March 2019. The current lead audit partner is based in London and is supported by an audit team based in Glasgow, Reading and Dublin.

### Objectivity and independence of External Auditor

The Audit Committee is responsible for reviewing and monitoring the objectivity and independence of the External Auditor. To fulfil this responsibility, the Audit Committee oversees a policy to govern the non-audit services that may be provided by the External Auditor. The Non-Audit Services Policy was reviewed and updated during the year, a copy of which is available on [www.sse.com](http://www.sse.com). The policy sets out details of the allowable services that are pre-approved up to a threshold of £75,000 for general advice and £150,000 for tax-related

advice. Any non-audit services that exceed these thresholds must be tendered unless the Audit Committee Chairman is consulted in advance. The Audit Committee intends to conduct a comprehensive review of the Non-Audit Services Policy during 2015/16.

The Audit Committee receives a regular report on the services being provided by the External Auditor and approves the fees incurred. Fees for audit-related and non-audit services incurred during the year amounted to £0.15m representing 15% of the audit fees. Details of the fees paid to the External Auditor for audit, audit-related and non-audit services during the year is made in Note 5 to the Financial Statements. Significant categories of engagement for non-audit services awarded during the year include £66,000 in connection with training and workshops on UK GAAP, business separation and other financial regulation and £28,000 in relation to climate change levy advice. In each case, the Audit

Committee was satisfied that the work was best handled by the External Auditor because of their knowledge of the Group and the skills and expertise that it brought to the assignment. The Audit Committee considered reports from management which did not raise any concerns in respect of the External Auditors' objectivity and independence. In addition, the External Auditor has provided specific assurance to the Audit Committee on the arrangements it has in place to maintain its objectivity and independence. The Audit Committee concluded that it is fully satisfied with the objectivity and independence of the External Auditor.

### Effectiveness of External Auditor and ongoing relationship

The Audit Committee is responsible for reviewing and monitoring the effectiveness of both the external audit process and the ongoing relationship with the External Auditor. To fulfil this responsibility during the year, the Audit Committee reviewed:

Significant financial judgements for the year ended 31 March 2015	How the Audit Committee addressed these significant financial judgements
<b>Accounting for estimated revenue:</b> Revenue from energy sales in the Retail division includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. This is based on estimates and assumptions in relation to the estimated consumption and valuation of that consumption (see Notes 3 and 19 to the Financial Statements).	The Audit Committee reviewed a paper prepared by management which detailed the practical process issues and assumptions applied in determining the basis of recognition of 'unbilled' debtors, with particular reference to domestic gas. The Audit Committee also considered detailed reporting from, and held discussions with, the External Auditor on this key judgement.
<b>Valuation of receivables:</b> The recoverability of the Group's billed energy receivables in the Retail division is a key judgement area given the risk of customer insolvency or default. The level of the Group's aged debt is monitored with the basis of the Group's allowances for doubtful debt being based on assumptions derived from experience and industry knowledge (see Notes 3 and 19 to the Financial Statements).	The Audit Committee considered a paper which described the assumptions impacting management judgements on doubtful debt allowances and charges, and were updated on the activities of the Group's Debts Steering Group (whose members include the Finance Director and other senior management) and the processes for receivables' collection and provisioning. The Audit Committee also considered the results of the work of the External Auditor in this area.
<b>Carrying value of certain non-current assets:</b> The carrying value of certain non-current assets in the Group – including power generation plants and goodwill – needs to be assessed by reference to the recoverable value (value-in-use or fair value less costs to sell) of the asset or the associated CGU (cash generating unit). An annual valuation/impairment exercise is carried out. The assumptions applied in this exercise require judgements on the economic factors associated with the assets under review (see Notes 3 and 13 to the Financial Statements).	The basis and outcome of this review is described in a paper presented to the Audit Committee by management. The paper includes a description of the assumptions applied in deriving the recoverable values. The Audit Committee reviewed and challenged the assumptions and projections presented in the management paper and also considered the detailed reporting from, and findings by, the External Auditor. Following this review, the Audit Committee supported the recommendation to recognise exceptional charges of £667.5m in relation to certain assets in the financial year.
<b>Accounting for legal and contractual claims:</b> The Group is exposed to the risk of litigation and contractual disputes through the course of its normal operations. The Group needs to consider the level of provision or disclosure in relation to these claims utilising legal advice which is an inherently subjective process (see Note 3 to the Financial Statements).	The significant disputes, claims and other actions against the Group and the associated accounting judgements and disclosures are reported to the Audit Committee by management. The Audit Committee reviewed and challenged the assumptions underpinning the accounting treatment and sought the views of External Auditor in this area.
<b>Accounting for Group pension obligations:</b> The assumptions in relation to the cost to the Group of providing post-retirement benefits during the period are set after consultation with qualified actuaries and can have a significantly material impact on the financial position of the Group (see Notes 3 and 30 to the Financial Statements).	The costs, assets and liabilities of the Group's defined benefit retirement schemes are regularly reviewed. Advice is taken from independent actuaries on the IAS 19R valuation of the schemes. The Audit Committee were updated on the schemes' valuation from management at each period end and also considered the reporting of the External Auditor particularly in relation to the schemes' key assumptions relative to market practice.

- regular reports on progress against the 2014/15 External Auditors' plan, significant findings, the adequacy of management's response to matters raised and the time taken to resolve any such matters;
- the competence with which the External Auditor handled and communicated the key accounting and audit judgements;
- the effectiveness of the overall audit process for 2014/15, including meeting with the External Auditor and management separately to identify any areas of concern;
- the quality of both the External Auditors' report to, and the Audit Partner's interaction with, the Audit Committee;
- feedback from management on the ongoing relationship with the External Auditor;
- the qualifications, expertise and resources of the External Auditor; and
- feedback from business and finance management based on a questionnaire designed to provide an overview assessment of KPMG's capability and performance in providing external audit services to SSE.

After taking into account all the above matters, the Audit Committee concluded that it is fully satisfied with the effectiveness of both the external audit process and the ongoing relationship with the External Auditor.

#### **Appointment of External Auditor**

The Audit Committee is responsible for reviewing and making recommendations to the Board on the appointment, remuneration and terms of engagement of the External Auditor. At the 2014 AGM, shareholders re-appointed KPMG as the External Auditor of the company for the year ended 31 March 2015, and authorised the Directors to fix their remuneration. In making such recommendations to the Board, the Audit Committee considered the objectivity, independence, effectiveness, and ongoing relationship with the External Auditor as described above, in addition to the External Auditor's approach, scope, areas of focus, level of materiality and remuneration for the audit of the financial year ended 31 March 2015.

#### **Tendering of External Audit**

The Audit Committee is responsible for reviewing and making recommendations to the Board on tendering of the external audit contract. Whilst the Audit Committee has kept under review all aspects of the relationship with the External Auditor, no formal tender of the audit process has been carried out since KPMG's appointment in 1999. The Audit Committee was briefed on audit tendering and rotation developments and is fully aware of the audit tendering recommendations set out in the Code. Before making a recommendation to the Board on the timing of the external audit contract tender, the Audit Committee considered:

- the quality, stability and continuity provided by the relationship with the current External Auditor;
- the changes to auditor tendering requirements and the mandatory auditor

- rotation obligation, and the impact both have on the timing of a tender;
- management of the audit requirement regarding the change in UK GAAP at subsidiary level; and
- the lead time to ensure potential audit firms are not restricted in their ability to tender for the external audit contract arising from existing contracts for non-audit work.

After taking into account the matters outlined above, in addition to the arrangements for monitoring all aspects of the relationship with the External Auditor, and the transitional arrangements under the EU Audit Directive, upon the recommendation of the Audit Committee, the Board concluded that it was in the best interests of the company not to tender the audit contract at this time. The matters highlighted in this section constitute the Company's rationale and explanation for non-compliance with section C.3.7. of the Code.

The five year rotation of the current lead Audit Partner will end on completion of the audit for the financial year ending 31 March 2019. It is likely that a tender process will take place in 2018, in advance of shareholder approval being sought at the AGM in 2019 and the appointment of a new External Auditor for the financial year ending 31 March 2020. There are no contractual obligations which restrict the choice of External Auditor, and any future tender process will be based on a clear selection and assessment criteria. The Audit Committee will continue to keep under review the timing of the tender for the external audit contract and will make recommendations to the Board. In light of the decision to defer tendering, resolutions to re-appoint KPMG as External Auditor of the Company for the year ending 31 March 2016, and to authorise the Audit Committee to fix their remuneration, will be proposed to shareholders at the AGM on 23 July 2015.

#### **Internal control and risk management**

Whilst the Board is responsible for the overall system of internal control and risk management, responsibility for reviewing and monitoring the ongoing effectiveness of the system is covered by a number of key Committees and related assurance activities across the Group. Full details of the Group's internal control and risk management framework, including an overview of developments during the year to design and implement an improved framework and approach for the identification and management of risk within SSE, along with an explanation of the requirements under the relevant FRC guidance, are set out on page 80. The Audit Committee plays an important role in the internal control and risk management framework, and during the year it reviewed information drawn from a number of different sources, including reports from:

- Treasury, setting out: strategy; market developments; debt structure; maturity profiles; funding plan; going concern; credit rating; foreign exchange; and significant risks and controls;
- Internal Audit on cyber security risks and vulnerabilities, including the development of the IT security programme;
- Energy Portfolio Management setting out: strategy; market prices and analysis; financial regulation developments; energy portfolio and counterparty credit exposures; and significant risks and controls;
- Group Risk on the proposed new framework for the identification, evaluation and monitoring of principal risks, including their assessment of the risk management framework and internal control environment;
- Internal Audit on the implementation of the whistleblowing policy and the plans to develop SSE's approach to this area in 2015/16;
- Internal Audit highlighting investigations into allegations and incidents of fraud across the Group, and the Company's response; and
- the External Auditor, on its assessment of significant risks and the internal control environment in so far as is necessary to form an opinion on the true and fair view of the financial statements.

These reports provided the Audit Committee with invaluable insights into the risks facing the Group and the management of them, and informs the Board in its review of the effectiveness of the risk management and internal control framework.

#### **Governance**

In addition to the review of the annual work plan, Fair, Balanced and Understandable assurance framework, Non-Audit Services Policy and timing for the tender of the external audit contract as described in this report, the Audit Committee considered the governance-related matters described below.

#### **Terms of reference**

The terms of reference of the Audit Committee were updated during the year.

#### **Disclosure of information to Auditors**

The governance arrangements around the disclosure of information to the External Auditor have been enhanced to assist the Directors discharge their responsibilities and make the statement as set out on page 109.

#### **Evaluation**

During the course of the year, regular challenge and engagement with management, Internal Audit and the External Auditor, together with the timely circulation of reports and information, has enabled the Audit Committee to discharge its duties and responsibilities effectively. As part of the Board evaluation process, the operation of the Audit Committee was evaluated, and it was confirmed that it was operating effectively. Details of the evaluation process are set out on page 79.

## Safety, Health and Environment Advisory Committee (SHEAC) Report

The SHEAC advises the Board on safety, health and environmental matters including policy, targets and strategy.

### Members and meetings

Membership	Independent non-Executive Director	Membership	Attended/scheduled (during the financial year)
Jeremy Beeton (Committee Chairman)	Yes	July 2011	5/5
Sue Bruce	Yes	September 2013	5/5
Jim McPhillimy	No	November 2008	5/5
Mark Patterson	No	January 2013	5/5
Paul Smith	No	November 2008	5/5
Thomas Thune Andersen <sup>1</sup>	Yes	February 2009	2/2

<sup>1</sup> Thomas Thune Andersen retired from the Board on 17 July 2014.

### Introduction

On behalf of the Board, I am pleased to present this report which explains the role, composition and activities of the SHEAC during the year.

I assumed the role of Chair when Thomas Thune Andersen stood down from the Board in July 2014. SSE demands of itself and those contractors who work for us high standards and the best safe working practices. We operate in a hazardous industry with inherent risks relating to safety, health and the environment. By utilising pro-active management, proper standards of training, supervision, a lessons learned system and rigorous compliance; we minimise risks to ourselves, those who work for us, the public and our environment.

SSE has aligned its business specific safety, health and environment plans to seven enduring goals this year. This has been very well received by the SHEAC and is making a real difference in SSE.

### Jeremy Beeton

Chairman of the SHEAC

### Role

The role of the SHEAC is to advise the Board on safety, health and environmental matters. It provides a leadership forum for non-Executive Directors to work with management and shape policy, targets and strategy to improve safety, health and environmental performance. The SHEAC is responsible for:

- ensuring adherence to SSE's safety, health and environmental policies;
- setting Group targets and strategy for improved performance;
- monitoring Group performance against these targets;
- enhancing the awareness and the importance of safety, health and environmental management and ensuring consistent performance; and
- making recommendations to the Board where action or improvement is needed.

The SHEAC works alongside management who oversee implementation of safety, health and environmental matters within SSE based around seven enduring goals, which deal with contractor safety, the Safety Family, process safety, driving, health and well-being, environment and crisis management.

### Composition

Members of the SHEAC are appointed by the Board following recommendation by the Nomination Committee. The current membership of the SHEAC is set out in the table opposite. Jeremy Beeton took over the position of Chairman from Thomas Thune Andersen on 17 July 2014 and brings a wealth of experience from his background in engineering and major construction projects. Sue Bruce provides valuable insights from various senior roles in the public sector. Jim McPhillimy, Mark Patterson

and Paul Smith bring substantial operational experience to the SHEAC through their roles and responsibilities within SSE. The Chief Executive regularly attends meetings and the Deputy Company Secretary is Secretary to the SHEAC.

### Meetings and activities in 2014/15

The SHEAC met five times during the year and details of attendance are set out in the table opposite. Meetings are routinely held on the same day as Board meetings and the SHEAC Chairman reports to the Board after each meeting. The work of the SHEAC is designed around the following priorities:

- **Safety** – support progress towards SSE's ultimate goal of working without anyone getting injured;
- **Health** – promote the health and well-being of people working for SSE; and
- **Environment** – encourage effective environmental management throughout SSE.

In support of these priorities, the key matters considered by the SHEAC during the year principally fell under five main areas: targets and priorities; performance; organisational structure, incidents and trends; and communication.

In addition, an important aspect of the work of the SHEAC is to gain a better understanding of the safety, health and environmental issues affecting SSE's operational sites. During the year, members of the SHEAC visited various sites throughout the UK and Ireland and met with front-line management teams.

### Safety

SSE operates in a hazardous industry with inherent risks. Safety is SSE's first core value: We believe all accidents are preventable. We require all business to be carried out safely and responsibly, or not at all. Our goal is to work without anyone getting injured and whilst 2014/15 has been a good year in terms of performance and improvement, a colleague tragically lost his life on 26 February 2015 in a road traffic accident on the A9 in Scotland. Details of SSE's safety performance are provided on page 59.

### Health

SSE's occupational health and well-being action plan provides the basis for workplace health programmes and initiatives, all designed to help employees have a healthy mind and body as well as minimise risks from occupational exposure to illness and disease.

### Environment

SSE is committed to reducing the negative impact of its activities by finding new and more sustainable ways to operate. However, producing and delivering the energy that people need also produces large amounts of greenhouse gas emissions. Details of greenhouse gas emissions are reported on pages 60 and 61.



We require all business to be done safely and responsibly, or not at all

## Remuneration Report

The Chairman's statement

# I am pleased to set out the Remuneration Committee's Directors' Remuneration Report (DRR) for the year ended 31st March 2015.

This report gives me the opportunity to explain how SSE pays its Directors and, importantly, how this links to the company's strategy. It also allows me to give you an insight into the decisions we took during the year and the context surrounding those decisions.



### How executive remuneration links to our strategy

Last year we re-shaped our performance measures to align them more explicitly with both shareholders' and customers' expectations. We also took the opportunity to introduce additional holding periods for our long-term incentive awards, a feature which better aligns to the time horizons of our business.

The Committee continues to believe that our overall remuneration policy is strongly aligned to our strategy through the following approach:

- **Simplicity** – Our executive pay is made up of just four elements: base salary, plus benefits; pension rights; an annual incentive scheme (cash and shares); and a long term incentive scheme (shares).
- **A balanced assessment of performance** – We assess performance through a range of measures to ensure a balanced view of executives' overall performance.
- **Customer focus** – Reflecting our commitment to customers, we include customer service measures in both the annual incentive and the performance share plan.
- **Delivering value for our shareholders** – Dividends and TSR performance continue to feature strongly in our incentive framework to ensure that management interests are aligned with those of our shareholders.
- **Stewardship and alignment to the long-term** – Executive Directors are required to build and maintain a significant personal shareholding in the business, and a two-year holding period extends the overall time horizon of our performance share plan to five years.

We were delighted to receive overwhelming support from shareholders for our remuneration policy at the 2014 AGM, with 99.1% of votes cast in favour.

At our AGM in 2015, shareholders will have the opportunity to vote on our annual Remuneration Report for 2014/15, and we welcome this opportunity for our shareholders to have their say.

### Performance out-turns in 2014/15

2014/15 was a challenging year for the energy industry, with the sector coming under significant political and regulatory scrutiny. As set out on page 26 of our Annual Report, SSE has performed well against the range of measures, in the context of a testing climate.

At SSE we believe firmly that the purpose of our business is to work effectively for both our customers and investors, and the Committee seeks to implement policies that reward both effective customer service and financial performance. Against this background, the performance outturns for Executive Director incentives were as follows:

- The out-turn under the Annual Incentive Plan (AIP) was determined against the new set of financial, strategic and personal targets set at the beginning of the year. This resulted in an outcome of 64% of the maximum opportunity; 25% of this award will be payable in shares and deferred for a further three year period. This year we have enhanced the level of disclosure of the performance targets which underpin AIP out-turns. We have set out details of SSE's performance against the range of AIP measures and targets on page 101.
- For PSP awards granted in 2012, which were due to vest following the end of the 2014/15 financial year, measurement of performance over the three year period resulted in a payout of zero, reflecting that the targets were set in very different market conditions.

### **Changes to the operation of our Policy for 2015/16**

Following a year of change in 2013/14, with the re-shaping of performance measures and implementation of new remuneration reporting regulations, 2014/15 has been a more "business as usual" year for the Committee.

During 2014/15, the Committee met four times and, in addition to undertaking its usual responsibilities, took the opportunity to review the remuneration framework against recent updates to the UK Corporate Governance Code. Following this review, we made the decision to broaden the circumstances in which "malus" could be applied in respect of unvested Annual Incentive Plan (AIP) deferred shares and Performance Share Plan (PSP) shares, and to strengthen our ability to "clawback" any incentive plan payments which later transpire to have been inappropriate. Further details are provided on page 104. The Committee supports the strengthening of malus and clawback, as suggested by the Corporate Governance Code, as these provisions further align executives with the stewardship of SSE over the longer term.

Finally, in order to ensure that the interests of management and shareholders continue to be strongly aligned, and to reflect market practice, we increased shareholding requirements for Executive Directors from 100% to 200% of salary.

### **Salary review**

The Committee reviewed salary levels for Executive Directors in accordance with SSE's approved remuneration policy, taking into account a number of factors including individual performance and market data. The two Executive Directors will receive a salary increase of 2.4% effective from 1/4/2015, which is in line with the average performance-based salary increases for the wider SSE employee population.

### **Members and meetings**

Members	Independent non-Executive Director	Member since	Attended/scheduled
Richard Gillingwater (Committee Chairman)	Yes	June 2007	4/4
Lady Rice <sup>1</sup>	Yes	October 2003	2/2
Lord Smith of Kelvin	No	March 2005	4/4
Katie Bickerstaffe	Yes	July 2011	4/4
Jeremy Beeton <sup>2</sup>	Yes	July 2014	1/2

1 Lady Rice retired from the Board on 17th July.

2 Jeremy Beeton became a member of the Remuneration Committee on 17 July 2014. Jeremy was unable to attend the Committee meeting in March due to a prior commitment which was approved by the Board.

### **How Executive Directors' incentives align to SSE strategy**

Providing the energy people need in a reliable and sustainable way			
	Financial objectives	Consistent strategy	Long-term values
<b>Performance Share Plan</b>			
TSR	•		
EPS	•		
DPS	•		•
Customer		•	•
<b>Annual Incentive Plan</b>			
PBT	•		
DPS	•		•
Cashflow	•		
Teamwork			•
Personal		•	•
Customer	•		•

In setting the salary levels for both Alistair Phillips-Davies and Gregor Alexander we considered their experience, performance and the strength of their leadership in a challenging environment. The Committee's assessment is that they have both performed strongly during the year, and have positioned the business well for the year ahead.

### **Next year**

As I take up the post of SSE Chairman in July 2015, Katie Bickerstaffe, who has been a member of the Remuneration Committee since July 2011, will become chair of the Committee. Katie has been a key member of the Committee and understands the approach and ethos that SSE has to executive remuneration. Katie's background, including a period as a Human Resources Executive, also brings an added external insight to the Committee.

The energy industry continues to be subject to an unprecedented period of scrutiny and

change. In this context, as well as overseeing the normal annual cycle items, in the summer of 2015, Katie will oversee a review of SSE's executive remuneration framework to ensure its continued relevance and alignment with SSE's business plans.

Executive remuneration is a high profile issue, and we expect that to continue. We have benefited from open consultation and dialogue with our shareholders over the years, and will continue to engage with them to the extent that any changes are proposed.

Finally, as we have suggested in previous years we would welcome any feedback or comments on this report and will continue to endeavour to report with transparency and clarity.

### **Richard Gillingwater**

Chairman of the Remuneration Committee

## Remuneration Report continued Policy

The following sets out SSE's Directors' Remuneration Policy (the "Policy"). The Policy was approved by shareholders at SSE's AGM on 17 July 2014 and applies from this date.

In order to provide consistency with the Annual Remuneration Report (pages 100 – 108), the opportunity has been taken to update some sections of the Policy Report. These changes reflect decisions which the Committee made during the year in the following areas:

- Malus and clawback provisions (page 104)
- Shareholding guidelines (page 104)

In addition, the Directors' remuneration scenario charts (page 98) have been updated to ensure that they remain relevant for 2015/16.

The Policy, which was approved by shareholders, is available at <http://sse.com/media/241200/2014annualreport.pdf>.

### SSE's Executive Director remuneration principles

SSE's principles are that Executive Director remuneration policy should:

- provide a simple and competitive approach to total remuneration, which takes into account shareholder expectations;
- reinforce the values and culture, including teamwork, to deliver the long-term sustainability and growth of the business;
- set Total Remuneration Policy at levels which promote the long-term development of the business and reward individuals in line with performance; and
- attract and retain Executive Directors who lead the Company effectively for the benefit of customers, employees and shareholders.

The total remuneration policy for Executive Directors is to remain below median of the FTSE 20-50, excluding financial services. SSE also monitors its generally conservative positioning against direct peers and UK listed companies in related sectors. SSE's remuneration policy is integral to overall HR strategy and the SSE SET of core values is supported in the principles outlined above, in the plan design and application of the Policy.

### Remuneration Policy

#### Base salary

##### Purpose and link to strategy

The base salary supports the retention and recruitment of Executive Directors of the calibre required to develop the Company's strategy, deliver efficient operations and investments, and engage effectively with the Company's key stakeholders. It is intended to reflect the role and its responsibilities, business and individual performance measured against SSE's strategy and core purpose of providing the energy people need in a reliable and sustainable way, and to have an awareness of competitive market pressures.

##### Operation

The Committee sets base salary taking into account:

- the individual's skills, experience and performance;
- salary levels at other FTSE100 companies and other energy businesses;
- remuneration of different groups of employees and wider internal pay arrangements; and
- the overall policy objective to remain below market median on a total remuneration basis for the FTSE 20-50 excluding financial services companies.

Base salary is normally reviewed annually with changes effective from 1 April. It may be reviewed more frequently or at different times of the year if the Committee determines this is appropriate.

#### Maximum opportunity

While there is no maximum salary level, salary increases will normally be in line with the typical level of increase awarded to other employees in the Group. However, increases may be above this level in certain circumstances, including but not limited to:

- where a new Executive Director has been appointed to the Board at an initially lower base salary with the intention that larger salary increases would be awarded for an initial period of time as the Executive Director gains experience;
- where there has been a significant increase in the scope and responsibility of an Executive Director's role or where they have been promoted; and
- where a larger increase is considered necessary to reflect significant changes in market practice.

The current Chief Executive was appointed at a salary that was more than 15% lower than his predecessor's and the Committee retains the flexibility to make further increases above normal levels for employees as he builds his experience in the role.

#### Performance measures

The overall performance of the Executive Director is considered by the Remuneration Committee when setting and reviewing salaries annually.

#### Pension

##### Purpose and link to strategy

Pension planning is an important part of SSE's remuneration strategy because it is consistent with the long-term goals and horizons of the business.

The pension supports the Company's ability to retain experienced Executive Directors and develop talent internally.

##### Operation

The current Executive Directors participate in either the Southern Electric Pension Scheme or the Scottish Hydro-Electric Pension Scheme.

These schemes are funded final salary pension schemes. Where an Executive Director is subject to the scheme-specific salary cap (which mirrors the provisions of the previous HMRC cap arrangements) the Company provides top-up unfunded arrangements ("UURBS") up to the maximum benefit outlined below.

The Committee may determine that alternative pension provisions will operate for new appointments to the Board, and would also determine the value of such arrangements. When determining pension arrangements for new appointments the Committee will give regard to the cost of the arrangements, market practice and the pension arrangements received elsewhere in the Group.

#### **Maximum opportunity**

For existing Executive Directors, the pension arrangements provide for a maximum pension of two-thirds of final salary, normally at age 60.

#### **Performance measures**

Not applicable.

#### **Benefits**

##### **Purpose and link to strategy**

To provide a market-competitive level of benefits for Executive Directors.

#### **Operation**

Benefit policy is to provide an appropriate level of benefit taking into account market practice at similar sized companies and the level of benefits provided for other employees in the Group.

Core benefits – Benefits currently include car allowance, private medical insurance and health screening.

All-employee share plans – Executive Directors are eligible to participate in the Company's all-employee share plans on the same terms as UK colleagues. The Company currently operates the Share Incentive Plan and the Sharesave Scheme.

Relocation policy – In the event that an Executive Director was required to re-locate to undertake their role, the Committee may provide additional reasonable benefits (either on a one-off or on-going basis) to reflect the relevant circumstances.

The Committee may introduce or remove particular benefits if it is considered appropriate to do so.

#### **Maximum opportunity**

When determining the level of benefits the Committee will consider the factors outlined in the 'operation' section.

The cost will depend on the cost to the Company of providing individual items and the individual's circumstances and therefore there is no maximum benefit level.

#### **Performance measures**

Not applicable.

#### **Annual incentive plan (AIP)**

##### **Purpose and link to strategy**

In line with the need to achieve a suitable balance of fixed and variable remuneration the purpose of the AIP is to reward Executive Directors' performance during the year, based upon achievement of performance targets.

The performance targets are linked to SSE's strategy and core purpose.

Deferral into Company shares provides alignment between Executive Directors' interests and the long-term interests of shareholders.

#### **Operation**

The Committee determines the level of incentive at its absolute discretion taking into account performance in each of the measures, the underlying performance of the business and Executive Directors' management of, and performance in, all of the business issues that arise during the year.

Performance is typically assessed over a financial year.

The award is normally delivered:

- 75% in cash; and
- 25% in deferred shares.

The Committee may determine that a different balance of cash and deferred shares may be awarded.

Deferred shares will normally vest three years from the award and will typically be subject to continued employment (unless the Committee determines an alternative vesting period is appropriate). Until vesting, deferred shares may accrue additional dividend shares. Dividend equivalents may be determined by the Committee on a cumulative basis and may assume reinvestment of dividends in the Company's shares.

## Remuneration Report continued Policy

In certain circumstances set out in the plan rules the Committee may at its discretion "claw back" outstanding awards prior to the vesting date.

The Committee may adjust and amend the terms of the deferred shares in accordance with the Deferred Scheme rules.

### Maximum opportunity

Maximum annual incentive opportunity is equal to 100% of base salary.

### Performance measures

The annual incentive is normally based on a mix of financial measures and measures related to the strategic performance of the business.

A minimum of 50% of the annual incentive will be based on financial performance.

The strategic performance of the business is generally determined with reference to its core purpose of providing the energy people need in a reliable and sustainable way and therefore normally includes matters such as safety, customer service in the Retail and Networks divisions and investment decision-making and execution, as well as the personal performance of the Executive Directors. The Committee determines the exact metrics each year depending on the key strategic objectives for the forthcoming year and ensures that they are appropriately stretching in the context of the business plan.

In determining the final out-turn the Committee considers Executive Directors' management of, and performance in, all of the business issues that arose during the year.

The AIP starts accruing for entry level performance from 25% of salary. Around 50% of the incentive is paid if target levels of performance are delivered with the full incentive being paid for delivering stretching levels of performance.

The part of the AIP that is converted into deferred shares is not subject to any further performance conditions.

### Performance share plan (PSP)

#### Purpose and link to strategy

The purpose of the PSP is to reward Executive Directors over a three-year period for their part in delivering the sustained success of SSE and to ensure that their interests are aligned with those of the shareholders who invest in the Company.

#### Operation

Shares are awarded which normally vest based on performance over a period of three years. The Committee may apply additional holding periods, following vesting.

The Committee shall determine the extent to which the performance conditions have been met. No shares shall vest unless the Committee is satisfied with the underlying financial performance of the Company. Awards do not vest until after the end of the performance period.

Until vesting, PSP awards may accrue additional dividend shares. Dividend equivalents may be determined by the Committee on a cumulative basis and may assume reinvestment of dividends in the Company's shares.

In certain circumstances set out in the PSP rules the Committee may at its discretion "claw back" outstanding awards prior to vesting. For further details see the section Recovery provisions on page 80.

The Committee may adjust and amend awards in accordance with the PSP rules.

### Maximum opportunity

The maximum value of award that can be granted under the PSP is equal to 150% of base salary.

### Performance measures

The Committee determines targets each year to ensure that they are stretching and represent value creation for shareholders while remaining realistically achievable for management.

Awards vest based on relative total shareholder return, financial based measures and customer satisfaction.

At least 70% of the award will be based on financial and relative total shareholder return measures.

The Committee may review the detailed targets and weightings of measures year on year, as well as the appropriate threshold levels of performance.

### Share ownership policy

#### Purpose and link to strategy

A key element of Executive Director pay policy is to align the interests of Executive Directors with those of shareholders who invest in the Company.

#### Operation

Shareholding is normally built up via shares vesting through the PSP, deferred shares from the AIP and all employee share schemes.

## **Maximum opportunity**

(Note – updated to reflect the enhanced guidelines implemented for 2015/16. The approved Policy incorporated a share ownership policy of one years' base salary.)

Executive Directors are expected to maintain a shareholding equivalent to two years' base salary built up within a reasonable timescale. Consent to sell shares is not normally given (unless in exceptional circumstances) until this level of shareholding is reached.

## **Performance measures**

Not applicable.

## **Chairman and non-Executive Director fees**

### **Purpose and link to strategy**

Fees are set at a level which provides reward for undertaking the role and are sufficient to attract and retain individuals with the calibre and experience to contribute effectively at Board level.

### **Operation**

The Committee is responsible for determining fees for the Chairman. The Board is responsible for determining fees for other non-Executive Directors.

Fees are reviewed at appropriate intervals against companies of a similar size and complexity. Fees are set in a way that is consistent with the wider remuneration policy.

The fee structure is typically made up of:

- a basic Board fee or Chairman fee;
- an additional fee for any committee chairmanship; and
- an additional fee for further responsibilities e.g. Senior Independent Director.

Non-Executive Directors do not participate in the Annual Incentive Plan, Deferred Bonus Scheme or any of the share schemes, or contribute to any group pension scheme.

Non-Executive Directors do not currently receive any benefits. However, benefits may be provided in the future if, in the view of the Board for non-Executive Directors or the Committee for the Chairman, this was considered appropriate.

Reasonable travelling and other expenses for costs incurred in the course of the non-Executive Directors undertaking their duties are reimbursed (including any tax due on the expenses).

It is also expected that all non-Executive Directors should build up a minimum of 2,000 shares in the Company.

## **Maximum opportunity**

The aggregate level of non-Executive Director fees shall not exceed the maximum limit set out in the Articles of Association.

## **Performance measures**

While there are no direct performance measures relating to Chairman and non-Executive Director fees, the performance of the Board is subject to annual evaluation, including individual evaluation. Moreover, all Directors are subject to annual re-election at the AGM.

## **Recovery provisions**

(Note – updated to reflect the enhanced malus and clawback guidelines implemented for 2015/16. Readers should refer to the approved Policy in the 2014/15 DRR for the provisions which apply to variable pay awards made prior to 2015/16.)

Malus provisions apply on awards made in deferred shares under the AIP and PSP awards from 2012 onwards. These provisions provide the Committee with the ability to reduce or cancel unvested awards if it considers that certain circumstances have occurred during the period between the granting and vesting of awards. For 2015/16 these circumstances include a material mis-statement of accounts, a factual error in the calculation or vesting of performance-related awards, serious misconduct or significant reputational damage to the Company.

In addition, the Committee has subsequently implemented clawback provisions, which apply from the 2015/16 performance year onwards under the AIP and from the 2015 awards onwards under the PSP. The provisions extend for three years post-payment under the AIP and for three years post-vesting under the PSP. They provide the Committee with the ability to claw back amounts paid or vested, should it consider that certain circumstances have occurred in the three-year period following the payment or vesting date. These circumstances are a material mis-statement of accounts, a factual error in the calculation of vesting of performance-related awards or serious misconduct.

## **Committee discretion**

The rules of the AIP and PSP contain the following discretions in addition to those described elsewhere in the report:

- In the event of a variation of the Company's share capital or a demerger, delisting, special dividend, rights issue or other event, the number of shares subject to an Award and/or any performance condition attached to Awards, may be adjusted.
- The Committee may adjust PSP performance conditions for subsisting awards as it considers appropriate to take account of any factors which are relevant in the opinion of the Committee, for example to reflect modifications of accounting standards, provided that the revised performance conditions are not considered to be less challenging to achieve.
- In the event of a voluntary winding-up of the Company, the Committee may allow some or all of the outstanding PSP awards to vest and be exercisable within 30 days following the date the resolution for the winding-up is passed.

## Remuneration Report continued Policy

The Committee may make minor changes to this Policy (for example for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without seeking shareholder approval for that amendment.

### Legacy commitments

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretion available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out in this report where the terms of the payment were agreed (i) before the Policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. This includes commitments relating to the defined benefit pension arrangements which were made before 27 June 2012. "Payments" includes the Committee sanctioning awards of variable remuneration and an award over shares is "agreed" at the time the award is granted. Any payments made outside of the remuneration Policy pursuant to legacy commitments will be disclosed in full in the relevant year's Annual Report.

### Directors' service contracts and non-Executive Directors' letters of appointment

Current Executive Directors have service contracts terminable by the Company immediately without notice upon breach by the individual or by the Company giving to the individual 12 months' notice or, at its discretion, payment in lieu of salary only during that notice. The payment in lieu of notice may be made in staged payments, and may either reduce or cease completely where the departing Executive Director gains new employment. The Executive Director may terminate his contract by giving the Company 12 months' notice. Contracts for new Executive Directors will be limited to 12 months' notice by both parties (or payment in lieu of notice in respect of the Company). Both contracts of the Executive Directors are dated 7 November 2013.

The Committee may also determine that the Executive Director should receive outplacement support and legal advice at the expense of the Company.

The non-Executive Directors have letters of appointment, and are appointed for fixed terms of three years, subject to retirement and re-appointment at AGMs.

Non-Executive Directors on termination are not entitled to any payment in lieu of notice or any compensation for loss of office.

The letters of appointment are available for shareholders to view on sse.com.

### Loss of office policy

The Committee takes a number of factors into account when determining leaving arrangements for Executive Directors:

- The Committee must satisfy any contractual obligations provided they are consistent with the Policy or have been entered into on a date on or before 27 June 2012 in accordance with relevant legislation.
- The treatment of outstanding share awards is governed by the relevant share plan rules, as set out below.
- The Committee may determine that the Executive Director should receive outplacement support and legal advice at the expense of the Company and any payments required by statute.

The Company may at its discretion terminate any Executive Director's contract by providing notice (as set out above).

### AIP

The Executive Director may, at the discretion of the Committee, remain eligible to receive an AIP award for the financial year in which they ceased employment. Any such AIP award will be determined by the Committee taking into account time in employment and performance. If an AIP award is received in such cases it will not be subject to deferral into deferred shares.

### Deferred shares

If an Executive Director's employment terminates in circumstances such as death, injury, disability, ill-health (as agreed by the Committee) or other circumstances that the Committee deems appropriate, deferred shares shall vest in full at the time of termination of employment.

If an Executive Director leaves the business in other circumstances their deferred shares shall lapse.

### Performance share plan

If an Executive Director's employment terminates in circumstances such as death, injury, disability, ill-health (as agreed by the Committee) or other circumstances that the Committee deems appropriate, PSP shares may continue to vest. The PSP shares will normally be reduced to reflect the time elapsed in the three-year performance period when the Director's employment ends and will normally remain subject to performance at the end of the performance period.

The Committee may determine, in exceptional circumstances, that PSP shares may be released at the time of cessation of employment. In this circumstance, it will determine the level of vesting taking into account the extent to which the performance condition has been met at the time (subject to modification if the Committee considers that the performance condition would be met to a greater or lesser extent at the end of the original performance period) and the period the Executive Director has been in employment.

Where the Committee determines that PSP shares shall vest for reasons other than death, disability or ill-health, the Committee has the discretion to disapply time pro-rating or alter the time pro-rating fraction if it considers that the Executive Director's contribution to the business of the Group would not otherwise be properly recognised. In this circumstance, the vesting of PSP shares would remain subject to performance until the end of the performance period.

If the Executive Director's employment ends for any other reason, PSP share awards will lapse.

## Pension

Where an Executive retires through ill-health they are entitled to an unreduced pension based on service to expected retirement.

In the event of any reorganisation or redundancy, Executives who are aged 50 or more with at least five years of service will be provided with an unreduced accrued pension. If an Executive has not reached age 50 at the time of this event their pension will be paid from age 50.

From age 55 Executives are entitled to leave the Company and receive a pension, reduced for early payment, unless the Company gives consent and funds the pension being paid on an unreduced basis.

Dependent upon the circumstances surrounding the departure of the Executive Director and the financial health of the Company at the time, the Committee's policy is to give consideration to a cash commutation of the UURBS pension at the time of leaving. Any cash commutation would limit SSE's liability, taking into account valuations provided by independent actuarial advisors, and would be undertaken on what was judged by the Committee to be on a cost neutral basis to SSE.

The following is information relating to the pension of Gregor Alexander as a participant in the HMRC approved Scottish Hydro-Electric Pension Scheme the terms of which also apply to the UURBS arrangement.

- (i) Dependents' pensions on death are half of members' pension entitlements, together with a capital sum equal to four times pensionable pay. On death in retirement, the Director's spouse will receive a pension equal to half of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.
- (ii) Post retirement increases are expected to be in line with RPI.

The following is information relating to the pension of Alistair Phillips-Davies, as a participant in the HMRC approved Southern Electric Group of the Electricity Supply Pension Scheme, the terms of which also apply to the UURBS arrangement.

- (i) Dependents' pensions on death are four-ninths of the member's pensionable pay, together with a capital sum equal to four times pensionable pay. If death occurs after attaining the age of 55 an additional lump sum between three to five times notional pension is payable dependent upon age and length of service.
- (ii) On death in retirement, the Director's spouse will receive a pension equal to two-thirds of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.
- (iii) Post retirement increases are expected to be in line with RPI (guaranteed up to the level of 5% per annum and discretionary above that level).

## Other arrangements

If buyout awards are made on recruitment, the treatment on leaving would be determined at the time of the award.

For all-employee share plans, such as the Sharesave Scheme and the Share Incentive Plan, leavers will be treated in accordance with the HMRC approved plan rules.

## Change of control

In the event of a change of control of the Company, performance in the PSP will be measured to that date subject to modification if the Committee considers that the performance conditions would be met to a greater or lesser extent at the end of the original performance period. Awards will normally be scaled down to reflect the period up to the change of control, but the Committee has discretion to dis-apply or alter the pro-rating fraction if it considers that participants' contribution to the creation of shareholder value during the performance period would not otherwise be properly recognised. Any outstanding deferred shares from the AIP will vest automatically.

## Recruitment policy

The Committee would generally seek to align the remuneration package offered with its remuneration policy outlined in pages 92-94 and would be subject to the variable pay limit outlined below.

Base salary would be set taking into account the individual's skills and experience and performance, salary levels at other FTSE 100 companies and other energy businesses, remuneration of different groups of employees, and the wider internal pay arrangements.

The Committee will determine appropriate pension provision for any new Executive Director. When determining pension arrangements for new appointments the Committee will give regard to the cost of the arrangements, market practice and the pension arrangements which operate elsewhere in the Group.

The Committee retains the flexibility to provide a higher variable remuneration opportunity for a new recruit. For example, where the value of pension offered is lower than that offered to current executive directors, a higher level of incentive opportunity may be required to maintain broadly comparable total remuneration positioning. More generally, it is considered appropriate for the Policy to provide some flexibility given the current very conservative positioning of SSE's incentive arrangements. The over-riding objective in determining a total remuneration package for a new recruit would be to make decisions which are in the best interests of the Company, its shareholders and other stakeholders.

## Remuneration Report continued

### Policy

In this context the on-going variable incentive maxima (currently 100% annual incentive and 150% PSP) may be increased. Were an increase to be made for a new recruit the Committee would consider very carefully the appropriate level, taking into account the rationale and circumstances. The maximum incentive level would be an additional 50% of the current limits (i.e. up to 150% annual incentive and up to 225% PSP). The structure of any such incentive awards, including performance measures, would be in line with the established principles in the policy table.

The Committee may make awards on appointing an Executive Director to 'buy out' remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested. Generally buy-out awards will be made on a comparable basis to those forfeited. To facilitate these awards, the Committee may make awards under Company incentive plans and other available structures.

The committee may make awards under Company incentive plans and under the Listing Rules exemptions LR9.4.2. The use of the latter shall be limited to the granting of buy-out awards or share awards within the limits described above.

#### Shareholders' views

The Committee Chairman, on behalf of the Committee, regularly undertakes consultation with a number of institutional shareholders regarding a broad range of remuneration issues. The Committee finds such consultation meetings a valuable opportunity to receive feedback on the work of the Committee and the key issues that it is considering. The feedback received is extremely helpful in informing the Committee's decisions. In addition, the Committee monitors the views of other stakeholders and broader developments in executive remuneration generally.

#### Remuneration engagement across the Group

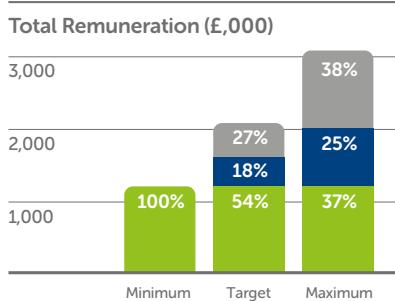
The Committee appreciates the importance of an appropriate relationship between the remuneration levels of the Executive Directors, senior executives, managers and other employees within the Group although comparison metrics are not used. Remuneration at all levels in SSE is designed to support its core remuneration principles, long-term business strategy and core purpose of providing the energy people need in a reliable and sustainable way. It is also designed to be consistent with and support the Company's core values of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. The structure of reward necessarily differs based on scope and responsibility of role, level of seniority and location.

- Senior management population participate in an annual incentive and the performance share plan on a similar basis to Executive Directors.
- All employees have the opportunity to be share owners through the Share Incentive Plan and the Sharesave Plan and those participating are able to express their views in the same way as other shareholders.
- Pension planning is an important part of SSE's reward strategy for all employees because it is consistent with the long-term goals and horizons of the business. SSE welcomes the introduction of auto-enrolment, an approach it has been practising for a number of years. The terms of the funded final salary pension schemes apply equally to all members.
- As part of its Employee Engagement Survey the Company invites all Employees to provide a view on the benefits and pay that it provides.

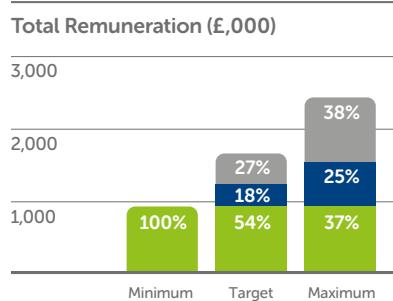
The Head of Reward also provides an annual update to all SSE-recognised trade unions, explaining the Company's position on executive remuneration. This covers many of the policy positions explained in this report. Feedback from this meeting is shared with the Remuneration Committee. The Company will continue to liaise with employee representative bodies in the future and welcomes their views and opinions on remuneration issues.

#### Illustration of the Remuneration Policy for 2015/16

**Chief Executive –  
Alistair Phillips-Davies**



**Finance Director –  
Gregor Alexander**



█ Base salary, benefits, pension  
█ AIP  
█ PSP

The charts above are based on the current Executive Directors' packages and show the amount of remuneration payable in three scenarios; 1) minimum performance where only base salary, benefits and pension is payable, 2) target performance and 3) maximum performance.

## Underlying assumptions

### Minimum performance

In this scenario only the fixed pay elements are payable i.e. base salary, benefits and pension calculated as:

- Base salary effective from 1 April 2015.
- Benefits represent those shown on the single figure table on page 100.
- Pension is the value of accrual in a typical year (assuming a pay increase of 2%) using the same valuation methodology as in the "single figure" table on page 100.

	Base salary	Benefits	Pension	Total
CEO	£824,320	£25,593	£381,206	£1,231,119
FD	£637,133	£22,607	£282,558	£942,298

### Target performance

This is what the Executive Director would receive in addition to the minimum performance element, if the Committee agreed that target level performance had been achieved:

- AIP pays out 50% of maximum opportunity of 100% of base salary.
- PSP pays out 50% of maximum opportunity of 150% of base salary.

### Maximum performance

This is what the Executive Director would receive in addition to the minimum performance element, if the Committee agreed that the maximum level performance had been achieved:

- AIP pays out 100% of base salary.
- PSP pays out 150% of base salary.

### Notes

The AIP figures are the gross value of the awards before 25% is converted into deferred shares.

The PSP awards are shown simply as the gross face value at the date of grant and do not include any assumptions for share price growth or dividend accrual.

## Annual Remuneration Report 2014/15

The following sets out SSE's 2014/15 Annual Remuneration Report. The report will be subject to an advisory vote at the 2015 AGM.



### Single total figure of remuneration for each director for financial years ended 31st March 2014 and 2015

	Base salary/fees £000s		Benefits <sup>5</sup> £000s		AIP <sup>6</sup> £000s		PSP <sup>7</sup> £000s		Pension <sup>8</sup> £000s		Total <sup>9</sup> £000s	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<b>Executive Directors</b>												
Alistair Phillips-Davies	805	702	26	24	515	453	0	230	965	1,345	2,311	2,754
Gregor Alexander	622	594	23	21	398	366	0	230	354	557	1,397	1,768
											<b>Total</b>	3,708
												4,522
<b>Non-executive Directors</b>												
Thomas Thune Andersen <sup>1</sup>	20	68									20	68
Jeremy Beeton	66	57									66	57
Katie Bickerstaffe	59	57									59	57
Sue Bruce <sup>2</sup>	59	33									59	33
Richard Gillingwater	83	83									83	83
Lady Rice <sup>3</sup>	21	70									21	70
Peter Lynas <sup>4</sup>	55											
Lord Smith of Kelvin	370	362									370	362
											<b>Overall Total</b>	4,386
												5,252

#### Notes

- 1 Thomas Thune Andersen stepped down from the Board on 17th July 2014.
- 2 Sue Bruce was appointed to the Board on 1 September 2013.
- 3 Lady Rice stepped down from the Board on 17th July 2014.
- 4 Peter Lynas was appointed to the Board on 1 July 2014.
- 5 Benefits relate to company car, Share Incentive Plan company contributions and medical benefits.
- 6 The AIP figures above show the full value of the award before 25% was deferred in shares.
- 7 The PSP figures above are based on awards vesting in 2014 (the award granted in 2011) and 2015 (the award granted in 2012) and include the value of dividends accrued. As per the new regulations, the 2014 award is based upon the share price as at date of vesting.
- 8 The pension value represents the cash value of pension accrued over 1 year x a multiple of 20 (adjusted for inflation) less employee contributions in line with statutory reporting requirements.
- 9 Directors have not received any other items in the nature of remuneration other than as disclosed in the table.

## Remuneration and performance

### Executive Directors' salary and incentive plans 2014/15

#### Salary

The salaries shown in the table reflect a 2014/15 salary, effective from 1 April 2014 to 31 March 2015, of £805,000 for the Chief Executive and £622,200 for the Finance Director.

#### 2014/15 AIP

Last year the opportunity was taken to change the targets under the AIP to better reflect business priorities at the current time. The table below provides more information on the measures and the performance that was ultimately delivered.

Measure	Performance context					
<b>Financial (50%)</b>	The table below provides the financial targets and the Company's performance against these targets.					
	Measure	Weighting	Threshold	Target	Maximum	Outcome
	Adjusted PBT	30%	£1,511m	£1,590m	£1,670m	£1,565m
	DPS growth	10%	–	1.96%	3.96%	1.96%
	Cash-flow	10%	13%	13.5%	14%	14.5%
	Financial (50%) – Overall out-turn – 50% of element					
<b>Customer (15%)</b>	Overall service performance for our retail customers continued to be strong, on both external and internal measures.					
	SSE remained the leading large supplier in customer service surveys, ranked first with a score of 45.7 in the Citizens Advice Complaints League, significantly ahead of the nearest competitor's score of 97.3. SSE also continued to have the lowest number of ombudsman complaints, with a reduction in industry complaints from 4.5% to 2.2% of the total. In other customer satisfaction surveys, SSE maintained or improved its ranking against the other large suppliers, for example climbing from third to joint first place in the Which? Customer Satisfaction Survey. There was also a significant improvement in SSE's Net Promoter Score.					
	Service performance was also high in some areas for networks customers. SSE performed well across Ofgem's "Broad Measures of Community Satisfaction", with improvement to customer satisfaction, significant improvement to complaints performance and its best ever performance with regard to customer interruptions. There are, however, improvements to be made in certain parts of the networks business and this was taken into account in the final out-turn decision.					
	Customer (15%) – Overall out-turn – 75% of element					
<b>Team-working (20%)</b>	Teamwork measures performance against the 'SSESET' of core values. The Committee assesses each area before reaching an overall conclusion on the performance out-turn.					
	<ul style="list-style-type: none"> <li>- Safety – SSE's safety performance was close to the best in the Company's history, and the Accident Frequency Rate, which records the most serious incidents, showed an improvement on the previous year.</li> <li>- Service – SSE remained the leading large company in Energy Supply customer service surveys and secured significant reductions in the number and duration of power cuts experienced by its Networks customers.</li> <li>- Efficiency – SSE delivered the principal objectives of its value programme, including securing £100m of annual savings in overheads and completing disposals of assets totalling £475m.</li> <li>- Sustainability – SSE secured an 'A' rating in the CDP Climate Change Index, one of the most important annual assessments of how large companies are managing their climate change impact.</li> <li>- Excellence – SSE became the first FTSE 100 company to be awarded the Fair Tax Mark, the world's first independent accreditation process for companies seeking to be transparent about their tax affairs.</li> <li>- Teamwork – SSE secured an increased participation rate, of 92%, in its employee engagement survey and quantified the economic value of the people it employs – its 'human capital' at £3.4bn.</li> </ul>					
	Team-working (20%) – Overall out-turn – 80% of element					
<b>Personal (15% of total)</b>	During 2014/15, the Executive Directors drove consistent improvement in performance and delivery of programmes and innovation; successfully implemented service improvement and cost reduction plans; delivered value from divestments; strengthened the risk function and SSE's risk and strategy processes; ensured the Company was engaged and visible with key stakeholder concerns including energy affordability, and the CMA.					
	Personal (15%) – Overall out-turn – 80% of element for Alistair Phillip-Davies and for Gregor Alexander					

## Annual Remuneration Report 2014/15 continued

Executive Directors were eligible to receive AIP of up to 100% of salary in respect of 2014/15. Based on performance against these targets, the Chief Executive and the Finance Director received payment of 64% of maximum. One-quarter of the award will be payable in shares deferred for a further 3 years.

### 2012/15 PSP

The targets attached to the 2012 PSP awards are set out in the table below. Performance was measured over the three-year period to 31 March 2015.

Measure	Performance
<b>Total shareholder return against the FTSE 100 (25% of total)</b>	<b>Out-turn – 0% vesting</b> TSR ranked 54 out of 100, below median 100% vests at or above 75th percentile, 25% vests at median, with straight-line vesting between these points
<b>Total shareholder return against European Utilities (25% of total)</b>	<b>Out-turn – 0% vesting</b> TSR ranked 18 out of 27, below median 100% vests at or above 75th percentile, 25% vests at median, with straight-line vesting between these points
<b>Adjusted EPS (25% of total)</b>	<b>Out-turn – 0% vesting</b> In line with expectation but below previously agreed threshold required 100% vests at or above EPS of 8% +RPI, 25% vests for EPS of 2% +RPI, with straight-line vesting between these points
<b>DPS (25% of total)</b>	<b>Out-turn – 0% vesting</b> Dividend policy re-set in 2013 so 2 of the 3 years had targets mis-aligned with policy 100% vests at or above DPS of 6% +RPI, 25% vests for DPS of 2% +RPI, with straight-line vesting between these points

Based on performance against these targets, the 2012 PSP award will lapse in full.

### Benefits

Benefits are provided at an appropriate level taking into account market practice at similar sized companies and the level of benefits provided for other employees in the Group.

Core benefits include car allowance, private medical insurance and health screening.

Executive Directors are eligible to participate in the Company's all-employee share schemes on the same terms as other employees:

- The Sharesave Scheme which allows employees options to acquire shares using the proceeds of a monthly savings contract of up to £500 per month. Exercise of the options is not subject to satisfaction of any performance target. The option price is set at a discount maximum of 20% to market value.
- The Share Incentive Plan (the SIP) which allows employees to allocate part of their pre-tax salary to purchase shares up to a maximum of £150 per month. Participants receive two free matching shares monthly for each share purchased up to a maximum of six free shares.
- The long service award scheme which purchases 10, 20, 30, 40 or 50 shares on behalf of an employee on the occasion of the employee reaching 10, 20, 30, 40 or 50 years' service respectively with the Group.

### Pension

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

The Executive Directors are members of either the Southern Electric Pension Scheme or the Scottish Hydro-Electric Pension Scheme and their plan membership predates their Board appointments. These are both funded final salary pension schemes and the terms of these schemes apply equally to all members. The Directors' service contracts provide for a possible maximum pension of two thirds final salary from the age of 60. In relation to Executive Directors who are subject to the scheme-specific salary cap (which mirrors the provisions of the previous HMRC cap arrangements) the Company provides top-up (unfunded) arrangements which are designed to provide an equivalent pension on retirement from the age of 60 to that which they would have earned if they had not been subject to the salary cap. There are no arrangements to compensate members for any change in their personal tax liability.

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

#### Directors' pension information

	Accrued pension as at 31 March 2015 £000s	Accrued pension as at 31 March 2014 £000s
Alistair Phillips-Davies	329	272
Gregor Alexander	316	290

#### Payment to former Executive Director

Colin Hood, former Chief Operating Officer, left SSE in October 2011. His terms of employment provided for a pension via two schemes; the Southern Electric Pension Scheme (SEPS) and an Unfunded Unapproved Retirement Benefit Scheme (UURBS). As previously disclosed, Colin Hood could request that the Committee consider a cash commutation of the portion of his pension provided through the UURBS when he reached the age of 60. Having recently reached this age, the Committee was asked to consider whether it wished to approve a payment. In line with Company policy, in considering this request the Committee took into account the financial health of the Company and agreed a commuted payment of £2.15m (£1.1m net of tax and NI). This payment is considered to be cost neutral to SSE based on account valuations provided by independent actuarial advisors.

#### Statement of implementation for 2015/16

This section provides an overview of how the Committee intends to operate the approved Remuneration Policy for 2015/16.

##### Salary

The Committee reviewed salary levels for Executive Directors, taking into account a number of factors including individual performance and market data. Effective from 1 April 2015, the two executive directors will receive a salary increase of 2.4%, which is in line with the average performance-based salary increases for the wider SSE employee population. This will move the Chief Executive to £824,320 and the Finance Director to £637,133.

##### Benefits

There are no changes proposed to our benefits framework for 2015/16. More information on the benefits offered can be found in the Policy Report.

##### Pension

Participation in SSE's funded final salary pension schemes and unfunded pension arrangements.

##### Annual Incentive Plan

The maximum AIP opportunity for Executive Directors will remain at 100% of salary for 2015/16.

Following the changes we made to the AIP framework for 2014/15, the Committee considers that this structure remains appropriate for the business for 2015/16. As such, the performance measures against which the Executive Directors' performance will be evaluated for the purposes of the 2015/16 AIP remain as below:

Performance measure	Weighting
Adjusted PBT	30%
Growth in DPS	10%
Cash-flow	10%
Customer	15%
Team-working	20%
Personal	15%

##### PSP

The maximum PSP opportunity for Executive Directors will remain at 150% of salary for 2015/16.

We are retaining the same performance framework as was used for the awards made last year, as below:

Performance measure	Weighting
Relative TSR against FTSE 100	All equally weighted
Relative TSR against European Utilities	(20% each)
EPS	
Growth in DPS versus RPI	
Customer service (Consumer Futures ranking)	

Awards made to Executive Directors will have a two-year holding period following the end of the three-year performance period.

## Annual Remuneration Report 2014/15 continued

### Recovery Provisions

In accordance with the revised UK Corporate Governance Code the Committee gave consideration to its existing 'malus' provisions and how to structure new 'clawback' provisions. The Committee believed that it is right that it should have the ability to recover pay in circumstances where that pay is later proved to have been unfairly earned. It explored the potential circumstances to which each provision should apply and the applicable timescales. As a result, the PSP and AIP will now have the following recovery provisions:

	Malus	Clawback
<b>What is it?</b>	Ability to reduce or cancel unvested deferred AIP and PSP share awards	Ability to take back value delivered through the cash element of the AIP or vested PSP awards
<b>Circumstances to which each provision would apply</b>	<ul style="list-style-type: none"> <li>- Material misstatement or restatement of accounts (current)</li> <li>- Misconduct which results in a materially adverse financial effect (current)</li> <li>- Serious reputational damage including material environmental or safety issue, or material operational or business failing (current)</li> <li>- Factual error in calculating payment/ vesting (new)</li> <li>- Serious misconduct (new)</li> </ul>	<ul style="list-style-type: none"> <li>- Material misstatement or restatement of accounts (new)</li> <li>- Serious misconduct (new)</li> <li>- Factual error in calculating payment/ vesting (new)</li> </ul>
<b>Plans impacted</b>	AIP (deferred shares) and PSP	Cash AIP and PSP
<b>Applicable time period</b>	At any point between the grant date and vesting date (a three-year period)	At any point: <ul style="list-style-type: none"> <li>- Up to three years post-payment of cash under the AIP; and</li> <li>- Up to three years post-vesting of PSP shares</li> </ul>
<b>When do new provisions apply</b>	First applies to any deferred shares granted in 2016 and to PSP awards granted in 2015	First applies to payments in respect of the 2015/16 AIP and PSP awards granted in 2015

### Personal Shareholding Policy

The Committee agreed that the level of SSE shares to be held by Executive Directors should be increased from 100% of base salary to 200%. The Committee believed that this increase was more aligned to shareholder expectations. It is notable that both current Executive Directors have shareholdings above this level at present.

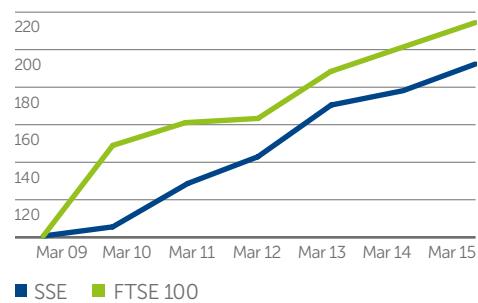
### Chief Executive's historical remuneration 2010-15

Directors	Single figure of total remuneration £000s	Annual variable element award rates against maximum opportunity %	Long term incentive vesting rates against maximum opportunity %
2015 (Alistair Phillips-Davies)	2,311	64	0
2014 (Alistair Phillips-Davies and Ian Marchant)	2,546	63	22
2013 (Ian Marchant)	2,241	0	53
2012 (Ian Marchant)	1,214	25	0
2011 (Ian Marchant)	1,686	60	0
2010 (Ian Marchant)	1,795	59	16

#### Note

The single figure of total remuneration has been valued using the same approach as used in the table on page 100. For 2014 an aggregate number has been applied by combining pro-rated values for each CEO based upon their time in the role.

### SSE TSR performance: 31 March 2009 to 31 March 2015



■ SSE ■ FTSE 100

Source: Datastream

The FTSE 100 Index is used as a comparator to SSE as the Company has been a member of the FTSE 100 during the period of comparison.

## Chief Executive pay progression comparison

The table below shows the percentage change in the Chief Executive's base salary, benefits and AIP between 2014 and 2015 compared with the percentage change in the average of all employees:

	% change in remuneration from 2013/14 to 2014/15		
	% change in base salary	% change in benefits	% change in annual incentive
Chief Executive	14.7%	8.3%	13.7%
All Employees	2.42%	-15.9%	1.8%

### Notes

The Chief Executive base salary is calculated on the same basis as the single figure table on page 100. The 14.7% reflects the Chief Executive's promotion into the new role. The all-employee base salary change is based on comparing the change in the average basic salary increase at April 2014 and April 2015.

The Chief Executive change in benefits is calculated on the same basis as the single figure table on page 100. The increase of 8.3% is largely down to a higher value in Share Incentive Plan matching shares. The all-employee change in benefits is based on P11D data from 2014 and 2015. The reduction of 15.9% is related to a decrease in private medical costs.

The Chief Executive annual incentive is calculated on the same basis as the single figure table on page 100. The 13.7% increase represents a higher outturn in 2015 from the increase-based salary. The all-employee change in annual incentive reflects the average out-turn for all eligible employees in 2014 and 2015. The increase in value of 1.8% is due to higher performance out-turns in 2014/15.

## Relative importance of the spend on pay

### How do the earnings of the Executive Directors compare with other financial dispersals?

	2014 £m	2015 £m	% change in year
Executive Directors' earnings	5.2	3.7	-40.54%
Dividends to shareholders	819.6	854.1	4.04%
Capital and investment expenditure	1,582.5	1,472.8	-7.45%
Contribution to government revenues in UK	431.6	506.2	14.74%
Staffing Costs	834.4	875.6	2.97%

### Notes

- 1 Calculated on the same basis as "Single figure of total remuneration" table on page 100.
- 2 There were no share buy-backs in 2013/14 or 2014/15.
- 3 Includes Corporation Tax, Employers' National Insurance Contributions and Business Rates.
- 4 Wages and salaries and share-based remuneration for all employees, as per Note 7.1 of the accounts, excluding Executive Directors.

### Executive Directors' earnings compared with dividend payments



The table above shows that for every £1 spent on Executive Directors' earnings by SSE in 2014/15, £137 was paid in tax, £232 was spent on employee costs, £231 was made in dividend payments to shareholders and £398 was spent on capital and investment expenditure.

# Annual Remuneration Report 2014/15 continued

## Scheme interests awarded during the year

### Directors' share interests

	*Shareholding as a % of salary (guideline)	Number of shares			Number of options		Shares owned outright at 31 March 2014
		Share owned outright at 31 March 2015	Interests in shares, awarded without performance conditions at 31 March 2015	Interests in shares, awarded subject to performance conditions at 31 March 2015	Interests in share options, awarded without performance conditions at 31 March 2015	Interests in share options, awarded subject to performance conditions at 31 March 2015	
<b>Director</b>							
Gregor Alexander	<b>331% (200% – met)</b>	<b>137,017</b>	<b>12,385</b>	<b>179,444</b>	<b>2,496</b>	–	124,087
Jeremy Beeton		4,000	–	–	–	–	4,000
Katie Bickerstaffe		2,300	–	–	–	–	2,300
Sue Bruce		1,602	–	–	–	–	949
Richard Gillingwater		2,000	–	–	–	–	2,000
Peter Lynas		2,000	–	–	–	–	–
Alistair Phillips-Davies	<b>275% (200% – met)</b>	<b>145,739</b>	<b>13,231</b>	<b>209,090</b>	<b>2,610</b>	–	134,131
Lord Smith of Kelvin		29,950	–	–	–	–	29,950
<b>Former Directors / Non-Executive Directors</b>							
Thomas Andersen					–		2,000
Lady Rice					–		6,215

### Notes

\* Shareholding requirement:

Executive Directors – 200% of salary

Non-Executive Directors – minimum 2,000 shares

Price used to calculate shareholding requirement as % of salary as at 31/03/15 – £14.98.

## Directors' Long Term Incentive Plan Interests

	Share Plan	Date of Award	Normal Exercise Period (or Vesting Date)	No. of Shares under award as at 1 April 2014	Option Exercise Price	Additional shares awarded during the year		No. of shares realised during the year	No. of Shares under award at 31 March 2015
						No. of shares lapsed during the year	No. of shares realised during the year		
Gregor Alexander	DBP 2006 <sup>2</sup>	14/06/2011	14/06/2014	5,533				42,952 <sup>2</sup>	
	DBP 2006 <sup>2</sup>	22/06/2012	22/06/2015	2,953					2,953
	DBP 2006 <sup>2</sup>	13/06/2013	13/06/2016	3,440					3,440
	DBP 2006 <sup>2</sup>	26/06/2014	26/06/2017			5,992 <sup>3</sup>			5,992
	PSP <sup>1</sup>	14/06/2011	May 2014	55,336			42,952	14,692 <sup>4</sup>	
	PSP <sup>1</sup>	22/06/2012	May 2015	59,065					59,065
	PSP <sup>1</sup>	13/06/2013	May 2016	54,604					54,604
	PSP <sup>1</sup>	20/12/2013	May 2016	5,367					5,367
	PSP <sup>1</sup>	26/06/2014	May 2017			60,408 <sup>3</sup>			60,408
	Sharesave	30/06/2009	01/10/2014- 31/03/15	1,253	1,042p	–	–	1,253 <sup>5</sup>	
	Sharesave	30/06/2010	01/10/2015- 31/03/16	283	871p	–	–	–	283
	Sharesave	02/07/2014	01/10/2019- 31/03/20	2213	1,247p	2,213 <sup>6</sup>	–	–	2213

	Share Plan	Date of Award	Normal Exercise Period (or Vesting Date)	No. of Shares under award as at 1 April 2014	Option Exercise Price	Additional shares awarded during the year	No. of shares lapsed during the year	No. of shares realised during the year	No. of Shares under award at 31 March 2015
Alistair Phillips-Davies	DBP 2006 <sup>2</sup>	14/06/2011	14/06/2014	5,533	–	–	–	5,533 <sup>4</sup>	–
	DBP 2006 <sup>2</sup>	22/06/2012	22/06/2015	2,461	–	–	–	–	2,461
	DBP 2006 <sup>2</sup>	13/06/2013	13/06/2016	3,440	–	–	–	–	3,440
	DBP 2006 <sup>2</sup>	26/06/2014	26/06/2017	–	7,330 <sup>3</sup>	–	–	–	7,330
	PSP <sup>1</sup>	14/06/2011	May 2014	55,336	–	–	42,95 <sup>2</sup>	14,692 <sup>4</sup>	–
	PSP <sup>1</sup>	22/06/2012	May 2015	59,065	–	–	–	–	59,065
	PSP <sup>1</sup>	13/06/2013	May 2016	54,604	–	–	–	–	54,604
	PSP <sup>1</sup>	20/12/2013	May 2016	17,266	–	–	–	–	17,266
	PSP <sup>1</sup>	26/06/2014	May 2017	–	78,155 <sup>3</sup>	–	–	–	78,155
	Sharesave	29/06/2012	01/10/2017-31/03/18	1,408	1,065p	–	–	–	1,408
	Sharesave	02/07/2014	01/10/2019-31/03/20	1,202	1,247p	1,202 <sup>6</sup>	–	–	1,202

**Notes**

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

Gregor Alexander and Alistair Phillips-Davies each received 3,337 shares.

- 1 The performance conditions applicable to awards under the PSP since 2010 are described on page 102. The 2011 award under the PSP vested in respect of 22.38% of the total award.
- 2 25% of annual bonus payable to Executive Directors and Senior Managers is satisfied as a conditional award of shares under the DBP 2006. Vesting of shares is dependent on continued service over a three year period. In view of the linkage to annual bonus, no further performance condition applies to the vesting of Deferred Bonus Plan (DBP) 2006 awards.
- 3 The market value of a share on the date on which these awards were made was 1,568p.
- 4 The market value of a share on the date on which these awards were realised was 1,568p.
- 5 The market value of a share on the date on which these awards were exercised was 1,494p.
- 6 The market value of a share on the date on which these options were granted was 1,595p.

The closing market price of shares at 31 March 2015 was 1,533p and the range for the year was 1,438p to 1,679p. Awards granted during the year were granted under the DBP 2006 and the PSP. The aggregate amount of gains made by the Directors on the exercise of share options and realisation of awards during the year was £681,353.72 (2014 – £2,977,736.52).

**DBS and PSP awards granted in 2014/15**

Scheme	Basis of award granted	Shares awarded	Face value of award	Maximum vesting	Percentage vesting for threshold performance	Vesting period
Alistair Phillips-Davies						Performance measured over 3 years to 31 March 2017
PSP	150% of salary	78,155	£1,225,470	100%	25%	
DBS	25% of annual incentive	7,330	£114,934	100%	Deferred bonus, subject to continued employment	Award will vest on third anniversary of grant
Gregor Alexander						Performance measured over 3 years to 31 March 2017
PSP	150% of salary	60,408	£947,197	100%	25%	
DBS	25% of annual incentive	5,992	£93,955	100%	Deferred bonus, subject to continued employment	Award will vest on third anniversary of grant

**Note**

1 Based on a grant price of £15.68 on 26/6/2014.

## Annual Remuneration Report 2014/15 continued

### External appointments

Executive Directors are able to accept a non-Executive appointment outside the Company with the consent of the Board, as such appointments can enhance Directors' experience and value to the Company. Any fees received are retained by the Director.

Gregor Alexander was a non-Executive Director with Stagecoach Group plc and received £51,146 in fees. Gregor Alexander is also Chairman of Scotia Gas Networks and receives no additional fees for this.

### Advice to the Committee

The Chief Executive, the Director of Human Resources, and SSE's Head of Reward, advised the Committee on certain remuneration matters for the Executive Directors and senior executives although they were not present for any discussions on their own remuneration. The Director of Human Resources and SSE's Head of Reward advised on HR strategy and the application of HR policies across the wider organisation.

Deloitte LLP provided a range of advice to the Committee which included market information drawn from published surveys, governance developments and their application to the Company, advice on the appropriate structure of short-term incentives, long-term incentives, and comparator group pay. Deloitte LLP received fees of £63,525 in relation to their work for the Committee, calculated on a time and materials basis. Deloitte LLP is one of the founding members of, and adheres to, the Remuneration Consultants' Group Code of Conduct. They were appointed by the Committee who reviews their performance annually to determine that it is satisfied with the quality and relevance of advice being provided and that it was objective and independent. Deloitte LLP also advised the Company on tax, provided corporate finance advisory services and audited the joint venture Scotia Gas Networks Limited. Deloitte LLP and Deloitte MCS Limited together provided IT and business consulting services.

Bank of America Merrill Lynch provided assistance on shareholder communications and undertakes analysis on comparator performance. They were appointed by the Committee for these services. They did not receive any fees relating specifically to these services, and they are retained as SSE's brokers.

### Audited Information

The Annual Remuneration Report is subject to audit, other than the elements explaining the application of the remuneration policy for 2015/16, elements in relation to the performance graph, disclosure of percentage change in remuneration of director undertaking the role of chief executive officer, disclosures in relation to voting at the AGM and disclosures of the relative importance of spend on pay and consideration by the directors of matters relating to directors' remuneration.

### Shareholder voting in 2014

On 17 July 2014, shareholders approved the Remuneration Policy and the Remuneration Report for the year ended 31 March 2014. Below are the results of the resolutions:

	Votes for	Votes against	Votes cast	Withheld
Remuneration Policy	570,555,885 (99.11%)	5,115,612 (0.89%)	574,494,150	17,632,553
Remuneration Report	559,776,567 (97.61%)	13,699,234 (2.39%)	573,475,801	19,828,543

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

#### Richard Gillingwater

Remuneration Committee Chairman  
19 May 2015

# Other Statutory Information

## Disclosures in Strategic Report

The Strategic Report is set out on pages 1 to 71. The Board has taken advantage of Section 414C (11) of the Companies Act 2006 to include disclosures in the Strategic Report on:

- Employment of disabled people on page 64.
- Employee involvement on pages 62 to 64.
- A summary of the principal risks facing the Company on pages 66 to 71.
- An indication of likely future development in the business of the Company see pages 1 to 71.
- Greenhouse gas emissions on pages 59 to 61.
- Information on the Company's Research and Development activities during the period on page 61.

## Results and dividends

The Group profit attributable to Ordinary Shareholders for the financial year amounted to £543.1m. The Directors recommend a final dividend of 61.8p per Ordinary Share which, subject to approval at the 2015 AGM, will be payable on 18 September 2015 to shareholders on the Register of Members at close of business on 24 July 2015. With the interim dividend of 26.6p per Ordinary Share paid on 20 March 2015, this makes a total dividend of 88.4p per Ordinary Share.

## Dividend ratification

The Board has recently become aware of a technical issue with regard to the Company's procedure for the payment of the final dividend to shareholders in September 2014 and the interim dividend to shareholders in March 2015 (together, the "Dividends").

When the Company paid each of the Dividends, although it had sufficient distributable reserves to make each payment at each payment date, interim accounts showing the requisite level of distributable profits had not been filed with the Registrar of Companies and as a result, each Dividend was paid in technical infringement of CA 2006.

It is clearly not the intention of the Company that any such claims should be made by the Company against either its shareholders or its directors. The position can be remedied by the shareholders passing a resolution which puts shareholders and directors into the position in which they were always intended to be.

Resolution 18, (full details can be found in the Notice of Annual General Meeting 2015) which is proposed as a special resolution, will ratify the appropriation of profits to the payment of each Dividend, waive any rights of the Company against both past and present shareholders of the Company who received the Dividends, waive any rights of the Company against past and present directors of the Company in respect of each Dividend, and approve the Company entering into deeds of release in favour of such shareholders and directors.

## Substantial shareholdings

As at 19 May 2015 the Company has been notified under Rule 5 of the Disclosure and Transparency Rules of the interests in its shares as shown in the table below:

Entity	Number of shares*	Percentage*	Nature of holding
The Capital Group Companies, Inc	129,815,241	13.07%	Indirect
Invesco Limited	45,775,918	4.69%	Indirect
Norges Bank	39,657,849	3.99%	Direct

\* At date of disclosure by relevant entity.

## Share capital

Details of the Company's issued share capital as at 31 March 2015, which includes options granted under the Group's employee share option schemes, are set out in Notes 27 and 31 to the Financial Statements.

## Authority to purchase shares

The Company was authorised at the 2014 AGM to purchase its own shares within certain limits. During 2014/15, SSE did not purchase any shares under this authority. The Directors will, however, seek renewal of their authority to purchase in the market the Company's own shares at the 2015 AGM and this remains a benchmark against which financial decisions are taken.

## Accounting policies, financial instruments and risk

Details of the Group's accounting policies, together with details of financial instruments and risk, are provided in Note 32 and Accompanying Information, A1. Basis of consolidation and significant accounting policies to the Financial Statements.

## Indemnification of Directors and insurance

The Directors have the benefit of the indemnity provision contained in the Company's Articles of Association. They also have been granted a qualifying third party indemnity provision which was in force throughout the financial year and remains in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and for its Directors and Officers.

## Requirements of Listing Rule 9.8.4R

The table on page 110 contains cross references to the information required by Listing Rule 9.8.4R for the reporting period, where applicable to the Company.

## Additional information

Where not provided elsewhere in the Directors' Report, the following provides the information required to be disclosed by Section 992 of the Companies Act 2006.

Each Ordinary Share of the Company carries one vote at general meetings of the Company.

There are no restrictions on the transfer of Ordinary Shares in the capital of the Company other than certain restrictions which may from time-to-time be imposed by law (for example, insider trading law). In accordance with the Listing Rules of the Financial Conduct Authority, certain employees are required to seek the approval of the Company to deal in its shares.

Employees who participate in the Share Incentive Plan whose shares remain in the schemes' trusts give directions to the trustees to vote on their behalf by way of a Form of Direction.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights. The rules governing the appointment and replacement of Directors are set out in the Company's Articles of Association. The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

The Company is not aware of any significant agreements to which it is party that take effect, alter or terminate upon a change of control of the Company following a takeover.

Each of the Directors who held office at the date of approval of this Directors' Report confirms that, so far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware and each Director has taken all the steps that ought to have been taken in his or her duty as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

The Directors Report set out on pages 72 to 111 has been approved by the Board of Directors in accordance with the Companies Act 2006.

## Other Statutory Information continued

### Requirements of Listing Rule 9.8.4R

No.	Information required by LR9.8.4R	Relevant to the Company ✓/X	Annual Report section and page reference
1	<b>Capitalised interest</b> Statement of amount of interest capitalised by the Group during the financial year	✓	138-139
2	<b>Long-term incentive schemes</b> Details of any long-term incentive schemes.	✓	90-105

By order of the Board

**Sally Fairbairn**  
Company Secretary  
19 May 2015

## Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the Going Concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report (including the Directors' Remuneration Report and Corporate Governance Statement) that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report and Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance business model and strategy.

For and on behalf of the Board

**Alistair Phillips-Davies**  
Chief Executive  
19 May 2015

**Gregor Alexander**  
Finance Director  
19 May 2015

## SSE's financial results explained

	March 2015 £m	March 2014 restated £m	March 2013 restated £m
<b>SSE's results on an adjusted basis:</b>			
Adjusted operating profit	<b>1,881.4</b>	1,880.1	1,779.0
Adjusted net finance costs	<b>(316.7)</b>	(329.0)	(363.9)
<b>Adjusted Profit before Tax (PBT)</b>			
Adjusted current tax charge	<b>(224.8)</b>	(236.7)	(223.6)
<b>Adjusted Profit after Tax (PAT)</b>			
Hybrid coupon paid	<b>(121.3)</b>	(122.9)	(63.4)
Adjusted Profit after Tax for EPS	<b>1,218.6</b>	1,191.5	1,128.1
Weighted average number of shares for adjusted EPS	<b>981.8</b>	965.5	952.0
<b>Adjusted Earnings Per Share (EPS) (pence)</b>	<b>124.1</b>	123.4	118.5

Reported profit measures for the comparative periods have been restated following a change in the accounting classification of the group's joint operation Great Gabbard Offshore Wind Ltd under FRS11. No impact on adjusted profit measures has arisen from this change.

### Why do we have "Adjusted" numbers for Profit Before Tax (PBT), Profit After Tax (PAT), Earnings Per Share (EPS) and Net Debt and Hybrid Capital?

SSE's financial statements are prepared using the International Financial Reporting Standards as adopted by the EU (IFRSs). SSE also publishes a number of financial measures on an "Adjusted" basis to give, what it believes are, a more meaningful and comparable set of numbers. These adjustments fall into the following categories:

#### 1 Movements on derivatives

IFRSs require certain contracts to buy (or sell) electricity, gas and other commodities for use in the future to be recognised at 'fair value' at each year end. The fair value measures the contract price against the market price over the period of the contract. Under IFRS, the change in this value each year is included in the income statement. SSE excludes this item from its "Adjusted" numbers as the movement in 'fair value' does not crystallise until contract delivery and may never crystallise if the market price changes.

#### 2 Exceptional Items

In order to ensure results are comparable year on year, exceptional items are separately identified and disclosed.

#### 3 Interest on net pension liabilities – IAS 19R

International Accounting Standard (IAS 19R) relating to defined benefit pension schemes requires the income statement to reflect a theoretical interest payment on net pension liabilities. This interest is theoretical, non-cash and likely to fluctuate year on year and does not reflect company performance, therefore SSE excludes this item from its adjusted profit measures.

#### 4 Tax and interest on JCEs and Associates

IFRSs require operating profit to include the PAT of any Joint Ventures (JVs) or Associate companies. SSE believes it is clearer to include all Group results at operating profit level. Therefore SSE's Adjusted Operating Profit makes an adjustment to add interest and tax on JVs and Associates back to the result. This has no impact on the Group Profit after Tax.

#### 5 Deferred tax

As it is a non-cash item, SSE adjusts for deferred tax when arriving at adjusted profit after tax.

#### 6 Hybrid capital securities

The characteristics of hybrid capital securities mean they qualify for recognition as equity rather than debt under IFRSs and their coupon payments are presented within dividends rather than within interest. To ensure simple and comparable presentation within its adjusted EPS measure, SSE makes an adjustment to reduce earnings by the coupon paid in the year. For the same reasons, SSE presents adjusted net debt and hybrid capital together as one balance.

#### 7 Finance lease

Under IFRSs, net debt includes a finance lease liability based primarily upon the Power Purchase Agreement (PPA) SSE has in place with Marchwood power station. In order to better reflect the true net debt position, SSE removes this when arriving at adjusted net debt.

#### 8 Outstanding liquid funds

Outstanding liquid funds are SSE cash balances held by counterparties as collateral at the year end. SSE includes these as cash until they are utilised.

The table below reconciles the Operating Profit, PBT, Net Debt, Tax and Net Interest reported under IFRS with the SSE Adjusted numbers.

	Reference	March 2015 £m	March 2014 restated £m	March 2013 restated £m
<b>Operating profit</b>				
<b>Adjusted operating profit</b>		<b>1,881.4</b>	1,880.1	1,779.0
Movement on derivatives		(61.1)	(147.8)	(220.0)
Exceptional items		(674.6)	(747.2)	(584.7)
Share of JVs and Associate interest and tax		(159.8)	(108.7)	(180.0)
<b>Reported operating profit</b>		<b>985.9</b>	876.4	794.3
<b>PBT</b>				
<b>Adjusted Profit Before Tax (PBT)</b>		<b>1,564.7</b>	1,551.1	1,415.1
Movement on operating and financing derivatives	1	(105.3)	(212.0)	(199.7)
Exceptional items	2	(674.6)	(747.2)	(584.7)
Interest on net pension liabilities	3	(14.0)	(28.2)	(34.9)
Share of JVs and Associates tax	4	(35.6)	28.8	(16.6)
<b>Reported Profit before Tax</b>		<b>735.2</b>	592.5	579.2
<b>Adjusted net debt and hybrid capital</b>				
Adjusted net debt and hybrid capital		(7,568.1)	(7,642.8)	(7,347.7)
Less: Hybrid capital		<b>3,371.1</b>	2,186.8	2,186.8
Adjusted net debt		(4,197.0)	(5,456.0)	(5,160.9)
Less: Outstanding liquid funds		(71.7)	(51.2)	(55.0)
Add: Finance leases		(319.7)	(328.9)	(330.4)
<b>Unadjusted net debt</b>		<b>(4,588.4)</b>	(5,836.1)	(5,546.3)
<b>Tax</b>				
<b>Adjusted current tax charge</b>		<b>224.8</b>	236.7	223.6
Tax on exception items/movements on derivatives	1 and 2	(200.4)	(260.8)	(201.8)
Share of JVs and Associate tax	4	(35.6)	28.8	(16.6)
Deferred tax including share of JVs and Associates	5	82.0	141.8	107.8
<b>Reported tax charge</b>		<b>70.8</b>	146.5	113.0
<b>Interest</b>				
<b>Adjusted net finance costs</b>		<b>316.7</b>	329.0	363.9
Movement on financing derivatives	1	44.2	64.2	(20.3)
Share of JVs and Associate interest	4	(124.2)	(137.5)	(145.1)
Interest on net pension liabilities	3	14.0	28.2	34.9
<b>Reported net finance costs</b>		<b>250.7</b>	283.9	233.4

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## Consolidated income statement for the year ended 31 March 2015

	Note	2015			2014		
		Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements (note 6) £m	Total £m	Before exceptional items and certain re-measurements (Restated note 2.1(ii)) £m	Exceptional items and certain re-measurements £m	Total (Restated note 2.1(iii)) £m
<b>Revenue</b>	4	<b>31,654.4</b>	—	<b>31,654.4</b>	30,585.0	—	30,585.0
Cost of sales	5	(28,801.3)	(432.8)	(29,234.1)	(27,732.3)	(560.2)	(28,292.5)
<b>Gross profit</b>		<b>2,853.1</b>	(432.8)	<b>2,420.3</b>	2,852.7	(560.2)	2,292.5
Operating costs	5	(1,361.5)	(358.5)	(1,720.0)	(1,316.0)	(303.0)	(1,619.0)
Other operating income		47.2	74.8	122.0	17.3	—	17.3
<b>Operating profit before joint ventures and associates</b>		<b>1,538.8</b>	(716.5)	<b>822.3</b>	1,554.0	(863.2)	690.8
Joint ventures and associates:							
Share of operating profit		342.6	(25.9)	316.7	326.1	(34.9)	291.2
Share of interest		(124.2)	—	(124.2)	(137.5)	—	(137.5)
Share of movement on derivatives		—	6.7	6.7	—	3.1	3.1
Share of tax		(34.2)	(1.4)	(35.6)	(33.8)	62.6	28.8
<b>Share of profit on joint ventures and associates</b>	15	<b>184.2</b>	(20.6)	<b>163.6</b>	154.8	30.8	185.6
<b>Operating profit</b>	4,5	<b>1,723.0</b>	(737.1)	<b>985.9</b>	1,708.8	(832.4)	876.4
Finance income	8	95.9	—	95.9	122.7	—	122.7
Finance costs	8	(302.4)	(44.2)	(346.6)	(342.4)	(64.2)	(406.6)
<b>Profit before taxation</b>		<b>1,516.5</b>	(781.3)	<b>735.2</b>	1,489.1	(896.6)	592.5
Taxation	9	(271.2)	200.4	(70.8)	(407.3)	260.8	(146.5)
<b>Profit for the year</b>		<b>1,245.3</b>	(580.9)	<b>664.4</b>	1,081.8	(635.8)	446.0
<b>Attributable to:</b>							
Ordinary shareholders of the parent	11	<b>1,124.0</b>	(580.9)	<b>543.1</b>	958.9	(635.8)	323.1
Other equity holders		<b>121.3</b>	—	<b>121.3</b>	122.9	—	122.9
Basic earnings per share (pence)	11				<b>55.3</b>		33.5
Diluted earnings per share (pence)	11				<b>55.2</b>		33.3

The accompanying notes are an integral part of these financial statements.

## Consolidated statement of comprehensive income

for the year ended 31 March 2015

	2015 £m	2014 (Restated note 2.1(iii)) £m
<b>Profit for the year</b>	<b>664.4</b>	446.0
<b>Other comprehensive income:</b>		
Items that will not be reclassified to profit or loss:		
Actuarial (loss)/gain on retirement benefit schemes	(79.3)	19.0
Taxation on actuarial losses/(gains) on defined benefit pension schemes	16.3	(23.5)
	(63.0)	(4.5)
Share of jointly controlled entities and associates actuarial losses on retirement benefit schemes	(2.1)	(29.2)
Share of jointly controlled entities and associates taxation of actuarial gains on retirement benefit schemes	0.2	6.2
	(1.9)	(23.0)
Items that will be reclassified subsequently to profit or loss:		
Losses on effective portion of cash flow hedges	(41.9)	(54.5)
Transferred to assets and liabilities on cash flow hedges	(4.5)	(0.8)
Taxation on cashflow hedges	8.8	12.6
	(37.6)	(42.7)
Share of joint ventures/associates gain on effective portion of cash flow hedges	(9.4)	13.2
Share of joint ventures/associates taxation on cashflow hedges	1.9	(3.3)
	(7.5)	9.9
Losses on revaluation of available for sale investments, net of taxation (note 15)	(3.2)	(5.1)
Exchange difference on translation of foreign operations	(119.7)	(22.6)
Gains on net investment hedge	61.7	16.2
Taxation on net investment hedge	(13.0)	(3.7)
	(71.0)	(10.1)
<b>Other comprehensive loss, net of taxation</b>	<b>(184.2)</b>	(75.5)
<b>Total comprehensive income for the period</b>	<b>480.2</b>	370.5
<b>Attributable to:</b>		
Ordinary shareholders of the parent	358.9	247.6
Other equity holders	121.3	122.9
	480.2	370.5

## Financial Statements

## Balance sheets

as at 31 March 2015

	Note	Consolidated		Company	
		2015 £m	2014 (Restated note 2.1(iii)) £m	2015 £m	2014 £m
<b>Assets</b>					
Property, plant and equipment	14	<b>11,303.9</b>	11,085.2	—	—
Intangible assets:					
Goodwill	13	<b>598.0</b>	585.1	—	—
Other intangible assets	13	<b>170.4</b>	304.2	—	—
Equity investments in joint ventures and associates	15	<b>875.2</b>	826.7	<b>190.0</b>	190.0
Loans to joint ventures and associates	15	<b>559.4</b>	521.6	<b>544.4</b>	496.3
Other investments	15	<b>26.4</b>	42.3	<b>15.2</b>	18.1
Investments in subsidiaries	16	—	—	<b>2,051.2</b>	2,442.3
Trade and other receivables	19	—	—	<b>4,505.9</b>	4,093.2
Deferred tax assets	25	<b>270.2</b>	207.3	<b>87.9</b>	100.5
Derivative financial assets	32	<b>566.8</b>	368.4	<b>141.8</b>	51.9
<b>Non-current assets</b>		<b>14,370.3</b>	13,940.8	<b>7,536.4</b>	7,392.3
Other intangible assets	13	<b>433.5</b>	433.7	—	—
Inventories	18	<b>342.3</b>	393.0	—	—
Trade and other receivables	19	<b>4,527.0</b>	4,300.6	<b>3,944.2</b>	4,449.6
Cash and cash equivalents	20	<b>1,512.3</b>	458.9	<b>1,321.1</b>	212.7
Derivative financial assets	32	<b>1,999.9</b>	1,261.2	<b>46.7</b>	4.0
Current assets held for sale	17	<b>110.3</b>	332.5	—	—
<b>Current assets</b>		<b>8,925.3</b>	7,179.9	<b>5,312.0</b>	4,666.3
<b>Total assets</b>		<b>23,295.6</b>	21,120.7	<b>12,848.4</b>	12,058.6
<b>Liabilities</b>					
Loans and other borrowings	24	<b>732.8</b>	618.7	<b>700.0</b>	561.5
Trade and other payables	21	<b>5,277.1</b>	4,960.8	<b>2,715.0</b>	3,065.3
Current tax liabilities	22	<b>308.4</b>	315.2	<b>44.2</b>	9.3
Provisions	26	<b>99.5</b>	134.3	—	—
Derivative financial liabilities	32	<b>2,297.3</b>	1,470.2	<b>101.1</b>	17.5
Liabilities held for sale	17	<b>11.1</b>	19.2	—	—
<b>Current liabilities</b>		<b>8,726.2</b>	7,518.4	<b>3,560.3</b>	3,653.6
Loans and other borrowings	24	<b>5,367.9</b>	5,676.3	<b>3,719.0</b>	3,965.1
Deferred tax liabilities	25	<b>716.0</b>	757.5	—	—
Trade and other payables	21	<b>424.6</b>	416.2	—	—
Provisions	26	<b>382.4</b>	313.4	—	—
Retirement benefit obligations	30	<b>664.6</b>	637.7	<b>131.1</b>	182.7
Derivative financial liabilities	32	<b>933.4</b>	681.7	<b>373.9</b>	287.9
<b>Non-current liabilities</b>		<b>8,488.9</b>	8,482.8	<b>4,224.0</b>	4,435.7
<b>Total liabilities</b>		<b>17,215.1</b>	16,001.2	<b>7,784.3</b>	8,089.3
<b>Net assets</b>		<b>6,080.5</b>	5,119.5	<b>5,064.1</b>	3,969.3
<b>Equity</b>					
Share capital	27	<b>496.5</b>	487.4	<b>496.5</b>	487.4
Share premium		<b>862.7</b>	861.5	<b>862.7</b>	861.5
Capital redemption reserve		<b>22.0</b>	22.0	<b>22.0</b>	22.0
Hedge reserve		<b>(72.1)</b>	(27.0)	<b>(12.8)</b>	(1.3)
Translation reserve		<b>(69.5)</b>	1.5	—	—
Retained earnings		<b>1,469.8</b>	1,587.3	<b>324.6</b>	412.9
<b>Equity attributable to ordinary share holders of the parent</b>		<b>2,709.4</b>	2,932.7	<b>1,693.0</b>	1,782.5
Hybrid capital	29	<b>3,371.1</b>	2,186.8	<b>3,371.1</b>	2,186.8
<b>Total equity attributable to equity holders of the parent</b>		<b>6,080.5</b>	5,119.5	<b>5,064.1</b>	3,969.3

These Financial Statements were approved by the Board of Directors on 19 May 2015 and signed on their behalf by

**Gregor Alexander,**  
Finance Director

**Lord Smith of Kelvin,**  
Chairman

SSE plc Registered No: SC117119

## Statement of changes in equity

for the year ended 31 March 2015

### Consolidated statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid capital £m	Total £m
At 1 April 2014 (as restated see note 2.1(ii))	<b>487.4</b>	<b>861.5</b>	<b>22.0</b>	(27.0)	1.5	<b>1,587.3</b>	<b>2,932.7</b>	<b>2,186.8</b>	<b>5,119.5</b>
Profit for the year	–	–	–	–	–	543.1	543.1	121.3	664.4
Other comprehensive income	–	–	–	(37.6)	(71.0)	(66.2)	(174.8)	–	(174.8)
Share of joint ventures and associates other comprehensive (loss)	–	–	–	(7.5)	–	(1.9)	(9.4)	–	(9.4)
Total comprehensive income for the year	–	–	–	(45.1)	(71.0)	475.0	358.9	121.3	480.2
Dividends to shareholders	–	–	–	–	–	(854.1)	(854.1)	–	(854.1)
Scrip dividend related share issue	8.6	(8.6)	–	–	–	255.6	255.6	–	255.6
Distributions to hybrid capital holders	–	–	–	–	–	–	–	(121.3)	(121.3)
Issue of shares	0.5	9.8	–	–	–	–	10.3	–	10.3
Issue of hybrid capital	–	–	–	–	–	–	–	1,184.3	1,184.3
Credit in respect of employee share awards	–	–	–	–	–	15.0	15.0	–	15.0
Investment in own shares	–	–	–	–	–	(9.0)	(9.0)	–	(9.0)
<b>At 31 March 2015</b>	<b>496.5</b>	<b>862.7</b>	<b>22.0</b>	(72.1)	(69.5)	<b>1,469.8</b>	<b>2,709.4</b>	<b>3,371.1</b>	<b>6,080.5</b>

### Consolidated statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid capital £m	Total £m
At 1 April 2013	<b>482.1</b>	<b>857.9</b>	<b>22.0</b>	<b>5.8</b>	<b>11.6</b>	<b>1,982.7</b>	<b>3,362.1</b>	<b>2,186.8</b>	<b>5,548.9</b>
Profit for the year	–	–	–	–	–	323.1	323.1	122.9	446.0
Other comprehensive income	–	–	–	(42.7)	(10.1)	(9.6)	(62.4)	–	(62.4)
Share of joint ventures and associates other comprehensive income/(loss)	–	–	–	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)
<b>At 31 March 2014</b>	<b>487.4</b>	<b>861.5</b>	<b>22.0</b>	(27.0)	1.5	<b>1,587.3</b>	<b>2,932.7</b>	<b>2,186.8</b>	<b>5,119.5</b>

## Financial Statements

## Company statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid capital £m	Total £m
At 1 April 2014	<b>487.4</b>	<b>861.5</b>	<b>22.0</b>	(1.3)	<b>412.9</b>	<b>1,782.5</b>	<b>2,186.8</b>	<b>3,969.3</b>
Profit for the year	–	–	–	–	476.4	476.4	121.3	597.7
Other comprehensive income	–	–	–	(11.5)	27.8	16.3	–	16.3
Total comprehensive income for the year	–	–	–	(11.5)	504.2	492.7	121.3	614.0
Dividends to shareholders	–	–	–	–	(854.1)	(854.1)	–	(854.1)
Scrip dividend related share issue	8.6	(8.6)	–	–	255.6	255.6	–	255.6
Distributions to hybrid capital holders	–	–	–	–	–	–	(121.3)	(121.3)
Issue of shares	0.5	9.8	–	–	–	10.3	–	10.3
Issue of hybrid capital	–	–	–	–	–	–	1,184.3	1,184.3
Increase in investment in subsidiaries	–	–	–	–	15.0	15.0	–	15.0
Investment in own shares	–	–	–	–	(9.0)	(9.0)	–	(9.0)
<b>At 31 March 2015</b>	<b>496.5</b>	<b>862.7</b>	<b>22.0</b>	(12.8)	<b>324.6</b>	<b>1,693.0</b>	<b>3,371.1</b>	<b>5,064.1</b>

## Company statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid capital £m	Total £m
At 1 April 2013	<b>482.1</b>	<b>857.9</b>	<b>22.0</b>	<b>41.0</b>	<b>876.2</b>	<b>2,279.2</b>	<b>2,186.8</b>	<b>4,466.0</b>
Profit for the year	–	–	–	–	238.0	238.0	122.9	360.9
Other comprehensive income	–	–	–	(42.3)	(15.4)	(57.7)	–	(57.7)
Total comprehensive income for the year	–	–	–	(42.3)	222.6	180.3	122.9	303.2
Dividends to shareholders	–	–	–	–	(819.6)	(819.6)	–	(819.6)
Scrip dividend related share issue	4.8	(4.8)	–	–	130.2	130.2	–	130.2
Distributions to hybrid capital holders	–	–	–	–	–	–	(122.9)	(122.9)
Issue of shares	0.5	8.4	–	–	–	8.9	–	8.9
Increase in investment in subsidiaries	–	–	–	–	15.5	15.5	–	15.5
Investment in own shares	–	–	–	–	(12.0)	(12.0)	–	(12.0)
<b>At 31 March 2014</b>	<b>487.4</b>	<b>861.5</b>	<b>22.0</b>	(1.3)	<b>412.9</b>	<b>1,782.5</b>	<b>2,186.8</b>	<b>3,969.3</b>

## Cash flow statements

for the year ended 31 March 2015

	Note	Consolidated		Company	
		2015 £m	2014 (Restated note 2.1(ii)) £m	2015 £m	2014 £m
Cash generated from/(absorbed by) operations before working capital movements	11	2,080.7	2,134.2	(5.3)	(3.7)
(Increase)/decrease in inventories		(8.5)	(104.1)	—	—
(Increase)/decrease in receivables		(243.1)	312.4	339.0	(511.2)
Increase/(decrease) in payables		394.0	216.2	(499.9)	(40.7)
(Decrease)/increase in provisions		(66.2)	(18.9)	—	—
<b>Cash generated from/(absorbed by) operations</b>		<b>2,156.9</b>	<b>2,539.8</b>	<b>(166.2)</b>	<b>(555.6)</b>
Dividends received from joint ventures and associates		110.1	104.1	91.8	103.6
Dividends received from subsidiaries		—	—	493.5	357.8
Interest received		95.9	113.8	508.5	469.8
Interest paid		(227.8)	(284.1)	(137.7)	(283.3)
Income taxes paid		(164.8)	(147.1)	(177.7)	(5.7)
Payment for consortium relief		(12.0)	(26.4)	—	—
<b>Net cash from operating activities</b>		<b>1,958.3</b>	<b>2,300.1</b>	<b>612.2</b>	<b>86.6</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(1,345.3)	(1,475.1)	—	—
Purchase of other intangible assets		(241.8)	(403.8)	—	—
Deferred income received		2.9	7.2	—	—
Proceeds from sale of held for sale assets	17	167.2	—	—	—
Proceeds from sale of property, plant and equipment		25.3	158.6	22.0	—
Proceeds from sale of business and subsidiaries	16	5.3	3.2	59.1	—
Proceeds from sale of other investments		36.0	—	36.0	—
Loans to joint ventures and associates	14	(33.9)	(83.9)	(34.2)	(80.3)
Purchase of businesses and subsidiaries	16	(66.0)	(109.6)	—	—
Loans and equity repaid by joint ventures	14	15.0	19.4	8.8	792.5
Investment in joint ventures and associates	14	(20.0)	(10.0)	—	—
Increase in other investments	14	(0.1)	(0.7)	—	—
<b>Net cash from investing activities</b>		<b>(1,455.4)</b>	<b>(1,894.7)</b>	<b>91.7</b>	<b>712.2</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of share capital		10.3	8.9	10.3	8.9
Dividends paid to company's equity holders	10	(598.5)	(689.4)	(598.5)	(689.4)
Issue of hybrid capital	29	1,184.3	—	1,184.3	—
Hybrid capital dividend payments	29	(121.3)	(122.9)	(121.3)	(122.9)
Employee share awards share purchase		(9.0)	(12.0)	(9.0)	(12.0)
New borrowings		151.1	1,815.8	—	1,624.7
Repayment of borrowings		(66.3)	(1,514.8)	(61.3)	(1,414.1)
Repayment of intragroup funding		—	—	—	(270.5)
<b>Net cash from financing activities</b>		<b>550.6</b>	<b>(514.4)</b>	<b>404.5</b>	<b>(875.3)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,053.5</b>	<b>(109.0)</b>	<b>1,108.4</b>	<b>(76.5)</b>
Cash and cash equivalents at the start of year	19	458.6	567.6	212.7	289.2
Net increase/(decrease) in cash and cash equivalents		1,053.5	(109.0)	1,108.4	(76.5)
<b>Cash and cash equivalents at the end of year</b>	19	<b>1,512.1</b>	<b>458.6</b>	<b>1,321.1</b>	<b>212.7</b>

The accompanying notes are an integral part of these financial statements.

# Notes on the financial statements

for the year ended 31 March 2015

## 1. General information and basis of preparation

### 1.1 General information

SSE plc (the Company) is a company domiciled in Scotland. The address of the registered office is given on the back cover. The Group's operations and its principal activities are set out earlier in this Report at pages 1 to 13. The consolidated financial statements for the year ended 31 March 2015 comprise those of the Company and its subsidiaries (together referred to as the Group). The Company financial statements present information about the Company as a separate entity and not about the Group. Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement and related notes.

### 1.2 Basis of preparation

#### Statement of compliance

The financial statements were authorised for issue by the directors on 19 May 2015. The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') and its interpretations as issued by the International Accounting Standards Board ('IASB') and adopted by the European Union ('adopted IFRS').

#### Going concern

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The financial statements are therefore prepared on a going concern basis. Further details of the Group's liquidity position and going concern review are provided in note 32 of the Financial Statements on pages 177 and 178.

#### Basis of measurement

The financial statements of the Group and the Company are prepared on the historical cost basis except for derivative financial instruments and assets of the Group pension schemes which are stated at their fair value, and liabilities of the Group pension schemes which are measured using the projected unit credit method. The directors believe the financial statements present a true and fair view. The financial statements of the Group and Company are presented in pounds sterling. Operations and transactions conducted in currencies other than pounds sterling are included in the consolidated financial statements in accordance with the Group's foreign currencies accounting policy.

#### Use of estimates and judgements

The preparation of financial statements conforming with adopted IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The areas involving a higher level of judgement or estimation are summarised at pages 126 to 127.

## 2. Summary of significant new accounting policies and reporting changes

The basis of consolidation and principal accounting policies applied in the preparation of these financial statements are set out below and in the Accompanying Information section (A1) on pages 189 to 196.

### 2.1 New standards, amendments and interpretations which are effective in financial year ended March 2015

#### (i) IFRIC 21

The Group has adopted IFRIC 21: 'Levies' in the current financial year. The interpretation clarifies that an entity should recognise liabilities for qualifying levies on the occurrence of an activity that triggers an obligation to the relevant authority. Qualifying levies fall within the scope of IAS 37 'Provisions, contingent liabilities and contingent assets' but not within the scope of IAS 12 'Income taxes' or other standards. The adoption of the interpretation has had no impact on the Group's accounting policies or on the results of the Group for the financial year ending 31 March 2015. The interpretation will be applied by the Group in relation to its mandated funding, as a licenced energy supplier, of the Contracts for Difference ('CfDs') scheme introduced by the UK Government on 1 April 2015.

#### (ii) IFRS 10, 11 and 12

IFRS 10: 'Consolidated financial statements', IFRS 11: 'Joint arrangements', IFRS 12: 'Disclosures of interests in other entities', and revisions to IAS 27: 'Separate financial statements' and IAS 28: 'Investments in associates and joint ventures' have been adopted by the Group in the financial year ended 31 March 2015.

The most significant impact for the Group relates to the adoption of IFRS 11. Under this standard, the Group has assessed its joint arrangements in order to identify those which require to be classified as joint operations rather than joint ventures. 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 of the arrangement. 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 its investment in Greater Gabbard Offshore Winds Limited falls within this category under the standard but that all other joint arrangements held by the Group are classified as joint ventures, which will continue to be equity accounted.

This has resulted in the restatement of the Group's Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Comprehensive Income and Consolidated Cash Flow Statements for the year to 31 March 2014. These restatements are summarised below.

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 arises in respect of the measures reported internally and in the Annual Report in respect of underlying performance.

## Notes on the financial statements continued

for the year ended 31 March 2015

### 2. Summary of significant new accounting policies and reporting changes continued

The restatement impact on the Group can be summarised as follows:

#### Extract of consolidated income statement

	Year ended 31 March 2014		
	Reported £m	IFRS 11 £m	Restated £m
<b>Operating profit before joint ventures and associates</b>	<b>611.0</b>	<b>79.8</b>	<b>690.8</b>
Joint ventures and associates:			
Share of operating profit	371.0	(79.8)	291.2
Share of interest	(147.9)	10.4	(137.5)
Share of movement on derivatives	3.1	–	3.1
Share of tax	11.6	17.2	28.8
Share of profit/(loss) on joint ventures and associates	237.8	(52.2)	185.6
<b>Operating profit</b>	<b>848.8</b>	<b>27.6</b>	<b>876.4</b>
Finance income	133.1	(10.4)	122.7
Finance costs	(406.6)	–	(406.6)
<b>Profit before taxation</b>	<b>575.3</b>	<b>17.2</b>	<b>592.5</b>
Taxation	(129.3)	(17.2)	(146.5)
<b>Profit for the year</b>	<b>446.0</b>	<b>–</b>	<b>446.0</b>

#### Extract of consolidated balance sheet

	Year ended 31 March 2014		
	Reported £m	IFRS 11 £m	Restated £m
Property, plant and equipment	10,316.6	768.6	11,085.2
Equity investments in associates and joint ventures	1,543.5	(716.8)	826.7
Loans to associates and joint ventures	521.6	–	521.6
Cash and cash equivalents (including bank overdraft)	442.5	16.4	458.9
Deferred tax liabilities	(709.6)	(47.9)	(757.5)
Provisions	(395.7)	(52.0)	(447.7)
Other balance sheet items	(6,599.4)	31.7	(6,567.7)
<b>Net assets</b>	<b>5,119.5</b>	<b>–</b>	<b>5,119.5</b>

#### Extract of consolidated cash flow statement

	Year ended 31 March 2014		
	Reported £m	IFRS 11 £m	Restated £m
Cash generated from operations	2,408.1	131.7	2,539.8
Dividends received from joint ventures and associates	364.3	(260.2)	104.1
Other items	(344.0)	0.2	(343.8)
<b>Net cash from operating activities</b>	<b>2,428.4</b>	<b>(128.3)</b>	<b>2,300.1</b>
Purchase of property, plant and equipment	(1,432.3)	(42.8)	(1,475.1)
Proceeds from sale of property, plant and equipment	–	158.6	158.6
Other items	(578.2)	–	(578.2)
<b>Net cash flows from investing activities</b>	<b>(2,010.5)</b>	<b>115.8</b>	<b>(1,894.7)</b>
<b>Net cash flows from financing activities</b>	<b>(514.4)</b>	<b>–</b>	<b>(514.4)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(96.5)</b>	<b>(12.5)</b>	<b>(109.0)</b>
Cash and cash equivalents at start of the year	538.7	28.9	567.6
Net decrease in cash and cash equivalents	(96.5)	(12.5)	(109.0)
<b>Cash and cash equivalents at the end of the year</b>	<b>442.2</b>	<b>16.4</b>	<b>458.6</b>

## 2. Summary of significant new accounting policies and reporting changes continued

### (iii) Other amendments effective in the financial year

The Group has also adopted a number of amendments to IFRSs as issued by the IASB in the financial year. These amendments included amended disclosures and requirements in relation to IAS 32, IAS 36 and IAS 39. There was no material impact on the Group's financial statements arising from the adoption of these amendments.

### 2.2 Effective in financial year ended 31 March 2016 and in future

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 financial year ended 31 March 2015, 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.

IFRS 15 'Revenue from contracts with customers' is effective on 1 January 2017 at the earliest subject to European Union (EU) endorsement; the amendments to IFRS 11 'Accounting for acquisitions of interests in joint operations' which are effective on 1 January 2016, subject to EU endorsement; IFRS 9: 'Financial instruments' which will be effective on 1 January 2018, subject to EU endorsement, and, a number of disclosure and requirement changes including recommendations from the IASB's Annual Improvement Projects.

The Group has not fully assessed the impact of adopting IFRS 9 and IFRS 15 and it is not practicable to provide an quantified assessment of the effect of these standards in these financial statements. The Group will provide this impact assessment in future financial statements.

### 2.3 Changes to reportable segments

#### 2.3.1 Establishment of Enterprise segment

Following changes to the structure of the Group's internal organisation, and subsequent changes to the way in which financial and management information is presented to both the Board and the Executive Committee, the composition of the Group's Reportable Segments changed in the financial year ended 31 March 2015.

The change to the Group's organisation structure was the establishment of the Enterprise business in order to bring together a number of activities under single leadership. The change allows the energy and related needs of the Group's industrial and commercial customers in competitive markets to be better met through an integrated approach. The services being provided to these customers include electrical contracting, private energy networks, lighting services and telecoms capacity and bandwidth.

As a result of this change, activities previously reported under Other Networks have been combined with electrical contracting, previously reported under Energy-related Services, to derive the reported revenue and operating profit of the Enterprise segment. As these are customer-facing businesses in competitive markets, these results are reported as part of the Retail business. In the year to 31 March 2014, this Enterprise segment delivered adjusted operating profit of £56.8m. The remaining part of the Energy-Related Services segment (metering, home services and other products), which will also continue to be reported separately under Retail, delivered adjusted operating profit of £24.1m in the year to 31 March 2014.

The changes to reported segments can be summarised as follows:

The Revenue by segment disclosure note for the year to March 2014 has been amended as follows:

#### (i) Revenue by segment

	Year ended 31 March 2014		
	As Reported £m	Adjustment £m	Restated £m
Total Revenue			
<b>Networks</b>			
Other networks	346.1	(346.1)	–
<b>Retail</b>			
Enterprise	–	594.7	594.7
Energy-related Services	467.1	(248.6)	218.5
Other segments unchanged	467.1	346.1	813.2
<b>Total</b>	<b>36,039.3</b>	–	<b>36,039.3</b>

## Notes on the financial statements continued

for the year ended 31 March 2015

### 2. Summary of significant new accounting policies and reporting changes continued

#### (ii) Operating profit by segment (l)

	Year ended 31 March 2014		
	As reported £m	Adjustment £m	Restated £m
<b>Networks</b>			
Other networks	2.1	(2.1)	–
<b>Retail</b>			
Enterprise	–	14.4	14.4
Energy-related Services	(12.1)	(12.3)	(24.4)
Other segments unchanged	(12.1)	2.1	(10.0)
<b>Total</b>	<b>876.4</b>	–	<b>876.4</b>

(i) Operating profit including exceptional items and certain re-measurements and share of joint venture and associate interest and tax and after restatements in note 2.1.

#### (iii) Capital expenditure by segment

	Year ended 31 March 2014		
	As reported £m	Adjustment £m	Restated £m
Property, plant and equipment			
<b>Networks</b>			
Other networks	54.6	(54.6)	–
<b>Retail</b>			
Enterprise	–	54.9	54.9
Energy-related Services	32.3	(0.3)	32.0
	32.3	54.6	86.9
<b>Wholesale</b>			
Energy Portfolio Management and Electricity Generation (note 2.1(ii))	411.7	42.8	454.5
Other segments unchanged	942.7	–	942.7
<b>Total</b>	<b>1,441.3</b>	<b>42.8</b>	<b>1,484.1</b>

(ii) Adjustment in relation to Energy Portfolio Management and Electricity Generation relates to the adoption of IFRS 11 in relation to Greater Gabbard Offshore Windfarm Limited. Please see note 2.1(ii) for further details.

## 2. Summary of significant new accounting policies and reporting changes continued

### (iv) Items included in operating profit/(loss) by segment

	Year ended 31 March 2014			Year ended 31 March 2014		
	Depreciation/impairment on property, plant and equipment			Amortisation/impairment of intangible assets		
	As reported £m	Adjustment £m	Restated £m	As reported £m	Adjustment £m	Restated £m
<b>Before exceptional charges</b>						
<b>Networks</b>						
Other networks	28.7	(28.7)	–	2.0	(2.0)	–
<b>Retail</b>						
Enterprise	–	29.0	29.0	–	2.0	2.0
Energy-related Services	7.1	(0.3)	6.8	0.3	–	0.3
	7.1	28.7	35.8	0.3	2.0	2.3
<b>Wholesale</b>						
Energy Portfolio Management and Electricity Generation (note 3.1)	198.4	34.9	233.3	12.8	–	12.8
Other segments unchanged	380.3	–	380.3	3.0	–	3.0
<b>Total</b>	<b>614.5</b>	<b>34.9</b>	<b>649.4</b>	<b>18.1</b>	<b>–</b>	<b>18.1</b>
<b>Exceptional charges</b>						
<b>Networks</b>						
Other networks	10.4	(10.4)	–	2.1	(2.1)	–
<b>Retail</b>						
Enterprise	–	10.4	10.4	–	2.1	2.1
Other segments unchanged	362.3	–	362.3	120.8	–	120.8
<b>Total</b>	<b>372.7</b>	<b>–</b>	<b>372.7</b>	<b>122.9</b>	<b>–</b>	<b>122.9</b>

### 2.3.2. Change in measurement basis

The Group announced in March 2014 that it intended to reorganise its activities so that there are separately auditable legal entities responsible for its Energy Supply, Energy Portfolio Management (EPM) and Electricity Generation activities. This change is being made in order to enhance the transparency of the measurement and reporting of the performance of these activities.

As a result of the changes announced and subsequently implemented, the Group's basis of inter-segmental pricing and consequential internal reporting has been changed in the year to 31 March 2015. The revised methodology ensures greater market reflectivity, closer alignment with the operational decision-making in the respective businesses and has also been informed by the Group's engagement with the Competition and Markets Authority during the financial year. The Group will provide comprehensive detail on the basis of the composition of the Great Britain components of these segments in its Consolidated Segmental Statement (CSS), an audited mandatory regulatory document produced in accordance with Standard Licence Condition 16B of Electricity Generation Licences and Standard Licence Condition 19A of the Electricity and Gas Supply Licences. The CSS will be published by 31 July 2015.

The activities conducted in EPM and Electricity Generation will continue to be reported to the Board as a single reportable operating segment.

## Notes on the financial statements continued

### for the year ended 31 March 2015

### 3. Critical accounting judgements and key sources of estimation uncertainty

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

#### 3.1 Significant financial judgements

The preparation of these Financial Statements has specifically considered the following Significant Financial Judgements which include areas of estimation uncertainty and accounting judgement:

##### (i) Revenue recognition – estimated energy consumption – estimation uncertainty

Revenue from Retail energy supply activities 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 estimation will comprise of values for billed revenue in relation to consumption from unread meters based on estimated consumption taking account of various factors including usage patterns and weather trends (disclosed as trade receivables) and for unbilled revenue (disclosed as accrued income). The volume of unbilled electricity or gas is calculated by assessing a number of factors such as externally notified volumes supplied to customers, amounts billed to customers and other adjustments. Unbilled income is calculated by applying the tariffs relevant to the customer type to the calculated volume of electricity or gas. This estimation methodology is subject to an internal corroboration process that provides support for the judgements made by management. This process requires the comparison of calculated unbilled volumes to a benchmark measure of unbilled volumes which is derived using independently verified data and by assessing historical weather-adjusted consumption patterns and actual meter data that is used in the industry reconciliation processes for total consumption by supplier. This aspect of the corroboration process, which requires a comparison of the estimated supplied quantity of gas and electricity that is deemed to have been delivered to customers and the aggregate supplied quantity of gas and electricity applicable to the Group's customers that is measured by industry system operators, is a key judgement. The experience of the Group is that following the reconciliation procedures the industry deemed supplied quantities in gas have historically been higher than actual metered supply. As a result, and through a continuous process of investigation into root cause, the Group applies a further judgement being a percentage reduction to unbilled consumption volumes to the measurement of its unbilled revenue in the financial statements. The sensitivity associated with this judgement factor is disclosed at note 19 on page 156. A change in this judgement would impact upon the amount of revenue recognised.

##### (ii) Valuation of trade receivables – estimation uncertainty

The basis of determining the provisions for bad and doubtful debts is explained at note 32 in the section on credit risk and aged debt. While the provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to the income statement.

##### (iii) Retirement benefits – estimation uncertainty

The assumptions in relation to the cost of providing post-retirement benefits during the period are based on the Group's best estimates and are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the level of the retirement benefit obligation recorded and the cost to the Group of administering the schemes. The value of scheme assets are impacted by the asset ceiling test which (a) restricts the surplus that can be recognised to assets that can be recovered fully through refunds and (b) may increase the value of scheme liabilities where there are minimum funding liabilities in relation to agreed contributions. Further detail on the estimation basis is contained in note 30.

##### (iv) Impairment testing and valuation of certain non-current assets – estimation uncertainty

The Group reviews the carrying amounts of its goodwill, other intangible assets and property, plant and equipment to determine whether there is any indication that the value of those assets is impaired. Detail on the accounting policies applied is included the Accompanying Information section at page 194. In conducting its reviews, the Group makes judgements and estimates in considering the recoverable amount of the respective assets or cash-generating units (CGUs). The specific assets under review in the year ended 31 March 2015 are, goodwill, thermal power generation assets, wind farm CGUs, gas storage assets and exploration and production (E&P) assets. Changes to the estimates and assumptions on factors such as regulation and legislation changes, power, gas, carbon and other commodity prices, volatility of gas prices, plant running regimes and load factors, expected 2P reserves, (highly probable) discount rates and other inputs could impact the assessed recoverable value of assets and CGUs and consequently impact the Group's income statement and balance sheet. Further detail of the basis and assumptions used in the impairment review conducted for the financial year, and the resulting impairment charges, is included at note 13.

##### (v) Treatment of disputes and claims – accounting judgement

The Group is exposed to the risk of litigation, regulatory judgements and contractual disputes through the course of its normal operations. The Group considers each instance separately in accordance with legal advice and will provide and/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.

### 3. Critical accounting judgements and key sources of estimation uncertainty continued

#### 3.2 Other key accounting judgements

Other key accounting judgements and presentation applied in the preparation of these Financial Statements include the following:

##### (i) Exceptional items and certain re-measurements

As permitted by IAS 1 'Presentation of financial statements', the Group has disclosed additional information in respect of joint ventures 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 may include items such as asset or CGU impairment charges, restructuring costs or contractual settlements. Certain re-measurements are re-measurements arising on certain commodity, interest rate and currency contracts which are accounted for as held for trading or as fair value hedges in accordance with the Group's policy for such financial instruments. This excludes commodity contracts not treated as financial instruments under IAS 39 where held for the Group's own use requirements.

##### (ii) Adjusted measures

The Directors assess the performance of the reportable segments ('Operating profit/(loss) by segment', note 4(ii)) 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, the net interest costs associated with defined benefit schemes, remeasurements arising from IAS 39 and after the removal of taxation on profits from joint ventures and associates. 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, the net interest costs associated with defined benefit schemes, remeasurements arising from IAS 39 and after the removal of deferred taxation. The adjusted measures are considered more reflective of the Group's underlying performance, are consistent with way the Group is managed and avoids volatility arising from IAS 39 fair value measurements. This measure is also deemed the most useful for the ordinary shareholders of the Group.

The financial statements also include an 'adjusted net debt and hybrid capital' measure. This presents the information on the basis used for internal liquidity risk management. This measure, which excludes obligations due under finance leases, represents the capital owed to investors, lenders and equity holders other than the ordinary shareholders. As with 'adjusted earnings per share', this measure is considered to be of particular relevance to the ordinary shareholders of the Group as well as other stakeholders and interested parties.

Reconciliations from reported measures to adjusted measures are included in SSE's financial results explained at pages 112 and 113.

##### (iii) Business Combinations and acquisitions

Business combinations and acquisitions require a fair value exercise to be undertaken to allocate the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of this purchase price to the identifiable assets and liabilities with any unallocated portion being recorded as goodwill. Business combinations are disclosed in note 17.

##### (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. 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.

### 3.3 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.

## Notes on the financial statements continued

for the year ended 31 March 2015

### 4. Segmental information

The Group's operating segments are those used internally by the Board to run the business and make strategic decisions. The Group's main businesses and operating segments are the Networks business comprising Electricity Distribution, Electricity Transmission and Gas Distribution; the Retail business comprising Energy Supply, Enterprise 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.
Retail	Energy Supply	The supply of electricity and gas to residential and business customers in the UK and Ireland.
	Enterprise	The integrated provision of services in competitive markets for industrial and commercial customers including electrical contracting, private energy networks, lighting services and telecoms capacity and bandwidth.
	Energy-related Services	The provision of energy-related goods and services to customers in the UK including meter reading and installation, boiler maintenance and installation and domestic telecoms and broadband services.
Wholesale	Energy Portfolio Management and Electricity Generation	The generation of power from renewable and thermal plant in the UK, Ireland and Europe and the optimisation of SSE's power and gas and other commodity requirements.
	Gas Storage	The operation of gas storage facilities in the UK.
	Gas Production	The production and processing of gas and oil from North Sea fields.

As referred to in note 3.2, the internal measure of profit used by the Board is 'adjusted profit before interest and tax' or 'adjusted operating profit' which is arrived at before exceptional items, the impact of financial instruments measured under IAS 39, the net interest costs associated with defined benefit pension schemes and after the removal of taxation and interest on profits from joint ventures 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 and Ireland.

## Financial Statements

**4. Segmental information continued****4.1 Segmental information disclosure****(i) Revenue by segment**

	External revenue 2015 £m	Intra-segment revenue (i) 2015 £m	Total revenue 2015 £m	Restated (note 2.3.1(ii))		
				External revenue 2014 £m	Intra-segment revenue (i) 2014 £m	Total revenue 2014 £m
<b>Networks</b>						
Electricity Distribution	735.6	288.0	1,023.6	704.1	311.7	1,015.8
Electricity Transmission	246.7	0.2	246.9	185.2	–	185.2
	<b>982.3</b>	<b>288.2</b>	<b>1,270.5</b>	<b>889.3</b>	<b>311.7</b>	<b>1,201.0</b>
<b>Retail</b>						
Energy Supply	7,961.2	30.3	7,991.5	8,465.0	26.7	8,491.7
Enterprise	495.7	155.4	651.1	451.1	143.6	594.7
Energy-related Services	112.6	97.3	209.9	106.5	112.0	218.5
	<b>8,569.5</b>	<b>283.0</b>	<b>8,852.5</b>	<b>9,022.6</b>	<b>282.3</b>	<b>9,304.9</b>
<b>Wholesale</b>						
Energy Portfolio Management and Electricity Generation	22,023.7	4,015.4	26,039.1	20,608.5	4,246.0	24,854.5
Gas Storage	9.7	211.8	221.5	9.0	82.6	91.6
Gas Production	1.3	177.5	178.8	7.8	255.7	263.5
	<b>22,034.7</b>	<b>4,404.7</b>	<b>26,439.4</b>	<b>20,625.3</b>	<b>4,584.3</b>	<b>25,209.6</b>
Corporate unallocated	67.9	225.8	293.7	47.8	276.0	323.8
<b>Total</b>	<b>31,654.4</b>	<b>5,201.7</b>	<b>36,856.1</b>	<b>30,585.0</b>	<b>5,454.3</b>	<b>36,039.3</b>

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

Revenue within Energy Portfolio Management and Electricity Generation includes revenues from generation plant output and the gross value of all wholesale commodity sales including settled physical and financial trades. These are entered into to optimise the performance of the generation plants and to manage the Group's commodity risk exposure. Purchase trades are included in cost of sales.

Revenue from the Group's investment in Scotia Gas Networks SSE share being: 2015 – £659.2m; (2014 – £662.6m) is not recorded in the revenue line in the income statement.

Revenue by geographical location is as follows:

	2015 £m	2014 £m
UK	<b>30,923.3</b>	29,727.9
Ireland	<b>731.1</b>	857.1
	<b>31,654.4</b>	30,585.0

## Notes on the financial statements continued

for the year ended 31 March 2015

### 4. Segmental information continued

#### (ii) Operating profit/(loss) by segment

	2015				
	Adjusted operating profit reported to the Board £m	JV/Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
<b>Networks</b>					
Electricity Distribution	467.7	–	467.7	–	467.7
Electricity Transmission	184.1	–	184.1	–	184.1
Gas Distribution	285.0	(137.1)	147.9	5.3	153.2
	<b>936.8</b>	<b>(137.1)</b>	<b>799.7</b>	<b>5.3</b>	<b>805.0</b>
<b>Retail</b>					
Energy Supply	368.7	–	368.7	(34.2)	334.5
Enterprise	70.4	–	70.4	30.3	100.7
Energy-related Services	17.7	–	17.7	15.6	33.3
	<b>456.8</b>	<b>–</b>	<b>456.8</b>	<b>11.7</b>	<b>468.5</b>
<b>Wholesale</b>					
Energy Portfolio Management and Electricity Generation	433.3	(21.3)	412.0	(483.8)	(71.8)
Gas Storage	3.9	–	3.9	(163.9)	(160.0)
Gas Production	36.6	–	36.6	(106.0)	(69.4)
	<b>473.8</b>	<b>(21.3)</b>	<b>452.5</b>	<b>(753.7)</b>	<b>(301.2)</b>
Corporate unallocated	14.0	–	14.0	(0.4)	13.6
<b>Total</b>	<b>1,881.4</b>	<b>(158.4)</b>	<b>1,723.0</b>	<b>(737.1)</b>	<b>985.9</b>

	2014				
	Adjusted operating profit reported to the Board £m	JV/Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Restated (note 2.3.1(ii))					
<b>Networks</b>					
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
	<b>920.3</b>	<b>(163.1)</b>	<b>757.2</b>	<b>60.8</b>	<b>818.0</b>
<b>Retail</b>					
Energy Supply	246.2	–	246.2	(43.2)	203.0
Enterprise	56.8	(0.1)	56.7	(42.3)	14.4
Energy-related Services	24.1	–	24.1	(48.5)	(24.4)
	<b>327.1</b>	<b>(0.1)</b>	<b>327.0</b>	<b>(134.0)</b>	<b>193.0</b>
<b>Wholesale</b>					
Energy Portfolio Management and Electricity Generation	496.1	(8.1)	488.0	(607.4)	(119.4)
Gas Storage	8.3	–	8.3	(137.7)	(129.4)
Gas Production	130.2	–	130.2	–	130.2
	<b>634.6</b>	<b>(8.1)</b>	<b>626.5</b>	<b>(745.1)</b>	<b>(118.6)</b>
Corporate unallocated	(1.9)	–	(1.9)	(14.1)	(16.0)
<b>Total</b>	<b>1,880.1</b>	<b>(171.3)</b>	<b>1,708.8</b>	<b>(832.4)</b>	<b>876.4</b>

(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 joint ventures and associates and after adjusting for exceptional items (see note 6). 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 (2014 – £33.3m), as finance income (note 8).

The Group's share of operating profit from joint ventures 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 Enterprise (£0.7m before tax; 2014 – £0.6m before tax).

#### 4. Segmental information continued

##### (iii) Capital expenditure by segment

	Capital additions to intangible assets 2015 £m	Capital additions to property, plant and equipment 2015 £m	Capital additions to intangible assets (Restated note 2.3.1) 2014 £m	Capital additions to property, plant and equipment (Restated note 2.3.1) 2014 £m
<b>Networks</b>				
Electricity Distribution	–	<b>417.4</b>	–	401.2
Electricity Transmission	–	<b>467.2</b>	–	349.2
	–	<b>884.6</b>	–	750.4
<b>Retail</b>				
Energy Supply	<b>16.9</b>	<b>23.7</b>	14.4	45.9
Enterprise	–	<b>19.6</b>	–	54.9
Energy-related Services	<b>27.5</b>	<b>20.6</b>	15.1	32.0
	<b>44.4</b>	<b>63.9</b>	29.5	132.8
<b>Wholesale</b>				
Energy Portfolio Management and Electricity Generation	<b>483.0</b>	<b>291.2</b>	606.5	454.5
Gas Storage	<b>0.2</b>	<b>14.3</b>	–	10.6
Gas Production	–	<b>21.0</b>	–	40.9
	<b>483.2</b>	<b>326.5</b>	606.5	506.0
Corporate unallocated	–	<b>94.2</b>	1.7	94.9
<b>Total</b>	<b>527.6</b>	<b>1,369.2</b>	637.7	1,484.1
Increase/(decrease) in prepayments related to capital expenditure	–	<b>28.4</b>	–	(30.0)
(Increase)/decrease in trade payables related to capital expenditure	–	<b>(52.3)</b>	–	21.0
Less: Other non-cash additions	<b>(285.8)</b>	–	(233.9)	–
<b>Net cash outflow</b>	<b>241.8</b>	<b>1,345.3</b>	403.8	1,475.1

Capital additions do not include assets acquired in acquisitions or assets acquired under finance leases. Capital additions to Intangible Assets includes the cash purchase of emissions allowances and certificates (2015 – £156.0m; 2014 – £245.5m). Other non-cash additions comprise self-generated renewable obligation certificates.

No segmental analysis of assets requires to be disclosed as this information is not presented to the Board.

## Notes on the financial statements continued

for the year ended 31 March 2015

### 4. Segmental information continued

#### (iv) Items included in operating profit/(loss) by segment

	Depreciation/impairment on property, plant and equipment			Amortisation/impairment of intangible assets		
	Before exceptional charges 2015 £m	Exceptional charges 2015 £m	Total 2015 £m	Before exceptional charges 2015 £m	Exceptional charges 2015 £m	Total 2015 £m
<b>Networks</b>						
Electricity Distribution	236.2	—	236.2	—	—	—
Electricity Transmission	46.9	—	46.9	—	—	—
	283.1	—	283.1	—	—	—
<b>Retail</b>						
Energy Supply	28.4	9.2	37.6	1.0	—	1.0
Enterprise	21.3	7.7	29.0	—	—	—
Energy-related Services	7.3	—	7.3	—	—	—
	57.0	16.9	73.9	1.0	—	1.0
<b>Wholesale</b>						
Energy Portfolio Management and Electricity Generation	211.8	237.6	449.4	2.4	51.5	53.9
Gas Storage	11.7	162.4	174.1	—	—	—
Gas Production	55.9	61.9	117.8	—	44.1	44.1
	279.4	461.9	741.3	2.4	95.6	98.0
Corporate unallocated	37.2	—	37.2	—	—	—
<b>Total</b>	<b>656.7</b>	<b>478.8</b>	<b>1,135.5</b>	<b>3.4</b>	<b>95.6</b>	<b>99.0</b>
Depreciation/impairment on property, plant and equipment (Restated note 14)						
	Before exceptional charges 2014 £m	Exceptional charges 2014 £m	Total 2014 £m	Before exceptional charges 2014 £m	Exceptional charges 2014 £m	Total 2014 £m
<b>Networks</b>						
Electricity Distribution	229.1	—	229.1	—	—	—
Electricity Transmission	26.3	—	26.3	—	—	—
	255.4	—	255.4	—	—	—
<b>Retail</b>						
Energy Supply	17.5	10.0	27.5	2.5	18.7	21.2
Enterprise	29.0	10.4	39.4	2.0	2.1	4.1
Energy-related Services	6.8	29.9	36.7	0.3	—	0.3
	53.3	50.3	103.6	4.8	20.8	25.6
<b>Wholesale</b>						
Energy Portfolio Management and Electricity Generation	233.3	210.9	444.2	12.8	75.9	88.7
Gas Storage	14.5	111.5	126.0	—	26.2	26.2
Gas Production	55.5	—	55.5	—	—	—
	303.3	322.4	625.7	12.8	102.1	114.9
Corporate unallocated	37.4	—	37.4	0.5	—	0.5
<b>Total</b>	<b>649.4</b>	<b>372.7</b>	<b>1,022.1</b>	<b>18.1</b>	<b>122.9</b>	<b>141.0</b>

The Group's share of Scotia Gas Networks Limited depreciation (2015 – £59.0m; 2014 – £56.2m) and amortisation (2015 – £4.8m; 2014 – £4.8m) is not included within operating costs.

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### 5. Other operating income and cost

Total group costs before exceptional items and certain remeasurements can be analysed thus:

	2015 £m	2014 (Restated note 2.1(iii)) £m
Cost of sales	28,801.3	27,732.3
Distribution costs	516.8	489.3
Administration costs	844.7	826.7
Operating costs	1,361.5	1,316.0
Total costs	30,162.8	29,048.3

Group operating profit is stated after charging (or crediting) the following items:

	2015 £m	2014 £m
Depreciation of property, plant and equipment (note 12) (i)	656.7	649.4
Exceptional charges (note 6)	648.7	712.3
Impairment of inventories (note 18)	1.4	2.0
Research costs	8.3	7.0
Operating lease rentals (note 34)	163.2	150.6
Release of deferred income in relation to capital grants and historic customer contributions	(16.7)	(16.8)
(Profit)/loss on disposal of property, plant and equipment and other assets	(40.2)	(11.4)
(Gain)/loss on disposal of businesses and subsidiaries	(18.6)	1.4
Amortisation of other intangible assets (note 13) (i)	3.4	18.1

(i) Does not include exceptional impairment charges.

### Auditor's remuneration

	2015 £m	2014 £m
Audit of these financial statements	0.3	0.3
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	0.7	0.7
Audit-related assurance services	0.1	0.1
Taxation compliance and advisory services	–	0.1
Other services fees	0.1	0.4
	0.9	1.3
Total remuneration paid to Auditor	1.2	1.6

Tax service fees incurred in the year were £0.1m (2014 – £0.1m). Audit – related assurance services include fees incurred in relation to regulatory accounts and returns required by Ofgem. Other service fees include fees for forensic accounting investigations. A description of the work of the Audit Committee is set out on pages 84 to 87 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

Amounts paid to the Company's auditor in respect of services to the Company other than the audit of the Company's financial statements have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

## Notes on the financial statements continued

for the year ended 31 March 2015

### 6. Exceptional items and certain re-measurements

	2015 £m	2014 £m
<b>Exceptional items (6.1)</b>		
Asset impairments and related charges	(667.5)	(574.9)
Provisions for restructuring and other liabilities	(56.0)	(137.4)
Net gains on disposals of businesses and other assets	74.8	–
	<b>(648.7)</b>	<b>(712.3)</b>
Impairment of investments in associates (share of result, net of tax)	(25.9)	(34.9)
	<b>(674.6)</b>	<b>(747.2)</b>
Share of effect of change in UK corporation tax on deferred tax liabilities and assets of associate and joint venture investments	–	63.3
	<b>(674.6)</b>	<b>(683.9)</b>
<b>Certain re-measurements (6.2)</b>		
Movement on operating derivatives (note 32)	(67.8)	(150.9)
Movement on financing derivatives (note 32)	(44.2)	(64.2)
Share of movement on derivatives in jointly controlled entities (net of tax)	5.3	2.4
	<b>(106.7)</b>	<b>(212.7)</b>
Exceptional items before taxation	<b>(781.3)</b>	<b>(896.6)</b>
<b>Taxation (6.3)</b>		
Effect of change in UK corporation tax rate on deferred tax liabilities and assets	15.6	59.8
Taxation on other exceptional items	145.6	137.3
	<b>161.2</b>	<b>197.1</b>
Taxation on certain re-measurements	39.2	63.7
<b>Taxation</b>	<b>200.4</b>	<b>260.8</b>
<b>Exceptional items after taxation</b>	<b>(580.9)</b>	<b>(635.8)</b>

## 6. Exceptional items and certain re-measurements continued

### 6.1 Exceptional items

	2015 £m	2014 £m
<b>Exceptional items categorised as:</b>		
Property, plant and equipment impairments (note 14)	(478.8)	(370.3)
Intangible asset and goodwill impairments (note 13)	(95.6)	(122.9)
Joint venture and associate investment impairments (note 15)	(25.9)	(34.9)
Provisions (note 26)	(56.0)	(105.3)
Net gains on disposals of businesses and assets	74.8	–
Other impairments and charges	(93.1)	(113.8)
<b>Total before taxation</b>	<b>(674.6)</b>	<b>(747.2)</b>
 <b>Exceptional items are disclosed across the following categories within the income statement:</b>		
<b>Cost of sales:</b>		
Exceptional charges relating to Ferrybridge and Fiddler's Ferry	(313.5)	(238.4)
Other impairments relating to Generation assets	(51.5)	–
Exceptional charges relating to wind impairments	–	(125.4)
Exceptional charges relating to contractual settlements	–	(45.5)
Movement on operating derivatives (note 32)	(67.8)	(150.9)
	<b>(432.8)</b>	<b>(560.2)</b>
 <b>Operating costs:</b>		
All other exceptional items	(358.5)	(303.0)
<b>Operating income:</b>		
Net gains on disposals of businesses and other assets	74.8	–
<b>Joint ventures and associates:</b>		
Impairment of investments	(25.9)	(34.9)
Share of movement on derivatives in jointly controlled entities (net of tax)	5.3	65.7
 <b>Operating loss</b>	<b>(20.6)</b>	30.8
	<b>(737.1)</b>	<b>(832.4)</b>
 <b>Finance costs</b>		
Movement on financing derivatives (note 32)	(44.2)	(64.2)
 <b>Loss before taxation</b>	<b>(781.3)</b>	<b>(896.6)</b>

In the year to 31 March 2015, the Group recognised exceptional asset impairment and related charges totalling £667.5m and provisions of £56.0m. These consisted of impairments and charges in relation to the Group's coal-fired plants at Ferrybridge and Fiddler's Ferry (£313.5m), the Aldbrough gas storage facility (£163.9m), the North Sea gas production assets (£106.1m) and certain other assets. The valuation of the Ferrybridge power station was impacted by the 31 July 2014 fire and both coal plants have been subject to increasingly difficult economic conditions which have been exacerbated by the inability of both units at Ferrybridge and one unit at Fiddler's Ferry to secure an agreement to provide capacity from October 2018 to September 2019 in the first of the capacity auctions run by DECC in December 2014. The North Sea gas production assets have been impaired predominantly due to declining wholesale gas prices and the gas storage facilities have been impacted by reduced short term price volatility in the wholesale gas market and the announcement in March 2015 of redundancies at the facilities. In addition to these charges, the Group recognised exceptional charges in relation to the impairment of certain thermal generation development assets including the Abernedd gas-fired generation development in South Wales, which also did not secure a capacity agreement for winter 2018 in the December 2014 auction. Other exceptional charges were recognised in relation to impairments of thermal power generation, joint ventures and associates.

The Group benefitted from the recognition of £74.8m of exceptional credits in relation to the disposal of businesses and asset that were held for sale at 31 March 2014 before recognition of associated provisions. This included gains in relation to the seven street lighting PFIIs sold to Equitix in November and the Group's share of the dividend from the Environment Energy Fund's disposal of its stake in Anesco. Details of the disposals in the year are included at note 17.

In the previous financial year, the Group recognised exceptional charges arising from and related to asset impairments amounting to £574.9m. This consisted of impairment charges in respect of thermal and renewable generation plant of £363.9m which included the impact of the decision to scale back the Group's involvement in certain offshore wind developments.

## Notes on the financial statements continued for the year ended 31 March 2015

### 6. Exceptional items and certain re-measurements continued

The total also included impairment charges against gas storage facilities of £137.7m and charges of £73.3m in relation to recognition of losses and costs arising from the decision to exit from certain non-core businesses following the announcement of its restructuring and disposal programme on 26 March 2014. This latter item also includes impairment charges of £36.2m in relation to system and software development across the energy supply and metering businesses.

Other exceptional charges of £137.4m were recognised in the previous financial year. This included charges of £91.0m in relation to the March 2014 restructuring announcement, including a restructuring provision primarily relating to the scheme of employee voluntary early release of £52.9m and provisions associated with business closures and contractual disputes of £82.6m.

#### 6.2 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 32. Only certain of the Group's energy commodity contracts are deemed to constitute financial instruments under IAS 39. As a result, while the Group manages the commodity price risk associated with both financial and non-financial commodity contracts, it is only commodity contracts that are designated as financial instruments under IAS 39 that are accounted for on a fair value basis with changes in fair value reflected in the income statement (as part of 'certain re-measurements') or in other comprehensive income. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts.

#### 6.3 Change in UK corporation tax rates

Finance Act 2015 which received royal assent on 26 March 2015 announced that the rate of Supplementary Charge (SCT) was reduced to 20% (previously 32%) with effect from 1 January 2015. This results in a hybrid SCT rate of 29% for the Group's upstream oil and gas operations for the year to 31 March 2015 (2014 32%). Finance Act 2015 also enacted a reduction in the rate of Petroleum Revenue Tax (PRT) to 35% from 1 January 2016 from the current 50%. As these changes have been substantively enacted they have the effect of reducing the group's deferred tax liabilities by £15.6m.

#### 6.4 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: Directors and employees

### 7. Directors and employees

#### 7.1 Staff costs

	Consolidated	
	2015 £m	2014 £m
Staff costs:		
Wages and salaries	675.0	654.5
Social security costs	65.8	63.4
Share-based remuneration (note 31)	15.0	15.5
Pension costs (note 30)	119.8	101.1
	875.6	834.5
Less: capitalised as property, plant and equipment	(130.7)	(128.3)
	744.9	706.2

## Financial Statements

### 7. Directors and employees continued

#### 7.2 Employee numbers

	Consolidated		Company	
	2015 Number	2014 Number	2015 Number	2014 Number
Numbers employed at 31 March	19,965	19,894	2	2

The average number of people employed by the Group (including Executive Directors) during the year was:

	Consolidated		Company	
	2015 Number	2014 Number	2015 Number	2014 Number
<b>Networks</b>				
Electricity Distribution	2,303	2,247	—	—
Electricity Transmission	422	364	—	—
	<b>2,725</b>	<b>2,611</b>	<b>—</b>	<b>—</b>
<b>Retail</b>				
Energy Supply	5,769	5,931	—	—
Enterprise	4,842	4,662	—	—
Energy-related Services	2,782	2,755	—	—
	<b>13,393</b>	<b>13,348</b>	<b>—</b>	<b>—</b>
<b>Wholesale</b>				
Energy Portfolio Management and Electricity Generation	1,682	1,819	—	—
Gas storage	97	97	—	—
	<b>1,779</b>	<b>1,916</b>	<b>—</b>	<b>—</b>
Corporate unallocated	<b>2,118</b>	<b>2,015</b>	<b>2</b>	<b>2</b>
<b>Total</b>	<b>20,015</b>	<b>19,890</b>	<b>2</b>	<b>2</b>

The costs associated with the employees of the Company, who are the Executive Directors of the Group, are borne by Group companies. No amounts are charged to the Company.

#### 7.3 Directors' remuneration and interests

Information concerning Directors' remuneration, shareholdings, options, long term incentive schemes and pensions is shown in the Remuneration Report on pages 90 to 108. No Director had, during or at the end of the year, any material interest in any other contract of significance in relation to the Group's business.

## Notes on the financial statements continued for the year ended 31 March 2015

### 8. Finance income and costs

Recognised in income statement

	2015			2014		
	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m	Before exceptional items and certain re-measurements (Restated note 2.1(iii)) £m	Exceptional items and certain re-measurements (Restated note 2.1(iii)) £m	Total (Restated note 2.1(iii)) £m
<b>Finance income:</b>						
Interest income from short term deposits	1.1	–	1.1	1.7	–	1.7
Foreign exchange translation of monetary assets and liabilities	–	–	–	19.3	–	19.3
Other interest receivable:						
Scotia Gas Networks loan stock	33.3	–	33.3	33.3	–	33.3
Other joint ventures and associates	14.8	–	14.8	11.7	–	11.7
Other receivable	46.7	–	46.7	56.7	–	56.7
	94.8	–	94.8	101.7	–	101.7
<b>Total finance income</b>	<b>95.9</b>	–	<b>95.9</b>	122.7	–	122.7
<b>Finance costs:</b>						
Bank loans and overdrafts	(23.9)	–	(23.9)	(18.5)	–	(18.5)
Other loans and charges	(262.5)	–	(262.5)	(310.8)	–	(310.8)
Interest on pension scheme liabilities	(25.1)	–	(25.1)	(26.8)	–	(26.8)
Notional interest arising on discounted provisions	(14.0)	–	(14.0)	(9.5)	–	(9.5)
Foreign exchange translation of monetary assets and liabilities	(0.5)	–	(0.5)			
Finance lease charges	(34.2)	–	(34.2)	(35.7)	–	(35.7)
Less: interest capitalised (i)	57.8	–	57.8	58.9	–	58.9
<b>Total finance costs</b>	<b>(302.4)</b>	–	<b>(302.4)</b>	<b>(342.4)</b>	–	<b>(342.4)</b>
Changes in fair value of financing derivative assets or liabilities at fair value through profit or loss	–	(44.2)	(44.2)	–	(64.2)	(64.2)
<b>Net finance costs</b>	<b>(206.5)</b>	<b>(44.2)</b>	<b>(250.7)</b>	<b>(219.7)</b>	<b>(64.2)</b>	<b>(283.9)</b>
Presented as:						
Finance income	95.9	–	95.9	122.7	–	122.7
Finance costs	(302.4)	(44.2)	(346.6)	(342.4)	(64.2)	(406.6)
<b>Net finance costs</b>	<b>(206.5)</b>	<b>(44.2)</b>	<b>(250.7)</b>	<b>(219.7)</b>	<b>(64.2)</b>	<b>(283.9)</b>

(i) The capitalisation rate applied in determining the amount of borrowing costs to capitalise in the period was 4.49% (2014 – 4.88%).

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

	2015 £m	2014 (Restated note 2.1(iii)) £m
<b>Net finance costs</b>	<b>(250.7)</b>	<b>(283.9)</b>
(add)/less:		
Share of interest from joint ventures and associates:		
Scotia Gas Networks loan stock	(33.3)	(33.3)
Other joint ventures and associates	(90.9)	(104.2)
Interest on pension scheme liabilities	(124.2)	(137.5)
Share of interest on net pension liabilities in joint ventures	25.1	26.8
Movement on financing derivatives (note 32)	(11.1)	1.4
	44.2	64.2
<b>Adjusted net finance costs</b>	<b>(316.7)</b>	<b>(329.0)</b>
Notional interest arising on discounted provisions	14.0	9.5
Finance lease charges	34.2	35.7
Hybrid coupon payment (note 29)	(121.3)	(122.9)
<b>Adjusted net finance costs for interest cover calculations</b>	<b>(389.8)</b>	<b>(406.7)</b>

The interest on net pension liabilities for the year ended 31 March 2015 of £25.1m (2014 – £26.8m) represents the respective charges under IAS 19R.

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## 8. Finance income and costs continued

### Recognised in other comprehensive income

	2015 £m	2014 £m
Loss on effective portion of cash flow hedges (i)	(41.9)	(54.5)
Share of joint venture/associate (loss)/gain on effective portion of cash flow hedges (i)	(9.4)	13.2
	<b>(51.3)</b>	(41.3)

(i) Before deduction of tax.

## 9. Taxation

Analysis of charge recognised in the income statement:

	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	2015 £m	Before exceptional items and certain re-measurements (Restated note 2.1(iii)) £m	Exceptional items and certain re-measurements (Restated note 2.1(ii)) £m	2014 (Restated note 2.1(ii)) £m
<b>Current tax</b>						
UK corporation tax	231.4	(25.2)	206.3	248.1	(24.8)	223.3
Adjustments in respect of previous years	(29.8)	–	(29.8)	(21.4)	–	(21.4)
Total current tax	<b>201.6</b>	<b>(25.2)</b>	<b>176.5</b>	226.7	(24.8)	201.9
<b>Deferred tax</b>						
Current year	52.7	(159.7)	(107.0)	162.2	(162.0)	0.2
Effect of change in tax rate	–	(15.6)	(15.6)	–	(59.8)	(59.8)
Adjustments in respect of previous years	16.9	–	16.9	18.4	(14.2)	4.2
Total deferred tax	<b>69.6</b>	<b>(175.3)</b>	<b>(105.7)</b>	180.6	(236.0)	(55.4)
<b>Total taxation charge</b>	<b>271.2</b>	<b>(200.4)</b>	<b>70.8</b>	407.3	(260.8)	146.5

## Notes on the financial statements continued

for the year ended 31 March 2015

### 9. Taxation continued

In October 2014, SSE became the first FTSE 100 group to be accredited with the Fair Tax Mark. As a consequence, these financial statements include a number of areas of enhanced disclosure which have been provided in order to develop stakeholder understanding of the tax the Group pays. The table below reconciles the tax which would be expected to be paid on SSE's reported profit before tax to the reported current tax charge and the reported total taxation charge along with additional commentary on the main reconciling items provided beneath the table:

	2015 £m	2015 %	2014 (Restated note 2.1(iii)) £m	2014 % £m
Profit before tax	<b>735.2</b>		592.5	
Less: share of results of associates and jointly controlled entities	<b>(163.6)</b>		(185.6)	
<b>Profit before tax</b>	<b>571.6</b>		406.9	
Tax on profit on ordinary activities at standard UK corporation tax rate of 21% (2014 – 23%)	<b>120.0</b>	<b>21.0</b>	93.6	23.0
Tax effect of:				
Depreciation in excess of capital allowances	<b>86.0</b>	<b>15.1</b>	67.4	16.6
Increase in restructuring and settlement provisions	<b>2.6</b>	<b>0.5</b>	34.4	8.3
Non-taxable gain on sale of shares	<b>(13.8)</b>	<b>(2.4)</b>	–	–
Fair value movements on derivatives	<b>23.6</b>	<b>4.1</b>	48.0	11.8
Pension movements	<b>(11.0)</b>	<b>(1.9)</b>	(11.6)	(2.9)
Relief for capitalised interest and revenue costs	<b>(22.3)</b>	<b>(3.9)</b>	(25.4)	(6.2)
Hybrid capital coupon payments	<b>(25.5)</b>	<b>(4.5)</b>	(27.8)	(6.8)
Corporation tax relief on PRT paid	<b>(4.5)</b>	<b>(0.8)</b>	(5.5)	(1.4)
Expenses not deductible for tax purposes	<b>7.7</b>	<b>1.3</b>	15.6	3.8
Impact of higher current tax rates on E&P profits	<b>42.1</b>	<b>7.4</b>	35.2	8.7
Impact of foreign tax rates	<b>1.4</b>	<b>0.2</b>	(0.6)	(0.1)
Adjustments to tax charge in respect of previous years	<b>(29.8)</b>	<b>(5.2)</b>	(21.4)	(5.2)
<b>Reported current tax charge and effective rate</b>	<b>176.5</b>	<b>30.9</b>	201.9	49.6
Depreciation in excess of capital allowances	<b>(68.5)</b>	<b>(12.0)</b>	(48.5)	(11.9)
Increase in restructuring and settlement provisions	<b>(2.6)</b>	<b>(0.5)</b>	(34.4)	(8.5)
Fair value movements on derivatives	<b>(23.6)</b>	<b>(4.1)</b>	(48.0)	(11.8)
Pension movements	<b>11.0</b>	<b>1.9</b>	11.6	3.0
Relief for capitalised interest and revenue costs	<b>22.3</b>	<b>3.9</b>	25.4	6.2
Impact of higher deferred tax rates on E&P profits	<b>(34.8)</b>	<b>(6.1)</b>	45.6	11.2
Impact of foreign tax rates	<b>(4.2)</b>	<b>(0.7)</b>	(2.5)	(0.6)
Adjustments to tax charge in respect of previous years	<b>6.5</b>	<b>1.1</b>	27.8	6.8
Change in rate of UK corporation tax	<b>(15.6)</b>	<b>(2.7)</b>	(59.8)	(14.7)
Other items	<b>3.8</b>	<b>0.6</b>	27.4	6.7
<b>Reported deferred tax credit and effective rate</b>	<b>(105.7)</b>	<b>(18.6)</b>	(55.4)	(13.6)
<b>Group tax charge and effective rate</b>	<b>70.8</b>	<b>12.3</b>	146.5	36.0

The majority of the Group's profits are earned in the UK, with the standard rate of UK corporation tax being 21% for the year to 31 March 2015 (2014 – 23%). The Group's Gas Production business is taxed at a UK corporation tax rate of 30% plus a supplementary charge of 29% (combined 62%). In addition, profits from the Sean gas field are subject to petroleum revenue tax ("PRT") at 50% which is deductible against corporation tax, giving an overall effective rate for the field of 79.5%. Profits earned by the Group in the Republic of Ireland are taxable at either 12.5% or 25%, depending upon the nature of the income.

Capital allowances are tax reliefs provided in law for the expenditure the Group makes on property, plant and equipment. The rates are determined by Parliament annually, and spread the tax relief due over a number of years. This contrasts with the accounting treatment for such spending, where the expenditure on property, plant and equipment is treated as an asset with the cost being depreciated over the useful life of the asset, or impaired if the value of such assets is considered to have reduced materially. Adjustments to the deferred tax charge in respect of previous years includes an uplift in the provision required in relation to the acquired Sean Gas field.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Group is not the same as the profit reported in the financial statements. During both the year to 31 March 2015 and the previous year, the substantial impairments undertaken in relation to certain of the Group's property, plant and equipment, which are explained at note 6, meant that the charge to profit for the year significantly exceeded the amount of capital allowances due to the Group.

Short term temporary differences arise on items such as provisions for restructuring costs and onerous contracts, and retirement benefit obligations, because the treatment of such items is different for tax and accounting purposes. These differences usually reverse in the year following that in which they arise, as is reflected in the deferred tax charge in these financial statements. Where interest charges or other costs are capitalised in the financial statements, tax relief is either given as the charges are incurred or when the costs taken to the income statement.

As explained at Accompanying Information A1.3 and at note 32 to the accounts, the Group measures its operating and financing derivatives at fair value under IAS 39. Due to the financial statements of its subsidiaries being prepared under UK GAAP and following the application of the UK tax "disregard regulations", the re-measurement movements have no current tax effect impacting only the deferred tax position.

## 9. Taxation continued

Some expenses incurred by the Group, while entirely appropriate, are not allowed as an offset against taxable income when calculating the company's tax liability for the same accounting period. Examples of such disallowable expenditure include legal expenses on investment transactions, and investment impairments.

As detailed at note 29 and explained in the Accompanying Information A1.11(ix), the Group has issued hybrid capital securities which are treated as a component of equity. While the coupon payments relating to these securities are treated as distributions to the holders of the equity instruments, tax relief is allowed the amount paid in the year. These tax credits are linked to the past transactions or events that support the coupon payments and consequently the tax credits are reported in the income statement.

### Reconciliation of tax charge to adjusted underlying current tax

As noted at note 3 to the accounts, the Group's results are reported on an 'adjusted' basis in order to allow focus on underlying business performance. The following table explains the adjustments that are made in order to arrive at adjusted profit before tax. This is the measure utilised in calculation of the Group's 'adjusted effective rate of tax'.

	2015 £m	2014 (Restated note 2.1(iii)) £m
Profit before tax	<b>735.2</b>	592.5
Add/(less):		
Exceptional items and certain re-measurements	<b>781.3</b>	896.6
Share of tax from jointly controlled entities and associates before exceptional items and certain re-measurements	<b>34.2</b>	33.8
Interest on pension scheme liabilities	<b>25.1</b>	26.8
Share of interest on net pension liabilities in jointly controlled entities and associates	<b>(11.1)</b>	1.4
<b>Adjusted profit before tax</b>	<b>1,564.7</b>	1,551.1

The 'adjusted current tax charge' and the 'adjusted effective rate of tax', which are presented in order to best represent underlying performance by making similar adjustments to the adjusted 'profit before tax measure', are arrived at after the following adjustments:

	2015 £m	2015 %	2014 £m	2014 %
Group tax charge and effective rate	<b>70.8</b>	<b>12.3</b>	146.5	36.0
Add: reported deferred tax credit and effective rate	<b>105.7</b>	<b>18.6</b>	55.4	13.6
Reported current tax charge and effective rate	<b>176.5</b>	<b>30.9</b>	201.9	49.6
Effect of adjusting items (see below)	–	(19.6)	–	(36.5)
Reported current tax charge on adjusted basis	<b>176.5</b>	<b>11.3</b>	201.9	13.1
add/(less):				
Share of current tax from joint ventures and associates	<b>23.2</b>	<b>1.5</b>	10.0	0.6
Current tax on exceptional items	<b>25.1</b>	<b>1.6</b>	24.8	1.6
<b>Adjusted current tax charge and effective rate</b>	<b>224.8</b>	<b>14.4</b>	236.7	15.3

The adjusted current tax charge can therefore be reconciled to the adjusted profit before tax as follows:

	2015 £m	2015 %	2014 £m	2014 %
Adjusted profit before tax	<b>1,564.7</b>		1,551.1	
Tax on profit on ordinary activities at standard UK corporation tax rate	<b>328.6</b>	<b>21.0</b>	356.7	23.0
Tax effect of:				
Capital allowances in excess of depreciation	(42.1)	(2.7)	(57.0)	(3.7)
Non taxable gain on sale of shares	(6.3)	(0.4)	–	–
Increase in restructuring and settlement provisions	3.9	0.2	19.6	1.3
Pension movements	(13.9)	(0.9)	(17.5)	(1.1)
Relief for capitalised interest and revenue costs	(15.2)	(1.0)	(25.4)	(1.6)
Hybrid capital coupon payments	(25.4)	(1.6)	(27.8)	(1.8)
Corporation tax relief on PRT paid	(4.4)	(0.3)	(5.5)	(0.4)
Expenses not deductible for tax purposes	10.1	0.7	13.5	0.9
Relief for brought forward losses	(23.6)	(1.5)	(32.9)	(2.1)
Impact of higher current tax rates on oil and gas profits	42.1	2.7	35.2	2.3
Impact of foreign tax rates	1.4	0.1	(0.6)	(0.1)
Adjustments to tax charge in respect of previous years	(30.4)	(1.9)	(21.6)	(1.4)
<b>Adjusted current tax charge and effective rate</b>	<b>224.8</b>	<b>14.4</b>	236.7	15.3

## Notes on the financial statements continued

for the year ended 31 March 2015

### 9. Taxation continued

The above reconciling adjustments differ from those analysed in the Group tax reconciliation above, because they include SSE's share of associates and joint ventures, and are based on adjusted profit before tax.

#### Tax charge/(credit) recognised in other comprehensive income/(loss):

	2015 £m	2014 £m
Relating to:		
Pension scheme actuarial movements	<b>16.3</b>	(23.5)
Cash flow and net investment hedge movements	<b>(4.2)</b>	8.9
	<b>12.1</b>	(14.6)

All tax recognised through other comprehensive income is deferred tax.

### 10. Dividends

#### Ordinary dividends

	Year ended 31 March 2015			Year ended 31 March 2014		
	Total £m	Settled via scrip £m	Pence per ordinary share	Total £m	Settled via scrip £m	Pence per ordinary share
Interim – year ended 31 March 2015	<b>262.6</b>	<b>81.6</b>	<b>26.6</b>	–	–	–
Final – year ended 31 March 2014	<b>591.5</b>	<b>174.0</b>	<b>60.7</b>	–	–	–
Interim – year ended 31 March 2014	–	–	–	251.0	112.4	26.0
Final – year ended 31 March 2013	–	–	–	568.6	17.8	59.0
	<b>854.1</b>	<b>255.6</b>		819.6	130.2	

The final dividend of 60.7p per ordinary share declared in the financial year ended 31 March 2014 (2013 – 59.0p) was approved at the Annual General Meeting on 25 July 2014 and was paid to shareholders on 19 September 2014. 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 26.6p per ordinary share (2014 – 26.0p) was declared and paid on 20 March 2015 to those shareholders on the SSE plc share register on 23 January 2015. 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 61.8p per ordinary share (which equates to a dividend of £613.7m) based on the number of issued ordinary shares at 31 March 2015 is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

## 11. Earnings per share

### Basic earnings per share

The calculation of basic earnings per ordinary share at 31 March 2015 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 2015. All earnings are from continuing operations.

### Adjusted earnings per share

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

	Year ended 31 March 2015 earnings £m	Year ended 31 March 2015 earnings per share pence	Year ended 31 March 2014 earnings £m (Restated note 2.1 (ii))	Year ended 31 March 2014 earnings per share pence (Restated note 2.1 (ii))
<b>Basic</b>	<b>543.1</b>	<b>55.3</b>	323.1	33.5
Exceptional items and certain re-measurements (note 6)	580.9	59.2	635.8	65.8
Basic excluding exceptional items and certain re-measurements	1,124.0	114.5	958.9	99.3
Adjusted for:				
Interest on net pension scheme liabilities (note 8)	25.1	2.5	26.8	2.8
Share of interest on net pension scheme liabilities in joint venture (note 8)	(11.1)	(1.1)	1.4	0.1
Deferred tax (note 9)	69.6	7.1	180.6	18.7
Deferred tax from share of joint ventures and associates	11.0	1.1	23.8	2.5
<b>Adjusted</b>	<b>1,218.6</b>	<b>124.1</b>	1,191.5	123.4
<b>Basic</b>	<b>543.1</b>	<b>55.3</b>	323.1	33.5
Dilutive effect of outstanding share options	–	(0.1)	–	(0.2)
<b>Diluted</b>	<b>543.1</b>	<b>55.2</b>	323.1	33.3

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

	31 March 2015 Number of shares (millions)	31 March 2014 Number of shares (millions)
For basic and adjusted earnings per share	981.8	965.5
Effect of exercise of share options	2.1	6.1
For diluted earnings per share	983.9	971.6

## Notes on the financial statements continued

for the year ended 31 March 2015

### 12. Notes to the Group cash flow statement

#### 12.1 Reconciliation of Group operating profit to cash generated from operations

Note	Consolidated		Company	
	2015 £m	2014 (Restated note 2.1(ii)) £m	2015 £m	2014 £m
Profit for the year	<b>664.4</b>	446.0	<b>597.7</b>	360.9
Add back: taxation	<b>9</b>	<b>70.8</b>	<b>51.9</b>	23.2
Add back: net finance costs	<b>8</b>	<b>250.7</b>	<b>(333.0)</b>	(135.1)
Operating profit		<b>985.9</b>	<b>316.6</b>	249.0
Less share of profit of joint ventures and associates		<b>(163.6)</b>	—	—
Operating profit before jointly controlled entities and associates		<b>822.3</b>	<b>316.6</b>	249.0
Movement on operating derivatives		<b>67.8</b>	—	—
Pension service charges less contributions paid		<b>(77.5)</b>	<b>(23.7)</b>	(22.6)
Exceptional charges		<b>648.7</b>	<b>931.4</b>	231.3
Depreciation of assets		<b>656.7</b>	—	—
Amortisation and impairment of intangible assets		<b>3.4</b>	—	—
Impairment of inventories		<b>1.4</b>	—	—
Release of provisions		—	—	—
Release of deferred income		<b>(16.9)</b>	—	—
Charge in respect of employee share awards (before tax)		<b>15.0</b>	—	—
(Profit)/loss on disposal of property, plant and equipment		<b>(40.2)</b>	<b>4.2</b>	—
Income from investment in subsidiaries, joint ventures and associates		—	<b>(1,233.8)</b>	(461.4)
Cash generated from/(absorbed by) operations before working capital movements	<b>2,080.7</b>	2,134.2	<b>(5.3)</b>	(3.7)

#### 12.2 Reconciliation of net increase in cash and cash equivalents to movement in adjusted net debt and hybrid capital

Note	Consolidated	
	2015 £m	2014 £m
Increase/(decrease) in cash and cash equivalents	<b>1,053.5</b>	(109.0)
Add/(less):		
Issue of hybrid capital	<b>(1,184.3)</b>	—
New borrowings	<b>(151.1)</b>	(1,815.8)
Repayment of borrowings	<b>66.3</b>	1,514.8
Non-cash movement on borrowings	<b>269.8</b>	89.5
Increase/(decrease) in cash held as collateral	<b>20.5</b>	(3.8)
<b>Movement in adjusted net debt and hybrid capital</b>	<b>74.7</b>	(324.3)

The non-cash movement on borrowings includes a decrease in loans of £228.8m in relation to the disposal of seven street lighting PFI companies as detailed at note 17.3 as well as the 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.

## Financial Statements

**13. Goodwill and other intangible assets****Consolidated**

	Goodwill £m	Allowances and certificates £m	Development assets £m	Other intangibles £m	Total £m
<b>Cost:</b>					
At 1 April 2013	727.6	595.9	340.3	136.5	1,800.3
Additions	–	479.4	142.4	15.9	637.7
Transfer to property, plant and equipment (note 14)	–	–	(27.4)	(13.2)	(40.6)
Disposals/utilised	–	(413.9)	–	–	(413.9)
Transfer to held for sale (note 17)	–	–	(58.9)	–	(58.9)
Exchange adjustments	(1.6)	(0.2)	(0.4)	(0.2)	(2.4)
At 31 March 2014	726.0	661.2	396.0	139.0	1,922.2
Additions	–	441.8	75.2	10.6	527.6
Acquired through business combination	80.0	–	–	–	80.0
Transfer to property, plant and equipment (note 14)	–	–	(109.6)	(15.7)	(125.3)
Disposals/utilised	–	(441.7)	(12.1)	–	(453.8)
Transfers to/from Joint Ventures (note 15)	–	–	(10.7)	–	(10.7)
Transfer to held for sale (note 17)	–	–	(19.5)	–	(19.5)
Exchange adjustments	(19.0)	(0.3)	(0.6)	(0.5)	(20.4)
<b>At 31 March 2015</b>	<b>787.0</b>	<b>661.0</b>	<b>318.7</b>	<b>133.4</b>	<b>1,900.1</b>
<b>Aggregate amortisation and impairment:</b>					
At 1 April 2013	(91.8)	(227.5)	(124.3)	(70.3)	(513.9)
Charge for the year	(0.8)	–	(13.6)	(3.7)	(18.1)
Exceptional impairment (note 6)	(48.3)	–	(51.6)	(23.0)	(122.9)
Transfer to held for sale (note 17)	–	–	55.7	–	55.7
At 31 March 2014	(140.9)	(227.5)	(133.8)	(97.0)	(599.2)
Charge for the year	–	–	–	(3.4)	(3.4)
Exceptional impairment (note 6)	(48.1)	–	(47.5)	–	(95.6)
<b>At 31 March 2015</b>	<b>(189.0)</b>	<b>(227.5)</b>	<b>(181.3)</b>	<b>(100.4)</b>	<b>(698.2)</b>
<b>Carrying amount:</b>					
<b>At 31 March 2015</b>	<b>598.0</b>	<b>433.5</b>	<b>137.4</b>	<b>33.0</b>	<b>1,201.9</b>
At 31 March 2014	585.1	433.7	262.2	42.0	1,323.0
At 1 April 2013	635.8	368.4	216.0	66.2	1,286.4
The Company does not hold intangible assets.					
Intangible assets have been analysed as current and non-current as follows:					
			2015 £m	2014 £m	
Current			433.5	433.7	
Non-current:					
Goodwill			598.0	585.1	
Other			170.4	304.2	
			<b>1,201.9</b>	1,323.0	

## Notes on the financial statements continued

### for the year ended 31 March 2015

#### 13. Goodwill and other intangible assets continued

##### 13.1 Impairment review of goodwill and basis of other impairment reviews

Goodwill arising from business combinations is allocated to cash-generating units (CGUs) for impairment testing purposes. Certain goodwill valuations have changed in the current year following retranslation.

A summary of the goodwill allocated to CGUs and the Group's operating segments is presented below:

Cash-generating unit	Operating Segment	2015 £m	2014 £m
Ireland wind farms	Energy Portfolio Management and Electricity Generation	<b>112.6</b>	131.5
GB wind farms	Energy Portfolio Management and Electricity Generation	<b>199.9</b>	199.9
GB Energy Supply	Energy Supply	<b>187.0</b>	187.0
GB Generation	Energy Portfolio Management and Electricity Generation	—	10.1
Exploration and Production	Gas Production	—	38.1
Enterprise (i)	Enterprise	<b>90.3</b>	10.3
Ireland Supply	Energy Supply	<b>8.2</b>	8.2
		<b>598.0</b>	585.1

(i) Enterprise represents goodwill balances arising from historic acquisitions of Telecoms and Contracting businesses (Energy-related services) businesses and £80.0m in relation to the acquisition of the Energy Solutions Group (ESG) during the year. The amount of goodwill associated with the historic businesses is not significant in context of the aggregate carrying value of the business units or the aggregate value of goodwill held by the Group. In the previous year, £0.8m of the Enterprise goodwill was impaired through consideration of ongoing trading prospects with other impairments of £1.9m being recognised as part of the exceptional charges associated with the 26 March 2014 restructuring announcement.

The recoverable amounts of the GB Energy Supply, Gas Storage and Exploration and Production CGUs are determined by reference to value-in-use calculations. The value-in-use calculations use, as a starting point, pre-tax cash flow projections based on the Group's five year Corporate Model, as approved by the Board. The Group's Corporate Model is based on past experience and reflects the Group's forward view of markets, prices, risks and its strategic objectives. Commodity prices used are based on observable market data and, where this is not available, on internal estimates.

The recoverable amount of the wind farm CGUs is based on the fair value less costs to sell methodology. The basis applied has been deemed appropriate as it is consistent with the way in which the economic values of the CGUs are assessed by management and how they would be by other market participants. The method applied is to determine fair value by assessing the discounted pre-tax cash flows expected to be earned by the individual wind farm projects within the respective CGUs. The two identified CGUs (Ireland wind farms and UK wind farms) share many of the same risk factors and are accordingly discounted using the same discount rates.

The key assumptions used for the main value-in-use calculations are as follows:

Cash-generating unit	Operating Segment	2015 and 2014 Discount rate (%)	2015 and 2014 Cash flow projection period (years)
Ireland and GB wind farms (onshore and offshore)	Energy Portfolio Management and Electricity Generation	7.0% – 9.0%	up to 25
GB Energy Supply	Energy Supply	7.3%	5
GB Generation (excluding wind)	Energy Portfolio Management and Electricity Generation	7.3%	up to 15
Gas Storage	Gas Storage	7.3%	25
Exploration and Production	Gas Production	8.0% – 10.0%	Life of field

Management have determined the pre-tax cash flows of each CGU based on past performance and its expectations of market development. Further detail on how the cash flow projections have been derived is included in the specific commentaries. The discount rates used are pre-tax real and reflect specific risks attributable to the relevant operating segments. The discount rates used have been benchmarked against externally published rates used by comparable quoted companies operating in the respective market sectors. The discount rates applied in both 2015 and 2014 remain consistent across all CGUs, reflecting the Group's view of cost of capital and risk. The recoverable amount derived from the value-in-use calculation is compared to the carrying amount of each CGU to determine whether the respective CGUs require to be impaired.

### 13. Goodwill and other intangible assets continued

Specific comments on the key value-in-use and fair value less costs to sell calculations for the main CGUs and the results of the tests conducted follow:

#### (i) Wind farm CGUs

For goodwill impairment testing purposes, the significant wind farm CGUs were established following the acquisition of the SSE Renewables (formerly Airtricity) business in 2008. In order to assess the respective recoverable amounts against an appropriate carrying value, goodwill was allocated to the main geographic regions in which the business operates. The established CGUs (Ireland and GB) have subsequently been assessed by considering the specific market attributes of those regions. Currency cash flows are set at the exchange rate at the time the impairment test is conducted. Aside from the specific market factors, the basis of review of the respective CGUs is identical.

Wind farm projects have an estimated useful life of up to 25 years and it is considered appropriate by management to assess the carrying amount against cash flow projections covering this period. The Ireland and GB wind CGUs include wind farms in operation and both CGUs include projects in the construction phase. Projects that are in development are those which have not received consent or have not concluded all environmental or planning studies. Following the scaling back of the Group's commitment to offshore development, cash flows from all such projects have been excluded from the goodwill impairment review.

Cash inflows for all projects are based on expected generation output based on wind studies and past experience and are valued at forward power prices based on market information, where available, continuing government support for wind ROCs and internal model assumptions.

Cash outflows are based on planned capital expenditure and expected maintenance costs. The power prices and costs of operation are the most significant distinguishing factors in the respective CGU regions. Growth is based on the expected output of the respective wind farms at their available operational capacity over their life cycle and on delivery of projects in the development pipeline.

#### Outcome of tests

The recoverable amount of the GB wind farm CGU exceeded the carrying values of the CGU at the time of the impairment test. While cash flow projections are subject to inherent uncertainty, reasonably possible changes in the key assumptions applied in assessing the fair value less costs-to-sell would not cause a change to the conclusion reached. In the prior year, the recoverable amount of the Ireland wind farm CGU was below the carrying value of associated assets and accordingly an exceptional impairment charge of £20.0m was recognised. In the current year, it has been assessed that the recoverable amount associated with this CGU exceeds the carrying value.

#### (ii) GB Energy Supply

Goodwill carried in relation to the acquisition, in 2001, of Swalec is attributed to the Group's GB retail electricity and gas supply business CGU. The CGU is equivalent to the Energy Supply reported segment, with the exception of the Airtricity supply business in Ireland. Margins assumed in the value-in-use test are based on the current view of retail prices and direct and indirect costs of the business in this period.

#### Outcome of test

The recoverable amount of the GB Energy Supply CGU exceeded the respective carrying value at the time of the impairment test. While cash flow projections are subject to inherent uncertainty, reasonably possible changes in the key assumptions applied in assessing the value-in-use would not cause a change to the conclusion reached.

#### (iii) GB generation (excluding wind)

Following the impairment of the Abernedd intangible development asset (see note 13.2), the associated goodwill of £10.1m was also derecognised in the year. The operational plants in Energy Portfolio Management and Electricity Generation are operated as part of the integrated business segment. All main thermal generation plants exhibiting indications of impairment due to market and regulatory conditions have been assessed to ascertain the impact on carrying values (see note 14).

#### (iv) Exploration and production

Following the impairment review of the Group's gas production assets in the light of significant reductions in wholesale gas prices, the associated goodwill recognised on the purchase of North Sea assets in 2011 was fully impaired in the year. More detail in relation to the Gas Production business impairment reviews noted at notes 6 and 14.

### 13.2 Other intangible assets

#### (i) Allowances and certificates

Allowances and Certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs).

## Notes on the financial statements continued

for the year ended 31 March 2015

### 13. Goodwill and other intangible assets continued

#### (ii) Development assets

Development costs relate to the design, construction and testing of thermal and renewable generation sites and devices, including wind farms, which the Group believes will generate probable future economic benefits. Costs capitalised as development intangibles include options over land rights, planning application costs, environmental impact studies and other costs incurred in bringing wind farm and other generation and network development projects to the consented stage. These may be costs incurred directly or at a cost as part of the fair value attribution on acquisition. Development assets also include the Group's exploration and evaluation expenditure in relation to exploration wells.

At the point the development reaches the consent stage and is approved for construction, the carrying value is transferred to property, plant and equipment (note 14). At the point a project is no longer expected to reach the consented stage, the carrying amount of the project is impaired.

Exceptional impairment charges of £47.5m were recognised in the financial year. In the previous year, exceptional impairment charges of £55.9m were recognised in relation to certain offshore and onshore wind developments. Disposals of development assets with a book value of £12.1m were made in the year which provided a £1.5m gain on sale. Further detail on the Group's disposal programme is included at Note 17.3.

#### (iii) Other intangible assets

Exceptional impairment charges of £nil (2014 – £18.7m) were recognised in relation to discontinued software development projects. Included within other intangible assets are brands, customer lists, contracts, application software license fees, software development work, software upgrades and purchased PC software packages. Amortisation is over the shorter of the contract term or five years, with the exception of certain application software assets, which are amortised over 10 years.

### 14. Property, plant and equipment

#### Consolidated

	Power generation assets (i) £m	Gas storage and production assets (ii) £m	Land and buildings £m	Network assets £m	Metering assets and other equipment £m	Assets under construction (vi) £m	Total £m
<b>Cost:</b>							
At 1 April 2013 (restated 2.1(ii))	7,422.5	860.5	266.0	7,368.1	549.3	620.4	17,086.8
Additions	60.0	–	–	82.9	–	1,341.2	1,484.1
Acquisitions (note 17)	–	72.9	–	–	–	–	72.9
Transfer from Intangible Assets (note 13)	4.7	–	–	–	0.3	35.6	40.6
Transfer from Assets Under Construction	296.3	35.4	–	709.5	107.5	(1,148.7)	–
Transfer to Assets Held for Sale (note 17)	(18.3)	–	–	(40.7)	(19.8)	–	(78.8)
Disposals	(155.0)	–	(4.3)	–	(3.0)	(0.4)	(162.7)
Exchange rate adjustments	(16.3)	–	(0.2)	(0.1)	(0.6)	(8.0)	(25.2)
At 31 March 2014 (restated 2.1(ii))	7,593.9	968.8	261.5	8,119.7	633.7	840.1	18,417.7
Additions	9.0	1.6	–	82.8	0.3	1,275.5	1,369.2
Increase in decommissioning asset	–	31.2	–	–	–	–	31.2
Transfer from Intangible Assets (note 13)	4.5	–	–	–	–	120.8	125.3
Transfer from Assets Under Construction	169.2	20.8	13.0	827.6	99.3	(1,129.9)	–
Transfer to Assets Held for Sale (note 17)	(54.2)	–	–	–	–	–	(54.2)
Disposals (iii)	–	–	(9.5)	–	–	–	(9.5)
Exchange rate adjustments	(161.3)	–	–	–	(5.2)	(44.3)	(210.8)
<b>At 31 March 2015</b>	<b>7,561.1</b>	<b>1,022.4</b>	<b>265.0</b>	<b>9,030.1</b>	<b>728.1</b>	<b>1,062.2</b>	<b>19,668.9</b>
<b>Depreciation:</b>							
At 1 April 2013 (restated 2.1(ii))	2,723.0	143.9	54.6	3,056.6	363.9	–	6,342.0
Charge for the year	247.7	69.9	10.1	278.7	43.0	–	649.4
Exceptional impairments (v)	237.6	111.4	–	16.3	7.4	–	372.7
Transfer to Assets Held for sale (note 17)	(1.4)	–	–	(10.4)	(4.7)	–	(16.5)
Disposals (iii)	(4.4)	–	(3.3)	–	(1.2)	–	(8.9)
Exchange rate adjustments	(5.1)	–	–	–	(1.1)	–	(6.2)
At 31 March 2014 (restated 2.1(ii))	3,197.4	325.2	61.4	3,341.2	407.3	–	7,332.5
Charge for the year	236.3	67.6	8.8	297.4	46.6	–	656.7
Exceptional impairments (note 6(v))	222.7	224.3	14.9	–	16.9	–	478.8
Disposals (iii)	–	–	(7.3)	–	–	–	(7.3)
Exchange rate adjustments	(91.5)	(4.2)	–	–	–	–	(95.7)
<b>At 31 March 2015</b>	<b>3,564.9</b>	<b>612.9</b>	<b>77.8</b>	<b>3,638.6</b>	<b>470.8</b>	<b>–</b>	<b>8,365.0</b>

## 14. Property, plant and equipment continued

### Consolidated

	Power generation assets (i) £m	Gas storage and production assets (ii) £m	Land and buildings £m	Network assets £m	Metering assets and other equipment £m	Assets under construction (V) £m	Total £m
<b>Net book value</b>							
<b>At 31 March 2015</b>	<b>3,996.2</b>	<b>409.5</b>	<b>187.2</b>	<b>5,391.5</b>	<b>257.3</b>	<b>1,062.2</b>	<b>11,303.9</b>
At 31 March 2014 (restated note 2.1(ii))	4,396.5	643.6	200.1	4,778.5	226.4	840.1	11,085.2
At 1 April 2013 (restated note 2.1(ii))	4,699.5	716.6	211.4	4,311.5	185.4	620.4	10,744.8

- (i) Power generation assets comprise thermal and renewable generating plant, related buildings, plant and machinery and include all hydro civil and operating wind farm assets. The net book value of generation assets includes decommissioning costs with a net book value of £16.8m, (2014 – £40.3m).
- (ii) Gas storage and production assets include decommissioning costs with a net book value of £98.4m (2014 – £78.8m), which includes an increase arising from the reassessment of provisions at the Sean Field of £31.2m (note 26).
- (iii) Assets disposed includes office buildings and other property. The majority of the Group's disposals of property, plant and equipment in the financial year were including in Assets Held For Sale at 31 March 2014 (see note 17.3).
- (iv) Represents the carrying value of development assets transferred from intangible assets (note 13) which have reached the consent stage and have been approved for construction.
- (v) Assets displaying indications of impairment, such as the Group's main coal-fired generation plants, gas production fields and gas storage facilities are impairment reviewed under the value-in-use methodology. The current year property, plant and equipment exceptional impairment charges relate to the Fiddler's Ferry and Ferrybridge thermal generation plants, following the impact of the July 2014 fire at Ferrybridge, the result of the December 2014 capacity auction under the UK Government's electricity market reforms and challenging market conditions. The fair value assumptions on market prices are made by reference to forward market prices and published market estimations, where available, and to internal model inputs beyond the observable period. Prices forecast include wholesale power prices and input costs such as wholesale coal prices as well as carbon emissions costs including the effect of the carbon price support mechanism. The discount rates applied was a pre-tax real rate of 7.3%. Total exceptional impairment charges of £222.4m were recognised in relation to these plants. In addition, the Group recognised impairment charges of £162.0m in relation to its Aldbrough gas storage facility due to reduced short term price volatility in the wholesale gas market and £61.9m in relation to North Sea gas production assets impacted by sustained reductions in wholesale gas prices. Other assets were impaired by £32.4m.
- (vi) Assets Under Construction have been re-presented within the main table of property, plant and equipment to aid understanding of the Group's asset base.

The Company does not hold any property, plant or equipment.

Included within property, plant and equipment are the following assets held under finance leases:

	Power generation assets £m	Network assets £m	Metering assets and other equipment £m	Total £m
<b>Cost</b>				
At 1 April 2013	387.8	5.0	7.0	399.8
Additions	13.9	–	–	13.9
At 31 March 2014	401.7	5.0	7.0	413.7
Additions	–	12.6	–	12.6
<b>At 31 March 2015</b>	<b>401.7</b>	<b>17.6</b>	<b>7.0</b>	<b>426.3</b>
<b>Depreciation</b>				
At 31 March 2013	66.8	5.0	7.0	78.8
Charge for the year	18.5	–	–	18.5
At 31 March 2014	85.3	5.0	7.0	97.3
Charge for the year	20.1	–	–	20.1
<b>At 31 March 2015</b>	<b>105.4</b>	<b>5.0</b>	<b>7.0</b>	<b>117.4</b>
<b>Net book value</b>				
<b>At 31 March 2015</b>	<b>296.3</b>	<b>12.6</b>	<b>–</b>	<b>308.9</b>
At 31 March 2014	316.4	–	–	316.4
At 1 April 2013	321.0	–	–	321.0

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### 15. Investments

#### 15.1 Associates and joint ventures

	Equity			Loans			Total £m
	SGN £m	Other JCEs and associates	Equity total £m	SGN £m	Other JCEs and associates £m	Loans total £m	
<b>Share of net assets/cost</b>							
At 31 March 2013 (restated note 2.1(ii))	312.4	459.9	<b>772.3</b>	266.9	193.2	<b>460.1</b>	<b>1,232.4</b>
Additions	–	10.0	<b>10.0</b>	–	83.9	<b>83.9</b>	<b>93.9</b>
Repayment of shareholder loans	–	–	–	–	(19.4)	<b>(19.4)</b>	<b>(19.4)</b>
Dividends received	(82.4)	(21.7)	<b>(104.1)</b>	–	–	–	<b>(104.1)</b>
Share of profit/(loss) after tax (i)	182.1	6.5	<b>188.6</b>	–	(3.0)	<b>(3.0)</b>	<b>185.6</b>
Share of other reserves adjustments	(12.9)	(0.2)	<b>(13.1)</b>	–	–	–	<b>(13.1)</b>
Disposal of equity	–	(28.3)	<b>(28.3)</b>	–	–	–	<b>(28.3)</b>
Exchange rate adjustments	–	1.3	<b>1.3</b>	–	–	–	<b>1.3</b>
<b>At 31 March 2014 (restated note 2.1(ii))</b>	<b>399.2</b>	<b>427.5</b>	<b>826.7</b>	<b>266.9</b>	<b>254.7</b>	<b>521.6</b>	<b>1,348.3</b>
Additions	–	20.0	<b>20.0</b>	–	33.9	<b>33.9</b>	<b>53.9</b>
Repayment of shareholder loans	–	–	–	–	(15.0)	<b>(15.0)</b>	<b>(15.0)</b>
Dividends received	(75.0)	(35.1)	<b>(110.1)</b>	–	–	–	<b>(110.1)</b>
Share of profit/(loss) after tax (i)	153.3	10.3	<b>163.6</b>	–	–	–	<b>163.6</b>
Share of other reserves adjustments	(9.4)	–	<b>(9.4)</b>	–	–	–	<b>(9.4)</b>
Disposal of equity (note 17.3)	–	(2.9)	<b>(2.9)</b>	–	–	–	<b>(2.9)</b>
Transfer to/(from) Intangible Assets (note 13)	–	(8.2)	<b>(8.2)</b>	–	18.9	<b>18.9</b>	<b>10.7</b>
Exchange rate adjustments	–	(4.5)	<b>(4.5)</b>	–	–	–	<b>(4.5)</b>
<b>At 31 March 2015</b>	<b>468.1</b>	<b>407.1</b>	<b>875.2</b>	<b>266.9</b>	<b>292.5</b>	<b>559.4</b>	<b>1,434.6</b>

(i) Including exceptional impairment charges of £25.9m (2014 – £34.9m).

Following the adoption of IFRS 10,11 and 12 the Group has sought to evaluate the key subsidiaries, joint arrangements, joint ventures and associates it holds with the purpose of disclosing any which are materially significant in order to identify the impact it has on its' financial position, performance and cash flows, whilst identifying the nature of the risks associated with these interests. The following notes 15.2 to 15.4 and with section A2 documents these.

Company	Equity			Loans			Total £m
	SGN £m	Other JCEs and associates	Equity total £m	SGN £m	Other JCEs and associates £m	Loans total £m	
<b>Share of net assets/cost</b>							
At 31 March 2013	190.0	–	<b>190.0</b>	266.9	941.6	<b>1,208.5</b>	<b>1,398.5</b>
Increase in shareholder loans	–	–	–	–	80.3	<b>80.3</b>	<b>80.3</b>
Repayment of shareholder loans	–	–	–	–	(792.5)	<b>(792.5)</b>	<b>(792.5)</b>
<b>At 31 March 2014</b>	<b>190.0</b>	<b>–</b>	<b>190.0</b>	<b>266.9</b>	<b>229.4</b>	<b>496.3</b>	<b>686.3</b>
Increase in shareholder loans	–	–	–	–	34.2	<b>34.2</b>	<b>34.2</b>
Repayment of shareholder loans	–	–	–	–	(8.8)	<b>(8.8)</b>	<b>(8.8)</b>
Transfer of loan to subsidiary	–	–	–	–	22.7	<b>22.7</b>	<b>22.7</b>
<b>At 31 March 2015</b>	<b>190.0</b>	<b>–</b>	<b>190.0</b>	<b>266.9</b>	<b>277.5</b>	<b>544.4</b>	<b>734.4</b>

#### 15.2 Joint operations

Listed are the joint operations that have a material impact on the financial position and financial results of the Group.

Company	Principal activity	Country of incorporation	Class of shares held	Proportion of shares held (%)	Group interest (%)
Greater Gabbard Offshore Winds Limited	Offshore Windfarm	UK	Ordinary	50	50

As noted at 2.1(ii), the Group has assessed that its investment in Greater Gabbard Offshore Winds Limited is a joint operation designed to provide output to the parties sharing control. The liabilities of the arrangement are principally met by the parties through the contracts for the output of the wind farm. The restatement has meant the Group has adopted a proportional consolidation of its share of revenue, expenses, assets and liabilities.

The Group also has an unincorporated arrangement with Statoil under which it controls and accounts for its 66.7% share of the Aldbrough gas storage facility.

## Financial Statements

### 15. Investments continued

#### 15.3 Principal joint ventures

Listed are the joint ventures that have a material impact on the financial position and financial results of the Group:

Company	Principal activity	Country of incorporation	Class of shares held	Proportion of shares held (%)	Group interest (%)	Year end	Basis of consolidation
Scotia Gas Networks Limited	Gas Distribution	UK	Ordinary	50	50	31 March	Equity
Seabank Power Limited	Gas Power Generation	UK	Ordinary	50	50	31 December	Equity
Marchwood Power Limited	Gas Power Generation	UK	Ordinary	50	50	31 December	Equity
Ferrybridge Multifuel Limited	Multi Fuel Power Generation	UK	Ordinary	50	50	31 March	Equity

The Group comprises of a number of investments in joint ventures and it is not practical to list all of these. The list, therefore, only includes those joint ventures that are material to the Group's operations. The investments are held by subsidiaries of the Company, with the exception of the investment in Scotia Gas Networks Limited, which is held by the Company. The assessment of whether joint control exists has required the Group to consider the voting rights and 'relevant activities' of the respective investment entities. In addition, the Group has evaluated the facts and circumstances of each of these entities in relation to their contractual relationships with SSE and has concluded that in all the cases noted the Group is entitled to its equity share of the net assets of the entity.

Summary information for material joint ventures from unaudited financial statements:

	SGN		Seabank Power Limited		Marchwood Power Limited		Ferrybridge Multifuel Limited	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Revenue	<b>1,318.4</b>	1,325.3	<b>125.6</b>	122.9	<b>70.5</b>	65.2	—	—
Depreciation and amortisation	(164.3)	(157.5)	(15.5)	(16.5)	—	—	—	—
Other operating costs	(601.2)	(614.7)	(54.6)	(49.4)	(22.8)	(22.8)	—	—
Operating profit	<b>552.9</b>	553.1	<b>55.5</b>	57.0	<b>47.7</b>	42.4	—	—
Interest expense	(212.9)	(254.1)	(2.2)	(4.1)	(13.4)	(11.6)	—	—
Profit before tax	<b>340.0</b>	299.0	<b>53.3</b>	52.9	<b>34.3</b>	30.8	—	—
Corporation tax	(71.0)	63.1	(12.3)	(12.2)	(7.9)	(7.1)	—	—
Profit/(loss) after tax	<b>269.0</b>	362.1	<b>41.0</b>	(40.7)	<b>26.4</b>	23.7	—	—
<b>SSE share of profit (based on % equity)</b>	<b>134.5</b>	181.1	<b>20.5</b>	(20.4)	<b>13.2</b>	11.9	—	—
<b>Total comprehensive income/(loss)</b>	<b>274.6</b>	362.1	<b>41.0</b>	(40.7)	<b>26.4</b>	23.7	—	—
Non-current assets	<b>5,979.5</b>	5,781.2	<b>162.9</b>	168.4	<b>314.7</b>	317.8	<b>292.4</b>	210.7
Current assets	<b>1,946.7</b>	152.5	<b>53.2</b>	44.9	<b>55.7</b>	48.9	<b>2.5</b>	13.4
Current liabilities	(1,859.1)	(339.9)	(11.1)	(38.6)	(35.8)	(30.4)	(24.8)	(33.9)
Non-current liabilities	(5,140.9)	(4,805.0)	(33.4)	(43.9)	(43.9)	(232.2)	(266.1)	(186.9)
Net assets	<b>926.2</b>	788.8	<b>171.6</b>	130.8	<b>130.5</b>	104.1	<b>4.0</b>	3.3

Reconciliation of the above amounts to the investment recognised in the Consolidated Statement of Financial Position.

Group equity interest	50%	50%	50%	50%	50%	50%	50%	50%
Net assets	926.2	788.8	171.6	130.8	130.5	104.1	4.0	3.3
Group's share of ownership interest	463.1	394.4	85.8	65.4	65.2	52.2	2.0	1.7
Other adjustments	5.0	4.8	(4.9)	(5.0)	3.1	3.1	0.4	0.4
Carrying value of group's equity interest	468.1	399.2	80.9	60.4	68.3	55.2	2.4	2.1

## Notes on the financial statements continued

### for the year ended 31 March 2015

#### 15. Investments continued

##### 15.4 Principal associates

Listed is the associate deemed to materially impact the financial position and financial result of the Group. The Group was deemed to have significant influence based on its ownership stake and having one representative on the board of the directors.

Company	Principal activity	Country of incorporation	Class of shares held	Proportion of shares held (%)	Group Interest (%)	Year end	Basis for consolidation
Walney (UK) Offshore Winds Limited	Offshore Windfarm	UK	Ordinary	25.1	25.1	31 December	Equity

The Group's principal associate is held by intermediate holding companies and not directly by SSE plc.

Summary information for material associate from unaudited financial statements:

	Walney (UK) Offshore Winds Limited	
	2015 £m	2014 £m
Revenue	120.3	117.4
Profit/(loss) after tax	18.2	13.9
<b>Total comprehensive income</b>	<b>18.2</b>	<b>13.9</b>
Non-current assets	1,017.1	960.7
Current assets	40.2	43.4
Current liabilities	(80.4)	(63.1)
Net assets	976.9	941.0
Group Interest	25.1%	25.1%
Net assets	976.9	941.0
Group's ownership interest	245.2	236.2
Other adjustments	9.0	9.0
Carrying value of group's interest	254.2	245.2

In total, details of equity relating to £869.5m (2014: £762.1m) held in material joint ventures and associates was disclosed in relation to the Group, which equates to 99% (2014: 92.1%) of all equity held. Equity in non material joint ventures not disclosed amounted to £5.7m (2014: £43.6m)

In addition, at 31 March 2015, the Group was owed the following loans from its principal joint ventures: Scotia Gas Networks Limited £266.9m (2014 £266.9m), Ferrybridge Multifuel Limited £119.8m (2014 – £88.3m), Marchwood Power Limited £91.0m (2014 – £116.1m) and Seabank Power Limited £18.8m (2014 – £18.3m). This represents 93.2% (2014 93.8%) of the loans provided to equity-accounted joint ventures and associates.

##### 15.5 Other investments

###### Consolidated

	Faroe Petroleum £m	BiFab £m	Other £m	Total £m
At 31 March 2013	18.0	11.0	17.7	46.7
Additions in the year	–	–	0.7	0.7
Revaluation through other comprehensive income/(loss)	–	(2.8)	(2.3)	(5.1)
At 31 March 2014	18.0	8.2	16.1	42.3
Additions in the year	–	–	0.1	0.1
Disposals in the year (i)	(2.8)	–	(10.0)	(12.8)
Revaluation through other comprehensive income/(loss)	–	(3.2)	–	(3.2)
<b>At 31 March 2015</b>	<b>15.2</b>	<b>5.0</b>	<b>6.2</b>	<b>26.4</b>

(i) Disposals include the Group's investment in Greencoat Capital and shares in Faroe Petroleum for a combined cash consideration of £12.7m. Further detail on the Group's disposal programme is included at Note 17.3.

###### Company

	Faroe Petroleum £m	Other £m	Total £m
At 31 March 2014	18.0	0.1	18.1
Disposals	(2.8)	(0.1)	(2.9)
<b>At 31 March 2015</b>	<b>15.2</b>	<b>–</b>	<b>15.2</b>

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### 16. Subsidiary undertakings

Details of the principal subsidiary undertakings are disclosed in the Accompanying Information section (A2) on page 197.

#### Investment in subsidiaries

##### Company

	Total £m
At 31 March 2014	2,442.3
Increase in existing investments (i)	15.0
Transfers out (ii)	(306.1)
Exceptional impairment (iii)	(100.0)
<b>At 31 March 2015</b>	<b>2,051.2</b>

(i) The increase in existing investments held by the Company relates to equity shares in the Company awarded to the employees of the subsidiaries of the Group under the Group's share schemes, which are recognised as an increase in the cost of investment in those subsidiaries as directed by IFRIC 11 (2015 – £14.8m, 2014 – £15.5m).

(ii) Equity in SSE Renewables Ltd (£299.5m) was transferred to SSE Renewables Group(UK) Ltd during the year. In addition equity in SSE PLC investments (£6.6m) was impaired during the year.

(iii) Following impairments of gas storage assets recognised by the Group, (note 6), the Company recognised an exceptional impairment in relation to its investment in the company in which these assets are held.

#### Service concession arrangements

Details of the Group's service concession arrangements are disclosed in the Accompanying Information note (A2) on page 198.

### 17. Acquisitions, disposals and held-for-sale assets

#### 17.1 Acquisitions

On 31 July 2014, the Group through its wholly owned subsidiary, SSE Contracting Group Limited, acquired 100% of the share capital of Energy Solutions Group Limited ('ESG'). The consideration for the business was £71.9m, consisting of cash of £66m and deferred consideration of £5.9m. The acquisition provided the Group with cash and working capital items of £5.1m and resulted in goodwill, including related deferred tax of £80.0m. The acquisition of ESG complements and enhances SSE's services in competitive markets for industrial and commercial customers and the contribution from the business will be reported as part of the Enterprise reportable segment.

The acquired business which was subsequently renamed SSE Enterprise Energy Solutions, contributed £30.9m to revenue, £2.2m to operating profit and £1.4m to profit after tax for the period to 31 March 2015.

#### 17.2 Held-for-sale assets and liabilities

On 26 March 2014, the Group announced its intention to dispose of a number of non-core assets and businesses and to identify further operational efficiencies as part of a value programme. A number of these businesses and assets have been sold in the year, as noted below at 17.3, and a number of additional businesses and assets are now in the process of or have been identified for sale.

As a result, a number of assets and liabilities associated with activities are deemed available for immediate sale and have been separately presented on the face of the balance sheet. The assets 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 2015 was £1.8m (2014: £1.2m).

## Notes on the financial statements continued

for the year ended 31 March 2015

### 17. Acquisitions, disposals and held-for-sale assets continued

The assets and liabilities classified as held for sale, and the comparative balances at 31 March 2014, are as follows:

	Energy Portfolio Management and Electricity Generation £m	Enterprise £m	Total	
			2015 £m	2014 £m
Property, plant and equipment	54.2	–	<b>54.2</b>	62.3
Forestry assets	1.8	–	<b>1.8</b>	3.4
Other intangible	21.3	–	<b>21.3</b>	5.5
Non-current assets	77.3	–	<b>77.3</b>	71.2
Inventories	–	–	–	0.8
Trade and other receivables	3.5	29.5	<b>33.0</b>	260.4
Non trade debtors	–	–	–	0.1
Current assets	3.5	29.5	<b>33.0</b>	261.3
Total assets	80.8	29.5	<b>110.3</b>	332.5
Trade and other payables	(10.3)	(0.5)	<b>(10.8)</b>	(14.9)
Provisions	–	–	–	(0.7)
Current liabilities	(10.3)	(0.5)	<b>(10.8)</b>	(15.6)
Deferred tax liabilities	(0.3)	–	<b>(0.3)</b>	(2.7)
Provisions	–	–	–	(0.9)
Non-current liabilities	(0.3)	–	<b>(0.3)</b>	(3.6)
Total liabilities	(10.6)	(0.5)	<b>(11.1)</b>	(19.2)
<b>Net assets</b>	<b>70.2</b>	<b>29.0</b>	<b>99.2</b>	<b>313.3</b>

### 17.3 Disposals

On 11 November 2014, the Group completed the disposal of seven streetlighting Private Finance Initiative ('PFI') projects to Equitix Infrastructure 3 Limited ("Equitix") for cash consideration of £95.2m. The result of these activities had been reported within the Enterprise business and the net assets had been recognised as 'held for sale' at 31 March 2014. The contracts held by the companies had been treated as service concession arrangements. The Group's Enterprise business has retained sub-contracts to provide capital and maintenance services to the PFI contract holders. This disposal provides the benefit of reducing the Group's debt by £324.0m (being cash of £95.2m and debt reduction of £228.8m). The Group recorded a gain on disposal of £38.0m after provisions associated with the retained sub-contracts were recognised. The pre-disposal contribution to the Group from the disposed activities in the financial year was £1.4m.

On 26 November 2014, CBPE Capital acquired the shareholdings of Anesco Limited, including 100% from the Environmental Energy Fund in which the Group holds a 49% stake. Accordingly, on completion a payment of £22.2m cash dividend in relation to the Group's share of the investment by the fund was received, the Group recognised a gain on disposal of £19.6m. This investment was not 'held for sale' at 31 March 2014. Both this transaction and the Equitix transaction were treated as exceptional items in the financial statements.

During the year, the Group disposed of a number of other businesses and assets for the combined net cash consideration of £116.4m, and deferred consideration of £12.1m. This included the disposal, on 1 September 2014, of its previously 'held for sale' gas connections business, to the Environmental Energies Fund, in which the Group has a 49% interest and in respect of which the Group recognised a gain on disposal of £15.3m.

## Financial Statements

### 17. Acquisitions, disposals and held-for-sale assets continued

The following table summarises all businesses and assets disposed of, including those not previously 'held for sale' and including other assets and investments disposed of as part of the normal course of business and which are noted disclosed in the relevant respective notes to the financial statements.

	Held for sale at 31 March 2014			Not held for sale at 31 March 2014			Total
	Businesses	Other Assets	Total	Businesses	Other Assets	Total	
<b>Net assets disposed:</b>	£m	£m	£m	£m	£m	£m	£m
Property, plant and equipment	58.8	13.4	<b>72.2</b>	–	2.2	<b>2.2</b>	<b>74.4</b>
Intangible and biological assets	–	2.5	<b>2.5</b>	2.4	9.7	<b>12.1</b>	<b>14.6</b>
Investments – joint venture and other	0.3	–	<b>0.3</b>	–	15.7	<b>15.7</b>	<b>16.0</b>
Trade and other receivables	348.7	–	<b>348.7</b>	1.7	–	<b>1.7</b>	<b>350.4</b>
Trade and other payables	(94.3)	–	<b>(94.3)</b>	–	–	–	<b>(94.3)</b>
Loans and borrowings	(230.2)	–	<b>(230.2)</b>	–	–	–	<b>(230.2)</b>
<b>Net assets</b>	<b>83.3</b>	<b>15.9</b>	<b>99.2</b>	<b>4.1</b>	<b>27.6</b>	<b>31.7</b>	<b>130.9</b>
<b>Proceeds of disposal</b>							
Cash consideration	381.4	18.2	<b>399.6</b>	5.3	62.6	<b>67.9</b>	<b>467.5</b>
Deferred consideration	1.1	–	<b>1.1</b>	11.0	–	<b>11.0</b>	<b>12.1</b>
Debt reduction	(228.8)	–	<b>(228.8)</b>	–	–	–	<b>(228.8)</b>
Cost of disposal	(3.6)	–	<b>(3.6)</b>	–	(1.3)	<b>(1.3)</b>	<b>(4.9)</b>
Provisions	(12.5)	–	<b>(12.5)</b>	–	11.0	–	<b>(1.5)</b>
<b>Total</b>	<b>137.6</b>	<b>18.2</b>	<b>155.8</b>	<b>16.3</b>	<b>72.3</b>	<b>88.6</b>	<b>244.4</b>
<b>Gain/(loss) on disposal</b>	<b>54.3</b>	<b>2.3</b>	<b>56.6</b>	<b>12.2</b>	<b>44.7</b>	<b>56.9</b>	<b>113.5</b>

The £467.5m cash consideration less related costs of £4.9m includes the £228.8m debt reduction associated with the disposal of street lighting PFIs. Actual cash proceeds of £233.8m are recorded in the Cash Flow Statement as £167.2m from disposal of held for sale assets, £25.3m from disposal of property, plant and equipment, £5.3m from disposal of businesses and £36.0m from sale of other investments.

	PFI Streetlighting £m
Assets disposed of:	
Working capital items	14.6
Trade and other receivables	288.4
Trade and other payables	(29.5)
Loans and borrowings	(228.8)
Net Assets	44.7
Proceeds of disposal	
Cash consideration received	326.4
Debt repaid	(228.8)
Less: costs of disposal	(2.4)
Provisions	(12.5)
Net proceeds of disposal	82.7
Gain on disposal after provisions	38.0

## Notes on the financial statements continued

for the year ended 31 March 2015

### 17. Acquisitions, disposals and held-for-sale assets continued

#### 17.4 Acquisitions and disposals in the previous year

##### (i) Acquisitions in the previous year

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 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.

##### (ii) Disposals in the previous year

During the year, the group disposed of businesses for combined cash consideration of £3.2m and deferred consideration of £1.3m. These resulted in a gain on disposal of £1.1m.

### 18. Inventories

	Consolidated	
	2015 £m	2014 £m
Fuel and consumables	<b>338.0</b>	373.0
Work in progress	<b>36.9</b>	33.5
Goods for resale	<b>2.2</b>	2.4
Less: provisions held	<b>(34.8)</b>	(15.9)
	<b>342.3</b>	393.0

The Group has recognised £502.7m within cost of sales in the year (2014 – £682.2m) and has also recognised £59.2m (2014 – £2.0m) relating to stock write-downs and increases in provisions held. £57.8m of these costs have been recognised as exceptional items. The Company does not hold any inventories.

### 19. Trade and other receivables

	Consolidated		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
<b>Current assets</b>				
Retail trade receivables	<b>765.0</b>	824.9	–	–
Wholesale trade receivables	<b>2,127.7</b>	1,912.4	–	–
Other trade receivables	<b>84.8</b>	60.2	–	–
Trade receivables	<b>2,977.5</b>	2,797.5	–	–
Amounts owed by subsidiary undertakings	–	–	<b>3,944.2</b>	4,440.8
Other receivables	<b>184.0</b>	238.2	–	8.8
Cash held as collateral	<b>71.7</b>	51.2	–	–
Prepayments and accrued income:				
Unbilled energy income	<b>1,127.4</b>	1,201.5	–	–
Other prepayments and accrued income	<b>166.4</b>	12.2	–	–
	<b>4,527.0</b>	4,300.6	<b>3,944.2</b>	4,449.6
<b>Non-current assets</b>				
Amounts owed by subsidiary undertakings	–	–	<b>4,505.9</b>	4,093.2
	<b>4,527.0</b>	4,300.6	<b>8,450.1</b>	8,542.8

Prepayments and accrued income includes 'unbilled' energy income which represents an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. The Group also applies a percentage reduction to consumption estimates to take account of inaccuracies in the industry settlement process which have historically allocated more volume to the Group than has been recovered through subsequent billings. A 1% change in this percentage adjustment would increase or decrease the accrued income recognised by £17.1m (2014 – £15.0m).

Other receivables includes financial assets totalling £25.2m (2014 – £29.1m). Cash held as collateral relates to amounts deposited on commodity trading exchanges.

Trade receivables and other financial assets are part of the Group's financial exposure to credit risk as explained in note 32.

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**20. Cash and cash equivalents**

	Consolidated		Company	
	2015 £m	2014 (Restated note 2.1(iii)) £m	2015 £m	2014 £m
Bank balances	<b>1,507.3</b>	439.1	<b>1,321.1</b>	212.7
Call deposits	<b>5.0</b>	19.8	—	—
Cash and cash equivalents	<b>1,512.3</b>	458.9	<b>1,321.1</b>	212.7

Cash and cash equivalents (which are presented as a single class of assets in the face of the balance sheet) comprise of cash at bank and short term highly liquid investments with a maturity of six months or less.

	Consolidated		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Cash and cash equivalents (from above)	<b>1,512.3</b>	458.9	<b>1,321.1</b>	212.7
Bank overdraft (note 24)	<b>(0.2)</b>	(0.3)	—	—
Cash and cash equivalents in the statement of cash flows	<b>1,512.1</b>	458.6	<b>1,321.1</b>	212.7

**21. Trade and other payables**

	Consolidated		Company	
	2015 £m	2014 (Restated note 2.1(iii)) £m	2015 £m	2014 £m
<b>Current liabilities</b>				
Amounts due to subsidiary undertakings	—	—	<b>2,715.0</b>	3,017.9
Trade payables	<b>2,707.7</b>	2,496.3	—	—
Other creditors	<b>1,239.6</b>	1,300.0	—	47.4
Accruals and deferred income (i)	<b>1,329.8</b>	1,164.5	—	—
	<b>5,277.1</b>	4,960.8	<b>2,715.0</b>	3,065.3
<b>Non-current liabilities</b>				
Accruals and deferred income (ii)	<b>424.6</b>	416.2	—	—
	<b>5,701.7</b>	5,377.0	<b>2,715.0</b>	3,065.3

(i) Current accruals and deferred income includes customer contributions of £16.1m (2014 – £16.4m) and government grants of £1.3m (2014 – £1.0m).

(ii) Non-current accruals and deferred income includes customer contributions of £177.5m (2014 – £222.3m) and government grants of £2.9m (2014 – £6.1m).

**22. Current tax liabilities**

	Consolidated		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Corporation tax	<b>308.4</b>	315.2	<b>44.2</b>	9.3

## Notes on the financial statements continued for the year ended 31 March 2015

### 23. Construction contracts

	2015 £m	2014 £m
<b>Contracts in progress at balance sheet date:</b>		
Amounts due from contract customers included in trade and other receivables (note 19)	<b>31.0</b>	40.2
Amounts due to contract customers included in trade and other payables (note 21)	<b>(25.1)</b>	(27.5)
Contract costs incurred plus recognised profits less recognised losses to date	<b>171.9</b>	170.7
Less: Progress billings	<b>(164.4)</b>	(173.2)
	<b>7.5</b>	(2.5)

In the year to 31 March 2015, contract revenue of £486.9m (2014 – £483.0m) was recognised.

At 31 March 2015, retentions held by customers for contract work amounted to £0.9m (2014 – £1.4m). Advances received from customers for contract work amounted to £1.9m (2014 – £8.2m).

The Company does not hold any construction contracts.

### 24. Loans and other borrowings

	Consolidated		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
<b>Current</b>				
Bank overdraft	0.2	0.3	–	–
Other short-term loans	<b>712.4</b>	600.3	<b>700.0</b>	561.5
Obligations under finance leases	<b>712.6</b>	600.6	<b>700.0</b>	561.5
	<b>20.2</b>	18.1	–	–
	<b>732.8</b>	618.7	<b>700.0</b>	561.5
<b>Non current</b>				
Loans	<b>5,068.4</b>	5,365.5	<b>3,719.0</b>	3,965.1
Obligations under finance leases	<b>299.5</b>	310.8	–	–
	<b>5,367.9</b>	5,676.3	<b>3,719.0</b>	3,965.1
<b>Total loans and borrowings</b>	<b>6,100.7</b>	6,295.0	<b>4,419.0</b>	4,526.6
Cash and cash equivalents (note 20)	<b>(1,512.3)</b>	(458.9)	<b>(1,321.1)</b>	(212.7)
<b>Unadjusted net debt</b>	<b>4,588.4</b>	5,836.1	<b>3,097.9</b>	4,313.9
<b>Add/(less):</b>				
Hybrid capital (note 29)	<b>3,371.1</b>	2,186.8	<b>3,371.1</b>	2,186.8
Obligations under finance leases	<b>(319.7)</b>	(328.9)	–	–
Cash held as collateral (note 19)	<b>(71.7)</b>	(51.2)	–	–
<b>Adjusted net debt and hybrid capital</b>	<b>7,568.1</b>	7,642.8	<b>6,469.0</b>	6,500.7

## 24. Loans and other borrowings continued

### 24.1 Borrowing facilities

The Group has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into Sterling). The Group has £1.5bn (2014 – £1.5bn) 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 2015 these facilities were undrawn. The Group has a further £50m facility available with the European Investment Bank which is expected to be drawn in the first half of 2015/16 when it will become a term loan.

#### (i) Analysis of borrowings

##### Loans and borrowings

	Consolidated				Company			
	2015 Weighted average interest rate (v)	2015 Face value £m	2015 Fair value £m	2015 Carrying amount £m	2015 Weighted average interest rate (v)	2015 Face value £m	2015 Fair value £m	2015 Carrying amount £m
<b>Current</b>								
Bank Overdrafts (i)	0.50%	0.2	0.2	0.2	—	—	—	—
Bank Loans – non amortising	1.00%	700.0	701.7	700.0	1.00%	700.0	701.7	700.0
Non-recourse funding (ii)	5.85%	12.4	12.4	12.4	—	—	—	—
<b>Total current</b>		<b>712.6</b>	<b>714.3</b>	<b>712.6</b>		<b>700.0</b>	<b>701.7</b>	<b>700.0</b>
<b>Non-current</b>								
Bank loans – non amortising (iii)	3.52%	126.6	177.1	126.6	3.52%	126.6	177.1	126.6
5.00% Eurobond repayable 1 October 2018	5.00%	500.0	558.6	498.1	5.00%	500.0	558.6	498.1
Non – recourse funding	6.03%	48.9	48.9	48.9	—	—	—	—
US Private Placement 16 April 2017	3.17%	12.8	13.9	12.7	3.17%	12.8	13.9	12.7
US Private Placement 16 April 2019	3.66%	67.0	73.9	66.8	3.66%	67.0	73.9	66.8
<b>Between two and five years</b>		<b>755.3</b>	<b>872.4</b>	<b>753.1</b>		<b>706.4</b>	<b>823.5</b>	<b>704.2</b>
Bank loans – non-amortising (iii)	1.95%	700.0	719.2	700.0	1.82%	400.0	409.7	400.0
Non-recourse funding (ii)	5.83%	78.7	78.7	78.7	—	—	—	—
US Private Placement 16 April 2022	4.31%	162.7	182.2	162.2	4.31%	162.7	182.2	162.2
US Private Placement 16 April 2024	4.44%	204.1	229.7	203.5	4.44%	204.1	229.7	203.5
8.375% Eurobond repayable on 20 November 2028	8.38%	500.0	790.2	494.3	8.38%	500.0	790.2	494.3
5.50% Eurobond repayable on 19 June 2032	5.50%	350.0	459.7	350.2	—	—	—	—
4.625% Eurobond repayable on 20 February 2037	4.63%	325.0	389.3	323.9	—	—	—	—
6.25% Eurobond repayable on 27 August 2038	6.25%	350.0	500.8	346.2	6.25%	350.0	500.8	346.2
4.454% Index linked loan repayable on 27 February 2044	4.45%	119.0	197.9	118.6	—	—	—	—
1.429% Index linked bond repayable on 20 October 2056	1.84%	129.0	170.9	129.1	—	—	—	—
2.00% €600m Eurobond repayable 17 June 2020	2.00%	433.8	460.0	429.8	2.00%	433.8	460.0	429.8
4.25% Eurobond repayable 14 September 2021	4.25%	300.0	334.9	297.4	4.25%	300.0	334.9	297.4
2.375% €500m Eurobond Repayable 10 February 2022	2.38%	415.0	457.2	414.4	2.38%	415.0	457.2	414.4
5.875% Eurobond Repayable 22 September 2022	5.88%	300.0	370.3	297.9	5.88%	300.0	370.3	297.9
<b>Over five years</b>		<b>4,367.3</b>	<b>5,341.0</b>	<b>4,346.2</b>		<b>3,065.5</b>	<b>3,735.0</b>	<b>3,045.7</b>
Fair value adjustment (iv) (note 32)		—	—	(30.9)		—	—	(30.9)
<b>Total non-current</b>		<b>5,122.6</b>	<b>6,213.4</b>	<b>5,068.4</b>		<b>3,772.0</b>	<b>4,558.5</b>	<b>3,719.0</b>
<b>Total</b>		<b>5,835.2</b>	<b>6,927.7</b>	<b>5,781.0</b>		<b>4,472.0</b>	<b>5,260.2</b>	<b>4,419.0</b>

## Notes on the financial statements continued

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### 24. Loans and other borrowings continued

#### Loans and borrowings

	Consolidated				Company			
	2014 Weighted average interest rate (v)	2014 Face value £m	2014 Fair value £m	2014 Carrying amount £m	2014 Weighted average interest rate (v)	2014 Face value £m	2014 Fair value £m	2014 Carrying amount £m
<b>Current</b>								
Bank Overdrafts (i)	0.50%	0.3	0.3	0.3	—	—	—	—
Bank Loans – non amortising	1.00%	586.5	589.4	586.5	1.00%	561.5	564.3	561.5
Non-recourse funding (ii)	5.78%	13.8	13.8	13.8	—	—	—	—
<b>Total current</b>		<b>600.6</b>	<b>603.5</b>	<b>600.6</b>		<b>561.5</b>	<b>564.3</b>	<b>561.5</b>
<b>Non-current</b>								
Bank loans – non amortising (iii)	1.93%	326.6	370.4	326.6	—	—	—	—
Other loans – non-amortising	5.50%	0.4	0.4	0.4	1.93%	326.6	370.4	326.6
5.00% Eurobond repayable 1 October 2018	5.00%	500.0	554.0	497.5	5.00%	500.0	554.0	497.5
Non – recourse funding	6.25%	72.8	72.8	72.8	—	—	—	—
US Private Placement 16 April 2017	3.17%	12.8	12.3	12.7	3.17%	12.8	12.3	12.7
<b>Between two and five years</b>		<b>912.6</b>	<b>1,009.9</b>	<b>910.0</b>		<b>839.4</b>	<b>936.7</b>	<b>836.8</b>
Bank loans – non-amortising (iii)	1.64%	550.0	557.0	550.0	1.77%	400.0	406.0	400.0
Non-recourse funding (ii)	6.68%	261.3	261.3	261.3	—	—	—	—
US Private Placement 16 April 2019	3.66%	67.0	63.9	66.8	3.66%	67.0	63.9	66.8
2.00% €600m Eurobond repayable 17 June 2020	2.00%	495.5	496.9	490.9	2.00%	495.5	496.9	490.9
4.25% Eurobond repayable 14 September 2021	4.25%	300.0	315.6	297.1	4.25%	300.0	315.6	297.1
2.375% €500m Eurobond repayable 10 February 2022 (v)	3.51%	415.0	419.4	413.5	3.51%	415.0	419.4	413.5
US Private Placement 16 April 2022	4.31%	162.7	154.4	162.2	4.31%	162.7	154.4	162.2
5.875% Eurobond repayable on 26 September 2022	5.88%	300.0	360.1	297.7	5.88%	300.0	360.1	297.7
US Private Placement 16 April 2024	4.44%	204.0	190.9	203.5	4.44%	204.1	190.9	203.5
8.375% Eurobond repayable on 20 November 2028	8.38%	500.0	708.9	493.9	8.38%	500.0	708.9	493.9
5.50% Eurobond repayable on 19 June 2032	5.50%	350.0	398.3	350.2	—	—	—	—
4.625% Eurobond repayable on 20 February 2037	4.63%	325.0	329.8	323.7	—	—	—	—
6.25% Eurobond repayable on 27 August 2038	6.25%	350.0	428.7	346.1	6.25%	350.0	428.7	346.1
4.454% Index linked loan repayable on 27 February 2044	4.46%	116.7	178.4	116.1	—	—	—	—
1.429% Index linked bond repayable on 20 October 2056	1.77%	125.9	127.8	125.9	—	—	—	—
<b>Over five years</b>		<b>4,523.1</b>	<b>4,991.4</b>	<b>4,498.9</b>		<b>3,194.3</b>	<b>3,544.8</b>	<b>3,171.7</b>
Fair value adjustment (iv) (note 32)		—	—	(43.4)		—	—	(43.4)
<b>Total non-current</b>		<b>5,435.7</b>	<b>6,001.3</b>	<b>5,365.5</b>		<b>4,033.7</b>	<b>4,481.5</b>	<b>3,965.1</b>
<b>Total</b>		<b>6,036.3</b>	<b>6,604.8</b>	<b>5,966.1</b>		<b>4,595.2</b>	<b>5,045.8</b>	<b>4,526.6</b>

(i) Bank overdrafts are repayable on demand.

(ii) The Tay Valley Lighting companies formed under 50:50 partnership with Royal Bank Leasing Limited to provide street-lighting services are deemed to be controlled by the Group under IFRS 10 (Accompanying information A3). The debt held by these companies is included on consolidation but is non-recourse to the Group.

(iii) The floating rate European Investment Bank advances are either reset quarterly or semi-annually. Other loans are fixed rate debt repayable in 2017.

(iv) The fair value adjustment relates to the change in the carrying amount of the borrowings as a result of fair value hedges that are in place. The movement in the fair value adjustment is recognised in the income statement with a corresponding movement on the hedging instrument also being recognised in the income statement.

(v) The weighted average interest rates for the Group (including the effect of interest rate swaps) for the year ended 31 March 2015 was 4.21% (2014 – 4.71%).

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### 24. Loans and other borrowings continued

#### (ii) Finance lease liabilities

Future finance lease commitments are as follows:

	Minimum lease payments		Present Value of minimum lease payments	
	2015 £m	2014 £m	2015 £m	2014 £m
Amounts payable:				
Within one year	52.9	52.5	19.9	18.1
Between one and five years	217.3	206.8	104.0	86.1
After five years	278.1	334.6	195.8	224.7
	548.3	593.9	319.7	328.9
Less: future finance charge	(228.6)	(265.0)		
Present value of lease obligations	319.7	328.9		

The Group has a power purchase agreement with a related party, Marchwood Power Limited, which is categorised as a finance lease. The lease is for use of Marchwood Power's main asset, an 840MW Gas powered CCGT Electricity Generating Plant. The term of the lease is 15 years with the Group having the option for a further 5 years extension at the end of this period. £21.8m (2014 – £19.7m) of contingent rents paid under the lease were included within cost of sales for the period. Contingent rent consists of £/MWh charges for availability of the plant for energy production and a £/MWh charge for actual 'nominated' energy produced.

Of the remaining finance leases held by the Group, the average remaining term of the telecom leases is six years. No arrangements have been entered into for contingent rental payments for these leases.

The fair value of the Group's lease obligations approximates their carrying amount. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets. The Company does not have any obligations under finance leases.

### 25. Deferred taxation

The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated capital allowances £m	Fair value gains/(losses) on derivatives £m	Retirement benefit obligations £m	Other (i) £m	Total £m
<b>Consolidated</b>					
At 1 April 2013 (Restated note 2.1(ii))	745.8	(41.2)	(162.3)	139.7	682.0
Acquisitions	–	–	–	(88.2)	(88.2)
(Credit) to Income Statement	(56.5)	(63.7)	11.3	53.5	(55.4)
(Credit)/charge to equity	–	(12.6)	23.5	3.6	14.5
Moved to Held for Sale	–	–	–	(2.7)	(2.7)
At 31 March 2014 (restated note 2.1(ii))	689.3	(117.5)	(127.5)	105.9	550.2
Acquisitions	–	–	–	13.4	13.4
(Credit)/charge to Income Statement	(71.2)	(22.4)	11.0	(23.1)	(105.7)
(Credit)/charge to equity	–	(8.8)	(16.3)	13.0	(12.1)
<b>At 31 March 2015</b>	<b>618.1</b>	<b>(148.7)</b>	<b>(132.8)</b>	<b>109.2</b>	<b>445.8</b>

	Fair value gains/(losses) on derivatives £m	Retirement benefit obligations £m	Share based payments £m	Other £m	Total £m
<b>Company</b>					
At 1 April 2013	(15.6)	(42.8)	0.9	(39.3)	(96.8)
Credit/(charge) to Income Statement	(9.0)	3.7	(0.1)	11.8	6.4
Credit/(charge) to equity	(12.7)	2.6	–	–	(10.1)
At 31 March 2014	(37.3)	(36.5)	0.8	(27.5)	(100.5)
Credit/(charge) to Income Statement	(8.1)	3.6	–	12.1	7.6
Credit/(charge) to equity	(1.8)	6.8	–	–	5.0
<b>At 31 March 2015</b>	<b>(47.2)</b>	<b>(26.1)</b>	<b>0.8</b>	<b>(15.4)</b>	<b>(87.9)</b>

(i) Includes deferred tax on fair value items recognised in business combinations.

## Notes on the financial statements continued

for the year ended 31 March 2015

### 25. Deferred taxation continued

Certain deferred tax assets and liabilities have been offset, including the asset balances analysed in the tables above. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Consolidated		Company	
	2015 £m	2014 (Restated) £m	2015 £m	2014 £m
Deferred tax liabilities	716.0	757.5	—	—
Deferred tax assets	(270.2)	(207.3)	(87.9)	(100.5)
Net deferred tax liabilities/(assets)	445.8	550.2	(87.9)	(100.5)

The deferred tax assets disclosed include the deferred tax relating to the Group's pension scheme liabilities.

Temporary differences arising in connection with interests in associates and joint ventures are recorded as part of the Group's share of investment in those entities. The aggregate amount of these is a charge, excluding exceptional items and re-measurement, of £12.4m (2014 – £16.8m charge).

A deferred tax asset of £22.7m (2014 – £32.5m) has not been recognised due to uncertainty around the level of future profits in the companies concerned.

### 26. Provisions

	Decommissioning (i) £m	Contracting provisions (i) £m	Restructuring (iii) £m	Other (iii) £m	Total £m
<b>Consolidated</b>					
At 1 April 2014 (Restated note 2.1(ii))	273.0	39.2	59.4	76.1	447.7
Charged in the year	—	8.0	—	37.8	45.8
Increase in decommissioning provision (i)	31.2	—	—	—	31.2
Exceptional charges recognised in the year	—	12.5	1.5	42.0	56.0
Unwind of discount	14.0	—	—	—	14.0
Disposed during the year (note 19)	(0.3)	—	(0.5)	(0.3)	(0.8)
Utilised during the year	—	(13.9)	(40.9)	(56.9)	(112.0)
<b>At 31 March 2015</b>	<b>317.9</b>	<b>45.8</b>	<b>19.5</b>	<b>98.7</b>	<b>481.9</b>
<b>At 31 March 2015</b>					
Non-current	317.9	21.3	—	43.2	382.4
Current	—	24.5	19.5	55.5	99.5
	<b>317.9</b>	<b>45.8</b>	<b>19.5</b>	<b>98.7</b>	<b>481.9</b>
At 31 March 2014 (Restated)					
Non-current	273.0	16.8	—	23.6	313.4
Current	—	22.4	59.4	52.5	134.3
	<b>273.0</b>	<b>39.2</b>	<b>59.4</b>	<b>76.1</b>	<b>447.7</b>

- (i) Provision has been made for the estimated net present cost of decommissioning North Sea gas production assets and certain generation and gas storage assets. Estimates are based on forecasted clean-up costs at the time of decommissioning discounted for the time value of money. The timing of costs provided is dependent on the lives of the facilities. The estimates in relation to the Group's Gas Production assets were revised during the year with an equal and opposite increase of £31.2m being recognised in relation to the associated property, plant and equipment.
- (ii) The Group holds provisions in relation to certain long-term construction contracts. This includes the Group's retained sub contracts with the various street-lighting PFI companies disposed of during the year (note 17).
- (iii) Restructuring provisions includes costs related to the closure of certain thermal and renewable generation plants and the voluntary early release programme announced on 26 March 2014.
- (iv) Other provisions relate to costs associated with licence condition breaches, insurance claims, contractual disputes and the employer financed retirement benefit provision for certain directors and former directors and employees, which is valued in accordance with IAS19.

The Company does not hold provisions.

## 27. Share capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 1 April 2014	974.9	487.4
Issue of shares (i)	18.1	9.1
<b>At 31 March 2015</b>	<b>993.0</b>	<b>496.5</b>

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 60.7p per ordinary share (in relation to year ended 31 March 2014) and the interim dividend of 26.6p (in relation to the current year) under the terms of the Company's scrip dividend scheme. This resulted in the issue of 11,775,169 and 5,348,770 new fully paid ordinary shares respectively (2014: 1,128,181 and 8,551,629). In addition, the Company issued 1.0m (2014 – 0.9m) shares during the year under the savings-related share option schemes for a consideration of £10.3m (2014 – £8.9m).

During the year, on behalf of the Company, the employee share trust purchased 0.6m shares for a total consideration of £9.0m (2014 – 0.8m shares, consideration of £12.0m). At 31 March 2015, the trust held 3.1m shares (2014 – 3.2m) which had a market value of £47.5 m (2014 – £46.6m).

## 28. Reserves

The movement in reserves is reported in the Statement of Changes in Equity which is included as part of the primary statements (pages 118 and 119).

The capital redemption reserve comprises the value of shares redeemed or purchased by the Company from distributable profits.

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

The translation reserve comprises exchange translation differences on foreign currency net investments offset by exchange translation differences on borrowings and derivatives classified as net investment hedges under IAS 39.

The profit for the year attributable to ordinary shareholders dealt with in the financial statements of the Company was £476.4m (2014 – £238.0m). As allowed by section 408 of the Companies Act 2006, the Company has not presented its own income statement.

## 29. Hybrid capital

	2015 £m	2014 £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
GBP 750m 3.875% perpetual subordinated capital securities	748.3	–
EUR 600m 2.375% perpetual subordinated capital securities	436.0	–
	<b>3,371.1</b>	2,186.8

On 10 March 2015, the Company issued £750m and €600m hybrid capital bonds with no fixed redemption date, but the Company may, at its sole discretion, redeem all, but not part, of the capital securities at their principal amount. The date for the first discretionary redemption of the £750m hybrid capital bond is 10 September 2020 and then every 5 years thereafter. The date for the first discretionary redemption of the €600m hybrid capital bond is 1 April 2021 and then every 5 years thereafter.

The Company previously 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).

## Notes on the financial statements continued for the year ended 31 March 2015

### 29. Hybrid capital continued

The Company has the option to defer coupon payments on the bonds on any relevant payment date, as long as a dividend on the ordinary shares has not been declared. Deferred coupons shall be satisfied only in the following circumstances, all of which occur at the sole option of the Company:

- redemption; or
- dividend payment on ordinary shares.

Interest will accrue on any deferred coupon.

For the capital issued on 20 September 2010 and the €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 US\$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. For the £750m capital issued on 10 March 2015, the first coupon payment is expected to be made on 10 September 2016 and then annually in arrears thereafter, and for the €600m capital issued on 10 March 2015, the first coupon payment is expected to be made on 1 April 2016 and then annually in arrears thereafter. The purpose of all three issues was to strengthen SSE's capital base and fund the Group's ongoing capital investment and acquisitions.

Coupon payments of £23.6m (2014 – £24.2m) in relation to the US\$ capital issued on 18 September 2012 were paid on 2 April 2014 and 1 October 2014. In addition, coupon payments of £97.7m (2014 – £98.7m) in relation to the other hybrid capital bonds, were made on 1 October 2014.

### 30. Retirement benefit obligations

#### Defined benefit schemes

The Group has two funded final salary pension schemes which provide defined benefits based on final pensionable pay. The schemes are subject to independent valuations at least every three years. The future benefit obligations are valued by actuarial methods on the basis of an appropriate assessment of the relevant parameters. The Company operates one of these schemes, being the Scottish Hydro-Electric scheme.

The Group also has an Employer Financed Retirement Benefit scheme and a Group Personal Pension Plan. The Group Personal Pension Plan operates on a money purchase basis and has been arranged with Friends Provident. The Group matches employee contributions up to a specified limit, in most circumstances this is set at 6%. The Group may also provide additional contributions of 3% after five years and a further 3% after ten year's continuous Group service.

#### Pension summary:

	Scheme type	Net actuarial (loss)/gain recognised in respect of the pension asset in the Statement of Comprehensive Income		Net pension (liability)	
		2015 £m	2014 £m	2015 £m	2014 £m
Scottish Hydro Electric (Company)	Defined benefit	31.3	(8.8)	(131.1)	(182.7)
Southern Electric	Defined benefit	(113.8)	31.8	(533.5)	(455.0)
		(82.5)	23.0	(664.6)	(637.7)
IFRIC 14 movement		3.2	(4.0)		
Net actuarial (loss)/gain and movement in IFRIC 14 liability		(79.3)	19.0		

The Scottish Hydro Electric Pension Scheme net liability of £131.1m (2014 – £182.7m) is presented after an IFRIC 14 minimum funding requirement of £206.5m (2014 – £201.1m).

The individual pension scheme details based on the latest formal actuarial valuations are as follows:

	Scottish Hydro Electric	Southern Electric
Latest formal actuarial valuation	31 March 2012	31 March 2013
Valuation carried out by	Hymans Robertson	Aon Hewitt
Value of assets based on valuation	£1,374.5m	£1,560.6m
Value of liabilities based on valuation	£1,621.2m	£2,107.4m
Valuation method adopted	Projected Unit	Projected Unit
Average salary increase	Inflation curve plus 1.5% pa	RPI plus 1% pa
Average pension increase	RPI	RPI
Value of fund assets/accrued benefits	84.8%	74.1%

## 30. Retirement benefit obligations continued

### 30.1 Pension scheme assumptions

Both schemes have been updated to 31 March 2015 by qualified, independent actuaries. The valuations have been prepared for the purposes of meeting the requirements of IAS 19. The major assumptions used by the actuaries in both schemes were:

	At 31 March 2015	At 31 March 2014
Rate of increase in pensionable salaries	4.2%	4.6%
Rate of increase in pension payments	3.2%	3.5%
Discount rate	3.3%	4.3%
Inflation rate	3.2%	3.6%

The assumptions relating to longevity underlying the pension liabilities at 31 March 2015 are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions equivalent to future longevity for members in normal health at age 65 are as follows:

	At 31 March 2015 Male	At 31 March 2015 Female	At 31 March 2014 Male	At 31 March 2014 Female
Currently aged 65	26	26	24	26
Currently aged 45	29	28	27	28

The impact on the schemes liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2015		At 31 March 2014	
	Increase/ decrease in assumption	Effect on scheme liabilities	Increase/ decrease in assumption	Effect on scheme liabilities
Discount rate	0.1%	+/- 1.8%	0.1%	+/- 1.6%
Longevity	1 year	+/- 3.0 %	1 year	+/- 3.2%

These assumptions are considered to have the most significant impact on the scheme valuations.

### 30.2 Valuation of combined pension schemes

	Consolidated				Company			
	Long-term rate of return expected at 31 March 2015 %	Value at 31 March 2015 £m	Long-term rate of return expected at 31 March 2014 %	Value at 31 March 2014 £m	Long-term rate of return expected at 31 March 2015 %	Value at 31 March 2015 £m	Long-term rate of return expected at 31 March 2014 %	Value at 31 March 2014 £m
Equities	5.6	<b>1,060.1</b>	7.2	967.9	5.6	<b>500.8</b>	7.2	414.2
Government bonds	2.6	<b>1,049.6</b>	3.5	920.0	2.6	<b>805.7</b>	4.3	694.3
Corporate bonds	3.3	<b>1,061.3</b>	4.3	814.1	3.3	<b>483.9</b>	3.5	323.3
Other investments	4.1	<b>580.0</b>	1.3	555.3	3.6	<b>123.2</b>	1.4	188.7
Total fair value of plan assets		<b>3,751.0</b>		3,257.3		<b>1,913.6</b>		1,620.5
Present value of defined benefit obligation		<b>(4,209.1)</b>		(3,693.9)		<b>(1,838.2)</b>		(1,602.1)
Pension (liability)/asset (pre IFRIC 14) IFRIC 14 liability (i)		<b>(458.1)</b> <b>(206.5)</b>		(436.6) (201.1)		<b>75.4</b> <b>(206.5)</b>		18.4 (201.1)
<b>Deficit in the scheme</b>		<b>(664.6)</b>		(637.7)		<b>(131.1)</b>		(182.7)
Deferred tax thereon		<b>132.8</b>		127.5		<b>26.2</b>		36.5
Net pension liability		<b>(531.8)</b>		(510.2)		<b>(104.9)</b>		(146.2)

(i) The IFRIC 14 liability represents the deficit repair obligations required to ensure a minimum funding level together with a restriction on the surplus that can be recognised.

## Notes on the financial statements continued

for the year ended 31 March 2015

### 30. Retirement benefit obligations continued

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

##### Group

	2015			2014		
	Assets £m	Obligations (i) £m	Total	Assets £m	Obligations (i) £m	Total £m
at 1 April	3,257.3	(3,693.9)	(436.6)	3,118.0	(3,634.5)	(516.5)
<b>Included in Income Statement</b>						
Current service cost	–	(55.4)	(55.4)	–	(56.2)	(56.2)
Past service cost	–	(16.7)	(16.7)	–	(0.6)	(0.6)
Interest income/(cost)	139.9	(156.4)	(16.5)	128.0	(147.0)	(19.0)
	139.9	(228.5)	(88.6)	128.0	(203.8)	(75.8)
<b>Included in Other Comprehensive Income</b>						
Actuarial (loss)/gain arising from:						
Demographic assumptions	–	–	–	–	(12.4)	(12.4)
Financial assumptions	–	(515.4)	(515.4)	–	14.8	14.8
Experience assumptions	–	70.4	70.4	–	13.3	13.3
Return on plan assets excluding interest income	362.5	–	362.5	7.3	–	7.3
	362.5	(445.0)	(82.5)	7.3	15.7	23.0
<b>Other</b>						
Contributions paid by the employer	149.6	–	149.6	132.7	–	132.7
Scheme participants contributions	0.3	(0.3)	–	1.1	(1.1)	–
Benefits paid	(158.6)	158.6	–	(129.8)	129.8	–
	(8.7)	158.3	149.6	4.0	128.7	132.7
<b>Balance at 31 March</b>	<b>3,751.0</b>	<b>(4,209.1)</b>	<b>(458.1)</b>	<b>3,257.3</b>	<b>(3,693.9)</b>	<b>(436.6)</b>

(i) The retirement benefit obligations are stated before IFRIC 14 liabilities.

##### Company

	2015			2014		
	Assets £m	Obligations (i) £m	Total £m	Assets £m	Obligations (i) £m	Total £m
at 1 April	1,620.5	(1,602.1)	18.4	1,565.9	(1,562.5)	3.4
<b>Included in Income Statement</b>						
Current service cost	–	(27.0)	(27.0)	–	(27.8)	(27.8)
Past service cost	–	(6.9)	(6.9)	–	–	–
Interest income/(cost)	69.6	(67.6)	2.0	64.3	(63.1)	1.2
	69.6	(101.5)	(31.9)	64.3	(90.9)	(26.6)
<b>Included in Other Comprehensive Income</b>						
Actuarial (loss)/gain arising from:						
Financial assumptions	–	(244.8)	(244.8)	–	(1.6)	(1.6)
Experience assumptions	–	49.4	49.4	–	5.8	5.8
Return on plan assets excluding interest income	226.7	–	226.7	(13.0)	–	(13.0)
	226.7	(195.4)	31.3	(13.0)	4.2	(8.8)
<b>Other</b>						
Contributions paid by the employer	57.6	–	57.6	50.4	–	50.4
Scheme participants contributions	–	–	–	0.3	(0.3)	–
Benefits paid	(60.8)	60.8	–	(47.4)	47.4	–
	(3.2)	60.8	57.6	3.3	47.1	50.4
<b>Balance at 31 March</b>	<b>1,913.6</b>	<b>(1,838.2)</b>	<b>75.4</b>	<b>1,620.5</b>	<b>(1,602.1)</b>	<b>18.4</b>

(i) The retirement benefit obligations are stated before IFRIC 14 liabilities.

## Financial Statements

### 30. Retirement benefit obligations continued

#### 30.4 Pension scheme contributions and costs

##### Charges/(credits) recognised:

	Consolidated		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Current service cost (charged to operating profit)	<b>72.1</b>	56.8	<b>31.9</b>	27.8
	<b>72.1</b>	56.8	<b>31.9</b>	27.8
Charged/(credited) to finance costs:				
Interest from pension scheme assets	(139.9)	(128.0)	(69.6)	(64.3)
Interest on pension scheme liabilities	156.4	147.0	67.6	63.1
IFRIC 14 impact on net interest	8.6	7.8	8.6	7.8
	<b>25.1</b>	26.8	<b>6.6</b>	6.6

The return on Pension Scheme assets is as follows:

	Consolidated		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Return on Pension Scheme assets	<b>502.4</b>	135.3	<b>296.3</b>	51.3

##### Defined contribution scheme

The total contribution paid by the Group to defined contribution pension schemes was £47.7m (2014 – £44.3m).

##### Employer financed retirement benefit (EFRB) pension costs

The increase in the year in relation EFRB was £4.2m (2014 – £3.7m). This is included in other provisions (note 26).

##### Staff costs analysis

The pension costs in note 7 can be analysed thus;

	2015 £m	2014 £m
Service costs	<b>72.1</b>	56.8
Defined contribution scheme payments	47.7	44.3
	<b>119.8</b>	101.1

### 30.5 Pension scheme assessment

#### Risks to which the pension schemes exposes the Group and Company

The nature of the Group's (and the Company's) defined benefit pension schemes expose the Group and Company to the risk of paying unanticipated additional contributions to the Scheme in times of adverse experience. The most financially significant risks are likely to be:

##### Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets under perform this yield, this will create a deficit.

##### Changes in bond yields

A decrease in corporate bond yields will increase the value placed on the schemes' liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Scheme's bond holdings.

##### Inflation risk

The majority of the benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. The majority of assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

##### Life expectancy

The majority of the schemes' obligations are to provide benefits for the life of the members, so an increase in the life expectancy will result in an increase in the liabilities. The sensitivity analysis disclosed is intended to provide an indication of the impact on the value of the schemes' liabilities of the risks highlighted.

##### Policy for recognising gains and losses

The Group and Company recognise actuarial gains and losses immediately in the Statement of Other Comprehensive Income following the re-measurement of the net defined benefit liabilities of the schemes.

##### Methods and assumptions used in preparing the sensitivity analyses

The sensitivities disclosed are calculated using approximate methods taking into account the duration of the schemes' liabilities. While these have been calculated consistently with the previous financial year, the method applied may change over time with financial conditions and assumptions.

## Notes on the financial statements continued for the year ended 31 March 2015

### 30. Retirement benefit obligations continued

#### De-risking

The trustees have taken a number of steps to control the level of investment risk within the schemes over the last 12 months, including reducing the schemes' exposures to higher risk assets and increasing the level of protection against adverse movements in interest rates and inflation. The trustees of both schemes continue to review the risk exposures in light of the longer term objectives of the respective schemes.

#### Asset-liability matching strategies used by the Scheme or the Company

An asset-liability matching strategy has been adopted for a proportion of the schemes' assets, which is designed to provide partial protection against adverse movements in interest rates and inflation. The trustees of the respective schemes review the scheme's asset allocation on an ongoing basis in light of changes in the funding position and market opportunities.

#### Expected contributions over the next accounting period

The Group and Company expects to contribute approximately £50.0m to the Scottish Hydro Electric Scheme, and £70.0m to the Southern Electric Scheme in the period ending 31 March 2016, these contributions include deficit repair contributions of £29.5m and £44.6m respectively.

#### Maturity profile of the defined benefit obligation

The weighted average duration of the defined benefit obligation is 22 years (2014 – 21 years) for the Scottish Hydro Pension Scheme and 17 years (2014 – 16 years) for the Southern Electric Pension Scheme.

### 31. Employee share-based payments

#### 31.1 Share schemes summary

The Group operates a number of share schemes for the benefit of its employees. Details of these schemes, all of which are equity-settled, are as follows:

##### (i) Savings-related share option schemes ('Sharesave')

This scheme gives employees the option to purchase shares in the Company at a discounted market price, subject to the employees remaining in employment for the term of the agreement. Employees may opt to save between £5 and £500 per month for a period of 3 and/or 5 years. At the end of these periods employees have six months to exercise their options by using the cash saved (including any bonus equivalent to interest). If the option is not exercised, the funds may be withdrawn by the employee and the option expires.

##### (ii) Share Incentive Plan (SIP)

This scheme allows employees the opportunity to purchase shares in the Company on a monthly basis. Employees may nominate an amount between £10 and £150 to be deducted from their gross salary. This is then used to purchase shares ('Partnership' shares) in the market each month. These shares are held in trust and become free of liability to income tax and national insurance on their fifth anniversary. These shares may be withdrawn at any point during the 5 years, but tax and national insurance would become payable on any shares withdrawn.

In addition to the shares purchased on behalf of the employee, the Company will also match the purchase up to a maximum of 6 shares ('Matching' shares) per month. These shares are also held in trust and become free of liability to income tax and national insurance on their fifth anniversary. If an employee leaves during the first three years, or removes his/her 'partnership' shares, these 'matching' shares are forfeited.

##### (iii) Deferred Annual Incentive Scheme

This scheme applies to senior managers and Executive Directors. Under this scheme, 25% of all eligible employees' annual bonus is deferred into shares which only vest after three years, subject to continued service. The number of shares awarded is determined by dividing the relevant pre-tax bonus amount by the share price shortly after the announcement of the results for the financial year to which the bonus relates.

##### (iv) Performance Share Plan

This scheme applies to executive directors and senior executives. Shares granted under this arrangement vest subject to the attainment of performance conditions over the relevant three year performance period as set out below:

Award made Maximum value of award as a % of base salary	02 June 2011 150	02 June 2012 150	02 June 2013 150	02 June 2014 150
<b>Performance conditions</b>				
Total shareholder return (i)	Full vesting 25% vesting	≥ 75th percentile median	≥ 75th percentile median	≥ 75th percentile median
Earnings per share (ii)	Full vesting 25% vesting	RPI + 8% RPI + 2%	RPI + 8% RPI + 2%	RPI + 8% RPI + 2%
Dividend per share growth (iii)	Full vesting 25% vesting	RPI + 6% RPI + 2%	RPI + 6% RPI + 2%	RPI + 6% RPI + 2%
Quality of service (iv)	Full vesting 50% vesting	– –	– –	– –
				First place Second place

These awards will vest after three years to the extent that the relevant performance conditions are met.

(i) Total Shareholder Return (TSR) target relative to other FTSE100 companies and MSCI Europe Utilities (a dedicated peer group of UK and other European utilities) Index. Pro rata vesting will take place between the median and 50th percentile, with no vesting if the minimum target is not met.

(ii) Under the EPS performance condition, pro rata vesting between the lower and upper level above RPI, with no vesting if the minimum EPS growth target is not achieved and full vesting if RPI + 8% is achieved.

(iii) Under the Dividend per share growth performance condition, pro rata vesting between RPI and 4% above RPI, with no vesting if the minimum dividend per share growth target is not achieved.

(iv) The Quality of Service condition relates to the Company's Complaints Ranking. Full vesting will be awarded for first place in the league table, 50% vesting for second place with no vesting for below second place.

## Financial Statements

### 31. Employee share-based payments continued

#### (iv) Long Term Incentive Plan (LTIP)

This scheme applies to the former Management Board and certain members of the Executive Committee. Shares granted under this arrangement vest subject to the attainment of performance conditions over the relevant performance period. The relevant performance period for this LTIP award is 1 April 2011 to 31 March 2016. The performance conditions are as set out below:

Performance conditions	Full vesting 40% vesting	RPI + 4% RPI
Dividend per share growth (DPS)		

Where DPS growth is between 0 and 4% above RPI, vesting will be calculated on a straight-line basis. Where DPS growth is less than RPI no vesting will occur.

#### 31.2 Income Statement Charge for all share schemes

A charge of £15.0m (2014 – £15.5m) was recognised in the Income Statement in relation to these schemes, £1.0m (2014 – £1.7m) of this was in relation to the Directors of the Company.

#### 31.3 Share schemes details

Details used in the calculation of the costs of these schemes are as follows:

##### (i) Savings-related share option scheme ('Sharesave')

The movement in savings related share option schemes in the year were as follows:

##### Consolidated

##### As at 31 March 2015

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Outstanding at end of year	Date from which exercisable	Expiry date (i)
17 July 2008	1,274	15,782	–	(3,190)	(12,592)	–	1 October 2013	31 March 2014
30 June 2009	1,042	468,608	–	(453,330)	(4,371)	10,907	1 October 2014	31 March 2015
30 June 2010	871	15,279	–	(6,662)	(8,617)	–	1 October 2013	31 March 2014
30 June 2010	871	2,555,941	–	(167,744)	(68,734)	2,319,463	1 October 2015	31 March 2016
29 June 2011	1,105	306,731	–	(290,920)	(5,679)	10,132	1 October 2014	31 March 2015
29 June 2011	1,105	600,292	–	(22,328)	(34,787)	543,177	1 October 2016	31 March 2017
29 June 2012	1,065	504,339	–	(29,068)	(41,623)	433,648	1 October 2015	31 March 2016
29 June 2012	1,065	532,144	–	(9,290)	(33,697)	489,157	1 October 2017	31 March 2018
05 July 2013	1,197	710,247	–	(13,054)	(74,525)	622,668	1 October 2016	31 March 2017
05 July 2013	1,197	471,613	–	(6,263)	(50,828)	414,522	1 October 2018	31 March 2019
02 July 2014	1,247	–	1,447,558	(5,046)	(85,319)	1,357,193	1 October 2017	31 March 2018
02 July 2014	1,247	–	1,256,980	(1,731)	(51,015)	1,204,234	1 October 2019	31 March 2020
		6,180,976	2,704,538	(1,008,626)	(471,787)	7,405,101		

##### As at 31 March 2014

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Outstanding at end of year	Date from which exercisable	Expiry date (i)
10 July 2007	1,306	29,537	–	(4,768)	(24,769)	–	1 October 2012	31 March 2013
17 July 2008	1,274	236,144	–	(218,233)	(2,129)	15,782	1 October 2013	31 March 2014
30 June 2009	1,042	15,430	–	(4,813)	(10,617)	–	1 October 2012	31 March 2013
30 June 2009	1,042	492,411	–	(9,781)	(14,022)	468,608	1 October 2014	31 March 2015
30 June 2010	871	664,623	–	(640,376)	(8,968)	15,279	1 October 2013	31 March 2014
30 June 2010	871	2,656,395	–	(27,488)	(72,966)	2,555,941	1 October 2015	31 March 2016
29 June 2011	1,105	335,439	–	(3,596)	(25,112)	306,731	1 October 2014	31 March 2015
29 June 2011	1,105	655,098	–	(3,328)	(51,478)	600,292	1 October 2016	31 March 2017
29 June 2012	1,065	578,115	–	(1,281)	(72,495)	504,339	1 October 2015	31 March 2016
29 June 2012	1,065	589,568	–	(733)	(56,691)	532,144	1 October 2017	31 March 2018
05 July 2013	1,197	–	764,187	–	(53,940)	710,247	1 October 2016	31 March 2017
05 July 2013	1,197	–	508,865	(41)	(37,211)	471,613	1 October 2018	31 March 2019
		6,252,760	1,273,052	(914,438)	(430,398)	6,180,976		

## Notes on the financial statements continued for the year ended 31 March 2015

### 31. Employee share-based payments continued

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,564p (2014 – 1,455p) is considered representative of the weighted average share price at the date of exercise. The weighted average share price of forfeitures is simply the option price to which the forfeit relates.

#### Company As at 31 March 2015

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Outstanding at end of year	Date from which exercisable	Expiry date (i)
30 June 2009	1,042	1,253	–	(1,253)	–	1 October 2014	31 March 2015
30 June 2010	871	283	–	–	<b>283</b>	1 October 2015	31 March 2016
30 June 2012	1,065	1,408	–	–	<b>1,408</b>	1 October 2017	31 March 2018
30 June 2014	3,415	–	3,415	–	<b>3,415</b>	1 October 2019	31 March 2020
		2,944	3,415	(1,253)	<b>5,106</b>		

#### As at 31 March 2014

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Outstanding at end of year	Date from which exercisable	Expiry date (i)
30 June 2009	1,042	1,253	–	–	1,253	1 October 2014	31 March 2015
30 June 2010	871	283	–	–	283	1 October 2015	31 March 2016
30 June 2010	871	413	–	(413)	–	1 October 2013	31 March 2014
30 June 2012	1,065	1,408	–	–	1,408	1 October 2017	31 March 2018
		3,357	–	(413)	2,944		

No options were forfeited in the year.

(i) Options may remain exercisable beyond the published expiry date due to individuals taking advantage of the right to a payment holiday during the term of the scheme.

The fair value of these share options at the measurement date, calculated using the Black-Scholes model, and the assumptions made in that model are as follows:

	July 2008		July 2009		July 2010		July 2011		July 2012		July 2013		July 2014	
	3 Year	5 Year												
Fair value of option	304p	339p	244p	269p	231p	246p	171p	163p	182p	159p	194p	168p	146p	163p
Expected volatility	28%	28%	35%	35%	19%	19%	18%	18%	18%	18%	15%	15%	15%	15%
Risk free rate	4.9%	5.0%	2.7%	2.9%	1.4%	2.2%	1.2%	2.1%	0.4%	0.9%	0.7%	1.4%	1.2%	1.7%
Expected dividends	4.1%	4.2%	4.1%	4.2%	1.7%	2.2%	6.1%	6.1%	5.9%	5.8%	5.9%	5.9%	5.9%	5.8%
Term of the option	3 yrs	5 yrs												
Underlying price at grant date	1,397p	1,397p	1,139p	1,139p	1,089p	1,089p	1,393p	1,393p	1,391p	1,391p	1,579p	1,579p	1,595p	1,595p
Strike price	1,274p	1,274p	1,042p	1,042p	871p	871p	1,105p	1,105p	1,065p	1,065p	1,197p	1,197p	1,247p	1,247p

Expected price volatility was determined by calculating the historical volatility of the Group's share price over the previous 12 months.

#### (ii) Share Incentive Plan Matching Shares

	Consolidated				Company			
	2015		2014		2015		2014	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	<b>2,288,129</b>	<b>1,297</b>	2,126,456	1,240	<b>708</b>	<b>1,195</b>	1,044	1,240
Granted during the year	<b>696,371</b>	<b>1,556</b>	667,644	1,470	<b>144</b>	<b>1,556</b>	168	1,484
Forfeited during the year	<b>(123,650)</b>	<b>1,449</b>	(110,504)	1,383	–	–	–	–
Exercised during the year	<b>(272,940)</b>	<b>1,316</b>	(138,685)	1,239	–	–	(357)	1,268
Transfer to pool during the year	<b>(297,805)</b>	<b>1,137</b>	(256,782)	1,262	<b>(144)</b>	<b>1,136</b>	(147)	1,287
Outstanding at end of year	<b>2,290,105</b>	<b>1,386</b>	2,288,129	1,297	<b>708</b>	<b>1,381</b>	708	1,195
Exercisable at end of year	<b>680,599</b>	<b>1,241</b>	729,988	1,150	<b>276</b>	<b>1,234</b>	288	1,148

When shares have been held for 5 years they are transferred to a pooled share account. At this point the holder has an unconditional right to the share.

## Financial Statements

### 31. Employee share-based payments continued

The fair value of shares in the share incentive plan is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price and is based on the price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

#### Free Shares

	Consolidated				Company			
	2015		2014		2015		2014	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	–	<b>1,408</b>	92,864	1,417	–	<b>1,408</b>	30	1,417
Granted during the year	–	–	(150)	1,059	–	–	–	–
Forfeited during the year	–	–	(87,470)	1,404	–	–	–	–
Exercised during the year	–	–	(5,244)	1,408	–	–	(30)	1,408
Outstanding at end of year	–	–	–	–	–	–	–	–
Exercisable at end of year	–	–	–	–	–	–	–	–

The fair value of these shares is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price and is based on the price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

#### (iii) Deferred Annual Incentive Scheme

##### Free Shares

	Consolidated				Company			
	2015		2014		2015		2014	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	<b>330,546</b>	<b>1,409</b>	<b>346,214</b>	<b>1,257</b>	<b>32,748</b>	<b>1,381</b>	<b>54,350</b>	<b>1,229</b>
Granted during the year	<b>166,283</b>	<b>1,545</b>	<b>123,028</b>	<b>1,496</b>	<b>13,252</b>	<b>1,545</b>	<b>6,880</b>	<b>1,496</b>
Forfeited during the year	(3,780)	<b>1,502</b>	(4,086)	<b>1,208</b>	–	–	–	–
Exercised during the year	(120,237)	<b>1,343</b>	(134,610)	<b>1,183</b>	(20,454)	<b>1,342</b>	(28,482)	<b>1,119</b>
Outstanding at end of year	<b>372,812</b>	<b>1,486</b>	<b>330,546</b>	<b>1,409</b>	<b>25,546</b>	<b>1,456</b>	<b>32,748</b>	<b>1,381</b>
Exercisable at end of year	<b>5,395</b>	<b>1,322</b>	<b>2,298</b>	<b>1,327</b>	–	–	–	–

The fair value of the annual incentive scheme shares is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price and is based on the price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

#### (iv) Performance Share Plan

	Consolidated				Company			
	2015		2014		2015		2014	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	<b>1,615,415</b>	<b>1,408</b>	1,909,567	1,246	<b>538,068</b>	<b>1,347</b>	755,696	1,236
Granted during the year	<b>660,618</b>	<b>1,545</b>	587,256	1,496	<b>138,563</b>	<b>1,545</b>	131,841	1,496
Forfeited during the year	(471,039)	<b>1,350</b>	(517,495)	1,140	–	–	(280,645)	1,779
Exercised during the year	(120,093)	<b>1,342</b>	(363,913)	1,079	(288,097)	<b>1,342</b>	(68,824)	1,496
Outstanding at end of year	<b>1,684,901</b>	<b>1,477</b>	1,615,415	1,408	<b>388,534</b>	<b>1,479</b>	538,068	1,347

Of the outstanding options at the end of the year, none were exercisable.

The fair value of the performance share plan shares is not subject to valuation using the Black-Scholes model. The fair value of shares granted in the year is equal to the closing market price on the date of grant.

## Notes on the financial statements continued

for the year ended 31 March 2015

### 31. Employee share-based payments continued

#### (v) Long Term Incentive Plan

	2015		2014	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	246,867	1,350	246,867	1,350
Forfeit during year	(42,846)	1,342	–	–
Outstanding at end of year	204,021	1,352	246,867	1,350

No award was granted during the year.

Of the outstanding options at the end of the year, none were exercisable. The company has no employees in the LTIP.

The fair value of the long-term incentive plan shares is not subject to valuation using the Black-Scholes model. The fair value of shares granted in the year is equal to closing market price on the date of grant.

### 32. 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 2015, the Group's long term credit rating was A- stable outlook for Standard & Poor's and A3 negative outlook for Moody's. Further detail of the capital management objectives, policies and procedures are included in the 'Financial management and balance sheet' section of the Financial Overview at pages 20 to 22 of this report.

The maintenance of a medium-term corporate model is a key control in monitoring the development of the Group's capital structure, and allows for detailed scenarios and sensitivity testing. Key ratios drawn from this analysis underpin regular updates to the Board and include the ratios used by the rating agencies in assessing the Group's credit ratings.

The Group has the option to purchase its own shares from the market; the timing of these purchases depends on market prices and economic conditions. The use of share buy-backs is the Group's benchmark for investment decisions and is utilised at times when management believe the Group's shares are undervalued. No share buy-back was made during the year.

The Group's debt requirements are principally met through issuing bonds denominated in Sterling and Euros as well as private placements and medium term bank loans, including those with the European Investment Bank. In addition, the Group has issued hybrid capital securities which bring together features of both debt and equity and 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. At 31 March 2015, the Group had a £50m facility with the European Investment Bank that is expected to be drawn in the first half of 2015/16 when it will become a term loan.

The Group capital comprises:

	2015 £m	2014 (Restated note 2(ii)) £m
Total borrowings (excluding finance leases)	5,781.0	5,966.1
Less: Cash and cash equivalents	(1,512.3)	(458.9)
Net debt (excluding hybrid capital)	4,268.7	5,507.2
Hybrid capital	3,371.1	2,186.8
Cash held as collateral	(71.7)	(51.2)
<b>Adjusted net debt and hybrid capital</b>	<b>7,568.1</b>	<b>7,642.8</b>
Equity attributable to shareholders of the parent	2,709.4	2,932.7
<b>Total capital</b>	<b>10,277.5</b>	<b>10,575.5</b>

## 32. Capital and financial risk management continued

Under the terms of its major borrowing facilities, the Group is required to comply with the following financial covenant:

- **Interest Cover Ratio:** The company shall procure that the ratio of Operating Profit to Net Interest Payable for any relevant period is not less than 2.5 to 1.

The following definitions apply in the calculation of these financial covenants:

- "**Operating Profit**" means, in relation to a relevant period, the profit on ordinary activities before taxation (after adding back Net Interest Payable) of the Group for that relevant period but after adjusting this amount to exclude any exceptional profits (or losses) and, for the avoidance of doubt, before taking account of any extraordinary profits (or losses) and excluding the effect of IAS 39.
- "**Net Interest Payable**" means, in respect of any relevant period, interest payable during that relevant period less interest receivable during that relevant period.

In summary, the Group's intent is to balance returns to shareholders between current returns through dividends and long-term capital investment for growth. In doing so, the Group will maintain its capital discipline and will continue to operate within the current economic environment prudently. There were no changes to the Group's capital management approach during the year.

### Financial risk management

This note presents information about the fair value of the Group's financial instruments, the Group's exposure to the risks associated with those instruments, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further qualitative disclosures are included throughout these consolidated financial statements.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk.
- Liquidity risk.
- Commodity risk.
- Currency risk.
- Interest rate risk.

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Risk and Trading Committee, which reports to the Executive Committee, comprises the two Executive Directors and senior managers from the Energy Portfolio Management, Retail, Corporate and Finance functions. Its specific remit is to support the Group's risk management responsibilities by reviewing the strategic, market, credit, operational and liquidity risks and exposures that arise from the Group's energy portfolio management, generation and treasury operations. This committee is discussed further in the Directors' Report.

The Group's policies for risk management are established to identify the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies, and the systems used to monitor activities, are reviewed regularly by the Risk and Trading Committee.

Exposure to the commodity, currency and interest rate risks noted arise in the normal course of the Group's business and derivative financial instruments are entered into to hedge exposure to these risks. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below.

The Company is required to disclose information on its financial instruments and has adopted policies identical to that of the Group, where applicable. Separate disclosure is provided, where necessary.

Before detailing the relevant qualitative and quantitative disclosures in relation to the potential risks faced by the Group, details on the different categories of financial instrument and the carrying and fair values of each of those categories is provided below.

## Notes on the financial statements continued

for the year ended 31 March 2015

### 32. Capital and financial risk management continued

#### 32.1 Categories of financial instruments and fair values of those assets and liabilities

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

	2015 Amortised cost or other (i) £m	2015 Classified as trading (ii) £m	2015 Total carrying value £m	2015 Fair value £m	2014 (Restated) Amortised cost or other (i) £m	2014 Classified as trading (ii) £m	2014 Total carrying value £m	2014 (Restated) fair value £m
<b>Financial assets</b>								
<b>Current</b>								
Trade receivables	2,977.5	—	2,977.5	2,977.5	2,797.5	—	2,797.5	2,797.5
Other receivables	25.2	—	25.2	25.2	29.0	—	29.0	29.0
Cash collateral	71.7	—	71.7	71.7	51.2	—	51.2	51.2
Cash and cash equivalents	1,512.3	—	1,512.3	1,512.3	458.9	—	458.9	458.9
Derivative financial assets	—	1,999.9	1,999.9	1,999.9	—	1,261.2	1,261.2	1,261.2
	4,586.7	1,999.9	6,586.6	6,586.6	3,336.6	1,261.2	4,597.8	4,597.8
<b>Non-current</b>								
Unquoted equity investments	11.2	—	11.2	11.2	24.3	—	24.3	24.3
Loans to associates and jointly controlled entities	559.4	—	559.4	559.4	521.6	—	521.6	521.6
Derivative financial assets	—	566.8	566.8	566.8	—	368.4	368.4	368.4
	570.6	566.8	1,137.4	1,137.4	545.9	368.4	914.3	914.3
	5,157.3	2,566.7	7,724.0	7,724.0	3,882.5	1,629.6	5,512.1	5,512.1
<b>Financial liabilities</b>								
<b>Current</b>								
Trade payables	(2,707.7)	—	(2,707.7)	(2,707.7)	(2,496.3)	—	(2,496.3)	(2,496.3)
Bank loans and overdrafts	(712.6)	—	(712.6)	(714.3)	(600.6)	—	(600.6)	(603.5)
Finance lease liabilities	(20.2)	—	(20.2)	(20.2)	(18.1)	—	(18.1)	(18.1)
Derivative financial liabilities	—	(2,297.3)	(2,297.3)	(2,297.3)	—	(1,470.2)	(1,470.2)	(1,470.2)
	(3,440.5)	(2,297.3)	(5,737.8)	(5,739.5)	(3,115.0)	(1,470.2)	(4,585.2)	(4,588.1)
<b>Non-current</b>								
Loans and Borrowings (iii)	(5,099.3)	30.9	(5,068.4)	(6,213.4)	(5,408.9)	43.4	(5,365.5)	(6,001.3)
Finance lease liabilities	(299.5)	—	(299.5)	(299.5)	(310.8)	—	(310.8)	(310.8)
Derivative financial liabilities	—	(933.4)	(933.4)	(933.4)	—	(681.7)	(681.7)	(681.7)
	(5,398.8)	(902.5)	(6,301.3)	(7,446.3)	(5,719.7)	(638.3)	(6,358.0)	(6,993.8)
	(8,839.3)	(3,199.8)	(12,039.1)	(13,185.8)	(8,834.7)	(2,108.5)	(10,943.2)	(11,581.9)
<b>Net financial liabilities</b>	<b>(3,682.0)</b>	<b>(633.1)</b>	<b>(4,315.1)</b>	<b>(5,461.8)</b>	<b>(4,952.4)</b>	<b>(478.9)</b>	<b>(5,431.1)</b>	<b>(6,069.8)</b>

(i) Recorded at amortised cost or loans and receivables.

(ii) IAS 39 financial instruments.

(iii) Includes non-recourse borrowings.

## 32. Capital and financial risk management continued

### 32.2 Risks from use of financial instruments

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

	2015 Amortised cost or other (i) £m	2015 Classified as trading (ii) £m	2015 Total Carrying value £m	2015 Fair value £m	2014 Amortised cost or other (i) £m	2014 Classified as trading (ii) £m	2014 Total Carrying value £m	2014 Fair value £m
<b>Financial assets</b>								
<b>Current</b>								
Cash and cash equivalents	1,321.1	—	1,321.1	1,321.1	212.7	—	212.7	212.7
Amounts owed by subsidiary undertakings	4,505.9	—	4,505.9	4,505.9	4,440.8	—	4,440.8	4,440.8
Derivative financial assets	—	46.7	46.7	46.7	—	4.0	4.0	4.0
	<b>5,827.0</b>	<b>46.7</b>	<b>5,873.7</b>	<b>5,873.7</b>	4,653.5	4.0	4,657.5	4,657.5
<b>Non-current</b>								
Amounts owed by subsidiary undertakings	3,925.3	—	3,925.3	3,925.3	4,093.2	—	4,093.2	4,093.2
Loans to associates and jointly controlled entities	544.4	—	544.4	544.4	496.3	—	496.3	496.3
Derivative financial assets	—	141.8	141.8	141.8	—	51.9	51.9	51.9
	<b>4,469.7</b>	<b>141.8</b>	<b>4,611.5</b>	<b>4,611.5</b>	4,589.5	51.9	4,641.4	4,641.4
	<b>10,296.7</b>	<b>188.5</b>	<b>10,485.2</b>	<b>10,485.2</b>	9,243.0	55.9	9,298.9	9,298.9
<b>Financial liabilities</b>								
<b>Current</b>								
Bank loans and overdrafts	(700.0)	—	(700.0)	(701.7)	(561.5)	—	(561.5)	(564.3)
Amounts owed to subsidiary undertakings	(2,715.0)	—	(2,715.0)	(2,715.0)	(3,017.9)	—	(3,017.9)	(3,017.9)
Derivative financial liabilities	—	(101.1)	(101.1)	(101.1)	—	(17.5)	(17.5)	(17.5)
	<b>(3,415.0)</b>	<b>(101.1)</b>	<b>(3,516.1)</b>	<b>(3,517.8)</b>	(3,579.4)	(17.5)	(3,596.9)	(3,599.7)
<b>Non-current</b>								
Loans and borrowings	(3,749.9)	30.9	(3,719.0)	(4,558.5)	(4,008.5)	43.4	(3,965.1)	(4,481.5)
Derivative financial liabilities	—	(373.9)	(373.9)	(373.9)	—	(287.9)	(287.9)	(287.9)
	<b>(3,749.9)</b>	<b>(343.0)</b>	<b>(4,092.9)</b>	<b>(4,932.4)</b>	(4,008.5)	(244.5)	(4,253.0)	(4,769.4)
	<b>(7,164.9)</b>	<b>(444.1)</b>	<b>(7,609.0)</b>	<b>(8,450.2)</b>	(7,587.9)	(262.0)	(7,849.9)	(8,369.1)
<b>Net financial assets/(liabilities)</b>	<b>3,131.8</b>	<b>(255.6)</b>	<b>2,876.2</b>	<b>2,035.0</b>	1,655.1	(206.1)	1,449.0	929.8

(i) Recorded at amortised cost, available for sale, or loans and receivables.

(ii) IAS 39 financial instruments.

#### Basis of determining fair value

Certain assets and liabilities designated and carried at amortised cost are loans and receivables. For certain current assets and liabilities their carrying value is equivalent to fair value due to short term maturity.

Assets and liabilities designated at fair value and the fair value of other financial assets and liabilities have been determined by reference to closing rate market values. This basis has been used in valuing interest rate instruments, foreign currency hedge contracts and foreign currency denominated long-term fixed rate debt. Commodity contracts fair values are based on published price quotations.

The fair values are stated at a specific date and may be different from the amounts which will actually be paid or received on settlement of the instruments. The fair value of items such as property, plant and equipment, internally generated brands or the Group's customer base are not included as these are not financial instruments.

#### (i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations.

Credit risk arising from the Group's normal commercial operations is controlled by individual business units operating in accordance with Group policies and procedures. Generally, for significant contracts, individual business units enter into contracts or agreements with counterparties having investment grade credit ratings only, or where suitable collateral or other security has been provided. Counterparty credit validation is undertaken prior to contractual commitment.

## Notes on the financial statements continued

for the year ended 31 March 2015

### 32. Capital and financial risk management continued

Credit risk management for the Group's Networks businesses is performed in accordance with industry standards as set out by the Regulator and is financially controlled by the individual business units. The Group's greatest credit risks lie with the operations of the Energy Supply business, the Wholesale procurement activities conducted by Energy Portfolio Management activities and the activities carried out by the Group's Treasury function. In all cases, specific credit risk controls that match the risk profile of those activities are applied. Exposure to credit risk in the retail supply of electricity and gas to end user customers arises from the potential of a customer defaulting on their invoiced payables. The financial strength and creditworthiness of business customers is assessed prior to commencing, and for the duration of, their contract of supply. Domestic customers' creditworthiness is reviewed from a variety of internal and external information.

Exposure to credit risk in the procurement of wholesale energy and fuel is managed by reference to agreed transaction credit limits which are determined by whether the counterparty:

- holds an investment grade credit rating; or
- can be assessed as adequately creditworthy in accordance with internal credit rules using information from other external credit agencies; or
- can provide a guarantee from an investment grade rated entity or post suitable collateral or provide other acceptable assurances in accordance with group procedures where they have failed to meet the above conditions; or
- can be allocated a non-standard credit limit approved by the Risk and Trading Committee within its authorised limits as delegated by the Group Board.

Credit support clauses or side agreements are typically included or entered into to protect the Group against counterparty failure or non-delivery. Within the Energy Portfolio Management activities, significant volumes of commodity derivative products are traded through cleared exchanges to mitigate credit risk. Such exchanges are subject to strict regulation by the UK Financial Conduct Authority (FCA) and participants in these exchanges are obliged to meet rigorous capital adequacy requirements.

Individual counterparty credit exposures are monitored by category of credit risk and are subject to approved limits. At 31 March 2015, the Group's Energy Portfolio Management activities had pledged £235.8m (2014 – £249.1m) of cash collateral and letters of credit and had received £41.8m (2014 – £41.0m) of cash collateral and letters of credit principally to reduce exposures on credit risk.

Bank credit exposures, which are monitored and reported on daily, are calculated on a mark-to-market basis and adjusted for future volatility and probability of default. Any issues relating to these credit exposures are presented for discussion and review by the Risk and Trading Committee.

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to cash. These are subject to insignificant risk of change in value or credit risk. Derivative financial instruments are entered into to cover the Group's market risks – commodity risk, interest rate risk, currency risk – and are consequently covered elsewhere in this note.

Trade receivables represent the most significant exposure to credit risk and are stated after an allowance for impairment.

#### Concentrations of risk

Trade receivables recorded by reported segment held at the 31 March were:

	2015 £m	2014 (Restated) £m
<b>Networks</b>		
Electricity Distribution	<b>69.4</b>	57.8
Electricity Transmission	<b>15.4</b>	2.4
	<b>84.8</b>	60.2
<b>Retail</b>		
Energy Supply	<b>595.8</b>	680.6
Enterprise	<b>145.9</b>	138.3
Energy Related Services	<b>23.3</b>	6.0
	<b>765.0</b>	824.9
<b>Wholesale</b>		
Energy Portfolio Management and Electricity Generation	<b>2,114.0</b>	1,902.3
Gas Storage	<b>1.5</b>	1.5
Gas Production	<b>0.5</b>	0.8
	<b>2,116.0</b>	1,904.6
Corporate Unallocated	<b>11.7</b>	7.8
<b>Total</b>	<b>2,977.5</b>	2,797.5

## Financial Statements

### 32. Capital and financial risk management continued

The Retail segment accounts for 25.7% (2014 – 29.5%) of the Group's trade receivables. Trade receivables associated with the Group's 8.6 million electricity and gas customers are recorded in this segment. The Group also has significant receivables associated with its Wholesale activities which are generally settled within two to four weeks from invoicing. The Group's exposure to credit risk is therefore subject to diversification with no exposure to individual retail customers totalling >10% of trade receivables. The biggest customer balance, due from a wholesale customer (also a wholesale supplier), is 11% (2014 – 10%) of the total trade receivables.

The ageing of trade receivables at the reporting date was:

	2015 £m	2014 £m
Not past due	<b>2,720.0</b>	2,513.7
Past due but not individually impaired:		
0 – 30 days	157.0	167.0
31 – 90 days	52.7	50.9
Over 90 days	202.1	230.3
	<b>3,131.8</b>	2,961.9
Less: allowance for impairment	<b>(154.3)</b>	(164.4)
Net Trade receivables	<b>2,977.5</b>	2,797.5

The Group has past due debt which has not had an impairment allowance set aside to cover potential credit losses. The Group has certain procedures to pursue customers in significant arrears and believes its impairment policy in relation to such balances is appropriate. Those debts which are neither past due nor impaired are considered to be good and are expected to be recoverable.

The Group has other receivables which are financial assets totalling £25.2m (2014 – £29.1m). The Company does not have trade receivables.

The movement in the allowance for impairment of trade receivables was:

	2015 £m	2014 £m
Balance at 1 April	164.4	147.3
Increase in allowance for impairment	56.2	103.0
Impairment losses recognised	(66.3)	(88.4)
Foreign exchange movements	–	2.5
Balance at 31 March	<b>154.3</b>	164.4

At the end of each reporting period a review of the provision for bad and doubtful debts is performed. It is an assessment of the potential amount of trade receivables which will not be paid by customers after the balance sheet date. This amount is calculated by reference to the age, status and risk of each receivable.

#### (ii) Liquidity risk and going concern

Liquidity risk, the risk that the Group will have insufficient funds to meet its liabilities, is managed by the Group's Treasury function. The Group can be exposed to significant movements in its liquidity position due to changes in commodity prices, working capital requirements, the impact of the seasonal nature of the business and phasing of its capital investment and recycling programmes.

Treasury is responsible for managing the banking and liquidity requirements of the Group, risk management relating to interest rate and foreign exchange exposures, and for managing the credit risk relating to the banking counterparties with which it transacts. Short term liquidity is reviewed daily by Treasury, while the longer term liquidity position is reviewed on a regular basis by the Board. The department's operations are governed by policies determined by the Board and any breaches of these policies are reported to the Risk and Trading Committee and Audit Committee.

In relation to the Group's liquidity risk, the Group's policy is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

During the year, the Group's approach to managing liquidity was to seek to ensure that the Group had available committed borrowings and facilities equal to at least 105% of forecast borrowings over a rolling 6 month period.

The Group uses cash flow forecasts to monitor its ongoing borrowing requirements. Typically, the Group will fund any short term borrowing positions by issuing commercial paper or borrowing from uncommitted bank lines and will invest in money market funds when it has a cash surplus. Details of the group's borrowings are disclosed at note 24. In addition to the borrowing facilities listed at Note 24, the Group has £150m of uncommitted bank lines and a £15m overdraft facility.

## Notes on the financial statements continued for the year ended 31 March 2015

### 32. Capital and financial risk management continued

Over the course of the financial year to 31 March 2016, the Group has around £700m of term loans reaching maturity. Of these loans, £200m matures in June 2015 and £500m matures in September 2015 and both have options to be extended for one year. It is expected the lender will honour the requests to roll the term loans into the financial year to 31 March 2017. In addition, on 10 March 2015 the Company issued new £750m and €600m hybrid capital bonds which provide appropriate cover in advance of the first issuer call date for the 2010 hybrid capital bonds. As a consequence, it is the view of the Directors that the Group's 105% funding policy will be met out to September 2016.

Given the committed bank facilities of £1.5bn maintained by the Group and the current capital market conditions, the Directors have concluded that the Group has sufficient headroom to continue as a going concern. In coming to this conclusion, the Directors have also taken into account the successful issuance of £4.5bn of medium to long term debt and hybrid capital since October 2009, and the Group's credit rating. The statement of going concern is included in the Directors' Report on page 80.

Treasury also manage the Group's interaction with its relationship banks (defined as those banks that support the company's financing activities through their ongoing participation in the committed lending facilities that are maintained by the Group). These are each allocated financial limits, subject to the maintenance of a minimum credit rating of investment grade or better allocated by a recognised major ratings group. In respect of short-term cash management, counterparties are subject to review and approval according to defined criteria.

As at 31 March 2015, the value of outstanding cash collateral in respect of mark-to-market related margin calls on exchange traded positions was £71.7m (2014 – £51.2m).

The contractual cash flows shown in the following tables are the contractual undiscounted cashflows under the relevant financial instruments. Where the contractual cashflows are variable based on a price, foreign exchange rate or index in the future, the contractual cashflows in the following tables have been determined with reference to the relevant price, foreign exchange rate, interest rate or index as at the balance sheet date. In determining the interest element of contractual cashflows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cashflows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the amounts in the following tables are on the assumption the holder redeems at the earliest opportunity.

The numbers in the following tables have been included in the Group's cashflow forecasts for the purposes of considering Liquidity Risk as noted above.

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**32. Capital and financial risk management continued**

The following are the undiscounted contractual maturities of financial liabilities, including interest and excluding the impact of netting agreements:

Liquidity Risk	2015 Carrying value £m	2015 Contractual cash flows £m	2015 0-12 months £m	2015 1-2 years £m	2015 2-5 years £m	2015 > 5 years £m	2014 Carrying value £m	Contractual cash flows £m	2014 0-12 months £m	2014 1-2 years £m	2014 2-5 years £m	2014 > 5 years £m
<b>Financial liabilities</b>												
<b>Loans and borrowings</b>												
Bank overdrafts	0.2	(0.2)	(0.2)	–	–	–	0.3	(0.3)	(0.3)	–	–	–
Commercial paper and cash advances	–	–	–	–	–	–	0.4	(0.4)	–	–	(0.4)	–
Bank loans – floating	1,150.0	(1,187.5)	(708.5)	(5.6)	(16.8)	(456.6)	1,236.4	(1,280.3)	(597.0)	(205.7)	(15.9)	(461.7)
Bank loans – fixed	822.0	(1,047.0)	(31.5)	(31.5)	(293.9)	(690.1)	788.0	(1,307.0)	(32.4)	(32.6)	(237.5)	(1,004.5)
Unsecured bonds – fixed	3,699.7	(6,379.8)	(179.2)	(179.3)	(1,013.9)	(5007.4)	3,636.5	(6,374.2)	(180.1)	(180.2)	(1,040.8)	(4,973.1)
Non-recourse funding	140.0	(140.1)	(12.5)	(12.6)	(36.3)	(78.7)	347.9	(348.1)	(13.7)	(13.9)	(59.0)	(261.5)
Fair value adjustment	(30.9)	–	–	–	–	–	(43.4)	–	–	–	–	–
Finance lease obligations	5,781.0	(8,754.6)	(931.9)	(229.0)	(1,360.9)	(6,232.8)	5,966.1	(9,310.3)	(823.5)	(432.4)	(1,353.6)	(6,700.8)
	319.7	(548.3)	(57.4)	(53.2)	(160.8)	(276.9)	328.9	(593.9)	(50.1)	(52.5)	(156.7)	(334.6)
	6,100.7	(9,302.9)	(989.3)	(282.2)	(1,521.7)	(6,509.7)	6,295.0	(9,904.2)	(873.6)	(484.9)	(1,510.3)	(7,035.4)
<b>Derivative financial liabilities</b>												
Operating derivatives designated at fair value	2,688.3	12,245.3	9,037.1	2,659.1	543.8	5.3	1,839.2	15,311.6	10,671.4	4,203.6	418.5	18.1
Interest rate swaps used for hedging	105.9	(105.9)	(22.3)	(22.3)	(46.2)	(15.1)	79.5	(79.6)	(15.5)	(13.9)	(36.9)	(13.3)
Interest rate swaps designated at fair value	367.4	(367.4)	(68.5)	(18.1)	(51.3)	(229.5)	207.1	(207.1)	(22.1)	(22.1)	(46.6)	(116.3)
Forward exchange contracts held for hedging	62.0	(558.0)	(279.8)	(174.6)	(103.6)	–	13.0	(434.4)	(173.6)	(177.4)	(60.7)	(22.7)
Forward exchange contracts designated at fair value	7.1	(64.5)	(64.5)	–	–	–	13.1	(246.5)	(214.8)	(31.7)	–	–
	3,230.7	11,149.5	8,602.0	2,444.1	342.7	(239.3)	2,151.9	14,344.0	10,245.4	3,958.5	274.3	(134.2)
<b>Other financial liabilities</b>												
Trade payables	2,707.7	(2,707.7)	(2,707.7)	–	–	–	2,496.3	(2,496.3)	(2,496.3)	–	–	–
	2,707.7	(2,707.7)	(2,707.7)	–	–	–	2,496.3	(2,496.3)	(2,496.3)	–	–	–
<b>Total</b>	<b>12,039.1</b>	<b>(861.1)</b>	<b>4,905.0</b>	<b>2,161.9</b>	<b>(1,179.0)</b>	<b>(6,749.0)</b>	<b>10,943.2</b>	<b>1,943.5</b>	<b>6,875.5</b>	<b>3,473.6</b>	<b>(1,236.0)</b>	<b>(7,169.6)</b>
<b>Derivative financial assets</b>												
Financing derivatives	(211.7)	(61.4)	(110.7)	1.4	14.7	33.2	(55.9)	(131.5)	(110.5)	(24.7)	(8.6)	12.3
Operating derivatives designated at fair value	(2,355.0)	(9,522.0)	(7,310.3)	(1,967.5)	(244.2)	–	(1,573.7)	(12,304.8)	(9,119.7)	(2,954.9)	(231.5)	1.3
	(2,566.7)	(9,583.4)	(7,421.0)	(1,966.1)	(229.5)	33.2	(1,629.6)	(12,436.3)	(9,230.2)	(2,979.6)	(240.1)	13.6
<b>Net total (i)</b>	<b>9,472.4</b>	<b>(10,444.5)</b>	<b>(2,516.0)</b>	<b>195.8</b>	<b>(1,408.5)</b>	<b>(6,715.8)</b>	<b>9,313.6</b>	<b>(10,492.8)</b>	<b>(2,354.7)</b>	<b>494.0</b>	<b>(1,476.1)</b>	<b>(7,156.0)</b>

(i) The Group believes the liquidity risk associated with out-of-the-money operating derivative contracts needs to be considered in conjunction with the profile of payments or receipts arising from derivative financial assets. It should be noted that cash flows associated with future energy sales and commodity contracts which are not IAS 39 financial instruments are not included in this analysis, which is prepared in accordance with IFRS 7.

## Notes on the financial statements continued

for the year ended 31 March 2015

### 32. Capital and financial risk management continued

The Company has the following liquidity maturity profile:

Liquidity Risk	2015 Carrying value £m	2015 Contractual cash flows £m	2015 0-12 months £m	2015 1-2 years £m	2015 2-5 years £m	2015 > 5 years £m	2014 Carrying value £m	2014 Contractual cash flows £m	2014 0-12 months £m	2014 1-2 years £m	2014 2-5 years £m	2014 > 5 years £m
<b>Financial liabilities</b>												
<b>Loans and borrowings</b>												
Bank loans – floating	1,000.0	(1,024.4)	(706.5)	(3.6)	(10.7)	(303.6)	671.9	(889.7)	(27.0)	(27.1)	(220.3)	(615.3)
Bank loans – fixed	672.0	(862.5)	(27.2)	(27.2)	(281.0)	(527.1)	1,061.5	(1,090.6)	(570.0)	(203.8)	(10.1)	(306.7)
Unsecured bonds – fixed	2,778.3	(4,361.2)	(137.7)	(137.7)	(888.0)	(3,197.8)	2,836.6	(4,611.0)	(144.0)	(144.0)	(932.0)	(3,391.0)
Fair value adjustment	(30.9)	–	–	–	–	–	(43.4)	–	–	–	–	–
	<b>4,419.4</b>	<b>(6,248.1)</b>	<b>(871.4)</b>	<b>(168.5)</b>	<b>(1,179.7)</b>	<b>(4,028.5)</b>	<b>4,526.6</b>	<b>(6,591.3)</b>	<b>(741.0)</b>	<b>(374.9)</b>	<b>(1,162.4)</b>	<b>(4,313.0)</b>
<b>Derivative financial liabilities</b>												
Interest rate swaps used for hedging	105.9	(105.9)	(22.3)	(22.3)	(46.2)	(15.1)	79.6	(79.6)	(15.5)	(13.9)	(36.9)	(13.3)
Interest rate swaps designated at fair value	352.7	(352.7)	(67.9)	(17.4)	(49.4)	(218.0)	199.7	(207.1)	(22.1)	(22.1)	(46.6)	(116.3)
Forward exchange contracts held for hedging	16.4	(138.1)	(71.4)	(66.7)	–	–	13.0	(351.0)	(173.6)	(177.4)	–	–
Forward exchange contracts designated at fair value	–	–	–	–	–	–	13.1	(246.5)	(214.8)	(31.7)	–	–
	<b>475.0</b>	<b>(596.7)</b>	<b>(161.6)</b>	<b>(106.4)</b>	<b>(95.6)</b>	<b>(233.1)</b>	<b>305.4</b>	<b>(884.2)</b>	<b>(426.0)</b>	<b>(245.1)</b>	<b>(83.5)</b>	<b>(129.6)</b>
<b>Other financial liabilities</b>												
Amounts due to subsidiary undertakings	2,715.0	(2,715.0)	(2,715.0)	–	–	–	3,017.9	(3,017.9)	(3,017.9)	–	–	–
	<b>2,715.0</b>	<b>(2,715.0)</b>	<b>(2,715.0)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3,017.9</b>	<b>(3,017.9)</b>	<b>(3,017.9)</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>7,609.4</b>	<b>(9,559.8)</b>	<b>(3,748.0)</b>	<b>(274.9)</b>	<b>(1,275.3)</b>	<b>(4,261.6)</b>	<b>7,849.9</b>	<b>(10,493.4)</b>	<b>(4,184.9)</b>	<b>(620.0)</b>	<b>(1,245.9)</b>	<b>(4,442.6)</b>
<b>Derivative financial assets</b>												
Financing derivatives	(188.5)	187.1	45.2	46.7	53.8	41.4	(55.9)	(131.5)	(110.5)	(24.7)	(8.6)	12.3
<b>Net total</b>	<b>7,420.9</b>	<b>(9,372.7)</b>	<b>(3,702.8)</b>	<b>(228.2)</b>	<b>(1,221.5)</b>	<b>(4,220.2)</b>	<b>7,794.0</b>	<b>(10,624.9)</b>	<b>(4,295.4)</b>	<b>(644.7)</b>	<b>(1,254.5)</b>	<b>(4,430.3)</b>

#### (iii) Commodity risk

The Group's Energy Portfolio Management ('EPM') business manages the Group's exposure to energy commodity price movements and requirement for the delivery of its physical commodity needs as part of its normal course of business. The risk management activity carried out by EPM arises from the Group's requirement to source gas, electricity or other commodities such as renewable obligation certificates for Energy Supply, and to procure fuel and other commodities and provide a route-to-market for Electricity Generation.

The Group's strategy is to manage all exposures to commodity risk through volumetric limits and to measure the exposure by use of Value at Risk (VaR) models. The exposure is subject to financial limits established by the Board and managed by reference to guidance agreed by the Risk and Trading Committee. Exposures are reported to the Committee on a monthly basis and to the Board when certain trigger levels are exceeded. Within this approach, only certain of the Group's energy commodity contracts are deemed to constitute financial instruments under IAS 39. As a result, while the Group manages the commodity price risk associated with both financial and non-financial commodity contracts, it is only the fair value of IAS 39 financial instruments which represents the exposure of the Group's commodity price risk under IFRS 7. This is a consequence of the Group's accounting policy which stipulates that commodity contracts which are designated as financial instruments under IAS 39 should be accounted for on a fair value basis with changes in fair value reflected in profit or equity. Conversely, commodity contracts that are not designated as financial instruments under IAS 39 will be accounted for as 'own use' contracts. As fair value changes in own use contracts are not reflected through profit or equity, these do not represent the IFRS 7 commodity price risk. Therefore, as the overall Group VaRs associated with commodity risk will be monitored for internal risk management purposes and is outside the scope of IAS 39.

In EPM, the economic volatility that the Group is exposed to related to this risk is managed through a selection of longer and shorter term contracts for commodities such as gas, electricity, coal and carbon allowances, the arm's length arrangements with the Group's gas production business and through flexibility from the Group's fleet of generation assets including assets such as pumped storage generating plant, flexible hydro generating plant, standby oil plant and contracts with the gas storage business.

## 32. Capital and financial risk management continued

Short-term exposures will arise from the requirement to match volumes of procured gas and electricity with demand for gas and electricity by Energy Supply customers. In addition, exposures can arise from matching fuel and other commodity procurement with demand for these commodities arising from the Group's Generation assets. Both can vary from expectations and result in a requirement to close the contracted positions at unfavourable prices. Longer-term exposures are managed by EPM through longer term contracts (including forwards, futures contracts and other financial instruments). These, in turn, are used to reduce short-term market exposures.

As noted, certain commodity contracts are entered into primarily for own use purposes to supply to customers or to provide fuel to power stations. However, as noted, a number of these contracts do not qualify for own use treatment under IAS 39 and are subject to fair value measurement through the income statement. In addition to this, the Group enters into certain contracts to manage commodity price and volume risk. These are also subject to fair value measurement through the income statement. Finally, other physical contracts can be treated as the hedging instrument in documented cash flow hedging relationships where the hedged item is the forecast future purchase requirement to meet production or customer demand. The accounting policies associated with such items are explained in the Accompanying information section A1.

The consequential commodity risk which derives from these activities is quantified by the use of a Value at Risk (VaR) model which considers exposures in all commodities and provides an estimate of the potential change to the Group's forecast profits over a given period and to a given confidence level. The calculated financial risk is controlled through the imposition of a number of risk limits approved by the Board and monitored and managed by the Risk and Trading Committee. The Group's exposure to Commodity risk is subsequently reported to and monitored by the Risk and Trading Committee and to the Management Board by exception.

The Group's exposure to commodity price risk according to IFRS 7 is measured by reference to the Group's IAS 39 commodity contracts. IFRS 7 requires disclosure of a sensitivity analysis for market risks that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables impacting upon the fair value or cash flows associated with the Group's financial instruments.

Therefore, the sensitivity analysis provided discloses the effect on profit or loss and equity at the balance sheet date assuming that a reasonably possible change in the relevant commodity price had occurred, and been applied to the risk exposures in existence at that date. The reasonably possible changes in commodity prices used in the sensitivity analysis were determined based on calculated or implied volatilities where available, or historical data.

The sensitivity analysis has been calculated on the basis that the proportion of commodity contracts that are IAS 39 financial instruments remains consistent with those at that point. Excluded from this analysis are all commodity contracts that are not financial instruments under IAS 39.

	2015		2014	
	Base Price (i)	Reasonably possible increase/decrease in variable	Base Price (i)	Reasonably possible increase/decrease in variable
<b>Commodity prices</b>				
UK gas (p/therm)	48	+/- 7	60	+/- 4
UK power (£/MWh)	46	+/- 7	51	+/- 3
UK coal (US\$/tonne)	60	+/- 4	85	+/- 7
UK emissions (€/tonne)	7	+/- 2	5	+/- 2
UK oil (US\$/bbl)	67	+/- 7	98	+/- 8

(i) The base price represents the average forward market price over the duration of the active market curve used to calculate the sensitivity analysis.

The impacts of reasonably possible changes in commodity prices on profit after taxation based on the rationale described are as follows:

	2015		2014	
	Impact on profit and equity £m			
<b>Incremental profit/(loss)</b>				
Commodity prices combined –increase		360.1		146.6
Commodity prices combined –decrease		(360.1)		(146.6)

The sensitivity analysis provided is hypothetical and is based on the Group's commodity contracts under IAS 39. This is analysis only and should be used with caution as the impacts disclosed are not necessarily indicative of the actual impacts that would be experienced. It should also be noted that these sensitivities impacts provided are indicative only and are based on calculations which do not consider all interrelationships, consequences and effects of such a change in those prices.

## Notes on the financial statements continued

### for the year ended 31 March 2015

#### 32. Capital and financial risk management continued

##### (iv) Currency risk

The Group publishes its consolidated financial statements in Sterling but also conducts business in foreign currencies. As a result, it is subject to foreign currency exchange risk arising from exchange rate movements which will be reflected in the Group's transaction costs or in the underlying foreign currency assets of its foreign operations.

The Group's policy is to use forward contracts, swaps and options to manage its exposures to foreign exchange risk. All such exposures are transactional in nature, and relate primarily to procurement contracts, commodity purchasing and related freight requirements, commodity hedging, long term plant servicing and maintenance agreements, and the purchase and sale of carbon emission certificates. The policy is to seek to hedge 100% of its currency requirements arising under all committed contracts excepting commodity hedge transactions, the requirements for which are significantly less predictable. The policy for these latter transactions is to assess the Group's requirements on a rolling basis and to enter into cover contracts as appropriate.

The Group has foreign subsidiary operations with significant Euro-denominated net assets. The Group's policy is to hedge its net investment in its foreign operations by ensuring the net assets whose functional currency cash flows are denominated in Euros are matched by borrowings in Euros. For the acquired net assets whose functional cash flows are in Sterling, the Group will ensure Sterling denominated borrowings are in place to minimise currency risk.

Significant exposures are reported to, and discussed by, the Risk and Trading Committee on an ongoing basis and additionally form part of the bi-annual Treasury report to the Audit Committee.

At the balance sheet date, the total nominal value of outstanding forward foreign exchange contracts that the Group has committed to is:

		2015 £m	2014 £m
Forward foreign exchange contracts		<b>1,735.4</b>	1,756.8

The Group's exposure to foreign currency risk was as follows:

	2015						2014							
	¥m	DKK (million)	SEK (million)	€m	US\$m	NOK (million)	CHF (million)	¥m	DKK (million)	SEK (million)	€m	\$m	NOK (million)	CHF (million)
Loans and borrowings	<b>15,000.0</b>	–	–	<b>1,102.4</b>	<b>700.0</b>	–	–	15,000.0	–	–	1,103.5	100.0	512.3	–
Purchase and commodity contract commitments	–	–	<b>2,081.8</b>	515.7	474.2	349.2	34.6	–	3.5	13.8	741.3	885.3	–	–
Gross exposure	<b>15,000.0</b>	–	<b>2,081.8</b>	<b>1,618.1</b>	<b>1,174.2</b>	<b>349.2</b>	<b>34.6</b>	15,000.0	3.5	13.8	1,844.8	985.3	512.3	–
Forward exchange / swap contracts	<b>15,000.0</b>	–	<b>2,081.8</b>	<b>992.0</b>	<b>1,066.4</b>	<b>349.2</b>	<b>34.6</b>	15,000.0	3.5	13.8	1,041.4	982.7	512.3	–
Net exposure (in currency)	–	–	–	<b>626.1</b>	<b>107.8</b>	–	–	–	–	–	803.4	2.5	–	–
Net exposure (in £m)	–	–	–	<b>452.5</b>	<b>72.6</b>	–	–	–	–	–	663.4	1.5	–	–

This represents the net exposure to foreign currencies, reported in pounds Sterling, and arising from all Group activities. All sensitivity analysis has been prepared on the basis of the relative proportions of instruments in foreign currencies being consistent as at the balance sheet date. This includes only monetary assets and liabilities denominated in a currency other than Sterling and excludes the translation of the net assets of foreign operations but not the corresponding impact of the net investment hedge.

The sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually changing. The calculations are based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the Group.

## Financial Statements

### 32. Capital and financial risk management continued

A 10% change in foreign currency exchange rates would have had the following impact on profit after taxation, based on the assumptions presented above:

	Equity		Income statement	
	At 31 March 2015 £m	At 31 March 2014 £m	At 31 March 2015 £m	At 31 March 2014 £m
US Dollars	–	–	(6.5)	0.1
Euro	38.5	42.4	1.7	14.4
DKK	–	–	–	–
¥	–	–	–	–
SEK	–	–	–	–
NOK	–	–	–	–
CHF	–	–	–	–
	<b>38.5</b>	<b>42.4</b>	<b>(4.8)</b>	<b>14.5</b>

The impact of a decrease in rates would be an identical reduction in the annual charge.

#### (v) Interest rate risk

Interest rate risk derives from the Group's exposure to changes in the value of an asset or liability or future cash flows through changes in interest rates.

The Group's policy is to manage this risk by stipulating that a minimum of 50% of Group borrowings be subject to fixed rates of interest, either directly through the debt instruments themselves or through the use of derivative financial instruments. The floating rate borrowings are provided by banks including the European Investment Bank. Such instruments include interest rate swaps and options, forward rate agreements and, in the case of debt raised in currencies other than Sterling, cross currency swaps. These practices serve to reduce the volatility of the Group's financial performance.

Although interest rate derivatives are primarily used to hedge risk relating to current borrowings, under certain circumstances they may also be used to hedge future borrowings. Any such pre-hedging is unwound at the time of pricing the underlying debt, either through cash settlement on a net present value basis or by transacting offsetting trades. The floating rate borrowings mainly comprise cash advances from the European Investment Bank.

The impact of a change in interest rates is dependent on the specific details of the financial asset or liability in question. Changes in fixed rate financial assets and liabilities, which account for the majority of cash, loans and borrowings, are not measured at fair value through the income statement. In addition to this, changes to fixed-to-floating hedging instruments which are recorded under cash flow hedge accounting also do not impact the income statement. Changes in variable rate instruments and hedging instruments and hedged items recorded under fair value hedge accounting are recorded through the income statement. The exposure measured is therefore based on variable rate debt and instruments.

The net exposure to interest rates at the balance sheet date can be summarised thus:

	2015 Carrying amount £m	2014 Carrying amount (Restated) £m
Interest bearing/earning assets and liabilities:		
– fixed	(4,983.4)	(4,987.3)
– floating	79.3	(1,130.9)
	<b>(4,904.1)</b>	<b>(6,118.2)</b>
Represented by:		
Cash and cash equivalents	1,512.3	458.9
Derivative financial liabilities	(284.8)	(238.7)
Loans and borrowings	(5,811.9)	(6,009.5)
Finance lease obligations	(319.7)	(328.9)
	<b>(4,904.1)</b>	<b>(6,118.2)</b>

Following from this, the table below represents the expected impact of a change of 100 basis points in short term interest rates at the reporting date in relation to equity and income statement. The analysis assumes that all other variables, in particular foreign currency rates, remain constant. An increase in exchange rates would be a change to either the income statement or equity. The assessment is based on a revision of the fair value assumptions included in the calculated exposures in the previous table.

All sensitivity analysis has been prepared on the basis of the proportion of fixed to floating instruments being consistent as at the balance sheet date and is stated after the effect of taxation.

## Notes on the financial statements continued for the year ended 31 March 2015

### 32. Capital and financial risk management continued

The sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually changing. The calculations are based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the Group.

	2015 £m	2014 £m
Income statement	<b>12.3</b>	12.6
	<b>12.3</b>	12.6

The impact of a decrease in rates would be an identical reduction in the annual charge. There is no impact on equity as the analysis relates to the Group's net exposure at the balance sheet date. Contracts qualifying for hedge accounting are, by definition, part of the group's covered position.

#### (vi) Primary statement disclosures

For financial reporting purposes, the Group has classified derivative financial instruments into two categories, operating derivatives and financing derivatives. Operating derivatives include all qualifying commodity contracts including those for electricity, gas, oil, coal and carbon. Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts. Non-hedge accounted contracts are treated as held for trading.

The net movement reflected in the income statement can be summarised thus:

	2015 £m	2014 £m
<b>Operating Derivatives</b>		
Total result on operating derivatives (i)	<b>(1,073.5)</b>	(785.4)
Less: Amounts settled (ii)	<b>1,005.7</b>	634.5
Movement in unrealised derivatives	<b>(67.8)</b>	(150.9)
<b>Financing Derivatives (and hedged items)</b>		
Total result on financing derivatives (i)	<b>(395.5)</b>	(754.7)
Less: Amounts settled (ii)	<b>351.3</b>	690.5
Movement in unrealised derivatives	<b>(44.2)</b>	(64.2)
<b>Net income statement impact</b>	<b>(112.0)</b>	(215.1)

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

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

The derivative financial assets and (liabilities) are represented as follows:

	2015 £m	2014 £m
<b>Derivative Financial Assets</b>		
Non-current	<b>566.8</b>	368.4
Current	<b>1,999.9</b>	1,261.2
	<b>2,566.7</b>	1,629.6
<b>Derivative Liabilities</b>		
Non-current	<b>(933.4)</b>	(681.7)
Current	<b>(2,297.3)</b>	(1,470.2)
Total derivative liabilities	<b>(3,230.7)</b>	(2,151.9)
<b>Net (liability)</b>	<b>(664.0)</b>	(522.3)

#### 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.

## Financial Statements

### 32. Capital and financial risk management continued

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets</b>				
Energy derivatives	1,093.3	1,261.7	–	2,355.0
Interest rate derivatives	–	188.5	–	188.5
Foreign exchange derivatives	–	23.2	–	23.2
Equity investments	–	26.4	–	26.4
	1,093.3	1,499.8	–	2,593.1
<b>Financial liabilities</b>				
Energy derivatives	(1,044.5)	(1,643.8)	–	(2,688.3)
Interest rate derivatives	–	(473.3)	–	(473.3)
Foreign exchange derivatives	–	(69.1)	–	(69.1)
Loans and borrowings	–	(30.9)	–	(30.9)
	(1,044.5)	(2,217.1)	–	(3,261.6)

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 2015. Oil and coal commodities reported as level 2 for the year ended 31 March 2014 (assets of £316.8m and liabilities of £319.4m) are now classified as level 1, following a reassessment of assets and liabilities by the Group.

#### (vii) Cash flow hedges

The Group designates contracts which qualify as hedges for accounting purposes either as cash flow hedges or fair value hedges. Cash flow hedges are contracts entered into to hedge a forecast transaction or cash flow risk generally arising from a change in interest rates or foreign currency exchange rates and which meet the effectiveness criteria prescribed by IAS 39. The Group's accounting policy on cash flow hedges is explained in the Accompanying Information section A1.

The following table indicates the contractual maturities of the expected transactions and the qualifying cash flow hedges associated:

#### Cash flow hedges

	2015 Carrying amount	2015 Expected cash flows	2015 0-12 months	2015 1-2 years	2015 2-5 years	2015 > 5 years		2014 Carrying amount	2014 Expected cash flows	2014 0-12 months	2014 1-2 years	2014 2-5 years	2014 > 5 years	
<b>Forward exchange contracts:</b>														
Assets	12.0	(139.6)	(47.2)	(45.2)	(39.0)	(8.2)		5.0	(102.6)	(42.0)	(32.5)	(27.5)	(0.6)	
Liabilities	(62.0)	(558.0)	(279.8)	(174.6)	(103.6)	–		(13.0)	(434.4)	(173.6)	(177.4)	(60.7)	(22.7)	
	(50.0)	(697.6)	(327.0)	(219.8)	(142.6)	(8.2)		(8.0)	(537.0)	(215.6)	(209.9)	(88.2)	(23.3)	

#### (viii) Net investment hedge

The Group's net investment hedge consists of debt issued in the same currency (€) as the net investment in foreign subsidiaries with € denominated functional currencies being the Airtricity Supply business, the thermal plants in Ireland and the Ireland wind farm portfolio. The hedge compares the element of the net assets whose functional cash flows are denominated in € to the matching portion of the € borrowings held by the Group. This therefore provides protection against movements in foreign exchange rates.

Gains and losses in the hedge are recognised in equity and will be transferred to the income statement on disposal of the foreign operation (2015 – £48.7m gain, 2014 – £12.5m gain). Gains and losses on the ineffective portion of the hedge are recognised immediately in the income statement (2015 – £nil, 2014 – £nil).

## Notes on the financial statements continued

for the year ended 31 March 2015

### 33. Related party transactions

The immediate parent and ultimate controlling party of the Group is SSE plc (incorporated in Scotland). Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

#### Trading transactions

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

	Sale of goods and services 2015 £m	Purchase of goods and services 2015 £m	Amounts owed from 2015 £m	Amounts owed to 2015 £m	Sale of goods and services 2014 £m	Purchase of goods and services 2014 £m	Amounts owed from 2014 £m	Amounts owed to 2014 £m
<b>Joint ventures:</b>								
Seabank Power Ltd	<b>20.1</b>	(115.5)	<b>1.8</b>	<b>11.1</b>	22.9	(108.7)	1.2	9.1
Marchwood Power Ltd	<b>28.7</b>	(114.4)	<b>3.4</b>	<b>12.7</b>	33.5	(94.5)	0.2	8.1
Scotia Gas Networks Ltd	<b>49.0</b>	(166.4)	<b>7.7</b>	<b>0.3</b>	58.7	(175.2)	15.7	0.7
Other Joint Ventures	<b>27.6</b>	(6.0)	<b>3.0</b>	—	36.5	—	1.1	0.3
<b>Associates</b>	<b>0.8</b>	(41.9)	<b>1.9</b>	<b>2.5</b>	1.5	(28.2)	1.1	2.5

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

The amounts outstanding are trading balances, are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties. Aggregate capital loans to joint ventures and associates are shown in note 15.

#### Remuneration of key management personnel

The remuneration of the key management personnel of the Group (excluding pension value increases), is set out below in aggregate.

	2015 £m	2014 £m
<b>Short-term employment benefits</b>		
Executive Directors	<b>2.8</b>	4.9
Other Executive Committee members	<b>2.5</b>	4.4
	<b>5.3</b>	9.3

Key management personnel are responsible for planning, directing and controlling the operations of the Group. These were conducted by the Executive Committee, comprising the two Executive Directors and the Managing Directors of the Networks, Retail, Wholesale and Enterprise businesses. The comparative information represents benefits paid to the Management Board to 1 February 2014 and the Executive Committee thereafter.

In addition, the key management personnel receive share based remuneration, details of which are found at note 31. Further information about the remuneration of individual directors is provided in the audited part of the Remuneration Report. The Executive Directors are employed by the Company.

Information regarding transactions with post-retirement benefit plans is included in note 30.

### 34. Commitments and contingencies

#### 34.1 Capital commitments

	2015 £m	2014 £m
<b>Capital expenditure:</b>		
Contracted for but not provided	<b>1,059.5</b>	625.1

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.

## Financial Statements

### 34. Commitments and contingencies continued

#### 34.2 Operating lease commitments

##### (i) Leases as lessee:

	2015 £m	2014 £m
Amount included in the income statement relating to the current year leasing arrangements		
Minimum lease payments – power purchase agreement	92.3	89.7
Other lease payments	70.9	60.9
	<b>163.2</b>	150.6

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2015 £m	2014 £m
<b>Power purchase agreements</b>		
Within one year	89.4	86.9
In second to fifth years inclusive	164.3	260.7
	<b>253.7</b>	347.6
<b>Other leases</b>		
Within one year	60.4	55.9
In second to fifth years inclusive	116.8	89.9
After five years	259.3	214.1
	<b>436.5</b>	359.9
<b>Total</b>		
Within one year	149.9	142.8
In second to fifth years inclusive	281.1	89.9
After five years	259.3	474.8
	<b>690.3</b>	707.5

The average power purchase agreement lease term is 4 years (2014 – 4 years).

Certain obligations under power purchase agreements with various power generating companies are not deemed to qualify as finance leases as the lease term is not judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at the inception of the agreements did not amount to substantially all of the fair value of the power stations at that time. The Company has no operating lease commitments as a lessee.

##### (ii) Leases as lessor:

The Group and Company have no operating lease commitments as a lessor.

#### 34.3 Guarantees, indemnities and other contingent liabilities

SSE plc has provided guarantees on behalf of subsidiary, joint venture and associated undertakings as follows:

	2015 £m	2014 £m
Bank borrowing	302.0	150.0
Performance of contracts	1,401.8	1,227.7
Purchase of gas	10.0	20.5

Subsidiaries have provided guarantees on behalf of the Company as follows:

	2015 £m	2014 £m
Bank borrowing	<b>1,885.7</b>	1,865.0

In the year to 31 March 2015, the Group had drawn down £150m from its European Investment Bank facility. SSE Plc has entered into a guarantee with European Investment Bank in relation to the bank facility to guarantee the obligations of Scottish Hydro Electric Transmission Plc. In relation to bank borrowings the guarantee amounts outlined above include accrued interest.

## Notes on the financial statements continued for the year ended 31 March 2015

### 34. Commitments and contingencies continued

Unlimited guarantees have been provided on behalf of subsidiary undertakings in relation to eight contracts in respect of performance of work and any liabilities arising. Southern Electric Power Distribution plc and the Company have provided guarantees to the Southern Group of the Electricity Supply Pension scheme in respect of funding required by the Scheme. Scottish Hydro Electric Power Distribution plc and the Company have provided guarantees to the Scottish Hydro-Electric Pension Scheme in respect of funding required by the Scheme. SSE E&P (UK) Limited, a wholly owned subsidiary of the Company, has provided a guarantee to Hess Limited in respect of decommissioning liabilities. SSE E&P (UK) Limited has also provided a guarantee to Britoil Limited and Arco British Limited in respect of the Sean Field. SSE E&P (UK) Limited has also provided a guarantee to Perenco UK Limited in respect of the Minerva, Apollo and Mercury Fields.

Where the Company enters into financial guarantee contracts to guarantee indebtedness of the other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make payment under the guarantee.

## Accompanying information for the year ended 31 March 2015

This section explains the significant accounting policies applied in the preparation of the consolidated financial statements and provides details of the Group's principal subsidiaries, joint ventures and associates.

### A1. Basis of consolidation and significant accounting policies

#### A1.1 Basis of consolidation

The financial statements consolidate the financial statements of the Company and its subsidiaries together with the Group's share of the results and net assets of its jointly controlled entities and associates.

#### Subsidiaries

Subsidiaries (including special purpose entities) are those entities controlled by the Group or the Company. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity in order to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries acquired are consolidated in the financial statements of the Group from the date that control commences until the date control ceases. All business combinations are accounted for by applying the purchase method of accounting.

The special purpose entities referred to relate to entities in which the Group has a 50% shareholding but whose activities the Group is deemed to control under IFRS 10 Consolidated Financial Statements.

In the Company, investments in subsidiaries are carried at cost less any impairment charges.

#### Interests in joint arrangements and associates

Joint arrangements, as defined by IFRS 11, are those arrangements that convey to the parties 'joint control'. Joint control exists when decisions about the 'relevant activities', being the financial, operational or strategic policies of the arrangement, are made with the unanimous consent of the parties to the arrangement. Under IFRS 11, the Group's investments in joint arrangements are classified as either joint operations or joint ventures depending on the investor's contractual rights and obligations. Associates are those investments over which the Group has significant influence but not control or joint control. These are normally where the Group holds between 20% and 50% of the voting rights. The Group's joint ventures and associates are accounted for using the equity method and are disclosed at note 15 to the Financial Statements.

Under the equity method of accounting, the joint venture and associate investments are carried at cost plus the Group's share of post-acquisition results, less any impairment in value. The Group recognises its share of the results of these equity-accounted operations after tax and interest in the income statement. Where necessary to ensure consistency with Group policy, the accounting policies of the investment have been adjusted. Goodwill may be recognised upon initial acquisition and is accordingly recorded as part of the cost of investment in the Group Balance Sheet.

The Group's interests in its joint operations are accounted for by recognising its share of the assets, liabilities, revenue and expenses of the operation. In these arrangements, the Group's share of the revenue will be eliminated as these relate to its purchased share of the output from the arrangement. Details are included at note 15.

#### Transactions eliminated on consolidation

Intra-Group balances and any unrealised gains and losses or income and expenses arising from Intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

### A1.2 Accounting policies

#### Revenue recognition: energy, services and goods relating to the sale of energy

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and that the revenue can be reliably measured. Revenue comprises sales of energy, use of system income, gas production revenue, gas storage facility revenue, the value of contracted services and facilities provided and goods sold during the year in the normal course of business.

Revenue on energy sales comprises sales to retail end-user customers including an estimate of the value of electricity and gas supplied to customers between the date of the last meter reading and the year end. Revenue on energy sales also includes monies received from the electricity and gas balancing markets in the UK and other wholesale market energy sales. Unread energy sales are estimated using historical consumption patterns taking account of industry volume reconciliation processes.

Revenue from sales and optimisation trades in physical and financial energy and commodity contracts is recognised gross in the income statement.

Revenue associated with business interruption insurance claims is recognised as revenue in the income statement only when it is virtually certain that the claim will be successful.

Revenue from use of energy systems includes an estimation of the volume of electricity distributed or transmitted by customers based on independently procured electricity settlement systems data. Annual revenue is dependent on being approved by the industry regulator, Ofgem. Certain circumstances may result in the regulatory 'allowed' income being over- or under-recovered in the financial year. Any over- or under-recovery is included in the calculation of the following year's regulatory use of system revenue within agreed parameters. No adjustment is made for over- or under-recoveries in the year that they arise.

Revenue from the production of natural gas, crude oil and condensates is recognised when title passes to the customer. The Group has an interest with other producers in joint ventures and associates for the production of such products.

## Accompanying information continued for the year ended 31 March 2015

### A1. Basis of consolidation and significant accounting policies continued

Revenue under these arrangements is recognised based on the entitlement method in reference to the Group's interest and the relevant production sharing terms. Where there are differences between the Group's share of production and the volume sold, an overlift or underlift is recorded (see below).

Where the Group has an ongoing obligation to provide services, revenues are recognised as the service is performed and amounts billed in advance are treated as deferred income and excluded from current revenue. For network connections activity from 1 November 2009, the revenue recognition rules of IFRIC 18 have been applied, whereby income is recognised over the course of completion of the associated capital works unless there is a future service obligation, in which case revenue is recognised over the service period. Revenue from fixed-fee service contracts is recognised over the life of the contract, in relation to the benefit received by the customer.

Gas storage facilities revenues are recognised evenly over the contract period, whilst revenues for the injection and withdrawal of gas are recognised at the point of gas flowing into or out of the storage facilities.

Sales of goods are recognised when goods are delivered and title has passed, along with the risks and rewards of ownership.

#### **Overlift and underlift**

In relation to the Group's gas production activities, it is often not practical for each participant to receive or sell its precise share of the overall production from a jointly controlled operation under the contractual offtake arrangements in any given period. These short-term imbalances between cumulative production entitlement and cumulative sales are referred to as overlift and underlift. An overlift payable, or underlift receivable, is recognised at the balance sheet date and measured at market value, with movements in the period recognised within cost of sales.

#### **Exploration, evaluation and production assets**

The Group uses the successful efforts method of accounting for exploration and evaluation expenditure associated with exploration wells or 'prospects'. This expenditure will be capitalised initially within intangible assets and will include licence acquisition costs associated with the prospects. If the prospects are subsequently determined to be successful on completion of the evaluation period, the relevant expenditure will be transferred to property, plant and equipment and depreciated on a unit of production basis. If the prospects are subsequently determined to be unsuccessful on completion of the evaluation period, the intangible asset will be expensed in the period in which that determination is made.

All field development costs, including rights and concessions related to production activities, are capitalised as property, plant and equipment. Capitalised costs relate to the acquisition and installation of production assets and facilities and includes specialist engineering, drilling and technical services costs. These property, plant and equipment assets are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on the proven and probable reserves of those fields. Changes in these estimates are dealt with prospectively.

The carrying value of exploration prospects is regularly compared on an individual field basis with the expected discounted future net revenues associated with the remaining commercial reserves. An impairment loss will be recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues. All exploration and production assets are reviewed annually for indicators of impairment.

#### **Government grants**

A government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same years in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement on a systematic basis over the useful life of the asset to match the depreciation charge.

#### **Leases**

The determination of whether an arrangement contains a lease is dependent on whether the arrangement relates to use and control of a specific asset. Leases are classified as finance leases if the arrangement transfers substantially all the risks and rewards of ownership to the lessee. All other leases are categorised as operating leases.

##### **(i) Operating lease obligations**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

##### **(ii) Finance lease obligations**

Assets held under finance leases are capitalised and held as part of property, plant and equipment. The accounting policy for such arrangements is described on page 191.

### **A1.3 Foreign currencies**

The consolidated financial statements are presented in pounds sterling, which is the functional currency of the Company and the Group's presentational currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured accordingly.

## A1. Basis of consolidation and significant accounting policies continued

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Any gain or loss arising on the restatement of such items is taken to the income statement with the exception of exchange gains or losses on foreign currency borrowings that provide a hedge against a net investment in a foreign entity or exchange gains or losses incurred as part of a qualifying cash flow hedge. Exchange gains or losses on net investment hedges are taken against the consolidated translation reserve, a separate component of equity, to the extent the hedge is effective. Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated at the historic rate at the date of transaction.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into pounds sterling at the balance sheet closing rate. The results of these operations are translated at the average rate in the relevant period. Exchange differences on retranslation of the opening net assets and the results are transferred to the translation reserve and are reported in the statement of recognised income and expense. Exchange differences on foreign currency borrowings, foreign exchange contracts or foreign currency swaps used as part of a hedge against net investment in a foreign entity are transferred to the translation reserve.

### **Finance income and costs**

Finance income comprises interest receivable on funds invested in short term deposits and the Group's interests in joint ventures and associates and from interest rate derivative receipts. Finance costs comprise interest payable on borrowings and finance leases, the release of discounting on provisions, interest on net pension scheme liabilities, interest rate derivative payments and accretion of the debt component on the convertible loan less capitalised interest.

Interest on the funding attributable to major capital projects is capitalised during the years of construction and depreciated as part of the total cost over the useful life of the asset.

Interest income and costs are recognised in the income statement as they accrue, on an effective interest method. The issue costs and interest payable on bonds and all other interest payable and receivable is reflected in the income statement on the same basis.

### **Taxation**

Taxation on the profit for the year comprises current and deferred tax. Taxation is recognised in the income statement unless it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities other than in business combinations that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset within the same tax authority and where the Company intends to either settle them on a net basis, or to realise the asset and settle the liability simultaneously. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **Dividends**

Dividend income is recognised on the date the Group's right to receive payments is established. Dividend liabilities are recognised on the date the Group's obligation to pay dividends is established.

## A1.4 Property, plant and equipment

### **(i) Owned assets**

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairments. The cost of self-constructed assets includes the cost of materials, direct labour and other directly attributable costs. All items of property, plant and equipment are accounted for under the cost model within IAS 16. The purchase price of an asset will include the fair value of the consideration paid to acquire the asset. Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment, and depreciated accordingly. An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

### **(ii) Leased assets**

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Assets held under finance leases are recognised as part of the property, plant and equipment of the Group at the fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

## Accompanying information continued for the year ended 31 March 2015

### A1. Basis of consolidation and significant accounting policies continued

Benefits received and receivable as an incentive to enter into an operating lease are also allocated on a straight line basis over the lease term.

#### (iii) Hydro civil assets

The Group is obliged under the Reservoirs Act 1975 to maintain its hydro infrastructure network, including its dams, tunnels and other hydro civil engineering structures (hydro civil assets). All items of property, plant and equipment within hydro civil assets, with the exception of land, are subject to depreciation.

In accordance with the transition provisions of IFRS 1, the Group identified the carrying value of these assets at privatisation and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, has been subject to depreciation over a useful economic life of 100 years. All subsequent maintenance expenditure is chargeable directly to the income statement.

#### (iv) Depreciation

Depreciation is charged to the income statement to write off cost, less residual values, on a straight line basis over their estimated useful lives with the exception of Gas Production Assets which are depreciated on the Units of Production basis. Heritable and freehold land is not depreciated. Depreciation policy, useful lives and residual values are reviewed at least annually, for all asset classes to ensure that the current method is the most appropriate. Depreciation commences following the asset commissioning period and when the asset is available for commercial operation. The estimated useful lives for assets depreciated on a straight line basis are as follows:

	Years
Hydro civil assets	100
Thermal and hydro power stations including electrical and mechanical assets	20 to 60
Operating wind farms	20 to 25
Overhead lines, underground cables and other network assets	40 to 80
Gas storage facilities	25 to 50
Other transmission and distribution buildings, plant and equipment	10 to 45
Office buildings	30 to 40
Shop and office refurbishment, fixtures, IT assets, vehicles and mobile plant	3 to 10

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

#### (v) Subsequent expenditure

It is the Group policy to capitalise qualifying replacement expenditure and depreciate it over the expected useful life of the replaced asset. Replaced assets are derecognised at this point and the costs recorded as costs of disposal. Where an item of property, plant and equipment is replaced and it is not practicable to determine the carrying amount of the replaced part, the cost of the replacement adjusted for inflation will be used as an approximation of the cost of the replaced part at the time it was acquired or constructed.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the item of property, plant and equipment to which it relates.

#### (vi) Derecognition

An item of property, plant or equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are determined by comparing the proceeds received with the carrying amount of the asset and are included in the income statement. Any gain or loss on derecognition of the asset is included in the income statement in the period of derecognition.

### A1.5 Business combinations

The acquisition of subsidiaries is accounted for under the purchase method. The acquired business is measured at the date of acquisition as the aggregate fair value of assets, liabilities and contingent liabilities as required under IFRS 3 Business Combinations. The excess of the cost of acquisition over the fair value of the acquired business is represented as goodwill. For combinations taking place from 1 April 2010, contingent consideration classified as a liability will be subsequently re-measured through the income statement under the requirements of the revised IFRS 3. Pre-existing relationships are recognised and, together with all acquisition-related costs, are expensed.

## A1. Basis of consolidation and significant accounting policies continued

### A1.6 Intangible assets

#### (i) Goodwill and impairment testing

Goodwill arising on a business combination represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or joint venture at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least on an annual basis.

For the purpose of impairment testing, goodwill is allocated on initial recognition to those cash-generating units expected to benefit from the combination's synergies. The cash-generating units used for goodwill impairment testing purposes will represent how goodwill was attributed but may not represent reportable business segments.

If the carrying amount of the cash-generating unit exceeds its recoverable amount, an impairment charge will be recognised immediately in the income statement and, in relation to the impairment of goodwill, will not be subsequently reversed. The recoverable amount is the higher of the cash-generating unit's fair value less costs to sell and its value-in-use. Value in use calculations require the estimation of future cash flows to be derived from the respective CGUs (or assets) and the selection of an appropriate discount rate in order to calculate their present value. The fair value less costs to sell methodology used for wind farms CGUs also requires the discounting of cash flows from the projects within the respective CGUs. The estimation of the timing and value of underlying projected cash flows and the selection of appropriate discount rates involves management judgement. The impairment charge will initially be adjusted against the goodwill allocated to the cash-generating unit. Thereafter, the remaining assets of the cash-generating unit will be written-down proportionately.

Goodwill may also arise upon investments in jointly-controlled entities and associates. Such goodwill is recorded within the carrying amount of the Group's investment and any impairment loss is included within the share of result from jointly-controlled entities and associates. On disposal or closure of a previously acquired business, any attributed goodwill will be included in determining the profit or loss on disposal.

#### (ii) Research and development

Expenditure on research activities is charged to the income statement as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products or processes, is capitalised if the product or process is considered to be technically and commercially feasible and the Group intends to complete the intangible asset for use or for sale.

#### (iii) Allowances and emissions

The European Emissions trading scheme (EU ETS) has been in operation since 1 January 2005. The IASB withdrew IFRIC 3 Emission Rights in June 2005 and it has not been replaced with definitive guidance or interpretation for CO<sub>2</sub> ("carbon") emissions trading. Carbon allowances purchased are recorded at cost within intangible assets. A liability is recognised based on the level of emissions recorded. Up to the level of allowances held, the liability is measured at the cost of purchase. When the carbon emission liability exceeds the carbon allowances held, the net liability is measured at market value selling price. Movements in the market value of the liability are recognised in operating profit. Forward carbon contracts are measured at fair value with gains or losses arising on re-measurement being recognised in the income statement.

The carbon allowance intangible asset is surrendered at the end of the compliance period to the extent requested reflecting the consumption of the economic benefit and is recorded as being utilised. As a result, no amortisation is booked but an impairment charge may be recognised should the carrying value of allowances exceed market or fair value.

Under the Renewable Obligations Certificates (ROCs) scheme, certificates obtained from own generation are awarded by a third party, Ofgem. Self-generated certificates are recorded at market value and purchased certificates are recognised at cost, both within intangible assets. The liability under the renewables obligation is recognised based on electricity supplied to customers, the percentages set by Ofgem and the prevailing market price. The intangible asset is surrendered at the end of the compliance period reflecting the consumption of economic benefit. As a result no amortisation is recorded during the period.

#### (iv) Development assets

Costs capitalised as development intangibles represent the costs incurred in bringing individual projects to the consented stage. These include wind farm developments, thermal generation and gas storage projects, prospective gas production assets and other developments relating to proven technologies. Costs associated with reaching the consent stage include options over land rights, planning application costs and environmental impact studies. These may be costs incurred directly or part of the fair value exercise on acquisition of a controlling interest in a project. The asset is subject to impairment testing on an annual basis until this time. At the point that the project reaches the consent stage and is approved by the Board, the carrying value of the project is transferred to property, plant and equipment as assets under construction. Once in a position, depreciation will be charged over the expected useful life of the asset. The asset is derecognised on disposal, or when no future economic benefits are expected from their use.

## Accompanying information continued for the year ended 31 March 2015

### A1. Basis of consolidation and significant accounting policies continued

#### (v) Other intangible assets

Other intangible assets that have been acquired by the Group including brands are stated at cost less accumulated amortisation and impairment losses. Software licenses are stated at cost less accumulated amortisation. Expenditure on internally generated brands is expensed as incurred. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of these other intangible assets. The amortisation periods utilised are as follows:

	Years
Brand values	10
Developed software assets and application software licences	5–10
Customer lists	5
Contracts	Shorter of contract term or 5

The useful lives of all the intangible assets are reviewed annually and amended, as required, on a prospective basis.

#### A1.7 Impairment review

The carrying amounts of the Group's assets, other than inventories or deferred tax, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there is evidence of impairment, the recoverable amount associated with the asset, being the higher of the fair value less costs to sell and the value-in-use of the asset, is estimated to determine the extent of any such impairment. For goodwill and other intangible assets with an indefinite life or which are not ready for use, the test for impairment is carried out annually. For financial assets measured at amortised cost the impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The estimation of the timing and value of underlying projected cash flows and the selection of appropriate discount rates involves management judgement. For property, plant and equipment assets exhibiting indications of impairment, the review of impairment will be performed annually until there is sufficient evidence to confirm that any potential impairment loss has been appropriately recognised. In this circumstance, for example certain thermal generation plants that are able to be assessed independently, the value-in-use method will be applied to ascertain the extent of any potential impairment charge. Subsequent changes to these estimates or judgements may impact the carrying value of the assets within the respective CGUs. Impairments of property, plant and equipment will only be reversed if there has been a significant increase in the recoverable amount associated with the asset. Gas production and development assets are assessed under the fair value less costs method for the respective CGUs. This is deemed more appropriate as it is based on post-tax cash flows arising from each field within the respective CGUs, which is consistent with the approach taken by management in determining the economic value of the underlying assets. This is determined by discounting the post-tax cash flows expected to be generated by the CGU, net of associated selling costs, and takes into account assumptions market participants would use in estimating fair value.

#### A1.8 Inventories and work in progress

Inventories are valued at the lower of cost (on a first-in, first-out basis) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of fuel stocks is based on the weighted average principle. The valuation of work in progress is based on the cost of labour, the cost of contractors, the cost of materials plus other directly attributable costs.

#### A1.9 Recognition of revenue and profit on construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured as the proportion of cost incurred on work performed to date compared to the estimated total contract cost, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. When it becomes probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately in the income statement.

#### A1.10 Employee benefit obligations

##### (i) Defined benefit pension schemes

The Group operates two defined benefit pension schemes, one of which is operated by the Company. Pension scheme assets are measured using bid market values. Pension scheme liabilities are measured using the projected unit credit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Any increase in the present value of liabilities within the Group's defined benefit pension schemes expected to arise from employee service in the year is charged as service costs to operating profit.

Net interest costs are based on net schemes' liabilities adjusted for minimum funding requirement and pension surplus restrictions under IFRIC 14. Actuarial gains and losses are recognised in full in the consolidated statement of comprehensive income. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet.

##### (ii) Defined contribution pension schemes

The Group also operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amounts charged represent the contributions payable to the schemes in the year and are charged directly to the income statement.

## A1. Basis of consolidation and significant accounting policies continued

### (iii) Equity and equity-related compensation benefits

The Group operates a number of employee share schemes as described in the Remuneration Report and note 31. These schemes enable Group employees to acquire shares of the Company.

The exercise prices of the sharesave scheme are set at a discount to market price at the date of the grant. The fair value of the sharesave scheme option granted is measured at the grant date by use of a Black-Scholes model. The fair value of the options granted is recognised as an expense on a straight-line basis over the period that the scheme vests. Estimates are updated for non-market conditions at each balance sheet date with any adjustment in respect of the current and prior years being recognised in the income statement. The costs associated with the other main employee schemes are recognised over the period to which they relate. The charge related to the equity shares in the Company awarded under the share schemes is treated as an increase in the cost of investment held by the Company in the subsidiary companies of the Group.

## A1.11 Financial instruments

The Group uses a range of financial instruments to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price fluctuations in its normal course of business and in accordance with the Group's risk management policies. The Group's risk management policies are further explained in note 32.

### (i) Interest rate and foreign exchange derivatives

Financial derivative instruments are used by the Group to hedge interest rate and currency exposures. All such derivatives are recognised at fair value and are re-measured to fair value each reporting period. Certain derivative financial instruments are designated as being held for hedging purposes. The designation of the hedge relationship is established at the inception of the hedge and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on re-measurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a 'fair value' or 'cash flow' hedge. Derivatives that are not designated as hedges are treated as if held for trading, with all fair value movements being recorded through the income statement.

A derivative classified as a 'fair value' hedge recognises gains and losses from re-measurement immediately in the income statement. Loans and borrowings are measured at cost except where they form the underlying transaction in an effective fair value hedge relationship. In such cases, the carrying value of the loan or borrowing is adjusted to reflect fair value movements with the gain or loss being reported in the income statement.

A derivative classified as a 'cash flow' hedge recognises the portion of gains or losses on the derivative which are deemed to be effective directly in equity in the hedge reserve. Any ineffective portion of the gains or losses is recognised in the consolidated income statement. When hedged cash flows result in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged cash flows affect the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At the point of discontinuation, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction affects profit or loss. On settlement, the cumulative gain or loss recognised in equity is recognised in the income statement.

### (ii) Commodity derivatives

Within its regular course of business, the Group routinely enters into sale and purchase derivative contracts for commodities such as electricity, gas, coal, carbon allowances and oil. Where the contract was entered into and continues to be held for the purpose of receipt or delivery in accordance with the Group's expected sale, purchase or usage requirements, the contracts are designated as 'own use' contracts and are measured at cost. These contracts are not within the scope of IAS 39.

Derivative commodity contracts which are not designated as own use contracts are accounted for as trading derivatives and are recognised in the balance sheet at fair value. Where a hedge accounting relationship is designated and is proven to be effective, the changes in fair value will be recognised in accordance with the rules noted in part (i) to this note. There are currently no designated hedge relationships in relation to commodity contracts.

Other commodity contracts, where own use is not established and a hedge accounting relationship is not designated, are measured at fair value with gains and losses on re-measurement being recognised in the income statement in cost of sales.

### (iii) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives where the characteristics of the derivatives are not closely related to those of the host contracts.

### (iv) Net investment hedges

Hedges of net investments in foreign operations are accounted in a manner similar to effective cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity, in the translation reserve, and any gain or loss on the ineffective portion of the hedge is recognised in the income statement. On disposal of the foreign operation, the cumulative value of any gains or losses recognised directly in equity is transferred to the income statement.

## Accompanying information continued for the year ended 31 March 2015

### A1. Basis of consolidation and significant accounting policies continued

#### (v) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### (vi) Trade receivables

Trade receivables do not carry any interest and are measured at cost less an appropriate allowance for irrecoverable receivables.

#### (vii) Interest-bearing loans and borrowings

All such loans and borrowings are initially recognised at fair value including transaction costs and are subsequently measured at amortised cost, except where the loan or borrowing is the hedged item in an effective fair value hedge relationship.

#### (viii) Share capital

Ordinary shares are accounted for as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received.

#### (ix) Hybrid capital

Hybrid capital comprises issued bonds that qualify for recognition as equity. Accordingly, any coupon payments are accounted for as dividends and are recognised directly in equity at the time the payment obligation arises. This is because the coupon payments are discretionary and relate to equity. Coupon payments consequently do not have any impact on the income statement. Coupon payments are recognised in the cash flow statement in the same way as dividends to ordinary shareholders. Tax credits in relation to the coupon payments are linked to the past transactions or events that support the coupon payments and consequently the tax credits are reported in the income statement.

### A1.12 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### A1.13 Decommissioning costs

The estimated cost of decommissioning at the end of the useful lives of certain assets is reviewed periodically. Provision is made for the net present value of the estimated cost of decommissioning gas production facilities at the end of the producing lives of fields, and gas storage facilities and power stations at the end of the useful life of the facilities. The estimates are based on technology and prices at the balance sheet date. A corresponding decommissioning asset is recognised and is included within property, plant and equipment when the provision gives access to future economic benefits. Changes in these provisions are recognised prospectively. For offshore wind assets, power stations and gas storage facilities the unwinding of the discount on the provision is included in finance costs and the depreciation for the asset is straight-line over the expected useful life of the asset. For gas production facilities the decommissioning asset is amortised using the unit of production method, based on proven and probable reserves.

### A1.14 Held for sale assets and liabilities

Non-current assets are classified as held for sale if their recoverable value is likely to be recovered via a sale opposed to continued use by the group. In order to be classified as non-current assets held for sale, assets must meet all of the following conditions; sale highly probable, available for immediate sale, being actively marketed and the sale is likely to occur within one year.

Non-current assets determined as held for sale are measured at the lower of carrying value and fair value less costs to sell, no depreciation is charged in respect of these assets after classification.

## A2. Subsidiary undertakings

Details of the principal subsidiary undertakings are as follows:

	Country of Incorporation	2015 Holding %	2014 Holding %	Principal Activity
SSE Services plc (I)	England and Wales	100	100	Corporate support services
SSE Energy Supply Limited (I)	England and Wales	100	100	Electricity supply
SSE Generation Limited (I)	England and Wales	100	100	Electricity generation
Medway Power Limited (II)	England and Wales	100	100	Electricity generation
SSE Generation Ireland Limited (II)	Ireland	100	100	Electricity generation
Keadby Generation Limited (II)	England and Wales	100	100	Electricity generation
Southern Electric Gas Limited (VI)	England and Wales	100	100	Gas supply
Clyde Windfarm (Scotland) Limited (IX)	Scotland	100	100	Renewable electricity generation
Griffin Wind Farm Limited (XI)	Scotland	100	100	Renewable electricity generation
SSE Renewables Developments (UK) Limited (VIII)	Northern Ireland	100	100	Wind generation development
Keadby Wind Farm Limited (IX)	England and Wales	100	100	Renewable electricity generation
SSE Renewables UK Limited (I)	Northern Ireland	100	100	Renewable electricity generation
SSE Airtricity Limited (III)	Ireland	100	100	Energy supply
SSE Airtricity Energy Supply (NI) Limited (IX)	Northern Ireland	100	100	Energy supply
Scottish Hydro Electric Transmission plc (IV)	Scotland	100	100	Transmission of electricity
Scottish Hydro Electric Power Distribution plc (IV)	Scotland	100	100	Distribution of electricity
Southern Electric Power Distribution plc (IV)	England and Wales	100	100	Distribution of electricity
SSE Metering Limited (I)	Scotland	100	100	Meter reader and operator
SSE Contracting Limited (V)	England and Wales	100	100	Electrical contractor
SSE Hornsea Limited (I)	England and Wales	100	100	Gas storage
SSE E&P UK Limited (I)	Scotland	100	100	Gas exploration and production
SSE Telecommunications Limited (I)	Scotland	100	100	Telecommunication services
Neos Networks Limited (VII)	England and Wales	100	100	Telecommunication services

The above companies' shares consist of ordinary shares only. All companies operate in the UK and Ireland. All companies have accounting periods ending on 31 March. The Group has other subsidiary undertakings which do not significantly affect the results and position disclosed in these financial statements. A full list of the subsidiary undertakings will be included in the company's annual return.

Shares in the above subsidiaries are held by:

- (I) SSE plc
- (II) SSE Generation Limited.
- (III) SSE Renewables Holdings Limited
- (IV) Scottish and Southern Energy Power Distribution Limited.
- (V) SSE Contracting Group Limited.
- (VI) SSE Energy Supply Limited.
- (VII) SSE Telecommunications Limited.
- (VIII) SSE Renewables Holdings (UK) Limited
- (IX) SSE Renewables Group (UK) Limited
- (X) SSE Renewables Developments (UK) Limited
- (XI) Griffin Wind Farm (Holdings) Limited
- (XII) SSE Renewables Limited

## Accompanying information continued for the year ended 31 March 2015

### A2. Subsidiary undertakings continued

#### A2.1 Service concession arrangements

In 50:50 partnership with Royal Bank Leasing Limited, the Group established three companies to provide street lighting services to councils under the Private Finance Initiative (PFI). These services are thereafter sub-contracted to SSE Contracting Limited, a wholly owned subsidiary of the Group. The companies established are as follows:

Company	Council
Tay Valley Lighting (Stoke on Trent) Limited	Stoke-on-Trent
Tay Valley Lighting (Newcastle and North Tyneside) Limited	Newcastle and North Tyneside
Tay Valley Lighting (Leeds) Limited	Leeds City Council

Under IFRS 10, despite being 50% owned, these companies are categorised as subsidiaries and deemed to be controlled by the Group due to the Group being assessed as bearing the majority of the risks and rewards associated with the companies. The debt associated with these companies is non-recourse to the Group. The arrangements for all three companies are materially similar.

In addition to these, the Group owned 100% of the share capital of a number of entities which perform similar services under eight PFI contracts. On 11 November 2014, the Group completed the disposal of seven\* of these companies (see note 17.2). The remaining company, Dorset Lighting Limited, is held for sale at 31 March 2015. The terms of the service concession arrangement were similar to those operated by the companies noted above. The council and respective contract holding company previously owned (or held for sale) by the Group were as follows:

Company	Council
Dorset Lighting Limited	Dorset County Council
Ealing Lighting Limited*	London Borough of Ealing
Islington Lighting Limited*	London Borough of Islington
Tay Valley Lighting (Hampshire) Limited*	Hampshire County Council
Tay Valley Lighting (Southampton) Limited*	Southampton City Council
Tay Valley Lighting (West Sussex) Limited*	West Sussex County Council
Tay Valley Lighting (Nottingham) Limited*	Nottingham County Council
Tay Valley Lighting (Knowsley) Limited*	Knowsley Metropolitan Borough Council

#### (i) Characteristics of the arrangements

##### Description

The contracts are and were 25 year arrangements to replace ageing street-lighting stock and to subsequently maintain the new assets throughout each Councils' areas.

##### Significant terms

The cash flows under the PFI arrangements come from the unitary charge for these services paid by the Councils. The unitary charge can only be adjusted if performance under the contract falls below the required standards. Any significant change to the services proposed by either party is subject to a formal change procedure and agreement to such a change is required by the other party.

##### Nature and extent of rights and obligations

The assets are part of the public highway and ownership of the assets remains with the Councils. The contract holding companies are licensed to replace and maintain the assets for the period of the contract. This obligation was (and is) passed down to SSE Contracting Limited or to other companies within the SSE Contracting group of companies through the operating sub-contract. Any failure to provide the services to the required standards will result in financial penalties which are taken from the unitary charge.

The companies have 25 year contracts with no extension options. Termination during this period can be initiated through a number of routes including service provider default, force majeure or the event of a risk becoming uninsurable, authority default, voluntary authority termination, or termination for a prohibited act or breach of refinancing provisions. In all cases, a formula exists for calculating compensation payments to the service provider.

Throughout the contract period there are a number of circumstances under which the companies could potentially be required to provide additional services:

#### A2.2 Changes in the law

If circumstances arise where by a change in legislation would mean a change in the way the services are to be provided the companies would be liable for part of the cost of this change. This liability is capped.

#### A3. Final survey

The Councils have the ability to deduct a percentage of the unitary charge in the last two years if an independent survey indicates the assets are unlikely to have a 5-year residual life.

## Independent auditor's report to the members of SSE plc

### 1. Our opinion on the financial statements is unmodified

We have audited the financial statements of SSE Plc for the year ended 31 March 2015 set out on pages 115 to 198. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2015 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

### 2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

The risk	Our response
<b>Accounting for estimated revenue (£1.1 billion included within total external group Energy Supply revenues of £8.0 billion)</b>	
Refer to page 86 (Audit Committee statement), notes 3.1 and A1.2 (accounting policy) and note 19 (financial disclosures)	
Certain of the Group's energy sales revenues are based on estimates of the values of electricity and gas supplied to customers between the date of the last meter reading and the year end ("estimated revenues") where no bill has been issued at the year end date.	For estimated revenue our audit procedures included performing various analytical procedures using actual data to allow us to set expectations as to the likely level of estimated revenue and comparing this with the group's estimate, obtaining explanations for significant differences. We also challenged the group's assumptions relating to volume and price used in determining the level of estimated revenue, as follows:
The method of estimating such revenues is complex and judgemental and requires estimates and assumptions being made to:	<p><b>Volume</b>            We agreed the core volume data underlying the calculation of the estimated volumes into purchases, sales and other systems having performed sample testing of the key controls on these systems.</p> <p>We compared the estimated volume determined by the Group with benchmarks that the Group had also calculated using internal and external information and analysed and sought explanations for variances from that benchmark.</p> <p><b>Price</b>            We also challenged the assumptions of price per unit by comparing the price applied with historical and current trends and data. Further, we assessed the overall consistency of the assumptions and of the inputs to the calculation of estimated value of revenue.</p> <p>We also considered the adequacy of the group's disclosures in this area.</p>
<b>Recoverability of retail receivables (£0.8 billion)</b>	
Refer to page 86 (Audit Committee statement), notes 3.1 and A1.2 (accounting policy) and notes 19 and 32 (financial disclosures)	
The group's billed energy revenues result in significant receivables with customers and, given the challenging economic climate and the increase in energy prices over recent years, the risk of customer insolvency remains high, resulting in significant judgement being applied in the group's assessment of the recoverability of these receivables.	Our audit procedures included: testing the group's controls over the receivables collection processes; considering the receipt of cash after the year-end; and testing the adequacy of the group's provisions against trade receivables by assessing the relevant assumptions, taking account of our own knowledge of recent collections experience in this industry and also historical data from the group's previous collections experience. We also considered the adequacy of the group's disclosures in this area.

## Independent auditor's report continued to the members of SSE plc

The risk	Our response
<b>Carrying value of certain non-current assets which aggregate to £12.1 bn</b> Refer to page 86 (Audit Committee statement), notes 3.1 and A1.7 (accounting policy) and notes 6, 13 and 14 (financial disclosures)	
The recovery of certain non-current assets, including power generation assets, gas storage assets and gas reserves (both included within property, plant and equipment), goodwill and development assets (included within intangible assets), depends on achieving sufficiently profitable business in the future.	In this area our audit procedures included: challenging the group's calculation of value in use or fair value less costs to sell, as appropriate, and the calculation of impairment charges during the year. This included obtaining evidence to support key assumptions such as earnings and cashflow forecasts included in the impairment review for each CGU or asset tested on a stand-alone basis, and discount rate assumptions used by the directors. We compared the Group's assumptions, where possible, to externally derived data or to our expectations based on our industry knowledge. For example we compared the discount rate to those applied by companies operating in a similar environment to the group and we compared earnings forecasts with budgets used within the business for other purposes in assessing whether the Group's assessment was reasonable. We also considered the adequacy of the group's disclosures in this area.
As these non-current assets mainly relate to the production of electricity, the assessment of future profitability is dependent on many factors, including the operating efficiency and the input costs of running the relevant plant relative to others and the expected electricity prices, all of which are impacted by political and economic factors in the UK and globally.	
Assets are reviewed, either on a stand-alone basis or as part of a wider cash-generating unit ("CGU"), for impairment using either a value in use or fair value less costs to sell model. The outcome of these impairment reviews could vary significantly if different assumptions were applied in the model. Therefore this is considered to be a significant audit risk.	
<b>Accounting for legal and other contractual claims</b> Refer to page 86 (Audit Committee statement), note 3 and A1.12 (accounting policy) and note 26 (financial disclosures)	
The group's operations expose it to the risk of litigation and contractual claims (particularly in relation to significant capital projects) from third parties. Due to the range of potential outcomes and the considerable uncertainty around the resolution of various claims, the determination of the amount, if any, to be recorded in the financial statements as a provision is inherently subjective and therefore this is considered to be a significant audit risk.	In this area our audit procedures included the following: we reviewed board meeting minutes and considered claims raised against the group by third parties, inspected relevant external legal advice received by the group in connection with such claims and obtained formal confirmation from the group's external solicitors on the status of any legal claims with which the group is dealing. We also considered the group's disclosures relating to provisions and/or contingent liabilities for legal and other contractual claims.
<b>Valuation of the group's pension obligations (the group reflects a net defined benefit pension liability of £0.7 billion)</b> Refer to page 86 (Audit Committee statement), note 3 and A1.10 accounting policy) and note 30 (financial disclosures)	
The valuation of the group's pension obligations requires significant judgment and estimation to be applied across numerous assumptions. The matter is considered to be a significant risk as small changes in the assumptions can have a material financial impact on the results and financial position of the Group given the size of the deficit.	In this area our audit procedures included challenging the key assumptions supporting the Group's retirement benefit obligations valuation, with input from our own actuarial specialists. This included a comparison of the discount and inflation rates and other assumptions used against benchmarks developed by our internal actuaries and similar assumptions used by other groups with defined benefit pension schemes. Further, we considered the adequacy of the group's disclosures in the area of pension obligations.

### 3. Our application of materiality and an overview of the scope of our audit

In establishing the overall audit strategy, and performing the audit, materiality for the Group financial statements as a whole was set at £110 million, determined with reference to a benchmark of group profit before taxation, normalised to exclude exceptional items and certain remeasurements (movements on derivatives) as disclosed on the face of the income statement, of which it represents 7.3%.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £5 million in addition to other identified misstatements we believe warranted reporting on qualitative grounds.

Of the group's 57 reporting components, audits for group reporting purposes were performed at 12 components in the UK and Ireland. These audits covered 99% of Group revenue, 97% of Group profit before tax; and 99% of Group total assets. For the remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities, which ranged from £10 million to £25 million, having regard to the mix of size and risk profile of the Group across the components. The work on 2 of the 12 components was performed by component auditors and the rest by the Group audit team.

The Group audit team visited the component location in Reading, including to assess the audit risk and strategy. Telephone calls were also held with the partners of the component auditors and the majority of the others that were not physically visited. On these calls, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

### 4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006<sup>1</sup>
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### 5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 121, in relation to going concern;
- the part of the Corporate Governance Statement on pages 72 to 89 relating to the company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review; and

We have nothing to report in respect of the above responsibilities.

### Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 111, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

### William Meredith (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
191 West George Street, Glasgow, G2 2LJ

## Notes

## Notes

## Notes

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### Financial calendar 2015

Annual Report on sse.com/investors	22 June 2015
AGM (Perth) and IMS	23 July 2015
Ex-dividend date for final dividend	23 July 2015
Record date for final dividend	24 July 2015
Final date for Scrip elections	21 August 2015
Payment date	18 September 2015
Notification of Close Period	30 September 2015
Results for six months to 30 September	11 November 2015

## Website

The Company's website, [www.sse.com](http://www.sse.com), contains a wide range of information including a dedicated Investors section where you can find further information about shareholder services including:

- share price information;
- dividend history and trading graphs;
- the Scrip Dividend Scheme;
- telephone and internet share dealing; and
- downloadable shareholder forms.

## Digital news

We use a dedicated news and views website (available at [sse.com/newsandviews](http://sse.com/newsandviews)) and Twitter ([www.twitter.com/sse](http://www.twitter.com/sse)) to keep shareholders, investors, journalists, employees and other interested parties up-to-date with news from the Company.

## eCommunications programme

Sign up to our eCommunications Programme at [www.sse.com/investors/ecommssprogramme](http://www.sse.com/investors/ecommssprogramme) and receive shareholder documentation via e-delivery. As a thank you we will donate £2 on your behalf to our nominated environmental charity.

## Keep us informed

Keep us informed of changes to your email address by visiting [www.sse.com/investors/ecommssprogramme](http://www.sse.com/investors/ecommssprogramme) and follow the instructions under 'how to register or update your email address'.

## Copy reports

You can view the Annual Report 2015 by accessing the Company's website at [www.sse.com](http://www.sse.com).



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