SSE plc's financial report for the year to 31 March 2013

22 May 2013

	Mar 2013	Mar 2012	Change	Mar 2011
Total Recordable Injury Rate[1]	0.14	0.11	+27%	0.12
Environmental enforcements	0	0	-	0
Full-Year Dividend Per Share	84.2p	80.1p	+5.1%	75.0p
Adjusted Profit Before Tax*	£1,410.7m	£1,335.7m	+5.6%	£1,310.1m
Adjusted Profit After Tax*	£1,187.1m	£1,122.3m	+5.8%	£1,041.9m
Adjusted Earnings Per Share*	118.0p	112.7p	+4.7%	112.3p
Investment and Capital Expenditure	£1,485.5m	£1,706.9m	-13.0%	£1,443.7m
Customer Minutes Lost (SHEPD)	73	73	-	78
Customer Minutes Lost (SEPD)	65	60	+5 mins	64
Energy Customer Accounts (GB and Ire)	9.47m	9.55m	-0.8%	9.65m
GB customer complaints to third parties	942	896	+5.1%	1,161
Power Station Availability (Gas)	95%	94%	+1.1%	88%
Power Station Availability (Coal)	90%	89%	+1.1%	84%
Capacity for Renewable Energy[2]	3,240MW	3,020MW	+220MW	2,450MW

[1]Per 100,000 hours worked.
[2]Including pumped storage.
SSE's adjusted operating profit* was derived from Networks (48.8%), Retail (22.8%) and Wholesale (28.4%) businesses in the UK and Republic of Ireland.

CHAIRMAN'S STATEMENT

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

"The first week of April saw the Gas and Electricity Markets Authority propose a £10.5m penalty on SSE for breaches of licence conditions in relation to sales of electricity and gas, mainly between 2009 and 2011, which SSE accepted immediately. Like everyone else associated with SSE I have no hesitation in apologising unequivocally for the breaches that occurred; but while the breaches were clearly wrong, the response has been absolutely right.

"SSE has undertaken major reform of its Retail operations since 2011, including introducing at the end of that year a sales guarantee to make good any financial loss experienced by customers joining SSE, and launching earlier this year the industry's first-ever customer service guarantee, backed by a financial commitment. This is now SSE at its best too.

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

businesses and the robustness of its strategy of focusing on operations and investments in each of those businesses.

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

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

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

Lord Smith of Kelvin
Chairman, SSE plc

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

CONTINUING TO DELIVER THE DIVIDEND

STRATEGY AND FINANCE

Delivering sustained real growth in the dividend

- Full-year dividend up 5.1% to 84.2p per share
- Targeting annual dividend increases above RPI inflation in 2013/14 and beyond
- Adjusted earnings per share* up 4.7% to 118.0p
- Adjusted profit before tax* up 5.6% to £1,410.7m
- Exceptional charge of £584.7m; mainly continuing Wholesale market issues
- Capital investment of £1,485.5m in 2012/13, expected to be c.£1.5bn in 2013/14
- GB and Ireland acquisitions totalling £358.4m completed
- Adjusted net debt and hybrid capital up £591.9m to £7.35bn
- Medium/long-term funding, including hybrid capital, of £2bn secured at good rates
- Average debt maturity of 10.6 years

NETWORKS

Keeping the lights on and supporting growth

- Operating profit* up 18.9% to £876.1m due to investment and revenue timing/profile
- 48.8% contribution to SSE operating profit*
- Capital investment in electricity networks up 27.4% to £623.0m
- Estimated electricity transmission Regulated Asset Value (RAV) past £1bn mark
- Total network RAV (inc share of SGN) up 8.1% to over £6.3bn
- 2013-21 Price Controls confirmed for SHE Transmission and Scotia Gas Networks
- Successful operation to restore electricity on Arran and Kintyre in March 2013

RETAIL

Earning the right to make a profit

- Operating profit* of £410.1m, compared with £321.6m in 2012 and £400.5m in 2011
- 22.8% contribution to SSE operating profit* (Energy Supply contribution 20.3%)
- Energy Supply profit margin 4.2%; again below expected medium-term average
- GEMA £10.5m proposed penalty for past licence breaches accepted
- Around 5,000 Sales Guarantee payments 3 April to 17 May; average payment of £80
- Balance of £5m Sales Guarantee fund to be paid to fuel poverty-related charities
- Energy customer accounts (GB, Ire) down 80,000 (0.84%) to 9.47million
- Average GB household gas consumption up 21%; electricity consumption up 5%
- New Customer Charter launched, including new Customer Service Guarantee

WHOLESALE

Securing the energy people and businesses need

- Operating profit* down by 16.2% to £509.5m due to challenging market conditions
- 28.4% contribution to SSE operating profit*
- Output from gas-fired power stations down 60%; from coal-fired stations up 23%
- 2,000MW of existing GB thermal generation capacity to cease operation in 2013/14
- Acquisition of thermal generation assets in Ireland completed in October 2012
- 220MW (net) of new capacity for renewable energy operational since 31 March 2012
- Output of electricity from hydro down 33%; output of electricity from wind up 34%
- Greater Gabbard claims settled; now confident about long-term structural integrity
- £25.5m gas production assets acquisition completed in November 2012
- £117m gas production assets acquisition completed in April 2013

Note: segmental operating profit % contributions presented before Corporate Unallocated.

STRATEGY AND FINANCE

Strategy

Continuing strategy for dividend growth
SSE's core purpose is to provide the energy people need in a reliable and sustainable way. In fulfilling this purpose, SSE requires the support of the shareholders who have invested in its shares, and it continues to believe their investment should be remunerated through the payment of dividends, for four key reasons:

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

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

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

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

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

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

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

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

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

Maintaining a balanced range of energy businesses through which to continue dividend growth
SSE has three reportable segments covering its Networks, Retail and Wholesale businesses:

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

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

As a result, SSE has a breadth of perspective on the energy sector that is complemented by a depth of knowledge that comes from it focusing on a defined geographical area and markets in Great Britain and in Ireland. This gives SSE a specialism and expertise in the operation of the energy sectors in Great Britain and Ireland, and it has unrivalled experience of them. This breadth of perspective and depth of knowledge, and accumulated management experience, mean SSE is able to make the most of its balanced range of energy businesses, its growing asset base and its range of investment options. This, in turn, gives SSE strong foundations from which to deliver the levels of profitability and the long term value required to support sustained real dividend growth. In addition, the risks to the achievement of that growth, such as volatility in energy markets, are contained by that balance and by the diversity of, and within, SSE's businesses, assets and investment options.

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

The first value is Safety, which is defined as: 'We believe all accidents are preventable, so we do everything safely and responsibly, or not at all'. In 2012/13, however, SSE's Total Recordable Injury Rate (TRIR) per 100,000 hours worked by employees was 0.14, compared with 0.11 in 2011/12. This disappointing result was the first increase in the SSE's TRIR since it was adopted as a key measure of safety performance in 2008/09. Nevertheless, SSE's long-term goal remains, quite simply, to achieve injury-free working. In support of that, it has created and is implementing a company-wide behavioural safety programme in which every employee is participating. Beyond the company itself, there was the extremely sad loss of the lives of two employees of contractors to SSE during 2012/13. SSE is prioritising the achievement of enduring improvements in the safety performance of its contractors so that standards are as high as possible.

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

In its response to the Ofgem announcement, SSE apologised unreservedly to any customers who were affected by the Licence Condition breaches in its Energy Supply business which

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

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

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

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

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

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

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

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

This new Price Control – RIIO ED-1 – will be agreed at a time of significant technological change as distribution companies aim to respond to changes in electricity production and consumption in innovative ways that minimise the financial and environmental costs and avoid disruption to customers associated with new overhead lines, underground cables or similar infrastructure. In this context, SSE's commitment to efficiency, responsiveness and

innovation should stand it in good stead, and the theme of its consultations on RIIO ED-1 is *Innovating for a greener, more efficient future.*

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

Renewing the commitment to build trust in energy supply

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

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

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

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

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

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

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

As part of its drive to build trust, SSE's emphasis is on being understood by, and connected with, customers, a strategy that will be particularly important as retail energy markets evolve and if energy consumption, as expected, continues to decline. In this context, SSE's ability to supply products other than electricity and gas will also prove to be important in the years

ahead and energy-related services have contributed 13% of the operating profit* of SSE's Retail business over the last three years.

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

While 'spark spreads' have remained low, the EU Large Combustion Plant Directive will require the closure by the end of 2015 of a significant amount of coal- and oil-fired power station capacity which has not been opted in to comply with the Directive's emission limit values (ELVs) for pollutants such as sulphur dioxide and nitrogen oxides. This includes almost 1,000MW of capacity at SSE's Ferrybridge power station. The EU Industrial Emission Directive represents a further tightening of ELVs and its effect will be to limit the amount of hours that capacity at coal-fired power stations can operate between 2016 and 2023 without being compliant with the new ELVs. Non-compliant (or 'opted-out') capacity will have to close when the hours are used up, or by the end of 2023.

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

- a reduction of at least 20% in the levels of greenhouse gas emissions across the EU, compared with 1990 levels; and
- an increase to at least 20% of all energy consumption being generated from renewable sources.

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

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

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

Dividend Per Share and Adjusted Earnings Per Share*

Increasing the dividend for 2012/13
SSE's first financial responsibility to its shareholders is to remunerate their investment through the payment of dividends. The Board is recommending a final dividend of 59.0p per share, to which a Scrip alternative is offered, compared with 56.1p in the previous year, an increase of 5.2%. This will make a full-year dividend of 84.2p per share, which is:

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

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

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

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

Adjusted earnings per share* has the straightforward benefit of defining the amount of profit after tax that has been earned for each Ordinary Share and so provides an important measure of underlying financial performance. Moreover, as stated in its Annual Report 2012, it is SSE's policy that dividend targets over the medium term should be consistent with the dividend being covered by its adjusted earnings per share* within a range of around 1.5 times.

In addition to financial performance, however, SSE's adjusted earnings per share* is influenced by two specific factors:

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

In the year to 31 March 2013, SSE's adjusted earnings per share* were 118.0p, based on 952.0 million shares, compared with 112.7p, based on 937.8 million shares, in the previous year.

Adjusted Profit Before Tax*

Increasing Adjusted Profit Before Tax*
These financial results for the year to 31 March 2013 are reported under International Financial Reporting Standards, as adopted by the EU. In line with its policy since 2005/06, SSE focuses on profit before tax before exceptional items, re-measurements arising from IAS

39, and after the removal of taxation on profits from jointly controlled entities and associates. As a result, this 'adjusted profit before tax*':

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

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

	Mar 13 £m	Mar 12 £m	Mar 11 £m	Mar 10 £m
Adjusted Profit before Tax*	**1,410.7**	**1,335.7**	**1,310.1**	**1,290.1**
Movement on derivatives (IAS 39)	(199.7)	(509.0)	1,423.3	399.8
Exceptional items	(584.7)	(551.6)	(625.0)	-
Tax on JCEs and Associates	(25.4)	(6.6)	3.3	(51.3)
Reported Profit before Tax*	600.9	268.5	2,111.7	1,638.6

	Mar 13	Mar 12 £m	Mar 11 £m	Mar 10 £m
Adjusted Profit before Tax*	1,410.7	1,335.7	1,310.1	1,290.1
Adjusted Current Tax Charge	(223.6)	(213.4)	(268.2)	(274.1)
Adjusted Profit after Tax*	**1,187.1**	**1,122.3**	**1,041.9**	**1,016.0**
Reported Profit after Tax**	425.9	197.8	1,504.5	1,235.5
Number of shares for basic and adjusted EPS (million)	952.0	937.8	927.6	921.9
Adjusted EPS* - pence	**118.0**	**112.7**	**112.3**	**110.2**
Basic EPS - pence	**44.7**	**21.1**	**162.2**	**134.0**

**After distributions to hybrid capital holders

Factors affecting Adjusted Profit before Tax*

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

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

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

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

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

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

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

- a 21% increase in average household consumption of gas by SSE's customers in Great Britain; and
- a 5% increase in average household consumption of electricity by SSE's customers in Great Britain.

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

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

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

- a liability arising from the valuation of financial instruments used by SSE to hedge its exposure to financial risks such as interest rates; and
- a liability relating to the valuation of forward purchase contracts for commodities such as gas, coal, oil, carbon and wholesale electricity that SSE, like all major energy suppliers, has to enter into to ensure that the future requirements of its customers are met.

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

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

The movement on derivatives under IAS 39 of £199.7m shown in the table above and on the face of the Income Statement is primarily due to the change in the commodity contract position between the 'in the money' position on 31 March 2012 and the 'out of the money' position on 31 March 2013, when the average contractual price was higher than the prevailing forward market price. SSE sets out these movements in fair value separately, as re-measurements, as the extent of the actual profit or loss arising over the life of the contracts giving rise to this liability will not be determined until they unwind.

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

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

Delivering Adjusted Profit Before Tax* in 2013/14

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

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

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

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

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

SSE believes that this balance and diversity within its range of market-based energy businesses and the extent of the operations and opportunities within those businesses, in addition to its economically-regulated Networks businesses, provides the best means of

enabling it to deliver a level of adjusted profit before tax* capable of supporting the achievement of its principal financial target for the year, a full-year dividend increase that is greater than RPI inflation.

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

Investment and Capital Expenditure

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

Investing for sustained real dividend growth
In 2010, SSE said that it expected its investment and capital expenditure would be in the range of £1.5bn to £1.7bn in each of the five years to March 2015. In 2012/13, its investment and capital expenditure totalled £1,485.5m, compared with £1,706.9m in the previous year. During the year there was investment of:

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

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

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

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

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

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

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

Making capital and investment expenditure decisions in 2013/14 and beyond
Central to SSE's strategy is 'efficient' investment in a balanced range of economically-regulated and market-based energy businesses. This means that investments should be:

- supportive of the strategic importance of maintaining a balance between, and diversity within, SSE's economically-regulated and market-based businesses;
- consistent with SSE's financial principles and so should achieve returns which are greater than the cost of capital (with an appropriate risk premium applied to the expected rate of return from individual projects where appropriate for construction, market, technology, regulatory or legislative reasons), enhance earnings and contribute to dividend growth; and
- governed, developed, approved and executed in an effective manner, consistent with SSE's Major Projects Governance Framework which is, itself, regularly updated.

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

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

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

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

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

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

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

Investing in gas distribution through Scotia Gas Networks (SGN)
In addition to its own capital and investment expenditure programme, SSE effectively has a 50% interest in SGN's capital and replacement expenditure, through its 50% equity share in that business which it acquired in 2005. SGN is self-financing and all debt relating to it is separate from SSE's balance sheet. Nevertheless, it is a very substantial business which gives SSE, through its 50% stake, a major interest in economically-regulated gas distribution. Since 2005, SSE has received from SGN dividends and shareholder loan interest totalling £414m, which compares with the £505m investment it made to acquire its 50% equity share in that year.

In 2012/13, a 50% share of SGN's capital and replacement expenditure was £199.0m, compared with £202.2m in the previous year. During 2012/13, SGN's RAV increased to £4.78bn (SSE share: £2.39bn), up from £2.8bn (SSE share: £1.4bn) when it was acquired.

Financial management and balance sheet

Key Performance Indicators	Mar 13	Mar 12	Mar 11
Adjusted net debt and hybrid capital (£bn)	7.35	6.76	5.89
Average debt maturity (years)	10.6	10.5	10.6
Adjusted interest cover[1] (excluding SGN)	5.4	5.9	7.3
Shares in issue at 31 March(m)	964.3	944.7	936.9
Shares in issue (weighted average) (m)	952.0	937.8	927.6

[1] including hybrid coupon

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

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

As a matter of policy, a minimum of 50% of SSE's debt is subject to fixed rates of interest. Within this policy framework, SSE borrows as required on different interest bases, with derivatives and forward rate agreements being used to achieve the desired out-turn interest rate profile. At 31 March 2013, after taking account of interest rate swaps, 87.8% of SSE's borrowings were at fixed rates.

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

The United Kingdom remains SSE's main area of operation, although business activities in the Republic of Ireland are also substantial. Transactional foreign exchange risk arises in respect of:

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

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

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

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

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

Adjusted Net Debt and Hybrid Capital	**Mar 13**	**Mar 12**	**Mar 11**
	£m	£m	£m
Adjusted Net Debt and hybrid capital	**(7,347.7)**	**(6,755.8)**	**(5,890.6)**
Less: hybrid capital	2,186.8	1,161.4	1,161.4
Adjusted Net Debt	**(5,160.9)**	**(5,594.4)**	**(4,729.2)**
Less: Outstanding Liquid Funds	(55.0)	(119.9)	(28.1)
Add: Finance Leases	(330.4)	(342.1)	(372.2)
Unadjusted Net Debt	**(5,546.3)**	**(6,056.4)**	**(5,129.5)**

Ensuring a strong debt structure through medium- and long-term borrowings
SSE's objective is to maintain a balance between continuity of funding and flexibility, with debt maturities set across a broad range of dates. Its average debt maturity, excluding hybrid securities, as at 31 March 2013 was 10.6 years, compared with 10.5 years at 31 March 2012.

SSE's debt structure remains strong, with around £5.4bn of medium/long term borrowings in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans. Around £1.5bn of medium-to-long-term borrowings will mature in the period to 31

March 2014. In March 2013, SSE secured £650m additional bank facilities which will be drawn down in the course of 2013/14, at which point they will become term loans. The table above also includes the issue by SSE of:

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

Any balance of SSE's adjusted net debt is financed with short-term commercial paper and bank debt. SSE's adjusted net debt includes cash and cash equivalents totalling £538.7m.

Keeping SSE well-financed

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

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

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

- completed in April 2012 a private placement of senior notes with 22 US-based investors for a total consideration of US$700m (equivalent to around £450m). The senior notes consist of four tranches with a weighted average maturity of 10.3 years and an all-in funding cost of around 4.25% once swapped to Sterling; and
- successfully issued in September 2012 hybrid capital securities comprising US$700m and €750m, which are perpetual and subordinate to all senior creditors, with an all-in euro funding cost to SSE of around 5.6% per annum.

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

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

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

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

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

In addition to funding sources, the Scrip Dividend Scheme approved by SSE's shareholders in 2010 gives them the option to receive new fully paid ordinary shares in the company in place of their cash dividend payments. It therefore reduces cash outflow and so supports the balance sheet, although the extent to which it will do so is inevitably difficult to predict. Scrip dividend take-up in 2012/13 was as follows:

- **September 2012:** A total of 30,369 shareholders elected to receive the final dividend for the year to 31 March 2012 of 56.1 pence per ordinary share in respect of 307,842,342 ordinary shares in the form of Scrip dividend, resulting in a reduction in

cash dividend funding of £172.7m. A total of 13,213,634 new ordinary shares, fully paid, were issued on 21 September 2012, representing an increase of 1.40% on the issued share capital on the dividend record date of 27 July 2012.

- **March 2013:** A total of 30,180 shareholders elected to receive the interim dividend for the year to 31 March 2013 of 25.2 pence per ordinary share in respect of 327,303,253 ordinary shares in the form of Scrip dividend, resulting in a reduction in cash dividend funding of £82.5m. A total of 5,920,120 new ordinary shares, fully paid, were issued on 22 March 2013, representing an increase of 0.62% on the issued share capital on the dividend record date of 25 January 2013.

This means that the cumulative cash dividend saving or additional equity capital resulting from the introduction of SSE's Scrip Dividend Scheme now stands at £489.5m. SSE's current Scrip Dividend Scheme expires in 2015.

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

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

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

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

Net Finance Costs

The table below reconciles reported net finance costs to adjusted net finance costs, which SSE believes is a more meaningful measure. In line with this, SSE's adjusted net finance costs during 2012/13 were £372.1m, compared with £322.1m in 2011/12.

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

[1]Jointly Controlled Entities

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

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

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

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

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

During 2012/13, employer cash contributions amounted to:

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

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

Tax

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

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

SSE's tax paid to the government in the UK, including Corporation Tax, Employers' National Insurance Contributions and Business Rates, totalled £312m during the year to 31 March 2013, compared with £396.4m in the previous year. In the last three financial years, SSE has paid £1bn in tax on that basis. The reduction in total tax paid in 2012/13 is the result of:

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

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

In January 2013, PricewaterhouseCoopers has announced the result of its UK 2012 Total Tax Contribution Survey for The Hundred Group, in which SSE ranked 17th for the level of total taxes borne (the amount a company pays that are its own tax costs).

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

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

For reasons already stated above, SSE's focus is on adjusted profit before tax* and in line with that the adjusted current tax charge is the tax measure that best reflects underlying performance. The effective adjusted current tax rate, based on adjusted profit before tax*, was 15.9%, compared with 16.0% in 2011/12, on the same basis. The impact of SSE's higher capital expenditure programme and the series of UK Corporation Tax rate reductions announced in the 2010 and subsequent Budgets have had, and will continue to have, a positive impact on the effective current tax rate.

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

Executive Directors

Responding to sales-related issues in Energy Supply
As stated previously (see 'Focusing on the SSE SET of core values' above), it has been agreed that the Executive Directors payment earned under the Annual Incentive Scheme for 2012/13 should be reduced by 40% as a result of SSE's previous non-compliance with two Standard Conditions of the Electricity and Gas Supply Licences. This is the second consecutive reduction in Annual Incentive Scheme payments to Executive Directors as a result of past sales-related issues in SSE's Energy Supply business.

The total earnings of Executive Directors of SSE in 2012/13 (covering base salary, benefits and the cash Annual Incentive Scheme) were £2.320m, compared with £2.787m in 2011/12.

Ensuring effective succession planning and Chief Executive transition
As announced on 23 January 2013, Alistair Phillips-Davies, currently Deputy Chief Executive, will become Chief Executive of SSE plc on 1 July 2013 in succession to Ian Marchant. Gregor Alexander, Finance Director, will have an expanded role in supporting and deputising for the Chief Executive in the running and operations of the SSE group. In particular, in addition to Finance and Group Services, he will take on Board-level responsibility for Energy Portfolio Management and Regulation and Legal Services. Brandon Rennet, currently SSE's Director of Treasury and Operational Finance, will join the Management Board on 1 July 2013 as Managing Director, Finance.

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

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

SSE from 2003 to 2013	**Mar 13**	**Mar 03**
Full-year dividend per share - pence	84.2	35.0
Adjusted profit before tax - £m	1,410.7	589.8
Capital and investment expenditure - £m	1,485.5	251.9
Energy networks RAV (net) - £bn	6.4	2.5
Energy customer accounts - m	9.47	4.85
Electricity generation capacity - GW	13.0	7.0
People directly employed	19,795	9,474

From 1 July 2013, the number of Executive Directors on the Board of SSE plc will reduce from three to two. SSE's Management Board, which is chaired by the Chief Executive and of which the Finance Director is also a member, will remain responsible for implementing strategy and policy and for the operational management of SSE's businesses. The combined length of service of SSE's Executive Directors and nine Managing Directors from 1 July 2013 will still be over 160 years. The transition over the coming months should, therefore, be very smooth.

Setting out the financial arrangements for the outgoing Chief Executive
The Remuneration Committee has confirmed that the financial arrangements set out below will apply to Ian Marchant. They are based on his contractual arrangements and the rules of the relevant schemes and do not feature a termination payment.

- **Salary and Annual Incentive Scheme:** He will be paid his salary until 30 June 2013, and will have an opportunity to receive a pro-rata award under SSE's Annual Incentive Scheme for 2013/14 should he achieve agreed objectives prior to his departure. No payment in lieu of notice is being made. He has decided to waive the payment of £329,000 that would have been made under the company's Annual Incentive Scheme for 2012/13; instead, the money will be used to establish a training and development trust for the benefit of current and future employees of SSE.
- **Shares:** He held 222,439 shares in SSE at 31 March 2013 that had been accumulated over 21 years' service with the company. In addition, he has 24,666 shares earned and currently held under the Deferred Bonus Scheme that he will receive shortly after 30 June 2013. He will also receive 59,905 shares as a result of the 51.3% award under the Performance Share Plan for 2010.
- **All-employee share schemes:** He held 413 shares under option within SSE's Sharesave Schemes at 31 March 2013 and these will become accessible to him shortly after he leaves.
- **Performance Share Plans:** Based on the number of months he will have been employed during the relevant period, he will be entitled to 27/36ths of any award which may vest under the 2011 Performance Share Plan in 2014. This would give a maximum award of 70,417 shares. He has voluntarily forfeited his 2012 Performance Share Plan, under which he would have been entitled to 15/36ths of any award which may vest in 2015 and he will not be granted an award of shares under the 2013 Performance Share Plan.
- **Pension entitlement:** He will leave SSE with a pension entitlement arising from his contract of employment and based on over 21 years' pensionable service. Under this, he will become entitled to an annual pension from SSE with an annual value of around £420,000 from the age of 60. The notional transfer value of the pension to which he is entitled, and to which no enhancement is being applied, is £10.4m. As per his contract of employment, he has the right to request that an element of his pension

be taken as a cash lump sum, based on actuarial calculations, after he has stepped down, which would also have the effect of reducing his annual pension entitlement and the company's liability.

The dividends paid in relation to shares held by Ian Marchant, payments under his pension entitlement and the disposal of shares are subject to taxation in the United Kingdom.

Priorities and Outlook for 2013/14

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

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

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

Its **Networks** priorities are:

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

Its **Retail** priorities are:

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

Its **Wholesale** priorities are:

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

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

- **Networks:** continue progress in the programme of capital investment in electricity and (through Scotia Gas Networks) gas networks, especially electricity transmission;

- **Retail:** make progress with the systems that will be needed to support the roll-out and operation of smart meters; and
- **Wholesale:** continue its effective and efficient maintenance, construction and development of assets which support the achievement of flexible and 'greener' electricity generation, especially the new CCGT at Great Island, Co Wexford.

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

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

Further information

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

Investor Timetable

Annual Report on sse.com/investors	13 June 2013
Ex-dividend date	31 July 2013
AGM (Perth) and IMS	25 July 2013
Record date	2 August 2013
Final date for Scrip elections	30 August 2013
Payment date	27 September 2013
Six-month results for 2013/14	13 November 2013

Enquiries

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Analysts' presentation
Start: 9am (BST)
Location: The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED

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

Conference call
UK 0800 279 4841
US 1877 249 9037
When asked please provide conference number **3820469**.

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

NETWORKS

Networks Key Performance Indicators	Mar 13	Mar 12
ELECTRICITY TRANSMISSION		
Operating profit* - £m	93.3	73.7
Regulated Asset Value (RAV) - £m	1,050	770
Capital expenditure - £m	334.2	228.7
Connection offers provided in required period	73	50
ELECTRICITY DISTRIBUTION		
Operating profit* - £m	512.8	396.5
Regulated Asset Value (RAV) - £m	2,915	2,840
Capital expenditure - £m	288.8	260.3
Customer minutes lost (SHEPD)	73	73
Customer minutes lost (SEPD)	65	60
SCOTIA GAS NETWORKS		
Operating profit* (SSE's share) - £m	234.1	234.8
Regulated Asset Value (SSE's share) - £m	2,392	2,270
Capital and replacement expenditure (SSE's share)- £m	199.0	202.2
Uncontrolled gas escapes attended within one hour %	98.4	98.7
SGN gas mains replaced - km	1,124	1,202
OTHER NETWORKS		
Operating profit* - £m	35.9	32.1
Capital expenditure - £m	52.8	48.0
Lighting Services maintenance contracts (GB and Ire)	38	52
Lighting Services PFI contracts with Local Authorities	11	11
Utility Solutions electricity networks in operation	137	118
Utility Solutions new gas connections	15,056	13,850
Telecoms Fibre Optic Cable - km	12,479	11,825

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

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

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

SSE estimates that the total Regulated Asset Value (RAV) of its economically-regulated 'natural monopoly' businesses is now £6.36bn, up £477m from £5.88bn last year, comprising around:

- £1,050m for electricity transmission;
- £2,915m for electricity distribution; and
- £2,392m for gas distribution (i.e. 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. These lower-risk, economically-regulated, natural monopoly businesses provide a financial backbone and operational focus for SSE and balance its activities in the competitive Wholesale and Retail markets. They are core to SSE, to its strategy in the short-, medium- and long-term and to its ability to deliver sustained real dividend growth.

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

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

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

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

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

Electricity Transmission

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

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

A total of £334.2m was invested by SHE Transmission in its network in 2012/13, up from £228.7m in 2011/12, taking its total RAV to over £1bn for the first time. In 2013/14 SHE

Transmission expects to incur capital expenditure of over £300m and its RAV should reach around £1.6bn by March 2015.

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

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

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

Implementing RIIO T1
SHE Transmission has now entered the next price control period, RIIO T1 (Revenue = Incentives + Innovation + Outputs) which runs for eight years from 1 April 2013 until 31 March 2021. The decision to fast track with the publication of the Final Proposals in April 2012 allowed SHE Transmission a year to prepare for the implementation of the new Price Control. This included looking at opportunities to maximise potential revenue from incentives and preparing a number of key projects for submission under the new flexible funding process including:

- **Kintyre-Hunterston:** SHE Transmission has received consent to build a new 132kV substation in Crossaig on the Kintyre peninsula and replace the existing 132kV overhead line between Carradale and Crossaig with a higher capacity double circuit overhead line and install two subsea cable circuits from this new substation round the north coast of Arran to Hunterston. An investment case has recently been consulted on by Ofgem. The current programme anticipates that the reinforcement will be completed around 2016. The investment is currently estimated to be in excess of £200m.
- **Caithness to Moray**: SHE Transmission has submitted an investment case to Ofgem to develop a subsea electricity cable between Caithness, where work is continuing to secure consents for a new substation at Spittal, and Moray, where it is proposed to

upgrade the existing substation at Blackhillock. This is to transmit the large volume of existing and planned electricity from renewable sources in the north of Scotland. The cable will be capable of transmitting around 1,200MW of electricity and has a forecast investment requirement of around £1.2bn. This proposal to develop a subsea cable retains the flexibility to accommodate further generation developments in the north of Scotland as and when the need to do so arises.

- **East Coast 400kV:** SHE Transmission is planning to upgrade the existing east coast transmission line which runs from Blackhillock to Kincardine from an operating voltage of 275kV to 400kV, with associated substation developments. This will enable new capacity for generating electricity to link to the main transmission system and centres of demand. The project is a key reinforcement in the Scottish Government's National Planning Framework for Scotland and has a forecast investment requirement of around £415m.

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

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

Working with stakeholders on the Scottish island groups

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

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

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

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

- **Orkney to Caithness:** SHE Transmission is continuing to develop a project for a new 220kV subsea cable between Orkney and Dounreay to increase transmission system capacity to support renewable energy projects, mainly marine, in and around Orkney. Site investigations, survey and design work are continuing and, pending the required consents and regulatory approval, the completion of the link is planned for 2018.
- **Western Isles:** SHE Transmission has undertaken a considerable amount of work in relation to the proposed Western Isles HVDC link and Lewis infrastructure. However, under the regulatory framework, SHE Transmission needs to be able to demonstrate a robust economic case for constructing the link and, in light of the findings of the Scottish Islands Renewables Project, the funding gap for developers continues to be a key challenge. Therefore, while SHE Transmission awaits a decision from the UK and Scottish Governments on how to overcome the costs faced by renewable developers on the Western Isles, the placing of the £700m cable contract by July is no longer achievable. As a result it will not be possible to commission a link before 2017.
- **Shetland:** SHE Transmission is in the process of securing consents for converter stations and the proposed subsea/onshore underground HVDC transmission link between the Shetland Islands and the Scottish mainland to accommodate renewable energy developments in Shetland. The link would also connect properties in Shetland to the mainland electricity network for the first time and could be installed in the second half of this decade. Pending the required consents, regulatory approval and securing of HVDC supply chain capacity, the completion of the link is currently planned for 2018.

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

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

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

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

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

In addition, there is a complex system of co-ordination for development of the network in Great Britain, which means that significant new generation connecting in to the system in the north of Scotland is likely to impact on the network in the south of Scotland and require

reinforcement into England and, potentially, Wales. SHE Transmission participates in the Electricity Networks Steering Group, jointly chaired by the UK government and Ofgem, to identify and co-ordinate work to help address key strategic issues that affect the electricity networks in the transition to a low carbon future.

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

- meet key milestones in projects under construction, in a way that is consistent with all safety and environmental requirements;
- implement the new operational regimes for the 2013-21 Price Control and maintain high levels of system availability;
- make progress with projects in development, including implementing the programme of consulting with, and updating, interested parties;
- maintain and develop effective stakeholder relationships; and
- ensure it has the people, skills, resources and supply chain relationships that will be necessary to support growth on a significant scale.

Electricity Distribution

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

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

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

Volume of electricity distributed
The total volume of electricity distributed by the two companies during 2012/13 was 41.6TWh, compared with 40.7TWh in the previous year. Under the electricity Distribution Price Control for 2010-15, the volume of electricity distributed does not affect companies' overall allowed revenue (although it does have an impact on the timing of revenue collection).

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

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

- communication with customers during planned and unplanned interruptions through telephone, website, email and social media.

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

Each year customer tariffs are set to recover the amount of money agreed with Ofgem during the Price Control review. In turn, electricity supply companies then include these costs in the charges they make to their customers. In 2012/13 electricity distribution charges made up 16% of an average GB household electricity bill. Therefore, since any investment made in the electricity distribution network is ultimately paid for by customers, the approach adopted by SSE's two electricity distribution companies is to make sufficient up front investment, either through conventional reinforcement or use of new technologies, so that a quick response, when customers' needs become clear, can be made.

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

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

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

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

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

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

Working with stakeholders on the new electricity distribution Price Control
RIIO-ED1 will be the first electricity distribution Price Control review to reflect the new regulatory framework first adopted in RIIO-T1 and RIIO-GD1. It will run from 2015 to 2023. In line with wider trends in electricity networks, it is likely to put an emphasis on incentives to secure the innovation required for low carbon transition. In March 2013 Ofgem published its strategy decision for RIIO-ED1, confirming that the regulatory policy for it will build on the existing framework and benefit efficient distribution companies that meet the expectations of their stakeholders.

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

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

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

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

Gas Distribution

Performance in SGN
SSE receives 50% of the distributable earnings from Scotia Gas Networks (SGN), in line with its equity holding, and also provides it with some corporate and management services. In 2012/13:

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

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

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

Implementing the new Gas Distribution Price Control
Following the RIIO-GD1 Final Proposals from Ofgem for the next gas distribution Price Control for the period 1 April 2013 to 31 March 2021, SGN accepted the Price Control and

believes that the level of total capital and operational expenditure is enough to allow it to maintain safe and reliable networks, which cover approximately 40% of the UK land mass and serve around 5.8m customers, and to secure a fair return for doing so.

SGN's preparations for the implementation of RIIO-GD1 included retaining a strong focus on operating cost efficiency. During the next eight years, SGN has committed to deliver a wide range of outputs and has been allowed by Ofgem over £4.6bn (at 2012/13 prices) of cost allowances to deliver these outputs efficiently.

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

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

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

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

- The majority of the mains replacement expenditure was incurred under the 30:30 mains replacement programme which was started in 2002. This requires that all iron gas mains within 30 metres of homes and premises must be replaced over a 30-year period. During 2012/13, SGN replaced 1,124km of its metallic gas mains with modern polyethylene pipes.
- Capital projects also included the development of a new UK-leading biogas plant at Poundbury in Dorset which was opened by HRH The Prince of Wales in November 2012.
- SGN is also committed to making new gas connections to existing homes that are not on mains gas as affordable as possible, and is running an Assisted Connections scheme, under which 6,714 properties were connected to its networks during 2012/13.

Investment will continue to be a top priority for SGN and, in line with that, it expects to invest around £350m in capital expenditure and mains and service replacement projects during 2013/14.

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

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

Gas Distribution priorities in 2012/13 and beyond
During 2013/14, SGN's priorities are to:

- continue to deliver a safe and secure gas supply to customers;

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

Other Networks

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

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

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

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

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

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

Providing comprehensive Utility Solutions
SSE provides a comprehensive range of 'utility solutions'. It designs, builds, owns, operates and maintains cable and pipe networks for delivering electricity, gas, water and heat to existing and new commercial and residential developments in England, Wales and Scotland. It is, therefore, able to provide a one-stop solution for multi-utility infrastructure requirements to customers in the development and construction sectors. For example, in the past year, SSE has secured contracts at four large developments to provide combined electricity, gas and water services to 5,990 homes. Looking at each activity in turn:

- **Electricity Networks:** SSE now owns and operates 137 embedded energised electricity networks outside the traditional areas served by its economically-regulated

companies Scottish Hydro Electric Power Distribution and Southern Electric Power Distribution. New sites in operation in 2012/13 include data centres, recycling plants, retail parks and over 1,400 homes. A further 61 networks are under construction and contracts have been signed for the development of an additional six, taking the total to 204 – up from 168 at the end of 2011/12. Several significant electricity contracts have been signed, including: the 2,012 plot development at Emerson's Green in Bristol and the 650 plot development at Monbank in Newport, both of which also include gas and water contracts; the 2,300 plot development at Calderwood near Edinburgh, which also includes a gas contract; and the adoption of the network at SkyPark Exeter, one of South West England's most ambitious business park developments.

- **Gas Pipelines:** SSE is also a licensed gas transporter, installing, owning and operating gas mains and services on new housing and commercial developments throughout the UK. The total number of new premises connected to its gas networks has continued to grow and since the start of the current financial year it has connected a further 15,056 premises, passing 100,000 total connections in October 2012. Contracts have been signed for a further 67,297 connections to be completed. New gas networks within multi-utility contracts (as mentioned above) are complemented by gas-only developments within SSE's electricity distribution areas such as the 312 home development at the former Prysmian Cable Works in Eastleigh or the 247 home development at Castle Meadows in Aberdeen.
- **Water:** Through SSE Water (SSEW) SSE is able to install, own, operate and supply water and sewerage services alongside its existing electricity and gas services. An 'inset' appointment is the route by which one company replaces another as the appointed water and/or sewerage company for a specified area. SSEW now has 19 such appointments and provides, or has secured contracts to provide, water and sewerage services to over 28,000 properties in England and Wales, more than any other new appointment company. This number includes over 3,500 SSEW customers already connected.
- **Heat:** SSE uses Combined Heat and Power (CHP) generation on district heating schemes to provide hot water and space heating mainly to high density residential developments. There are now seven heat networks in operation and seven further schemes where SSE is the preferred bidder. Over 2,000 new heat customers have been connected in the last 12 months, including the delivery of one of Scotland's largest district heat scheme at Wyndford, Glasgow. SSE's total heat customers now stands at over 3,000 with a further 4,000 contracted but not yet completed.

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Operating a national telecoms network

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

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

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

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

- increasing geographic coverage;
- facilitating fast and reliable cloud service delivery for customers;

- developing new high-capacity, high availability network services; and
- becoming ever-easier to work with as a service provider.

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

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

Networks - Conclusion

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

RETAIL

Retail Key Performance Indicators	Mar 13	Mar 12
ENERGY SUPPLY		
Operating profit* - £m	364.2	271.7
GB domestic electricity customer accounts – m	4.87	5.04
GB domestic gas customer accounts – m	3.35	3.48
GB business energy customer sites – m	0.43	0.41
All-Island Energy market customers (Ire) – m	0.82	0.62
Total energy customer accounts (GB, Ire) – m	**9.47**	**9.55**
Electricity supplied household average (GB) – kWh	4,299	4,104
Gas supplied household (GB) – therms	544	451
Household/small business aged debt (GB, Ire) - £m	90.4	88.3
Customer complaints to third parties (GB)[1]	942	896
[1] Energy Ombudsman, Consumer Focus and Consumer Direct		
ENERGY RELATED SERVICES		
Operating profit* - £m	45.9	49.9
Home Services customer accounts (GB) – m	0.42	0.41
Meters read – m	14.4	15.0
SSE Contracting Businesses Order Book - £m	88.0	78.0

Supplying energy and related services across the Great Britain and Ireland markets
SSE's Retail segment comprises two business areas: energy supply and energy-related services.

SSE is the second largest energy supplier in the competitive market in Great Britain and also the second largest supplier in the competitive markets in Ireland. At 31 March 2013, it supplied electricity and gas to 9.47 million household and business accounts under brands such as SSE, Scottish Hydro, Southern Electric, SWALEC and Atlantic in the Great Britain market and Airtricity in the markets on the island of Ireland.

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

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

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

As stated in its Annual Report 2012, SSE expects that its annual profit margin (ie adjusted operating profit* as a percentage of revenue) in Energy Supply should average around 5% over the medium term (ie three to five years). In 2012/13, it was 4.2%, up from 3.5% in the previous year, and compared with 4.3% in 2010/11. Energy Supply profit margin has, therefore, averaged 4.0% over three years. SSE believes that its expected profit margin over the medium term is reasonable and sustainable and that it stands comparison to organisations that provide other everyday essentials such as food retailers, telecoms companies and high street retailers.

Energy supply

Supplying energy across Great Britain and Ireland
The key responsibilities of the Energy Supply business are to:

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

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

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

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

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

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

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

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

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

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

Operating profit* in Energy Supply in 2012/13 increased from £271.7m to £364.2m and comprised 20.3% of SSE's total operating profit*. This includes operating profit* from the household and business sectors in Great Britain and in Ireland.
The increase in SSE's operating profit* in Energy Supply was mainly due to an increase in energy consumption as a result of colder than normal weather in 2012/13 compared with the warmer weather of the preceding year. This is illustrated by the fact that:

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

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

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

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

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

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

- the average price in the wholesale energy markets to secure gas for the coming winter was around 14% higher than it was for the winter before. Indeed, the actual cost of gas turned out to be even higher than that forecast at the time the decision was taken to increase prices. Wholesale energy costs account for around 50% of a typical gas and electricity customer's dual fuel bill;
- the increasing costs of delivering gas and electricity to customers' homes through the gas and electricity transmission and distribution networks, which are determined by Ofgem and which are needed to finance necessary investment in the networks. These costs represent around 25% of a typical dual fuel customer's bill and were 9% higher than they were the previous year; and
- the cost of government economic and social initiatives including the Carbon Emissions Reduction Target (CERT) and Warm Homes Discount (WHD) that suppliers are required to fund and pass onto customers. At the time of the price increase announcement they had increased by 30% on the previous year, accounting for around 10% of a typical customer's bill.

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

Looking ahead to 2013/14, the cost of government-sponsored social and environmental schemes is leading to further increases in costs in Great Britain. The amount of money paid out by SSE under the fuel poverty-related Warm Home Discount scheme will be around £50m, similar to the level paid in 2012/13. The costs of the Feed-in Tariffs programme for

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

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

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

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

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

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

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

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

in good faith to implement changes to licence conditions made by Ofgem in 2009 and 2010 designed to ensure sales were conducted in a fairer and more transparent manner.

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

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

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

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

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

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

Redoubling the effort to engage with customers

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

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

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

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

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

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

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

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

Communicating with customers through digital channels
In Ireland SSE leads the energy supply sector in digital services to domestic customers with around half of customer interactions, such as submitting meter readings, making secure payments and updating personal account details carried out through Airtricity's online self service channel. SSE is also the leading innovator of mobile communications methods in the Irish energy supply sector with technology in place that supports a broad range of customer activity on smart-phone devices.

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

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

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

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

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

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

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

Delivering past energy efficiency obligations

As a leading energy supplier, SSE had obligations under the Carbon Emissions Reduction Target (CERT) 2008-12 to deliver energy efficiency measures to households throughout Great Britain that delivered savings in CO_2 emissions. Of the total obligation, 40% had to be met in a Priority Group of households, within which there was also a Super Priority Group (SPG) of households which are low income and qualify for certain benefits. There were also requirements in respect of promoting professionally installed insulation measures (the Insulation Obligation).

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

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

In relation to CESP, SSE acknowledges that despite best efforts it was not able to physically deliver all of the obligations by December 2012. However, contracts were in place shortly afterwards for the delivery of the obligations in full. In line with other energy companies, SSE's delivery at the reporting date was under 100% of the target because it did not achieve the scheme's bonus uplifts for multiple measures in a home and density bonuses within an area. Despite this, SSE has delivered nearly twice the unadjusted carbon reduction (ie the real carbon, before bonuses) and spent £40m more than was suggested in DECC's impact assessment. Ofgem announced in May 2013 that it will investigate SSE and five other energy companies' failure to achieve 100% of the CESP obligation by the cut-off date. SSE will co-operate fully with Ofgem as it considers further actions in relation to CESP.

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

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

Focusing on future energy efficiency obligations

SSE is now focussing on the delivery of the new Energy Company Obligation (ECO), the next phase of the Government's mandatory energy efficiency programmes. ECO creates a legal obligation on energy suppliers to improve the energy efficiency of households through the establishment of three distinct targets:

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

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

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

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

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

Simplifying tariffs and anticipating new regulations

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

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

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

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

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

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

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

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

Continuing to help vulnerable customers

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

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

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

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

Working with customers to manage energy-related debt

At 31 March 2013, the total aged debt (ie debt that is overdue by more than six months) of SSE's domestic and small business electricity and gas customers in Great Britain and Ireland was £90.4m, compared with £88.3m in the previous year. A bad debt-related charge of £50.7m was recognised in the period. This compares with a charge of £40.5m in the previous year.

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

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

Supplying energy to customers in Ireland

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

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

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

For customers Airtricity brings three distinctive characteristics to the market:

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

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

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

Airtricity's entry in to the domestic market coincided with difficult economic times in Ireland, and so from the earliest stage it sought to implement measures that could assist customers in managing their bills. From 2010, in the absence of pre-payment meters in the ROI market, Airtricity introduced its SMART Energy card allowing customers, through their local post office or convenience store to pay amounts against their account to a value and at a frequency that suits them. This prevents the accumulation of a larger bill at the end of the billing cycle. The success of the scheme proved to the regulator the benefit of prepayment meters which have now been introduced for vulnerable customers. In 2012/13, Airtricity also introduced a further

service innovation – equal payment plan (EPP). EPP is a free service which allows customers to spread their costs for the year across 12 equal payments, giving the customer more predictability and more control.

Energy Supply priorities in 2013/14 and beyond

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

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

Energy-related services

Offering a broader range of energy-related products and services

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

- retailing of 'home services' such as gas boiler, central heating and wiring maintenance and installation, telephone line rental, calls and broadband services and microgeneration;
- supplying, installing, maintaining and reading meters in the household, commercial, industrial and generation sectors in Great Britain; and
- domestic, commercial and industrial mechanical and electrical contracting and electrical and instrumentation engineering.

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

Providing services for the home

Home Services provides products including gas boiler, central heating and wiring maintenance and installation. These products are marketed to householders who value the security of having their heating, hot water and electrics regularly maintained and a repairs service available when they need it. SSE has around 216,000 gas/electricity maintenance contract accounts, up 12% on the previous year. It has also completed just over 8,600 gas central heating installations and electrical heating/wiring installations in 2012/13, up 15% on the previous year.

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

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

Growth plans for the coming year include the development and launch of innovative products in the domestic consumer market. For example, SSE's Energy Solutions team has expanded

the range of energy efficiency products offered to domestic customers including the installation of external wall insulation on over 500 homes.

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

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

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

Maintaining a national metering business
SSE's metering business undertakes meter reading operations and meter operator work in all parts of the UK. It also provides services to most electricity suppliers with customers in central southern England and the north of Scotland. It supplies, installs and maintains domestic meters and carries out metering work in the commercial, industrial and generation sectors. It also offers data collection services to the domestic and SME sectors. The number of SSE electricity and gas supply customers who receive bills based on actual meter readings now stands at 96.8%. SSE Metering has also installed just over 12,000 AMR (automatic meter reading) meters which are remotely read. During 2012/13, SSE collected 8.7 million electricity readings and 5.7 million gas readings.

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

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

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

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

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

Managing a leading mechanical and electrical contracting business
SSE Contracting has two principal areas of activity:

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

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

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

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

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

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

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

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

Retail - Conclusion

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

WHOLESALE

Wholesale Key Performance Indicators	Mar 13	Mar 12
Energy Portfolio Management (EPM) and Electricity Generation		
EPM and Generation operating profit* - £m	451.5	541.5
EPM and Generation capital expenditure and investment - £m	610.7	982.0
EPM		
Total wholesale electricity traded on N2EX Auction - GWh	80,591	25,660
Total wholesale electricity traded with small suppliers - GWh	795	-
GENERATION		
Gas- and oil-fired generation capacity (GB) - MW	4,350	4,470
Gas- and oil-fired generation capacity (Ire) - MW	1,068	-
Coal-fired generation capacity (inc biomass co-firing) - MW	4,370	4,370
Renewable generation capacity (inc pumped storage) - MW	3,240	3,020
Total electricity generation capacity – MW	**13,028**	**11,860**
Gas power station availability - %	95	94
Coal power station availability - %	90	89
Hydro storage at year end - %	49	60
Onshore wind farm availability %	97	97
Gas- and oil-fired (inc CHP) output- GWh	8,709	21,597
Coal-fired (inc biomass co-firing) output- GWh	20,627	16,787
Total output from thermal power stations - GWh	**29,336**	**38,384**
Conventional hydro output – GWh	2,836	4,262
Wind energy output – GWh	4,281	3,199
Dedicated biomass output – GWh	168	156
Total output of renewable energy – GWh	**7,285**	**7,617**
Total output from pumped storage – GWh	**300**	**372**

Note 1: Capacity is wholly-owned and share of joint ventures

Note 2: Output is electricity from power stations in which SSE has an ownership interest (output based on SSE's contractual share)

Note 3: Coal capacity reduced by 120MW in April 2013

GAS PRODUCTION		
Gas production operating profit* - £m	39.6	42.6
Gas production – m therms	183.8	176.7
Gas production capital investment – £m	7.2	6.1
GAS STORAGE		
Gas storage operating profit* - £m	18.4	23.8
Gas storage customer nominations met - %	100	100
Gas storage net capacity – mcm	490	440
Gas storage capital investment - £m	33.1	51.0

Sourcing and producing energy

SSE's Wholesale segment comprises four different business areas:

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

- **Gas Production** is responsible for the efficient delivery of gas from the physical gas fields that SSE has a shared ownership in.
- **Gas Storage** is responsible for the operation and management of SSE's gas storage facilities, their maintenance and ensuring the plant is available for use by SSE and third parties.

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

Financial performance in Wholesale
During 2012/13 operating profit* in Wholesale decreased by 16.2%, from £607.9m to £509.5m, contributing 28.4% of SSE's total operating profit*. This comprised (comparisons with 2011/12):

- **EPM and Electricity Generation -** £451.5m compared with £541.5m, a decrease of 16.6%. Although profitable, the year was challenging, with continued low spark spreads for gas-fired generation and lower underlying output from renewables sources due to calmer and drier weather when compared with the previous year. Total electricity output fell by 20% to 36.5TWh. There was, however, 570MW of additional capacity for renewable energy operational on 1 April 2012 compared with the previous year. This resulted in actual wind energy output increasing, although there was much lower hydro output;
- **Gas Production -** £39.6m compared with £42.6m. Despite the small fall in profits the production assets continued to perform well, producing 183.8 million therms compared with 176.7 million therms in the previous year;
- **Gas Storage -** £18.4m compared with £23.8m. Lower market volatility and a reduction in the spread between summer and winter gas prices led to a lower Standard Bundled Unit price being achieved. Demand for storage was also lower. These factors were only partly offset by additional storage capacity coming on line at Aldbrough**.**

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

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

Responding to key trends in the energy sector
The energy sector is undergoing a period of profound change. The main public policy drivers are European and UK-led decarbonisation policy, security of fuel supplies and price competiveness (affordability). These policy objectives are influencing and in turn being impacted by:

- slow economic growth implying lower electricity demand;
- reduced domestic gas consumption following the success of energy efficiency interventions;
- rising energy prices as a result of higher input costs and the cost of delivering mandatory government-sponsored energy efficiency schemes;
- uncertainties surrounding Electricity Market Reform and a regulatory framework

trending towards increased central planning;
- the introduction of a UK Carbon Price Floor and the move to auction all carbon allowances under EU ETS for thermal generation plant;
- increasing system variability due to higher penetrations of variable energy sources;
- market integration between Great Britain and Ireland; and
- forecasts of tightening generation capacity in Great Britain as older plant (including coal, nuclear and gas) closes as a result of regulatory and economic pressures.

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

Assessing GB electricity market reform
The UK government believes that its Electricity Market Reform (EMR), including the current Energy Bill, represents the most significant market intervention since the privatisation of electricity. It features:

- an annual minimum price for a tonne of carbon that applies only in the UK (the Carbon Price Floor);
- long-term contracts that will effectively fix the price received by generators for each unit of low carbon electricity produced (the Contract for Difference Feed-in Tariffs);
- a mechanism to address the security of supply challenges resulting from plant closures and the changing nature of electricity generation (the Capacity Market); and
- maximum emissions levels for electricity generation technologies (the Emissions Performance Standard).

The origins of EMR go back to 2009, yet much of the detail is still to be determined and this prolonged period of uncertainty is having an effect, making investment decisions in new thermal generation plant very difficult. Clarity and stability are, therefore, much-needed features of the UK energy policy landscape and their absence could eventually jeopardise the security of electricity supply.

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

Energy Portfolio Management (EPM)

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

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

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

- energy demand growth/decline;
- the global economy;
- fuel supply disruptions;

- international affairs;
- nuclear availability;
- CCGT demand;
- prices for CO_2 permits;
- internationalisation of gas supply; and
- LNG availability.

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

Meeting current and future requirements for energy
During 2012/13, EPM was responsible for the deployment of 7,285GWh of output from SSE's renewable portfolio; around 250 million therms of gas would be needed to generate a similar amount of electricity. With no fuel purchasing requirement, this generation type is increasingly providing a substantive source of energy and a strong long term hedge against the volatility in fossil fuel markets.

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

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

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

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

Increasing wholesale market transparency
SSE has led the way in responding to stakeholders' desire for greater transparency and increased liquidity in the short-term wholesale market for electricity.

Since 30 September 2012 SSE has regularly placed 100% of its electricity generation and demand into Nasdaq OMX Group Inc. and Nord Pool Spot AS's N2EX daily auction and traded
80.6TWh in the day ahead auction market in 2012/13. SSE has also introduced a series of trading commitments for smaller suppliers and traded 795GWh with such suppliers in 2012/13.

In taking this action SSE has delivered a new level of market transparency, significantly improved liquidity, increased the depth and credibility of the market and assisted in the creation of a robust and tangible pricing index. SSE is also an active participant in wholesale gas markets. It has received no formal communication or information requests from any regulatory authority in connection with the investigation announced in November 2012.

EPM priorities for 2013/14 and beyond
EPM priorities for the coming financial year include:

- securing a stable and predictable supply of energy to meet SSE's customers' needs;
- driving business change to respond effectively to new UK and EU regulations;
- identifying and agreeing new long term gas supply contracts;
- continuing to support improved market transparency and liquidity initiatives; and
- ensuring compliance with UK and EU financial regulations at all times.

Generation – Overview

Managing Generation assets according to long-standing principles
SSE's strategic objective for its Generation business is to be the greenest, most flexible, non-nuclear generator. This objective is underpinned by six core principles that direct the operation of, and investment in, its Generation portfolio:

- **availability**: to respond to customer demand and market conditions;
- **capacity**: to meet the electricity needs of domestic and small business customers;
- **compliance**: with all safety standards and environmental requirements;
- **diversity**: to avoid over-dependency on particular fuels or technologies;
- **flexibility**: to ensure that changes in demand for electricity can be addressed; and
- **sustainability**: to deliver an overall 50% cut in the CO_2 intensity of electricity produced.

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

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

In moving to a low carbon generation mix SSE will, by the end of the decade, transition its generation assets from a portfolio weighted towards gas and coal, towards a portfolio weighted towards gas and renewables.

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

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

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

Reducing the carbon intensity of electricity generated
A key priority for SSE is a significant and continuing reduction in the carbon intensity of the electricity produced by its generation fleet; in other words, reducing significantly its carbon intensity every decade between now and 2050. This goal will be achieved through a diverse range of solutions including:

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

With high gas prices and low spark spreads for gas-fired generation, during 2012/13 SSE used the portfolio diversity provided by its coal plants to ensure lowest possible cost power generation for its customers. While this has resulted in a short term increase in emissions SSE

remains on track to halve its carbon intensity (compared with 2006) by 2020.

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

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

The Single Electricity Market in Ireland faces similar market drivers to the UK but has a very different regulatory regime, including:

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

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

Generation – Great Britain

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

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

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

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

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

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

Focusing on operations in Generation
In the year to 31 March 2013, SSE generation plant in GB (previous year's numbers in brackets) generated:

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

During the same year SSE supplied:

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

This means that during 2012/13 SSE:

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

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

THERMAL GENERATION

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

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

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

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

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

- **Marchwood**, the 840MW CCGT owned by Marchwood Power Ltd, a 50:50 joint venture between SSE and ESB International. During 2012/13, the plant achieved 94%

of its maximum availability to operate during the year, the same as in the previous year; and

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

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

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

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

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

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

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

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

Changing SSE's thermal operations for the future
In advance of its new financial year on 1 April 2013, SSE completed a review of its existing thermal generation assets as well as its biomass plant at Slough. The primary focus of this review was to ensure that all generation assets continued to contribute to the company's performance by safely delivering the required levels of availability, efficiency, cost effectiveness and, ultimately, sustainable commercial viability. It concluded that the convergence of challenging market conditions and prolonged public policy uncertainty meant SSE required a significant adjustment to its generation portfolio.

As a result, SSE announced on 21 March 2013 that it had decided to change the operating regime of a number of generation plants, the net effect of which will be the reduction of

around 2,000MW of thermal generation capacity in Great Britain over the next year. The key changes to SSE's thermal assets are:

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

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

Making the right investments in gas-fired power stations

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

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

With its growing importance, SSE continues to develop a range of CCGT options in Great Britain, for both the medium and long-term, including sites at Abernedd (South Wales), Keadby (Lincolnshire), and Seabank (Bristol). These locations offer many attractive characteristics, including established grid and gas connections, availability of cooling water and land area.

Although projects such as Abernedd are close to being 'shovel ready' and others such as Keadby 2 are at an advanced stage of development, unless there is a significant change in UK government policy around EMR and the timing and operation of a future capacity mechanism, and clear market signals suggesting the need for increased gas-fired generation capacity, SSE does not expect to take any final investment decisions to construct these projects until at least 2015. This will effectively mean no new capacity will come into operation until 2017/18 at the earliest, given the lead times for constructing new CCGT plant.

Looking to the future of solid fuel generation
SSE's generation strategy is built upon managing risk through owning a diverse range of assets and fuels from which to meet its customers' needs. Solid fuel remains an important part of that strategy. Over recent years SSE has also been assessing the potential investment options for its coal-fired generation plants, in order to deliver the full potential value from its portfolio.

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

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

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

Generating electricity from 'multi-fuel'
An important pipeline of potential new thermal generation investments for SSE, is multi-fuel. These plants use waste derived fuels to generate electricity and therefore benefit from an additional revenue opportunity in the form of a 'gate fee' for taking the waste, which is earned on top of revenue received from any electricity generated by the plant.

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

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

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

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

- **Coal at Ferrybridge:** This project is the UK's largest operating carbon capture project and is the first of its size to be integrated into a working power plant in the UK. The project, which became operational in March 2012, has captured, on average, at the rate of between 90 and 100 tonnes of CO_2 per day over the last year from the equivalent of 5MW of coal-fired power generating capacity.
- **Gas at Peterhead:** SSE is working with Shell UK to develop a gas CCS project at SSE's gas-fired power station in Peterhead. In March 2013, DECC confirmed that the Peterhead project was one of two CCS projects that would progress to the next stage of the UK Government's CCS Commercialisation Competition. Shell is leading the development of the project, and will take responsibility for the construction of the CO_2 capture plant and thereafter the operation, transport and storage elements of the project. SSE will be a strategic partner, investing in the necessary infrastructure at Peterhead power station and providing the flue gas from which the CO_2 will be extracted. This arrangement enables both parties to focus on their respective areas of expertise.

RENEWABLE GENERATION

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

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

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

Producing electricity from renewable sources
Total electricity output from SSE's renewable resources in GB (excluding pumped storage) was 5,950GWh in 2012/13, compared with 6,072GWh in the previous year - confirming SSE's position as the UK's leading generator of electricity from renewable sources. In energy terms, the slight decrease in output reflects a return to more normal hydro and wind conditions after the record breaking wet and windy weather experienced during last year. This was partially offset by the impact of additional renewable generation capacity that came into operation in the course of 2011/12 and 2012/13.

Generating electricity from hydro electric schemes
SSE owns and operates 1,150MW of conventional hydro electric capacity across 57 hydro electric power stations in the north of Scotland. A further 300MW comes from its pumped

storage facility at Foyers, on Loch Ness. During 2012/13 (previous year's comparison in brackets):

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

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

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

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

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

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

Responding to constraints on the electricity transmission system
Constraints occur when there are limitations in electricity transmission capacity or for reasons of system frequency voltage control or stability. Sustained periods of constraint provide a clear market signal for additional investment in the grid infrastructure. During 2012/13, constraint payments totalling around £120m were paid to generators of electricity from all fuels across Great Britain. Of this total, around £3m or less than 3%, was paid to constrained SSE wind generation.

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

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

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

- Beatrice, a demonstration project in which SSE has a 5MW stake.

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

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

In November 2012, GGOWL received the First Partial Award of Fluor Ltd's claim against it. The Award was in GGOWL's favour, requiring no payment to be made by GGOWL to Fluor Ltd. GGOWL and Fluor Ltd subsequently reached agreement on all of the outstanding claims relating to the construction of the offshore wind farm. The main claim related to the quality of up to 52 upper foundations (transition pieces) supporting turbines and the quality of up to 35 lower foundations supporting the same turbines. The agreement between GGOWL and Fluor was a positive development and brought to an end the contractual dispute between the two parties.

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

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

Producing electricity from biomass
During 2012/13, SSE's 80MW biomass plant at Slough produced 168GWh of electricity, compared with 156GWh during the previous year. Slough was loss-making in 2012/13 and faced a similar challenging financial position in 2013/14, particularly following the removal of the free allocation of carbon credits. Following the review of its thermal and biomass assets at the end of March 2013, SSE has decided to decommission two generation units and the associated infrastructure on a phased basis over the next few months. Both units will cease generation completely by October 2013. Slough's remaining boiler and steam turbines will continue to operate as normal and SSE will invest approximately £8m to increase the output and efficiency of this unit and broaden its fuel envelope. The station will provide 20MW of capacity after this upgrade.

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

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

is its preferred option for a pumped storage development in the near future.

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

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

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

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

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

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

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

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

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

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

SSE has gained valuable experience of offshore wind farm development, construction and operation through the Greater Gabbard and Walney projects, and it is this experience that

enables it to exercise informed and disciplined judgement when prioritising projects in its development pipeline.

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

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

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

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

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

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

SSE has a number of initiatives to increase the effectiveness, and decrease the cost, of offshore wind deployment, including the development of the UK's national offshore wind testing facility at Hunterston in North Ayrshire. In partnership with Scottish Enterprise and leading turbine suppliers Mitsubishi and Siemens, up to three prototype offshore wind turbines will be tested at the facility for a period of five years. Construction of the facility began in March 2013 and it is expected to be fully operational by the end of 2013. In seeking to reduce supply chain cost, SSE is giving practical leadership in the delivery of the UK government's ambitious 2020 target to lower the levelised cost of energy from offshore wind to £100/MWh.

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

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

make an important contribution to meeting electricity requirements.

Generation – Ireland

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

In line with its approach in Great Britain, SSE is keen to maintain an effective balance between the electricity required to meet the demands of its growing customer base in Ireland and the electricity it produces from its own generation assets on the island.

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

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

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

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

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

Maintaining effective operational performance
At 31 March 2013, SSE owned 463MW of onshore wind farm capacity in Ireland (including 42MW in Northern Ireland) and 1,068MW of thermal generation capacity. Output in 2012/13 was as follows (previous year's comparison in brackets):

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

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

Investing in new capacity for generating electricity at Great Island
In addition to the operational generation assets, the Endesa acquisition included a 460MW CCGT currently under construction at Great Island, County Wexford.

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

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

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

Developing new renewable generation in the all Island market
At 31 March 2013, SSE's onshore wind farm development portfolio in Ireland comprised around:

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

Projects under construction in Ireland are Athea (34MW) in Co. Limerick, and Glenconway (46MW), part of SSE's Slieve Kirk strategic area located in County Derry. Construction at both projects is progressing well. The first energy was exported from Glenconway in March 2013, qualifying it for the full Northern Ireland ROC support mechanism. Athea is on target to generate its first energy in September which would qualify it for the ReFiT support mechanism in ROI. SSE has around 100MW of other development projects currently in planning across Ireland.

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

Generation – Future priorities

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

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

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

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

Investing in new renewable sources of energy
As SSE moves forward the next phase of its renewable development pipeline it is focusing on projects that best allow the efficient allocation of resources and economies of scale. While the scale of overall development is likely to be lower than in recent years, the focus is on a consistent pipeline of new developments. In addition to its own developed sites, SSE will also consider opportunities to acquire projects. These projects would complement SSE's existing generation portfolio and development pipeline, generally have planning consent and be aligned with SSE's financial principles.

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

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

These include:

- opportunities for involving new partners at the individual project level, particularly for large scale capital intensive projects such as offshore wind;
- establishment of an intermediate holding company for offshore renewable energy, which will remain wholly-owned by SSE for the foreseeable future but will provide it with the flexibility to introduce new sources of funding to support the development portfolio; and
- the recycling of capital through the sale of selected operating assets to investment funds, such as Greencoat Capital, whilst retaining the electricity output from these assets.

Generation priorities in 2013/14 and beyond
In Generation, SSE's 2013/14 operational priorities remain consistent with its established principles to:

- comply fully with all safety standards and environmental requirements;
- ensure power stations are available to respond to customer demand and market conditions; and
- operate power stations efficiently to achieve the optimum conversion of primary fuel into electricity.

Investment priorities for the next financial year are to:

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

Gas Production

Producing gas to meet the needs of customers
SSE's 2011 acquisition from Hess Limited of North Sea natural gas and infrastructure assets was a measured entry in to non-operated upstream assets. In November 2012, it increased its equity interest in three of these assets - Apollo, Minerva and Mercury - to 50% for a total

cash consideration of £25.5m. On 12 April 2013, SSE completed the acquisition of 50% of the Sean gas field from BP, for a total cash consideration of £117.4m. Following completion of the Sean acquisition, SSE has a Gas Production business that is a Top 10 gas producer in the UK, and is in the Top 20 for oil and gas production combined.

SSE's portfolio is deliberately 100% gas weighted, since SSE's primary reason for owning gas assets is to secure a long term supply of physical gas at a 'fixed' price, to enable it to effectively meet the energy needs of its customers. SSE's total portfolio of gas production assets at April 2013 represented approximately three billion therms of proven and probable (2P) reserves. The volume and production profile of these assets represents a secure and fixed-price supply of gas that can meet around 25% of the forecast demand from SSE's domestic gas customers over the next three years.

In addition to owning these physical assets SSE also has a 5% shareholding in the oil and gas explorer, Faroe Petroleum plc. SSE is not actively engaged with Faroe Petroleum other than as a shareholder, but is content with the strategy that Faroe Petroleum is pursuing.

Securing output from gas production assets
The Gas Production business continued to perform well in 2012/13 and benefitted from the increased share in the Apollo, Minerva and Mercury gas fields. The increase in the asset base was partially offset by forecast and normal production decline rates from the existing wells. Total output to 31 March 2013 (which excludes the Sean gas field) was 183.8 million therms, compared with 176.7 million therms in the previous year.

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

Continuing to expand the Gas Production business
The addition of the Sean asset scaled-up SSE's Gas Production business considerably, with a measured hand-over of the asset essential for all partners and for maximum hydrocarbon recovery. SSE continues to proactively seek new opportunities to increase its 2P reserve base. The UK and North West Europe remains the focus for this activity, since it provides a relatively stable tax and fiscal regime and is near to SSE's domestic supply market. SSE will continue to evaluate gas weighted opportunities in line with its investment criteria, with a view to growing its Gas Production business at a similar rate over the medium term. As its gas production business grows this may also naturally lead SSE into the operatorship of certain assets if they are deemed appropriate.

SSE has not set a target scale for its Gas Production business, but will grow it in line with its core financial principles and the primary reason for it owning gas assets – being one of the ways it can secure a long term supply of physical gas that enables it to meet effectively the energy needs of its customers.

Examining the opportunities in shale gas
Shale gas has the potential to become an important new source of indigenous gas supply for the UK, although SSE does not expect UK output to reach significant volumes until the next decade. SSE has an exclusive five year off-take agreement with Dart Energy, covering its coal-bed methane (CBM) operation in central Scotland. While SSE is prepared to enter into similar agreements with future CBM and shale gas operators, it has no such agreements in place currently.

Gas Production priorities for 2013/14 and beyond
Gas Production priorities for the coming financial year include:

- ensuring the safe operation of all the assets in which it has an ownership interest;
- successful integration of the Sean gas asset;
- stringent cost control on Operator budgets and enhanced monitoring and reporting of operator work programmes; and

- continuing the robust investment appraisal process to identify suitable acquisition targets.

Gas Storage

Providing capacity to store gas
Gas storage provides physical flexibility that enables capacity owners to manage their market risks and respond to trading opportunities. It also provides an important security of supply function for the UK.

SSE has an ownership interest in two major gas storage facilities in East Yorkshire - Hornsea (Atwick) and Aldbrough. The primary objective of these facilities is to maximise safely the availability of the plant to import and export gas.

Hornsea provided up to 313 million cubic metres (mcm) of gas storage capacity to its customers during2012/13. It accounts for around 6% of the total gas storage capacity in the UK and 12% of deliverability.

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

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

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

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

Looking to the future for gas storage
Current gas storage capacity, both at SSE and within the UK as a whole, plays an important role in the UK's energy infrastructure. Further gas storage would understandably improve UK gas security of supply and improve price stability. However, the UK already meets the EU Regulation for Security of Supply of gas and will do so for the foreseeable future. As a result, no new storage is required unless the UK government wishes to introduce a more secure standard.

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

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

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

Gas Storage priorities in 2013/14 and beyond
Gas storage priorities for the coming financial year include:

- ensuring on-going high safety standards of operation of the facilities at Hornsea and Aldbrough and the compliant operation of the Gas Storage business;
- continuing to listen to customers, working with them to shape flexible products which cost-effectively support their portfolios;
- maintaining availability and operational performance at Hornsea and Aldbrough; and
- continuing targeted investment as required and justified to prolong operational life of the existing facilities.

Wholesale – Conclusion

Producing and securing energy to meet the needs of SSE's customers is at the heart of SSE's Wholesale businesses. While 2012/13 presented many challenges, continued excellence in operating its portfolio of assets, ongoing progress in the delivery of key assets, including Glendoe and Greater Gabbard, and strategic investments in Ireland and in Gas Production, meant that SSE's activities in Energy Portfolio Management, Electricity Generation, Gas Production and Gas Storage continued to deliver against this primary objective.

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

Consolidated Income Statement

for the year ended 31 March

	Note	2013 Before exceptional items and certain re-measure-ments £m	2013 Exceptional items and certain re-measure-ments (note 6) £m	2013 Total £m	2012 Before exceptional items and certain re-measure-ments £m	2012 Exceptional items and certain re-measure-ments (note 6) £m	2012 Total £m
Revenue	4	**28,304.6**	**-**	**28,304.6**	31,723.9	-	31,723.9
Cost of sales		**(25,612.5)**	**(691.3)**	**(26,303.8)**	(29,222.1)	(903.3)	(30,125.4)
Gross profit		**2,692.1**	**(691.3)**	**2,000.8**	2,501.8	(903.3)	1,598.5
Operating costs		**(1,236.7)**	**(105.6)**	**(1,342.3)**	(1,130.3)	(82.0)	(1,212.3)
Other operating income		**11.8**	**-**	**11.8**	8.0	-	8.0
Operating profit before jointly controlled entities and associates		**1,467.2**	**(796.9)**	**670.3**	1,379.5	(985.3)	394.2
Jointly controlled entities and associates:							
Share of operating profit		**315.6**	**(16.5)**	**299.1**	278.3	-	278.3
Share of interest		**(152.3)**	**-**	**(152.3)**	(146.5)	-	(146.5)
Share of movement on derivatives		**-**	**8.7**	**8.7**	-	14.2	14.2
Share of tax		**(51.0)**	**25.6**	**(25.4)**	(44.9)	38.3	(6.6)
Share of profit on jointly controlled entities and associates		**112.3**	**17.8**	**130.1**	86.9	52.5	139.4
Operating profit	4	**1,579.5**	**(779.1)**	**800.4**	1,466.4	(932.8)	533.6
Finance income	6	**235.5**	**-**	**235.5**	250.1	-	250.1
Finance costs	6	**(455.3)**	**20.3**	**(435.0)**	(425.7)	(89.5)	(515.2)
Profit before taxation		**1,359.7**	**(758.8)**	**600.9**	1,290.8	(1,022.3)	268.5
Taxation	7	**(313.4)**	**201.8**	**(111.6)**	(324.8)	319.6	(5.2)
Profit for the year		**1,046.3**	**(557.0)**	**489.3**	966.0	(702.7)	263.3
Attributable to:							
Ordinary shareholders of the parent		**982.9**	**(557.0)**	**425.9**	900.5	(702.7)	197.8
Other equity holders		**63.4**	**-**	**63.4**	65.5	-	65.5
Basic earnings per share (pence)	9			**44.7p**			21.1p
Diluted earnings per share (pence)	9			**44.6p**			21.1p
Interim dividend paid per share (pence)	8			**25.2p**			24.0p
Final dividend proposed per share (pence)	8			**59.0p**			56.1p
				84.2p			80.1p

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

Consolidated Statement of Comprehensive Income

For the year ended 31 March

	2013 £m	2012 £m
Profit for the year	**489.3**	263.3
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Actuarial losses on retirement benefit schemes	**(50.2)**	(161.1)
Taxation on actuarial losses on defined benefit pension schemes	**4.4**	30.3
	(45.8)	(130.8)
Share of jointly controlled entities and associates actuarial gain on retirement benefit schemes	**11.9**	5.6
Share of jointly controlled entities and associates taxation of actuarial gain on retirement benefit schemes	**(3.1)**	(3.9)
	8.8	1.7
Items that will be reclassified subsequently to profit or loss:		
Gains/(losses) on effective portion of cash flow hedges	**46.4**	(15.3)
Transferred to assets and liabilities on cash flow hedges	**0.7**	0.2
Taxation on cash flow hedges	**(11.4)**	4.0
	35.7	(11.1)
Share of jointly controlled entities and associates (loss) on effective portion of cash flow hedges	**(0.4)**	(20.8)
Share of jointly controlled entities and associates taxation on cash flow hedges	**(0.1)**	3.7
	(0.5)	(17.1)
Exchange difference on translation of foreign operations	**22.6**	(65.3)
Gains on net investment hedge	**(7.3)**	29.8
Taxation on net investment hedge	**1.3**	(7.7)
	16.6	(43.2)
Other comprehensive income/(loss), net of taxation	**14.8**	(200.5)
Total comprehensive income for the period	**504.1**	62.8
Attributable to:		
Ordinary shareholders of the parent	**440.7**	(2.7)
Other equity holders	**63.4**	65.5
	504.1	62.8

Consolidated Balance Sheet

as at 31 March

	Note	2013 £m	2012 £m
Assets			
Property, plant and equipment		**9,838.3**	9,153.1
Biological assets		**3.4**	3.4
Intangible assets:			
Goodwill		**635.8**	627.5
Other intangible assets		**282.2**	218.8
Equity investments in associates and jointly controlled entities		**913.2**	911.7
Loans to associates and jointly controlled entities		**1,244.0**	1,191.9
Other investments		**46.7**	36.1
Deferred tax assets		**155.4**	222.1
Derivative financial assets	13	**382.4**	348.0
Non-current assets		**13,501.4**	12,712.6
Other intangible assets		**368.4**	365.7
Inventories		**291.7**	323.7
Trade and other receivables		**4,953.0**	5,174.6
Cash and cash equivalents		**538.7**	189.2
Derivative financial assets	13	**940.8**	851.2
Current assets held for sale		**2.3**	68.0
Current assets		**7,094.9**	6,972.4
Total assets		**20,596.3**	19,685.0
Liabilities			
Loans and other borrowings		**1,544.6**	708.6
Trade and other payables		**5,047.6**	5,182.7
Current tax liabilities		**286.8**	231.8
Provisions		**60.1**	55.3
Derivative financial liabilities	13	**1,011.2**	817.6
Current liabilities		**7,950.3**	6,996.0
Loans and other borrowings		**4,540.4**	5,537.0
Deferred tax liabilities		**806.6**	921.8
Trade and other payables		**341.4**	332.7
Provisions		**229.5**	182.3
Retirement benefit obligations	12	**705.8**	731.9
Derivative financial liabilities	13	**473.4**	399.2
Non-current liabilities		**7,097.1**	8,104.9
Total liabilities		**15,047.4**	15,100.9
Net assets		**5,548.9**	4,584.1
Equity:			
Share capital		**482.1**	472.3
Share premium		**857.9**	862.0
Capital redemption reserve		**22.0**	22.0
Hedge reserve		**5.8**	(29.4)
Translation reserve		**11.6**	(5.0)
Retained earnings		**1,982.7**	2,100.8
Equity attributable to ordinary share holders of the parent		**3,362.1**	3,422.7
Hybrid capital	11	**2,186.8**	1,161.4
Total equity attributable to equity holders of the parent		**5,548.9**	4,584.1

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

Consolidated Statement of Changes in Equity
for the year ended 31 March 2013

Statement of changes in equity	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid Capital £m	Total £m
At 1 April 2012	472.3	862.0	22.0	(29.4)	(5.0)	2,100.8	**3,422.7**	1,161.4	**4,584.1**
Profit for the year	-	-	-	-	-	425.9	**425.9**	63.4	**489.3**
Other comprehensive income/(loss)	-	-	-	35.7	16.6	(45.8)	**6.5**	-	**6.5**
Share of jointly controlled entities and associates other comprehensive income	-	-	-	(0.5)	-	8.8	**8.3**	-	**8.3**
Total comprehensive income for the year	-	-	-	35.2	16.6	388.9	**440.7**	63.4	**504.1**
Dividends to shareholders	-	-	-	-	-	(770.5)	**(770.5)**	-	**(770.5)**
Scrip dividend related share issue	9.6	(9.6)	-	-	-	255.2	**255.2**	-	**255.2**
Distributions to hybrid capital holders	-	-	-	-	-	-	**-**	(63.4)	**(63.4)**
Issue of shares	0.2	5.5	-	-	-	-	**5.7**	-	**5.7**
Issue of hybrid capital	-	-	-	-	-	-	**-**	1,025.4	**1,025.4**
Credit in respect of employee share awards	-	-	-	-	-	16.0	**16.0**	-	**16.0**
Investment in own shares	-	-	-	-	-	(7.7)	**(7.7)**	-	**(7.7)**
At 31 March 2013	**482.1**	**857.9**	**22.0**	**5.8**	**11.6**	**1,982.7**	**3,362.1**	**2,186.8**	**5,548.9**

Statement of changes in equity	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid Capital £m	Total £m
At 1 April 2011	468.4	859.8	22.0	(1.2)	38.2	2,652.2	**4,039.4**	1,161.4	**5,200.8**
Profit for the year	-	-	-	-	-	197.8	**197.8**	65.5	**263.3**
Other comprehensive income/(loss)	-	-	-	(11.1)	(43.2)	(130.8)	**(185.1)**	-	**(185.1)**
Share of jointly controlled entities and associates other comprehensive income				(17.1)		1.7	**(15.4)**	-	**(15.4)**
Total comprehensive income for the year	-	-	-	(28.2)	(43.2)	68.7	**(2.7)**	65.5	**62.8**
Dividends to shareholders	-	-	-	-	-	(716.9)	**(716.9)**	-	**(716.9)**
Scrip dividend related share issue	3.6	(3.6)	-	-	-	88.2	**88.2**	-	**88.2**
Distributions to hybrid capital holders	-	-	-	-	-	-	**-**	(65.5)	**(65.5)**
Issue of shares	0.3	5.8	-	-	-	-	**6.1**	-	**6.1**
Credit in respect of employee share awards	-	-	-	-	-	13.5	**13.5**	-	**13.5**
Investment in own shares	-	-	-	-	-	(4.9)	**(4.9)**	-	**(4.9)**
At 31 March 2012	**472.3**	**862.0**	**22.0**	**(29.4)**	**(5.0)**	**2,100.8**	**3,422.7**	**1,161.4**	**4,584.1**

Consolidated Cash Flow Statement

for the year ended 31 March

	Note	**2013 £m**	2012 £m
Cash generated from operations before working capital movements	10	**1,953.5**	1,839.2
Decrease/(Increase) in inventories		**47.6**	(107.3)
Decrease /(Increase) in receivables		**250.1**	(133.7)
(Decrease)/increase in payables		**(110.3)**	342.9
Increase in provisions		**22.8**	5.9
Cash generated from operations		**2,163.7**	1,947.0
Dividends received from jointly controlled entities and associates		**87.0**	111.4
Interest received		**88.5**	108.3
Interest paid		**(245.5)**	(242.2)
Income taxes paid		**(114.6)**	(211.4)
Payment for consortium relief		**(1.9)**	(4.9)
Net cash from operating activities		**1,977.2**	1,708.2
Cash flows from Investing activities			
Purchase of property, plant and equipment		**(1,303.3)**	(1,501.2)
Purchase of other intangible assets		**(317.1)**	(400.9)
Deferred income received		**7.5**	0.5
Proceeds from sale of property, plant and equipment		**2.0**	22.2
Proceeds from sale of investments		**-**	23.5
Proceeds from sale of business and subsidiaries		**153.8**	185.5
Loans to jointly controlled entities		**(88.6)**	(138.6)
Purchase of businesses and subsidiaries		**(358.4)**	(3.6)
Cash included in disposals		**5.4**	-
Cash included in Held for sale assets		**-**	(3.9)
Investment in jointly controlled entities and associates		**(13.5)**	(138.8)
Loans and equity repaid by jointly controlled entities		**31.6**	25.9
Increase in other investments		**(10.6)**	(2.1)
Net cash from investing activities		**(1,891.2)**	(1,931.5)
Cash flows from financing activities			
Proceeds from issue of share capital		**5.7**	6.1
Dividends paid to company's equity holders		**(515.3)**	(628.7)
Hybrid capital dividend payment		**(63.4)**	(65.5)
Issue of Hybrid Capital		**1,025.4**	-
Employee share awards share purchase		**(7.7)**	(4.9)
New borrowings		**517.1**	1,024.1
Repayment of borrowings		**(694.7)**	(393.0)
Net cash from financing activities		**267.1**	(61.9)
Net increase/(decrease) in cash and cash equivalents		**353.1**	(285.2)
Cash and cash equivalents at the start of year		**185.5**	471.6
Net increase/(decrease) in cash and cash equivalents		**353.1**	(285.2)
Effect of foreign exchange rate changes		**0.1**	(0.9)
Cash and cash equivalents at the end of year		**538.7**	185.5
Cash and cash equivalents as above		**538.7**	185.5
Bank overdrafts		**-**	3.7
Cash and cash equivalents in balance sheet		**538.7**	189.2

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

Notes to the Preliminary Statement

for the year ended 31 March 2013

1. Financial Information

The financial information set out in this announcement does not constitute the Group's statutory accounts for the years ended 31 March 2013 or 2012 but is derived from those accounts. Statutory accounts for 2012 have been delivered to the Registrar of Companies, and those for 2013 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2013. This preliminary announcement was authorised by the Board on 21 May 2013.

2. Basis of preparation

The financial information set out in this announcement has been extracted from the consolidated financial statements of SSE plc for the year ended 31 March 2013. These consolidated financial statements were prepared under the historical cost convention excepting certain assets and liabilities stated at fair value and in accordance with International Financial Reporting Standards and their interpretations as adopted by the European Union (adopted IFRS). This consolidated financial information has been prepared on the basis of accounting policies consistent with those applied in the consolidated financial statements for the year ended 31 March 2012. The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The financial information has therefore been prepared on a going concern basis. The financial statements are presented in pounds sterling.

3. Changes to presentation of financial statements

Income statement presentation
The presentation of cost of sales and operating costs has been changed. The impact on the income statement for the previous year is to decrease cost of sales by £242.3m (to £29,222.1m) and increase operating costs by £242.3m (to £1,130.3m). The reason for the change is to reclassify (as operating costs) costs associated with back office activities such as sales processing, compliance and other indirect costs related to the Energy Supply business and other overhead costs associated with activities in Ireland. The change has been made to reflect the way these costs are reported to management and to improve the relevance of the income statement presentation.

Cash flow statement presentation
The presentation of the cash flow statement has been changed to focus on the significant cash movements after cash generated from operations from working capital movement. The reconciliation from profit for the year to cash generated from operations before working capital movements is included at Note 10(a). This presentation has been adopted to improve the relevance of the main statement to users of the financial statements. An additional table explaining the reconciliation of the movement in cash and cash equivalents to the movement in adjusted net debt has been included at Note 10 (b) to aid understanding of the group's financial position.

4. Segmental information

The Group's operating segments are those used internally by the Board to run the business, allocate resources and make strategic decisions. The Group's main businesses and operating segments are the **Networks** business comprising Electricity Distribution, Electricity Transmission, Gas Distribution and Other Networks; the **Retail** business comprising Energy Supply and Energy-related Services, and; **Wholesale** comprising Energy Portfolio Management and Electricity Generation, Gas Storage and Gas Production.

The types of products and services from which each reportable segment derives its revenues are:

Business Area	Reported Segments	Description
Networks	Electricity Distribution	The economically regulated lower voltage distribution of electricity to customer premises in the North of Scotland and the South of England
	Electricity Transmission	The economically regulated high voltage transmission of electricity from generating plant to the distribution network in the North of Scotland
	Gas Distribution	SSE's share of Scotia Gas Networks, which operates two economically regulated gas distribution networks in Scotland and the South of England
	Other Networks	Operation of other networks and services including telecoms capacity and bandwidth, out-of-area local networks in the UK and street-lighting services in the UK and Ireland
Retail	Energy Supply	The supply of electricity and gas to residential and business customers in the UK and Ireland
	Energy-related Services	The provision of energy-related goods and services to customers in the UK including electrical contracting, meter reading and installation, telecommunication and broadband services, boiler maintenance and installation and the sale of electrical appliances.
Wholesale	Energy Portfolio Management and Electricity Generation	The generation of power from renewable and thermal plant in the UK, and Ireland and the optimisation of SSE's power and gas contracts and requirements.
	Gas Storage	The operation of gas storage facilities in the UK
	Gas Production	The production and processing of gas and oil from North Sea fields

The measure of profit used by the Board is adjusted operating profit which is before exceptional items, remeasurements arising from IAS 39 and after the removal of taxation and interest on profits from jointly controlled entities and associates.

Analysis of revenue, operating profit, assets and other items by segment is provided below. All revenue and profit before taxation arise from operations within Great Britain, Ireland and mainland Europe.

4. Segmental information (continued)

a) Revenue by segment

External revenue 2012 £m	Intra-segment revenue (i) 2012 £m	Total revenue 2012 £m		External revenue 2013 £m	Intra-segment revenue (i) 2013 £m	Total revenue 2013 £m
			Networks			
542.1	336.9	879.0	Electricity Distribution	647.0	348.8	995.8
117.7	0.1	117.8	Electricity Transmission	139.1	0.1	139.2
249.0	49.4	298.4	Other Networks	246.3	68.5	314.8
908.8	**386.4**	**1,295.2**		**1,032.4**	**417.4**	**1,449.8**
			Retail			
7,787.3	23.1	7,810.4	Energy Supply	8,602.1	35.1	8,637.2
280.4	184.8	465.2	Energy-related Services	246.0	203.2	449.2
8,067.7	**207.9**	**8,275.6**		**8,848.1**	**238.3**	**9,086.4**
			Wholesale			
22,664.2	4,447.5	27,111.7	Energy Portfolio Management and Electricity Generation	18,356.9	4,420.4	22,777.3
30.3	51.9	82.2	Gas Storage	19.4	93.4	112.8
3.0	99.3	102.3	Gas Production	3.7	114.4	118.1
22,697.5	**4,598.7**	**27,296.2**		**18,380.0**	**4,628.2**	**23,008.2**
49.9	264.3	314.2	Corporate unallocated	44.1	247.9	292.0
31,723.9	**5,457.3**	**37,181.2**	**Total**	**28,304.6**	**5,531.8**	**33,836.4**

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

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

Revenue from the Group's investment in Scotia Gas Networks (SSE share being: 2013 – £458.0m; 2012 – £454.3m) is not recorded in the revenue line in the income statement.

b) Operating profit/(loss) by segment

	2013				
	Adjusted operating profit reported to the Board	**JCE / Associate share of interest and tax (i)**	**Before exceptional items and certain re-measurements**	**Exceptional items and certain re-measurements**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Networks					
Electricity Distribution	512.8	-	512.8	-	512.8
Electricity Transmission	93.3	-	93.3	-	93.3
Gas Distribution	234.1	(160.1)	74.0	27.4	101.4
Other Networks	35.9	-	35.9	-	35.9
	876.1	**(160.1)**	**716.0**	**27.4**	**743.4**
Retail					
Energy Supply	364.2	-	364.2	(4.3)	359.9
Energy-related Services	45.9	(0.2)	45.7	(31.7)	14.0
	410.1	**(0.2)**	**409.9**	**(36.0)**	**373.9**
Wholesale					
Energy Portfolio Management and Electricity Generation	451.5	(43.0)	408.5	(767.2)	(358.7)
Gas Storage	18.4	-	18.4	-	18.4
Gas Production	39.6	-	39.6	-	39.6
	509.5	**(43.0)**	**466.5**	**(767.2)**	**(300.7)**
Corporate unallocated	(12.9)	-	(12.9)	(3.3)	(16.2)
Total	**1,782.8**	**(203.3)**	**1,579.5**	**(779.1)**	**800.4**

Notes to the Preliminary Statement
for the year ended 31 March 2013

4. Segmental information (continued)

b) Operating profit/(loss) by segment (continued)

	2012				
	Adjusted operating profit reported to the Board	**JCE / Associate share of interest and tax (i)**	**Before exceptional items and certain re-measurements**	**Exceptional items and certain re-measurements**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Networks					
Electricity Distribution	396.5	-	396.5	-	396.5
Electricity Transmission	73.7	-	73.7	-	73.7
Gas Distribution	234.8	(164.5)	70.3	48.5	118.8
Other Networks	32.1	-	32.1	-	32.1
	737.1	**(164.5)**	**572.6**	**48.5**	**621.1**
Retail					
Energy Supply	271.7	-	271.7	(20.0)	251.7
Energy-related Services	49.9	(0.2)	49.7	(40.0)	9.7
	321.6	**(0.2)**	**321.4**	**(60.0)**	**261.4**
Wholesale					
Energy Portfolio Management and Electricity Generation	541.5	(26.7)	514.8	(869.3)	(354.5)
Gas Storage	23.8	-	23.8	(30.0)	(6.2)
Gas Production	42.6	-	42.6	(22.0)	20.6
	607.9	**(26.7)**	**581.2**	**(921.3)**	**(340.1)**
Corporate unallocated	(8.8)	-	(8.8)	-	(8.8)
Total	**1,657.8**	**(191.4)**	**1,466.4**	**(932.8)**	**533.6**

(i) The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives and tax from jointly controlled entities and associates. The share of Scotia Gas Networks Limited interest includes loan stock interest payable to the consortium shareholders (included in Gas Distribution). The Group has accounted for its 50% share of this, £33.3m (2012 - £33.4m), as finance income (note 6).

The Group's share of operating profit from jointly controlled entities and associates has been recognised in the Energy Portfolio Management and Electricity Generation segment other than that for Scotia Gas Networks Limited, which is recorded in Gas Distribution, and PriDE (South East Regional Prime), which is recognised in Energy-related Services (£1.0m before tax; 2012 – £0.9m before tax).

Notes to the Preliminary Statement
for the year ended 31 March 2013

5. Exceptional items and certain re-measurements

i) Exceptional items

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

Impairments and other charges: On 21 March 2013, the Group announced the results of a comprehensive review of generation operations. This review was conducted in the context of challenging energy market conditions including continued extremely low 'spark spreads', the early introduction of the Carbon Price Floor at a high level, the ongoing constraints on coal plant arising from the Industrial Emissions Directive and the ongoing uncertainty around the Electricity Market Reform (EMR) proposals. The conclusions of the review were that around 2,000MW of the Group's existing thermal generation capacity will cease operation during the 2013/14 financial year, with the main stations affected being Ferrybridge, Keadby, Slough, Uskmouth and Peterhead. Related to this, the Group has reassessed the carrying value of its associate investments at Barking Power Limited and Derwent Cogeneration Limited. Accordingly, combined impairment charges of £306.9m have been recognised of which £277.9m relates to property, plant and equipment and £33.0m relates to investments (less £4.0m of related deferred tax). In addition to this, further impairment charges of £84.6m were recognised following a detailed review of the group's investments (£25.8m), property, plant and equipment (£25.4m), intangible assets (£25.5m) and other assets (£7.9m). This included further impairment of legacy Metering assets (£23.4m), impairment of wind development pipeline assets (£20.0m) and the reassessment of the recoverable value of certain associate investments and other assets (£41.2m).

The Group recognised current asset impairments and other related charges in relation to the settlement of certain claims associated with the outage at Medway power station in 2008/09 (£43.0m). In addition, the group recognised charges in relation to the impairment of carbon dioxide emissions allowances purchased to cover the emissions liabilities at the group's thermal plants (£139.3m).

Provisions for onerous contracts, restructuring and other liabilities. On review of the Group's provisions at 31 March 2013, certain provisions for onerous contracts were released (£37.4m) and other provisions for restructuring related to the announcement on 21 March 2013, doubtful debts, project exit costs and potential contractual settlement were recognised (£44.3m) .

Changes in UK corporation tax rates. The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate would reduce from 28% to 24% over a period of four years starting in 2011. The March 2011 Budget accelerated the reductions and the March 2012 Budget confirmed a further acceleration of the reduction in rate to 24% effective from 1 April 2012. The Finance Act 2012 confirmed the reduction to 23% as being effective from 1 April 2013. This was substantively enacted on 17 July 2012. A revised rate of 22% is expected to be enacted by 2014.

As the rate change to 23% has been substantively enacted it has the effect of reducing the group's net deferred tax liabilities recognised at 31 March 2013 by £22.0m (2012 – £45.7m). It has not yet been possible to quantify the full effect of the announced further 1% rate reduction due to legislation not being enacted, although this will further reduce the Group's future current tax charge and the reduce the Group's deferred tax liabilities/assets accordingly.

In the year to 31 March 2012, the following exceptional items were recorded:

Exceptional charges were recognised in relation to the impairment of goodwill (£49.3m), property, plant and equipment (£305.1m), current receivables (£5.0m), held for sale assets (£9.9m) and intangible assets (£109.3m). These were recognised as a result of the long-term view of spark spreads at Medway and Keadby, leading to a change the way in which the plants are operationally configured, and also following the goodwill impairment review of the Gas Storage CGU and updated development expectations associated with legacy Metering assets
(£30.0m) and North Sea exploration assets (£22.0m). In addition, further impairment charges in respect of the station running hours at Ferrybridge and in respect of the future prospects for the European wind portfolio were recognised. Carbon dioxide emissions allowances recognised as intangible assets purchased to cover the emissions liabilities at the Group's thermal plants were impaired based on prevailing market prices.

Exceptional charges were also recognised in relation to commodity contracts associated with thermal Generation assets (£37.4m). In addition costs associated with Retail restructuring and the impairment of other financial assets (£35.6m) were recognised as exceptional in the year to 31 March 2012. Of these charges, £13.1m was recognised in the period to 30 September 2011.

ii) Certain re-measurements
Certain re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category includes the movement on derivatives as described in note 13.

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

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

These transactions can be summarised thus:

	2013 £m	2012 £m
Exceptional items (i)		
Impairments and other charges:		
Impairment of generation assets and other related market costs	**(496.7)**	(396.6)
Impairment of other assets	**(64.6)**	(82.0)
Provisions for onerous contracts, restructuring and other liabilities	**(6.9)**	(73.0)
Impairment of Investments in Associates (share of result, net of tax)	**(12.5)**	-
Share of effect of change in UK corporation tax on deferred tax liabilities and assets of associate and joint venture investments	**23.8**	42.0
	(556.9)	(509.6)
Certain re-measurements (ii)		
Movement on operating derivatives (note 13)	**(228.7)**	(433.7)
Movement on financing derivatives (note 13)	**20.3**	(89.5)
Share of movement on derivatives in jointly controlled entities (net of tax)	**6.5**	10.5
	(201.9)	(512.7)
Exceptional items before taxation	**(758.8)**	(1,022.3)
Exceptional items (iii)		
Effect of change in UK corporation tax rate on deferred tax liabilities and assets	**22.0**	45.7
Taxation on other exceptional items	**129.6**	137.4
	151.6	183.1
Taxation on certain re-measurements	**50.2**	136.5
Taxation	**201.8**	319.6
Exceptional items after taxation	**(557.0)**	(702.7)

6. Finance income and costs

Recognised in income statement

	2013			**2012**		
	Before Exceptional items and certain re-measurements £m	**Exceptional items and certain re-measurements £m**	**Total £m**	**Before Exceptional items and certain re-measurements £m**	**Exceptional items and certain re-measurements £m**	**Total £m**
Finance income:						
Return on pension scheme assets	**134.1**	**-**	**134.1**	147.4	-	147.4
Interest income from short term deposits	**1.7**	**-**	**1.7**	2.0	-	2.0
Foreign exchange translation of monetary assets and liabilities	**12.9**	**-**	**12.9**	-	-	-
Other interest receivable:						
Scotia Gas Networks loan stock	**33.3**	**-**	**33.3**	33.4	-	33.4
Other jointly controlled entities and associates	**25.4**	**-**	**25.4**	23.8	-	23.8
Other receivable	**28.1**	**-**	**28.1**	43.5	-	43.5
	86.8	**-**	**86.8**	100.7	-	100.7
Total finance income	**235.5**	**-**	**235.5**	250.1	-	250.1
Finance costs:						
Bank loans and overdrafts	**(22.5)**	**-**	**(22.5)**	(25.0)	-	(25.0)
Other loans and charges	**(302.7)**	**-**	**(302.7)**	(280.3)	-	(280.3)
Interest on pension scheme liabilities	**(142.3)**	**-**	**(142.3)**	(149.8)	-	(149.8)
Notional interest arising on discounted provisions	**(7.7)**	**-**	**(7.7)**	(7.8)	-	(7.8)
Finance lease charges	**(37.1)**	**-**	**(37.1)**	(38.4)	-	(38.4)
Foreign exchange translation of monetary assets and liabilities	**-**	**-**	**-**	(0.3)	-	(0.3)
Less: interest capitalised (i)	**57.0**	**-**	**57.0**	75.9	-	75.9
Total finance costs	**(455.3)**	**-**	**(455.3)**	(425.7)	-	(425.7)
Changes in fair value of financing derivative assets or liabilities at fair value through profit or loss	**-**	**20.3**	**20.3**	-	(89.5)	(89.5)
Net finance costs	**(219.8)**	**20.3**	**(199.5)**	(175.6)	(89.5)	(265.1)
Finance income	**235.5**	**-**	**235.5**	250.1	-	250.1
Finance costs	**(455.3)**	**20.3**	**(435.0)**	(425.7)	(89.5)	(515.2)
Net finance costs	**(219.8)**	**20.3**	**(199.5)**	(175.6)	(89.5)	(265.1)

(i) The capitalisation rate applied in determining the amount of borrowing costs to capitalise in the period was 5.38% (2012 – 5.36%).

6. Finance income and costs (continued)

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

	2013 £m	2012 £m
Net finance costs	**(199.5)**	(265.1)
(add)/less:		
Share of interest from jointly controlled entities and associates:		
Scotia Gas Networks loan stock	**(33.3)**	(33.4)
Other jointly controlled entities and associates	**(119.0)**	(113.1)
	(152.3)	(146.5)
Movement on financing derivatives	**(20.3)**	89.5
Adjusted finance income and costs	**(372.1)**	(322.1)
(add)/less:		
Return on pension scheme assets	**(134.1)**	(147.4)
Interest on pension scheme liabilities	**142.3**	149.8
Notional interest arising on discounted provisions	**7.7**	7.8
Finance lease charges	**37.1**	38.4
Hybrid coupon payment	**(63.4)**	(65.5)
Adjusted finance income and costs and hybrid coupon payments for interest cover calculations	**(382.5)**	(339.0)

7. Taxation

Analysis of charge recognised in the income statement:

	Before Exceptional items and certain re-measurements £m	**Exceptional items and certain re-measurements £m**	**2013 £m**	**Before Exceptional items and certain re-measurements £m**	**Exceptional items and certain re-measurements £m**	**2012 £m**
Current tax						
UK corporation tax	**243.5**	**(50.6)**	**192.9**	224.2	(16.9)	207.3
Adjustments in respect of previous years	**(23.5)**	**-**	**(23.5)**	(22.3)	-	(22.3)
Total current tax	**220.0**	**(50.6)**	**169.4**	201.9	(16.9)	185.0
Deferred tax						
Current year	**67.9**	**(129.2)**	**(61.3)**	93.3	(257.0)	(163.7)
Effect of change in tax rate	**-**	**(22.0)**	**(22.0)**	-	(45.7)	(45.7)
Adjustments in respect of previous years	**25.5**	**-**	**25.5**	29.6	-	29.6
Total deferred tax	**93.4**	**(151.2)**	**(57.8)**	122.9	(302.7)	(179.8)
Total taxation charge	**313.4**	**(201.8)**	**111.6**	324.8	(319.6)	5.2

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

	2013 £m	**2013 %**	2012 £m	2012 %
Group profit before tax	**600.9**		268.5	
Less: share of results of associates and jointly controlled entities	**(130.1)**		(139.4)	
Profit before tax	**470.8**		129.1	
Tax on profit on ordinary activities at standard UK corporation tax rate of 24% (2011 – 26%)	**113.0**	**24.0**	33.6	26.0
Tax effect of:				
Change in rate of UK corporation tax	**(22.0)**	**(4.7)**	(45.7)	(35.4)
Expenses not deductible for tax purposes	**15.8**	**3.4**	16.8	13.0
Impact of supplementary corporation tax	**24.2**	**5.1**	22.7	17.6
Impact of foreign tax rates and foreign dividends	**3.2**	**0.7**	(3.8)	(2.9)
Adjustments to tax charge in respect of previous years	**2.0**	**0.4**	7.3	5.7
Hybrid capital coupon payments	**(15.4)**	**(3.3)**	(16.6)	(12.9)
Consortium relief not paid for	**(6.6)**	**(1.4)**	(8.6)	(6.7)
Other items	**(2.6)**	**(0.5)**	(0.5)	(0.4)
Total tax charge and effective rate	**111.6**	**23.7**	5.2	4.0

7. Taxation (continued)

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

	2013 £m	**2013 %**	2012 £m	2012 %
Total taxation charge and effective rate	**111.6**	**23.7**	5.2	4.0
Effect of adjusting items (see below)	**-**	**(15.8)**	-	(3.6)
Total taxation charge and effective rate on adjusted basis	**111.6**	**7.9**	5.2	0.4
add/l(less):				
Share of current tax from jointly controlled entities and associates	**3.6**	**0.3**	11.5	0.9
Exceptional items	**151.6**	**10.7**	183.1	13.7
Tax on movement on derivatives	**50.2**	**3.6**	136.5	10.2
Deferred tax (excluding share of jointly controlled entities)	**(93.4)**	**(6.6)**	(122.9)	(9.2)
Adjusted current tax charge and effective rate	**223.6**	**15.9**	213.4	16.0

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

	2013 £m	2012 £m
Profit before tax	**600.9**	268.5
(add)/less:		
Exceptional items and certain re-measurements	**758.8**	1,022.3
Share of tax from jointly controlled entities and associates before exceptional items and certain re-measurements	**51.0**	44.9
Adjusted profit before tax	**1,410.7**	1,335.7

8. Dividends

Ordinary dividends

	Year ended 31 March 2013 Total £m	**Settled via scrip £m**	**Pence per ordinary share**	Year ended 31 March 2012 Total £m	Settled via scrip £m	Pence per ordinary share
Interim – year ended 31 March 2013	**241.2**	**82.5**	**25.2**	-	-	-
Final – year ended 31 March 2012	**529.3**	**172.7**	**56.1**	-	-	-
Interim – year ended 31 March 2012	**-**	**-**	**-**	224.8	76.3	24.0
Final – year ended 31 March 2011	**-**	**-**	**-**	492.1	11.9	52.6
	770.5	**255.2**		716.9	88.2	

The final dividend of 56.1p per ordinary share declared in the financial year ended 31 March 2012 (2011 – 52.6p) was approved at the Annual General Meeting on 26 July 2012 and was paid to shareholders on 21 September 2012. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the cash dividend under the terms of the Company's scrip dividend scheme.

An interim dividend of 25.2p per ordinary share (2012 – 24.0p) was declared and paid on 22 March 2013 to those shareholders on the SSE plc share register on 23 January 2013. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the interim cash dividend under the terms of the Company's scrip dividend scheme.

The proposed final dividend of 59.0p per ordinary share (which equates to a dividend of £568.9m based on the number of issued ordinary shares at 31 March 2013) in is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Notes to the Preliminary Statement
for the year ended 31 March 2013

9. Earnings per Share

Basic earnings per share
The calculation of basic earnings per ordinary share at 31 March 2013 is based on the net profit attributable to Ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 March 2013. All earnings are from continuing operations.

Adjusted earnings per share
Adjusted earnings per share has been calculated by excluding the charge for deferred tax, items disclosed as exceptional, and the impact of certain remeasurements as described in note 5.

	Year ended 31 March 2013 Earnings £m	**Year ended 31 March 2013 Earnings per share pence**	Year ended 31 March 2012 Earnings £m	Year ended 31 March 2012 Earnings per share pence
Basic	**425.9**	**44.7**	197.8	21.1
Exceptional items and certain re-measurements (note 5)	**557.0**	**58.5**	702.7	74.9
Basic excluding exceptional items and certain re-measurements	**982.9**	**103.2**	900.5	96.0
Adjusted for:				
Deferred tax (note 7)	**93.4**	**9.8**	122.9	13.1
Deferred tax from share of jointly controlled entities and associates results	**47.4**	**5.0**	33.4	3.6
Adjusted	**1,123.7**	**118.0**	1,056.8	112.7
Basic	**425.9**	**44.7**	197.8	21.1
Dilutive effect of outstanding share options	**-**	**(0.1)**	-	-
Diluted	**425.9**	**44.6**	197.8	21.1

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

	31 March 2013 Number of shares (millions)	31 March 2012 Number of shares (millions)
For basic and adjusted earnings per share	**952.0**	937.8
Effect of exercise of share options	**1.9**	1.5
For diluted earnings per share	**953.9**	939.3

Notes to the Preliminary Statement
for the year ended 31 March 2013

10. Notes to the Consolidated Cash Flow Statement

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

	Note	**2013 £m**	2012 £m
Profit for the year		**489.3**	263.3
Add back: taxation	7	**111.6**	5.2
Add back: net finance costs	6	**199.5**	265.1
Operating profit		**800.4**	533.6
Less share of profit of joint ventures and associates		**(130.1)**	(139.4)
Operating profit before jointly controlled entities and associates		**670.3**	394.2
Movement on operating derivatives		**228.7**	433.7
Pension service charges less contributions paid		**(84.5)**	(100.2)
Exceptional impairment of assets		**561.3**	478.6
Other exceptional items		**6.9**	73.0
Depreciation of assets		**570.8**	561.8
Amortisation and impairment of intangible assets		**5.9**	13.5
Impairment of inventories		**3.6**	1.1
Release of provisions		**(0.6)**	(7.3)
Release of deferred income		**(16.8)**	(14.7)
Charge in respect of employee share awards (before tax)		**16.0**	13.5
Loss/(profit) on disposal of property, plant and equipment		**0.1**	(4.6)
Loss on disposal of Investments		**-**	2.1
Profit on disposal of business and subsidiaries		**(8.2)**	(5.5)
Income from investment in subsidiaries, jointly controlled entities and associates		**-**	-
Cash generated from operations before working capital movements		**1,953.5**	1,839.2

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

	2013 £m	2012 £m
Increase/(decrease) in cash and cash equivalents	**353.1**	(285.2)
Add:		
New borrowings	**(517.1)**	1,024.1
Repayment of borrowings	**694.7**	(393.0)
Issue of hybrid capital	**(1,025.4)**	-
Non-cash movement on borrowings	**(32.3)**	(40.7)
(Decrease)/increase in cash held as collateral	**(64.9)**	91.8
Movement in adjusted net debt and hybrid capital	**(591.9)**	(865.2)

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

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for the year ended 31 March 2013

11. Hybrid Capital

	2013 £m	2012 £m
GBP 750m 5.453% perpetual subordinated capital securities	**744.5**	744.5
EUR 500m 5.025% perpetual subordinated capital securities	**416.9**	416.9
USD 700m 5.625% perpetual subordinated capital securities	**427.2**	-
EUR 750m 5.625% perpetual subordinated capital securities	**598.2**	-
	2,186.8	1,161.4

On 18 September 2012 the Company issued €750m EUR and $700m USD bonds (hybrid capital). This added to the GBP and EUR hybrid capital bonds that were issued in 20 September 2010. Each bond has no fixed redemption date but the Company may, at its sole discretion, redeem all, but not part, of these capital securities at their principal amount. The date for the discretionary redemption of the capital issued on 18 September 2012 is 1 October 2017 and every five years thereafter. The 20 September 2010 issued capital may be redeemed fully (not in part) at their principal amounts on 1 October 2015 or 1 October 2020 or any subsequent coupon payment date. In addition, under certain circumstances defined in the terms and conditions of the issue, the Company may at its sole discretion redeem all (but not part of) the bonds at their principal amount at any time prior to 1 October 2017 (for the 18 September 2012 securities) or at any time prior to 1 October 2015 (for the 20 September 2010 securities).

The Company has the option to defer coupon payments on the bonds on any relevant payment date, as long as a dividend on the ordinary shares has not been declared. Deferred coupons shall be satisfied only in the following circumstances, all of which occur at the sole option of the Company:

- redemption; or
- dividend payment on ordinary shares

Interest will accrue on any deferred coupon.

For the capital issued on 20 September 2010 and the EUR 750m capital issued on 18 September 2012, coupon payments are expected to be made annually in arrears on 1 October in each year. Coupon payments of £63.4m (2012 - £65.5m) in relation to the capital issued on 20 September 2010 were made on 1 October 2012. For the USD 700m capital issued on 18 September 2012, coupon payments are expected to be made bi-annually in arrears on 1 April and 1 October each year. The purpose of both issues was to strengthen SSE's capital base and to fund the Group's ongoing capital investment and acquisitions.

12. Retirement Benefit Obligations

Valuation of combined Pension Schemes

	Long- term rate of return expected at 31 March 2013 %	**Value at 31 March 2013 £m**	Long- term rate of return expected at 31 March 2012 %	Value at 31 March 2012 £m
Equities	**6.7**	**1,109.0**	7.0	1,040.3
Government bonds	**3.0**	**883.0**	3.3	939.4
Corporate bonds	**4.1**	**812.0**	4.6	481.2
Other investments	**3.7**	**314.1**	4.3	234.2
Total fair value of plan assets		**3,118.1**		2,695.1
Present value of defined benefit obligation		**(3,634.6)**		(3,124.6)
Pension liability before IFRIC 14		**(516.5)**		(429.5)
IFRIC 14 liability (i)		**(189.3)**		(302.4)
Deficit in the scheme		**(705.8)**		(731.9)
Deferred tax thereon		**162.3**		175.7
Net pension liability		**(543.5)**		(556.2)

(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 in the Scottish Hydro Electric scheme.

Movements in the defined benefit obligation during the year:

	2013 £m	2012 £m
At 1 April	**(3,124.6)**	(2,758.0)
Movements in the year:		
Service costs	**(40.8)**	(37.8)
Member contributions	**(7.6)**	(7.8)
Benefits paid	**112.5**	112.8
Interest on pension scheme liabilities	**(142.3)**	(149.8)
Actuarial (losses)	**(431.8)**	(284.0)
At 31 March	**(3,634.6)**	(3,124.6)

12. Retirement Benefit Obligations (continued)

Movements in scheme assets during the year:

	2013 £m	2012 £m
At 1 April	**2,695.1**	2,463.6
Movements in the year:		
Expected return on pension scheme assets	**134.1**	147.4
Assets distributed on settlement	**(112.5)**	(112.8)
Employer contributions	**125.3**	138.0
Member contributions	**7.6**	7.8
Actuarial gains	**268.5**	51.1
At 31 March	**3,118.1**	2,695.1

13. Derivatives Financial Assets and Liabilities

For financial reporting purposes, the Group has classified derivative financial instruments into two categories, operating derivatives and financing derivatives. Operating derivatives include all qualifying commodity contracts including those for electricity, gas, oil, coal and carbon. Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts. Non-hedge accounted contracts are treated as held for trading.

The net movement reflected in the income statement can be summarised thus:

	2013 £m	2012 £m
Operating Derivatives		
Total result on operating derivatives (i)	**33.7**	142.0
Less: Amounts settled (ii)	**(262.4)**	(575.7)
Movement in unrealised derivatives	**(228.7)**	(433.7)
Financing Derivatives (and hedged items)		
Total result on financing derivatives (i)	**(755.0)**	(1,288.7)
Less: Amounts settled (ii)	**775.3**	1,199.2
Movement in unrealised derivatives	**20.3**	(89.5)
Net income statement impact	**(208.4)**	(523.2)

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

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

The net derivative financial assets and (liabilities) are represented as follows:

	2013 £m	2012 £m
Derivative Financial Assets		
Non-current	**382.4**	348.0
Current	**940.8**	851.2
	1,323.2	1,199.2
Derivative Liabilities		
Non-current	**(473.4)**	(399.2)
Current	**(1,011.2)**	(817.6)
Total derivative liabilities	**(1,484.6)**	(1,216.8)
Net liability	**(161.4)**	(17.6)

Notes to the Preliminary Statement
for the year ended 31 March 2013

14. Acquisitions and disposals

a. Acquisitions

On 9 October 2012, the Group acquired 100% of the shares of Endesa Ireland Limited from Endesa Generacion SA for total consideration of £281.8m cash and £8.0m of deferred consideration. The business consists of four thermal generation plants in operation and a 460MW CCGT plant under construction (Great Island). The acquisition contributes towards the Group's aim of operating a balanced generation and supply business in Ireland. Following the acquisition the company changed its name from Endesa Ireland Limited to SSE Generation Ireland Limited.

	£m
Assets acquired:	
Property, plant and equipment	268.2
Intangible assets	25.3
Inventories	19.2
Cash	0.5
Other working capital items	15.5
Provisions	(26.4)
Deferred tax	(12.5)
Net Assets	**289.8**

The acquired business contributed £38.0m to revenue and £11.0m to operating profit in the year to 31 March 2013.

During the financial year, the Group acquired a number of other businesses and assets which are not considered material. On 22 June 2012, the Group acquired the Phoenix gas supply business in Northern Ireland for cash consideration of £29.3m and on 1 December 2012, the Group increased its stake to 50% in three producing North Sea gas fields for a net cash consideration of £25.5m. Other businesses were acquired in the year for cash consideration of £3.8m. A cash deposit of £18.0m in relation to the Sean gas field acquisition (see Note 15) was paid on 28 January 2013.

b. Disposals

On 27 March 2013, SSE completed the disposal of four wind farms, including its stake in the Braes of Doune joint venture, to Greencoat Capital for a total cash consideration of £140.9m, which resulted in a gain on disposal of £8.8m. The Group entered into power purchase agreements (PPAs) with Greencoat Capital for three of the wind farms for a proportion of the output from the wind farms. The arrangements are not judged to be leasing arrangements. In addition, SSE invested cash of £10m in the Greencoat initial public offering. During the financial year, the Group also disposed of its wind portfolios in Sweden and Italy for a combined cash consideration of £12.9m, which resulted in a loss on disposal of £0.6m.

15. Post Balance Sheet Events

On 12 April 2013, the Group, through its wholly-owned subsidiary SSE E&P UK Limited, completed the acquisition from BP of a 50% working interest in the Sean gas field in the Southern North Sea for a total cash consideration of £117.4m, which reflects the value of the asset based on an effective economic date of 1 January 2012 (£180m), less the value of the gas produced between 1 January 2012 and the completion date of the transaction.