SSE plc
Preliminary Results
Year to 31 March 2015

20 May 2015

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.

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Definitions

These financial results for 2014/15 are reported under IFRS, as adopted by the EU.

SSE focuses on profit before tax before exceptional items, re-measurements arising from IAS 39, excluding interest costs on net pension liabilities and after the removal of taxation on profits from joint ventures and associates. These costs are non-cash and SSE believes that in order to focus on underlying performance it is appropriate to exclude them from all adjusted profit measures.

Therefore, throughout this preliminary statement, the following definitions apply:

Adjusted Operating Profit before tax * describes profit before tax before exceptional items and re-measurements arising from IAS 39, excluding interest costs on net pension scheme liabilities and after the removal of taxation on profits from joint ventures and associates.

Adjusted Earnings Per Share * describes earnings per share after tax, based on the Adjusted Operating Profit outlined above.

The tables under 'Measuring Adjusted Profit Before Tax' reconcile SSE's adjusted profit before tax* to its reported profit before tax and also set out the adjusted position after tax and in respect of adjusted earnings per share*. The volatility that arises from IAS 39 and the impact of the adjustment relating to non-cash interest costs on net pension liabilities can also be observed.

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

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SSE plc
Preliminary results for the year to 31 March 2015

20 May 2015

This report sets out the preliminary results for SSE plc for the year to 31 March 2015. SSE's core purpose is to provide the energy people need in a reliable and sustainable way and this report includes updates on operations and investments in its Wholesale, Networks and Retail (including Enterprise) businesses.

Lord Smith of Kelvin, Chairman of SSE, said:

"The 2014/15 financial year was expected to present a number of major challenges, and it certainly did. Politics and regulation loomed large with the first-ever auction for electricity generation capacity, the CMA investigation into the energy market, final proposals from Ofgem on the eight-year price control in electricity distribution and the extended build-up to the recent UK general election. Market conditions for thermal power stations have been persistently difficult, requiring us to take the difficult decision we have announced this morning to end coal-fired generation at Ferrybridge power station by next March; the new price control in distribution is driving significant change; and energy supply has once again proved to be a highly competitive business.

"We have throughout this maintained a strong focus on the needs of customers, with a significant reduction in the number and duration of power cuts experienced by our distribution customers; a price reduction and extended price guarantee for our household energy customers across Britain; and new, integrated services for our business customers. This focus on customers has been allied to strong financial discipline, with the value programme to streamline and simplify the business delivering significant cost savings and other efficiencies. As I prepare to step down from the Board in July, I am confident that SSE is on a very sound footing to maintain its position as one of the most reliable dividend-paying stocks in the FTSE 100."

Alistair Phillips-Davies, Chief Executive of SSE, said:

"In 2014/15 we delivered our target of annual dividend growth and achieved solid performance on adjusted earnings per share* and profit before tax*. We also invested for the future, through almost £1.5bn of capital and investment spend in the UK and Ireland. Looking ahead, the expected pressures on adjusted earnings per share* are likely to make themselves felt to some extent in 2015/16 but the company is well-placed to deliver in 2015/16 and beyond an annual dividend increase that at least keeps pace with inflation, while engaging constructively to secure positive outcomes for customers and investors as the new UK government sets out its energy priorities and as the CMA's market study moves towards its conclusion."

SSE has also today published a statement on the outcome of its review of its coal-fired electricity generation assets.

Finance – SSE Group

The key financial results for the year to 31 March 2015 are in line with expectations set out in the Notification of Close Period published on the 26 March 2015 (comparisons with the previous year, unless otherwise stated):

- Adjusted earnings per share* increased by 0.6% to 124.1 pence;
- Adjusted profit before tax* increased by 0.9% to £1,564.7m;
- Reported profit before tax increased by 24.1% to £735.2m;
- Investment and capital expenditure fell by 6.8% to £1,475.3m;
- Adjusted net debt and hybrid capital decreased by £74.7m to £7,568.1m;
- Full-year dividend increased by 2% to 88.4 pence per share; and
- Dividend covered 1.40 times by adjusted earnings per share.

*See Definitions on page ii.

Finance – business-by-business operating profit

Operating Profit* by Segment	Mar 15	Mar 14	Mar 13
	£m	£m	£m
		Restated#	Restated#
Wholesale	473.8	634.6	508.6
Networks	936.8	920.3	838.3
Retail	456.8	327.1	445.0
Corporate Unallocated	14.0	(1.9)	(12.9)
Total Operating Profit	**1,881.4**	**1,880.1**	**1,779.0**

Operating profit, which is before payment of interest and tax, for the year to 31 March 2015 is set out above and below. Comparisons are with the previous financial year, but it should be noted that year on year comparisons may also reflect the cumulative impact of issues arising or decisions taken in earlier financial years. SSE's objective is not to maximise profit in any one year but to earn a sustainable level of profit over the medium term.

Wholesale – operating profit* of £473.8m

- **Energy Portfolio Management and Electricity Generation** operating profit declined from £496.1m to £433.3m, as a result of difficult market conditions, and lower output of electricity from both renewable and thermal sources;
- **Gas Production** operating profit declined from £130.2m to £36.6m, reflecting lower day ahead prices achieved for gas produced; and
- **Gas Storage** operating profit declined from £8.3m to £3.9m; this business continues to be affected by smaller seasonal and daily differentials in gas prices.

Networks – operating profit* of £936.8m

- **Electricity Transmission** operating profit rose from £136.7m to £184.1m, reflecting the continuing major investment in the asset base and the resulting higher income;
- **Electricity Distribution** operating profit fell from £507.0m to £467.7m. In 2013/14 SSE's networks over-recovered revenue by £25m and this was reflected in downward adjustments to its revenue in 2014/15, during which there was also an under recovery of revenue of around £38m; and
- **Gas Distribution** - SSE's share of Scotia Gas Networks' operating profit rose from £276.6m to £285.0m, reflecting continued innovation and efficiencies as well as the timing of revenue collection.

Retail – operating profit* of £456.8m

- **Energy Supply** following operational and cost efficiencies operating profit rose from £246.2m to £368.7m, thereby returning it to a level similar to that achieved in 2012/13, when it was £363.2m, and making SSE's average annual profit from supplying a dual fuel energy customer £69, before paying interest and tax;
- **Energy-related Services** operating profit fell from £24.1m to £17.7m, reflecting a reduction in customer numbers in Metering, Telecoms and Home Services; and
- **Enterprise** operating profit rose from £56.8m to £70.4m, largely reflecting a £15.3m profit on the gas pipeline disposal during the year.

#Operating profit for 2013/14 restated in line with establishment of the Enterprise division, and as set out in the Notification of Close Period on 29 September 2014 and in the Notes to the Financial Statements.

Weather – impact on SSE

As SSE has set out previously, the weather in the UK and Ireland has an effect on its business operations including variations in customer demand for energy, changes in the volume of electricity generated and, potentially, disruption to power supplies as a result of weather-related damage to the electricity networks. As SSE has also set out, it is one of the principal issues affecting its results in any financial year.

In the UK, mean temperature was 0.7C above the 1981-2010 average, contributing to lower household consumption of gas. Average rainfall in the north and west of Scotland was 13% above average, contributing to a high level of output of electricity from hydro electric schemes; and wind speeds in Scotland and Northern Ireland were around average, but lower than the previous year, contributing to lower output of electricity from wind farms.

Operations – providing the energy people need

In the year to 31 March 2015 (comparisons in brackets with the previous year, unless otherwise stated):

- **Safety:** SSE's Total Recordable Injury Rate was 0.12 per 100,000 hours worked (0.12);
- **Wholesale:** total electricity output[1] from gas- and oil-fired power stations was 9.8TWh (10.1TWh); from coal-fired power stations output was 9.1TWh (16.6TWh);
- **Wholesale:** total electricity output[1] from renewable sources (conventional and pumped storage hydro electric schemes, onshore and offshore wind farms and dedicated biomass plant) was 8.7TWh (9.3TWh);
- **Networks:** the number of Customer Minutes Lost in the Scottish Hydro Electric Power Distribution area was 69 (77); in the Southern Electric Power Distribution area it was 57 (67);
- **Networks:** the number of Customer Interruptions (power cuts) per 100 customers in the Scottish Hydro Electric Power Distribution area was 70 (75); in the Southern Electric Power Distribution area it was 60 (68);
- **Retail:** SSE's number of electricity and gas customer accounts in markets in Great Britain and Ireland fell from 9.10 to 8.58 million; and
- **Retail:** average consumption of electricity by SSE's household customers in Great Britain was estimated to be 3,842kWh (3,991kWh); average consumption of gas by SSE's household customers in Great Britain was estimated to be 438 therms (465 therms).

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

Investment – maintaining, upgrading and building assets that energy customers need

In the year to 31 March 2015, SSE's capital and investment expenditure totalled £1,475.3m, compared with £1,582.5m in the year before, which includes:

- **Wholesale:** Investment in electricity generation totalled £434.9m. SSE's 461MW CCGT power station development at Great Island in County Wexford is now in commercial operation;
- **Networks:** Investment in electricity networks totalled £794.8m. SSE's subsidiary Scottish Hydro Electric Transmission's section of the Beauly-Denny replacement line is now close to completion;
- **Retail (including Enterprise):** Investment in Retail totalled £134.7m, including Enterprise. SSE has continued to make significant investment in new systems to deliver enhanced services to customers and support the installation of smart meters in the years to 2020.

Capital and investment expenditure in the Wholesale segment also included expenditure totalling £21m in Gas Production and £14.3m in Gas Storage. Separately, SSE acquired the Energy Solutions Group, a Manchester-based provider of energy management services, for £66m, with a further £6m payable if business targets are achieved.

SSE's capital investment and expenditure is forecast to total around £1.75bn (gross) in 2015/16 and - although the phasing of investment and value of disposals are subject to variation - to total around £5.5bn (net of asset and business disposals) in the four years up to and including 2017/18.

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

During 2014/15, SSE embarked on a value programme to secure operational efficiencies and complete asset and business disposals, with the overall objective of streamlining and simplifying the business. The programme has achieved key objectives, with

- transactions to dispose of for consideration of £475m completed;
- the target of £100m of annual savings in overheads secured; and
- the process to dispose of onshore wind farm assets, in order to realise value to support future investment, getting under way.

In addition, in line with the principles of its value programme, SSE has today announced the outcome of its review of its coal-fired electricity generation assets as a result of which it has been decided that coal-fired generation operations at Ferrybridge power station should end by 31 March 2016.

Financial outlook

SSE believes that the quality of its operations, assets and investment opportunities means it can continue to deliver a full-year dividend that at least keeps pace with RPI inflation in 2015/16 and in the subsequent years.

It uses adjusted earnings per share* to monitor financial performance over the medium term because it defines the amount of profit after tax that has been earned for each Ordinary share. On 8 May 2015, the consensus of 20 sector analysts' forecasts for SSE's adjusted earnings per share* in 2015/16 was around 115 pence. Although the nature of energy provision means that its financial results in any single year are always subject to well-documented uncertainties, SSE is targeting adjusted earnings per share* for 2015/16 of at least 115 pence.

SSE also continues to recognise that adjusted earnings per share* is subject to significant uncertainties which mean that its dividend cover, based on dividend increases that at least keep pace with RPI inflation, could range from around 1.2 times to around 1.4 times over the three years to 2017/18. Nevertheless, SSE believes that a long-term target for dividend cover of a range around 1.5 times, also based on dividend increases which at least keep pace with RPI inflation, is the right one to aim for.

Being a fair tax payer

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

Further information

Investor Timetable

Annual report on sse.com/investors	22 June 2015
AGM (Perth) and Q1 Trading Statement	23 July 2015
Ex-dividend date	23 July 2015
Record Date	24 July 2015
Final date for Scrip Elections	21 August 2015
Payment Date	18 September 2015
Notification of Close Period	30 September 2015
Results for six months to 30 September 2015	11 November 2015

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Webcast facility

You can join the webcast by visiting www.sse.com and following the link on the homepage or investor pages.

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Online information

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

STRATEGY AND FINANCE

Strategy

Maintaining a clearly-defined strategic framework

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

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

The financial objective of this strategy is to increase annually the dividend payable to shareholders by at least RPI inflation. This is because shareholders have either invested directly in SSE or, as owners of the company, have enabled it to borrow money from debt investors to finance the investment, mainly in electricity generation and electricity networks, that will help to meet the needs of energy customers in the UK and Ireland over the long term. In the five years since 1 April 2010, this investment totalled over £7.7bn.

Operating within a clearly-defined financial framework

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

- **Dividend:** SSE's financial focus is on the dividend because the ultimate objective of investing capital in companies is to secure a return; and receiving and reinvesting dividends is the biggest source of a shareholder's return over the long term. SSE's target of annual increases in the dividend of at least Retail Price Index (RPI) inflation means it is able to look beyond short-term value and profit maximisation in any one year and maintain a disciplined, responsible and long-term approach to the management of, and investment in, business activities.
- **Dividend cover:** Ultimately dividends are paid out of earnings and, over the long term, earnings should increase to support dividend growth. For this reason, SSE believes that its dividend per share should be covered by adjusted earnings per share* at a level that is sustainable. In 2016/17, however, the risks to which adjusted earnings per share* are subject mean that its dividend cover could, in some circumstances, be closer to around 1.2 times. Over the three years to 2018, SSE expects that its dividend cover could range from around 1.2 times to around 1.4 times. It continues to believe that a long-term target range for dividend cover of a range around 1.5 times is the correct one to aim for, and that will underlie its business decisions in 2015/16 and beyond.

- **Balance sheet:** Focusing on the dividend and dividend cover are appropriate for a business in a long-term sector such as energy and, as a long-term business, SSE believes that it should maintain a strong balance sheet, illustrated by its commitment to the current criteria for a single A credit rating. SSE believes that a strong balance sheet enables it to secure funding from debt investors at competitive and efficient rates and take decisions that are focused on the long term - all of which support the delivery of annual increases in the dividend of at least RPI inflation and the maintenance of an appropriate level of dividend cover.

Earning profit in a responsible way

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

The first value is Safety, which is defined as: 'We believe all accidents are preventable, so we do everything safely and responsibly, or not at all'. In 2014/15, SSE's Total Recordable Injury Rate (TRIR) per 100,000 hours worked by employees was 0.12, the same as in the previous year. As a result, 42 employees were injured in the course of their work during the year. Overshadowing all of this, however, is the fact one employee lost his life as a result of a road traffic collision on the A9 and the sympathies of everyone associated with SSE remain with his family and friends. The correct response to work-related injuries and death is to seek to achieve injury-free working, and that remains SSE's ultimate goal.

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

More broadly, SSE's contribution to UK Gross Domestic Product in 2014/15 totalled around £8.8 bn, taking the total for the last three years to £27.4bn. In the Republic of Ireland it was €954m in 2014/15. The company currently employs directly over 19,700 people and supports over 106,000 jobs across the UK and 6,400 jobs in Ireland.

Engaging constructively in political and regulatory developments

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

SSE therefore welcomes the new UK government's continued support for the CMA investigation, which should be based on a robust process, extensive consultation and independent analysis. The CMA itself is expected to publish provisional findings and possible remedies (if required) in the next few weeks. There will then be a further period of stakeholder engagement and analysis before any final proposals are published.

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

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

Dividend Per Share and Adjusted Earnings Per Share*

Increasing the dividend for 2014/15

SSE's first financial responsibility to its shareholders is to give them a return on their investment through the payment of dividends. The Board is recommending a final dividend of 61.8p per share, to which a Scrip alternative is offered, compared with 60.7p in the previous year, an increase of 1.8%. This will make a full-year dividend of 88.4p per share which is: an increase of 2% compared with 2014/15, which is in line with RPI inflation; and covered 1.40 times by SSE's adjusted earnings per share*.

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

The stated financial goal of SSE's strategy is to deliver annual increases in the dividend and its target for 2015/16 onwards is to deliver annual dividend increases of at least RPI inflation (measured against the average annual rate of RPI inflation across each of the 12 months to March).

Focusing on Adjusted Earnings Per Share*

To monitor its financial performance over the medium term, SSE focuses consistently on adjusted earnings per share*, which is calculated by excluding the charge for deferred tax, interest costs on net pension liabilities, exceptional items and the impact of re-measurements arising from International Accounting Standard (IAS) 39.

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

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

In the year to 31 March 2015, SSE's adjusted earnings per share* was 124.1pence, based on 981.8 million shares, compared with 123.4p, based on 965.5 million shares, in the previous year.

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

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

Adjusted Profit Before Tax*

Measuring Adjusted Profit Before Tax*

These financial results for 2014/15 are reported under IFRS, as adopted by the EU. SSE focuses on profit before tax before exceptional items, re-measurements arising from IAS 39, excluding interest costs on net pension liabilities and after the removal of taxation on profits from joint ventures and associates. These costs are non-cash and SSE believes that in order to focus on underlying performance it is appropriate to exclude them from all adjusted profit measures.

As a result, 'adjusted profit before tax*'

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

The tables below reconcile SSE's adjusted profit before tax* to its reported profit before tax and also set out the adjusted position after tax and in respect of adjusted earnings per share*. The volatility that arises from IAS 39 and the impact of the adjustment relating to non-cash interest costs on net pension liabilities can also be observed.

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

	Mar 15 **£m**	**Mar 14** **£m** Restated	**Mar 13** **£m** Restated
Adjusted Profit before Tax*	**1,564.7**	**1,551.1**	**1,415.1**
Movement on derivatives (IAS 39)	(105.3)	(212.0)	(199.7)
Exceptional items	(674.6)	(747.2)	(584.7)
Interest on net pension liabilities (IAS19R)	(14.0)	(28.2)	(34.9)
Share of JVs and Associates tax	(35.6)	28.8	(16.6)
Reported Profit before Tax*	735.2	592.5	579.2
Adjusted Profit before Tax*	1,564.7	1,551.1	1,415.1
Adjusted Current Tax Charge	(224.8)	(236.7)	(223.6)
Adjusted Profit after Tax*	1,339.9	1,314.4	1,191.5
Less: attributable to other equity holders	(121.3)	(122.9)	(63.4)
Adjusted Profit After Tax attributable to ordinary shareholders	1,218.6	1,191.5	1,128.1
Adjusted EPS* - pence	**124.1**	**123.4**	**118.5**
Reported Profit after Tax**	543.1	323.1	402.7
Basic EPS – pence	**55.3**	**33.5**	**42.3**
Number of shares for basic and adjusted EPS (million)	981.8	965.5	952.0

**After distributions to hybrid capital holders

Delivering Adjusted Profit Before Tax*

Operating Profit by Segment	Mar 15 £m	Mar 14 £m Restated	Mar 13 £m Restated
Wholesale	473.8	634.6	508.6
Networks	936.8	920.3	838.3
Retail	456.8	327.1	445.0
Corporate Unallocated	14.0	(1.9)	(12.9)
Total Operating Profit	**1,881.4**	**1,880.1**	**1,779.0**

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

The decline in operating profit in Wholesale reflects in particular: lower output of electricity from renewable and thermal energy sources; and lower day ahead prices achieved for gas produced. Moreover, very difficult market conditions affecting thermal plant, such as low 'spark' spreads, have persisted for several years and resulted in thermal plant being loss-making over the financial year.

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

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

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

Impact of the movement on derivatives (IAS 39)

The adverse movement on derivatives under IAS 39 of £105.3m shown in the table above and on the face of the Income Statement has arisen partly from deterioration in the fair value of forward commodity purchase contracts of £67.8m which are accounted for under IAS 39. The fair value of such contracts is derived by comparing the contractual delivery price against the prevailing market forward price at the balance sheet date. The position at 31 March 2015, primarily electricity and gas, was a liability of £333.3m compared to a liability on similar contracts at 31 March 2014 of £265.4m. The actual value of the contracts will be determined as the relevant commodity is delivered to meets customers' energy needs, which will predominately be within the subsequent 12 months. As a result, SSE believes the movement in fair value of the contracts in the current year is not relevant to underlying performance.

In addition to this, a net adverse movement on the fair valuation of interest and currency derivatives of £37.5m arising from the relative strengthening of Sterling and the net position on interest rate swaps was recognised in the year to 31 March 2015. SSE sets out these movements in fair value separately, as re-measurements, as the extent of the actual profit or loss arising over the life of the contracts giving rise to this liability will not be determined until they unwind.

Exceptional Items

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

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

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

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

Delivering Adjusted Profit Before Tax in 2015/16

SSE believes profit is not an end in itself, but a means to an end. In addition to enabling it to provide new services for customers and invest in maintaining, upgrading and building assets and to pay tax, profit also supports the dividend, which is the key means through which SSE gives shareholders a return on their investment. Shareholders require a return on their investment because they have either invested directly in SSE or, as owners of the company, have enabled it to borrow money from debt investors to finance the investment, mainly in electricity generation and electricity networks, that will help to meet customers' energy needs over the long term.

Because well-managed economically-regulated networks provide a relatively stable revenue flow, and because SSE has frozen household energy prices in Great Britain until at least July 2016, SSE's adjusted profit before tax* for 2015/16 as a whole is likely to be determined mainly by issues in its market-based Wholesale and Retail businesses. An increase in the amount of capacity for renewable energy in operation is expected to contribute to an increase in operating profit in EPM and Electricity Generation in 2015/16 compared with the preceding year, while the reduction in household gas prices in Great Britain in April 2015 is likely to contribute to a decline in operating profit in Energy Supply. More broadly, many of the issues in Wholesale and Retail are influenced by the weather (see above) and SSE's actual level of adjusted profit before tax in 2015/16 is likely to be determined by:

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

Investment and Capital Expenditure

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

Delivering investment efficiently

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

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

Investing in energy assets that the UK and Ireland need

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

- £160.6m in thermal generation, including investment of £29.5m in the construction of the new Combined Cycle Gas Turbine at Great Island and £40.5m in the construction of the multi-fuel generation facility adjacent to Ferrybridge power station;
- £239.0m in renewable generation, a significant part of which was invested in new onshore wind farms such as the 33-turbine Strathy North wind farm in Sutherland;
- £14.3m in gas storage and £21.0m in gas production; and
- £467.2m in electricity transmission, which includes £108m of regulated spend on replacing SSE's section of the Beauly-Denny replacement line;
- £327.6m in electricity distribution, the majority of which was spent on system upgrades such as the £19m project to install 15km of new underground cables between Isleworth and Ealing;

- £109.6m in energy supply and related services which includes work associated with preparation with the roll-out of smart meters and improving digital services for customers; and
- £25.1m in Enterprise, mainly on investments in non regulated networks.

Disposing of assets to support future investment

SSE's programme of disposal of assets which are not core to its future plans, which result in a disproportionate burden, or which could release capital for future investment, is well under way. Agreements with a total value of over £475m have already been reached or concluded to dispose of assets such as SSE Pipelines Ltd and equity in PFI street lighting contracts. The disposal of such assets is taken into account in the total expected net capex referred to above of £5.5bn across the four years to March 2018, although the phasing of capital expenditure and value of disposals may vary. Proceeds and debt reduction from these planned and completed disposals are expected to total around £500m.

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

Allocating capital and investment expenditure in 2015/16 and beyond

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

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

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

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

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

Investing in gas distribution through Scotia Gas Networks (SGN)

In addition to its own capital and investment expenditure programme, SSE effectively has a 50% interest in SGN's capital and replacement expenditure, through its 50% equity share in that business. SGN is self-financing and all external debt relating to it is separate from SSE's balance sheet. Nevertheless, it is a very substantial business which gives SSE a major interest in economically-regulated gas distribution.

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

Financial management and balance sheet

	Mar 15	Mar14 Restated	Mar 13 Restated
Adjusted net debt and hybrid capital (£m)	**(7,568.1)**	**(7,642.8)**	**(7,347.7)**
Average debt maturity (years)	9.9	10.7	10.6
Adjusted interest cover[1] (excluding SGN)	5.3	5.1	5.3
Shares in issue at 31 March (m)	993.0	974.9	964.3
Shares in issue (weighted average) (m)	981.8	965.5	952.0

[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 and bond issuance.

As a matter of policy, a minimum of 50% of SSE's debt is subject to fixed rates of interest. Within this policy framework, SSE borrows as required on different interest bases, with financial instruments being used to achieve the desired out-turn interest rate profile. At 31 March 2015, 83% of SSE's borrowings were at fixed rates.

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

Transactional foreign exchange risk arises in respect of: procurement contracts; fuel and carbon purchasing; commodity hedging and energy trading operations; and long-term service agreements for plant.

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

Managing net debt and maintaining cash flow

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

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

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 15 £m**	**Mar 14 £m Restated**	**Mar 13 £m Restated**
Adjusted Net Debt and hybrid capital	**(7,568.1)**	**(7,642.8)**	**(7,347.7)**
Less: hybrid capital	3,371.1	2,186.8	2,186.8
Adjusted Net Debt	**(4,197.0)**	**(5,456.0)**	**(5,160.9)**
Less: Outstanding Liquid Funds	(71.7)	(51.2)	(55.0)
Add: Finance Leases	(319.7)	(328.9)	(330.4)
Unadjusted Net Debt	**(4,588.4)**	**(5,836.1)**	**(5,546.3)**

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

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

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

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

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

Keeping SSE well-financed

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

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

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

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

SSE has a long-standing commitment to maintaining financial discipline and diversity of funding sources and to moving quickly to select financial options that are consistent with this, including issuing new bonds and loans. In line with this, in February 2015, it successfully launched an issue of hybrid capital securities, an equity financial instrument which is perpetual and subordinate to all senior creditors. The dual tranche issue comprised £750m and €600m with an all-in funding cost to

SSE of 4.02% per annum (this compares with the 5.60% all-in funding cost of SSE's existing hybrid securities issued in 2010 and 2012) with issuer first call dates of 1 October 2015 and 1 October 2017 respectively.

The Scrip Dividend Scheme approved by SSE's shareholders in 2010 gives them the option to receive new fully paid Ordinary shares in the company in place of their cash dividend payments. It therefore reduces cash outflow and so supports the balance sheet.

The Scrip dividend take-up in August 2014, relating to the final dividend for the year to 31 March 2014, and in February 2015, relating to the interim dividend for the year to 31 March 2015, resulted in a reduction in cash dividend funding of just under £255.6m, with 17.1 million new ordinary shares, fully paid, being issued.

This means that the cumulative cash dividend saving or additional equity capital resulting from the introduction of SSE's Scrip Dividend Scheme now stands at £875.3m and has resulted in the issue of 65.9 million Ordinary shares. SSE is seeking shareholders' approval at the forthcoming Annual General Meeting to extend the Scrip Dividend Scheme from 2015 to 2018.

Net Finance Costs

The table below reconciles reported net finance costs to adjusted net finance costs, which SSE believes is a more meaningful measure. In line with this, SSE's adjusted net finance costs in the year 31 March 2015 were £316.7m, compared with £329.0m in the same period in 2014 reflecting the lower average interest rate in the period.

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

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

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

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

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

Contributing to employees' pension schemes

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

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

Tax

Being a fair tax payer

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

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

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

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

Setting out SSE's tax position

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

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

For reasons already stated above, SSE's focus is on adjusted profit before tax* and in line with that the adjusted current tax charge is the tax measure that best reflects underlying performance. The effective adjusted current tax rate, based on adjusted profit before tax*, is 14.4%, compared with 15.3% in 2013/14, on the same basis.

Priorities and Outlook for 2015/16 and beyond

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

In addition to the safe and efficient management of assets in operation or under maintenance or construction and the safe and efficient delivery of services to Wholesale, Networks and Retail customers, SSE's priorities for 2015/16 are to:

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

Conclusion

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

WHOLESALE

Energy Portfolio Management (EPM) and Electricity Generation	March 15	March 14
EPM and Generation operating profit* - £m	433.3	496.1
EPM and Generation capital expenditure and investment - £m	399.6	616.5
GENERATION		
Gas- and oil-fired generation capacity (GB and Ire) – MW	5,330	5,330
Coal-fired generation capacity (inc. biomass co-firing) – MW	3,009	3,009
Renewable generation capacity GB and Ire (inc. pump storage) – MW	3,394	3,326
Total electricity generation capacity (GB and Ire) – MW	**11,733**	**11,665**
Gas power station availability - %	96	92
Coal power station availability - %	74	84
Onshore wind farm availability %	97	97
Hydro storage at end March - %	77	75
Gas- and oil-fired (inc. CHP) output (GB and Ire) – GWh	9,788	10,111
Coal-fired (inc. biomass co-firing) output- GWh	9,143	16,576
Total output from thermal power stations (GB and Ire) - GWh	**18,931**	**26,687**
Conventional hydro output – GWh	3,726	3,753
Wind output (GB and Ire) – GWh	4,677	5,199
Dedicated biomass output – GWh	63	67
Total output of renewable energy (GB and Ire) – GWh	**8,466**	**9,019**
Total output from pumped storage – GWh	190	252
Total Generation output all plant - GWh	**27,587**	**35,958**

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

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

Note 3: Capacity includes 735MW of mothballed plant at Keadby and 1,180MW at Peterhead (while TEC for these stations is zero and 400MW respectively from 1st April 14) and excludes 464MW at Great Island (net increase 224MW) operational from 17 April 2015.

Note 4: Capacity excludes Ferrybridge units 1 and 2 (c. 980MW) and 2 units at Uskmouth (c.230MW) which ceased operations at the end of March 2014.

Note 5: Wind output excludes 268GWh of constrained off generation in 2014/15 and 243GWh in 2013/14

GAS PRODUCTION		
Gas production operating profit* - £m	36.6	130.2
Gas production – m therms	397.9	414.1
Gas production capital investment – £m	21.0	40.9
GAS STORAGE		
Gas storage operating profit* - £m	3.9	8.3
Gas storage customer nominations met - %	100	100
Gas storage capital investment - £m	14.3	10.6

Sustainably sourcing and producing energy

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

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

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

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

In addition, also within Wholesale, **Gas Production** is responsible for the efficient delivery of gas from the physical gas fields that SSE has a shared ownership in and developing future opportunities; and **Gas Storage** is responsible for the operation and management of SSE's gas storage facilities, their maintenance and ensuring they are available for use by SSE and third parties.

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

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

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

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

Financial performance in Wholesale

During the year to 31 March 2015 operating profit* in Wholesale was £473.8m. This comprised (comparisons with the same period last year):

Wholesale Operating Profit*	**Mar 15**	**Mar 14**	**Mar 13**
EPM and Electricity Generation* £m	433.3	496.1	450.6
Gas Production* £m	36.6	130.2	39.6
Gas Storage* £m	3.9	8.3	18.4
Total Wholesale Operating Profit	**473.8**	**634.6**	**508.6**

The principal issues relating to operating profit in SSE's Wholesale businesses are as follows:

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

Energy Portfolio Management (EPM)

Maintaining a diverse energy portfolio

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

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

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

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

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

Responding to market opportunities

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

Managing market issues in 2014/15

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

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

Changes to the gas price have impacted the profitability of electricity generation and gas production assets. 2014/15 saw an uplift in 'spark spreads' – the difference between the cost of gas and emissions allowances used by a CCGT and the value of the power produced - compared to the historically low levels of 2013/14 which had resulted in greater use of coal-fired plant. This uplift in 'spark spreads' combined with the April 2014 increase in the Carbon Price Support Rate (see below) resulted in greater use of gas-fired generation relative to coal. The long-term trend points to gas continuing to enjoy this comparative advantage.

Increasing wholesale market transparency

SSE has led the way in responding to stakeholders' desire for greater transparency and increased liquidity in the short-term wholesale market for electricity. For three years it has consistently placed 100% of its electricity generation and demand into NASDAQ OMX Group Inc. and Nord Pool Spot AS's N2EX daily auction. In taking this action SSE has helped to deliver a new level of market transparency and liquidity which is now sufficient for independent retailers and does not represent any kind of barrier to market entry.

EPM priorities for the remainder of 2015/16 and beyond

EPM's priorities include:

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

Generation – Great Britain and Ireland Overview

Managing and developing Generation assets to meet key priorities

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

- **compliance:** with all safety standards and environmental and regulatory requirements;
- **diversity:** to avoid over-dependency on particular fuels or technologies;
- **capacity:** to contribute to the requirements of the GB and Irish electricity systems;
- **availability:** to respond to system demand and market conditions;
- **flexibility:** to ensure that changes in demand for electricity and the variability of generation from wind farms can be addressed; and

- **sustainability:** to support progressive reduction in the CO_2 intensity of electricity generated through the cost efficient decarbonisation of its generation fleet.

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

Maintaining a diverse Generation portfolio

In moving towards a lower carbon generation mix SSE will, by the end of the decade, transition its generation assets from a portfolio weighted towards gas and coal, towards a portfolio more weighted towards gas and renewables. SSE's generation portfolio at 31 March 2015 comprised:

Electricity generation capacity	**March 15**	**March 14**
Gas –fired generation capacity (GB) – MW	4,262	4,262
Gas- and oil-fired generation capacity (Ire) – MW	1,068	1,068
Coal-fired generation capacity (GB) (inc. biomass co-firing) – MW	3,009	3,009
Renewable generation capacity GB and Ire (inc. pump storage) - MW	3,394	3,326
Total electricity generation capacity (GB and Ire) – MW	**11,733**	**11,665**
Capacity excludes Ferrybridge units 1 and 2 (c. 980MW) and 2 units at Uskmouth (c.230MW) which ceased operations at the end of March 2014.		

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

Generation – Great Britain (thermal)

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

Managing the impact of marketplace conditions and the public policy framework

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

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

- **Carbon Price Support:** On 1 April 2013 the UK government increased the Carbon Price Support (CPS) rate in line with the level confirmed in Budget 2013. This added a cost of £9.55/tonne of CO_2 emissions in 2014/15 for fossil-fuelled generation in Great Britain, on top of the cost of complying with the EU ETS. The CPS rate has risen to c.£18/tonne in 2015/16; but the 2014 Budget announced that it would then be frozen until 2018/19, instead of increasing as previously proposed.
- **Capacity Market:** In December 2014 the first Capacity Auction for generation capacity in GB was held. This competitively determined the volume of plant (49.3GW) which would take on a capacity obligation, and the level of capacity payment (£19.40/kW) these will receive for successfully providing capacity. A total of 4.4GW of SSE's 7.2GW pre-qualified plant were successful in the auction, and will receive a total of £85m if they deliver this capacity in 2018/19.

Contributing to security of electricity supply

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

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

- in the longer term through the introduction of a Capacity Market, which will begin in 2018/19; and
- in the intervening period, through the Supplemental Balancing Reserve (SBR) which began last winter (2014/15).

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

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

Responsibility for determining the volume of capacity required to ensure a secure electricity supply, and for the timely signalling of this to the market, therefore lies with National Grid and DECC. Both organisations are confident that they will fulfil this responsibility. SSE will play its part by working with DECC and National Grid and by focusing on ensuring that its plant, where practicable, is available to generate at times when demand is highest. It will also continue to assist the UK government and National Grid with their policy development and will engage constructively with all parties on this issue.

Managing gas-fired power stations

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

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

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

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

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

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

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

Contributing to the development of Carbon Capture and Storage

SSE is continuing to work with Shell UK as a strategic partner in the proposed CCS project at SSE's gas-fired power station in Peterhead. The project aims to create the first commercial-scale application of CCS technology at a gas-fired power station anywhere in the world by capturing up to one million tonnes of CO2 annually. Shell is leading the development of the project, and will take responsibility for the construction of the CO2 capture plant and thereafter the operation, transport and storage elements of the project.

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

Managing coal-fired power stations

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

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

None of Ferrybridge's capacity was successful in the Capacity Market auction, whilst 1,294MW (de-rated) of Fiddler's Ferry (3 out of its 4 units) did take on capacity obligations for 2018/19.

SSE has consistently said that the cost of the Carbon Price Support, along with the constraints imposed by the Industrial Emissions Direction, the introduction of full auctioning of EU emissions allowances, and the age of the stations, have been weighing heavily on the long-term viability of coal assets.

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

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

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

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

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

Investing for the future through 'multi-fuel'

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

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

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

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

Generation – Great Britain (renewable)

Producing electricity from renewable sources

SSE continues to be the UK's leading generator of electricity from renewable sources and the largest generator of electricity from wind across the UK and Ireland.

Renewable generation (GB)	**March 15**	**March 14**
Conventional hydro capacity– MW	1,150	1,150
Onshore wind capacity - MW	1,008	940
Offshore wind capacity –MW	355	355
Dedicated biomass capacity – MW	38	38
Renewable capacity – MW	**2,551**	**2,483**
Renewable capacity qualifying for ROCs – MW	c.1,900	c.1,900
Pumped storage capacity – MW	300	300
Pumped storage output- GWh	190	252
Conventional hydro output – GWh	3,726	3,753
Onshore wind output - GWh	2,219	2,511
Offshore wind output - GWh	1,191	1,338
Biomass output GB – GWh	63	67
Renewable output - GWh	**7,199**	**7,669**
Wind output excludes 268GWh of constrained off generation in 2014/15 and 243GWh in 2013/14		

Managing the impact of market conditions and the public policy framework

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

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

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

Optimising the renewable development portfolio

Since April 2007, SSE has invested nearly £4bn in renewable generation. As it moves forward to the next phase of its renewable energy development pipeline, it is focusing on projects that best allow the efficient allocation of resources and economies of scale.

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

Developing renewable energy schemes onshore

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

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

- **Strathy North** (67MW) – Located in Sutherland, main site construction is under way and the site is due for completion in 2015.
- **Dunmaglass** (94MW) – Main construction at this site south of Inverness is progressing well; the site is scheduled for completion in 2016.

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

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

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

Developing renewable energy capacity offshore

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

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

Preparing Beatrice for a final investment decision

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

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

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

Other offshore projects being managed

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

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

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

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

Generation – Ireland

SSE Irish Generation Capacity and Output	**Mar 15**	**Mar 14**
Onshore wind capacity (NI) – MW	88	88
Onshore wind capacity (ROI) – MW	456	456
All Ireland wind capacity - MW	**544**	**544**
Thermal capacity (ROI) – MW	1,068	1,068
All Ireland generation capacity – MW	**1,612**	**1,612**
Excludes 464MW at Great Island (net increase 224MW) operational from 17 April 2015.		
Onshore wind output (NI) – GWh	212	208
Onshore wind output (ROI) – GWh	1,055	1,142
All Ireland wind output - GWh	**1,267**	**1,350**
Thermal output (ROI) - GWh	251	25
All Ireland generation output – GWh	**1,518**	**1,375**

Producing electricity for the Single Electricity Market

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

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

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

Delivering and developing new capacity for electricity generation

Onshore wind farm development pipeline (All Ireland)	**March 15**	**March 14**
In operation – MW	544	544
In construction or pre-construction – MW	152	116
With consent for development – MW	33	56
In planning – MW	c. 80	c. 100
Pre-planning – MW	over 150	over 150

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

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

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

Engaging in the ISEM reform process

Reform of Ireland and Northern Ireland's SEM market is required in order to comply with the EU Electricity Target Model. The regulators in each jurisdiction have progressed the Integrated SEM (I-SEM) project over the course of 2014/15, with the new market due to be introduced by the end of 2017. SSE has been heavily involved in all stages of the consultation process and will remain engaged throughout the project, advocating an optimum design for customers and industry stakeholders. Separately to reform of the market arrangements, the regulators and System Operators are involved in a project to review the ancillary services necessary to achieve Ireland's 2020 target.

Generation priorities in 2015/16 and beyond

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

Gas Production

GAS PRODUCTION	Mar 15	Mar 14
Gas production operating profit* - £m	36.6	130.2
Gas production – m therms	397.9	414.1
Gas production capital investment – £m	21.0	40.9

Producing from North Sea assets

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

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

The reduction in operating profit (£36.6m compared to £130.2m) from gas production during the period was mainly a result of lower day ahead wholesale gas prices which were around one third lower than the previous year. Overheads also increased in the year due to additional costs in the Bacton area.

SSE continues to seek new opportunities to increase its reserve base to meet portfolio demand requirements. The UK and north west Europe remains the focus for this activity, as it provides a relatively stable tax and fiscal regime and is near to SSE's domestic energy supply markets. SSE has not set a target scale for its upstream business and will continue to evaluate opportunities in line with its investment criteria and financial discipline.

Monitoring developments gas production

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

Gas Production priorities for 2015/16 and beyond

Gas Production priorities for the 2015/16 financial year include:

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

Gas Storage

GAS STORAGE	Mar 15	Mar 14
Gas storage operating profit* - £m	3.9	8.3
Gas storage customer nominations met - %	100	100
Gas storage capital investment - £m	14.3	10.6

Delivering Gas Storage Services from Hornsea and Aldbrough

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

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

However, the economic environment for gas storage facilities has continued to be challenging during the year – as illustrated by the significant reductions in operating profit reported by SSE's gas storage business. Operators have been faced with low operating returns due to unfavourable market conditions, combined with an increasing cost base as a result of ageing asset investment requirements and the decision by the Valuation Office Agency during the period to effectively double business rates for most gas storage facilities in the UK.

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

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

As previously announced, this decision will result in a reduction in Gas Storage employee numbers of around 12. SSE is currently working with affected employees in order to achieve this reduction through voluntary means where possible, with good progress being made.

Gas Storage priorities in 2015/16 and beyond

Gas storage priorities for the financial year and beyond include:

- ensuring on-going high safety standards for operation of the facilities at Hornsea and Aldbrough and the compliant and effective operation of the Gas Storage business; and
- continuing to listen to existing and potential customers, working with them to shape flexible products which add value to their portfolios.

Wholesale – Conclusion

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

NETWORKS

Networks Key Performance Indicators

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

Owning, operating and investing in Networks

The performance of SSE's economically-regulated electricity networks businesses is reported within Networks, as is the performance of SGN in which SSE has a 50% stake.

Economically-regulated network companies with a growing Regulated Asset Value

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

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

SSE estimates that the total Regulated Asset Value (RAV) of its economically-regulated businesses is £7,350m, up £530m from £6,820m at 31 March 2014, comprising around:

- £1,732m for electricity transmission;
- £3,159m for electricity distribution; and
- £2,459m for gas distribution (being 50% of SGN's total RAV).

SSE is the only energy company in the UK to be involved in electricity transmission, electricity distribution and gas distribution. Through Price Controls, Ofgem sets the index-linked revenue the network companies can earn through charges levied on users to cover costs and earn a return on regulated assets. Although the Price Control mechanism is complex and demanding, these lower-risk, economically-regulated, geographically-defined businesses provide a financial backbone and operational focus for SSE and balance its activities in the competitive Wholesale and Retail markets.

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

Financial performance in Networks

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

Networks Operating Profit	Mar 15	Mar 14	Mar 13
Transmission operating profit* - £m	184.1	136.7	92.6
Distribution operating profit* - £m	467.7	507.0	511.6
SGN operating profit* (SSE’s share) - £m	285.0	276.6	234.1
Total Networks Operating Profit* - £m	**936.8**	**920.3**	**838.3**

Electricity Transmission

	Mar 15	Mar 14
Operating profit* - £m	184.1	136.7
Regulated Asset Value (RAV) - £m	1,732	1,330
Capital expenditure - £m	467.2	349.2
Connection offers provided in required period	97	54

Increasing operating profit* for Scottish Hydro Electric Transmission

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

Managing SHE Transmission through a period of rapid growth

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

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

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

Delivering the Beauly-Denny line

Transmission Investment for Renewable Generation (TIRG) is a mechanism that preceded Strategic Wider Works (see below) to provide a framework for funding large transmission projects. SHE Transmission has one project in construction under this mechanism - the replacement of the Beauly-Denny line between Beauly and Wharry Burn, near Dunblane. It is on programme to complete the majority of its outstanding works associated with the Beauly-Denny network reinforcement in the summer of 2015. SHE Transmission has, to date, successfully constructed 537 new towers along its section of the 220km overhead line route and has safely energised and integrated 127km of overhead line between Beauly and Tummel Bridge substations.

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

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

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

Delivering under Strategic Wider Works

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

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

Caithness-Moray:

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

Kintyre-Hunterston:

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

Beauly-Mossford:

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

Working on future transmission links

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

Western Isles:

SHE Transmission continues to work with all stakeholders on the development of grid links to the Scottish Islands, particularly through the work of the Scottish Islands Renewables Delivery Forum. In order to enable generation developers to commit to funding island connections, the UK and Scottish Governments are actively working on the delivery of an islands onshore wind strike price with associated budget allocation. The UK Government is expected to confirm the position (including EU State Aid approval) this summer, enabling developers to bid for CfDs in the auction scheduled to open in October. SHE Transmission already has well-developed proposals for a cable connection between Beauly and the Isle of Lewis. Work is under way with Ofgem to allow submission of a needs case in December 2015 to enable delivery of this potential project.

Shetland:

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

East Coast:

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

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

Responding to proposed regulatory changes for electricity transmission

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

- an enhanced role for the System Operator in identifying system needs and development of options to meet them;
- measures to mitigate the conflict of interest with the System Operator's role;
- a broad framework for the regulation of transmission asset delivery; and
- expanded use of competitive tendering where Ofgem believes it can drive efficiency, with a focus on new substantial assets that can be easily identified and separated from the surrounding network.

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

Supporting sustainable growth

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

Electricity Transmission priorities for 2015/16 and beyond

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

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

Electricity Distribution

Performance in Scottish and Southern Energy Power Distribution (SSEPD)

The performance of SSEPD's two electricity distribution companies, Scottish Hydro Electric Power Distribution (SHEPD) and Southern Electric Power Distribution (SEPD), during the year to 31 March 2015 was as follows (comparisons with the same period in 2014):

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

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

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

If, in any year, regulated networks companies' revenue is greater (over recovery) or lower (under recovery) than is allowed under the relevant Price Control, the difference is carried forward and the subsequent prices the companies may charge are varied. In 2013/14 the two networks over-recovered regulated revenue by £25m and this was reflected in the 2014/15 tariffs. During 2014/15 there was an under recovery of approximately £38m, meaning the year on year comparison has been impacted by around £63m as a result of timing of revenue collection. Due to a change in the regulatory framework the £38m under recovery in 2014/15 will not be reflected in customer charges until 2016/17.

Volume of electricity distributed

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

Investing in distribution network resilience

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

SSEPD's network in the north of Scotland includes 111 subsea distribution cables which are critical to serving customers in 59 island communities. During 2014/15, SSEPD invested £6.9m in the replacement of the cable connecting the Scottish mainland with Jura, which also supplies the islands of Islay and Colonsay. It expects to complete remaining work to protect the new cable during 2015. It has engaged actively with the development of Scotland's National Marine Plan to ensure that marine licensing arrangements recognise the interests of customers in a secure and cost efficient energy network serving the islands.

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

Responding to feedback from customers

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

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

In addition it has invested in improved customer communications by:

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

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

Keeping costs down and improving customer service for RIIO ED1

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

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

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

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

Co-operating with investigation

On 20 January 2015, SSE plc was notified that the Gas and Electricity Markets Authority had launched an investigation into whether SSE plc and the energy companies in SSE plc's group which provide electricity connections services had breached Chapter II of the Competition Act 1989 and/or Article 102 Treaty on the Functioning of the European Union in respect of the provision of non-contestable connections services in the Southern Electric Power Distribution area. The investigation is ongoing.

Working for a new energy solution for Shetland

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

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

Electricity Distribution priorities in 2015/16 and beyond

During 2015/16 and beyond SSE's priorities in Electricity Distribution are to:

- comply fully with all safety standards and environmental requirements;
- place customers' needs at the centre of plans for the networks, particularly by improving reliability so that the number and duration of power cuts is kept to a minimum;
- ensure that the networks are managed as efficiently as possible, delivering required outputs while maintaining tight controls over day-to-day operational expenditure;
- implement the changes required to deliver the cost efficiencies and customer service improvements to deliver a fair return to investors under the new RIIO-ED1 price control;
- ensure that there is adequate capacity to meet challenging demand on the electricity system; and
- continue progress on the deployment of innovative technology.

Gas Distribution

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

Performance in SGN

SSE receives 50% of the distributable earnings from Scotia Gas Networks (SGN), in line with its equity holding, and also provides some, but reducing, level of support through a managed service agreement.

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

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

Implementing the new Gas Distribution Price Control

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

SGN's investment programme is key to this and, within overall cost allowances of over £4.6bn (at 2012/13 prices), Ofgem has allowed around £2.8bn over the eight year price control which runs until 2021 to cover new investment and to manage the risks relating to SGN's existing assets. This investment will allow SGN to:

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

Investing in gas networks and securing growth in its RAV

At 31 March 2015, SGN's total RAV is estimated at £4.9bn (SSE share £2.46bn). During 2014/15, SGN invested £339.8m (SSE share £169.9m) in capital expenditure and mains and service replacement projects, compared with £321.8m (SSE share £160.9m) in 2013/14. The majority of the mains replacement expenditure was incurred under the Iron Mains Risk Reduction Programme (IMRRP) which was started in 2002. This requires that iron gas mains within 30 metres of homes and premises must be replaced over a 30 year period. In 2014/15, SGN replaced 1,042km of its metallic gas mains with modern polyethylene plastic pipe.

Innovating to deliver sustainability and efficiency

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

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

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

Gas Distribution priorities

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

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

Networks – Conclusion

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

RETAIL

Retail Key Performance Indicators

Energy Supply	**Mar 15**	**Mar 14** Restated
Operating Profit * - £m	368.7	246.2
Electricity customer accounts (GB domestic) - m	4.37	4.66
Gas customer accounts (GB domestic) – m	2.96	3.21
Energy customers (GB business sites) – m	0.45	0.42
All-Island energy market customers (Ire) – m	0.80	0.81
Total energy customer accounts (GB, Ire) – m	8.58	9.10
Electricity supplied household average (GB) – kWh	3,842	3,991
Gas supplied household average (GB) – th	438	465
Household/small business aged debt (GB, Ire) - £m	106.2	117.8
Customer complaints to third parties (GB)2	1,528	1,208
2 Energy Ombudsman, Consumer Focus and Consumer Direct		
Energy related services		
Operating profit*# - £m	17.7	24.1
Home Services customer accounts (GB) – m	0.35	0.37
Meters read – m	13.0	14.1
Enterprise		
Operating profit*# - £m	70.4	56.8
SSE Contracting Order Book - £m	97	85

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

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

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

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

Financial performance in Retail

During the year to 31 March 2015 operating profit* in Retail was £456.8m. This comprised (comparisons with the same period last year):

Operating Profit *	**Mar 15**	**Mar 14** Restated	**Mar 13** Restated
Energy Supply* - £m	368.7	246.2	363.2
Energy related services* - £m	17.7	24.1	29.3
Enterprise* - £m	70.4	56.8	52.5
Total Retail Operating Profit*	**456.8**	**327.1**	**445.0**

In 2014/15, SSE's profit margin (operating profit as a percentage of revenue) in Energy Supply was 4.6% (before tax) compared with 2.9% in 2013/14 and 4.2% in 2012/13. Energy Supply profit margin has averaged 3.9% over both the past five and three years.

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

SSE is an efficient energy supplier committed to maintaining relatively low operating costs in order to make a fair profit. Early analysis of the Consolidated Segmental Statements submitted to Ofgem by other obligated energy suppliers suggests that SSE's indirect costs per customer are around 20% lower than the average across the rest of the major suppliers. On the strength of running its business efficiently for customers, SSE aims to earn a medium-term (i.e. three to five years) average profit margin of around 5% across the whole of its Energy Supply business.

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

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

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

Preparing Consolidated Segmental Statements

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

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

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

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

- it is widely accepted as the most appropriate measure for this sector, and is relied upon by both industry analysts and investors;
- it takes into account all costs associated with the supply of energy, including overhead and non-variable costs, depreciation and amortisation; and

- there is greater availability of data on an EBIT basis, increasing the robustness of any benchmarking analysis and enabling simple like-for-like comparisons to improve transparency and understanding.

Energy Supply and Energy Related Services

Fulfilling SSE's responsibilities as an energy supplier

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

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

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

SSE would like to extend its price freeze again, or even cut prices if further costs can be taken out of energy supply, and will work with the new UK government or indeed any stakeholder to find such solutions. It believes further savings for consumers worth around £100 – forecast to rise to around £200 by 2020 – could be made with political action to end the practice of levying policy costs on energy bills. Recouping the cost through energy bills takes no account of an individual's ability to pay and is therefore socially regressive, with the impact likely to worsen as policy costs on energy bills increase into the latter part of this decade. SSE has therefore continued to call for more of these levies to be moved into general taxation, making bills cheaper and fairer for those less able to pay.

Supplying energy to customers across Great Britain and Ireland

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

SSE Energy Supply customer account numbers	**Mar 15**	**Mar 14**
Electricity customer accounts(GB domestic) - m	4.37	4.66
Gas customer accounts (GB domestic) – m	2.96	3.21
Energy customers (GB business sites) – m	0.45	0.42
All-Island energy market customers (Ire) – m	0.80	0.81
Total SSE Energy Customers	**8.58**	**9.10**

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

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

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

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

Meeting customers' need for energy

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

	Mar 15	**Mar 14**
Electricity supplied household average (GB) – kWh	3,842	3,991
Gas supplied household average (GB) – th	438	465

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

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

Putting customers first

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

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

- decided to introduce a new system to tackle call waiting by enabling customers to request a call back rather than holding on in a queue.

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

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

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

Treating customers fairly

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

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

Working with customers to manage energy-related debt

At 31 March 2015, the total aged debt (i.e. debt that is overdue by more than six months) of SSE's domestic and small business electricity and gas customers in Great Britain and Ireland was £106.2m, compared with £117.8m at 31 March 2014. A bad debt charge of £65.3m was recognised in the period (compared to £67.8m in the same period last year).

Debt levels have stabilised following an increase in 2013/14, reflecting the lower consumption of energy during this period, as well as SSE's efforts to engage with customers with arrears as early as possible, agreeing payment arrangements that have lower balances from the outset and helping to spread the cost of energy across the year. SSE will continue to work sympathetically and constructively with customers who are struggling with debt, making better use of data and insight to target proactive customer contact more effectively.

Helping vulnerable customers

SSE helps customers in need to manage their energy costs in a number of other ways:

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

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

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

Working to reduce customers' energy consumption

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

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

- promoted the installation of almost 250,000 energy efficiency measures, including loft, cavity and solid wall insulation and boiler replacements;
- helped improve the energy efficiency of over 210,000 homes across Great Britain;
- delivered energy efficiency improvements equivalent to 4.59 MtCO2 saved; and
- provided around £850m of notional lifetime bill savings for vulnerable customers.

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

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

- be funded progressively through taxation, taking into account an individual's ability to pay;
- be as cost-effective as possible;

- ensure that the benefits are targeted primarily at the most vulnerable households;
- minimise administrative complexity, for example by introducing deemed scoring;
- minimise the risk to customers of fraud; and
- be designed to ensure a smooth transition between schemes.

Rolling out smart meters to customers across Great Britain

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

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

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

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

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

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

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

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

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

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

Building a brand that customers know and trust

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

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

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

Providing tailored services for business customers

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

In 2014/15, SSE has continued to drive improvements for its small business customers, ending the practice of automatic contract rollovers for small business customers, as well as extending to these customers its existing commitment not to back-bill micro-business customers for more than 12 months where they have previously been under-billed due to a genuine billing error on SSE’s part. Unlike some suppliers, SSE also publishes its Variable Business Rates clearly on its website to help smaller businesses benchmark and compare prices simply.

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

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

Supplying energy and energy-related services to customers in Ireland

SSE’s retail brand SSE Airtricity is the second largest energy provider in Ireland and the only energy supply brand to operate in all of the competitive gas and electricity markets across the island. At 31

March 2015, SSE Airtricity supplied electricity and gas to 802,000 household and business accounts in the Republic of Ireland (ROI) and Northern Ireland (NI).

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

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

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

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

- Northern Ireland (gas): The setting of SSE Airtricity's regulated gas prices, including any changes to those prices, requires the formal approval of Northern Ireland's Utility Regulator under a defined annual Price Control review process. From 1 April 2013 SSE Airtricity's natural gas prices have been frozen, providing customers stability and peace of mind for a period of two years. In February 2015, SSE Airtricity announced it was reducing its regulated natural gas prices for its household and small business customers by 7.8% on average with effect from 1 April 2015, saving £53 for a typical household natural gas customer. The next interim Price Control review will be conducted by the company and the NI Utility Regulator in October 2015.
- Northern Ireland (electricity): Also in February 2015, SSE Airtricity announced it was reducing its standard electricity prices by 8% from 1 April 2015, saving £55 for a typical household electricity customer.
- Republic of Ireland: In January 2015 SSE Airtricity announced it was reducing its prices for around 440,000 household customers in Ireland's highly competitive and deregulated energy markets by 4% for natural gas and by 2% for electricity. The price cuts, which took effect from 1 April 2015, equate to a typical annual saving of €58 for customers on SSE Airtricity's most popular Direct Debit and eBilling Dual Fuel Standard tariffs.

Operating a national metering business

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

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

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

- acquire and retain customers through competitively priced, compelling propositions, industry-leading customer service, and enhanced Customer Relationship Management (CRM) driven by better use of data and segmentation;

- build successfully the new brand and maximise the opportunity this presents to engage with customers, the public and all of SSE's stakeholders and illustrate that SSE is committed to progressive reform in energy;
- engage constructively with the CMA with a view to delivering the right outcomes for energy customers and investors;
- take the digital opportunity by creating an effortless online customer experience and developing best-in-class applications, products and services; and
- take costs out of supplying energy, both internally by driving operational efficiencies and externally, working with the new government to ensure that energy policies are as cost-effective as possible and, ultimately, funded more progressively through taxation.

Enterprise

Introduction

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

Financial performance in SSE Enterprise

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

Enabling SSE Enterprise to focus on core opportunities

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

Building a new division focused on business customers

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

SSE Enterprise has an established track record of delivering solutions for customers in energy and related services for the retail, financial, public and utilities sectors. The acquisition of the energy management company Energy Solutions Group (ESG), since re-named SSE Enterprise Energy Solutions, in July 2014, added new capabilities to the business.

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

SSE Enterprise's principal businesses are:

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

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

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

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

Setting the right priorities for SSE Enterprise

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

Retail – Conclusion

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

SUMMARY FINANCIAL STATEMENTS 2014/15

Consolidated Income Statement

for the year ended 31 March 2015

	Note	2015 Before exceptional items and certain re-measurements £m	2015 Exceptional items and certain re-measurements (note 7) £m	2015 Total £m	2014 Before exceptional items and certain re-measurements restated £m	2014 Exceptional items and certain re-measurements (note 7) £m	2014 Total restated (note 3) £m
Revenue	6	**31,654.4**	**-**	**31,654.4**	30,585.0	-	30,585.0
Cost of sales		**(28,801.3)**	**(432.8)**	**(29,234.1)**	(27,732.3)	(560.2)	(28,292.5)
Gross profit / (loss)		**2,853.1**	**(432.8)**	**2,420.3**	2,852.7	(560.2)	2,292.5
Operating costs		**(1,361.5)**	**(358.5)**	**(1,720.0)**	(1,316.0)	(303.0)	(1,619.0)
Other operating income		**47.2**	**74.8**	**122.0**	17.3	-	17.3
Operating profit / (loss) before joint ventures and associates		**1,538.8**	**(716.5)**	**822.3**	1,554.0	(863.2)	690.8
Joint ventures and associates:							
Share of operating profit / (loss)		**342.6**	**(25.9)**	**316.7**	326.1	(34.9)	291.2
Share of interest		**(124.2)**	**-**	**(124.2)**	(137.5)	-	(137.5)
Share of movement on derivatives		**-**	**6.7**	**6.7**	-	3.1	3.1
Share of tax		**(34.2)**	**(1.4)**	**(35.6)**	(33.8)	62.6	28.8
Share of profit / (loss) on joint ventures and associates		**184.2**	**(20.6)**	**163.6**	154.8	30.8	185.6
Operating profit / (loss)	6	**1,723.0**	**(737.1)**	**985.9**	1,708.8	(832.4)	876.4
Finance income	8	**95.9**	**-**	**95.9**	122.7	-	122.7
Finance costs	8	**(302.4)**	**(44.2)**	**(346.6)**	(342.4)	(64.2)	(406.6)
Profit before taxation		**1,516.5**	**(781.3)**	**735.2**	1,489.1	(896.6)	592.5
Taxation	9	**(271.2)**	**200.4**	**(70.8)**	(407.3)	260.8	(146.5)
Profit for the year		**1,245.3**	**(580.9)**	**664.4**	1,081.8	(635.8)	446.0
Attributable to:							
Ordinary shareholders of the parent		**1,124.0**	**(580.9)**	**543.1**	958.9	(635.8)	323.1
Other equity holders		**121.3**	**-**	**121.3**	122.9	-	122.9
Basic earnings per share (pence)	11			**55.3**			33.5
Diluted earnings per share (pence)	11			**55.2**			33.3
Interim dividend paid per share (pence)	10			**26.6**			26.0
Final dividend proposed per share (pence)	10			**61.8**			60.7
				88.4			86.7

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 2015

	2015 £m	2014 restated (note 3) £m
Profit for the year	**664.4**	446.0
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Actuarial (losses)/gain on retirement benefit schemes	**(79.3)**	19.0
Taxation on actuarial gains/(losses) on defined benefit pension schemes	**16.3**	(23.5)
	(63.0)	(4.5)
Share of joint ventures actuarial losses on retirement benefit schemes	**(2.1)**	(29.2)
Share of joint ventures taxation of actuarial losses on retirement benefit schemes	**0.2**	6.2
	(1.9)	(23.0)
Items that will be reclassified subsequently to profit or loss:		
Losses on effective portion of cash flow hedges	**(41.9)**	(54.5)
Transferred to assets and liabilities on cash flow hedges	**(4.5)**	(0.8)
Taxation on cashflow hedges	**8.8**	12.6
	(37.6)	(42.7)
Share of joint ventures gain on effective portion of cash flow hedges	**(9.4)**	13.2
Share of joint ventures taxation on cashflow hedges	**1.9**	(3.3)
	(7.5)	9.9
Losses on revaluation of available for sale investments, net of taxation	**(3.2)**	(5.1)
Exchange difference on translation of foreign operations	**(119.7)**	(22.6)
Gain on net investment hedge	**61.7**	16.2
Taxation on net investment hedge	**(13.0)**	(3.7)
	(71.0)	(10.1)
Other comprehensive loss, net of taxation	**(184.2)**	(75.5)
Total comprehensive income for the period	**480.2**	370.5
Attributable to:		
Ordinary shareholders of the parent	**358.9**	247.6
Other equity holders	**121.3**	122.9
	480.2	370.5

Consolidated Balance Sheet

as at 31 March 2015

	Note	2015 £m	2014 restated (note 3) £m
Assets			
Property, plant and equipment		**11,303.9**	11,085.2
Intangible assets:			
Goodwill		**598.0**	585.1
Other intangible assets		**170.4**	304.2
Equity investments in associates and joint ventures		**875.2**	826.7
Loans to associates and joint ventures		**559.4**	521.6
Other investments		**26.4**	42.3
Deferred tax assets		**270.2**	207.3
Derivative financial assets		**566.8**	368.4
Non-current assets		**14,370.3**	13,940.8
Other intangible assets		**433.5**	433.7
Inventories		**342.3**	393.0
Trade and other receivables		**4,527.0**	4,300.6
Cash and cash equivalents	14	**1,512.3**	458.9
Derivative financial assets		**1,999.9**	1,261.2
Current assets held for sale	13	**110.3**	332.5
Current assets		**8,925.3**	7,179.9
Total assets		**23,295.6**	21,120.7
Liabilities			
Loans and other borrowings	14	**732.8**	618.7
Trade and other payables		**5,277.1**	4,960.8
Current tax liabilities		**308.4**	315.2
Provisions		**99.5**	134.3
Derivative financial liabilities		**2,297.3**	1,470.2
Liabilities held for sale	13	**11.1**	19.2
Current liabilities		**8,726.2**	7,518.4
Loans and other borrowings	14	**5,367.9**	5,676.3
Deferred tax liabilities		**716.0**	757.5
Trade and other payables		**424.6**	416.2
Provisions		**382.4**	313.4
Retirement benefit obligations	18	**664.6**	637.7
Derivative financial liabilities		**933.4**	681.7
Non-current liabilities		**8,488.9**	8,482.8
Total liabilities		**17,215.1**	16,001.2
Net assets		**6,080.5**	5,119.5
Equity:			
Share capital	16	**496.5**	487.4
Share premium		**862.7**	861.5
Capital redemption reserve		**22.0**	22.0
Hedge reserve		**(72.1)**	(27.0)
Translation reserve		**(69.5)**	1.5
Retained earnings		**1,469.8**	1,587.3
Equity attributable to ordinary shareholders of the parent		**2,709.4**	2,932.7
Hybrid capital	15	**3,371.1**	2,186.8
Total equity attributable to equity holders of the parent		**6,080.5**	5,119.5

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 2015

Statement of changes in equity	**Share capital £m**	**Share premium account £m**	**Capital redemption reserve £m**	**Hedge reserve £m**	**Translation reserve £m**	**Retained earnings £m**	**Total attributable to ordinary shareholders £m**	**Hybrid Capital £m**	**Total £m**
At 1 April 2014	487.4	861.5	22.0	(27.0)	1.5	1,587.3	**2,932.7**	2,186.8	**5,119.5**
Profit for the year	-	-	-	-	-	543.1	**543.1**	121.3	**664.4**
Other comprehensive income	-	-	-	(37.6)	(71.0)	(66.2)	**(174.8)**	-	**(174.8)**
Share of jointly controlled entities and associates other comprehensive income	-	-	-	(7.5)	-	(1.9)	**(9.4)**	-	**(9.4)**
Total comprehensive income for the year	**-**	**-**	**-**	**(45.1)**	**(71.0)**	**475.0**	**358.9**	**121.3**	**480.2**
Dividends to shareholders	-	-	-	-	-	(854.1)	**(854.1)**	-	**(854.1)**
Scrip dividend related share issue	8.6	(8.6)	-	-	-	255.6	**255.6**	-	**255.6**
Distributions to hybrid capital holders	-	-	-	-	-	-	**-**	(121.3)	**(121.3)**
Issue of shares	0.5	9.8	-	-	-	-	**10.3**	-	**10.3**
Issue of hybrid capital	-	-	-	-	-	-	**-**	1,184.3	**1,184.3**
Credit in respect of employee share awards	-	-	-	-	-	15.0	**15.0**	-	**15.0**
Investment in own shares	-	-	-	-	-	(9.0)	**(9.0)**	-	**(9.0)**
At 31 March 2015	**496.5**	**862.7**	**22.0**	**(72.1)**	**(69.5)**	**1,469.8**	**2,709.4**	**3,371.1**	**6,080.5**

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

Consolidated Cash Flow Statement

for the year ended 31 March 2015

	Note	**2015** £m	2014 restated (note 3) £m
Cash generated from operations before working capital movements	12	**2,080.7**	2,134.2
(Increase) in inventories		**(8.5)**	(104.1)
(Increase) / Decrease in receivables		**(243.1)**	312.4
Increase) in payables		**394.0**	216.2
(Decrease) in provisions		**(66.2)**	(18.9)
Cash generated from operations		**2,156.9**	2,539.8
Dividends received from joint ventures and associates		**110.1**	104.1
Interest received		**95.9**	113.8
Interest paid		**(227.8)**	(284.1)
Income taxes paid		**(164.8)**	(147.1)
Payment for consortium relief		**(12.0)**	(26.4)
Net cash from operating activities		**1,958.3**	2,300.1
Cash flows from Investing activities			
Purchase of property, plant and equipment		**(1,345.3)**	(1,475.1)
Purchase of other intangible assets		**(241.8)**	(403.8)
Deferred income received		**2.9**	7.2
Proceeds from sale of held for sale assets	13	**167.2**	-
Proceeds from sale of property, plant and equipment	13	**25.3**	158.6
Proceeds from sale of business and subsidiaries	13	**5.3**	3.2
Proceeds from sale of other investments	13	**36.0**	-
Loans to joint ventures and associates		**(33.9)**	(83.9)
Purchase of businesses and subsidiaries	13	**(66.0)**	(109.6)
Loans and equity repaid by joint ventures		**15.0**	19.4
Investment in joint ventures and associates		**(20.0)**	(10.0)
Increase in other investments		**(0.1)**	(0.7)
Net cash from investing activities		**(1,455.4)**	(1,894.7)
Cash flows from financing activities			
Proceeds from issue of share capital		**10.3**	8.9
Dividends paid to company's equity holders	10	**(598.5)**	(689.4)
Issue of hybrid capital	15	**1,184.3**	-
Hybrid capital dividend payments	15	**(121.3)**	(122.9)
Employee share awards share purchase		**(9.0)**	(12.0)
New borrowings		**151.1**	1,815.8
Repayment of borrowings		**(66.3)**	(1,514.8)
Net cash from financing activities		**550.6**	(514.4)
Net increase/(decrease) in cash and cash equivalents		**1,053.5**	(109.0)
Cash and cash equivalents at the start of year		**458.6**	567.6
Net increase/(decrease) in cash and cash equivalents		**1,053.5**	(109.0)
Cash and cash equivalents at the end of year		**1,512.1**	458.6
Cash and cash equivalents in balance sheet	14	**1,512.3**	458.9
Bank overdrafts (i)		**(0.2)**	(0.3)
Cash and cash equivalents as above		**1,512.1**	458.6

(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 2015

1. Financial Information

The financial information set out in this announcement does not constitute the Group's consolidated financial statement for the years ended 31 March 2015 or 2014, but is derived from those accounts. Consolidated financial statements for the year ended 31 March 2014 have been delivered to the Registrar of Companies, and those for the year ended 31 March 2015 will be delivered in due course. The auditors have reported on those accounts and 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 2015. This preliminary announcement was authorised by the Board on 19 May 2015.

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 2015. 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 2014, with the exception of the newly effective accounting standards, amendments and interpretations disclosed in Note 3. The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The financial information has therefore been prepared on a going concern basis. The financial statements are presented in Pounds Sterling.

3. Standards, amendments and interpretations

3.1 Effective in financial year ended March 2015

(i) IFRIC 21

The Group has adopted IFRIC 21: 'Levies' in the current financial year. The interpretation clarifies that an entity should recognise liabilities for qualifying levies on the occurrence of an activity that triggers an obligation to the relevant authority. Qualifying levies fall within the scope of IAS 37 'Provisions, contingent liabilities and contingent assets', but not within the scope of IAS 12 'Income taxes' or other standards. The adoption of the interpretation has had no impact on the Group's accounting policies or on the results of the Group for the financial year ending 31 March 2015. The interpretation will be applied by the Group in relation to its mandated funding, as a licenced energy supplier, of the Contracts for Difference ('CfDs') scheme introduced by the UK Government on 1 April 2015.

(ii) IFRS 10, 11 and 12

IFRS 10: 'Consolidated financial statements', IFRS 11: 'Joint arrangements', IFRS 12: 'Disclosures of interests in other entities', and revisions to IAS 27: 'Separate financial statements' and IAS 28: 'Investments in associates and joint ventures' have been adopted by the Group in the financial year ended 31 March 2015.

The most significant impact for the Group relates to the adoption of IFRS 11. Under this standard, the Group has assessed its joint arrangements in order to identify those which require to be classified as joint operations rather than joint ventures. Joint operations arise where the venturers are deemed to have joint control and have rights to the assets and obligations for the liabilities of the arrangement as opposed to having rights to the net assets of the arrangement. Accordingly, a joint operator will recognise its share of the operation's assets, liabilities, revenue and expenses in the consolidated financial statements rather than its net share of the result of the venture. The Group has assessed that its investment in Greater Gabbard Offshore Winds Limited falls within this category under the standard, but that all other joint arrangements held by the Group are classified as joint ventures, which will continue to be equity accounted.

This has resulted in the restatement of the Group's Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Comprehensive Income and Consolidated Cash Flow Statements for the year to 31 March 2014. These restatements are summarised below.

It should be noted that as the Group currently reports its adjusted profit measures including its respective shares of operating profit, interest and tax of the affected investments, no change arises in respect of the measures reported internally and in the Annual Report in respect of underlying performance.

The restatement impact on the Group can be summarised as follows:

Notes to the Preliminary Statement
for the year ended 31 March 2015

3. Standards, amendments and interpretations effective in 2015 (continued)

Extract of Consolidated Income Statement	**Year ended 31 March 2014**		
	Reported £m	IFRS 11 £m	**Restated £m**
Operating profit before jointly ventures and associates	**611.0**	**79.8**	**690.8**
Joint ventures and associates:			
Share of operating profit	371.0	(79.8)	291.2
Share of interest	(147.9)	10.4	(137.5)
Share of movement on derivatives	3.1	-	3.1
Share of tax	11.6	17.2	28.8
Share of profit/(loss) on joint ventures and associates	237.8	(52.2)	185.6
Operating profit	**848.8**	**27.6**	**876.4**
Finance income	133.1	(10.4)	122.7
Finance costs	(406.6)	-	(406.6)
Profit before taxation	**575.3**	**17.2**	**592.5**
Taxation	(129.3)	(17.2)	(146.5)
Profit for the year	**446.0**	**-**	**446.0**

Extract of Consolidated Balance Sheet	**Year ended 31 March 2014**		
	Reported £m	IFRS 11 £m	**Restated £m**
Property, plant and equipment	10,316.6	768.6	**11,085.2**
Equity investments in associates and joint ventures	1,543.5	(716.8)	**826.7**
Loans to associates and joint ventures	521.6	-	**521.6**
Cash and cash equivalents (including bank overdrafts)	442.5	16.4	**458.9**
Deferred tax liabilities	(709.6)	(47.9)	**(757.5)**
Provisions	(395.7)	(52.0)	**(447.7)**
Other balance sheet items	(6,599.4)	31.7	**(6,567.7)**
Net assets	5,119.5	-	**5,119.5**

Extract of Consolidated Cash Flow Statement	**Year ended 31 March 2014**		
	Reported £m	IFRS 11 £m	**Restated £m**
Cash generated from operations	2,408.1	131.7	**2,539.8**
Dividends received from joint ventures and associates	364.3	(260.2)	**104.1**
Other items	(344.0)	0.2	**(343.8)**
Net cash from operating activities	2,428.4	(128.3)	**2,300.1**
Purchase of property, plant and equipment	(1,432.3)	(42.8)	**(1,475.1)**
Proceeds from sale of property, plant and equipment	-	158.6	**158.6**
Other items	(578.2)	-	**(578.2)**
Net cash flows from investing activities	(2,010.5)	115.8	**(1,894.7)**
Net cash flows from financing activities	(514.4)	-	**(514.4)**
Net decrease in cash and cash equivalents	**(96.5)**	**(12.5)**	**(109.0)**
Cash and cash equivalents at start of the year	538.7	28.9	**567.6**
Net decrease in cash and cash equivalents	(96.5)	(12.5)	**(109.0)**
Cash and cash equivalents at the end of the year	**442.2**	**16.4**	**458.6**

3. Standards, amendments and interpretations effective in 2015 (continued)

(iii) Other amendments effective in the financial year

The Group has also adopted a number of amendments to IFRSs as issued by the IASB in the financial year. These amendments included amended disclosures and requirements in relation to IAS 32, IAS 36 and IAS 39. There was no material impact on the Group's financial statements arising from the adoption of these amendments.

3.2 Effective in financial year ended 31 March 2016 and in future

At the date of authorisation of these financial statements, there are no other IFRSs or IFRIC interpretations that are effective for the first time for the financial year ended 31 March 2015 that have had a material impact on the Group. The Group has not early adopted any standard, interpretation or amendments that have been issued, but are not yet effective.

IFRS 15 'Revenue from contracts with customers' is effective on 1 January 2017 at the earliest, subject to European Union (EU) endorsement; the amendments to IFRS 11 'Accounting for acquisitions of interests in joint operations', which are effective on 1 January 2016, subject to EU endorsement; IFRS 9: 'Financial instruments', which will be effective on 1 January 2018, subject to EU endorsement, and a number of disclosure and requirement changes, including recommendations from the IASB's Annual Improvement Projects.

The Group has not fully assessed the impact of adopting IFRS 9 and IFRS 15 and it is not practicable to provide a quantified assessment of the effect of these standards in these financial statements. The Group will provide this assessment of the financial impact in future financial statements.

4. Change of Reportable Segments

4.1 Establishment of Enterprise segment

Following changes to the structure of the Group's internal organisation, and subsequent changes to the way in which financial and management information is presented to both the Board and the Executive Committee, the composition of the Group's Reportable Segments changed in the financial year ended 31 March 2015.

The change to the Group's organisation structure was the establishment of the Enterprise business in order to bring together a number of activities under single leadership. The change allows the energy and related needs of the Group's industrial and commercial customers in competitive markets to be better met through an integrated approach. The services being provided to these customers include electrical contracting, private energy networks, lighting services and telecoms capacity and bandwidth.

As a result of this change, activities previously reported under Other Networks have been combined with electrical contracting, previously reported under Energy-related Services, to derive the reported revenue and operating profit of the Enterprise segment. As these are customer-facing businesses in competitive markets, these results are reported as part of the Retail business. In the year to 31 March 2014, this Enterprise segment delivered adjusted operating profit of £56.8m. The remaining part of the Energy-related Services segment (metering, home services and other products), which will also continue to be reported separately under Retail, delivered adjusted operating profit of £24.1m in the year to 31 March 2014.

The changes to reported segments can be summarised as follows:

The Revenue by segment disclosure note for the year to March 2014 will be amended as follows:

(i) Revenue by segment

	Year ended 31 March 2014		
Total Revenue	Reported	Adjustment	**Restated**
	£m	£m	**£m**
Networks			
Other Networks	346.1	(346.1)	**-**
Retail			
Enterprise	-	594.7	**594.7**
Energy-related Services	467.1	(248.6)	**218.5**
	467.1	346.1	**813.2**
Other segments unchanged	35,226. 1	-	**35,226.1**
Total	**36,039.3**	**-**	**36,039.3**

4. Change of Reportable Segments (continued)

(ii) Operating profit by segment [1]

	Year ended 31 March 2014		
	Reported £m	Adjustment £m	**Restated £m**
Networks			
Other Networks	2.1	(2.1)	-
Retail			
Enterprise	-	14.4	**14.4**
Energy-related Services	(12.1)	(12.3)	**(24.4)**
	(12.1)	2.1	**(10.0)**
Other segments unchanged	886.4	-	**886.4**
Total	**876.4**	**-**	**876.4**

[1] Operating profit including exceptional items and certain re-measurements and share of joint venture and associate interest and tax and after restatements in Note 3.1(ii).

4.2 Change in measurement basis

The Group announced in March 2014 that it intended to reorganise its activities so that there were separately auditable legal entities responsible for its Energy Supply, Energy Portfolio Management (EPM) and Electricity Generation activities. This change had been made in order to enhance the transparency of the measurement and reporting of the performance of these activities.

As a result of the changes announced and subsequently implemented, the Group's basis of inter-segmental pricing and consequential internal reporting has been changed in the year to 31 March 2015. The revised methodology ensures greater market reflectivity, closer alignment with the operational decision-making in the respective businesses and has been informed by the Group's engagement with the Competition and Markets Authority during the financial year. The Group will provide comprehensive detail on the basis of the composition of the Great Britain components of these segments in its Consolidated Segmental Statement (CSS), an audited mandatory regulatory document produced in accordance with Standard Licence Condition 16B of Electricity Generation Licences and Standard Licence Condition 19A of the Electricity and Gas Supply Licences. The CSS will be published by 31 July 2015.

The activities conducted in EPM and Electricity Generation will continue to be reported to the Board as a single reportable operating segment.

5. Critical accounting judgements and key sources of estimation uncertainty

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

5.1 Significant Financial Judgements

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

(i) Revenue recognition – Estimation Uncertainty

Revenue from Retail energy supply activities includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. This estimation will comprise of values for billed revenue in relation to consumption from unread meters based on estimated consumption taking account of various factors including usage patterns and weather trends (disclosed as trade receivables) and for unbilled revenue (disclosed as accrued income). The volume of unbilled electricity or gas is calculated by assessing a number of factors such as externally notified volumes supplied to customers, amounts billed to customers and other adjustments. Unbilled income is calculated by applying the tariffs relevant to the customer type to the calculated volume of electricity or gas. This estimation methodology is subject to an internal corroboration process that provides support for the judgements made by management. This process requires the comparison of calculated unbilled volumes to a benchmark measure of unbilled volumes which is derived using independently verified data and by assessing historical weather-adjusted consumption patterns and actual meter data that is used in industry reconciliation processes for total consumption by supplier. This aspect of the corroboration process, which requires a comparison of the estimated supplied quantity of gas and electricity that is deemed to have been delivered to customers and the aggregate supplied quantity of gas and electricity applicable to the Group's customers that is measured by industry system operators, is a key judgement. The experience of the Group is that following the reconciliation procedures the industry deemed supplied quantities in gas have historically been higher than actual metered supply. As a result, and through a continuous process of investigation into root cause, the Group applies a further judgement being a percentage reduction to unbilled consumption volumes to the measurement of its unbilled revenue in the financial statements.

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

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

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

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

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

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

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

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

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

(ii) Adjusted measures

The Directors assess the performance of the reportable segments ('Operating profit/(loss) by segment', note 6) based on an 'adjusted profit before interest and tax' measure. This is the basis used for internal performance management and is believed to be appropriate for explaining underlying performance. The adjusted profit before interest and tax is reconciled to reported profit before interest and tax by adding back exceptional items, the net interest costs associated with defined benefit schemes, remeasurements arising from IAS 39 and after the removal of taxation on profits from joint ventures and associates. In addition, adjusted profit after tax will be reported on a basis consistent with this change.

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

The financial statements also include an 'adjusted net debt and hybrid capital' measure. This presents the information on the basis used for internal liquidity risk management. This measure, which excludes obligations due under finance leases, represents the capital owed to investors, lenders and equity holders other than the ordinary shareholders. As with 'adjusted earnings per share', this measure is considered to be of particular relevance to the ordinary shareholders of the Group as well as other stakeholders and interested parties.

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

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

5.3 Other areas of estimation uncertainty

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

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

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

5.3 Other areas of estimation and uncertainty (continued)

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

6. Segmental information

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

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

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

As noted in Note 5 Critical accounting judgements and key sources of estimation uncertainty, the internal measure of profit used by the Board is 'adjusted profit before interest and tax' or 'adjusted operating profit' which is arrived at before exceptional items, the impact of financial instruments measured under IAS 39, the net interest costs associated with defined benefit pension schemes and after the removal of taxation and interest on profits from joint ventures and associates.

Analysis of revenue, operating profit, assets and other items by segment is provided below. All revenue and profit before taxation arise from operations within the United Kingdom and Ireland.

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6. Segmental information (continued)

a) Revenue by segment

	External revenue 2015 £m	**Intra-segment revenue (I) 2015 £m**	**Total revenue 2015 £m**	External revenue 2014 £m	Intra-segment revenue, restated (I) 2014 £m	Total revenue, restated 2014 £m
Networks						
Electricity Distribution	735.6	288.0	1,023.6	704.1	311.7	1,015.8
Electricity Transmission	246.7	0.2	246.9	185.2	-	185.2
	982.3	**288.2**	**1,270.5**	889.3	311.7	1,201.0
Retail						
Energy Supply	7,961.2	30.3	7,991.5	8,465.0	26.7	8,491.7
Enterprise	495.7	155.4	651.1	451.1	143.6	594.7
Energy-related Services	112.6	97.3	209.9	106.5	112.0	218.5
	8,569.5	**283.0**	**8,852.5**	9,022.6	282.3	9,304.9
Wholesale						
Energy Portfolio Management and Electricity Generation	22,023.7	4,015.4	26,039.1	20,608.5	4,246.0	24,854.5
Gas Storage	9.7	211.8	221.5	9.0	82.6	91.6
Gas Production	1.3	177.5	178.8	7.8	255.7	263.5
	22,034.7	**4,404.7**	**26,439.4**	20,625.3	4,584.3	25,209.6
Corporate unallocated	67.9	225.8	293.7	47.8	276.0	323.8
Total	**31,654.4**	**5,201.7**	**36,856.1**	30,585.0	5,454.3	36,039.3

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

Revenue within Energy Portfolio Management and Electricity Generation includes revenues from generation plant output and the gross value of all wholesale commodity sales including settled physical and financial trades. These are entered into to optimise the performance of the generation plants and to manage the Group's commodity risk exposure. Purchase trades are included in cost of sales.

Revenue from the Group's investment in Scotia Gas Networks (SSE share being: 2015 – £541.3m; 2014 – £535.0m) is not recorded in the revenue line in the income statement.

Revenue by geographical location is as follows:

	2015 £m	2014 £m
UK	**30,923.3**	29,727.9
Ireland	**731.1**	857.1
	31,654.4	30,585.0

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for the year ended 31 March 2015

6. Segmental information (continued)

b) Operating profit/(loss) by segment

2015	Adjusted operating profit reported to the Board £m	JV / Associate share of interest and tax (I) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Networks					
Electricity Distribution	467.7	-	467.7	-	**467.7**
Electricity Transmission	184.1	-	184.1	-	**184.1**
Gas Distribution	285.0	(137.1)	147.9	5.3	**153.2**
	936.8	**(137.1)**	**799.7**	**5.3**	**805.0**
Retail					
Energy Supply	368.7	-	368.7	(34.2)	**334.5**
Enterprise	70.4	-	70.4	30.3	**100.7**
Energy-related Services	17.7	-	17.7	15.6	**33.3**
	456.8	**-**	**456.8**	**11.7**	**468.5**
Wholesale					
Energy Portfolio Management and Electricity Generation	433.3	(21.3)	412.0	(483.8)	**(71.8)**
Gas Storage	3.9	-	3.9	(163.9)	**(160.0)**
Gas Production	36.6	-	36.6	(106.0)	**(69.4)**
	473.8	**(21.3)**	**452.5**	**(753.7)**	**(301.2)**
Corporate unallocated	14.0	-	14.0	(0.4)	**13.6**
Total	**1,881.4**	**(158.4)**	**1,723.0**	**(737.1)**	**985.9**

2014 Restated (note 4.1(ii))	Adjusted operating profit reported to the Board £m	JV / Associate share of interest and tax (I) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Networks					
Electricity Distribution	507.0	-	507.0	(7.1)	499.9
Electricity Transmission	136.7	-	136.7	(1.0)	135.7
Gas Distribution	276.6	(163.1)	113.5	68.9	182.4
	920.3	(163.1)	757.2	60.8	818.0
Retail					
Energy Supply	246.2	-	246.2	(43.2)	203.0
Enterprise	56.8	(0.1)	56.7	(42.3)	14.4
Energy-related Services	24.1	-	24.1	(48.5)	(24.4)
	327.1	(0.1)	327.0	(134.0)	193.0
Wholesale					
Energy Portfolio Management and Electricity Generation	496.1	(8.1)	488.0	(607.4)	(119.4)
Gas Storage	8.3	-	8.3	(137.7)	(129.4)
Gas Production	130.2	-	130.2	-	130.2
	634.6	(8.1)	626.5	(745.1)	(118.6)
Corporate unallocated	(1.9)	-	(1.9)	(14.1)	(16.0)
Total	1,880.1	(171.3)	1,708.8	(832.4)	876.4

I. The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives and tax from joint ventures and associates and after adjusting for exceptional items (see Note 7). The share of Scotia Gas Networks Limited interest includes loan stock interest payable to the consortium shareholders (included in Gas Distribution). The Group has accounted for its 50% share of this, £33.3m (2014 - £33.3m), as finance income (Note 8).

The Group's share of operating profit from joint ventures and associates has been recognised in the Energy Portfolio Management and Electricity Generation segment other than that for Scotia Gas Networks Limited, which is recorded in Gas Distribution, and PriDE (South East Regional Prime), which is recognised in Enterprise (£0.7m before tax; 2014 – £0.6m before tax).

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7. Exceptional items and certain re-measurements

	2015 £m	2014 £m
Exceptional items (i)		
Asset impairments and related charges	**(667.5)**	(574.9)
Provisions for restructuring and other liabilities	**(56.0)**	(137.4)
Net gains on disposals of businesses and other assets	**74.8**	-
	(648.7)	(712.3)
Impairment of investments in joint ventures and associates (share of result)	**(25.9)**	(34.9)
	(674.6)	(747.2)
Share of effect of change in UK corporation tax on deferred tax liabilities and assets of associate and joint venture investments	**-**	63.3
	(674.6)	(683.9)
Certain re-measurements (ii)		
Movement on operating derivatives (note 17)	**(67.8)**	(150.9)
Movement on financing derivatives (note 17)	**(44.2)**	(64.2)
Share of movement on derivatives in jointly controlled entities (net of tax)	**5.3**	2.4
	(106.7)	(212.7)
Exceptional items before taxation	**(781.3)**	(896.6)
Taxation (iii)		
Effect of change in UK corporation tax rate on deferred tax liabilities and assets	**15.6**	59.8
Taxation on other exceptional items	**145.6**	137.3
	161.2	197.1
Taxation on certain re-measurements	**39.2**	63.7
Taxation	**200.4**	260.8
Exceptional items after taxation	**(580.9)**	(635.8)

	2015 £m	2014 £m
Exceptional items categorised as:		
Property, plant and equipment impairments	**(478.8)**	(370.3)
Intangible asset and goodwill impairments	**(95.6)**	(122.9)
Joint venture and associate investment impairments	**(25.9)**	(34.9)
Provisions	**(56.0)**	(105.3)
Net gains on disposals of businesses and assets	**74.8**	-
Other impairments and charges	**(93.1)**	(113.8)
Total before taxation	**(674.6)**	(747.2)

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

Exceptional items are disclosed across the following categories within the income statement:

	2015 £m	2014 £m
Cost of sales:		
Exceptional charges relating to Ferrybridge and Fiddler's Ferry	**(313.5)**	(238.4)
Other impairments relating to Generation assets	**(51.5)**	-
Exceptional charges relating to wind impairments	**-**	(125.4)
Exceptional charges relating to contractual settlements	**-**	(45.5)
Movement on operating derivatives (note 17)	**(67.8)**	(150.9)
	(432.8)	(560.2)
Operating costs:		
All other exceptional charges	**(358.5)**	(303.0)
Operating income:		
Net gains on disposals of businesses and other assets	**74.8**	-
Joint ventures and associates:		
Impairment of investments	**(25.9)**	(34.9)
Share of movement on derivatives in jointly controlled entities (net of tax)	**5.3**	65.7
	(20.6)	30.8
Operating loss	**(737.1)**	(832.4)
Finance costs		
Movement on financing derivatives (note 17)	**(44.2)**	(64.2)
Loss before taxation	**(781.3)**	(896.6)

(i) Exceptional items

In the year to 31 March 2015, the Group recognised asset impairment and related charges totalling £667.5m and provisions of £56.0m. These consisted of impairments and charges in relation to the Group's coal-fired plants at Ferrybridge and Fiddler's Ferry (£313.5m), the Aldbrough gas storage facility (£163.9m), the North Sea gas production assets (£106.1m) and certain other assets. The valuation of the Ferrybridge power station was impacted by the 31 July 2014 fire and both coal plants have been subject to increasingly difficult economic conditions which was also reflected by the inability of both units at Ferrybridge and one unit at Fiddler's Ferry to secure an agreement to provide capacity from October 2018 to September 2019 in the first of the capacity auction run by DECC in December 2014. The North Sea gas production assets have been impaired predominately due to declining wholesale gas prices and the gas storage facilities have been impacted by reduced short term price volatility in the wholesale gas market and the announcement in March 2015 of redundancies at the facilities. In addition to these charges, the Group recognised exceptional charges in relation to the impairment of certain thermal generation development assets including the Abernedd gas-fired generation development in South Wales, which also did not secure a capacity agreement for winter 2018 in the December 2014 auction. Other exceptional charges were recognised in relation to the impairment of investments in thermal power generation joint ventures and associates (£25.9m).

The Group benefitted from the recognition of £74.8m of exceptional credits in relation to the disposal of businesses and assets that were held for sale at 31 March 2014, before recognition of associated provisions. This included gains in relation to the seven street lighting PFIs sold to Equitix in November and the Group's share of the dividend from the Environment Energy Fund's disposal of its stake in Anesco. Details of the disposals in the year are included at Note 13.

In the previous financial year, the Group recognised exceptional charges arising from and related to asset impairments amounting to £574.9m. This consisted of impairment charges in respect of thermal and renewable generation plant of £363.9m which included the impact of the decision to scale back the Group's involvement in certain offshore wind developments. The total also included impairment charges against gas storage facilities of £137.7m and charges of £73.3m in relation to recognition of losses and costs arising from the decision to exit from certain non-core businesses following the announcement of its restructuring and disposal programme on 26 March 2014. This latter item also includes impairment charges of £36.2m in relation to system and software development across the energy supply and metering businesses.

Other exceptional charges of £137.4m were recognised in the previous financial year. This included charges of £91.0m in relation to the March 2014 restructuring announcement, including a restructuring provision primarily relating to the scheme of employee voluntary early release of £52.9m and provisions associated with business closures and contractual disputes of £84.5m.

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

(ii) Certain re-measurements

Certain re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category includes the movement on derivatives (and hedged items) as described in note 17. Only certain of the Group's energy commodity contracts are deemed to constitute financial instruments under IAS 39. As a result, while the Group manages the commodity price risk associated with both financial and non-financial commodity contracts, it is only commodity contracts that are designated as financial instruments under IAS 39 that are accounted for on a fair value basis with changes in fair value reflected in the income statement (as part of 'certain re-measurements') or in other comprehensive income. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts.

(iii) Change in UK corporation tax rates

Finance Act 2015, which received royal assent on 26 March 2015, announced that the rate of Supplementary Charge (SCT) was reduced to 20% (previously 32%), with effect from 1 January 2015. This results in a hybrid SCT rate of 29% for the Group's upstream oil and gas operations for the year to 31 March 2015 (2014 – 32%). Finance Act 2015 also enacted a reduction in the rate of Petroleum Revenue Tax (PRT) to 35% from 1 January 2016 from the current 50%. As these changes have been substantively enacted they have the effect of reducing the Group's deferred tax liabilities by £15.6m.

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

8. Finance income and costs

	2015			2014		
	Before Exceptional items and certain re-measurements £m	**Exceptional items and certain re-measurements £m**	**Total £m**	Before Exceptional items and certain re-measurements (restated) £m	Exceptional items and certain re-measure ments (restated) £m	Total (restated, note 3) £m
Finance income:						
Interest income from short term deposits	**1.1**	**-**	**1.1**	1.7	-	1.7
Foreign exchange translation of monetary assets and liabilities	**-**	**-**	**-**	19.3	-	19.3
Other interest receivable:						
Scotia Gas Networks loan stock	**33.3**	**-**	**33.3**	33.3	-	33.3
Other joint ventures and associates	**14.8**	**-**	**14.8**	11.7	-	11.7
Other receivable	**46.7**	**-**	**46.7**	56.7	-	56.7
	94.8	**-**	**94.8**	101.7	-	101.7
Total finance income	**95.9**	**-**	**95.9**	122.7	-	122.7
Finance costs:						
Bank loans and overdrafts	**(23.9)**	**-**	**(23.9)**	(18.5)	-	(18.5)
Other loans and charges	**(262.5)**	**-**	**(262.5)**	(310.8)	-	(310.8)
Interest on pension scheme liabilities	**(25.1)**	**-**	**(25.1)**	(26.8)	-	(26.8)
Notional interest arising on discounted provisions	**(14.0)**	**-**	**(14.0)**	(9.5)	-	(9.5)
Foreign exchange translation of monetary assets and liabilities	**(0.5)**	**-**	**(0.5)**	-	-	-
Finance lease charges	**(34.2)**	**-**	**(34.2)**	(35.7)	-	(35.7)
Less: interest capitalised	**57.8**	**-**	**57.8**	58.9	-	58.9
Total finance costs	**(302.4)**	**-**	**(302.4)**	(342.4)	-	(342.4)
Changes in fair value of financing derivative assets or liabilities at fair value through profit or loss	**-**	**(44.2)**	**(44.2)**	-	(64.2)	(64.2)
Net finance costs	**(206.5)**	**(44.2)**	**(250.7)**	(219.7)	(64.2)	(283.9)
Presented as:						
Finance income	**95.9**	**-**	**95.9**	122.7	-	122.7
Finance costs	**(302.4)**	**(44.2)**	**(346.6)**	(342.4)	(64.2)	(406.6)
Net finance costs	**(206.5)**	**(44.2)**	**(250.7)**	(219.7)	(64.2)	(283.9)

The capitalisation rate applied in determining the amount of borrowing costs to capitalise in the period was 4.21% (2014 – 4.88%).

8. Finance income and costs (continued)

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

	2015 £m	2014 restated £m
Net finance costs	**(250.7)**	(283.9)
(add)/less:		
Share of interest from joint ventures and associates:		
Scotia Gas Networks loan stock	**(33.3)**	(33.3)
Other joint ventures and associates	**(90.9)**	(104.2)
	(124.2)	(137.5)
Interest on pension scheme liabilities	**25.1**	26.8
Share of interest on net pension liabilities in joint ventures	**(11.1)**	1.4
Movement on financing derivatives (Note 17)	**44.2**	64.2
Adjusted net finance costs	**(316.7)**	(329.0)
Notional interest arising on discounted provisions	**14.0**	9.5
Finance lease charges	**34.2**	35.7
Hybrid coupon payment (Note 15)	**(121.3)**	(122.9)
Adjusted net finance costs for interest cover calculations	**(389.8)**	(406.7)

9. Taxation

Analysis of charge recognised in the income statement:

	Before Exceptional items and certain re-measure ments £m	Exceptional items and certain re-measure ments £m	2015 £m	Before Exceptional items and certain re-measure ments (restated) £m	Exceptional items and certain re-measure-ments (restated) £m	2014 (restated) £m
Current tax						
UK corporation tax	**231.4**	**(25.1)**	**206.3**	248.1	(24.8)	223.3
Adjustments in respect of previous years	**(29.8)**	**-**	**(29.8)**	(21.4)	-	(21.4)
Total current tax	**201.6**	**(25.1)**	**176.5**	226.7	(24.8)	201.9
Deferred tax						
Current year	**52.7**	**(159.7)**	**(107.0)**	162.2	(162.0)	0.2
Effect of change in tax rate	**-**	**(15.6)**	**(15.6)**	-	(59.8)	(59.8)
Adjustments in respect of previous years	**16.9**	**-**	**16.9**	18.4	(14.2)	4.2
Total deferred tax	**69.6**	**(175.3)**	**(105.7)**	180.6	(236.0)	(55.4)
Total taxation charge	**271.2**	**(200.4)**	**70.8**	407.3	(260.8)	146.5

In October 2014, SSE became the first FTSE 100 listed group to be accredited with the Fair Tax Mark. As a consequence, these financial statements include a number of areas of enhanced disclosure which have been provided in order to develop stakeholder understanding of the tax the Group pays. The table below reconciles the tax which would be expected to be paid on SSE's reported profit before tax to the reported current tax charge and the reported total taxation charge:

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9. Taxation (continued)

	2015	**2015**	2014 (restated)	2014
	£m	**%**	£m	%
Group profit before tax	**735.2**		592.5	
Less: share of results of associates and jointly controlled entities	**(163.6)**		(185.6)	
Profit before tax	**571.6**		406.9	
Tax on profit on ordinary activities at standard UK corporation tax rate of 21% (2014 – 23%)	**120.0**	**21.0**	93.6	23.0
Tax effect of:				
Depreciation in excess of capital allowances	**86.0**	**15.1**	67.4	16.6
Increase in restructuring and settlement provisions	**2.6**	**0.5**	34.4	8.3
Non-taxable gain on sale of shares	**(13.8)**	**(2.4)**	-	-
Fair value movements on derivatives	**23.6**	**4.1**	48.0	11.8
Pension movements	**(11.0)**	**(1.9)**	(11.6)	(2.9)
Relief for capitalised interest and revenue costs	**(22.3)**	**(3.9)**	(25.4)	(6.2)
Hybrid capital coupon payments	**(25.5)**	**(4.5)**	(27.8)	(6.8)
Corporation tax relief on PRT paid	**(4.5)**	**(0.8)**	(5.5)	(1.4)
Expenses not deductible for tax purposes	**7.7**	**1.3**	15.6	3.8
Impact of higher current tax rates on E&P profits	**42.1**	**7.4**	35.2	8.7
Impact of foreign tax rates	**1.4**	**0.2**	(0.6)	(0.1)
Adjustments to tax charge in respect of previous years	**(29.8)**	**(5.2)**	(21.4)	(5.2)
Reported current tax charge and effective rate	**176.5**	**30.9**	201.9	49.6
Depreciation in excess of capital allowances	**(68.5)**	**(12.0)**	(48.5)	(11.9)
Increase in restructuring and settlement provisions	**(2.6)**	**(0.5)**	(34.4)	(8.5)
Fair value movements on derivatives	**(23.6)**	**(4.1)**	(48.0)	(11.8)
Pension movements	**11.0**	**1.9**	11.6	3.0
Relief for capitalised interest and revenue costs	**22.3**	**3.9**	25.4	6.2
Impact of higher deferred tax rates on E&P profits	**(34.8)**	**(6.1)**	45.6	11.2
Impact of foreign tax rates	**(4.2)**	**(0.7)**	(2.5)	(0.6)
Adjustments to tax charge in respect of previous years	**6.5**	**1.1**	27.8	6.8
Change in rate of UK corporation tax	**(15.6)**	**(2.7)**	(59.8)	(14.7)
Other items	**3.8**	**0.6**	27.4	6.7
Reported deferred tax credit and effective rate	**(105.7)**	**(18.6)**	(55.4)	(13.6)
Group tax charge and effective rate	**70.8**	**12.3**	146.5	36.0

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

	2015	**2015**	2014	2014
	£m	**%**	£m	%
Group tax charge and effective rate	**70.8**	**12.3**	146.5	36.0
Less: reported deferred tax credit and effective rate	**105.7**	**18.6**	55.4	13.6
Current tax charge and effective rate	**176.5**	**30.8**	201.9	49.6
Effect of adjusting items (see below)	**-**	**(19.6)**	-	(36.5)
Current tax charge and effective rate on adjusted basis	**176.5**	**11.3**	201.9	13.1
add/(less):				
Share of current tax from joint ventures and associates	**23.2**	**1.5**	10.0	0.6
Current tax on exceptional items	**25.1**	**1.6**	24.8	1.6
Adjusted current tax charge and effective rate	**224.8**	**14.4**	236.7	15.3

9. Taxation (continued)

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

	2015	2014 (restated)
	£m	£m
Profit before tax	**735.2**	592.5
Add/(less):		
Exceptional items and certain re-measurements	**781.3**	896.6
Share of tax from jointly controlled entities and associates before exceptional items and certain re-measurements	**34.2**	33.8
Interest on pension scheme liabilities	**25.1**	26.8
Share of interest on net pension liabilities in jointly controlled entities and associates	**(11.1)**	1.4
Adjusted profit before tax	**1,564.7**	1,551.1

The adjusted current tax charge can therefore be reconciled to the adjusted profit before tax as follows:

	2015	**2015**	2014	2014
	£m	**%**	£m	%
Adjusted profit before tax	**1,564.7**		1,551.1	
Tax on profit on ordinary activities at standard UK corporation tax rate	**328.6**	**21.0**	356.7	23.0
Tax effect of:				
Capital allowances in excess of depreciation	**(42.1)**	**(2.7)**	(57.0)	(3.7)
Non taxable gain on sale of shares	**(6.3)**	**(0.4)**		
Increase in restructuring and settlement provisions	**3.9**	**0.2**	19.6	1.3
Pension movements	**(13.9)**	**(0.9)**	(17.5)	(1.1)
Relief for capitalised interest and revenue costs	**(15.2)**	**(1.0)**	(25.4)	(1.6)
Hybrid capital coupon payments	**(25.4)**	**(1.6)**	(27.8)	(1.8)
Corporation tax relief on PRT paid	**(4.4)**	**(0.3)**	(5.5)	(0.4)
Expenses not deductible for tax purposes	**10.1**	**0.7**	13.5	0.9
Relief for brought forward losses	**(23.6)**	**(1.5)**	(32.9)	(2.1)
Impact of higher current tax rates on oil and gas profits	**42.1**	**2.7**	35.2	2.3
Impact of foreign tax rates	**1.4**	**0.1**	(0.6)	(0.1)
Adjustments to tax charge in respect of previous years	**(30.4)**	**(1.9)**	(21.6)	(1.4)
Adjusted current tax charge and effective rate	**224.8**	**14.4**	236.7	15.3

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for the year ended 31 March 2015

10. Dividends

Ordinary dividends

	Year ended 31 March 2015 Total £m	**Settled via scrip £m**	**Pence per ordinary share**	Year ended 31 March 2014 Total £m	Settled via scrip £m	Pence per ordinary share
Interim – year ended 31 March 2015	**262.6**	**81.6**	**26.6**	-	-	-
Final – year ended 31 March 2014	**591.5**	**174.0**	**60.7**	-	-	-
Interim – year ended 31 March 2014	**-**	**-**	**-**	251.0	112.4	26.0
Final – year ended 31 March 2013	**-**	**-**	**-**	568.6	17.8	59.0
	854.1	**255.6**		819.6	130.2	

The final dividend of 60.7p per ordinary share declared in the financial year ended 31 March 2014 (2013– 59.0p) was approved at the Annual General Meeting on 25 July 2014 and was paid to shareholders on 19 September 2014. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the cash dividend under the terms of the Company's scrip dividend scheme.

An interim dividend of 26.6p per ordinary share (2014 – 26.0p) was declared and paid on 20 March 2015 to those shareholders on the SSE plc share register on 23 January 2015. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the interim cash dividend under the terms of the Company's scrip dividend scheme.

The proposed final dividend of 61.8p per ordinary share (which equates to a dividend of £613.7m) based on the number of issued ordinary shares at 31 March 2015 is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

11. Earnings per Share

Basic earnings per share

The calculation of basic earnings per ordinary share at 31 March 2015 is based on the net profit attributable to Ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 March 2015. All earnings are from continuing operations.

Adjusted earnings per share

Adjusted earnings per share has been calculated by excluding the charge for deferred tax, interest on net pension liabilities under IAS 19R and the impact of exceptional items and certain re-measurements (Note 7).

	Year ended 31 March 2015 Earnings £m	**Year ended 31 March 2015 Earnings per share pence**	Year ended 31 March 2014 Earnings £m (restated)	Year ended 31 March 2014 Earnings per share Pence (restated)
Basic	**543.1**	**55.3**	323.1	33.5
Exceptional items and certain re-measurements (Note 7)	**580.9**	**59.2**	635.8	65.8
Basic excluding exceptional items and certain re-measurements	**1,124.0**	**114.5**	958.9	99.3
Adjusted for:				
Interest on net pension scheme liabilities (Note 8)	**25.1**	**2.5**	26.8	2.8
Share of interest on net pension scheme liabilities in joint venture (Note 8)	**(11.1)**	**(1.1)**	1.4	0.1
Deferred tax (Note 9)	**69.6**	**7.1**	180.6	18.7
Deferred tax from share of joint ventures and associates	**11.0**	**1.1**	23.8	2.5
Adjusted	**1,218.6**	**124.1**	1,191.5	123.4

Basic	**543.1**	**55.3**	323.1	33.5
Dilutive effect of outstanding share options	**-**	**(0.1)**	-	(0.2)
Diluted	**543.1**	**55.2**	323.1	33.3

11. Earnings per Share (continued)

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

	31 March 2015 Number of shares (millions)	31 March 2014 Number of shares (millions)
For basic and adjusted earnings per share	**981.8**	965.5
Effect of exercise of share options	**2.1**	6.1
For diluted earnings per share	**983.9**	971.6

12. Notes to the Consolidated Cash Flow Statement

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

	Note	2015 £m	2014 Restated (note 3) £m
Profit for the year		**664.4**	446.0
Add back: taxation	9	**70.8**	146.5
Add back: net finance costs	8	**250.7**	283.9
Operating profit		**985.9**	876.4
Less share of profit of joint ventures and associates		**(163.6)**	(185.6)
Operating profit before joint ventures and associates		**822.3**	690.8
Movement on operating derivatives		**67.8**	150.9
Pension service charges less contributions paid		**(77.5)**	(75.9)
Exceptional charges		**648.7**	712.3
Depreciation of assets		**656.7**	649.4
Amortisation and impairment of intangible assets		**3.4**	18.1
Impairment of inventories		**1.4**	2.0
Release of provisions		**-**	(0.7)
Release of deferred income		**(16.9)**	(16.8)
Charge in respect of employee share awards		**15.0**	15.5
(Profit) on disposal of assets and businesses – non exceptional		**(40.2)**	(11.4)
Cash generated from operations before working capital movements		**2,080.7**	2,134.2

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

	2015 £m	2014 £m
Increase/(decrease) in cash and cash equivalents	**1,053.5**	(109.0)
Add/(less):		
Issue of hybrid capital	**(1,184.3)**	-
New borrowings	**(151.1)**	(1,815.8)
Repayment of borrowings	**66.3**	1,514.8
Non-cash movement on borrowings	**269.8**	89.5
Increase/(decrease) in cash held as collateral	**20.5**	(3.8)
Movement in adjusted net debt and hybrid capital	**74.7**	(324.3)

The non-cash movement on borrowings includes a decrease in loans of £228.8m in relation to the disposal of seven street lighting PFI companies as well as the revaluation of fair value items, exchange movements and accretion of index-linked bonds.

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

Notes to the Preliminary Statement

for the year ended 31 March 2015

13. Acquisitions, disposals and held for sale assets

a. Acquisitions

On 31 July 2014, the Group through its wholly owned subsidiary, SSE Contracting Group Limited, acquired 100% of the share capital of Energy Solutions Group Limited ('ESG'). The consideration for the business was £71.9m, consisting of cash of £66m and deferred consideration of £5.9m. The acquisition provided the Group with cash and working capital of £5.1m and resulted in the recognition of goodwill, including related deferred tax, of £80.0m. The acquisition of ESG complements and enhances SSE's services in competitive markets for industrial and commercial customers and the contribution from the business will be reported as part of the Enterprise reportable segment. The acquired business, which was subsequently renamed SSE Enterprise Energy Solutions, contributed £30.9m to revenue, £2.2m to operating profit and £1.4m to profit after tax for the period to 31 March 2015.

b. Disposals

On 11 November 2014, the Group completed the disposal of seven street lighting Private Finance Initiative ('PFI') vehicles to Equitix Infrastructure 3 Limited ("Equitix") for cash consideration of £97.5m. The result of these activities had been reported within the Enterprise business and the net assets had been recognised as 'held for sale' at 31 March 2014. The contracts held by the companies had been treated as service concession arrangements. The Group's Enterprise business has retained sub-contracts to provide capital and maintenance services to the PFI contract holders. This disposal provides the benefit of reducing the Group's debt by £324.0m (being cash of £95.2m and debt reduction of £228.8m). The Group recorded a gain on disposal of £38.0m after provisions associated with the retained sub-contracts were recognised. The pre-disposal contribution to the Group from the disposed activities in the financial year was £1.4m.

On 26 November 2014, CBPE Capital acquired the shareholdings of Anesco Limited including 100% from the Environmental Energy Fund in which the Group holds a 49% stake. Accordingly, on completion a payment of £22.2m cash dividend in relation to the Group's share of the investment by the fund was received, the Group recognised a gain on disposal of £19.6m. This investment was not 'held for sale' at 31 March 2014. Both this transaction and the Equitix transaction were treated as exceptional items in the Financial Statements.

During the year, the Group disposed of a number of other businesses and assets for the combined net cash consideration of £116.4m and deferred consideration of £12.1m. This included the disposal, on 1 September 2014, of its previously 'held for sale' gas connections business, to the Environmental Energies Fund, in which the Group has a 49% interest and in respect of which the Group recognised a gain on disposal of £15.3m. The following table summarises all businesses and assets disposed of, including those not previously 'held for sale' and including other assets and investments disposed of as part of the normal course of business.

	Held for sale at March 2014			**Not held for sale at March 2014**			
	Businesses	Other Assets	**Total**	Businesses	Other Assets	**Total**	**Total**
Net assets disposed:	£m	£m	**£m**	£m	£m	**£m**	**£m**
Property, plant and equipment	58.8	13.4	**72.2**	-	2.2	**2.2**	**74.4**
Intangible and biological assets	-	2.5	**2.5**	2.4	9.7	**12.1**	**14.6**
Investments – joint venture and other	0.3	-	**0.3**	-	15.7	**15.7**	**16.0**
Trade and other receivables	348.7		**348.7**	1.7	-	**1.7**	**350.4**
Trade and other payables	(94.3)	-	**(94.3)**	-	-	**-**	**(94.3)**
Loans and borrowings	(230.2)	-	**(230.2)**	-	-	**-**	**(230.2)**
Net assets	**83.3**	**15.9**	**99.2**	**4.1**	**27.6**	**31.7**	**130.9**
Proceeds of disposal							
Cash consideration	381.4	18.2	**399.6**	5.3	62.6	**67.9**	**467.5**
Deferred consideration	1.1	-	**1.1**	11.0	-	**11.0**	**12.1**
Debt reduction	(228.8)	-	**(228.8)**	-	-	**-**	**(228.8)**
Costs of disposal	(3.6)	-	**(3.6)**	-	(1.3)	**(1.3)**	**(4.9)**
Provisions	(12.5)	-	**(12.5)**	-	11.0	**11.0**	**(1.5)**
Total	**137.6**	**18.2**	**155.8**	**16.3**	**72.3**	**88.6**	**244.4**
Gain on disposal after provisions	**54.3**	**2.3**	**56.6**	**12.2**	**44.7**	**56.9**	**113.5**

The £467.5m cash consideration less related costs of £4.9m includes the £228.8m debt reduction associated with the disposal of the street lighting PFI. Actual cash proceeds of £233.8m are recorded in the Cash Flow Statement as £167.2m from disposal of held for sale assets, £25.3m from disposal of property, plant and equipment, £5.3m from disposal of businesses and £36.0m from sale of other investments.

13. Acquisitions, disposals and held for sale assets (continued)

c. Held-for-sale assets and liabilities

On 26 March 2014, the Group announced its intention to dispose of a number of non-core assets and businesses and to identify further operational efficiencies as part of a value programme. A number of these businesses and assets have been sold in the year and a number of additional businesses and assets are now in the process of or have been identified for sale.

As a result, a number of assets and liabilities associated with activities are deemed available for immediate sale and have been separately presented on the face of the balance sheet. The assets have been stated at the lower of their carrying value and their fair value less costs to sell. These held for sale assets include the 16MW Langhope Rig wind farm for which agreement has been reached for sale but which has not reached completion, a further street lighting PFI vehicle and a portfolio of wind farm development assets. The aggregated pre-tax profit contribution of the held for sale assets and businesses in the year to 31 March 2015 was £1.8m (2014: £1.2m).

The assets and liabilities classified as held for sale, and the comparative balances at 31 March 2014, are as follows:

	Energy Portfolio Management and Electricity Generation	**Enterprise**	**Total 2015**	Total 2014
	£m	**£m**	**£m**	£m
Property Plant and Equipment	**54.2**	**-**	**54.2**	62.3
Forestry Assets	**1.8**	**-**	**1.8**	3.4
Other intangible	**21.3**	**-**	**21.3**	5.5
Non-current assets	**77.3**	**-**	**77.3**	71.2
Inventories	**-**	**-**	**-**	0.8
Trade and other receivables	**3.5**	**29.5**	**33.0**	260.4
Non trade debtors	**-**	**-**	**-**	0.1
Current assets	**3.5**	**29.5**	**33.0**	261.3
Total assets	**80.8**	**29.5**	**110.3**	332.5
Trade and other payables	**(10.3)**	**(0.5)**	**(10.8)**	(14.9)
Provisions	**-**	**-**	**-**	(0.7)
Current liabilities	**(10.3)**	**(0.5)**	**(10.8)**	(15.6)
Deferred tax liabilities	**(0.3)**	**-**	**(0.3)**	(2.7)
Provisions	**-**	**-**	**-**	(0.9)
Non-current liabilities	**(0.3)**	**-**	**(0.3)**	(3.6)
Total liabilities	**(10.6)**	**(0.5)**	**(11.1)**	(19.2)
Net assets	**70.2**	**29.0**	**99.2**	313.3

Notes to the Preliminary Statement

for the year ended 31 March 2015

14. Loans and other borrowings

	2015	2014
Current	**£m**	£m
Bank overdraft	**0.2**	0.3
Other short-term loans	**712.4**	600.3
	712.6	600.6
Obligations under finance leases	**20.2**	18.1
	732.8	618.7
Non current		
Loans	**5,068.4**	5,365.5
Obligations under finance leases	**299.5**	310.8
	5,367.9	5,676.3
Total loans and borrowings	**6,100.7**	6,295.0
Add:		
Cash and cash equivalents	**(1,512.3)**	(458.9)
Unadjusted Net Debt	**4,588.4**	5,836.1
Add/(less):		
Hybrid capital (Note 15)	**3,371.1**	2,186.8
Obligations under finance leases	**(319.7)**	(328.9)
Cash held as collateral	**(71.7)**	(51.2)
Adjusted Net Debt and Hybrid Capital	**7,568.1**	7,642.8

Borrowing facilities

The Group has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into sterling). The Group has £1.5bn (2014 - £1.5bn) of committed credit facilities in place; maturing in April and July 2018, which provide a back up to the commercial paper programme and at 31 March 2015 these facilities were undrawn. The Group has a further £50m facility available from the European Investment Bank which will be drawn in the first half of 2015/16 when it will become a term loan.

15. Hybrid Capital

	2015	2014
	£m	£m
GBP 750m 5.453% perpetual subordinated capital securities	**744.5**	744.5
EUR 500m 5.025% perpetual subordinated capital securities	**416.9**	416.9
USD 700m 5.625% perpetual subordinated capital securities	**427.2**	427.2
EUR 750m 5.625% perpetual subordinated capital securities	**598.2**	598.2
GBP 750m 3.875% perpetual subordinated capital securities	**748.3**	-
EUR 600m 2.375% perpetual subordinated capital securities	**436.0**	-
	3,371.1	2,186.8

On 10 March 2015, the Company issued £750m and €600m hybrid capital bonds with no fixed redemption date, but the Company may at its sole discretion redeem all, but not part of, the capital securities at their principal amount. The date for the first discretionary redemption of the £750m hybrid capital bond is 10 September 2020 and then every 5 years thereafter. The date for the first discretionary redemption of the €600m hybrid capital bond is 1 April 2021 and then every 5 years thereafter.

The Company previously issued £750m and €500m hybrid capital bonds on 20 September 2010 and €750m and $700m hybrid capital bonds on 18 September 2012.

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

In addition, under certain circumstances defined in the terms and conditions of the issue, the Company may at its sole discretion redeem all (but not part of) the bonds at their principal amount at any time prior to 1 October 2017 (for the 18 September 2012 securities) or at any time prior to 1 October 2015 (for the 20 September 2010 securities).

The Company has the option to defer coupon payments on the bonds on any relevant payment date, as long as a dividend on the ordinary shares has not been declared. Deferred coupons shall be satisfied only in the following circumstances, all of which occur at the sole option of the Company: (i) redemption; or, (ii) dividend payment on ordinary shares. Interest will accrue on any deferred coupon.

15. Hybrid Capital (continued)

For the capital issued on 20 September 2010 and the €750m capital issued on 18 September 2012, coupon payments are expected to be made annually in arrears on 1 October in each year. For the US$700m capital issued on 18 September 2012, coupon payments are expected to be made bi-annually in arrears on 1 April and 1 October each year. For the £750m capital issued on 10 March 2015, the first coupon payment is expected to be 10 September 2016 and then annually in arrears thereafter, and for the €600m capital issued on 10 March 2015, the first coupon payment is expected to be made on 1 April 2016 and then annually in arrears thereafter. The purpose of all three issues was to strengthen SSE's capital base and fund the Group's ongoing capital investment and acquisitions.

Coupon payments of £23.6m (2014 – £24.2m) in relation to the US$ capital issued on 18 September 2012 were paid on 2 April 2014 and 1 October 2014. In addition coupon payments of £97.7m (2014 - £98.7m) in relation to the other hybrid capital bonds were made on 1 October 2014.

16. Share capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 1 April 2014	974.9	487.4
Issue of shares (i)	18.1	9.1
At 31 March 2015	**993.0**	**496.5**

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

(i) Shareholders were able to elect to receive ordinary shares in place of the final dividend of 60.7p per ordinary share (in relation to year ended 31 March 2014) and the interim dividend of 26.6p (in relation to the current year) under the terms of the Company's scrip dividend scheme. This resulted in the issue of 11,775,169 and 5,348,770 new fully paid ordinary shares respectively (2014: 1,128,181 and 8,551,629). In addition, the Company issued 1.0m (2014 – 0.9m) shares during the year under the savings-related share option schemes for a consideration of £10.3m (2014 - £8.9m).

During the year, on behalf of the Company, the employee share trust purchased 0.6m shares for a total consideration of £9.0m (2014 – 0.8m shares, consideration of £12.0m). At 31 March 2015, the trust held 3.1m shares (2014 – 3.2m) which had a market value of £47.5m (2014 - £46.6m).

17. Capital and Financial Risk Management

(i) Capital management

The Board's policy is to maintain a strong balance sheet and credit rating so as to support investor, counterparty and market confidence and to underpin future development of the business. The Group's credit ratings are also important in maintaining an efficient cost of capital and in determining collateral requirements throughout the Group. As at 31 March 2015, the Group's long term credit rating was A- stable outlook for Standard & Poor's and A3 negative outlook for Moody's.

The maintenance of a medium-term corporate model is a key control in monitoring the development of the Group's capital structure, and allows for detailed scenarios and sensitivity testing. Key ratios drawn from this analysis underpin regular updates to the Board and include the ratios used by the rating agencies in assessing the Group's credit ratings.

The Group has the option to purchase its own shares from the market; the timing of these purchases depends on market prices and economic conditions. The use of share buy-backs is the Group's benchmark for investment decisions and can be utilised at times when management believe the Group's shares are undervalued. No share buy-back was made during the year.

The Group's debt requirements are principally met through issuing bonds denominated in Sterling and Euros as well as private placements and medium term bank loans including those with the European Investment Bank. In addition, the Group has issued hybrid capital securities which bring together features of both debt and equity are perpetual and subordinate to all senior creditors. The Group has £1.5bn of committed bank facilities which relate to the Group's revolving credit and bilateral facilities that can be accessed at short notice for use in managing the Group's short term funding requirements. The Group also has a £50m facility with the European Investment Bank that will be drawn in the first half of 2015/16 when it will become a term loan. However, these committed facilities remain undrawn for the majority of the time.

17. Capital and Financial Risk Management (continued)

(i) Capital management (continued)

The Group capital comprises:

	2015 £m	2014 (Restated) £m
Total borrowings (excluding finance leases)	**5,781.0**	5,966.1
Less : Cash and cash equivalents	**(1,512.3)**	(458.9)
Net debt (excluding hybrid capital)	**4,268.7**	5,507.2
Hybrid capital	**3,371.1**	2,186.8
Cash held as collateral	**(71.7)**	(51.2)
Adjusted Net Debt and Hybrid Capital	**7,568.1**	7,642.8
Equity attributable to shareholders of the parent	**2,709.4**	2,932.7
Total capital	**10,277.5**	10,575.5

In summary, the Group's intent is to balance returns to shareholders between current returns through dividends and long-term capital investment for growth. In doing so, the Group will maintain its capital discipline and will continue to operate within the current economic environment prudently. There were no changes to the Group's capital management approach during the year.

(ii) Financial risk management

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Risk and Trading Committee, which reports to the Executive Committee, comprises the two Executive Directors and senior managers from the Energy Portfolio Management, Retail, Corporate and Finance functions. Its specific remit is to support the Group's risk management responsibilities by reviewing the strategic, market, credit, operational and liquidity risks and exposures that arise from the Group's energy portfolio management, generation and treasury operations. This committee is discussed further in the Corporate Governance section of the Annual Report.

The Group's policies for risk management are established to identify the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies, and the systems used to monitor activities, are reviewed regularly by the Risk and Trading Committee.

Exposure to the commodity, currency and interest rate risks noted arise in the normal course of the Group's business and derivative financial instruments are entered into to hedge exposure to these risks. The objectives and policies for holding or issuing financial instruments and similar contracts and the strategies for achieving those objectives that have been followed during the year are explained below.

The Company is required to disclose information on its financial instruments and has adopted policies identical to that of the Group, where applicable. Separate disclosure is provided where necessary.

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

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

	2015 £m	2014 £m
Operating derivatives		
Total result on operating derivatives (i)	**(1,073.5)**	(785.4)
Less: amounts settled (ii)	**1,005.7**	634.5
Movement in unrealised derivatives	**(67.8)**	(150.9)
Financing derivatives (and hedged items)		
Total result on financing derivatives (i)	**(395.5)**	(754.7)
Less: amounts settled (ii)	**351.3**	690.5
Movement in unrealised derivatives	**(44.2)**	(64.2)
Net income statement impact	**(112.0)**	(215.1)

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

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

Notes to the Preliminary Statement

for the year ended 31 March 2015

17. Capital and Financial Risk Management (continued)

Financial risk management (continued)

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

	2015 Carrying Value £m	**2015 Fair Value £m**	2014 (restated) Carrying Value £m	2014 (restated) Fair Value £m
Financial Assets				
Current				
Trade receivables	**2,977.5**	**2,977.5**	2,797.5	2,797.5
Other receivables	**25.2**	**25.2**	29.0	29.0
Cash collateral	**71.7**	**71.7**	51.2	51.2
Cash and cash equivalents	**1,512.3**	**1,512.3**	458.9	458.9
Derivative financial assets	**1,999.9**	**1,999.9**	1,261.2	1,261.2
	6,586.6	**6,586.6**	4,597.8	4,597.8
Non-current				
Unquoted equity investments	**11.2**	**11.2**	24.3	24.3
Loans to associates and jointly controlled entities	**559.4**	**559.4**	521.6	521.6
Derivative financial assets	**566.8**	**566.8**	368.4	368.4
	1,137.4	**1,137.4**	914.3	914.3
	7,724.0	**7,724.0**	5,512.1	5,512.1
Financial Liabilities				
Current				
Trade payables	**(2,707.7)**	**(2,707.7)**	(2,496.3)	(2,496.3)
Bank loans and overdrafts	**(712.6)**	**(714.3)**	(600.6)	(603.5)
Finance lease liabilities	**(20.2)**	**(20.2)**	(18.1)	(18.1)
Derivative financial liabilities	**(2,297.3)**	**(2,297.3)**	(1,470.2)	(1,470.2)
	(5,737.8)	**(5,739.5)**	(4,585.2)	(4,588.1)
Non-current				
Loans and Borrowings	**(5,068.4)**	**(6,213.4)**	(5,365.5)	(6,001.3)
Finance lease liabilities	**(299.5)**	**(299.5)**	(310.8)	(310.8)
Derivative financial liabilities	**(933.4)**	**(933.4)**	(681.7)	(681.7)
	(6,301.3)	**(7,446.3)**	(6,358.0)	(6,993.8)
	(12,039.1)	**(13,185.8)**	(10,943.2)	(11,581.9)
Net financial liabilities	**(4,315.1)**	**(5,461.8)**	(5,431.1)	(6,069.8)

Fair Value Hierarchy

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

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

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17. Capital and Financial Risk Management (continued)

Financial risk management (continued)

Fair Value Hierarchy

Financial Assets	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Energy derivatives	1,093.3	1,261.7	-	**2,355.0**
Interest rate derivatives	-	188.5	-	**188.5**
Foreign exchange derivatives	-	23.2	-	**23.2**
Equity investments	-	26.4	-	**26.4**
	1,093.3	1,499.8	-	**2,593.1**
Financial Liabilities				
Energy derivatives	(1,044.5)	(1,643.8)	-	**(2,688.3)**
Interest rate derivatives	-	(473.3)	-	**(473.3)**
Foreign exchange derivatives	-	(69.1)	-	**(69.1)**
Loans and Borrowings	-	(30.9)	-	**(30.9)**
	(1,044.5)	(2,217.1)	-	**(3,261.6)**

There were no significant transfers out of level 1 into level 2 and out of level 2 into level 1 during the year ended 31 March 2015. Oil and coal commodities reported as level 2 for the year ended 31 March 2014 (assets of £316.8m and liabilities of £319.4m) are now classified as level 1, following a reassessment of assets and liabilities by the Group.

18. Retirement Benefit Obligations

Valuation of combined Pension Schemes

	Long- term rate of return expected at 31 March 2015 %	**Value at 31 March 2015 £m**	Long- term rate of return expected at 31 March 2014 %	Value at 31 March 2014 £m
Equities	**5.6**	**1,060.1**	7.2	967.9
Government bonds	**2.6**	**1,049.6**	3.5	920.0
Corporate bonds	**3.3**	**1,061.3**	4.3	814.1
Other investments	**4.1**	**580.0**	1.3	555.3
Total fair value of plan assets		**3,751.0**		3,257.3
Present value of defined benefit obligation		**(4,209.1)**		(3,693.9)
Pension liability before IFRIC 14		**(458.1)**		(436.6)
IFRIC 14 liability (i)		**(206.5)**		(201.1)
Deficit in the schemes		**(664.6)**		(637.7)
Deferred tax thereon		**132.8**		127.5
Net pension liability		**(531.8)**		(510.2)

(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.

18. Retirement Benefit Obligations (continued)

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

	2015 Assets £m	**2015 Obligations £m**	**2015 Total £m**	2014 Assets £m	2014 Obligations £m	2014 Total £m
at 1 April	**3,257.3**	**(3,693.9)**	**(436.6)**	3,118.0	(3,634.5)	(516.5)
Included in Income Statement						
Current service cost	**-**	**(55.4)**	**(55.4)**	-	(56.2)	(56.2)
Past service cost	**-**	**(16.7)**	**(16.7)**	-	(0.6)	(0.6)
Interest income/(cost)	**139.9**	**(156.4)**	**(16.5)**	128.0	(147.0)	(19.0)
	139.9	**(228.5)**	**(88.6)**	128.0	(203.8)	(75.8)
Included in Other Comprehensive Income						
Actuarial (loss)/gain arising from:						
Demographic assumptions	**-**	**-**	**-**	-	(12.4)	(12.4)
Financial assumptions	**-**	**(515.4)**	**(515.4)**	-	14.8	14.8
Experience assumptions	**-**	**70.4**	**70.4**	-	13.3	13.3
Return on plan assets excluding interest income	**362.5**	**-**	**362.5**	7.3	-	7.3
	362.5	**(445.0)**	**(82.5)**	7.3	15.7	23.0
Other						
Contributions paid by the employer	**149.6**	**-**	**149.6**	132.7	-	132.7
Scheme participants contributions	**0.3**	**(0.3)**	**-**	1.1	(1.1)	-
Benefits Paid	**(158.6)**	**158.6**	**-**	(129.8)	129.8	-
	(8.7)	**158.3**	**149.6**	4.0	128.7	132.7
Balance at 31 March	**3,751.0**	**(4,209.1)**	**(458.1)**	3,257.3	(3,693.9)	(436.6)

Charges / (credits) recognised:

	2015 £m	2014 £m
Current service cost (charged to operating profit)	**72.1**	56.8
	72.1	56.8
(Credited)/charged to finance costs:		
Interest on pension scheme assets	**(139.9)**	(128.0)
Interest on pension scheme liabilities	**156.4**	147.0
IFRIC 14 impact on net interest	**8.6**	7.8
	25.1	26.8

19. Capital commitments

	2015 £m	2014 £m
Capital expenditure:		
Contracted for but not provided	**1,059.5**	625.1

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

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20. Related party transactions

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

	Sale of goods and services 2015	**Purchase of goods and services 2015**	**Amounts owed from 2015**	**Amounts owed to 2015**	Sale of goods and services 2014	Purchase of goods and services 2014	Amounts owed from 2014	Amounts owed to 2014
Equity accounted joint ventures:	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Seabank Power Ltd	**20.1**	**(115.5)**	**1.8**	**11.1**	22.9	(108.7)	1.2	9.1
Marchwood Power Ltd	**28.7**	**(114.4)**	**3.4**	**12.7**	33.5	(94.5)	0.2	8.1
Scotia Gas Networks Ltd	**49.0**	**(166.4)**	**7.7**	**0.3**	58.7	(175.2)	15.7	0.7
Other Joint Ventures	**27.6**	**(6.0)**	**3.0**	**-**	36.5	-	1.1	0.3
Associates	**0.8**	**(41.9)**	**1.9**	**2.5**	1.5	(28.2)	1.1	2.5

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

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