Scottish and Southern Energy

SSE09

Scottish and Southern Energy plc
Annual Report 2009

Producing energy in a more **sustainable** way with new developments like the Glendoe hydro electric scheme.

Helping make electricity and gas more **affordable** by offering a 'better plan' and installing insulation.

Ensuring electricity supply is **reliable** through investing in networks in England and Scotland.

Providing more capacity for the UK to maintain **dependable** supplies of gas through development at Aldbrough.

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

Our Values

Safety, service, efficiency, sustainability, excellence, teamwork – the SSE SET.

Our Strategy

To deliver sustained real growth in the dividend payable to shareholders through the efficient operation of, and investment in, a balanced range of regulated and non-regulated energy-related businesses.

Our Team

More than 18,500 people, working from power stations, depots, customer service centres, offices and shops.

* Unless otherwise stated, this Annual Report describes adjusted operating profit before exceptional items, the impact of IAS 32 and IAS 39 and after the removal of taxation and interest on profits from jointly-controlled entities and associates. In addition, it describes adjusted profit before tax before exceptional items, the impact of IAS 32 and IAS 39 and after the removal of taxation on profits from jointly-controlled entities and associates. It also describes adjusted earnings and earnings per share before exceptional items, the impact of IAS 32 and IAS 39 and deferred tax.

Key Performance Indicators

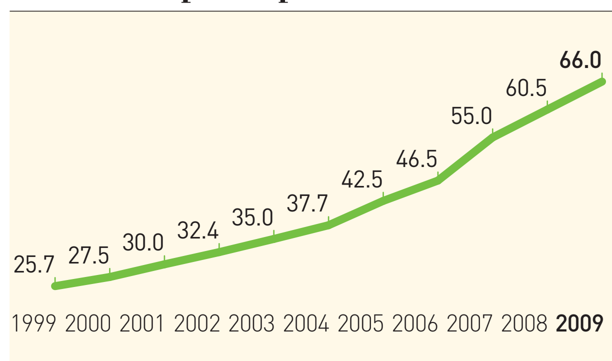
Adjusted Profit Before Tax* – £m

Year	£m
2009	1,253.7
2008	1,229.2
2007	1,079.3
2006	873.9
2005	732.1

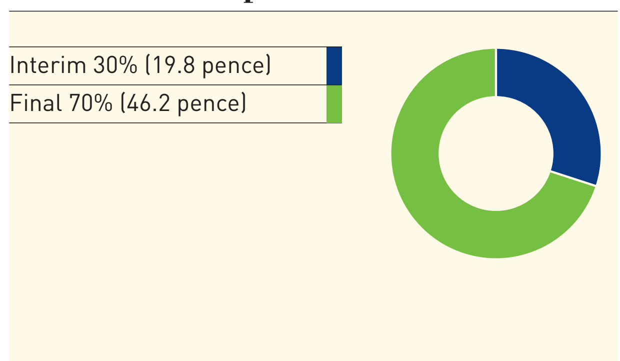
Operating Profit* – £m

	2007	2008	**2009**
Generation and Supply	632.5	711.1	**832.0**
Energy Systems	471.1	544.4	**584.2**
Gas Storage	55.9	50.9	**42.7**
Telecoms	13.9	14.3	**15.5**
Contracting, Connections and Metering	61.7	68.7	**74.8**

Dividend – pence per share



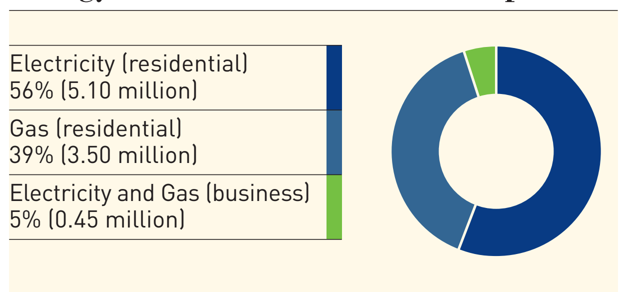
Dividend – composition



Energy Customer Numbers – millions

Year	millions
2009	9.05
2008	8.45
2007	7.75
2006	6.70
2005	6.10

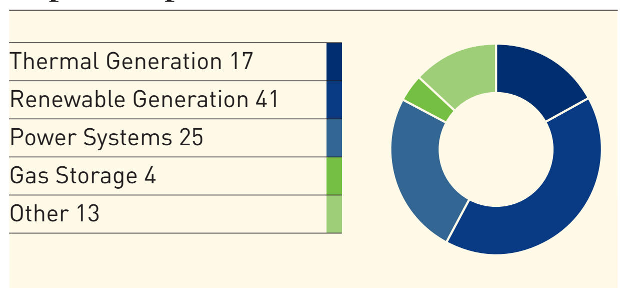
Energy Customers Numbers – composition



Capital Expenditure – £m

Year	£m
2009	1,279.8
2008	810.3
2007	663.4
2006	502.1
2005	383.5

Capital Expenditure 2008/09 – %



Corporate Responsibility

	2005	2006	2007	2008	**2009**
Lost-time and Reportable Accidents – per 100,000 hours worked (2007-2009 figures show Total Recordable Injury Rate)	N/A	0.08	0.05	0.04	**0.07**
Power Station CO_2 Emissions – kilograms per kWh	N/A	0.62	0.55	0.50	**0.49**
Customer Minutes Lost – SEPD	84	71	72	67	**66**
Customer Minutes Lost – SHEPD	82	65	77	72	**75**

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Chairman's Introduction

At a time of financial, economic and energy market turmoil, a company's ability to deliver **profit** and **dividend** growth in a **responsible** way has never been more important.

In 2008/09, SSE delivered a 2.0% increase in adjusted profit before tax* and is recommending a 9.1% increase in the full-year dividend per share payable to shareholders. This means that since it was formed, SSE has achieved 10 successive years of increasing profits and dividend.

No Frills

2008/09 was a tough year, dominated in the first half by very high wholesale prices for electricity and gas. Throughout, SSE managed its business in its usual no-frills way. That means delivering sector-leading service to energy supply and electricity distribution customers, dealing with the difficult operational issues that arise at power stations from time to time and undertaking a significant programme of investment in energy assets of crucial importance in the UK and Ireland.

Strategy

In the current environment, SSE's strategy – operating and investing in a balanced range of regulated and non-regulated energy businesses – is straightforward and has obvious benefits. It supports SSE's fundamental commitment to maintaining annual real dividend growth, with the next step being the increase of at least 4% more than inflation targeted for 2009/10.

Investment

Dividend growth is supported by investment. Securing future supplies and tackling climate change are now the twin goals of energy policy in the UK, Ireland and throughout the European Union, and our programme of investment continues to reflect this. As a result, our portfolio of assets is growing, with the completion during 2008/09 of the large-scale hydro electric scheme at Glendoe, near Loch Ness, being a particularly significant accomplishment. This should be followed during 2009/10 by the completion of Marchwood, which will be one of the most efficient gas-fired power stations in the UK. Major infrastructure projects always present challenges, but I am confident that SSE's growing capability in this area will stand the company in good stead in the years to come.

Purpose

In total, SSE is planning to invest around £6.7bn in the five years between 2008 and 2013. This investment is geared to fulfilling SSE's core purpose, which is to provide the energy people need in a reliable and sustainable way. SSE has two types of customer – those to whom it supplies energy and related services within competitive markets and those to whom it delivers energy through economically-regulated regional networks – and its commitment to delivering best-in-sector service applies across the board.

Values

Service is part of the 'SSE SET' of core values – Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. Applying them has resulted in SSE doubling the regulated asset value of its networks, the capacity of its generation portfolio, the number of energy supply customers and the dividend per share in seven years. They will continue to be the mainstay of the company.

People

The SSE team – now numbering more than 18,500 people – works together in an outstanding way and it is a privilege for the non-Executive Directors, including our new colleague Thomas Andersen, and me to be associated with them.

Report

This Annual Report describes in detail SSE's financial and operational performance in 2008/09 and priorities for 2009/10 and beyond. It also sets out SSE's approach to the vital issues of risk management, corporate governance and remuneration – all in the context of its strategy, purpose and values. SSE believes it is not an exercise in box-ticking, but a balanced portrayal of the business. I would be very happy to hear from any shareholder who has suggestions for improving the Annual Report in 2010.

Future

Many changes are likely to take place in energy production, distribution and consumption in the next decade. With such a strong team in place throughout SSE, however, I am very confident about the future. The organisation is built for the long term, and has the strategy, purpose, values and people to deliver sustained success in the coming years. //

Lord Smith of Kelvin Chairman

Overview of our Business

Scottish and Southern Energy is involved in the **generation** of electricity; the **supply** of electricity and gas; electricity, gas and telecoms **networks**; and other energy-related **services** such as gas storage, contracting, connections and metering.

Generation

Sustainability, Diversity, Optionality

SSE owns around 10,700MW of electricity generation capacity in the UK and Ireland, comprising around: 4,500MW of gas- and oil-fired capacity; 4,000MW of coal-fired capacity (with biomass co-firing capability) and 2,200MW of hydro, wind and dedicated biomass capacity, making it the UK's largest generator of electricity from renewable sources and giving it the most diverse mix of fuels.

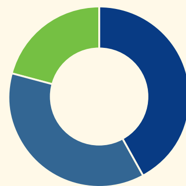
10.7GW
Capacity

41.2TWh
Output 08/09

£4.3bn
Investment 08-13

Capacity – Composition

Gas/Oil 42% (4.5GW)	
Coal/Biomass 37% (4.0GW)	
Renewable 21% (2.2GW)	



Key Priorities
- → Complying with safety and environmental requirements
- → Maintaining availability of power stations to generate
- → Investment in refurbishment of existing assets
- → Delivering new plant for generating electricity

Supply

Affordability, Products, Service

SSE supplies electricity and gas to over nine million domestic, commercial and industrial customers within Great Britain's competitive market and to around 50,000 customers in the Irish all-island market. It is the second largest supplier of energy in Great Britain and supplies energy under the Southern Electric, SWALEC, Scottish Hydro Electric, Atlantic Electric and Gas and (in Ireland) Airtricity brands.

9m
Customers

1st
Service ranking

191k
Homes insulated

Supply Brands

Scottish and Southern Energy

Scottish Hydro Electric
energy made better

SWALEC
energy made better

Southern Electric
energy made better

Atlantic Electric and Gas
energy made better

Airtricity

Key Priorities
- → Providing value for customers' money through fair pricing
- → Delivering best-in-sector service
- → Developing existing and new energy products
- → Completing energy efficiency programmes

Networks

Reliability, Safety, Efficiency

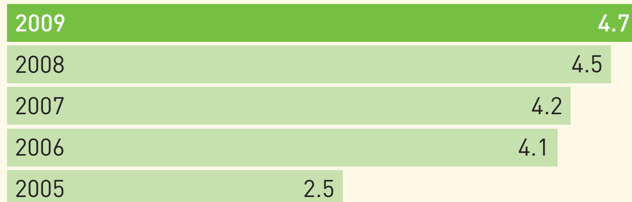
SSE distributes electricity to over 3.5 million properties in northern Scotland and central southern England via overhead lines and underground cables. It also owns 50% of Scotia Gas Networks, which owns and operates the Scotland and Southern gas distribution networks. All these networks are subject to incentive-based regulation by Ofgem. After electricity and gas, telecoms is SSE's third network business.

£4.7bn
RAV

127k
Power network (km)

74k
Gas network (km)

Regulated Asset Value of Energy Networks (£bn*)



* Includes 50% of SGN

Key Priorities

- → Maintaining safe and reliable supplies of power and gas
- → Efficient delivery of investment in networks
- → Upgrade work on Beauly-Denny transmission line
- → Complete electricity distribution price control review with Ofgem

Energy-Related Services

Dependability, Security, Innovation

SSE provides energy and utility-related services. It owns and operates the UK's largest onshore gas storage facility and is developing a second such facility. Its Contracting group operates from almost 60 regional offices throughout Great Britain. SSE Utility Solutions provides a 'one-stop' approach for customers in the land development and construction sectors. SSE Home Services has over 330,000 customers.

30
Lighting contracts

325mcm
Gas storage capacity

47
Networks

Energy-Related Services

Key Priorities

- → Development of additional gas storage capacity
- → High service standards to maximise 'repeat' contracting business
- → Building up 'one stop' approach to utility provision
- → Continued expansion of Home Services

Overview of our Business (continued)

Scottish and Southern Energy is governed by a number of key financial principles including: well-founded **investments**; maintenance of a strong **balance sheet**; and sustained real **dividend** growth.

Investment

Diversity, Optionality, Risk Management

SSE has plans to invest around £6.7bn (excluding SGN) between 2008 and 2013. The principal focus of the investment (around £3bn) is renewable energy, but investment is also planned in thermal generation, electricity networks and in other areas such as gas storage. The result of this will be a significantly enhanced asset base and additional cash flows.

£1.28bn
Capex 08/09

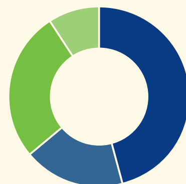
c£1.50bn*
Capex 09/10

c£3.9bn*
Capex 2010-2013

* Forecast

Shape of investment 08-13

- Renewable 46%
- Thermal Generation 18%
- Electricity Networks 27%
- Other 9%



Key Priorities

→ Maintaining a balanced approach to investment
→ Beat cost of capital and exceed appropriate hurdle rates
→ Effective management of specific projects
→ Marchwood, Clyde, Greater Gabbard, Beauly-Denny, Aldbrough

Financing

Strength, Flexibility, Opportunism

SSE retains one of the strongest balance sheets in the global utility sector (rated 'A' by Standard & Poor's and 'A2' by Moody's). It maintains a flexible approach to financing investment. Since July 2008 it has secured funding and facilities totalling almost £4bn, including gross proceeds of £479m from the placing of 42 million shares (approximately 4.8% of its share capital).

£479m
Placing proceeds

£500m
20-year bond

£700m
Five-year bond

Capital expenditure

Year	Capital expenditure
2009	1,279.8
2008	810.3
2007	663.4
2006	502.1
2005	383.5

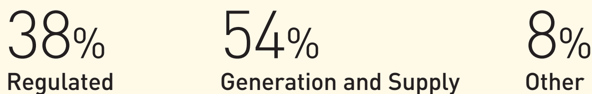
Key Priorities

→ Maintain a strong balance sheet
→ Operate with a sound debt structure
→ Continuity of funding and flexibility
→ Focus on strong cash flows

Risk

Strategy, Balance, Limited Value at Risk

SSE's principal risk management approach is its fundamental strategy: operating and investing in a balanced range of regulated and non-regulated energy-related and utility businesses. This limits the extent of any single risk and the value associated with it. The need to limit value at risk is at the heart of SSE's decision-making process and the approach to acquisitions is also disciplined.

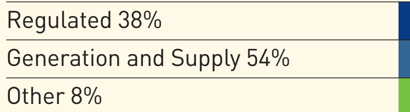


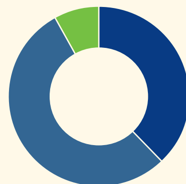
38% Regulated

54% Generation and Supply

8% Other

Sources of operating profit 08/09*





Key Priorities
- → Maintaining balanced business model
- → Investment in various sources of profitability
- → Continually developing options for the future
- → Managing strong systems of internal control

Outlook

Sustainability, Security, Growth

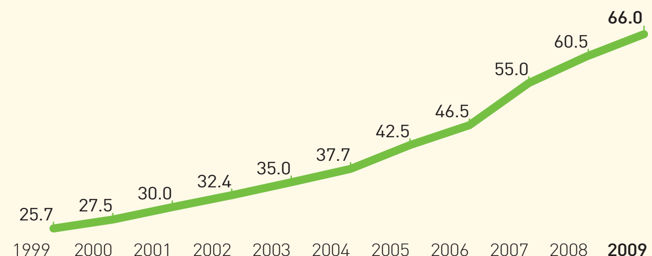
SSE's first responsibility to shareholders is to deliver sustained, year-on-year increases in the dividend payable to shareholders. Its recommended full-year dividend for 2008/09 is 66p per share and its target for 2009/10 is at least 4% annual real growth, with sustained real growth thereafter. SSE is one of just 11 FTSE 100 companies to have delivered above inflation dividend growth every year since 1998.

66.0p FY dividend 08/09

10.7% Compound Annual Growth Rate 2002-2009

4% Target dividend growth (real) 09/10

Dividend (pence per share)



Key Priorities
- → Maintain record of year-on-year growth
- → Invest to support cash flows
- → Set out new dividend policy in 2010
- → Long-term target to double dividend again

Our Strategy

Scottish and Southern Energy's strategy is to deliver sustained real growth in the dividend through the efficient operation of, and investment in, a balanced range of regulated and non-regulated energy-related businesses.

SSE is involved in three separate activities which are the subject of economic regulation – electricity transmission, electricity distribution and (through its 50% stake in Scotia Gas Networks) gas distribution. Its other principal activities – electricity generation, energy supply and other energy-related services – are not the subject of economic regulation.

During 2008/09, 38% of SSE's operating profit was derived from its economically-regulated activities and 62% was derived from the non-regulated activities. SSE has, therefore, a broad platform from which to deliver sustained real dividend growth.

Operating Regulated Businesses

SSE is responsible for delivering electricity to around 3.5 million properties in a reliable way, and the regulator Ofgem provides incentives for delivering a good quality of supply to customers.

2008/09 Progress

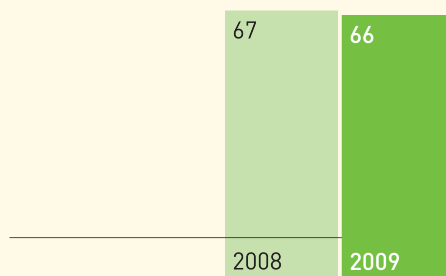
What we achieved in 2008/09 against these priorities

- Average number of minutes customers were without supply in **Southern Electric Power Distribution** region was 66.
- Average number of power supply interruptions per 100 customers was 64.
- Average number of minutes customers were without supply in **Scottish Hydro Electric Power Distribution** region was 75.
- Average number of power supply interruptions per 100 customers was 76.

2008/09 Measurement

How we measure progress against each strategic priority

Customer Minutes Lost



Customer Minutes Lost in Southern Electric Power Distribution region

2009/10 Priorities

What we are focused on in 2009/10

- Keep number of power cuts to minimum.
- Keep duration of power cuts to minimum.
- Deliver best-in-sector telephone service to customers.
- Identify innovative ways to operate networks.

Investing in Regulated Businesses

Investment in electricity and gas networks is regulated by Ofgem. This investment increases their Regulated Asset Value (RAV) which helps determine the revenue companies can earn under their Price Controls.

2008/09 Progress

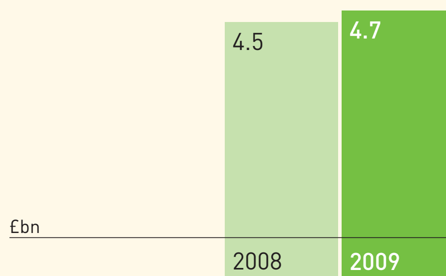
What we achieved in 2008/09 against these priorities

- Total investment of £314.6m in electricity networks.
- RAV of electricity networks grew to £2.9bn.
- Share of SGN capex/repex – £191.4m.
- Share of RAV of SGN's gas networks grew to £1.8bn.

2008/09 Measurement

How we measure progress against each strategic priority

Regulated Asset Value



The Regulated Asset Value of SSE's electricity and gas network assets (equity share)

2009/10 Priorities

What we are focused on in 2009/10

- Deliver efficient capital expenditure in electricity distribution.
- Secure good outcome from Distribution Price Control Review 2010-15.
- Secure consent to upgrade Beauly-Denny transmission line.
- Support capital and replacement expenditure in SGN.

Scottish and Southern Energy's strategy is to deliver sustained real growth in the dividend through the efficient operation of, and investment in, a balanced range of regulated and non-regulated energy-related businesses.

Operating Non-Regulated Businesses

SSE supplies energy to industrial, commercial and domestic customers in the markets in Great Britain and Ireland and is also involved in electrical and utility contracting, connections, metering, home and energy services, and gas storage.

2008/09 Progress

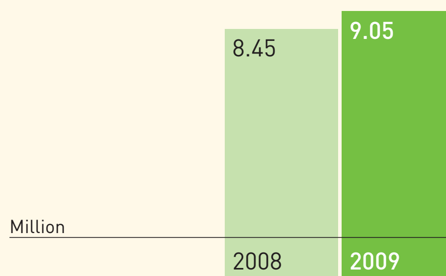
What we achieved in 2008/09 against these priorities

- Total number of energy supply customers in GB up 600,000 to 9.05 million.
- Total number of energy supply customers in all-island market in Ireland up 25% to 50,000.
- Top-ranked energy supplier in four independent analyses of customer service in GB.
- New **better plan** energy efficiency product attracted 125,000 new accounts, taking total to 165,000.

2008/09 Measurement

How we measure progress against each strategic priority

Energy Supply Customers



2009/10 Priorities

What we are focused on in 2009/10

- Add to number of energy supply customers.
- Increase the number of customers with **better plan**.
- Maintain best-in-sector position in customer service.
- Deliver energy efficiency programmes.

Investing in Non-Regulated Businesses

SSE invests in maintaining existing, and developing new, electricity generation and gas storage assets, influenced by the low carbon and security of supply policy goals adopted by the EU.

2008/09 Progress

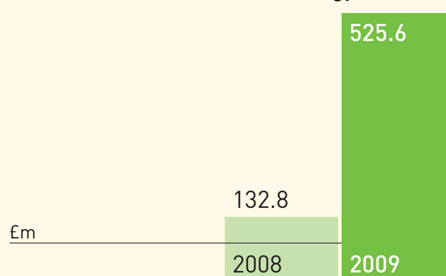
What we achieved in 2008/09 against these priorities

- Total investment of £741.8m in maintaining and developing new electricity generation assets.
- New 100MW Glendoe hydro electric scheme and 90MW of new wind farm capacity completed.
- Work under way on Greater Gabbard, the biggest offshore wind farm under construction in the world.
- First import/export of gas at new Aldbrough storage facility.

2008/09 Measurement

How we measure progress against each strategic priority

Investment in Renewable Energy



2009/10 Priorities

What we are focused on in 2009/10

- Increase renewable energy capacity in operation.
- Start construction work at Clyde wind farm.
- Start offshore construction work at Greater Gabbard.
- Deliver additional gas storage capacity at Aldbrough.

Chief Executive's Statement

Dividend – 9.1% higher than last year

SSE's first responsibility to shareholders is to deliver sustained real growth in the dividend. At 66.0p, the recommended full-year dividend is 9.1% higher than in the previous year.

SSE has six core values – the 'SSE SET' – against which it has key performance indicators.

Safety Service Efficiency Sustainability Excellence Teamwork

We believe all accidents are preventable, so we aim to do everything safely and responsibly, or not at all. This means we believe all of our work can and should be carried out without any harm to employees, contractors, customers or any other people.

Lost-time and Reportable Injury Rate per 100,000 Hours Worked

Year	Rate
2009	0.07
2008	0.04
2007	0.05

0.07

Purpose and Strategy

SSE's core purpose is to provide the energy people need in a reliable and sustainable way. In line with this, its strategy has been and will continue to be the delivery of sustained real growth in the dividend payable to shareholders through the efficient operation of, and investment in, a balanced range of regulated and non-regulated energy-related businesses.

Within this strategic framework, SSE will continue to focus on enhancing and creating value for shareholders from its energy-related activities in the UK and Ireland and, over time, from the development of a European renewable energy business.

Financial Principles

Implementation of the strategy will continue to be founded on SSE's well-established financial principles. These principles are the:

- effective management of core businesses;
- maintenance of a strong balance sheet;
- rigorous analysis to ensure investments are well-founded and, where appropriate, innovative;
- deployment of a selective and disciplined approach to acquisitions;
- use of purchase in the market of the company's own shares as the benchmark against which financial decisions are taken; and, most fundamentally of all,
- delivery of sustained real dividend growth.

Delivery Against Purpose, Strategy and Principles

The Board is recommending a final dividend of 46.2p per share, making a full-year dividend of 66.0p, an increase of 9.1% on the previous year. The full-year dividend payment for 2008/09 is covered 1.57 times by SSE's adjusted profit after tax and is more than double the dividend per share paid seven years ago, in 2001/02.

Through investment and acquisition, the Regulated Asset Value (RAV) of SSE's energy networks businesses has doubled in six years, to £4.7bn (including SGN), and the capacity of SSE's power stations has doubled in seven years, to 10.7 gigawatts (GW). As a result of effective management of core businesses, the number of customer accounts to which SSE supplies energy has also doubled in seven years, to over nine million. This, allied to SSE's

expansion in contracting, connections, metering, gas storage and other businesses makes SSE the biggest and broadest-based energy company in the UK.

Future Environment
In October 2008, the UK Industry Task Force on Peak Oil, of which SSE is a member, published a report, *The Oil Crunch*, which stated that a peak in cheap, easily available oil production is likely to be reached as early as 2013. It said that the key to all three threats facing the UK, Ireland and other countries – energy security, climate change and peak oil – is 'immediate and rapid acceleration in our use of non-fossil sources of energy, and reduction in the overall demand for energy'.

The requirement for such an immediate and rapid acceleration in the use of non-fossil sources of energy has been put on a statutory footing in the European Union, with the adoption of the Renewable Energy Directive, and in the UK, with the passing of the Climate Change Act. This means it is no longer sustainable – in any sense – for energy companies to develop their business on the basis of ever-increasing consumption; indeed, the reverse is the case.

Implications for SSE
SSE believes that the energy price volatility which the world experienced during 2008 was a foretaste of what is likely to happen as the supply of finite resources like oil and gas begins to struggle to keep pace with the demand. While the economic slowdown is likely to postpone for a time the full impact of this being felt in the UK and elsewhere, it will not prevent it.

For SSE, this means:

- producing electricity in a more sustainable way with new developments in generation that make better use of the world's natural resources;
- helping make electricity and gas more affordable by offering ways to enable and encourage customers to take control of, and be more efficient in, their use of energy;
- ensuring the distribution of energy remains reliable, as sources and use of electricity and gas change, through investment in networks; and
- providing more gas storage capacity for the UK to maintain dependable supplies of energy as the peak of easily available oil and gas production approaches.

Outlook for 2009/10 and Beyond
The economic outlook for 2009/10 remains uncertain and the timing, speed and extent of any recovery are all open to question. Against this background, SSE offers three key advantages.

First, its core purpose is to provide energy – something which people need, rather than want. Second, its strategy of maintaining a balanced range of regulated and non-regulated energy-related businesses reduces the risk associated with any particular business activity and provides a broad platform from which to maintain sustained real dividend growth. Third, that over-riding financial goal – sustained real dividend growth – is reasonable and straightforward.

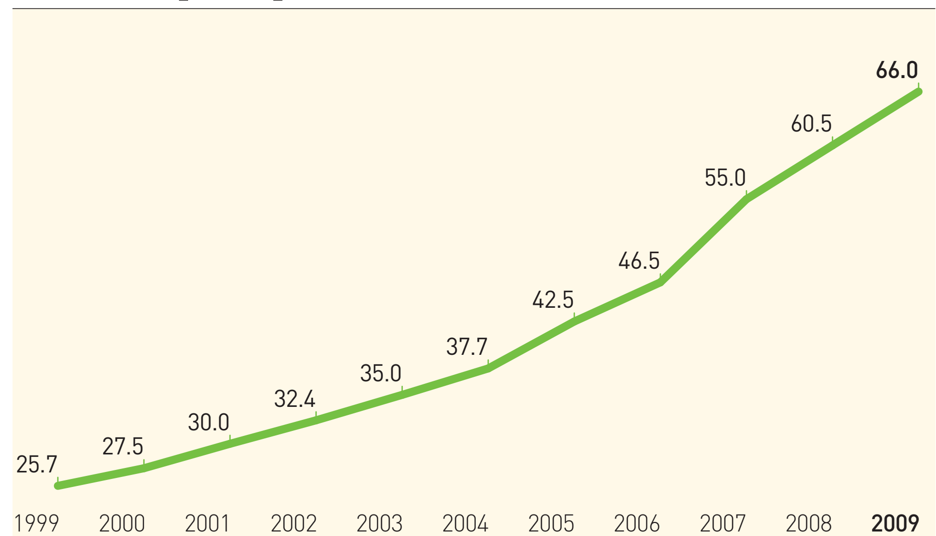
Against this background, SSE's priorities during 2009/10 are to:

- work in a safe and responsible manner;
- achieve excellence in all aspects of customer service, including energy networks;
- increase the number of customers in energy supply and home services;
- ensure power stations maintain a high level of availability to generate electricity;
- deliver efficient investment throughout its activities, especially in the major projects in generation, electricity networks and gas storage; and
- sustain through the economic downturn its other businesses such as contracting, connections and telecoms. //

Ian Marchant Chief Executive

Thoughts on...
In the following pages Chief Executive Ian Marchant gives his perspective on key issues which SSE is dealing with as it works to fulfil its core purpose of providing the energy people need in a reliable and sustainable way.

Dividend – pence per share



Thoughts on... Generation

Sustainability

Affordability
Reliability
Dependability

Glendoe Hydro Electric Scheme

In December 2008 I went on a roadshow around SSE's major sites to mark the 10th anniversary of the company's formation. The highlight was an early morning visit to Glendoe to see the end of its first 24-hour run at its full load of 100MW. This was my fifth visit to the project, starting with the ground-breaking back in 2006.

Although Glendoe is a small part of our overall £6.7bn investment programme, it has always been my personal favourite as it demonstrates a successful blend of our heritage and engineering skills with our drive to improve the sustainability of our generation business.

As the evidence on climate change becomes clearer, we are going to have to change both how we use energy and how we produce it. Glendoe is a key part of our commitment in this vital area, and having successfully completed it I expect us to follow it with more investments in renewable energy in the future.

Thoughts on... Supply

Sustainability
Affordability
Reliability
Dependability

Insulation

Last year proved to be one of the most difficult I have known as we saw the combination of enormous fuel price volatility and the onset of difficult economic times. It was really disappointing to have to increase prices in the summer, but I was pleased we could announce some reduction in February.

I know that high energy bills cause problems for our customers and for this reason we were happy to step up our efforts in energy efficiency and during last year we supported insulation in over 190,000 homes – as well as providing around 16 million low energy light bulbs.

When I meet politicians and regulators, I always say that our job as an energy supplier is to help people use less energy. That's why we've been heavily involved in trials of 'smart' meters, which give customers real-time information about the energy they're consuming. It's vital they're installed in houses up and down the country as soon as possible.

A27.09

Thoughts on… Networks

Sustainability
Affordability
Reliability
Dependability

Line Patrol

Providing reliable supplies of power and gas is essential to the communities we serve. We distribute energy in some of the most remote and isolated parts of the country and in some of the most densely-populated.

The challenge is the same: to make our energy networks as resilient as possible and respond as quickly as possible when they fail. As I meet our teams involved in the work, I am always impressed by their dedication and commitment – often in atrocious weather conditions.

As a driver, I know what it's like having to negotiate roadworks on my way to work. We don't like digging up the roads and are always looking at ways of repairing or replacing our cables and pipes that minimise disruption. We're trialling a number of techniques which reduce the impact of our activities and improve the usage of our assets. It has been good to see new thinking being brought to what many regard as a traditional industry.

DANGER OF
KEEP OFF

Thoughts on... Energy-Related Services

Sustainability
Affordability
Reliability
Dependability

Aldbrough

'Energy security' is one of those phrases that can mean a lot of different things – partly because it has so many different facets. For example, we are increasingly dependent in the UK on energy imports as our own reserves decline.

How we address this in the context of a global economy is something we have looked at over the last year. We don't pretend to have all the answers, but one thing is clear to us: we will need more gas storage facilities. We already own the largest onshore facility at Hornsea and are building the UK's newest storage at Aldbrough on the east coast.

We now have the opportunity to extend Aldbrough, making another contribution to the energy needs of the UK. There are huge challenges to be faced if the UK is to maintain secure energy supplies and meet renewable energy targets. The more successful and profitable SSE is, the better-placed we will be to help meet those challenges in the future.

Financial Overview

Adjusted profit before tax* grew by 2.0%

SSE's adjusted profit before tax* grew by 2.0%, to £1,253.7m. This is SSE's tenth successive increase since it was formed in 1998.

Safety **Service** Efficiency Sustainability Excellence Teamwork

We give our customers service that we are proud of and make commitments that we deliver. This means making commitments that are of value to customers and that they can trust – in the knowledge that they are being served by people who genuinely care.

uSwitch.com Customer Service Ranking

Year	Ranking
2009	1st
2008	1st
2007	1st

1st

Financial Results for 2008/09
These results for the year to 31 March 2009 are reported under International Financial Reporting Standards, as adopted by the EU. SSE's focus has consistently been on profit before tax before exceptional items, the impact of International Accounting Standards IAS 32 and IAS 39, and after the removal of taxation on profits from jointly controlled entities and associates (adjusted profit before tax*). The table opposite reconciles SSE's reported profit before tax and its adjusted profit before tax*.

Like all major energy suppliers, SSE has to enter into forward commodity contracts (principally coal, oil, gas, carbon and wholesale electricity) to ensure the future requirements of customers are met. Some of these contracts are deemed to be derivative financial instruments and so must be fair-valued under IAS 39. This means that the prevailing forward market price at 31 March 2009 is applied to these contracts. SSE sets out these fair-value adjustments separately, as re-measurements, because they are unrealised and non-cash.

The statutory results include charges to operating profit relating to these fair-value adjustments of £1,263.2m, which compares with £164.1m in the previous year. This mainly represents unrealised mark-to-market losses created by commodity contracts, most of which were entered into in the first half of the financial year and which were priced above the wholesale market value of commodities as at the financial year-end. The extent of the actual profit or loss arising over the life of these contracts – many of which were entered into to provide fixed price energy to industrial and commercial customers – will not be determined until they unwind; for over 60% of the total energy volume, this will be in 2009/10.

Adjusted Profit Before Tax* in 2008/09
Adjusted profit before tax* rose by 2.0%, from £1,229.2m to £1,253.7m. This is modest growth, consistent with the objective which SSE stated at its Annual General Meeting in July 2008.

In November 2008, SSE highlighted three particular issues that had influenced profitability in the first six months of the financial year – although none of these issues can be viewed in isolation and need to be considered in the context of the conditions in the wholesale energy markets prevailing at the time. In the second half of the financial year:

	March 09 £m	March 08 £m
Reported profit before tax	**53.3**	1,083.8
Movement on derivatives (IAS 39)	**1,263.2**	164.1
Exceptional items	**(102.7)**	(65.2)
Tax on JVs and Associates	**39.3**	41.9
Interest on convertible debt	**0.6**	4.6
Adjusted profit before tax*	**1,253.7**	1,229.2
Adjusted current tax charge	**(300.4)**	(317.2)
Adjusted profit after tax*	**953.3**	912.0
Reported profit after tax	**112.3**	873.2
Number of shares for basic and adjusted EPS (million)	**883.0**	863.2
Adjusted EPS*	**108.0**	105.6
Basic EPS	**12.7**	101.1

- The progress made in installing flue gas desulphurisation (FGD) equipment at Fiddler's Ferry and Ferrybridge power stations meant SSE was able to operate all of the affected plant at the stations without any restrictions on either running hours or electricity output from January 2009 and February 2009 respectively.
- The significant imbalance between the cost of energy procured and the cost of energy supplied in the first half of the year was addressed to the extent that SSE was able to announce a reduction in electricity and gas prices for domestic customers in February 2009.
- The major unplanned outage at Medway power station was covered by business interruption insurance from the middle of November 2008, and is now close to an end.

Adjusted profit before tax* during 2008/09 also reflects the requirement to make a provision of £9.6m in respect of a reorganisation of SSE's Home Services businesses, including appliance retailing.

Exceptional Items
There was one exceptional item during 2008/09: the profit of £102.7m secured on the disposal in November 2008 of 50% of the equity in Greater Gabbard Offshore Winds Limited (SSE retained the other 50%).

Adjusted Profit Before Tax* for 2009/10
SSE's emphasis is on adjusted profit before tax* on a full-year, as opposed to half-year, basis and since it was formed in 1998 it has delivered 10 successive increases in profit before tax.

The general economic environment is likely to be challenging during 2009/10. Forecasts for wholesale electricity prices suggest they will not be at the high levels seen in previous years. In addition, there is clear evidence of a likely lowering in demand for energy. Nevertheless, SSE is aiming to deliver a moderate increase in profit before tax in 2009/10.

Actual adjusted profit before tax will, in practice and as always, be determined by issues such as: the availability of SSE's gas- and coal-fired power stations to generate electricity; the output of renewable energy from SSE's hydro electric stations and wind farms; the impact of the weather on energy production and consumption and the actual level of consumption; and the interaction between wholesale prices for energy and the prices for electricity and gas charged to customers.

Adjusted Earnings Per Share*
To monitor financial performance over the medium term, SSE continues to focus on adjusted earnings per share* because it has the straightforward virtue of defining the amount of profit after tax that has been earned for each ordinary share and so reflects a clear view of underlying financial performance. In 2008/09, SSE's adjusted earnings per share were 108.0p, compared with 105.6p in the previous year.

Dividend

Final Dividend
SSE's first responsibility to shareholders is to deliver sustained real growth in the dividend. The Board is recommending a final dividend of 46.2p per share, compared with 42.4p in the previous year, an increase of 9%. This will make a full-year dividend of 66.0p, which is:

- an increase of 9.1% compared with 2007/08;
- a real-terms increase of 9.5%, based on the average rate of inflation in the UK between April 2008 and March 2009;
- more than double the dividend paid in 2001/02, since when there has been compound annual growth of 10.7%; and
- covered 1.57 times by SSE's adjusted profit after tax, compared with 1.73 times in 2007/08.

The first full-year dividend was paid by SSE in 1999, so the recommended full-year dividend increase of 9.1% represents the tenth successive above-inflation dividend increase since then. SSE is one of just 11 FTSE 100 companies to have delivered better-than-inflation dividend growth every year during this period, and ranks fifth amongst that group in terms of compound annual growth rate over that time.

Future Dividend
According to a study by Standard & Poor's Equity Research, dividend payments by FTSE 100 companies were reduced by 40% in 2008, and this has continued in 2009. Against this background, SSE remains acutely aware of its first responsibility to shareholders: to deliver sustained real growth in the dividend. Its target for 2009/10 as a whole is to grow the dividend by at least 4% more than inflation (based on the average rate of inflation in the UK between April 2009 and March 2010).

Since 2005, SSE's target for dividends after 2010 has been 'sustained real growth', and that remains the case. It will set out more defined dividend targets by its preliminary results statement in May 2010.

The first full-year dividend paid by SSE was 25.7p per share, in 1999. By 2007, the dividend was more than twice the original level. The next milestone will be to deliver a dividend that is three times SSE's first payment. That milestone is on the road to SSE's long-term target, which is to double the dividend again, from the 2007 level.

SSE's strategy is explicitly designed to deliver sustained real dividend growth and its operational and investment decisions are all taken to support its achievement. /-

Financial Overview (continued)

Investment and Capital Expenditure

Introduction
In March 2008, SSE set out plans to invest around £6.7bn (excluding SGN) in the five years to March 2013 – one of the biggest capital investment programmes currently being undertaken in the UK by a FTSE 100 company.

The principal focus of the investment programme is renewable energy, the requirement for which is underpinned by statute at EU and Member State level. At the same time, significant investment is also taking place in thermal generation, electricity networks and in a number of other areas, such as gas storage. It will support the maintenance and development of assets which are of strategic significance in the context of energy policy in the UK, Ireland and elsewhere in the EU and will result in SSE benefiting from a significantly enhanced asset base and additional cash flows, which will support future dividend growth. All of this investment is, therefore, well-founded in accordance with SSE's financial principles.

Investment in 2008/09
2008/09 represented the first year of SSE's five-year investment programme, and capital and investment expenditure (excluding SGN) totalled £1,279.8m, compared with £810.3m in the previous year. Separately, SSE's share of SGN's capital and replacement expenditure was £191.4m, compared with £189.5m in the previous year.

In the five years to 31 March 2009, SSE's capital and investment expenditure totalled more than £3.6bn, compared with just over £1.6bn in the five years to 31 March 2004. During the 2004-09 period, SSE has built up a significant amount of experience and capability in the delivery of major projects. Inevitably, such experience and capability reflects both the problems that have had to be dealt with and the successes that have been achieved.

During 2008/09, there was total investment of £741.8m in Generation, compared with £379.0m in the previous year.

The investment of £216.2m in thermal generation includes SSE's 50% share of the Marchwood development and the installation of FGD equipment at Fiddler's Ferry and Ferrybridge. The investment in renewable generation includes construction work at Glendoe, and work at a number of wind farm developments. The total includes 50% (£210.5m) of the investment at Greater Gabbard during 2008/09.

Investment and Capital Expenditure Key Performance Indicators

	March 09 £m	March 08 £m
Thermal Generation investment	**216.2**	246.2
Renewable Generation investment	**525.6**	132.8
Power Systems investment	**314.6**	264.4
Gas Storage investment	**55.4**	40.9
Other	**168.0**	126.0
Total investment and capital expenditure	**1,279.8**	810.3
SSE share of SGN capital/replacement expenditure	**191.4**	189.5

Capital expenditure in Power Systems was £314.6m, compared with £264.4m in the previous year, in line with the investment focus described under 'Electricity Network Investment' (see below). The largest project in the programme is the £16m installation of the two new 132kV underground cables between Bramley and Basingstoke, where the on-load commissioning has been successfully completed.

A total of £39.7m was invested in the new gas storage facility at Aldbrough during the period. SSE has so far invested £181.3m at Aldbrough.

Other investment and capital expenditure includes the acquisition in December 2008 of the customer service centre in Cumbernauld from Barclaycard and the development of SSE's new operations centre near Havant on the south coast of England, which will replace and upgrade a number of existing facilities and buildings in that area.

Just over £800m has been invested by SSE in assets which were still under construction at 31 March 2009 but which have yet to contribute earnings, including its shares of Greater Gabbard offshore wind farm and Marchwood power station.

Future Investment Priorities in 2009/10 and Beyond
SSE expects its capital and investment expenditure will reach around £1.5bn during 2009/10 as significant projects such as the Clyde, Griffin and Greater Gabbard wind farms, the Aldbrough gas storage facility and, subject to Ministers' views, the Beauly-Denny replacement transmission line make progress.

In the two years to 31 March 2010, SSE will have undertaken capital and investment expenditure of around £2.8bn, which is just over two-fifths of the £6.7bn envisaged for the five years to March 2013. Significant parts of its investment programme are discretionary in nature; others, such as the Griffin wind farm, have been included in the programme following an acquisition because they offer the prospect of a higher return on investment than other projects, which have been displaced.

Inevitably, therefore, the £6.7bn programme is constantly monitored and kept under review, to make sure that SSE is taking advantage of the best opportunities to invest and to make sure that the best projects are prioritised – and all at the optimum time. The risks involved in any individual investment decision – market, technology and construction – are also very carefully considered. These decisions are taken in a way which is consistent with SSE's financial principles, targeting returns which are greater than the cost of capital, enhance earnings and contribute to dividend growth.

Financial Management and Balance Sheet

Treasury Policy
SSE's operations are generally financed by a combination of retained profits, bank borrowings, bond issuance and commercial paper. As a matter of policy, a minimum of 50% of SSE's debt is subject to fixed or inflation-linked rates of interest. Within this policy framework, SSE borrows as required on different interest bases, with derivatives and forward rate agreements being used to achieve the desired out-turn interest rate profile. At 31 March 2009, after taking account of interest rate swaps, 84.8% of SSE's borrowings were at fixed or inflation-linked rates.

Borrowings are made in both sterling and euro to reflect the underlying currency denomination of assets and cashflows within SSE. All other foreign currency borrowings are swapped back into sterling.

The United Kingdom remains SSE's main area of operation, although business activities in overseas markets – most notably the Republic of Ireland – have grown during the year. Transactional foreign exchange risk arises in respect of procurement contracts, fuel and carbon purchasing, commodity hedging and energy trading operations, and long-term service agreements for plant. SSE's policy is to hedge all material transactional foreign exchange exposures through the use of forward currency purchases and/or derivative instruments. Indirect foreign exchange exposures created by SSE's gas purchasing are similarly hedged on an ongoing basis.

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.

Net Debt and Cash Flow
On an unadjusted basis, SSE's net debt was £5.100bn at 31 March 2009. There were, however, outstanding liquid funds of £277.8m relating to power purchase agreements and wholesale energy transactions, the majority of which was reconciled and settled in April 2009. SSE believes, therefore, that it is more meaningful to adjust its net debt accordingly, giving a total for 31 March 2009 of £4.822bn. This adjusted total compares directly with £4.646bn at 30 September 2008 and £3.660bn at 31 March 2008.

Net debt on 31 March 2009 was inflated by around £500m by three issues:

- the delay to the end of August 2008 in implementing increases in domestic prices has resulted in some additional revenue being collected after 31 March 2009;
- the delay in Fiddler's Ferry and Ferrybridge power stations returning to unrestricted operations resulted in higher than normal stocks of coal and biomass being in place at the end of the financial year; and
- the conversion of €1.092bn of euro-denominated debt into sterling for accounting purposes, after a period in which the value of the euro appreciated significantly versus sterling, increased the sterling equivalent value of (but not actual) debt.

Financial Management and Balance Sheet Key Performance Indicators

	March 09	March 08
Adjusted net debt (£bn)	**4.822**	3.660
Average debt maturity (years)	**11.8**	8.6
Underlying interest cover (excluding SGN)	**6.5**	11.7
Shares in issue	**920.4**	870.1

The adjusted net debt number of £4.822bn, would result in a Net Debt/EBITDA ratio of around 2.9 on 31 March 2009 (excluding SGN).

Borrowings and Facilities
The objective for SSE is to maintain a balance between continuity of funding and flexibility, with debt maturities staggered across a broad range of dates. Its average age of debt as at 31 March 2009 was 11.8 years, compared with 9.6 years as at 30 September 2008 and 8.6 years at 31 March 2008.

SSE's debt structure remains strong, with around £4.4bn of its net debt at 31 March 2009 in medium-to-long term borrowings in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans. Within this, less than £150m of SSE's medium- to long-term borrowings will mature during 2009/10.

The balance of SSE's net debt has been financed with short-term commercial paper and bank debt. A total of 19.5% of SSE's long-, medium- and short-term borrowings will mature in 2009/10, compared with 47.1% during 2008/09 and 20.4% during 2007/08.

On 3 April 2009, SSE entered into a new £850m revolving credit facility, provided by a group of nine banks, to run until June 2012. This represented the refinancing and up-sizing of an existing £650m facility that had been due to mature in November 2009. SSE has secured bank approval for £150m of additional facilities with the same maturity, subject to agreement of documentation. In addition, it has available to it a further €150m in outstanding committed corporate bank facilities, as well as additional available project finance facilities in its Airtricity division.

Financing Investment
SSE's investment programme is supported by its carefully-maintained balance sheet, which remains one of the strongest in the global utility sector. Its current corporate credit ratings are 'A' (Standard & Poor's) and 'A2' (Moody's).

In 2007/08 one utilities analyst team, writing about SSE, said that 'it is a feature of today's markets that investors view lack of suitable leverage as one of the worst "crimes" that a management can commit'. Events in the financial markets during 2008/09 fully exposed the shortcomings of that view, and reinforced the paramount importance of avoiding inappropriately large levels of debt and of maintaining a strong financial profile.

SSE's balance sheet position means it is comparatively well-placed to raise finance and in a position to pay interest at lower rates than could otherwise be the case. This is demonstrated by its success in securing new funding of almost £4bn since July 2008, despite the very difficult market conditions experienced by all borrowers. This included:

- a €600m five-year euro bond with a coupon of 6.125%;
- a £350m 30-year sterling bond with a coupon of 6.25%;
- a JPY28bn (equivalent to £208m) five-year loan with an effective interest rate of around 6%;
- a £500m 20-year sterling bond with a coupon of 8.375%;
- a £700m five-year sterling bond with a coupon of 5.75%;
- a £100m 35-year index-linked loan with a coupon of 4.454%;
- bank facilities of over £1.1bn; and
- gross proceeds of £479m achieved from the placing of shares, representing approximately 4.8% of SSE's share capital.

The debt raised has an average maturity of around 12 years and an average coupon of around 6.5%.

Placing of Shares
On 7 January 2009, SSE conducted a book-built, non-pre-emptive placing of approximately 42 million new ordinary shares of 50 pence each in SSE. The shares were placed at a price of £11.40 each, which was within 1% of the average closing price of SSE shares in the preceding four weeks. Based on this price, the gross proceeds of the placing were £479m, representing approximately 4.8% of SSE's share capital. The shares carried the right to SSE's interim dividend paid on 27 March 2009 and carry the right to subsequent dividends.

The placing of shares was one of a series of steps taken by SSE which reflects its flexible and prudent approach to financing /-

Financial Overview (continued)

	March 09 £m	March 08 £m
Reported net finance costs add/(less)	**134.3**	32.8
Share of JCE*/Associate interest	**128.2**	127.6
Interest on convertible debt	**(0.6)**	(4.6)
Exceptional foreign exchange loss	**–**	(22.2)
Movement on derivatives	**25.8**	20.7
Adjusted net finance costs	**287.7**	154.3
Return on pension scheme assets	**135.3**	141.4
Interest on pension scheme liabilities	**(130.1)**	(117.4)
Notional interest arising on discounted provisions	**(5.1)**	(3.6)
Adjusted interest costs**	**287.8**	174.7

* Jointly Controlled Entities
** Adjusted finance income and costs for interest cover calculation

investment and enhanced its future options by providing additional sources of funding for appropriate investment and acquisition opportunities.

Net Finance Costs
The table above reconciles reported net finance costs to adjusted net finance costs, which SSE believes is a more meaningful measure. In line with this, SSE's adjusted net finance costs during 2008/09 were £287.7m, compared with £154.3m in the previous year. This is mainly due to the increased level of net debt, including the full-year impact of interest costs associated with the acquisition of Airtricity.

The average interest rate for SSE, excluding JCE/Associate interest, during the year was 5.25%, compared with 5.23% for the previous year. Based on adjusted interest costs, underlying interest cover for 2008/09 was 6.5 times (excluding interest related to SGN), compared with 11.7 times in 2007/08; including interest related to SGN it was 5.2 times.

Within the adjusted net finance costs of £287.7m, the element relating to SGN's net finance costs was £86.5m (compared with £82.7m in the previous year), after netting loan stock interest payable to SSE. Its contribution to SSE's profit before tax* was, therefore, £94.0m, compared with £78.8m in the previous year.

Pensions
In line with the IAS 19 treatment of pension scheme assets, liabilities and costs, pension scheme liabilities of £273.5m are recognised in the balance sheet at 31 March 2009, gross of deferred tax. This represents an increase in net liabilities of £224.4m compared with the position at March 2008.

During 2008/09, employer cash contributions amounted to:

- £14.5m for the Scottish Hydro Electric scheme; and
- £56.6m for the Southern Electric scheme, including deficit repair contributions of £36.9m.

As part of the Distribution Price Control for 2005-2010, it was agreed that allowances for 76% of deficit repair contributions in respect of the Southern Electric scheme should be included in price controlled revenue.

At 31 March 2009, there was a net liability arising from IAS 39 of £1,423.6m, before tax, compared with a net liability of £117.3m, before tax, at 31 March 2008. The negative movement on derivatives under IAS 39 principally relates to the movement in commodity prices for coal, oil, gas, carbon and wholesale electricity.

Tax

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

	March 09 £m	March 08 £m
Reported tax (credit)/charge	**(59.0)**	210.6
add back:		
Share of JCE/Associate tax	**40.4**	10.7
less:		
Deferred tax	**(39.5)**	(31.5)
Tax on exceptional items and certain re-measurements	**358.5**	127.4
Adjusted current tax charge	**300.4**	317.2

The effective adjusted current tax rate, based on adjusted profit before tax*, was 24.0%, compared with 25.8% in the previous year, on the same basis. The impact of SSE's higher capital expenditure programme and the changes introduced in Budget 2007 have had, and will continue to have, a positive impact on the effective current tax rate. There was a reported tax credit of £59.0m for the year. This reflects the deferred tax associated with the derivatives mark-to-market position (IAS 39).

SSE's contribution to government revenues in the UK, including Corporation Tax, Employers' National Insurance Contributions and Business Rates, totalled £484.9m during 2008/09, compared with £517.1m in the previous year, a reduction which reflects the effect of the changes introduced in Budget 2007. The total includes joint ventures and associates.

Convertible Bond Maturity and Authority to Purchase Own Shares

SSE has an outstanding 3.75% convertible bond which matures on 29 October 2009, which had an initial nominal value of £300m. To date, holders have exercised their option to exchange their bonds for Ordinary Shares in the company, now at £8.88 per share, in respect of bonds totalling £284.1m nominal value. New shares issued as a consequence of these conversions total 31.6 million. A nominal value of £15.9m, or 5.3% of the original bond issue, remains outstanding. The total number of shares in issue at 31 March 2009 was 920.4 million.

During 2008/09, SSE did not purchase any of its own shares for cancellation. The Directors will, however, seek renewal of their authority to purchase in the market the company's own shares at the Annual General Meeting on 23 July 2009 and this remains a benchmark against which financial decisions are taken. //

Corporate Responsibility

Number of people employed by SSE up around 1,900 to over 18,500

Everyone who is employed by SSE is expected to demonstrate and deliver responsible business practice in whatever they do. As a result, SSE does not have a corporate responsibility division; it is not an add-on, and should not be treated as such.

Safety Service **Efficiency** Sustainability Excellence Teamwork

We keep things simple, do the work that adds value and avoid wasting money, materials, energy or time. This means setting the right priorities and ensuring that all other activities take second place to supply and distribution customers receiving the highest-possible quality of service.

Total Performance-based Income Earned (Electricity Networks; All Criteria) (£m)

Year	£m
2009	19.4
2008	18.0
2007	13.3

£19.4m

Safety

SSE aims to create value for shareholders by maintaining a strong emphasis on its six core values, which include safety and sustainability. During 2008/09, the number of lost-time and reportable injuries within the company was 0.07 per 100,000 hours worked, compared with 0.04 in the previous year and 0.05 in 2006/07.

SSE is now also focusing on its Total Recordable Incident Rate (TRIR), which includes medical treatment, as well as lost-time and reportable injuries. TRIR is a more comprehensive measure and is comparable with worldwide standards, allowing a more effective benchmarking of performance to take place. In 2008/09, the TRIR for SSE was 0.16 per 100,000 hours worked.

The number of serious, or potentially serious, blameworthy road traffic accidents involving employees driving company vehicles was 0.38 per 100 vehicles, compared with 0.18 in the previous year.

In September 2008, an employee of Hochtief AG, the principal contractor, lost his life at the site of the new Glendoe hydro electric scheme. The circumstances surrounding the incident have since been the subject of detailed investigation. This loss of life remains a source of great sadness for everyone associated with the project.

Environment

SSE's target for any given year is zero environmental incidents which result in it being served with a formal statutory notice by either the Environment Agency or the Scottish Environment Protection Agency (SEPA). In 2008/09, SSE was served with no such notices as a result of an environmental incident. SEPA is continuing to investigate an incident in November 2008 where diesel escaped from a holding tank at SSE's Loch Carnan Power Station on Uist.

Teamwork

On 31 March 2009, SSE employed 18,795 people, an increase of 1,903 on the previous year. December 2008 saw the tenth anniversary of SSE's formation. Its successes since then reflect the ongoing professionalism and enthusiasm of employees, guided by SSE's 'Teamwork' value which states: 'We support and value our colleagues and enjoy working together in an open and honest way.'

The Good Companies Guide

In November 2008, The Co-operative Asset Management's second annual Good Companies Guide was published. /-

Corporate Responsibility (continued)

> In November 2008, The Co-operative Asset Management's second annual Good Companies Guide was published. The Guide is a fund management ranking of FTSE 350 companies' performance on environmental, social and governance (ESG) issues. SSE was the overall winner because it has 'shown vision and initiative in being an early mover in renewable energy and domestic energy efficiency'.

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Corporate Responsibility Index
Business in the Community's (BitC) Corporate Responsibility Index provides an authoritative benchmark for companies to evaluate their management practice in four key areas of corporate responsibility (community, environment, marketplace and workplace) and performance in a range of environmental and social impact areas material to their business. In the results of the Index for 2008, SSE retained its performance band of 'Platinum'.

BitC has introduced an additional band, 'Platinum Plus', to test, with additional scrutiny, the connectivity between companies' business strategy and a responsible and sustainable business approach. SSE was advised in May 2009 that it had secured this 'Platinum Plus' status, one of just seven companies to do so.

Corporate Responsibility Report 2009
SSE has reported in detail on corporate responsibility issues in 2008/09 in its Corporate Responsibility Report 2009 which is available online at www.scottish-southern.co.uk.

The report considers the four main areas of impact identified by Business in the Community: Workplace, Environment, Community and Marketplace. In each area, the report considers the key question SSE must address, identified by relating relevant concerns to the issues over which SSE has greatest influence.

Within the report, which is aimed at any individual or organisation with an interest in how SSE goes about its business, there is a review of SSE's performance in 2008/09 and summaries of key events across the business.

Data presented in the report is independently assured by Environmental Resources Management Ltd.

Detail and analysis included in the Corporate Responsibility Report gives further context to an extensive list of Performance Indicators also presented in this Annual Report.

Risk Management
There are many interpretations of what 'risk management' should mean and should be. SSE believes the fundamental responsibility on the part of companies is to ensure that their overall business model and strategy, and their values and culture, are designed with risk firmly in mind.

SSE's strategy is to deliver sustained real growth in the dividend payable to shareholders through the efficient operation of, and investment in, a balanced range of regulated and non-regulated energy-related businesses. In practice, this means SSE derives income and profit from businesses which are subject to economic regulation and businesses which are not. At the same time, those businesses have a common core: energy.

The practical effect of this is to limit both the extent of any single risk and the value associated with it, and the need to limit the value at risk is at the heart of SSE's decision-making processes. SSE is the only electricity and gas company listed on the London Stock Exchange with a business model which is capable of offering such balance and such a framework for limiting the value at risk.

The strategy and business model, and therefore risk management, are supported by the 'SSE SET' of core values – Safety, Service, Efficiency, Sustainability, Excellence and Teamwork – and by the maintenance of an organisational culture in which the individual, status and seniority take second place to teamwork, knowledge and experience.

Within this framework, SSE has in place a comprehensive approach for managing risks and maintaining internal controls, such that its strategy is not undermined by failures or misjudgements. These are set out in full on pages 53 and 54.//

Performance Indicators

	2007	2008	**2009**	Change
Financial Overview				
Adjusted profit before tax* – £m	1,079.3	1,229.2	**1,253.7**	+2.0%
Adjusted earnings per share* – pence	92.5	105.6	**108.0**	+2.3%
Dividend per share – pence	55.0	60.5	**66.0**	+9.1%
Capital expenditure – £m	663.4	810.3	**1,279.8**	+57.9%
Adjusted net debt – £bn	2.23	3.66	**4.82**	+31.7%
Underlying interest cover – times	11.0	11.7	**6.5**	-44.4%
Dividend cover – times	1.68	1.73	**1.57**	-9.2%
Generation and Supply				
Operating profit* – £m	632.5	711.1	**832.0**	+17.0%
Electricity generation capacity – MW	10,017	10,542	**10,755**	+2.0%
Electricity generated – TWh	51.6	47.9	**41.2**	-14.0%
Energy generation capacity – renewable – MW	1,518	2,036	**2,230**	+9.5%
Electricity generation capacity qualifying for ROCs – hydro and wind – MW	568	748	**877**	+17.2%
Hydro storage – % of maximum water for generation	75	73	**73**	0.0%
Hydro output – GWh	3,767	3,518	**3,316**	-5.7%
Gas-fired power station availability – %	95	95	**76**	-20.0%
Gas-fired power station thermal efficiency – %	49.5	49.2	**51.0**	+3.7%
Coal and biomass-fired power station availability – %	92	91	**89**	-2.2%
Coal and biomass-fired power station thermal efficiency – %	36.1	35.9	**34.9**	-2.8%
Power station water consumption – million cubic metres	3.18	2.93	**2.94**	+0.3%
Power station CO_2 emissions – million metric tonnes	25.88	22.72	**19.28**	-15.1%
Power station CO_2 emissions – kilograms per kWh	0.555	0.496	**0.491**	-1.0%
Power station SO_2 emissions – metric tonnes	50,776	37,125	**17,318**	-53.4%
Power station SO_2 emissions – grams per kWh	1.086	0.903	**0.441**	-51.2%
Power station NOx emissions – metric tonnes	44,120	39,643	**21,046**	-46.9%
Power station NOx emissions – grams per kWh	0.944	0.964	**0.536**	-44.4%
Electricity supplied – TWh	50.9	55.7	**63.3**	+13.6%
Energy customer numbers – millions	7.75	8.45	**9.05**	+7.1%
Electricity customers – millions	4.95	5.28	**5.55**	+5.1%
Gas customers – millions	2.80	3.17	**3.51**	+10.7%
Talk customers – 000s	97	165	**217**	+31.5%
Gas boiler customers – 000s	22	70	**115**	+64.3%
Complaints to energywatch	840	615	**95**	N/A
Complaints to Consumer Focus	N/A	N/A	**183**	N/A
Referrals to Consumer Direct	N/A	N/A	**504**	N/A
Electricity disconnections – per 1,000 customers	0.03	0.03	**0.02**	-33.3%
Gas disconnections – per 1,000 customers	0.22	0.22	**0.07**	-68.2%
Energy Systems				
Power Systems operating profit* – £m	368.0	382.9	**403.7**	+5.4%
Power Systems capital expenditure – £m	204.5	264.4	**314.6**	+19.0%
Regulatory Asset Value – £bn	2.6	2.7	**2.9**	+7.4%

Positive Neutral or Not Applicable Negative

Performance Indicators (continued)

	2007	2008	**2009**	Change	
Southern Electric Power Distribution operating profit* – £m	224.0	232.7	**243.3**	+4.6%	Positive
Scottish Hydro Electric Power Distribution and Transmission operating profit* – £m	144.0	150.2	**160.4**	+6.8%	Positive
Electricity distributed – TWh	42.4	42.9	**42.9**	0.0%	Neutral or Not Applicable
Southern Electric Power Distribution average customer minutes lost	72	67	**66**	-1.5%	Positive
Southern Electric Power Distribution interruptions per 100 customers	75	66	**64**	-3.0%	Positive
Southern Electric Power Distribution mains in commission – kilometres	74,832	75,747	**76,269**	+0.7%	Positive
Scottish Hydro Electric Power Distribution average customer minutes lost	77	72	**75**	+4.2%	Negative
Scottish Hydro Electric Power Distribution interruptions per 100 customers	79	69	**76**	+10.1%	Negative
Scottish Hydro Electric Power Distribution mains in commission – kilometres	46,221	46,454	**46,662**	+0.4%	Positive
Scottish Hydro Electric Power Distribution transmission mains in commission – kilometres	4,913	4,913	**4,913**	0.0%	Neutral or Not Applicable
Scotia Gas Networks operating profit (SSE share) – £m	103.1	161.5	**180.5**	+11.8%	Positive
Scotia Gas Networks capital expenditure/repair expenditure – £m	295.2	379.0	**382.8**	+1.0%	Positive
Scotia Gas Networks mains in commission – kilometres	73,661	73,705	**73,995**	+0.4%	Positive
Scotia Gas Networks units distributed – TWh	162.3	169.3	**173.5**	+2.5%	Positive
Scotia Gas Networks Regulatory Asset Value – £bn	3.2	3.5	**3.6**	+2.9%	Positive

Gas Storage

	2007	2008	**2009**	Change	
Operating profit* – £m	55.9	50.9	**42.7**	-16.1%	Negative
Customer nominations met – %	100	100	**100**	0.0%	Positive

Telecoms

	2007	2008	**2009**	Change	
Operating profit* – £m	13.9	14.3	**15.5**	+8.4%	Positive
Operational faults fixed within service level agreements – %	94	98	**98**	0.0%	Neutral or Not Applicable
Project delivery on standard projects – %	98	96	**97**	+1.0%	Positive

Contracting, Connections and Metering

	2007	2008	**2009**	Change	
Operating profit* – £m	61.7	68.7	**74.8**	+8.9%	Positive
New electrical connections – 000s	44.6	42.8	**36**	-15.9%	Negative
New gas connections – 000s	9.2	8.2	**7.3**	-11.0%	Negative
Out-of-area networks in operation	24	33	**47**	+42.4%	Positive
Contracting order book (year end) – £m	95	99	**101**	+2.0%	Positive
Meters read once a year – %	95.1	95.4	**95.0**	-0.4%	Neutral or Not Applicable
Meters read twice a year – %	78.7	80.8	**77.0**	-4.7%	Negative

Safety

	2007	2008	**2009**	Change	
Lost-time and reportable accidents	11	11	**21**	+90.9%	Negative
Lost-time and reportable accidents – per 100,000 hours worked	0.05	0.04	**0.07**	+75.0%	Negative
Serious or potentially serious road traffic accidents	19	13	**32**	+146.2%	Negative
Serious or potentially serious road traffic accidents – per 100 vehicles	0.29	0.18	**0.38**	+111.1%	Negative
Injury-free business units	66	72	**112**	+55.6%	Positive

Environment

	2007	2008	**2009**	Change	
Breaches of IPC/IPPC	2	2	**1**	-50.0%	Positive
Oil leaked – litres	31,761	42,189	**27,931**	-33.8%	Positive
Waste produced – offices and depots tonnes	25,052	30,299	**27,120**	-10.5%	Positive
Waste sent to landfill – offices and depots tonnes	7,787	8,282	**6,979**	-15.7%	Positive

Positive | Neutral or Not Applicable | Negative

	2007	2008	**2009**	Change
Water consumption in principal offices – cubic metres	133,822	109,167	**105,557**	-3.3%
Water consumption in principal offices – cubic metres per whole time equivalent (WTE)	10.4	7.4	**6.1**	-17.6%
Energy Consumption in operational buildings – GWh	34.2	27.7	**31.5**	+13.7%
Energy consumption in principal offices – GWh	31.1	32.6	**39.0**	+19.6%
Energy consumption in principal offices – MWh per WTE	4.9	4.6	**3.9**	-15.2%
Distance travelled on SSE business – million kilometres	198.51	212.63	**247.24**	+16.3%
Distance travelled on SSE business – kilometres per WTE	15,416	13,864	**13,267**	-4.3%
Business flights	9,311	7,897	**8,961**	+13.5%
Business flights – per 1,000 employees	693	467	**523**	+12.0%
Business flights – million kilometres	9.22	7.36	**6.66**	-9.5%
Business rail journeys	2,545	9,706	**12,809**	+32.0%
Rail journeys – per 1,000 employees	189	633	**748**	+18.2%
Business rail journeys – million kilometres	0.86	2.83	**3.86**	+36.4%
Operational vehicles business travel – million kilometres	156.90	168.91	**183.15**	+8.4%
Company cars business travel – million kilometres	31.52	31.38	**33.54**	+6.9%
Estimated travel saved by use of video conferencing facilities – million kilometres	1.15	1.09	**1.36**	+24.8%
Marketplace				
Homes insulated under the Carbon Emissions Reduction Target (CERT) – 000s	N/A	N/A	**191**	N/A
Low energy lamps subsidised – 000s	560	9,100	**16,000**	+75.8%
Customers registered for Priority Services Register – 000s	297.8	367.1	**518.3**	+41.2%
Customers with tailor made payment plans – 000s	229.0	200.0	**237.5**	+18.8%
Customers on loyalty plans – millions	1.34	1.86	**2.32**	+24.7%
New suppliers	1,112	1,024	**1,037**	+1.3%
Suppliers for more than three years	5,626	4,270	**4,029**	-5.6%
Workplace				
Employees – headcount	13,427	16,892	**18,795**	+11.3%
Employees – monthly average	13,053	15,777	**18,196**	+15.3%
Average age of employees – years	40	41	**38**	-7.3%
Absence from work per employee – days	6.01	6.03	**5.89**	-2.3%
Turnover of employees – annual %	13.8	11.9	**11.5**	-3.4%
Gender split – all employees – male/female	75/25	74/26	**74/26**	N/A
Gender split – Leadership Group – male/female	N/A	88/12	**87/13**	N/A
Employees in Share Incentive Plan – %	44	38	**38**	0.0%
Community				
Employees in receipt of 'Into Action'	278	502	**498**	-0.8%
Employees participating in 'Quids In'	943	1,375	**1,247**	-9.3%
Community benefit paid – £000s	292	906	**1,162**	+28.3%
Charitable donations – £000s	685	873	**1,001**	+14.7%
Research and development – £m	6.3	3.7	**4.4**	+18.9%
Committed investment in clean-tech ventures (cumulative) – £m	40	60	**88**	+46.7%

Generation and Supply

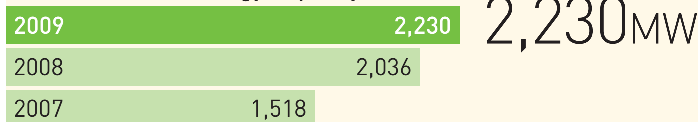
Renewable energy output up 28% to over 5,000GWh

The amount of electricity generated by SSE from hydro electric stations, wind farms and biomass plant during 2008/09 rose by 28% to 5,182GWh (gigawatt-hours). SSE is the UK's largest generator of electricity from renewable sources.

Safety Service Efficiency **Sustainability** Excellence Teamwork

We aim to operate ethically, taking the long-term view to achieve growth while safeguarding the environment. This means actively supporting ways of changing the way in which energy is produced and consumed, including maximising the amount of electricity produced from renewable sources.

Total Renewable Energy Capacity (MW)



2,230MW

Introduction
SSE owns around 10,700 megawatts (MW) of capacity for generating electricity, making it the second largest generator across the UK and Ireland. The large majority (over 10,300MW) of this capacity is in Great Britain, which currently has almost 80,000MW in total. The remainder (375MW) is in Northern Ireland and the Republic of Ireland, where there is an all-island Single Electricity Market which is separate from the market in Great Britain.

SSE's total capacity includes its share of joint ventures and associates and comprises around:

- 4,500MW of gas- and oil-fired capacity;
- 4,000MW of coal-fired capacity (with biomass 'co-firing' capability); and
- 2,200MW of renewable (hydro, wind and dedicated biomass) capacity.

This gives SSE diversity in fuels for generating electricity and avoids dependency on a single technology. As a result, SSE has significant optionality in the management of its power stations. It is this diversity and the related optionality which enable SSE to manage the risks associated with primary fuel procurement during periods of volatile wholesale energy prices.

As at 31 March 2009, SSE supplied energy to 9.05 million customer accounts, making it the second largest supplier within Great Britain's competitive electricity and gas supply market, which has around 51 million domestic and business accounts in total. It also supplied energy to 50,000 customers in Ireland. Its responsibility as supplier to customers is to procure the electricity and gas they need, arrange for it to be distributed to them through the relevant networks and provide the associated services such as metering and billing. Wholesale gas and wholesale electricity are transacted like any other commodity in a competitive market. SSE purchases the gas and some of the electricity it needs to supply customers via bilateral contracts of varying lengths and through trading in the wholesale markets. It also buys gas, coal and oil to use in the production of electricity from its power stations.

Following the extension of power purchase agreements with Seabank Power Ltd, in which SSE has a 50% stake, which took place in 2007/08, none of the long-term agreements under which SSE purchases electricity is due to expire during the 2009/10 financial year. Power purchase agreements with Barking Power (in which SSE has a 30.4% stake) and Derwent Cogeneration Ltd (in which SSE has a

49.5% stake) are, however, due to expire in September 2010. Both agreements contain extension options. The current contract, under which British Energy supplied SSE with 4.4 terrawatt-hours (TWh) of electricity during 2008/09 and will supply 5TWh during 2009/10 (arranged as part of SSE's acquisition of the SWALEC energy supply business in 2000) ends in March 2011.

SSE's Trading and Risk Management team is responsible for its participation in wholesale markets for electricity and gas, as well as markets for coal, oil and carbon dioxide emissions allowances. Through analysis of generation plant availability, customer demand and its contractual position SSE can assess, and therefore manage, its exposure to market prices.

In summary, SSE assesses Generation and Supply as a single value chain within an integrated business. This means its power stations and fuel supply contracts are used to support performance in electricity supply, mainly through deploying flexibility and optionality to respond to customer demand and market conditions. As a result, SSE seeks to maintain a well-balanced portfolio of assets, contracts and customers, within which there is effective risk management through diversity in earnings opportunities, and which functions and is managed as an integrated whole. This whole is, therefore, greater than the sum of its parts – not least because earnings should be more resilient to a wide range of commodity price outcomes.

Generation and Supply Performance Overview

Operating profit* in Generation and Supply was £832.0m, compared with £711.1m in the previous year, contributing 54% of SSE's total operating profit* in 2008/09. (SSE reports the underlying financial performance of Generation and Supply excluding the impact of IAS 39 re-measurements which are unrealised as it continues to believe that this does not represent underlying business performance.) The increase in operating profit was supported by the value of the higher output of renewable energy delivered by SSE, following the acquisition of Airtricity in February 2008 and the completion of new renewable energy developments.

Total revenue for Generation and Supply was £24.4bn, which accounted for 93% of SSE's total revenue in 2008/09, of which £8.5bn was in relation to sales of electricity and gas to industrial, commercial and domestic customers.

Electricity Generated and Supplied

During 2008/09, SSE generated 41.2TWh of electricity, including power stations in which it has a part-ownership or contractual interest, compared with 47.9TWh in the previous year (including all of Airtricity's output). SSE also purchased 5.9TWh of electricity through long-term contracts with other generators. In the year, it supplied 29.7TWh of electricity to its domestic and small business customers and 33.6TWh was supplied under contract to industrial and commercial customers. Any net balances were traded in the wholesale electricity market.

It is likely that customers' demand for electricity – and gas – in the UK will be lower in 2009/10 than it was in the previous year as a result of both the impact of investment in energy efficiency and the downturn in the economy. In this context, SSE's long-standing approach of actively maintaining balance in its portfolio of assets, contracts and customers is of particular relevance and means it is not over-exposed to variations in demand for energy.

Generation Context

In June 2008, the consultation document setting out the UK's renewable energy strategy stated that energy policy in the UK faces two very serious challenges: tackling climate change by reducing emissions of carbon dioxide and ensuring the country's energy supply remains secure.

To address these challenges, the UK and Irish governments (along with all other Member States) are required to contribute towards the achievement of a binding target, that 20% of the EU's all-energy consumption must come from renewable sources by 2020, which was given final approval in April 2009. For the UK, the national target is 15%; for the Republic of Ireland, it is 16%. In practice, this means increasing, to over 30%, the proportion of electricity to come from such sources in the UK and an increase to 40% is required in the Republic of Ireland.

In addition, the Climate Change Act 2008, passed by the UK Parliament, includes not only a long-term target for emissions reductions but also a legally binding trajectory towards this target. The Act requires the UK government to set carbon budgets fixing binding limits on greenhouse gas emissions over five-year periods. Alongside its Budget 2009, the UK government confirmed it would aim to cut greenhouse gas emissions by 34% by 2020, compared with 1990 levels. It was responding to the findings of the first report by the independent Climate Change Committee, which set out what the UK's carbon emissions reduction targets for the period to 2020 should be.

These 2020 targets are, in fact, only interim milestones in a long-term transition now under way, from a UK energy supply with fossil fuels at its centre to one based largely on the use of renewable sources of energy and other low carbon technologies.

In parallel with the demand for investment in renewable energy, the UK will need to provide replacement capacity for conventional generation plant which is expected to retire on a shorter timescale – the next decade. As the UK Secretary of State for Energy and Climate Change said in December 2008: 'We must keep the lights on in a world where we are net importers of energy. By 2020 a third of our power plants will be closed due to age or rising environmental standards.'

Fundamentally, the need for the UK to maintain a reasonable margin between electricity generation capacity and electricity demand will reinforce the value of existing and available power-producing plant over the long term. In addition, a balance of fuels used within the generation portfolio will remain critical in providing security of supply, through allowing diversity of primary energy sources, and will support the maximum possible deployment of renewables through proper integration of both energy and system services provision. All of this is likely to require the largest investment programme in the generation sector since privatisation, with renewable energy at its heart.

Over the next three years, SSE believes that a combination of lower demand for electricity, sufficient generating plant remaining open and new generation capacity coming on-stream (particularly new combined cycle gas turbine (CCGT) plant and plant for generating from renewable sources) should ensure that the production of electricity will be able to meet the demand in all likely circumstances. Beyond that, the position is less predictable, with uncertainties affecting both the likely total of electricity generating capacity and the likely level of demand from customers. In addition, the growth in capacity for generating electricity from renewable sources will have an impact on how gas- and coal-fired capacity operates on a day-to-day basis. In any event, the value of established and continuing capacity is likely to be reinforced. It is in this context that Ofgem has launched 'Project Discovery', a review of the medium-term outlook for energy markets in Great Britain, as the requirement to retire power generating plant to conform with environmental and other requirements becomes closer. SSE is fully involved in this review with Ofgem.//

Generation

Generation

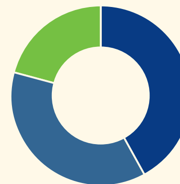
Sustainability, Diversity, Optionality

SSE owns around 10,700MW of electricity generation capacity in the UK and Ireland, comprising around: 4,500MW of gas- and oil-fired capacity; 4,000MW of coal-fired capacity (with biomass co-firing capability) and 2,200MW of hydro, wind and dedicated biomass capacity, making it the UK's largest generator of electricity from renewable sources and giving it the most diverse mix of fuels.

10.7GW	41.2TWh	£4.3bn
Capacity	**Output 08/09**	**Investment 08-13**

Capacity – Composition

Gas/Oil 42% (4.5GW)
Coal/Biomass 37% (4.0GW)
Renewable 21% (2.2GW)



Key Priorities
- → Complying with safety and environmental requirements
- → Maintaining availability of power stations to generate
- → Investment in refurbishment of existing assets
- → Delivering new plant for generating electricity

Generation Objectives
In this context, SSE's key objectives in Generation remain relevant and appropriate. They are to:

- → comply fully with all safety standards and environmental requirements;
- → maintain a diverse portfolio of power stations, with the flexibility to respond to customer demand and market conditions;
- → ensure those power stations are available to generate electricity;
- → operate power stations efficiently to achieve the optimum conversion of primary fuel into electricity; and
- → develop and pursue a range of options for adding to its portfolio of power stations, and thus support security of supply.

In achieving these objectives, SSE's target is to reduce by 50% the carbon dioxide intensity of electricity produced at power stations in which it has an ownership or contractual interest, over the period from 2005/06, the first full year after it acquired coal-fired power stations, to 2020.

Gas-fired Generation – Operations
Good performance in Generation and Supply is dependent, first and foremost, on plant at power stations being available to generate electricity as and when required. SSE owns 4,500MW of gas- and oil-fired electricity generation capacity, including its share of joint ventures.

During 2008/09, its principal wholly-owned gas-fired power stations (Fife, Keadby, Medway and Peterhead) achieved 76% of their maximum availability to generate electricity, excluding planned outages, compared with 95% availability in the previous year. This contributed significantly to the reduction in the amount of electricity generated by SSE at gas-fired power stations in which it has an ownership or contractual interest, which was 28TWh in 2008/09 (including 15.3TWh from wholly-owned stations), compared with 31TWh in the previous year (including 18.2TWh from wholly-owned stations).

The plant at Peterhead, Keadby and Fife performed very well during 2008/09, achieving 97.5% availability. The reduction in output is, therefore, attributable to significant difficulties at Medway, where availability was affected by technical issues leading to unplanned outages and also emergent issues arising during planned inspections, affecting one of the gas turbines and the steam turbine. Resolving these difficulties proved to be a complex and time-consuming task, involving contractors, station employees, insurance providers and SSE's recently-established Engineering Centre. With its asset management capability adding a new dimension to SSE's engineering rigour, the Centre is playing a key role in minimising the delay in Medway's return to service as is SSE's policy of holding important power plant components. The return to service is expected shortly.

SSE's experience at Medway was not an isolated one. Across the electricity generation sector in the UK a number of gas-fired power stations which are now into their second decade of operation, including Seabank, in which SSE has a 50% stake, have had unexpected and prolonged outages. While the underlying quality of SSE's power generation assets is not in doubt, its Engineering Centre is reviewing plant design and plant operation within the BETTA (British Electricity Trading and Transmission Arrangements) framework. This review has been supported by external engineering advisers and has indicated that the large majority of prolonged unplanned outages relate to a specific technical issue regarding equipment provided by one supplier, rather than any general underlying problems with plant.

The outcome of this review will inform SSE's long-term asset management and investment planning policies, as will the impact of increasing electricity generation from renewable sources, which means gas-fired and coal-fired power stations will have to be increasingly

flexible and run at lower load factors than has historically been the case.

Gas-fired Generation – Investment
Work on the commissioning of Marchwood Power Ltd's new 840MW CCGT plant in Southampton is now well under way. Following the first firing of the gas turbines in March 2009, power from the station is now being exported to the electricity network. Marchwood Power Ltd is a 50:50 joint venture between SSE and ESB International, in which £159m has so far been invested by SSE. All of the station's output is contracted to SSE. It remains on course to be in commercial operation in time for the winter of 2009/10.

With a net thermal efficiency in excess of 58%, Marchwood will be one of the most efficient gas-fired power stations in the UK. Moreover, the plant was procured before the significant increase in costs experienced in the electricity generation sector in 2007 and 2008, making it a particularly well-timed and well-founded investment.

Although it would be unwise for SSE as a company, or the UK as a country, to run the risk of becoming over-dependent on a single fuel, CCGT technology is likely to remain the benchmark technology in generation for some years to come, making a growing contribution to meeting the UK's electricity requirements. This is because of its high thermal efficiency, relatively low costs and short construction time.

In May 2009, SSE entered into an agreement to acquire Abernedd Power Company Limited from BP Alternative Energy. Abernedd has applied for consent to construct and operate a new CCGT power station, with a capacity of over 800MW, on a brownfield site in Baglan Bay in South Wales, where there is already in place electricity transmission, gas and water infrastructure for the first phase of the power station. The total cash consideration will be determined by the progress of the development.

In line with that, and subject to timely planning consent being secured, SSE expects to construct the new power station in two phases to maximise plant flexibility. In the first phase, a unit with capacity of over 400MW will be developed, with a view to becoming operational around 2013; a second unit, with a similar capacity, will become operational around 2016. The two-unit approach gives SSE greater flexibility in the timing and nature of the development and a final investment decision on the first phase will be taken by the end of this financial year.

Generation Key Performance Indicators

	March 09	March 08
Total electricity generation capacity (GW)	**10.7**	10.5
Gas-fired station availability (%)	**76**	95
Total output from gas-fired power stations (TWh)*	**15.3**	18.2
Coal-fired station availability (%)	**89**	91
Total output from coal-fired power stations (TWh)*	**7.8**	12.0
Co-firing biomass output qualifying for ROCs (GWh)	**267**	368
Total output from hydro schemes (GWh)	**3,316**	3,518
ROC-qualifying output from hydro schemes (GWh)	**1,656**	1,702
Wind farm availability (%)	**96**	96
Total UK and RoI output from wind farms (GWh)	**1,718**	499**
UK ROC-qualifying output from wind farms (GWh)	**953**	389**
Output from RoI wind farms (GWh)	**765**	110**
ROC-qualifying output from dedicated biomass (GWh)	**148**	33**

* Wholly-owned
** Includes post-acquisition by SSE output only

In addition, SSE has identified a series of options for other CCGT plant. These include the potential development of new capacity at Keadby power station and in April 2009, it secured an agreement to connect a new 850MW power plant to the electricity transmission network from 2016. Barking Power Ltd, in which SSE has a 30.4% stake, has secured consent to develop a new 470MW CCGT plant, which would effectively add around 140MW to the portfolio of generation assets owned by SSE.

Coal and Biomass Generation – Operations
During 2008/09, SSE generated 7.8TWh of electricity at its coal-fired power stations at Fiddler's Ferry and Ferrybridge, compared with 12.0TWh in the previous year. The stations achieved 89% of their maximum availability to generate electricity, excluding planned outages, which was a reduction compared with the previous year due to additional work emerging during asset upgrades as a result of materials and supplier issues. Their output during the year was significantly affected by the need to operate within the constraints imposed by Article 5(1) of the Large Combustion Plant Directive (LCPD) for a longer period than expected (see below).

The stations 'co-fire' fuels from renewable sources (biomass) in order to displace fossil fuels. During the year, their output qualifying for ROCs (Renewable Obligation Certificates – see below) was 267GWh, compared with 368GWh in the previous year (included within the above total for the stations as a whole).

From 1 April 2009, electricity output resulting from co-firing receives 0.5 ROCs per MWh (compared with 1.0 ROC per MWh previously) and electricity suppliers can only meet up to 10% of their Renewables Obligation from this technology. Nevertheless, co-firing biomass is an established means of reducing carbon dioxide emissions and the revised ROC arrangements provide an adequate framework to sustain it in the future.

Coal and Biomass Generation – Investment
In November 2005, SSE opted in to the LCPD all of the capacity at Fiddler's Ferry and half of the capacity at Ferrybridge (3,000MW in total). As a result, the operation of that capacity must comply with the Emission Limit Value (ELV) for sulphur dioxide which came into effect on 1 January 2008. By making them compliant with the ELV, the stations' contribution to the security of the UK's electricity supplies is being extended and SSE will continue to have the country's most diverse electricity generation portfolio. Plant which is not opted-in, such as the other 1,000MW of capacity at Ferrybridge, operates under restrictions on its ability to generate electricity and must close in 2015.

Opted-in plant could initially comply with the Directive by operating under the requirements of its Article 5(1), which limits operation to 2,000 hours per year, in advance of completing the hot commissioning of flue gas desulphurisation (FGD) equipment. Having been scheduled to finish by the end of July 2008, SSE's derogations under Article 5(1) eventually ended in January 2009 (Fiddler's Ferry) and February 2009 (Ferrybridge).

SSE's original decision to opt the plant in to the LCPD was unavoidably late, given it only acquired the power stations in July 2004 and given the uncertainty around details of public policy which then applied. /-

Generation (continued)

This meant the original timetable for FGD installation was particularly challenging. Moreover, 'retro-fitting' FGD equipment to well-established power stations is necessarily complex, with significant technical challenges which don't arise in respect of 'new build' projects. SSE's capital investment in FGD equipment has totalled £240m.

The installation of FGD equipment means the power stations are able to use higher-sulphur coal mined in the UK. As a result, SSE has entered into an agreement with UK Coal, under which it will obtain 3.5 million tonnes of deep- and surface-mined coal from Great Britain, including Kellingley Colliery in West Yorkshire, to provide fuel for Ferrybridge power station between late 2009 and 2015. This should be enough to meet around 15% of the station's requirements during that period. In addition, SSE has agreed to advance a secured loan to UK Coal, on which it will receive interest, to be repaid by 2014.

The LCPD also requires reduced emissions of nitrogen oxides, and SSE has already invested £31.0m to install SOFA (Separated Overfire Air) and BOFA (Boosted Overfire Air) equipment at the stations. From 2016 limits on those emissions from power stations will be tightened significantly. As a result, SSE is undertaking a front-end engineering design (FEED) study, which it expects to complete during 2009/10, into options for installing Selective Catalytic Reduction (SCR) technology at Fiddler's Ferry and is also considering the option for Ferrybridge. The alternative to fitting SCR is to operate the station within limits required under a derogation from the LCPD's requirements. SSE's analysis of the issues around installing SCR will also take into consideration the progress of the draft EU Industrial Emissions Directive which, if implemented, could replace the LCPD.

As the UK Secretary of State for Business said in September 2008, coal is a critically important fuel for the UK, because of its flexibility, its availability and because it reduces reliance on imported gas. SSE is continuing to examine a range of options for development at Ferrybridge, following the expected closure in 2015 of that plant (1,000MW) which is not opted in to the LCPD. This will leave the station with significant assets in terms of land, a connection to the electricity grid, cooling water and a railhead. A number of options to utilise these assets, featuring a range of fuels and technologies, are being assessed. They include the use of coal-based Integrated Gasification Combined Cycle technology or Advanced Supercritical Boiler technology to replace existing coal-fired capacity and deliver a significant reduction in the carbon dioxide emissions per kilowatt-hour of electricity produced.

In April 2009, the UK government set out proposals for the basis on which coal-fired power stations will be permitted in the future, in advance of a full consultation planned for this summer. These include: no new coal-fired power stations without Carbon Capture and Storage (CCS) demonstration; and full-scale 'retrofit' of CCS within five years of the technology being independently judged as technically and commercially proven. Against this emerging public policy background, a decision on the main use of the part of the Ferrybridge site which has been opted out of the LCPD is unlikely to be taken until 2010 at the earliest.

During 2008/09 SSE supported the study undertaken by the Scottish Centre for Carbon Storage, which found that industrial carbon dioxide produced in the UK during the next 200 years could be stored securely beneath the North Sea. The study was the most comprehensive CO_2 source-to-store analysis ever performed in the UK. SSE is also sponsoring the OxyCoal 2 project in Renfrew, Scotland. This project seeks to demonstrate the benefits of oxyfuel technology for carbon capture on coal-fired power plants.

The number and variety of issues that could affect electricity generation from coal-fired (and, indeed, gas-fired) plant reinforces SSE's commitment to developing a number of options to utilise the assets at the Ferrybridge site.

Coal and Biomass Generation – Sustainability

The development by Lafarge Plasterboard Ltd of a plasterboard factory at Ferrybridge has been completed. The plant is operational and using the gypsum produced on site as a result of FGD in the production of plasterboard.

The development by RockTron (Widnes) Ltd of an ash separation plant at Fiddler's Ferry is now complete and moving into operation. It removes and processes all fresh ash produced by the power station, and much of that currently stored in lagoons at the site, turning it into constituent parts which will become marketable mineral products, with the largest volume being initially used as cement substitutes.

SSE acquired 17.5% of the equity in RockTron (Widnes) Ltd, a subsidiary of RockTron Ltd, in September 2008, enabling it to secure a share of the income from the ash separation plant, in addition to the benefits which will result from avoiding the environmental liabilities associated with ash production and storage.

EU Emissions Trading Scheme

Phase II of the EU Emissions Trading Scheme (EU ETS) began on 1 January 2008. Across its electricity generation portfolio (taking account of contractual shares), SSE now has an allocation of 16.8 million tonnes of carbon dioxide emissions allowances per annum. Its emissions allowances requirement for 2008/09, beyond those allocated under EU ETS, was 2.5 million tonnes. This compares with 6.7 million tonnes in the previous year. In addition, Marchwood Power Ltd has an allocation of five million tonnes reserved to it from when it is commissioned to the end of Phase II. During 2008/09, the price of allowances ranged from around €8 to €28 per tonne; the market itself remains relatively new and has yet to mature fully.

At the same time, the EU ETS represents an additional and growing cost for generators, who are having to continue to produce electricity, but with increasing constraints on emissions of carbon dioxide. Moreover, it was confirmed in December 2008, that from 2013, all of the carbon dioxide emissions allowances for electricity producers will be auctioned. On this basis, it is erroneous to characterise allocations of carbon dioxide emissions allowances as a 'windfall'. In fact, they represent a prudent and practical means of ensuring the EU ETS is successfully phased in and established for the long term, without posing any risk to electricity production – and thus to meeting customers' energy requirements – through the sudden imposition of a major new burden on generators.

Emissions of Carbon Dioxide

In 2008/09, emissions of carbon dioxide from power stations in which SSE has an ownership or contractual interest totalled 19.3 million tonnes, compared with 22.7 million tonnes in the previous year. The scale of this fall clearly reflects the unusually low output of electricity from SSE's coal-fired power stations resulting from Article 5(1) constraints during the installation of FGD equipment.

Assuming it displaced electricity produced from coal-fired power stations, the output of SSE's wind farms and conventional hydro electric schemes (see below) saved around 4.5 million tonnes of carbon dioxide in 2008/09.

Electricity Generation Capacity (GW)

Year	GW
2009	10.7
2008	10.5
2007	10.0
2006	10.0
2005	9.9

SSE owns 10.7GW of electricity generation capacity, including its share of joint ventures and associates. This comprises around: 4,500MW of gas- and oil-fired capacity; 4,000MW of coal-fired and biomass capacity; and 2,200MW of renewable energy capacity.

Emissions of carbon dioxide are believed to contribute around 70% of the potential global warming of anthropogenic emissions of greenhouse gases. SSE's target is to reduce the amount of carbon dioxide per kilowatt-hour of electricity generated at plant in which it has an ownership or contractual interest by 50%, between 2006, the first full year after it acquired coal-fired power stations, when it was around 600g/kWh, and 2020. On this basis, its carbon intensity in 2008/09 was 491g/kWh.

The decisions SSE takes and the investments it makes are influenced by this target. For example, since 2005/06, it has invested over £65m in carbon dioxide efficiency improvements, or to facilitate the burning of carbon neutral fuels such as biomass and tall oil, at its coal-fired power stations. More fundamentally, SSE's extensive programme of investment in energy from renewable sources, including the decision in May 2008 to proceed with the construction of the Greater Gabbard offshore wind farm, demonstrates its financial commitment to a lower carbon future.

During 2008, SSE participated in the Carbon Disclosure Project (CDP), which states it is the world's largest investor coalition. It said: 'The responses from companies to CDP's annual requests for corporate data provide investors with vital information regarding the current and prospective impact of climate change on their portfolios.' The Carbon Disclosure Leadership Index (CDLI) includes companies that show a 'strong organisational commitment to climate change strategy – and because of this commitment, they can be declared as leaders'. CDP said 90% of FTSE 100 companies answered its request for information. In 2008 SSE maintained its position in the CDLI for the second consecutive year.

Renewable Energy – Overview

Tackling climate change and securing future supplies remain the two goals of energy policy in the UK, Ireland and the EU. Against this background, the EU Renewable Energy Directive imposes legally-binding targets on EU Member States, specifying the proportion of all energy consumption that must be met by renewable energy sources by 2020. The national target for the UK is 15% (compared with under 2% in 2007) and for the Republic of Ireland it is 16%. In practice, this is likely to mean that over one third of the countries' electricity requirements will have to be met from renewable sources.

In its response to the UK government's 2008 consultation on its strategy for achieving the target, SSE said: 'The scale of the challenge and the timetable for delivery demand early and sustained action to address critical areas. This includes resolving rapidly the current barriers, such as planning, grid access and infrastructure provision.' In other words, the UK and other EU countries have to demonstrate sustained commitment and consistent action to translate the very ambitious goals for 2020 into reality. The UK's goals for 2020 also include a 34% reduction in greenhouse gas emissions (compared with the 1990 baseline), a target which followed the Climate Change Act 2008.

In November 2008, the UK government announced proposals to extend the Renewables Obligation (RO) by at least 10 years, from 2027 to 2037. The RO requires licensed electricity suppliers to source a specific and annually increasing percentage of the electricity they supply from renewable sources and provides the necessary financial incentive, through a system of trade-able Renewable Obligation Certificates (ROCs) which supplement the market price of the electricity, to encourage deployment of renewable energy in the UK. Its extension, therefore, represents a positive long-term signal in favour of future investment.

The Energy Act 2008 enabled the introduction of 'banding' of the RO to allow differentiated levels of support for different renewable energy technologies. From 1 April 2009, electricity from qualifying hydro electric schemes and onshore wind farms continues to receive 1.0 ROC per MWh; from offshore wind farms it is now 1.5 ROCs per MWh.

Later that month, the UK government announced a banding review with the intention of increasing ROCs from 1.5 per MWh to 2.0 for offshore wind projects meeting specified completion criteria if they place new orders in 2009-10, and then 1.75 in 2010-11.

SSE has sought, and received, from the UK government clear assurances that any changes to banding, if implemented after the forthcoming review, will not have a negative economic impact on any existing renewable energy developments. It is also engaged in discussions with the UK government as to how any change to banding for offshore wind would strengthen the investment climate for that particular technology. It is particularly concerned to ensure that previous investment decisions in offshore wind are not unfairly treated compared with those projects whose construction was delayed.

In the Republic of Ireland, the Renewable Energy Feed In Tariff (REFIT) scheme is used to support renewable energy by providing a guaranteed price for output and a 15% rebate (subject to a cap) on suppliers' purchase of REFIT energy.

SSE has just over 2,200MW of operating renewable energy capacity in the UK and Ireland, comprising hydro electric schemes (including pumped storage), wind farms and a dedicated biomass/-

Generation (continued)

facility at Slough, an increase of almost 200MW during the year. Of this, almost 900MW qualifies for ROCs (excluding biomass). Looking ahead, it has set itself the target of owning and operating 4,000MW of renewable energy capacity in the UK and Ireland by the end of 2013.

The achievement of this milestone will mean SSE is making a significant contribution to the achievement of the 2020 targets in the UK and Ireland, and it is making comprehensive plans to build on its 2008-13 programme of investment in renewable energy in the subsequent years.

In addition to its clear environmental benefits, renewable energy also significantly reduces SSE's exposure to volatile prices for fossil fuels because the fuel used to generate electricity is indigenous and free. This is in marked contrast to fossil fuels, sources of which are in decline but which will be in huge demand from economies around a world, in many of which the population is growing fast.

In addition to its focus on the UK and Ireland, SSE is undertaking in the same period a programme of development in renewable energy in new markets in continental Europe (principally Portugal, Scandinavia, Italy, Germany and the Netherlands).

Hydro Generation – Operations
SSE owns and operates just over 1,450MW of capacity in conventional hydro electric schemes, including the new Glendoe hydro electric scheme which became operational in December 2008, and 300MW pumped storage.

Total output from the conventional hydro electric schemes was 3,316GWh during 2008/09, including 76GWh from Glendoe, compared with 3,518GWh during the previous year. As at 31 March 2009, the amount of water held in SSE's reservoirs which could be used to generate electricity was 73% of the maximum, the same as in the previous year.

In order to encourage investment in maintaining for the long-term smaller schemes, the output of refurbished hydro electric stations with capacity of up to 20MW qualifies for ROCs. SSE has just over 400MW of capacity in this category (including the new plant commissioned in the last few years at Culleig, Kingairloch and Fasnakyle). In addition, the output from all new hydro electric schemes, such as Glendoe, also qualifies for ROCs. Of the total hydro output in 2008/09, just over 1,650GWh qualified for ROCs, compared with just over 1,700GWh in the previous year. Assuming average 'run off' of water into SSE's reservoirs during the year, the ROC-qualifying output from hydro generation is expected to be around 1,700GWh in 2009/10.

Hydro Generation – Investment
The construction of SSE's new 100MW hydro electric station, at Glendoe near Loch Ness, was completed two months earlier than scheduled and at final capital cost of just over £160m. Glendoe is now SSE's second largest conventional hydro electric station, and the first large-scale station to be built in Scotland for over 50 years. Operationally, its principal feature is that it is able to start generating electricity at full capacity in just 30 seconds. In a year of average rainfall, its output should be around 180GWh of electricity. During the final three months of 2008/09, its total output was 76GWh.

Since the Renewables Obligation was introduced in April 2002, SSE has invested over £300m in refurbishing and developing hydro electric schemes in Scotland, including Glendoe.

The vast majority of SSE's hydro electric stations were built in the 1950s and early 1960s and are the subject of a rolling programme of investment to prolong their working life and improve their operational efficiency. In 2008/09, it totalled just over £20m.

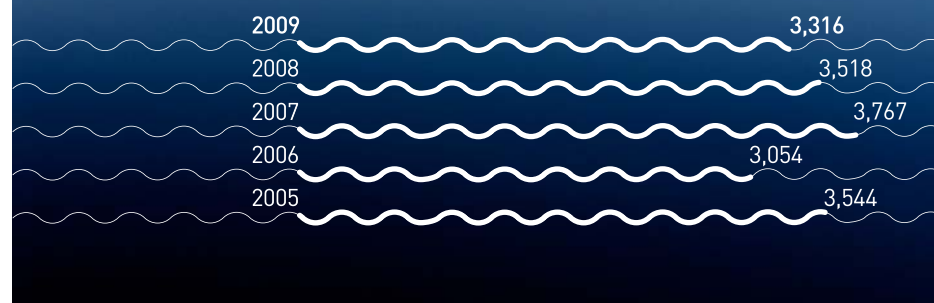
In September 2008, the Scottish Government published a study carried out for the Forum for Renewable Energy Development in Scotland, which argued that there are still over 600MW of 'financially viable' hydro electric schemes to exploit, especially smaller and micro schemes. SSE has consent to develop new 'run-of-river' hydro electric schemes near Crianlarich (2.5MW) and Wester Ross (3.5MW). It is continuing to examine the scope for new hydro electric developments and in August 2008 invested £750,000 in Green Highland Renewables, in return for a 33.3% stake in the company, which develops small and medium-sized hydro electric schemes.

Hydro electric schemes which use impounded water to generate electricity have an important part to play in meeting peak demand and also complement the growing, but variable, amount of output from wind farms. Against this background, SSE is submitting to Scottish Ministers an application for consent to develop a 60MW pumped storage scheme at its 152MW Sloy power station, near Loch Lomond. This means that in addition to electricity produced from water collected and held in the Loch Sloy reservoir, Sloy would generate electricity using water pumped from Loch Lomond to the reservoir.

In an average year, Sloy produces around 120GWh of electricity and adding a pumped storage facility would allow it to produce an additional 100GWh of electricity a typical year to help meet peak demand. SSE currently expects that developing a pumped storage facility at Sloy will require investment of over £30m. SSE is also exploring whether other potential sites could be suitable for the development of pumped storage schemes.

Hydro Generation Output (GWh)

SSE has over 1,450MW of hydro electric capacity, all in Scotland, including pumped storage. The new hydro development at Glendoe is SSE's second largest and it contributed 76GWh of output in its first months of operation.



Wind Generation – Operations
As at 31 March 2009, SSE owns and operates almost 700MW of onshore wind farm capacity in the UK and Ireland, of which 300MW is in the Republic of Ireland. Although lower wind speeds were experienced during 2008/09, total output from SSE's portfolio of wind farms in the UK was 953GWh during the year, all of which was eligible for ROCs, compared with 389GWh in the previous year (which includes the output from the Airtricity portfolio of wind farms that was generated between its acquisition by SSE on 15 February 2008 and 31 March 2008); from its wind farms in the Republic of Ireland, the output was 765GWh in the same period. On average, the turbines at SSE's wind farms in the UK and Ireland achieved 96% of their maximum availability to generate electricity.

Wind Generation – Investment Overview
When SSE entered into the agreement to acquire Airtricity, now its renewable energy development division, in January 2008, the combined business had just over 870MW of onshore wind farm capacity in operation, in construction or with consent for development in the UK and Ireland. This has now reached almost 1,700MW, including:

- the Clyde wind farm in southern Scotland (see below); and
- the Griffin wind farm in Perthshire in which SSE acquired a majority stake in the early part of 2009, the total capacity of which will depend on the most economic turbine option but will be well in excess of 100MW.

The progress of the Clyde project in particular demonstrates that the pipeline of opportunities in renewable energy on which the acquisition was based are now being realised. Further evidence of this is that SSE expects to complete the construction of over 150MW of onshore wind farm capacity during 2009/10.

SSE also has a 50% share of the 500MW Greater Gabbard wind farm now under construction in the outer Thames Estuary (see below). It also has almost 1,400MW of offshore wind farm capacity with consent for development. This comprises:

- the 280MW Butendiek offshore wind farm planned for a site off the coast of Germany;
- two offshore wind farms proposed in the Dutch sector of the North Sea with a total capacity of up to 610MW; and
- the 500MW Arklow scheme off the east coast of the Republic of Ireland.

When SSE entered into the agreement to acquire Airtricity, now its renewable energy development division, in January 2008, the combined business had just over 870MW of onshore wind farm capacity in operation, in construction or with consent for development in the UK and Ireland. This has now reached almost 1,700MW.

The most advanced of these projects is Butendiek, in respect of which SSE has entered into turbine reservation agreement with Siemens Wind Power.

This reflects SSE's aim to develop a substantial portfolio of offshore wind farm assets in northern Europe, thus helping a number of EU Member States to achieve their legally-binding 2020 targets for renewable energy. This is because wind energy is an increasingly mature technology, capable of relatively speedy deployment on a large scale, and must thus play a critical part in the achievement of the UK's, the Republic of Ireland's and the EU's renewable energy targets for 2020.

All of this means that SSE now has:

- over 3,400MW of renewable energy capacity (onshore wind, offshore wind, hydro and dedicated biomass) in operation, under construction or with consent in the UK and the Republic of Ireland (excluding Arklow in the Republic of Ireland); and
- over 1,400MW of offshore wind farm capacity with consent for development in Europe (including Arklow).

In addition, the proposal by Viking Energy, the joint venture between Viking Energy Ltd (which is 90% owned by Shetland Charitable Trust) and SSE to develop on Shetland's Central Mainland a wind farm with 540MW of capacity was submitted to Scottish Ministers in May 2009. This takes to over 1,000MW the amount of onshore wind farm capacity for which SSE has applied for consent to build in Scotland, England, Northern Ireland, Italy and Sweden.

SSE remains on course to make investments of around £3bn in renewable energy in the five years between 2008 and 2013. A key consideration in investments will be the prices of the wind turbines themselves. While these are the subject of a number of variations, SSE has seen some reductions and does not expect them to return to the market peak reached during 2008 for the foreseeable future.

The principal projects within SSE's five year programme are the Clyde wind farm and the Greater Gabbard offshore wind farm.

Wind Generation Investment – Clyde
Clyde has consent for 152 turbines. As a result of the tender process, SSE may seek to optimise the energy yield by selecting turbines which have a lower installed capacity than that originally envisaged but which represent the most economic solution. Nevertheless, the configuration of the selected turbines will not affect the expected annual output of over 1,000GWh. Initial site works began in April 2009 and full construction work will begin later in the summer. First commissioning is scheduled for 2011 and completion is scheduled for 2012. The construction cost is now expected to be around £500m. This is included within SSE's existing investment plans for the period to 2013.

Wind Generation Investment – Greater Gabbard
Greater Gabbard Offshore Winds Limited (GGOWL) is a 50:50 joint venture between SSE and RWE npower renewables, which acquired its 50% stake from SSE in November 2008, to develop in the outer Thames Estuary what is the world's largest offshore wind farm under construction.

The development of Greater Gabbard, excluding the connection to the electricity grid, is expected to require total investment of around £1.3bn. Onshore work on the construction of the wind farm is now well under way, as is fabrication of offshore structures and turbines. Offshore work is on track to begin in the next few months, with the first installations taking place before the end of the financial year. It will be commissioned in two phases, with the entire construction scheduled to be completed in 2012. On completion, the wind farm will have a total capacity of around /-

Generation (continued)

500MW, with 140 turbines mounted on steel monopiles, in water depths between around 20 and 30 metres. It is expected to have a load factor of over 40%, based on site-specific met mast data collected since 2005, and produce around 1,900GWh of electricity in a typical year. SSE will take 50% of the output. Its operations and maintenance will be carried out by SSE Generation, under a management services agreement with GGOWL.

Although SSE is very positive about the long-term benefits of offshore wind farms, the difficulties associated with developing, operating and maintaining energy assets in a marine environment and the challenges associated with the development of offshore wind farms are not being under-estimated.

Wind Generation Investment – Offshore Wind in the UK

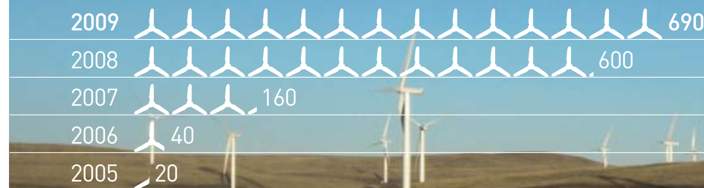
SSE expects that Greater Gabbard will prove to be the first of a series of major offshore wind farms which it develops over the next decade. In February 2009, it was granted exclusivity by The Crown Estate to develop offshore wind farms at four locations in Scottish territorial waters. At two of the four sites, SSE is in partnership with other specialist developers. The proposed wind farms could have a total capacity of up to 2,700MW, of which SSE would own 85%.

Their development is subject to site-specific consultations and environmental impact assessments, statutory consents and satisfactory completion of the Strategic Environmental Assessment for offshore wind announced by the Scottish government in October 2008.

A month later, SSE joined forces with RWE npower renewables, Statkraft and Statoil/Hydro to bid to win exclusive rights to develop wind farms under the terms of the Zone Development Agreements as part of The Crown Estate's third licence round for UK offshore wind farms (Round 3). The four companies are co-operating on a single, joint bid and – should they be successful – will work together on the development, construction and operation of Round 3 wind farms.

In April 2009, SSE joined forces with Fluor Limited, the UK operating arm of Fluor Corporation, to create another consortium, Seagreen Renewables, to bid for the exclusive rights to develop other wind farms under Round 3 (Airtricity and Fluor jointly developed the Greater Gabbard Offshore Wind Farm). Partnerships with other developers such as this are intended by SSE to minimise

Electricity Generation Capacity – Onshore Wind (MW)



SSE owns and operates capacity at onshore wind farms in Scotland, Northern Ireland and the Republic of Ireland. Additional wind farms are also under construction as part of SSE's target to have 4,000MW of operating renewable generation capacity in the UK and Ireland by the end of 2013.

risks involved in offshore wind projects and to maximise the development capability.

In October 2008, SSE was one of five energy companies to sign an agreement on offshore wind with The Carbon Trust. This marked the start of a major new research, development and demonstration initiative called the Offshore Wind Accelerator (OWA). The OWA aims to cut the cost of energy from offshore wind by at least 10% through a combination of reducing costs and increasing revenues for the developers and operators of projects.

Investment Options in New Markets

In addition to its wind and hydro investments in the UK and Ireland, SSE is identifying options to invest in renewable energy in new markets: waste-to-energy (principally in the UK – see below); onshore and offshore wind farms in Europe (principally Portugal, Scandinavia, Italy, Germany and the Netherlands where there are particular opportunities for growth in renewables – see above); and emerging technologies. Any investment will involve working with partners and will largely be on an equity basis, with non-recourse or project-specific debt typically expected to account for around 75% of the total cost of the investment.

In April 2008, SSE entered into a 50:50 joint venture with Gothia Vind, which is aiming to develop around 200MW of onshore wind farm capacity in Sweden over the next three years. Two months later, SSE entered into two joint venture partnerships, with Riviera and with Hispano Lusa SL, to further its plans for the development of wind farms in Portugal with a total potential capacity of around 400MW (gross). This was followed by the establishment of a joint venture with an Italian wind farm development company, Entropya, which has a wind farm development pipeline in excess of 2,000MW (gross) at various stages in the authorisation process.

The acquisition of Airtricity has extended the scope of SSE's interests to continental Europe, thereby giving it development and operational activity in a new geographical location. That activity will remain disciplined and clearly focused on renewable energy, especially in view of developments in financial markets. This means investments in the UK and Ireland are likely to be prioritised in the first instance, followed by investments elsewhere in Europe. SSE does not expect to undertake any wind farm developments in China in the foreseeable future and is planning to dispose of Airtricity's development portfolio there.

Marine Energy

In February 2009, SSE and Aquamarine Power, in which it has a 50% stake, entered into a joint venture aimed at developing sites in the UK and the Republic of Ireland capable of hosting 1,000MW of marine energy capacity by 2020. The two companies' goal is to deliver marine energy sites suitable for Aquamarine Power's wave technology, Oyster, a prototype of which should be deployed at the European Marine Energy Centre in Orkney in the summer of 2009. In April 2009, the Oyster device produced and exported electricity at the New and Renewable Energy Centre (NaREC) near Newcastle, for the first time.

Biomass and Multi-fuel
SSE's plant at Slough has a current generating capacity of 80MW and remains the UK's largest dedicated biomass energy facility. During 2008/09, it produced 148GWh of electricity qualifying for ROCs, compared with 33GWh during the three months in which it was under SSE's ownership in the previous year. Output was affected by technical issues concerning the operation of one of the steam turbines at the plant.

The acquisition of the plant at Slough in January 2008 gave SSE a platform from which to invest in biomass and waste-to-energy. Against this background, and in line with its approach to developing a number of options for the site, SSE announced in March 2009 plans for a multi-fuel combined heat and power (CHP) facility at Ferrybridge. The proposed multi-fuel CHP facility will use a range of fuel sources, which could include biomass, waste-derived fuels and wood products, to generate around 90MW of electricity and to provide heat to the Ferrybridge site. It will be compliant with the Waste Incineration Directive.

The potential for such technology should not be under-estimated. In December 2008, the Institution of Mechanical Engineers said that the UK could generate one fifth of its electricity from the 300 million tonnes of waste per annum otherwise destined for landfill – much of which can be readily prepared to become refuse-derived fuel (RDF).

In line with that, SSE expects to expand its interests in this area, including establishing long-term relationships with a number of companies to help deliver some sources of fuel for its generation and its first fuel contract, with Shanks, was agreed in 2008/09 for the Yorkshire area. Proposals for multi-fuel plant in other parts of the country are also being prepared.

Forth Energy
In June 2008, SSE and Forth Ports plc entered into a strategic venture to develop renewable energy projects around Forth Ports' sites in Scotland and England. The new venture, called Forth Energy, will invest in the generation, distribution and supply of renewable energy for export to the electricity network for commercial sale and for consumption at Forth Ports' sites.

The venture envisages projects across a number of renewable energy technologies, including wind, tidal and biomass, and related networks and infrastructure. Possible projects with a total installed capacity in excess of 150MW have been identified. These projects are being progressed through feasibility stages, with a view to applications for consent being made in 2009/10.

Emerging Technologies – SSE Ventures
In February 2007, SSE set up SSE Ventures (SSEV) to develop and grow its portfolio of investments in small and medium-sized businesses offering renewable, sustainable and energy efficiency-enhancing products and services. In addition to the financial support offered, SSEV works in close partnership with investee companies to help their products or services make progress towards full commercial viability. Participation in emerging technology developments helps SSE to anticipate, be at the forefront of, and adapt to, the changes in energy production and consumption that are likely to occur over the next decade. During 2008/09, through equity and loans, SSE's total commitments to investing reached £88m and it now holds direct or indirect stakes in a total of 24 companies.

Nuclear Power
SSE was part of a consortium, with GDF SUEZ and Iberdrola which placed bids in the auction by the Nuclear Decommissioning Authority and EDF of three potential nuclear new-build sites in the UK, that was concluded in April 2009. The consortium elected to maintain its financial discipline and did not secure any of the sites.

Nevertheless, SSE continues to believe that it should work with other parties to help secure the development of new nuclear power stations, through appropriate investment or contractual support, in order to help maintain secure supplies of energy for customers.

As a result, it is examining a number of opportunities for other potential sites with its consortium partners. In particular, the consortium will be focusing on the sites nominated as part of the UK Government's Strategic Siting Assessment, which was published for public consultation in April 2009, which have to be sold by their current owners.

Competition Issues
In April 2008, Ofgem launched an investigation into SSE and Scottish Power Limited, under section 18 of the Competition Act 1998 and Article 82 of the EC Treaty. SSE co-operated fully with Ofgem, which concluded in January 2009 that there had been no breach of the Competition Act.

In May 2009 EDF Group and Centrica plc announced their 'definitive agreement' whereby Centrica will invest in EDF's nuclear business in the UK, including the current British Energy nuclear power station fleet. This agreement would bind together companies which currently supply electricity and gas to over 40% of the homes, offices and businesses in Great Britain. As a result, its implications for the energy supply market and for the wholesale electricity market will require the most detailed scrutiny by the relevant competition authorities. SSE believes that it is likely to require detailed conditions to be placed on the parties directly involved to safeguard competition.

Generation Priorities for 2009/10 and Beyond
During 2009/10 and beyond, SSE's key objectives in Generation will be to ensure that its diverse portfolio of power stations is well-maintained and available to generate electricity, with the maximum flexibility and efficiency, in response to customer demand and market conditions, while complying fully with all safety standards and environmental regulations.

SSE will also be pursuing timely investment in asset refurbishment and replacement projects, and working to deliver on time and on budget its projects to develop new capacity for generating electricity. Key milestones include the start of construction work at the Clyde and Griffin wind farms and the start of offshore construction work at Greater Gabbard.

In the five years between 2008 and 2013, SSE currently expects that its investment across its entire generation portfolio will be over £4bn, including investment in existing assets. This investment will be designed to abate the environmental impact of existing assets and extend their working lives and to deliver new assets, principally in renewable energy but also – as in the case of Marchwood and Abernedd – thermal generation. All of this will support security of energy supply.

In addition, SSE is seeking to build up a major offshore wind farm capability in northern Europe, and so successful participation in The Crown Estate's Round 3 is a major priority.

As a result, SSE will have a growing, and balanced, portfolio of electricity generation assets, with a diminishing environmental impact in which its exposure to fossil fuel price volatility will be increasingly diluted. At the same time, SSE will actively seek to maintain optionality and diversity in the future development of its generation portfolio. //

Supply

Supply

Affordability, Products, Service

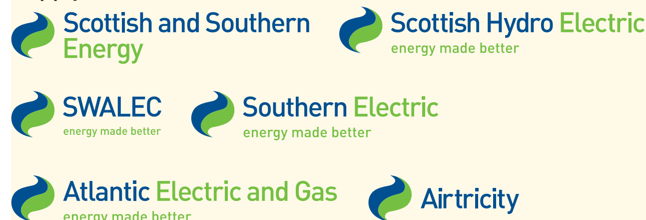
SSE supplies electricity and gas to over nine million domestic, commercial and industrial customers within Great Britain's competitive market and to around 50,000 customers in the Irish all-island market. It is the second largest supplier of energy in Great Britain and supplies energy under the Southern Electric, SWALEC, Scottish Hydro Electric, Atlantic Electric and Gas and (in Ireland) Airtricity brands.

9m Customers

1st Service ranking

191k Homes insulated

Supply Brands



Key Priorities
- Providing value for customers' money through fair pricing
- Delivering best-in-sector service
- Developing existing and new energy products
- Completing energy efficiency programmes

Introduction

Energy supply in Great Britain experienced an exceptional degree of volatility and intense public scrutiny during 2008/09. Forward annual wholesale prices for electricity peaked at almost £90 per MWh; for gas, they peaked at 100p per therm. Although they subsequently fell back from these peaks, wholesale prices for electricity and gas remained relatively high. Like other suppliers, SSE procures energy through a variety of long- and short-term contracts. As a result, there is a time lag between rises and falls in wholesale prices and rises and falls in the prices charged to domestic customers. Ofgem said in October 2008 that it found no evidence that this lag is greater when prices are falling than when they are rising.

That conclusion was part of Ofgem's Initial Findings Report, following its inquiry into energy supply markets in Great Britain, using its powers under the Enterprise Act 2002. It confirmed that the fundamental structures of a competitive market are in place and the transition to effective competitive markets is well advanced and continuing. It was to be expected that Ofgem would identify a number of areas where 'the transition to fully effective competition should be accelerated'. In line with that, in March 2009, it announced it was minded to introduce a new licence condition on suppliers requiring that prices should reflect the costs to the companies, a principle which SSE has always supported.

Much of the commentary on Ofgem's Initial Report focused on suppliers' pricing structures with respect to particular segments of the market. These included:

- electricity 'in-area' versus 'out-of-area' price differentials, where Ofgem's analysis showed that SSE has the smallest such differential; and
- pre-payment meters (PPMs), where SSE had already aligned its electricity charges with those for customers paying by standard credit terms and subsequently implemented a 3% reduction in the price paid by its gas customers who use PPMs, thus reducing the average differential between them and customers paying by standard credit terms by around £25 per annum.

SSE remains very mindful of the impact that rising fuel bills have on already hard-pressed households and has worked extensively to minimise their impact, including delaying for as long as tenable the introduction of price increases. This has again demonstrated that the best counter to upward pressures on energy prices, and the best safeguard for customers, is Great Britain's highly-scrutinised competitive market.

Indeed, in March 2009, the UK Department of Energy and Climate Change published *Quarterly Energy Prices* in the UK which said that: 'Provisional estimates suggest that, for the period July to December 2008, prices for medium domestic gas and electricity consumers, including tax, were the lowest and fifth lowest in the EU 15 respectively.'

Energy Supply Objectives

SSE's objective is to grow its energy supply business by offering consistently competitive prices over the medium term and providing best-in-sector service and market-leading products so that it is able to retain and gain customers. It also aims to broaden its relationship with these customers through the provision of added-value energy-related products and services relevant to them and their needs. In other words, SSE is not building this part of its business on the premise of simply selling more of its core products of electricity and gas but on providing the energy and, increasingly, the related products and services people need.

Energy Supply Operations – Customer Numbers

SSE supplies electricity and gas in Great Britain as Southern Electric, SWALEC,

Scottish Hydro Electric and Atlantic Electric and Gas. During 2008/09, it achieved a net gain of 600,000 energy supply customer accounts, taking the total to 9.05 million. This was the seventh successive year in which SSE achieved a net gain in energy supply customer numbers and means it has doubled its total number in that period. The total comprises:

- 5.1 million domestic electricity customer accounts;
- 3.5 million domestic gas customer accounts; and
- 0.45 million business electricity and gas sites.

Within the total, 2.2 million customer accounts are for 'loyalty' products such as **energyplus Argos**, which rewards customers with money-off discount vouchers, and **energyplus Pulse**, under which customers are able to support the British Heart Foundation (which received £295,000 from SSE in respect of **energyplus Pulse** customers during 2008/09).

In addition, in October 2008, SSE and Marks & Spencer (M&S) launched a new dual fuel product under the brand name **M&S Energy**. The product is available to M&S customers exclusively through M&S' stores and website, and by 31 March 2009 had attracted 59,000 customer accounts.

Energy Supply Operations – Prices in Great Britain

Over the past few years, SSE has maintained a responsible pricing policy, seeking to delay for as long as possible any increases in prices and seeking to implement as quickly as possible any reductions. The application of this policy means that over 2008 as a whole, SSE's quarterly-paying dual-fuel customers paid an average of almost £100 (including VAT) less for their energy than customers of the largest energy supplier.

SSE increased its prices for domestic electricity and gas customers in August 2008. The upsurge in wholesale electricity and gas prices experienced up to that point made delaying price rises beyond that untenable because SSE could no longer sustain the significant losses in energy supply then being experienced. The Business and Enterprise Committee of the UK House of Commons said in December 2008: 'a reasonable level of profit by the big energy suppliers will be a precondition' of the necessary investment in new electricity generating capacity taking place.

Supply Key Performance Indicators

	March 09 million	March 08 million
Domestic electricity customer accounts (GB)	**5.10**	4.90
Domestic gas customer accounts (GB)	**3.50**	3.15
Business electricity and gas customer sites (GB)	**0.45**	0.40
Total energy customers (GB)	**9.05**	8.45
Telecoms and home services customers (GB)	**0.33**	0.23
Total customer numbers (GB)	**9.38**	8.68
Electricity customer numbers (Ireland)	**0.05**	0.04

Fortunately, falls in wholesale energy prices which started between July and October 2008 were sustained in to the early part of 2009 and SSE announced a reduction in its prices for domestic electricity and gas customers in February.

Future trends in energy prices for domestic customers will depend on what happens in wholesale electricity and gas markets, with public policy decisions on energy production and consumption also having an impact. The competitive supply market and the comprehensive scrutiny to which energy suppliers are subject represent the best means of ensuring that prices under any scenario are as low as possible.

The long-term outlook was considered by the Business and Enterprise Committee which said in December 2008 that: 'We continue to believe that once the global economy begins to recover, in the long term "the era of cheap energy is surely over".'

Energy Supply Operations – Payment Profiles

Almost 58% of SSE's domestic electricity and gas accounts are paid by direct debit or standing order. A further 10% are paid through pay-as-you-go (or prepayment) meters and the balance are on credit terms and settled by cheque or other such payment methods. According to Ofgem's Initial Findings Report, published in October 2008, 43% of energy accounts in Great Britain are settled using direct debit and 16% are settled through PPMs, with the balance using standard credit terms.

As at 31 March 2009, the total aged debt (ie debt that is overdue by more than six months) of SSE's domestic and small business electricity and gas customers was £72m, compared with £70m in March 2008, during which period the number of customers increased by over 7%. While improvements continue to be made in SSE's debtor position, leading indicators, such as the number of payment reminders being issued to customers, suggest that 2009/10 will pose significant debt management challenges, with the volume of work in this area for the Customer Service division increasing significantly.

In March 2009, Ofgem published the outcome of its investigation into domestic customers' direct debits. It focused on over 800 customer complaints which identified the name of the supplier. Of these, 2% were about SSE – the lowest total for any of the leading suppliers – and SSE was held up as having best practice in a number of areas. At the same time, Ofgem identified a number of sector-wide criticisms which SSE, in line with the other suppliers, will have to address. /-

Over the past few years, SSE has maintained a responsible pricing policy, seeking to delay for as long as possible any increases in prices and seeking to implement as quickly as possible any reductions. The application of this policy means that over 2008 as a whole, SSE's quarterly-paying dual-fuel customers paid an average of almost £100 (including VAT) less for their energy than customers of the largest energy supplier.

Supply (continued)

Energy Supply Operations – Customer Service

It is no coincidence that SSE has achieved seven successive years of growth in energy supply while being independently and consistently recognised as the customer service benchmark for the rest of the industry. SSE believes that its proposition for customers needs to include service and products, as well as price, to ensure it offers the best possible value for money.

In the latest independent Customer Satisfaction Report from uSwitch.com, published in October 2008, SSE was ranked the best energy supplier, for the fifth successive time. It was ranked top in seven of the 11 categories featured in the Report. uSwitch.com stated: 'SSE has become the customer service benchmark for the rest of the industry.' In the JD Power UK Electricity and Gas Customer Satisfaction Study, also published in October 2008, SSE was the top-ranked supplier in both electricity and gas for the second successive year and, once again, was the only supplier with a score significantly above the sector average. In addition, in the Institute of Customer Service study completed in July 2008, SSE was the top-ranked performer amongst UK energy suppliers.

In previous years, SSE also used the number of complaints about it sent to energywatch for resolution as a key performance indicator in this area. Following the Consumer, Estate Agents and Redress (CEAR) Act 2007, new arrangements have been put in place under which customers who are unable to resolve issues with their supplier can take them up with Consumer Direct. Complaints which are not resolved within eight weeks, or which become 'deadlocked', may be taken to the new Energy Supply Ombudsman. During 2008/09, 183 'deadlocked' complaints involving SSE were passed on to the Ombudsman, the lowest number for any supplier.

Although SSE maintained its best-in-sector position in customer service during 2008/09, it was a year in which the environment in which its teams operated was very different as customers responded to price increases and the increasing profile of energy efficiency with a major increase in the number of calls to customer service centres. In total, SSE's energy supply customers made 18 million calls to the company during 2008/09, an increase of around one quarter on the previous year.

The changing shape of customer service is also illustrated by the fact that email overtook letters to become the second most common means of communication with the company used by SSE's customers. This, in turn, indicates that the popularity of e-services such as paperless billing is likely to increase rapidly over the next few years, and preparing for that is one of SSE's key priorities over the coming years.

Nevertheless, conversations with customers will remain the most important means of communication for the foreseeable future and in December 2008 SSE completed the acquisition of Barclaycard's customer service centre at Cumbernauld.

The centre became fully operational in January 2009 and it provides SSE with the capacity to expand its customer service operations and recruit many new skilled people at a time when the number of customers has continued to grow. It will relieve some of the pressures that would otherwise have been felt at SSE's existing sites and gives it a new geographic area from which to recruit people.

Energy Supply Operations – Energy Efficiency

As the UK Department of Energy and Climate Change said when launching its consultation on a heat and energy efficiency strategy in early 2009, there needs to be a transformation in the attitudes and actions of everyone when it comes to energy efficiency. It said: 'We need a radical shift in our use of energy and heat in our homes.'

Using energy more efficiently is the fastest and most cost-effective means of reducing energy costs, sustaining supplies for the long term and securing reductions in emissions of carbon dioxide. SSE has obligations under the Carbon Emissions Reduction Target (CERT) scheme to deliver energy efficiency measures to households throughout Great Britain and in 2008/09 funded the installation of cavity wall insulation in 87,000 homes and loft insulation in 104,000 homes (excluding DIY insulation). It also distributed around 16 million low energy lightbulbs.

To complement its heat and energy efficiency strategy, the UK government is also developing a Community Energy Saving Programme (CESP), which aims to deliver energy efficiency measures on a community basis, and is seeking to implement a 20% increase in suppliers' CERT obligations.

These are substantial measures, which will require the commitment of significant resources by energy suppliers, but SSE endorses the goal of securing substantial savings in energy bills and reductions in emissions of carbon dioxide, and major energy efficiency initiatives are clearly the most sustainable way of achieving this.

Energy Supply Operations – Vulnerable Customers

While any type of poverty, including fuel poverty, fundamentally results from an

Customer Numbers – GB (million)

SSE is the second largest supplier in the competitive electricity and gas supply markets in Great Britain. It supplies energy under the Southern Electric, SWALEC, Scottish Hydro Electric and Atlantic brands. It also supplies energy in the Irish all-island market.

individual or household having insufficient income, SSE recognises that it has a significant role to play in reducing its customers' energy consumption (and thus the associated costs) and a role also in helping those of its customers who really struggle to pay for their basic energy needs.

In April 2008, SSE published its Code of Practice for Vulnerable Customers, following consultation with consumer and voluntary organisations. At its core is SSE's belief that any 'social' tariff offered by energy suppliers is only meaningful if it is clearly the lowest-cost tariff that they make available to any type of customer on any sign-up method.

SSE's social tariff, **energyplus care**, conforms to this principle and currently gives eligible dual-fuel customers a discount of just over one third compared with SSE's standard tariff, as well as other help including benefit entitlement checks and free energy efficient appliances and home insulation. The number of customer accounts benefiting from **energyplus care** increased by 77,000 to 103,000 during 2008/09.

This fulfilled SSE's agreement with the UK government to operate schemes with a total value of over £16m to help vulnerable customers in 2008/09. Under this agreement, that will increase to around £22m in 2009/10.

It is SSE's policy to do all it can to help customers who may be having difficulties in paying for the electricity and gas they use by offering 'tailor-made' payment arrangements that suit their needs and their circumstances. In March 2009, customers with almost 250,000 electricity and gas accounts were taking advantage of these arrangements.

Product Development
Energy supply remains intensely competitive and gaining and retaining customers' loyalty is key to long-term success. At a time of higher energy prices, **better plan** is at the centre of the portfolio of products and services which SSE currently markets. It offers a variety of incentives to help customers use less energy and earn credits as a result. The credits are then applied as a reduction to the customers' energy bills.

SSE launched **better plan** towards the end of 2007 as part of its commitment to work in partnership with its customers to help them reduce their energy use and to create a more sustainable level of energy consumption. During 2008/09, customers with an additional 125,000 energy accounts joined **better plan**, taking the total to 165,000, making it SSE's most successful new product ever.

In April 2008, SSE published its Code of Practice for Vulnerable Customers, following consultation with consumer and voluntary organisations. At its core is SSE's belief that any 'social' tariff offered by energy suppliers is only meaningful if it is clearly the lowest-cost tariff that they make available to any type of customer on any sign-up method.

The core of the **better plan** proposition is encouraging customers to use less energy and thus save money. SSE is examining options for developing a broader proposition centred on enabling customers to take control over their energy use and secure very significant reductions in their consumption. Against this background, in April 2008, it agreed to invest £1m in Onzo Limited (Onzo), in return for a 24.5% share of the business. Onzo is a systems development business, with specific intellectual property relating to the development of display devices that support smart metering systems.

The relationship between technology and people's behaviour is frequently demonstrated, as the changes effected by the launch of the iPod just eight years ago illustrates. The change to a low carbon economy will be challenging because of the intangible nature of energy production, distribution and supply. That is why developments which allow customers to take real control over their energy consumption are of particular significance in the context of energy policy goals in the UK, Ireland and elsewhere.

Ireland
Following the acquisitions in 2007/08 of Airtricity and CHP Supply Ltd and a year of steady growth SSE has increased its customer base in the all-island electricity market in Ireland by 25% to 50,000, including almost 10,000 in Northern Ireland. While the majority of these customers are commercial, SSE began to supply electricity to domestic customers during 2008. It also now supplies gas to industrial and commercial customers in Ireland and expects to supply it to domestic customers later in 2009.

Energy Supply Priorities in 2009/10
During 2009/10, and beyond, SSE will seek to:

- retain a reputation for fair pricing for domestic customers;
- maintain best-in-sector service, including improvements in billing, call handling times and enhancements to e-services;
- increase further the number of customers on **better plan**;
- deliver energy efficiency improvements through the CERT and other programmes;
- continue to ensure customers' energy accounts are well-managed;
- increase the number of customers in Great Britain; and
- increase the number of customers in the Irish all-energy market.

In summary, SSE aims to build on its position as the energy supplier with the strong regional brands, best-in-sector service, fair pricing policy and range of value-adding offers to secure an eighth successive year of customer growth. //

Networks

Network investment up 19% to £314.6m

SSE invested £314.6m in its electricity networks during 2008/09, taking the total over the past four years to over £950m.

Safety Service Efficiency Sustainability **Excellence** Teamwork

We strive to get better and smarter and more innovative because we want to be the best in everything we do. This means fostering a culture of innovation, in which ideas are valued for what they are and not for who they came from, through issuing Licences to Innovate.

Licences to Innovate Issued to SSE Employees

Year	Licences
2008/09	958
2007/08	260
2006/07	99

958

Introduction

SSE owns Scottish Hydro Electric Transmission, Scottish Hydro Electric Power Distribution and Southern Electric Power Distribution which transmit and distribute electricity to 3.5 million businesses, offices and homes via 127,000km of overhead lines and underground cables.

These companies are the subject of incentive-based economic regulation by Ofgem which sets for periods of five years the index-linked prices they can charge for the use of their electricity networks, their capital expenditure and their allowed operating expenditure, within a framework known as the Price Control. Ofgem also places specific incentives on companies to improve their efficiency and quality of service.

Overall, Ofgem seeks to strike the right balance between attracting investment in electricity and gas networks, encouraging companies to operate them as efficiently as possible and ensuring that prices ultimately borne by customers are no higher than they need to be. In electricity, the current Distribution Price Control runs until 31 March 2010, and the current Transmission Price Control runs until 31 March 2012.

As at 31 March 2009, SSE's estimate of Ofgem's valuation of the assets of its electricity distribution and transmission businesses (the Regulated Asset Value, or RAV) was £2.9bn, based on Ofgem's methodology, including £375m for transmission. This gives it around 12% of the total Great Britain electricity transmission and distribution RAV.

SSE also has an equity interest of 50% in, and provides corporate and management services to, Scotia Gas Networks (SGN), which owns Southern Gas Networks and Scotland Gas Networks. These companies own and operate the medium and low pressure networks which deliver gas to 5.7 million properties in their areas of the UK. They are the subject of incentive-based regulation by Ofgem similar to that which applies in electricity. 2008/09 was the first year of a price control for the five years to 31 March 2013.

SGN estimates that the RAV of the networks it owns was around £3.6bn, based on Ofgem's methodology, as at 31 March 2009. This makes it the UK's second largest gas distribution company, with around one quarter of the total Great Britain gas distribution RAV. SSE's share of this RAV is £1.8bn which, when added to its electricity networks businesses, gives SSE

Networks

Reliability, Safety, Efficiency

SSE distributes electricity to over 3.5 million properties in northern Scotland and central southern England via overhead lines and underground cables. It also owns 50% of Scotia Gas Networks, which owns and operates the Scotland and Southern gas distribution networks. All these networks are subject to incentive-based regulation by Ofgem. After electricity and gas, telecoms is SSE's third network business.

£4.7bn
RAV

127k
Power network (km)

74k
Gas network (km)

Regulated Asset Value of Energy Networks (£bn*)

Year	£bn
2009	4.7
2008	4.5
2007	4.2
2006	4.1
2005	2.5

* Includes 50% of SGN

Key Priorities
→ Maintaining safe and reliable supplies of power and gas
→ Efficient delivery of investment in networks
→ Upgrade work on Beauly-Denny transmission line
→ Complete electricity distribution price control review with Ofgem

Networks Key Performance Indicators

	March 09	March 08
Units of electricity distributed (SEPD – TWh)	**34.37**	34.24
Units of electricity distributed (SHEPD – TWh)	**8.51**	8.65
Average number of minutes lost per customer (SEPD)	**66**	67
Average number of minutes lost per customer (SHEPD)	**75**	72
Number of supply interruptions/100 customers (SEPD)	**64**	66
Number of supply interruptions/100 customers (SHEPD)	**76**	69
Volume of gas distributed (Southern – TWh)	**114.9**	109.9
Volume of gas distributed (Scotland – TWh)	**58.6**	59.4

	March 09 £m	March 08 £m
Capital expenditure on electricity networks	**314.6**	264.4
SSE share of total SGN capex/repex	**191.4**	189.5
Capital expenditure on telecoms	**23.0**	38.4

a total RAV of £4.7bn, making it the UK's second largest distributor of energy.

Together, these lower-risk economically-regulated 'natural monopoly' businesses provide a financial backbone and operational focus for SSE, and balance its activities in the competitive Generation and Supply markets.

The Chief Executive of Ofgem wrote to the Financial Times in June 2008 and said: 'The fact remains that, in energy, the [incentive-based] model has delivered lower prices, better service and record investment in the UK.' At the same time, Ofgem has embarked upon a two-year review of the model in the context of the security of supply and climate change issues now prevalent in energy in the UK.

During 2008, a study by the international consultancy Capgemini found that the performance of electricity distribution companies in the UK is consistently better than the European average in terms of controlling costs, operating networks and customer services.

In March 2009, the Presidency of the EU and Members of the European Parliament agreed on new rules to increase competition in the EU's energy market by separating the management of electricity generation companies from that of transmission operators. Member States will have three options for compliance in the structuring of their energy markets. The options include the Independent System Operator (ISO), where companies can retain ownership of their transmission networks although their operation is managed by a separate, independent body (the ISO). An ISO model already operates in Scotland, where SSE's transmission network is located.

After electricity and gas, telecoms is SSE's third networks business. Unlike the other two, it is not the subject of economic regulation. It operates a national telecoms network for commercial and public sector customers which extends to around 10,300km throughout Great Britain.

Networks Performance Overview

Operating profit* in Energy Networks increased by 7.3%, from £544.4m to £584.2m, contributing 38% of SSE's total operating profit*. This comprised:

→ £403.7m in electricity networks, compared with £382.9m in the previous year; and
→ £180.5m representing SSE's share of the operating profit* for SGN, compared with £161.5m in the previous year.

SSE's combined Telecoms business (SSE Telecom and Neos) achieved an operating profit* of £15.5m during the year, an increase of 18.3% (excluding the telecoms sites assets disposed of in August 2007). //

Networks (continued)

Electricity Networks

Objectives

The amount of electricity transmitted and distributed through SSE's networks and the amount of gas distributed through SGN's networks is largely determined by the weather and by customers' demand for energy. Variations in the volume of electricity distributed have an impact on SSE's transmission and distribution networks' revenues (although energy volume drivers have been removed from the price controls for gas distribution companies).

If, in any year, regulated energy 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.

SSE's objectives in electricity networks are to ensure that they are managed as efficiently as possible, including maintaining tight controls over operational expenditure and delivering effectively capital expenditure, so that the number and duration of power cuts experienced by customers is kept to a minimum.

Through good performance in areas such as customer service and innovation SSE seeks to earn additional incentive-based revenue under the various Ofgem schemes to encourage good performance in these areas. Over time, its objective is to grow the RAV of the networks businesses and so secure increased revenue from them. Constructive engagement with the regulator, Ofgem, during the various Price Control Reviews is central to this objective.

Southern Electric Power Distribution

In Southern Electric Power Distribution (SEPD) in 2008/09:

- operating profit* increased by 4.6% to £243.3m;
- electricity distributed rose by 0.13TWh to 34.37TWh;
- the average number of minutes of lost supply per customer was 66, down from 67;
- the number of supply interruptions per 100 customers was 64, down from 66; and
- performance-based additional income of £11.8m was earned.

Efficiency is one of SSE's core values and amongst Ofgem's explicit purposes in setting Price Controls is to keep the costs of providing secure and reliable networks as low as possible. An initial assessment of operational cost efficiency analysis published by Ofgem in May 2009 suggests that SSE continues to be the most efficient electricity distribution operator in Great Britain.

The increase in operating profit reflects changes in the price of units distributed. Performance in respect of both minutes lost and interruptions was ahead of the targets set by Ofgem under its Quality of Service Incentive Scheme (QSIS), which gives financial benefits to distribution network operators that deliver good performance for customers. Performance-based income covers a number of issues, including the quality of service provided to customers and innovation.

Scottish Hydro Electric Power Distribution and Scottish Hydro Electric Transmission

In Scottish Hydro Electric Power Distribution (SHEPD) in 2008/09:

- operating profit* increased by 6.8% to £160.4m;
- electricity distributed fell by 0.14TWh to 8.51TWh;
- the average number of minutes of lost supply per customer was 75, up from 72;
- the number of supply interruptions per 100 customers was 76, up from 69; and
- performance-based additional income of £7.6m was earned.

The increase in operating profit reflects changes in the price of units distributed and increased transmission income. Performance in respect of both minutes lost and interruptions was ahead of Ofgem's QSIS targets.

The increase in the number of supply interruptions in the SHEPD area reflects the fact that snow, accompanied by strong winds, was a feature of the weather over an extended period during the winter and resulted in more faults to the network.

Energy Volumes

The volume of electricity distributed by SSE during the year was very similar to 2007/08, and the volume of gas transported by SGN during the year rose by 4.2TWh. In both cases, there were increases in the south; in Scotland, the volume of electricity and gas distributed fell.

Specific local factors added to energy volumes in the south of England during 2008/09, compared with the previous year, such as the opening of Terminal 5 at Heathrow Airport and the return to service of Shoreham power station. In addition, 2008/09 was the coldest winter in the UK for 13 years. As a result, SSE believes that underlying consumption of energy fell during the year, with weather-corrected energy volumes during the second half of the financial year being around 5% lower than in the previous year.

Operational Cost Efficiency

Efficiency is one of SSE's core values and amongst Ofgem's explicit purposes in setting Price Controls is to keep the costs of providing secure and reliable networks as low as possible. An initial assessment of operational cost efficiency analysis published by Ofgem in May 2009 suggests that SSE continues to be the most efficient electricity distribution operator in Great Britain.

Power Distribution Quality of Service

According to Ofgem's Distribution Quality of Service Report, published in December 2008, covering performance in respect of customer interruptions and customer minutes lost, SSE's two networks earned additional revenue of £33m in the three years to March 2008 (the most recent period for which comparative data is available), making them the two best-performing electricity distribution companies in Great Britain. This reflects successful investment in the automation of the networks and effective operational responses to electricity supply interruptions.

Electricity Network Investment and RAV Growth

The key responsibility of SSE's electricity networks businesses is to maintain safe and reliable supplies of electricity and to restore supplies as quickly as possible in

the event of interruptions. The Distribution Price Control Review for 2005-10 resulted in substantially increased allowances for capital expenditure to maintain and improve the networks' performance. By earning a return from this investment, SSE is able to increase its revenue from the networks and the efficient delivery of this enhanced investment programme was one of its priorities for 2008/09. Investment is geared to renewing SSE's networks, which were largely built in the 1950s and 1960s, and thereby reducing the number and duration of power supply interruptions. It is also geared to providing the infrastructure to accommodate customers' demand for power.

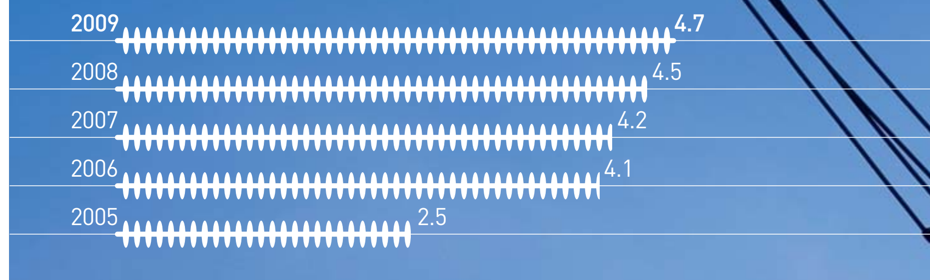
Capital expenditure in the electricity networks during 2008/09 was £314.6m. In the first four years of the current Distribution Price Control which began in April 2005, SSE has invested £810.0m in its distribution networks (which excludes metering) and a further £148.4m in its transmission network. This represents a 81.2% increase compared with the first four years of the previous Price Control, 2000-2004.

SSE forecasts that the total growth in the RAV of its electricity distribution and transmission businesses, over the five years to March 2010, should total around £500m, taking it to around £3bn in 2010.

One feature of the current Price Control which has been widely welcomed is the ability to place underground electricity distribution lines which were previously overhead, to help restore views in national parks and areas of outstanding natural beauty. Many of these lines have been placed underground using the 'mole-ploughing' technique, which buries cable with minimal environmental disruption, but at nine times the speed of conventional trenching. This technique was used, for example, when 5km of overhead line close to the world heritage site at Avebury, which features the largest pre-historic stone circle in Britain, was removed and placed underground.

Regulatory Asset Value (£bn)

The Regulated Asset Value (RAV) is Ofgem's valuation of SSE's electricity and gas network assets, which comprise one electricity transmission network, two electricity distribution networks and a 50% share in two gas distribution networks.



Distribution Price Control Review 2010-15 and Beyond

Detailed work has begun on the Distribution Price Control Review for 2010-15. Ofgem's key priorities include encouraging electricity distribution companies to be more responsive to the needs of customers and ensuring that companies provide secure and more sustainable networks. SSE therefore expects that annual capital expenditure during the next Price Control will be maintained at broadly the 2008/09 level. Having published its third consultation document about the Review for 2010-15 in May 2009, Ofgem will publish its Initial Proposals on each electricity distribution company's revenue requirements in late July 2009.

SSE is the only energy company in the UK to be involved in electricity distribution, gas distribution and electricity transmission. It therefore participates in three price control reviews in every five years, which gives it ongoing involvement in, and extensive experience of, price control issues in the UK.

Ofgem's two-year review of the regulatory regime for electricity and gas networks (RPI-X@20), which is considering whether the current approach will continue to deliver customers reliable, well-run networks with good service at reasonable prices, amid the growing investment challenges faced by the energy networks in the future, will not report until 2010. Any changes arising from it will be the subject of consultation and so work on the Distribution Price Control Review for 2010-15 is expected to be largely unaffected.

As Ofgem has stated, the current regime has delivered lower costs, better service and record investment. Nevertheless, SSE understands Ofgem's rationale for undertaking this review, and is fully engaged in it.

Looking ahead, 'intelligent' networks, featuring distributed sources of electricity and leading-edge communication and control technologies to deliver electricity more efficiently, are expected to play an increasingly important part in enabling the delivery of long-term targets for renewable energy and reduced emissions of carbon dioxide.

The next decade is also likely to see a significant uptake of electric vehicles, which some reports have suggested could reach around 1.5 million in the UK as early as 2020. SSE is part of two consortia, involving BMW UK Ltd and Ford, which have applied to the Transport Strategy Board (TSB) for research and demonstration funding for prototype electric vehicles. If successful, these projects will help in understanding what needs to be done to develop a viable market for electric vehicles in the UK.

These are just some of the technological developments which may have implications for electricity networks in the UK and in which SSE is taking an active interest.

Future Transmission Developments

Scottish Hydro Electric Transmission (SHETL) is responsible for operating, maintaining and investing in the transmission network in its area, which serves around 70% of the land mass of Scotland. As the licensed transmission company for the area, SSE has to ensure there is sufficient network capacity for those seeking to generate electricity from renewable sources.

The project to replace the electricity transmission line connecting Beauly in/-

Networks (continued)

the Highlands and Denny in the Central Belt of Scotland follows on from SSE's licence responsibilities. The Beauly-Denny Public Inquiry, the largest in Scotland since devolution, was completed in February 2008. Scottish Ministers received the report of the Inquiry in February 2009, and the Scottish Government said they will 'take a final decision on the proposal later this year'.

It is likely that SSE's share of the replacement line (200km of the total distance of 220km) will require investment in excess of £300m.

The Transmission Investment for Renewable Generation mechanism provides funding for transmission companies which are required to undertake work in connection with renewable energy that was not forecast at the time the relevant price controls were set. In May 2008, Ofgem announced it would allow an increase in SHETL's income to take account of costs incurred in respect of the Beauly-Denny replacement. In doing so, it noted that: 'We are convinced that SHETL diverting its own internal resources to the Public Inquiry (above and beyond what could reasonably be expected) has resulted in material cost savings that would otherwise have been funded by consumers'.

In December 2008, the Scottish government included future electricity network reinforcement to support renewable energy development as one of 12 'National Developments' in the second National Planning Framework. Designation as National Developments in the Framework establishes the need for these projects in the national interest. The Renewable Energy Directive includes a binding commitment on EU Member States to ensure their electricity networks 'accommodate the further development of electricity production from renewable energy sources'.

Against this background, in March 2009, the Electricity Networks Strategy Group, co-chaired by Ofgem and the UK Department of Energy and Climate Change, and on which SSE is represented, published *Our Electricity Transmission Network: A Vision for 2020*. It set out a series of proposed reinforcements to the Great Britain transmission network, with a total value of £4.7bn, of which over £1bn would be required in the SHETL area, in two stages. The reinforcements would accommodate, amongst other things, the large amount of onshore and offshore wind farms that will be required to meet the UK's legally-binding renewable energy targets for 2020.

The report said: 'The proposed Beauly-Denny rebuild is an important step in developing a transmission system in the north of Scotland of sufficient capacity to accommodate renewable development proposals. With this upgrade in place, further reinforcement of the north of Scotland transmission system can be achieved by the strengthening of the other elements of the system.'

In other words, the consenting and completion of the Beauly-Denny upgrade would allow other elements of the north of Scotland transmission ring to be re-conductored and re-insulated while avoiding any need for new overhead line routes. This would increase the capability for renewable energy capacity in the north of Scotland to over 6GW, well over double that currently connected.

SSE's proposal for an electricity transmission connection between the Western Isles and the north west of Scotland is consistent with this featuring, for the mainland section, an underground cable between the west coast of Sutherland and the Beauly substation near Inverness. SSE submitted to Scottish Ministers an application for consent to construct the connection in October 2008.

Electricity Distribution and Transmission Priorities in 2009/10 and Beyond
During 2009/10 and beyond, SSE's first objective in electricity distribution and transmission will be to maintain safe and reliable supplies of power and to restore supplies as quickly as possible in the event of interruptions, and so performance in terms of customer minutes lost and customer interruptions will continue to be critical.

Also critical will be the delivery of SSE's investment plans in its electricity networks, which it expects to total around £350m in 2009/10, and securing Ministers' consent to upgrade the Beauly-Denny transmission network.

SSE will seek an acceptable outcome from the Distribution Price Control Review for 2010-15, which means being able to earn a reasonable return on the RAV through: a fair allowed return (currently 4.8% post-tax real) which reflects the current economic and financial environment; and scope for out-performance from the various incentive mechanisms.

It is clear that encouraging electricity companies to be more responsive to the needs of customers will be amongst Ofgem's key priorities for 2010-15, and SSE has in place a programme of continuous improvement initiatives in anticipation of this. SSE is also looking to the longer-term issues, such as the possible impact on its distribution networks of the deployment of a large number of electric vehicles and the development of 'intelligent' networks. //

Gas Networks

Scotia Gas Networks (SGN) – Financial
SGN, in which SSE holds 50% of the equity, owns and operates the Scotland and the Southern gas distribution networks. The networks comprise around 74,000km of gas mains, delivering gas to around 5.7 million industrial, commercial and domestic customers. SSE receives 50% of the distributable earnings from SGN, in line with its equity holding, and also provides it with corporate and management services.

SSE's share of the adjusted operating profit* of SGN was £180.5m in 2008/09, compared with £161.5m in the previous year. The increase is primarily due to two things: the impact of the price changes agreed for the year to 31 March 2009 as part of the five-year Price Control to

During 2009/10 and beyond, SSE's first objective in electricity distribution and transmission will be to maintain safe and reliable supplies of power and to restore supplies as quickly as possible in the event of interruptions, and so performance in terms of customer minutes lost and customer interruptions will continue to be critical.

March 2013, which accounted for the majority of the year-on-year improvement; and additional underlying operational efficiencies achieved during the year.

A small part of SGN's operating profit is derived from the non-regulated activities of its contracting, connections and commercial services operations.

Scotia Gas Networks – Operational
In March 2009, Ofgem published its *Gas Distribution Annual Report for 2007/08*. It included a 'top-down' regression analysis of controllable operating costs which showed that SGN's two networks are first and third out of the eight networks in Great Britain for operating cost efficiency, compared with seventh and sixth when they were acquired by SGN in 2005.

One of the conditions in SGN's licence to operate is that it should attend at least 97% of uncontrolled gas escapes within one hour of notification. During 2008/09: 98.75% of uncontrolled gas escapes in Scotland were attended within one hour of notification; and in Southern, the number was 98.43%.

During 2008/09, SGN's gas transportation volumes were:

- 58.6TWh in Scotland, compared with 59.4TWh in the previous year; and
- 114.9TWh in Southern, compared with 109.9TWh in the previous year.

Since 1 October 2008 only 3.5% of SGN's income is volume-related; the remaining 96.5% is related to the maximum capacity requirements of its customers.

During 2008/09, a milestone was reached in the System Control project, when SGN took over control of its gas network areas in Scotland and the south of England. The company was the first of the three independent gas network companies to take full operational control of its gas networks from National Grid. The second phase of the project will see SGN implement a new IT system for gas control, allowing it to operate completely independently. This implementation is expected to be completed in 2010.

When SGN acquired its networks in June 2005, National Grid was contracted to provide it with services with a total value of over £30m per annum. In the four years since, services have been brought within SGN, and by the end of 2010, it is expected that SGN's remaining service contracts with National Grid will total just over £10m per annum.

In March 2009, the number of lost-time injuries in SGN was 0.13 per 100,000 hours worked, compared with 0.15 in March 2008. One of SGN's key environmental objectives is to reduce methane emissions. During the year, a project began to automate gas pressure management which, once commissioned, will further reduce these emissions.

Scotia Gas Networks – Investment
The five-year Gas Distribution Price Control, which began in April 2008, provides the opportunity for SGN to increase significantly investment in its gas distribution networks, thereby reinforcing their safety and reliability and securing another significant increase in their RAV. By 2013, SGN estimates that its total RAV will be around £4.6bn.

During the first year of the new Price Control, 2008/09, SGN invested £382.8m in capital expenditure and mains and services replacement projects, compared with £379.0m in the previous year. The majority of the mains replacement expenditure was incurred under the 30:30 mains replacement programme which was started in 2002. This requires that all iron gas mains within 30 metres of homes and premises must be replaced over a 30-year period, and in 2008/09 SGN replaced over 1,000km of its metallic gas mains with modern polyethylene pipes.

Investment will continue to be a top priority during 2009/10 and, in line with that, SGN expects to invest over £350m in capital expenditure and mains and services replacement projects.

For example, construction work is getting under way on a 23km long, 1,200mm diameter high-pressure gas pipeline designed to maintain safe and reliable gas supplies in south east England. Increases in demand for gas have led to the development of this project to construct the pipeline between Farningham and Hadlow in Kent. The total investment in the project will be around £50m.

Scotia Gas Networks Priorities in 2009/10 and Beyond
SSE's priority in gas distribution will continue to be to provide SGN with the corporate and management services to support its ongoing drive to operate with the maximum possible efficiency, building on the progress made in the last four years. The successful delivery of the second phase of SGN's gas network 'System Control', and of the £50m high pressure gas pipeline project in Kent, are among SGN's key priorities. //

Telecoms Networks

Introduction to Telecoms
After electricity and gas, Telecoms is SSE's third networks business. It combines SSE Telecom and Neos Networks and, following several acquisitions in recent years, now operates a 10,300km UK-wide telecoms network, providing services for other telecoms providers, companies and public sector organisations. This includes 4,100km of fibre optic cabling which SSE owns; the remainder is leased lit fibre (2,600km) and microwave radio (3,600km). As a result, SSE is the fourth largest telecoms network company in the UK.

The business offers customers a national telecoms network, and has a UK-wide sales force and a competitive range of products targeted at public sector organisations, medium and large enterprises, internet service providers, application service providers and other licence operators. As a subsidiary of SSE, it is also able to position itself as one of the UK's most financially secure telecoms network operators, which gives it an important competitive advantage, especially during an economic downturn.

Telecoms Operations
SSE's combined Telecoms business achieved an operating profit* of £15.5m during 2008/09, compared with £13.1m in the previous year (excluding the telecoms assets disposed of in August 2007). This reflected a strong sales performance and greater success in retaining customers. During the year, the consolidation of the fibre optic and telecom duct assets acquired in 2007/08 was successfully completed.

Telecoms Investment
In 2008/09, SSE undertook capital expenditure of £23.0m in respect of its telecoms networks, principally focused on improving network reliability and reach.

Telecoms Priorities in 2009/10 and Beyond
SSE's priority in Telecoms in 2009/10 is to continue to grow its sales, using its now-integrated expanded nationwide network, with its competitive range of products targeted at commercial and public sector customers. Longer term, its ambition is to become the UK's leading alternative telecoms network, capable of delivering a consistent level of growth. //

Energy-Related Services

Operating profit up 8.9% in Contracting, Connections and Metering

SSE's operating profit derived from its Contracting, Connections and Metering activities grew by 8.9%, to £74.8m. SSE's Southern Electric Contracting is one of the UK's leading electrical and mechanical contractors.

Safety Service Efficiency Sustainability Excellence **Teamwork**

We support and value our colleagues and enjoy working together as a team in an open and honest way. This means working as a team to fulfil SSE's core purpose – providing the energy people need in a reliable and sustainable way.

Total Number of Employees (headcount)

Year	Employees
2009	18,795
2008	16,892
2007	13,427

18,795

Introduction
As well as being involved in Generation, Supply and Networks, SSE also provides an additional range of energy-related services which complement its other businesses: Contracting, Connections and Metering, including Utility Solutions; Energy and Home Services; and Gas Storage. These are important services, on which customers depend, so that their increasingly complex energy requirements can be met.//

Energy-Related Services Key Performance Indicators

	March 09	March 08
SEC order book (£m)	**101**	99
New electrical connections	**36,000**	42,800
New gas connections	**7,300**	8,200
Out-of-area networks in operation	**47**	33
Telecoms customers	**217,000**	165,000
Home services customers	**115,000**	70,000
Gas storage customer nominations met (%)	**100**	100

Contracting, Connections and Metering

Operating profit* in Contracting, Connections and Metering rose by 8.9%, from £68.7m to £74.8m, during 2008/09.

Introduction to Contracting
SSE's Contracting business, Southern Electric Contracting (SEC) has three main areas of activity: industrial, commercial and domestic mechanical and electrical contracting; electrical and instrumentation engineering; and public and highway lighting. Now employing 4,700 people, it is one of the largest mechanical and electrical contracting businesses in the UK. It operates from 57 regional offices throughout Great Britain and also trades as SWALEC Contracting in Wales and Scottish Hydro Contracting in Scotland.

Contracting Performance During 2008/09
SEC made solid progress during 2008/09, with its order book ending the year at £101m, which was slightly higher than the year before, despite the onset of the economic recession. The order book was supported by significant new contract wins with a number of major organisations in recent months, ranging from Network Rail to the University of Bristol.

A major proportion of SEC's business is from public sector bodies and end-user client organisations with a high degree of 'repeat' business or long-term contracts. This puts it in a relatively good position to withstand the economic downturn. Nevertheless, there is clearly a risk that the business' order book and profitability will be affected as a result of the recession. As a result, cost control and customer relationships are a particularly high priority for SEC during 2009/10.

SEC remains the UK's leading street-lighting contractor, and in 2008/09 retained four maintenance contracts with local authorities, gained three and lost one, giving it a total of 24 contracts covering over one million lighting columns as at 31 March 2009.

In addition, through its partnership with the asset finance division of The Royal Bank of Scotland, SEC operates street lighting maintenance and replacement projects for four local authorities in England under the Private Finance Initiative and has a further three such projects following its acquisition of Seeboard Trading Limited in 2007/08. In total, these projects cover around 300,000 street lighting columns and all have at least 20 years to run.

Contracting Priorities in 2009/10 and Beyond

The first priority for SEC in 2009/10 is to ensure that it delivers a high standard of service to all customers in all of the sectors in which it operates. In an economic downturn, it is important to maximise business opportunities with existing customers, and a top quality level of service is fundamental to that. This, in turn, should enable SEC to consolidate its position among the leading GB-wide electrical and mechanical contractors. During 2009/10 a total of eight PFI contracts will be determined and SEC is aiming to add to its existing portfolio in this area. It is also aiming to retain street lighting maintenance contracts.

Introduction to Connections, Including Utility Solutions

As its name implies SSE's Connections business provides electricity connections for homes, offices and businesses. Separately, during 2008/09, SSE combined its existing 'out-of-area' embedded electricity networks (previously known as 'National Networks'), its licensed gas transportation business (SSE Pipelines), SSE Water and its commercial energy services company (ESCo) business in order to provide a one-stop solution for/-

Energy-Related Services

Dependability, Security, Innovation

SSE provides energy and utility-related services. It owns and operates the UK's largest onshore gas storage facility and is developing a second such facility. Its Contracting group operates from almost 60 regional offices throughout Great Britain. SSE Utility Solutions provides a 'one-stop' approach for customers in the land development and construction sectors. SSE Home Services has over 330,000 customers.

30 Lighting contracts

325mcm Gas storage capacity

47 Networks

Energy-Related Services

Key Priorities

- → Development of additional gas storage capacity
- → High service standards to maximise 'repeat' contracting business
- → Building up 'one stop' approach to utility provision
- → Continued expansion of Home Services

The first priority for Contracting in 2009/10 is to ensure that it delivers a high standard of service to all customers in all of the sectors in which it operates. In an economic downturn, it is important to maximise business opportunities with existing customers, and a top quality level of service is fundamental to that.

Energy-Related Services (continued)

'multi-utility' infrastructure requirements. In line with that, the combined business, now named SSE Utility Solutions, provides electricity, gas, water, heat and fibre-to-home solutions.

Electricity Connections
During 2008/09, SSE completed 36,000 electrical connections, compared with 42,800 in the previous year. This was the second successive year in which the number of connections completed fell, and the recession means SSE expects a further decline in 2009/10 – although the financial impact of any decline should be partly offset by connection work relating to wind farms.

Utility Solutions – Electricity Networks
SSE has continued to develop its portfolio of electricity networks outside the Southern Electric and Scottish Hydro Electric Power Distribution areas. It now owns and manages 47 energised electricity networks outside these two areas, with development work ongoing at a number of these, and a further seven are under construction, including residential and commercial developments across England, Scotland and Wales. In total, SSE has 390MW of energised networks capacity, including 3MW currently under construction. Nevertheless, a reduction in new development activity in the UK economy is clearly evident and this will have an impact on SSE's shorter-term growth ambitions in this area, although its market share has been increasing and it expects this to continue.

Utility Solutions – Gas Pipelines
SSE is also a licensed gas transporter and installs, owns and operates gas mains and services on new housing and commercial developments throughout the UK. Although at a slower rate than in previous years, the total number of new premises connected to its gas networks has continued to grow, and during 2008/09, it connected a further 7,300 premises, taking the total number of connections to more than 60,000. This is despite an increasing number of building sites being mothballed, and building projects being deferred, which means the number of gas connections completed in 2009/10 is likely to be lower than in the previous year.

Utility Solutions – Water
SSE Water (SSEW) is the first new company to offer both water and sewerage services since privatisation in England and Wales in 1989, and its establishment will enable SSE to provide, over the long term, a more comprehensive multi-utility solution to customers in the property development and house-building sectors, through being able to install, own, operate and supply water and sewerage services alongside its existing electricity and gas services.

An 'inset' appointment is the route by which one company replaces another as the appointed water and/or sewerage company for a specified area. SSE Water was granted its first inset appointment in October 2007 to become the water and sewerage provider to a housing development near Salisbury. In March 2009, Ofwat varied the inset appointment of SSE Water, allowing it to serve a large development consisting of houses and commercial premises in south Wales, at Llanilid.

Out-of-area Networks

SSE owns and operates electricity networks outside its Southern Electric and Scottish Hydro Electric network operator areas. These networks are throughout England, Scotland and Wales.

Utility Solutions – Energy Services
SSE provides site-wide energy infrastructure for industrial, commercial, public sector and domestic customers. Utility Solutions currently operates and maintains commercial and domestic heating along with a 4.5MW Combined Heat and Power (CHP) facility at Woolwich, and it is developing biomass, heat pump and wind energy solutions for communities and commercial enterprises (most of customers' CHP assets are now managed within SSE's Generation and Supply business).
The impact of the economic slowdown on the UK's construction sector means that projects to develop new residential CHP schemes are fewer than was the case a year ago and SSE is now seeking to participate in other markets such as health, education and defence.

Utility Solutions Priorities for 2009/10 and Beyond
The key priority is to complete the combination of business activities under the SSE Utility Solutions name and develop the comprehensive package of services available to customers, all with the objective of creating a profitable business with activities throughout the UK.

Introduction to Metering
SSE's Metering business provides services to most electricity suppliers with customers in central southern England and the north of Scotland and has undertaken a programme of in-sourcing of meter reading operations and meter operator work in other parts of the UK. It supplies, installs and maintains domestic meters and carries out metering work in the commercial, industrial and generation sectors. It also offers data collection services to the domestic and SME sectors.

Metering Performance During 2008/09
In total, SSE owns 3.76 million meters and changes around 280,000 meters each year as they reach the end of their useful life or to meet customers' requests for changed functionality. During 2008/09, it collected around 6.4 million electricity readings and 2.6 million gas readings, up from 5.8 million and 2.3 million respectively in the previous year.

This increase partly reflects the fact that, over the past two years, SSE has in-sourced

meter reading and meter operations work relating to its own customers in a number of parts of Great Britain. This process has so far taken the total number of people employed in the Metering business to over 1,000 as at March 2009 and means SSE is able to read over 70% of meters relating to its customers' electricity and gas accounts.

This programme of in-sourcing is continuing, so that by the end of 2009/10, SSE expects to be undertaking meter reading work in all but three of the former electricity supply regions in Great Britain and meter operator work in all but four.

An accurately-read meter is the cornerstone of good service in energy supply. This programme of in-sourcing delivers significant savings against contractor costs and supports the energy supply brands by delivering improved customer service, partly through the face-to-face contact that takes place between SSE and its customers and partly through the delivery of a more reliable meter reading service. At the same time, it provides a foundation from which SSE will be able to deploy other energy-related services and products as customers increasingly seek help and advice to reduce their consumption of electricity and gas.

Smart Metering
'Smart' metering is an emerging system that enables the quantity and value of electricity and gas used by the customer to be continuously monitored and allows information about its use and cost to be available to the customer and exchanged with the supplier, through two-way electronic communications.

SSE is a leading participant in the UK government-sponsored Energy Demand Reduction Project, in which smart meters are the subject of a trial, and in 2008/09 installed around 9,000 smart meters in homes in Perthshire, Oxfordshire and in south Wales.

The Energy Act 2008 includes powers to enable the Secretary of State for Energy and Climate Change to make the necessary arrangements to facilitate the installation of smart meters throughout Great Britain. The UK government has said that smart meters will be rolled out to all domestic customers by the end of 2020 and in May 2009 embarked on a consultation to consider the best model for rolling out smart meters to 26 million homes in Great Britain.

'Smart' metering is an emerging system that enables the quantity and value of electricity and gas used by the customer to be continuously monitored and allows information about its use and cost to be available to the customer and exchanged with the supplier, through two-way electronic communications.

SSE strongly supports smart meters, and the opportunity they provide to help customers cut their energy consumption, while reducing the number of service-based tasks which are largely administrative and reactive in nature, and replacing them with more substantive energy advice, products and services. They have the potential to help transform the relationship between customers and their energy supplier.

Metering Priorities in 2009/10 and Beyond
For Metering, the key priority is the successful progress of in-sourcing of work in various parts of Great Britain, in line with SSE's long-term objective of building a national metering business, and maximising the number of bills issued to customers on the basis of an actual – as opposed to estimated – meter reading. It is also important that SSE's participation in the Energy Demand Reduction Project continues to be successful, with the lessons learned from it being used to support a full roll-out of smart meters throughout the country.//

Energy and Home Services

Introduction to Energy and Home Services
'Energy services' is a frequently used term, which has different meanings within different organisations. For SSE it means products and services which complement the supply of electricity and gas.

SSE's energy and home services team offers a range of maintenance and protection services for customers' gas and electrical systems and a full range of gas and electrical installation services. It also offers electricity and gas appliances and telecoms products and community-focused renewable energy schemes.

Adjusted profit before tax* during 2008/09 reflects the requirements to make a provision of £9.6m in respect of a reorganisation of SSE's Home Services businesses, including appliance retailing.

Energy and Home Services Performance During 2008/09
SSE's gas boiler, central heating and wiring protection service (**shield**) is now in its third year of operation and at 31 March 2009 had 115,000 customers, an increase of 45,000 on the previous year. The service now covers 43 postcode areas, enabling 65% of SSE's existing energy customers to benefit from it.

The **talk** telecoms package, under which telephone line rental and calls services are supplied, now has 217,000 customers, an increase of 52,000 on the previous year. In March 2009, SSE also launched a new broadband service under which customers are offered unlimited high-speed wireless broadband, supported by a three-year partnership agreed with BT Wholesale.

Sales of electrical and gas appliances have struggled in the light of the recession and in line with the downturn in sales experienced across the retail sector, and this prompted a reorganisation of SSE's activities in this area.

Higher energy prices reached in 2008/09 had the effect of renewing customers' and communities' interest in the potential for wind to help meet their electricity needs in a sustainable way. For example, after a number of public consultations, residents on the Orkney island of Sanday voted in favour of a joint community wind project with SSE and a planning application for a community wind turbine was granted in January 2009.

Energy Services Priorities for 2009/10 and Beyond
SSE's key priorities in energy services during 2009/10 are to:

- increase customer numbers;
- develop the range of products available;
- continue to move the **shield** business towards profitability; and
- commence construction on the first community wind energy schemes.//

Energy-Related Services (continued)

Gas Storage

At Hornsea, gas can be injected at a rate of 2mcm per day and withdrawn at a rate of 18mcm per day, which is equivalent to the requirements of around four million homes. The services offered at Hornsea provide customers with a reliable source of flexibility with which to manage their gas supply/demand and respond to market opportunities.

Introduction to Gas Storage

It is generally recognised that the UK has insufficient gas storage. This under-capacity reflects the reliance it was able to place in past years on gas production from the North Sea. As North Sea gas declines, UK imports will continue to increase to meet demand from domestic customers, the increasing number of gas-fired power stations and other industrial and commercial users. At the same time, the wholesale gas market has become increasingly volatile, with significant rises in prices for gas in the UK, particularly during days of higher demand and colder-than-forecast weather.

All of this means there will be a growing demand in the UK for more gas storage facilities to help provide security of supply of gas. Such facilities therefore have a long-term value, especially if their cycle rate (the speed at which gas can be withdrawn from storage and then replaced) is fast enough.

SSE owns and operates the UK's largest onshore gas storage facility at Hornsea in East Yorkshire, in which around 325 million cubic metres (mcm) of gas can be contained in a total of nine caverns and with Statoil (UK) Ltd is developing another gas storage facility at Aldbrough. To form such caverns, salt deposits around 2km underground are leached out by seawater which, in turn, is replaced by gas under pressure. Hornsea accounts for around 15% of the total gas storage capacity in the UK.

At Hornsea, gas can be injected at a rate of 2mcm per day and withdrawn at a rate of 18mcm per day, which is equivalent to the requirements of around four million homes. The services offered at Hornsea provide customers with a reliable source of flexibility with which to manage their gas supply/demand and respond to market opportunities.

Gas Storage – Operations

Gas Storage delivered an operating profit* of £42.7m, during 2008/09, compared with £50.9m in the previous year. The reduction reflects the lower prices achieved at the start of the new storage year.

One of SSE's priorities for 2008/09 was to ensure that Hornsea maintained its excellent record of dependability, and during the year it was 100% available to customers, except in instances of planned maintenance. This enabled customers to manage their gas market risks and respond to gas trading opportunities.

Gas Storage – Investment

SSE's joint venture with Statoil (UK) Ltd to develop at Aldbrough what will become the UK's largest onshore gas storage facility made further important progress during the year, but at a slower rate than originally expected with the development as a whole is taking longer than was expected when it started in 2004. This is the result of a series of issues, including leaching of caverns requiring more time than planned and problems with the installation and operation of some equipment such as valves and compressors.

Nevertheless, the gas export capability of the facility has now been successfully tested and the first 60mcm of storage capacity has been importing and exporting gas during the commissioning phase and should be in commercial operation in June 2009. Aldbrough will provide the first new gas storage facility to become available in the UK for four years. Capacity in another two caverns is currently expected to become available by the end of 2009/10.

When fully commissioned, currently expected to be in 2012, it will have the capacity to inject gas and store up to 370mcm in nine underground caverns. Aldbrough will be the largest onshore gas storage facility in the UK and have the capacity to deliver gas to the National Transmission System at a rate of 40mcm per day, equivalent to the average daily consumption of eight million homes and the ability to have up to 30mcm of gas per day injected.

As the UK becomes increasingly dependent on imported gas to meet growing demand from new power stations and industry, gas storage will play an essential role in meeting its energy needs. Aldbrough, able to inject and deliver gas rapidly to meet fluctuations in demand and supply, will provide a valuable source of flexibility to the UK gas market.

SSE and Statoil (UK) Ltd now expect to invest a total of over £300m to complete the Aldbrough phase one development, with SSE owning two thirds of the capacity and Statoil (UK) Ltd owning one third.

Investment in gas storage in the UK will benefit from the decision by HM Revenue and Customs in April 2009 to recognise the purchase of cushion gas, required to maintain pressure within storage caverns, as part of the capital cost of a development. This means it is eligible for tax relief through plant and machinery capital allowances.

SSE and Statoil (UK) Ltd have secured consent to increase the storage capacity at the Aldbrough site beyond that currently under development. If developed in full, this would approximately double the amount of gas that can be stored, to well over 700mcm. SSE believes that there is a case for investing in additional gas storage facility and is aiming to take a final decision on whether and how to invest in a second phase of development at Aldbrough during 2009/10.

Gas Storage Priorities in 2009/10 and Beyond

SSE's priorities in Gas Storage during 2009/10 are to:

- → maintain its excellent record of reliability at Hornsea;
- → maximise the amount of capacity at Aldbrough that is available for commercial storage; and
- → make a decision on whether to proceed with the Aldbrough extension.

Longer-term, SSE will also continue to look for other opportunities to add to its gas storage capacity. //

Managing Risk

Introduction
There are many definitions of 'risk management' and the events of 2008 demonstrated that very high profile organisations with apparently textbook approaches to the issue can be overwhelmed by fundamental failures which well-documented systems and processes appeared powerless to prevent.

Ticking the right boxes is a responsible thing to do, but it is no substitute for a more fundamental responsibility on the part of companies: to ensure their overall business model and strategy and culture is designed with risk firmly in mind.

Limiting Value at Risk
SSE's strategy is to deliver sustained real growth in the dividend payable to shareholders through the efficient operation of, and investment in, a balanced range of regulated and non-regulated energy-related businesses. In practice, this means SSE derives income and profit from businesses which are subject to economic regulation and businesses which are not. At the same time, those businesses have a common core: energy.

In the regulated category, SSE is involved in three separate activities – electricity transmission, electricity distribution and gas distribution.

In the latter (non-regulated) category, SSE is involved in electricity production and in electricity and gas supply. Within electricity production, it uses a variety of sources – coal, gas, oil, biomass, wind and water – from which to generate power.

These businesses are complemented by other energy-related activities such as contracting, connections, metering and gas storage.

The practical effect of this is to limit both the extent of any single risk and the value associated with it, and the need to limit the value at risk is at the heart of SSE's decision-making processes. SSE is the only company listed on the London Stock Exchange involved in electricity and gas distribution and supply, with the associated business model which is capable of offering such balance and such a framework for limiting the value at risk.

Clarity of Financial Goal
SSE's decision-making processes, including its assessment and management of risks, are also supported by the clarity of its fundamental financial goal for shareholders – to deliver sustained real dividend growth – which all members of the Board are agreed must not be subverted for any other financial end. Against this background, SSE believes it has – and should be seen to have – a relatively risk-adverse approach, consistent with this fundamental financial goal.

Within this model, SSE has in place a comprehensive approach for assessing and managing risks and maintaining internal controls, such that neither the company nor its reputation are undermined by failures or misjudgements. These are set out below.

Approach to Risk Management
The objectives of SSE's risk management policy are to ensure that risk is:

- consistently identified, measured, monitored and reported across all business activities;
- managed in a co-ordinated way, with clear roles and responsibilities; and
- managed within SSE's specified risk appetite.

Assessment of Risks
Risks are assessed by management and reported on in each business unit within SSE. An overview of the main risks are set out by the Group Audit department for the Audit Committee meetings held in November and May of each year, and also annually for the Board – most recently at its meeting held in March 2009, during which it reviewed principal risk categories and the effectiveness of SSE's system of internal controls. This process involves an assessment of both the likelihood and importance of each risk.

The Risk and Trading Committee of the Board meets monthly to review operational and financial risks and exposures in energy trading, generation and treasury.

The policy of the Board is to ensure proper identification, measurement, and monitoring of such risks, ensure clarity of roles and responsibilities, and to ensure where possible that risks are covered or hedged within SSE due to the diversity of energy-related activities.

Risk Categories
The risks are set out under six principal categories, summarised below. They are:

- **Strategic risk** is defined as losses resulting from a fundamental and long-lasting change to the business environment within which SSE operates. Strategic risks which SSE has to manage include material changes in economic and financial conditions and the impact of climate change.
- **Market risk** stems from unexpected adverse movements in commodity prices and exchange rates. Market risks which SSE has to manage include its obligations to supply customers with electricity and gas. Related to this, SSE's Risk and Trading Committee is authorised to take on energy market risk within specified limits. There are also general market risks from the competitive market place which SSE operates in.
- **Credit risk** arises from the default of a contractual counter-party resulting in failure to settle or deliver on liabilities. Credit risk exists in SSE's core business due to its need to purchase fuel for generating assets and as a consequence of its energy trading activity. SSE does not deliberately seek exposure to credit risk as a means of generating profit.
- **Financial risk** covers interest rates, foreign exchange, liquidity or credit – in summary, the failure to have sufficient financial resources to meet obligations as they fall due.
- **Operational risk** stems from the failure of internal processes, systems or people and from external events not included in other categories. Operational risk is inherent in SSE's activities due to the relatively complex nature of its business processes.
- **Regulatory and legislation risk** covers environmental, safety, regulatory and general legislative and public policy changes which can affect any aspect of SSE's business. /-

There are many definitions of 'risk management' and the events of 2008 demonstrated that very high profile organisations with apparently textbook approaches to the issue can be overwhelmed by fundamental failures which well-documented systems and processes appeared powerless to prevent.

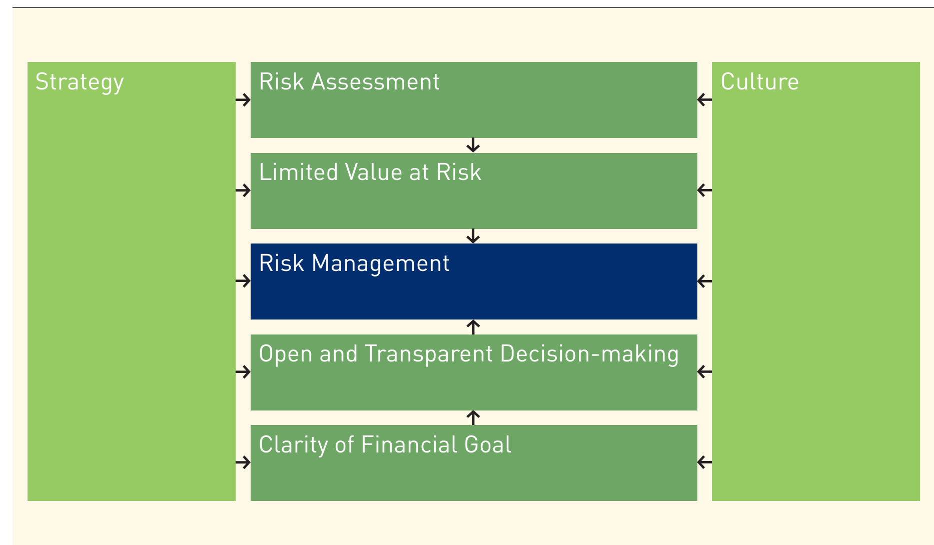
Managing Risk (continued)

Management of Risk Categories

In addition to SSE's well-established policies and procedures on internal control and risk management, including managers' defined responsibilities, and its active and ongoing programme of audit reviews, designed to review internal control environments in key risk areas, SSE has the following approaches to managing principal risk categories:

- **Strategic risks** are minimised by SSE's approach of operating and investing in a balanced range of regulated and non-regulated energy-related businesses, thus limiting the value at risk. The other key feature of SSE is that it provides energy, which is something that is needed rather than just wanted.
- **Market risks** are managed through volumetric limits on commodity-related risks and through the application of a Value at Risk (VaR) model applied in the context of the underlying position and how it could change. The exposure is subject to financial limits established by the Board and managed by the Risk and Trading Committee. Operationally, the economic risks associated with this exposure are managed through a selection of longer- and shorter-term contracts for commodities. More fundamentally, SSE manages generation and supply activities as a single value chain which, in itself, is a means of managing risks.
- **Credit risks** in relation to SSE's economically-regulated businesses are managed in accordance with industry standards as set out by Ofgem. The greatest credit risks lie with the non-regulated Generation and Supply business, for which specific credit risk controls that match the risk profile of those activities are applied. SSE does not deliberately seek exposure to credit risk as a means of generating profit.
- **Financial risks** are managed through the application of policies designed to maintain a balance between continuity of funding and flexibility, with debt maturities spread across a broad range of dates and the majority of interest rate exposure fixed. Liquidity risk and Going Concern is fully described in note 29 to the Accounts. More broadly, clear authorisation levels are maintained and there is clear segregation of accounting duties.
- **Operational risks** are managed through the identification of specific risks within each activity and the development of associated mitigation plans and deployment of relevant policies. More fundamentally, SSE prioritises the development and retention of experienced employees who have operated in a wide variety of circumstances and conditions and whose risk management experience is used. SSE has in place insurance policies in respect of all major risks, including operational, and these are reviewed annually by the Board.
- **Regulatory and legislation risks** are managed by engagement with regulators, government officials and other key organisations to ensure the risks are mitigated.

Risk Management Model



Appetite For Risk

As stated above, SSE has a generally risk-averse approach, consistent with its moderate (but nevertheless fundamentally important) financial goal of delivering sustained real growth in the dividend. Within this, its approach in respect of regulated businesses is more risk-averse than is the case in other activities, where SSE might consider taking on additional risk where the risk is very well-understood and can be mitigated and the potential returns are clearly attractive (but also credible).

Culture

Also central to SSE's approach to risk is its core value of Teamwork, defined as supporting and valuing colleagues and working together in an open and honest way. This doesn't just allow but encourages full discussion of the risks and rewards of any major decision – discussion which involves people because of what they know, not simply who they are.

A company's culture can be a risk in itself. If mistakes are harshly dealt with, they will be hidden; if arrogance is tolerated within an organisation, the risk of poor decisions goes up. If bonuses encourage sub-optimal behaviour, sub-optimal behaviour will result. SSE, on the other hand, regards culture as a risk management tool. In this context, the practical application of the Teamwork value within SSE means the award of team-based bonuses and a culture of openness and transparency. The Board reviewed the organisational culture, and its impact on the company's management and operations, in May 2009 and is satisfied that it is generally consistent with the company's publicly-stated core values of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork.

Purpose and Risk

As stated above, SSE's purpose is to provide energy, which is something people need. Its principal financial goal is to deliver sustained real dividend growth, which is moderate. In their book, *Built to Last*, Jim Collins and Jerry Porras wrote about companies that do 'not view business as ultimately about maximising profitability'. That is SSE's view of sustainable business and it underpins its approach to risk management in all aspects of its activities. It means current management meeting the needs to present stakeholders, customers, employees, communities and shareholders without compromising the ability of future management to meet their stakeholders needs. //

Corporate Governance Report

Dear Shareholder

I am pleased to introduce our Corporate Governance Report for the year 2008/09.

The Board's principal objective is to ensure that the Group delivers its strategy whilst ensuring that this is carried out within a sound framework of corporate governance. The Board believes that strong corporate governance enhances shareholder value and this report sets out how the governance framework is implemented across the Group.

Sir Kevin Smith retired at the 2008 Annual General Meeting after four years of service on the Board. He was an outstanding Director and made a valuable contribution to the success of the company. I am pleased that we have been able to appoint Thomas Andersen as a non-Executive Director from 1 January 2009. Thomas has brought a wealth of experience and knowledge to the Board having held a number of senior appointments in the US, the UK and Denmark. His appointment complements very well the contributions of the other Directors. Following this appointment, the Board now comprises four Executive Directors and five independent non-Executive Directors, in addition to myself as Chairman.

During the year Board meeting arrangements were changed. We now have Board meetings every two months or as business dictates. Usually these are full-day meetings preceded by dinner with senior managers and other stakeholders which has given the Board more time to engage in detailed discussions on business and strategic matters. We also have Board teleconference calls to update the Board on current business performance in those months when the Board is not holding a full meeting. The year being reported on reflects a transition to these new arrangements which I believe are working well and make better use of the Directors' time.

The Board continued to visit new and existing operational sites. We held our meeting in June 2008 at Ferrybridge Power Station and the Directors were updated on the flue gas desulphurisation project and given a tour of the site. The Board meeting in March 2009 was also held on-site at the new operations centre near Havant on the south coast of England. Our non-Executive Directors are specifically expected to devote some individual time to operational visits and to meet managers and I am pleased that they were able to do so. During the year, the Directors also met a wide range of stakeholders as well as investors and analysts.

We have completed our Board and Committee performance evaluation for the year. The evaluation process highlighted some areas where improvements could be made but overall the conclusion was that the Board continues to function well.

Lord Smith of Kelvin
Chairman
20 May 2009

The Framework of Corporate Governance
The Board is accountable to the company's shareholders for the good conduct of the company's affairs.
The following report sets out how the company applies the principles of the 2006 Combined Code on Corporate Governance ('the Code').

Throughout the year the company monitors developments in corporate governance best practice. Due regard is also given to the policy guidelines of organisations representing major institutional investors. In addition, internal procedures are regularly reviewed and updated by the Board and the various Board Committees.

Combined Code Compliance
The Board continues to be committed to ensuring that the highest standards of corporate governance are maintained. The Board confirms that the company has, throughout the period under review, complied with all provisions set out in Section 1 of the Code.

ORGANISATION AND STRUCTURE

Role of the Board
The Board is collectively responsible for creating and sustaining shareholder value through the overall management of the Group whilst ensuring that a sound system of internal control and risk management is in place.

The Directors are fully briefed in advance of Board meetings on all matters to be discussed, including regular business and financial reports, and they also receive copies of analysts' and brokers' reports on the company.

The Board receives detailed financial and operational information to allow it to monitor effectively the performance of the key areas of the business. It also receives regular updates on the progress and performance of investments and other major decisions made by it, together with business reports and presentations from senior management.

Memorandum and Articles of Association
The powers of the Directors are determined by UK legislation and the company's Memorandum and Articles of Association, which are available on the company's website (www.scottish-southern.co.uk). To reflect certain changes to company law made by the Companies Act 2006, shareholders voted to adopt new Articles of Association at the 2008 Annual General Meeting (AGM). Further amendments /-

Corporate Governance Report (continued)

to the Articles of Association are likely to be required at the AGM in 2010, to reflect the full implementation of the Companies Act 2006.

Board Decisions

A formal schedule of matters is specifically reserved to the Board for its decision, including:

- Group strategy;
- annual budget;
- approval of interim and final financial statements;
- interim dividend payments and recommendation of final dividends;
- significant changes in accounting policy and practice;
- the Group's corporate governance and system of internal control;
- Board and Committee membership;
- major acquisitions, mergers, disposals and capital expenditure;
- changes in the capital and structure of the Group; and
- approval of key policies such as safety, health and the environment.

The schedule is reviewed regularly by the Board and is published on the company's website (www.scottish-southern.co.uk).

Roles of Chairman and Chief Executive

The roles of the Chairman and the Chief Executive are separate and clearly defined.

The Chairman is responsible for the operation, leadership and governance of the Board, ensuring that it operates effectively whilst providing appropriate challenge to management.

The Chairman regularly meets with senior managers at locations throughout the Group. Although not a member, he regularly attends the Audit Committee meetings. External engagements included meetings with analysts and other representatives of institutional investors, and he participated in both the interim and annual results presentations. Biographical information on the Chairman is set out on page 64.

The Chief Executive is responsible for the day-to-day management of Group business and the implementation of strategy and policy as agreed by the Board. In discharging his responsibilities, the Chief Executive is advised and assisted by senior management and a number of specific management committees from throughout the Group's businesses. Biographical information on the Chief Executive is set out on page 64.

Balance of the Board

The Board consists of four Executive Directors and five independent non-Executive Directors, in addition to the Chairman, Lord Smith of Kelvin. This gives the Board a good balance of independence and experience, ensuring that no one individual or group of individuals has undue influence over the Board's decision-making. The composition of the Board and its Committees is regularly reviewed to ensure that this balance and mix of skills and experience is maintained.

Non-Executive Directors

The responsibilities of the non-Executive Directors include to:

- scrutinise, measure and review the performance of management;
- assist in the development of strategy;
- review the financial information;
- ensure systems of internal control and risk management are appropriate and effective;
- manage the relationship with the external Auditor; and
- review the remuneration of and succession planning for the Board.

Independence and Experience of non-Executive Directors

The Board has assessed the independence of the non-Executive Directors against the criteria set out in the Code and has concluded that they are all independent in character and judgement. In line with the recommendations of the Code, at least half the Board, excluding the Chairman, are independent non-Executive Directors. Lord Smith of Kelvin was also independent when appointed Chairman.

The non-Executive Directors are chosen for their wide range of skills and experience. Their continuing independence of judgement is confirmed in the annual Board performance evaluation process. Non-Executive Directors serve on the Board Committees of Audit, Nomination and Remuneration, and one serves on the Health, Safety and Environmental Advisory Committee. Further details on the membership and operation of these Committees are set out on pages 58 to 61.

The Chairman and non-Executive Directors met during the year without the Executive Directors being present.

All of the non-Executive Directors have been appointed for fixed terms of three years. Appointment letters are available on the company's website (www.scottish-southern.co.uk).

Senior Independent Director

Susan Rice is the Senior Independent Director. She is available to meet with major shareholders on request and she attended the city presentation of the Group's half-year results. In November 2008 she carried out the Chairman's performance evaluation, together with the other non-Executive Directors.

Director Appointments

In accordance with the Code and the company's Articles of Association, all Directors are required to stand for re-appointment by shareholders at the first AGM following appointment to the Board. Thomas Andersen, who was appointed as an independent non-Executive Director during the year, will stand for re-appointment at the forthcoming AGM. In addition, all Directors are required to retire by rotation and stand for re-appointment at least every three years. Susan Rice and Gregor Alexander will stand for re-appointment at this year's AGM. The Board evaluation process confirmed that the performance of the Directors standing for re-appointment continued to be effective and that they continue to demonstrate commitment in their respective roles. The Code states that any length of service beyond six years for a non-Executive Director should be subject to particularly rigorous review and should take into account the need for progressive refreshing of the Board. It is confirmed that Susan Rice as Senior Independent Director continues to have the appropriate experience, knowledge and independence to remain in this role. Biographical details for all the Directors are set out on pages 64 and 65.

Attendance at Board and Board Committee Meetings

Non-attendance at Board and Committee meetings is rare, although may arise due to unforeseen circumstances or prior commitments which could not be rearranged. Where a Director is unable to attend a meeting he or she provides comments and feedback to either the Chairman, Committee Chairman or Company Secretary, who ensure that the comments received are raised at the meeting.

The attendance of Directors at Board meetings and at meetings of the five principal Board Committees during 2008/09 is set out in Table A opposite.

The Board is currently scheduled to hold six meetings in 2009/10, together with update teleconference calls.

Table A – Attendance at Meetings

	Board 8 meetings	Audit Committee 3 meetings	Nomination Committee 2 meetings	Remuneration Committee 3 meetings	Risk and Trading Committee 12 meetings	Health, Safety and Environmental Advisory Committee 3 meetings
Lord Smith of Kelvin	8	–	2	3	–	–
Gregor Alexander	8	–	–	–	12	–
Thomas Andersen*	3	1	–	–	–	1
Nick Baldwin**	7	3	2	2	–	–
Richard Gillingwater***	8	3	2	3	–	–
Colin Hood	8	–	–	–	–	3
Ian Marchant	8	–	2	–	9	–
René Médori	8	3	2	–	–	–
Alistair Phillips-Davies	8	–	–	–	12	–
Susan Rice	8	–	2	3	–	–
Sir Kevin Smith****	3	–	–	1	–	1

* Thomas Andersen was appointed as a non-Executive Director with effect from 1 January 2009 and he attended all meetings from that date.
** Nick Baldwin was appointed to the Remuneration Committee and the Nomination Committee on 24 July 2008.
*** Richard Gillingwater was appointed to the Nomination Committee on 24 July 2008.
**** Sir Kevin Smith retired as a non-Executive Director on 24 July 2008 and attended all relevant meetings up to his retirement.

BOARD EFFECTIVENESS

Information and Professional Development

The Directors receive accurate, timely and clear information, with all Committee and Board papers being issued for review in advance of meetings. On joining the Board, Directors receive a comprehensive induction course tailored to their individual requirements which includes meetings with the Executive Directors and senior management, visits to key sites, and meetings with key stakeholders. It also covers a review of the Group's governance, policies, structure and business including details of the risks and operational issues facing the Group.

During the year, the Board and Board Committees were kept up-to-date with developments. This generally follows a forward programme where briefings are given by Executive Directors and senior management on developments in their business area. Additional specialist briefings and presentations were given on areas such as corporate governance and company law changes, regulation, public affairs, health and safety, and the company's major business activities. Separate more informal meetings were also held with senior management.

The non-Executive Directors have individual meetings, briefings and site visits. The briefings focus on subjects where they have specific knowledge or expertise, such as energy trading, operational matters and customer service. The site visits by individual non-Executive Directors during the year included a major power station, and one of the Group's main customer service centres.

The Board believes that given the experience and skills of the Directors and the briefings referred to above, any further personal training needs can be left to the discretion of the individual. The company makes the necessary resources available should any Director request training.

There is an agreed procedure for Directors to be able to take independent professional advice, if necessary, at the Group's expense. The prior approval of the Chairman is required where such advice is likely to exceed £10,000. Any advice obtained shall be made available to the other members of the Board, if the Board so requests.

All Directors have access to the advice and services of the Company Secretary.

The company continues to operate advanced performance coaching for some of the Executive Directors and for other members of senior management which is designed to develop and enhance individual and Group performance.

Executive Directors' Other Directorships

Executive Directors may be invited to become non-Executive Directors of other companies. Approval may be given to accept such invitations recognising the benefit to be derived to the individual and to the company. Any such appointments are included in the biographical information set out on page 64.

Conflicts of Interest

During the year a full analysis of the Board members' interests and appointments was carried out by the Company Secretary. The Board considered and authorised each Directors' reported actual and potential conflicts of interest at the September Board meeting. In accordance with the company's Articles of Association and relevant legislation, each Director abstained from approval of their own position. The Board will continue to monitor and review potential conflicts of interest on a regular basis. The Nomination Committee will keep under review any conflict or potential conflict of interest situations authorised by the Board and determine whether it is appropriate for such matter to remain so authorised.

Performance Evaluation

The Board, the Board Committees and the individual Directors undergo an annual process of performance evaluation. Senior management also participates in a performance evaluation programme.

During the year the Chairman conducted the performance evaluation of the Board. Each Director completed a detailed questionnaire. The questionnaires covered the Board and Committee processes, their effectiveness and where improvements could be made. Reports were produced on the key findings and the Chairman of the Board and the Committee Chairmen reported these findings to the Board meeting in January 2009 for discussion. Directors also participated in detailed reviews of individual performance which were carried out in one-to-one meetings with the Chairman. The process for evaluating the Chairman was managed by the Senior Independent Director /-

Corporate Governance Report (continued)

which involved a separate meeting of the non-Executive Directors chaired by the Senior Independent Director.

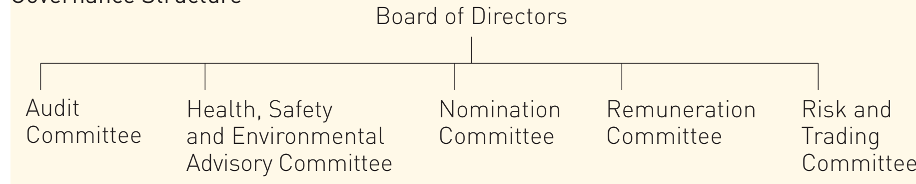
The review concluded that the Board and its Committees were operating effectively, continued to set clear objectives and focussed on the correct areas. Each of the Directors continued to make an effective contribution to the work of the Board and its Committees, was well informed and demonstrated full commitment to his or her duties. Some further areas were identified including a renewed focus on the future resource requirements of the Group as it continues to grow. These will be taken forward in 2009. The new Board meeting arrangements were considered to be a significant improvement.

The Board was satisfied that the performance evaluation process was a worthwhile exercise and the Directors had participated in an open and frank basis.

BOARD COMMITTEES

The Board has delegated authority to five principal Committees to carry out certain tasks as defined in each Committee's respective Terms of Reference. The Terms of Reference for all Committees are set by the Board and are reviewed regularly. The Terms of Reference are available for inspection on the company's website (www.scottish-southern.co.uk). The Governance Structure is detailed above and each Committee plays a vital role in ensuring that high standards of corporate governance are maintained throughout the Group. Membership is determined by the Board, on the recommendation of the Nomination Committee and in consultation with each Committee Chairman.

Governance Structure



AUDIT COMMITTEE

Role

The Audit Committee assists the Board in the effective discharge of its responsibilities for financial reporting and internal control, together with the procedures for the identification, assessment and reporting of risks. It acts independently of the Executive Directors.

In accordance with its Terms of Reference, the Committee is authorised by the Board to:

- ensure that the company's financial reports represent an accurate, clear and balanced assessment of the company's position and prospects;
- ensure the efficiency and monitor the effectiveness of the company's operations and internal control and risk management functions; and
- review the objectivity and independence of the external Auditors taking into consideration the scope of their work and fees paid for both audit and non-audit services.

The Committee has unrestricted access to company documents and information as well as to employees of the company and the external Auditors. The Audit Committee Chairman reports the outcome of meetings to the Board.

Membership

The members of the Audit Committee who held office during the year and at the date of this report are set out in Table B below.

The Company Secretary is Secretary to the Audit Committee.

All members of the Committee are independent non-Executive Directors.

In terms of the Code, at least one member of the Committee must have recent and relevant financial experience and all Committee members are expected to be financially aware. René Médori has considerable experience through his position as Finance Director of a major international listed company.

The Committee normally requests the Finance Director, Energy Supply Director, Head of Group Internal Audit and the external Auditors to attend its meetings. Senior management including the Group Treasurer, Group Financial Controller, Director of Energy Portfolio Management, Director of Corporate Affairs and Head of Portfolio Support may also attend to present reports.

Meetings and Activities in 2008/09

The Audit Committee had three meetings during the year.

During the year the Audit Committee undertook the following in order to discharge its responsibilities:

Financial Statements

- reviewed the financial statements in the 2008 report and accounts and the interim results. As part of this review the Committee received from the Auditor KPMG Audit Plc a report on their audit of the annual report and accounts and their review of the interim results; and
- reviewed the annual and interim results announcements.

Control Environment and Risk Management

- received six-monthly reviews by Group Internal Audit setting out the audit programme, its progress against the programme, the results of key audits and other significant findings, the adequacy of management's response and the timeliness of resolution of actions;
- reviewed and agreed the Group Internal Audit Plan for the year ending 31 March 2009;
- received six-monthly reports from energy trading and treasury setting out strategy, market developments, any significant risks and the controls in place to mitigate these risks;
- received six-monthly reviews from Group Internal Audit on the Internal Control Risk Assessment setting out the Group Risk Map and Residual Risk Map; and
- reviewed Post-Investment Appraisal Reports and Independent Project Reviews.

Table B – Members of the Audit Committee

Name	Role	Date of Committee appointment/resignation
René Médori	Committee Chairman and Non-Executive Director	Appointed June 2003
Thomas Andersen	Non-Executive Director	Appointed January 2009
Nick Baldwin	Non-Executive Director	Appointed November 2006
Richard Gillingwater	Non-Executive Director	Appointed May 2007

External Audit Process

- reviewed the effectiveness of the overall audit process for 2008/09, meeting with the Auditors and management separately to identify any areas of concern in the preparation of the financial statements;
- reviewed and agreed the terms of appointment, areas of responsibility, associated duties and scope of the audit as set out in the engagement letter for the forthcoming year;
- reviewed and agreed the audit fees, fees for non-recurring work and the regulatory reporting fee;
- reviewed key accounting and audit issues; and
- reviewed recommendations made by the Auditors in its management letter and the adequacy of management's response.

Independence of Auditor

- reviewed the extent of non-audit services provided by the Auditors in accordance with the established policy where:
  – a competitive tender process is required where non-audit fees exceed a threshold of £30,000 for general advice and £75,000 for tax-related advice;
  – the Committee must be satisfied that the work was best handled by the Auditors because of their knowledge of the Group; and
  – the Committee must be satisfied that the objectivity and independence of the Auditors was not affected by the work
- reviewed changes in the Audit team; and
- recommend to the Board that the Auditors be reappointed.

The non-audit work awarded during the year included:

- taxation advice including general consultancy, acquisitions, disposal and new markets; and
- accounting due diligence.

Full disclosure of the non-audit fees paid during the year is made in note 4 to the Financial Statements.

Evaluation

The annual evaluation was conducted by the Committee of its composition, role and responsibilities, operation and effectiveness, the conclusions of which were agreed and reported to the Board at its meeting in January 2009.

REMUNERATION COMMITTEE

Role

The principal responsibilities of the Remuneration Committee are:

- formulation of remuneration policy and approval of all aspects of the Executive Directors' remuneration, including bonuses and the granting of incentives under the company's schemes;
- ensuring that an appropriate proportion of pay is linked to corporate and individual performance; and
- review and approval of the Chairman's fees.

Membership

The members of the Remuneration Committee who held office during the year and at the date of this report are set out in Table C below.

The Company Secretary is Secretary to the Remuneration Committee.

The Committee normally requests the Director of People and the senior remuneration adviser to attend its meetings, and occasionally external advisers.

Meetings and Activities in 2008/09

The Remuneration Committee had three meetings during the year.

Full details of Directors' remuneration, general policy and developments during the year are given in the Remuneration Report set out on pages 66 to 75.

Evaluation

The annual evaluation was conducted by the Committee of its composition, role and responsibilities, operation and effectiveness, the conclusions of which were agreed and reported to the Board at its meeting in January 2009.

NOMINATION COMMITTEE

Role

The Nomination Committee reviews the structure, composition and balance of the Board and its Committees and leads the Board appointment process before making recommendations to the Board. Before an appointment is made the Committee evaluates the skills, knowledge and experience of the Board to ensure that any new appointment complements these qualities. Candidates from a wide range of backgrounds are considered and the selection process will generally involve interviews with a number of candidates, using the services of a professional search firm specialising in board level recruitment.

The Committee also reviews succession planning and leadership needs in the course of its work taking into account the risks and opportunities facing the company, and from this identifies the skills and expertise required from the Board and senior management team.

Membership

The members of the Nomination Committee who held office during the year and at the date of this report are set out in Table D below.

The Company Secretary is Secretary to the Nomination Committee.

Members do not take part in discussions about their own appointment. The Board Chairman would not chair the meeting when it is dealing with the appointment of his successor. In this case the /-

Table C – Members of the Remuneration Committee

Name	Role	Date of Committee appointment/resignation
Susan Rice	Committee Chairman and Non-Executive Director	Appointed November 2006
Nick Baldwin	Non-Executive Director	Appointed July 2008
Richard Gillingwater	Non-Executive Director	Appointed July 2007
Lord Smith of Kelvin	Board Chairman	Appointed November 2006
Sir Kevin Smith	Non-Executive Director	Retired July 2008

Table D – Members of the Nomination Committee

Name	Role	Date of Committee appointment/resignation
Lord Smith of Kelvin	Committee and Board Chairman	Appointed January 2005
Thomas Andersen	Non-Executive Director	Appointed January 2009
Nick Baldwin	Non-Executive Director	Appointed July 2008
Richard Gillingwater	Non-Executive Director	Appointed July 2008
René Médori	Non-Executive Director	Appointed November 2006
Susan Rice	Non-Executive Director	Appointed November 2007
Sir Kevin Smith	Non-Executive Director	Retired July 2008
Ian Marchant	Chief Executive	Appointed October 2002

Corporate Governance Report (continued)

meeting would be chaired by a non-Executive Director elected by the remaining members.

Meetings and Activities in 2008/09
The Nomination Committee had two meetings during the year.

Following the retirement of Sir Kevin Smith at the 2008 AGM, the Committee recommended the appointment of Thomas Andersen as non-Executive Director. This appointment was made on 1 January 2009. The Terms of Reference of the Nomination Committee were updated in July 2008. The Committee is now responsible for reviewing conflicts of interest authorised by the Board. During the year, the Committee also reviewed Board Committee membership and senior management succession planning.

Evaluation
The annual evaluation was conducted by the Committee of its composition, role and responsibilities, operation and effectiveness, the conclusions of which were agreed and reported to the Board at its meeting in January 2009.

RISK AND TRADING COMMITTEE

The Risk and Trading Committee comprises Alistair Phillips-Davies (Chairman), Ian Marchant, Gregor Alexander and senior managers from energy trading, electricity generation, finance and treasury. It met 12 times during the year to review and manage the operational and financial risks and exposures in energy trading, generation, and treasury. At each meeting, updates are provided on generation plant status, market conditions, commodity exposures, counterparty credit, trading limits and controls and treasury. The Assistant Company Secretary is Secretary to the Risk and Trading Committee.

HEALTH, SAFETY AND ENVIRONMENTAL ADVISORY COMMITTEE

The Health, Safety and Environmental Advisory Committee met three times during the year and was responsible for ensuring that health, safety and environmental policies had been implemented, setting targets and monitoring performance, and promoting awareness of these issues throughout the Group.

The Committee members are Colin Hood (Chairman), the Group Services Director, the Director of Generation, the Group Safety, Health and Environmental Manager and non-Executive Director, Thomas Andersen, with Ian Marchant attending as appropriate. The Company Secretary is Secretary to the Committee.

ACCOUNTABILITY, RISK MANAGEMENT AND INTERNAL CONTROL

The Board considers risk management and the system of internal control to be fundamental to achieving the Group's strategy.

The system of internal control is the Board's overall responsibility. Reviewing the system and monitoring its effectiveness is delegated to the Audit Committee and is reviewed at least annually by the Board.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement and loss.

The Board and the Audit Committee have reviewed the effectiveness of the internal control system in accordance with the Code for the period from 1 April 2008 to the date of approval of this Annual Report. No significant failings or weaknesses have been identified. However, had there been, the Board confirms that appropriate action would have been taken.

Internal control is maintained through an organisation structure with clearly defined responsibilities, authority levels and lines of reporting. The key elements of the Group's internal control process are summarised below:

The Board:
- → approves the policies, procedures and framework for the maintenance of a sound and effective system of internal control ensuring:
  - – the provision of quality internal reporting by the Audit Committee and other Board Committees, management and internal audit;
  - – the provision of quality reporting from the external Auditors;
  - – compliance with the Turnbull Guidance on Internal Control; and
  - – compliance with statutory and regulatory obligations;
- → reviews the significant risks identified by each business unit as well as the mitigating action against those risks following review by the Audit Committee;
- → approves and regularly reviews and updates the Group's strategy and business development;
- → reviews performance through a system of reporting based on annual operating and capital expenditure budgets; monthly reviews against actual results; analysis of variances and evaluation of key performance indicators;
- → receives regular reports from the Chief Executive, the Finance Director and the other Executive Directors; and
- → undertakes an annual evaluation of the Board, its Committees and individual Directors.

The Audit Committee:
- → assists the Board in the effective discharge of the responsibilities for financial reporting and internal control, acting independently of management;
- → ensures financial reports and formal announcements represent an accurate, clear and balanced assessment of the Group's position and prospects;
- → reviews and ensures the effectiveness of operational and internal controls, the reliability of the information and accounting systems, and the implementation of established policies and procedures;
- → monitors and reviews the effectiveness of the internal audit function through regular reports from the internal audit department;
- → reviews the significant risks identified by each business unit as well as the mitigating action against those risks;
- → maintains a close relationship with the external Auditors; and
- → reviews the arrangements by which employees can in confidence raise concerns about any possible improprieties in financial and other matters.

The Executive Directors:
- → monitor operational and financial performance of the Group;
- → develop and implement Group strategy, operational plans, policies, procedures and budgets;
- → assess and control all Group risks; and
- → monitor competitive forces in each area of operation.

The Risk and Trading Committee:
- → supports the Audit Committee and management in managing risks and exposure in energy trading, generation and treasury;
- → ensures that risk exposure is managed appropriately;
- → sets and approves risk management polices and trading strategies;
- → ensures the effectiveness of operations and internal controls; and
- → ensures risks inherent in business activities are understood and managed.

The Health, Safety and Environmental Advisory Committee:
- together with the Audit Committee and management, ensures that the health, safety and environmental policy statements are being adhered to;
- sets health, safety and environmental targets for the Group; and
- monitors the performance of the Group against these targets.

The Internal Audit Department:
- works with the business units to develop and improve risk management tools and processes in their business operations;
- ensures that business risks are identified, managed and regularly reviewed and that the key risks are reported to the Audit Committee and Board;
- ensures that the business units carry out regular reviews on their internal controls relating to the key risks;
- monitors the effectiveness of the Group's system of internal control through the distribution of reports and, where appropriate, action plans to senior managers, Directors, the Audit Committee and external Auditors;
- monitors adherence to the Group's key policies and principles; and
- provides the Audit Committee and Board with objective assurance on the Group's control environment.

GOING CONCERN

After making enquiries, the Directors have a reasonable expectation that the company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Group expects to issue further debt in the capital markets during 2009/10 to meet its funding requirements. The Financial Statements are therefore prepared on a going concern basis. Further details of the Group's liquidity position and going concern review are provided in note 29.

COMMUNICATION WITH SHAREHOLDERS AND MAJOR STAKEHOLDERS

Disclosure Group
An internal Disclosure Group ensures all appropriate communications are made to the London Stock Exchange and shareholders. Copies of all announcements can be accessed from the company's website (www.scottish-southern.co.uk).

Institutional Shareholders
The Board encourages and seeks to build up a mutual understanding of objectives between the Group and institutional shareholders, fund managers and analysts. It believes that this is fundamental to ensuring that the Group's strategy is understood and that any questions or issues are dealt with in a constructive way.

The Board receives reports on significant discussions with shareholders allowing Directors to form a view of the priorities and concerns of the company's stakeholders. Brokers' reports and analysts' briefings are distributed to Directors.

The Chief Executive and Finance Director follow an ongoing programme of dialogue, meetings, presentations and site visits. The Investor Relations Manager has day-to-day responsibility for communications with institutional shareholders.

The Chairman attended the company's interim and preliminary results presentations in May 2008 and November 2008. The Senior Independent Director also attended the interim results presentation in November 2008.

As part of the induction programme, arrangements are made for analysts to meet with newly appointed Directors.

Private Shareholders
The Board continues to take account of any concerns of private shareholders and, on its behalf, the Company Secretary oversees communication with these investors.

Annual General Meeting
The company's AGM gives an opportunity for the Board to communicate with shareholders and provides an update on the performance of the Group. All Directors attend the AGM and shareholders are invited to ask questions and to meet with the Directors and senior managers both before the meeting and following the conclusion of the formal part of the meeting.

At the AGM, shareholders are advised of the proxy votes cast for each resolution and a report is placed on the company's website following the meeting, in addition to being announced to the London Stock Exchange.

Company Communications
Following the introduction of the Companies Act 2006 shareholders now have a choice on how to receive their company communications such as the Annual Report. The company has over 370,000 shareholders, and now communicates with around 41,000 of these shareholders electronically. In addition, over 250,000 shareholders chose to receive written notification of the electronic availability of future communications. As recognition of the reduced environmental impact that this form of communication entails the company, on behalf of shareholders, has made a donation in excess of £90,000 to the World Wildlife Fund's International Forest Programme during the year. Around 80,000 shareholders receive a hard copy of the Annual Report.

Other Stakeholders
The Board has a programme of events to meet with a range of external stakeholders representing the public sector, investment community, environmental affairs, and consumer interests. The purpose of these events is to explain the Group's position on a range of business, policy and public interest issues and to engage in their views, suggestions and any areas of concern.

More generally, working with public policy makers is a vital area for the company, given the high profile of energy and environment-related issues in the UK and elsewhere. The company engages with stakeholders in seven main ways:

- constructive engagement with Ofgem, which is responsible for promoting competition, wherever appropriate, and regulating the monopoly companies which run the gas and electricity networks;
- ongoing dialogue with Ministers and officials in government, including the devolved administrations in the UK;
- submissions to government and Parliamentary consultations and inquiries;
- meetings with, and briefings of, elected members of all parties in legislatures;
- engagement with local authority elected members and officials;
- active participation in relevant trade associations and bodies; and
- discussions and work with non-governmental organisations and other relevant organisations such as charities.

The company's objective is to ensure that it is able to perform its core purpose of providing the energy people need in a reliable and sustainable way. Its principal public policy goal at present is to ensure that there is in place a policy and regulatory framework which is compatible with the delivery of the legally-binding EU targets for renewable energy in 2020. //

Directors' Report

Principal Activities
Scottish and Southern Energy plc is a holding company. Its subsidiaries are organised into the main businesses of:

- → electricity generation, transmission, distribution and supply;
- → gas storage, distribution and supply;
- → electrical and utility contracting;
- → home services, supplying a wide range of electrical and gas appliances and complementary products; and
- → telecommunications.

Business Review
The company is required to set out in this Directors' Report a fair review of the business of the Group and a description of the principal risks and uncertainties facing the Group (known as a 'Business Review'). The Business Review is required to set out a balanced and comprehensive analysis of the development and performance of the Group's business during the financial year ended 31 March 2009 and of the position of the Group at the end of that financial year. The information that fulfils these requirements, and deemed to be incorporated in this Directors' Report, is contained within pages 1 to 61 of this Annual Report.

Directors
The Directors as at the date of this report are:

Executive
Ian Marchant, Chief Executive Officer
Gregor Alexander
Colin Hood
Alistair Phillips-Davies

Non-Executive
Lord Smith of Kelvin, Chairman
Thomas Andersen
Nick Baldwin
Richard Gillingwater
René Médori
Susan Rice

Sir Kevin Smith retired on 24 July 2008.

Thomas Andersen was appointed as a non-Executive Director on 1 January 2009. In accordance with the Articles of Association (Articles), he will retire from office at the Annual General Meeting (AGM) and will offer himself for re-appointment.

Susan Rice and Gregor Alexander retire by rotation at the AGM and, being eligible, and in accordance with the Articles, will offer themselves for re-appointment.

Biographical details of all Directors are set out on pages 64 and 65. Details of the service contract for Gregor Alexander and the letters of appointment for Thomas Andersen and Susan Rice are set out in the Remuneration Report on page 72.

The interests of the Directors in the ordinary shares of the company at 31 March 2009 are set out in the Remuneration Report on page 74.

Directors' Insurance and Indemnities
The Directors have the benefit of the indemnity provision contained in the company's Articles. The Directors of the company have been granted a qualifying third party indemnity provision which was in force throughout the financial year and remains in force. The company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and for its Directors and Officers.

Results and Dividends
The Group profit attributable to shareholders for the financial year amounted to £112.3m. The Directors recommend a final dividend of 46.2p per ordinary share which, subject to approval at the AGM, will be payable on 25 September 2009 to shareholders on the register at close of business on 21 August 2009. With the interim dividend of 19.8p per ordinary share paid on 27 March 2009, this makes a total dividend of 66.0p per ordinary share.

Share Capital
Details of the company's authorised and issued share capital at 31 March 2009, which includes options granted under the Group's employee share option schemes, are set out in notes 25 and 28 to the Financial Statements.

Annual General Meeting
The 20th AGM of the company will be held on 23 July 2009 at 12 noon in the Perth Concert Hall, Mill Street, Perth PH1 5HZ. The Notice of Annual General Meeting 2009, which contains full explanations of the business to be conducted at the AGM, is set out in the shareholder circular.

Disapplication of Pre-Emption Rights – Share Placing
At each AGM the Directors seek authority from shareholders to allot shares for cash otherwise than pro rata to all shareholders up to a maximum of 5% of the issued share capital in any one year. On 7 January 2009 the company issued 42 million new shares (4.8% of the issued share capital at that date) through a share placing. The share placing was priced at 1140p per share, which raised £479m, to facilitate the funding of investment opportunities and the acquisition of value-enhancing assets.

At the 2009 AGM the Directors will again seek shareholder authority to enable them to issue up to a maximum of 5% of the issued share capital. The authority, if approved, will remain in force until the 2010 AGM. There is no present intention of exercising this authority in the year ending 31 March 2010. The Directors note the current institutional shareholder guidelines not to seek to allot more than 7.5% of the issued share capital, cumulatively, in any three-year rolling period, without prior consultation.

Substantial Shareholdings
At 20 May 2009, the following interest in the issued ordinary share capital of the company has been disclosed in accordance with the requirements of the UK Listing Authority's Disclosure and Transparency Rules:

Entity	Number of Shares*	Percentage*
Legal & General Group Plc	43,832,434	5%

* At date of disclosure by relevant entity.

Since the date of disclosure to the company, the interest of the shareholder listed above may have increased or decreased. No requirement to notify the company of any increase or decrease would have arisen unless the holding moved up or down through a whole number percentage level.

Research and Development (R&D)
R&D is fundamental to the company's ability to change and adapt to the challenges of the future, and in 2008/09 R&D activities were increased further, building on the work of previous years. These have included the creation of a corporate R&D function to work with coordinators across the business.

The company has been actively involved through the Energy Research Partnership in supporting alignment between the various funding bodies such as the Carbon Trust, Technology Strategy Board, and Energy Technologies Institute. It launched a strategic partnership with Strathclyde University and is exploring key relationships with other universities.

During 2008/09 the company invested £4.4m in R&D activities which included studies on NOx abatement from its coal-fired plant, carbon capture, and bio-fuels. R&D activities in renewable generation have included a consortium looking to

reduce the costs of offshore wind. The Energy Demand Research Project, started in 2007, is providing valuable insight into customer behaviour and alongside this a number of innovative products are being developed.

SSE Power Distribution has continued to take an active role in the Ofgem Innovation Funding Incentive for both distribution and transmission and has commissioned projects addressing asset management, security of supply and active network management.

Employees
The number of staff directly employed by the Group at 31 March 2009 was 18,795.

Employees are encouraged to participate in the business of the company in a variety of ways. In support of the Board's commitment to providing opportunities for employees to become shareholders, the company offers Share Incentive Plans and Sharesave Schemes which are open to all eligible employees. Employee participation in these schemes is around 38% and 31% respectively.

The company recognises that progress is made due to the professionalism, commitment and teamwork of its employees. For that reason, and to mark the tenth anniversary of SSE's formation, all eligible employees received during 2008 a special award comprising an offer, free of charge, of 10 shares in the company; an online voucher worth £200 for SSE's retail business and an additional day's holiday.

The company places strong emphasis on employee communication and involvement. An employee newspaper is distributed to employees. Participation and engagement is encouraged through team meetings, briefings and the intranet where employees are informed of the latest company news from recent media coverage and about developments within the business.

The Chief Executive regularly communicates with employees through his blog and receives feedback, in addition to live on-screen question and answer style 'webchats'. During the year, the senior management held a series of roadshows around the Group to present and discuss the Group's vision, values and strategy.

The company has in place an extensive range of policies to safeguard the interests of its employees and potential employees. In particular, its equal opportunities policy aims to ensure that all employees and job applicants are no less fairly treated due to age, gender, sexual orientation, race, disability or other reasons not justified in law or relevant to performing their job. The company is also committed to the continuing employment of, and the arranging of appropriate training for, any employees who become disabled during the course of employment. The company aims to ensure that employees have the right skills to deliver the high standards of performance that are necessary to achieve its objectives. Detailed information about the company's approach to these and related matters is set out in its Corporate Responsibility Report 2009 (see www.scottish-southern.co.uk).

Creditor Payment Policy
It is the company's policy that payment terms are agreed at the outset of a transaction and are adhered to; that bills are paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement. The number of suppliers' days represented by trade creditors was 39 days at 31 March 2009.

Donations
Charitable donations amounted to £1,001,000 (2008 – £873,000). There were no payments for political purposes.

Accounting Policies, Financial Instruments and Risk
Details of the Group's accounting policies, together with details of financial instruments and risk, are provided at Notes 1, 2 and 29 to the Accounts.

Additional Information
Where not provided elsewhere in the Directors' Report, the following provides the information required to be disclosed by Section 992 of the Companies Act 2006.

Each ordinary share of the company carries one vote at general meetings of the company.

There are no restrictions on the transfer of ordinary shares in the capital of the company other than certain restrictions which may from time to time be imposed by law (for example, insider trading law). In accordance with the Listing Rules of the Financial Services Authority, certain employees are required to seek the approval of the company to deal in its shares.

Employees who participate in the Share Incentive Plans whose shares remain in the schemes' trusts give directions to the trustees to vote on their behalf by way of a Form of Direction.

The company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

The rules governing the appointment of Directors are set out in the Corporate Governance Report on pages 55 to 61. The company's Articles may only be amended by a special resolution at a general meeting of shareholders.

The company is not aware of any significant agreements to which it is party that take effect, alter or terminate upon a change of control of the company following a takeover. The company is not aware of any contractual or other agreements which are essential to its business which ought to be disclosed in this Directors' Report.

Auditors
Upon the recommendation of the Audit Committee and approval of the Board, resolutions to re-appoint KPMG Audit Plc as Auditors, and to authorise the Directors to fix their remuneration, will be proposed at the forthcoming AGM.

Each of the Directors who held office at the date of approval of this Directors' Report confirms that, so far as each Director is aware, there is no relevant audit information of which the company's Auditors are unaware and each Director has taken all the steps that ought to have been taken in his duty as a Director to make himself or herself aware of any relevant audit information and to establish that the company's Auditors are aware of that information.

By Order of the Board

Vincent Donnelly
Company Secretary
20 May 2009

Directors' Biographies and Responsibilities

René Médori
Audit Committee Chairman
René joined the Board as a non-Executive Director in 2003. He is Finance Director of Anglo American plc and is a non-Executive Director of Anglo Platinum and DB (De Beers) Investments. He is Chairman of the Audit Committee and a member of the Nomination Committee.

Gregor Alexander
Finance Director
Gregor was appointed Finance Director and joined the Board in 2002, having previously been Group Treasurer and Tax Manager. He has worked in the energy industry since 1990, when he joined Scottish Hydro Electric. Gregor is a Director of Scotia Gas Networks Limited and is former Chairman of the Scottish Finance Directors' Group.

Alistair Phillips-Davies
Energy Supply Director
Alistair was appointed Energy Supply Director and joined the Board in 2002, having previously been Director Energy Trading. He has worked in the energy industry since 1997, when he joined Southern Electric. Alistair has Board level responsibility for Energy Trading, Electricity and Gas Supply, Energy Efficiency, Sales, Marketing and Energy Services. He chairs the Risk and Trading Committee.

Ian Marchant
Chief Executive
Ian was appointed Chief Executive in 2002, having been Finance Director since 1998. He has worked in the energy industry since 1992, when he joined Southern Electric. He is a member and former Chairman of the UK Business Council for Sustainable Energy, Chairman of the Scottish Climate Change Business Delivery Group, and a member of Ofgem's Environmental Advisory Group and the Energy Research Partnership. He is also a non-Executive Director of John Wood Group plc and Maggie's Cancer Centres. Ian is a member of the Nomination Committee and is Lead Director for the Environment and Corporate Responsibility.

Colin Hood
Chief Operating Officer
Colin was appointed Chief Operating Officer in 2002, having joined the Board as Power Systems Director in 2001. He has worked in the energy industry since 1977, when he joined Scottish Hydro Electric. He has Board level responsibility for Generation, Power Systems, Customer Service, Human Resources, IT, Contracting and Telecoms. Colin is a Director and former Chairman of Scotia Gas Networks Limited, a non-Executive Director of First Group plc and a member of the Forum for Renewable Energy Developments in Scotland (FREDS). He is Lead Director for Health and Safety.

Lord Smith of Kelvin
Chairman
Robert joined the Board as a non-Executive Director in June 2003, was appointed Deputy Chairman in November 2003 and became Chairman in 2005. He is Chairman of the Weir Group plc and a non-Executive Director of 3i Group plc, Standard Bank Group Limited and Aegon UK plc. He is also Chairman of Glasgow 2014 Ltd, Chancellor of the University of the West of Scotland and a member of the Council of Economic Advisers to the First Minister of Scotland. Robert is Chairman of the Nomination Committee and a member of the Remuneration Committee.

Richard Gillingwater
Non-Executive Director
Richard joined the Board as a non-Executive Director in 2007. He is Dean of the Cass Business School and is non-Executive Chairman of CDC Group plc, a non-Executive Director of Debenhams plc and Tomkins plc. Richard is a member of the Audit Committee, Remuneration Committee, and Nomination Committee.

Susan Rice CBE
Non-Executive Director
Susan joined the Board as non-Executive Director in 2003 and became Senior Independent Director in 2007. She is Managing Director of the Lloyds Banking Group Scotland and Chairman and Chief Executive of Lloyds TSB Scotland plc. She is also a non-Executive Director of the Court of the Bank of England and chairs the Board of the Edinburgh International Book Festival, along

Members of the Board photographed at SSE's new operations centre in Havant, which will be formally opened late in 2009.

From left to right:
René Médori, Gregor Alexander, Alistair Phillips-Davies, Ian Marchant, Colin Hood, Lord Smith of Kelvin, Richard Gillingwater, Susan Rice, Thomas Andersen, Nick Baldwin.

with several other organisations. Susan chairs the Remuneration Committee and is a member of the Nomination Committee.

Thomas Andersen
Non-Executive Director
Thomas joined the Board as a non-Executive Director in January 2009. He is Chief Executive of Maersk Oil, a member of the Group Executive Board AP Moller-Maersk, as well as director or chairman of a number of companies within the AP Moller-Maersk Group. He is a member of the Audit Committee, Nomination Committee and of the Health, Safety and Environmental Advisory Committee.

Nick Baldwin
Non-Executive Director
Nick joined the Board as a non-Executive Director in 2006. Previously, he worked in the energy industry, culminating in being Chief Executive of Powergen plc. Nick is a non-Executive Director of the Nuclear Decommissioning Authority, the Forensic Science Service and Sanctuary Housing Group and is Chairman of the Public Weather Service Customer Group. He is also Chairman of TreeHouse Trust. Nick is a member of the Audit Committee, Remuneration Committee and Nomination Committee.

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the parent company financial statements on the same basis.

The Group and parent company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Group and the parent company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of the Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and parent company financial statements, the Directors are required to:

→ select suitable accounting policies and then apply them consistently;
→ make judgements and estimates that are reasonable and prudent;
→ state whether they have been prepared in accordance with IFRS as adopted by the EU; and
→ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulation, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and the Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Remuneration Report

Dear Shareholder

I am pleased to introduce the Remuneration Report for the year 2008/09.

The report was changed last year to make it easier to understand, with a new layout, greater detail on the operation of the Committee and on the structure of the remuneration package. These changes have been well received, and they have been further developed for the sections on Committee Business and Executive Directors' Remuneration, with an initial report on total remuneration policy and an increased use of charts and diagrams to explain our policy.

The remuneration report is in three parts:

- **At a Glance**
  This is an overview of total remuneration policy.
- **Remuneration Explained**
  Our approach to total remuneration, outlining the key elements of the policy.
- **Remuneration in Detail**
  These are the detailed disclosures required by the Directors' Remuneration Report Regulations and which are audited.

Executive Directors' remuneration is the subject of a great deal of scrutiny which has been intensified by the recent crisis in the financial markets, with even more attention paid to all aspects of reward. The Committee acknowledges this scrutiny and the need for transparency surrounding the remuneration for Executive Directors.

As always, the key is to ensure that reward is linked with corporate performance and reflects the skills and contribution of individuals to the achievement of that performance. In focusing on performance, the Committee is mindful of the need to avoid placing undue emphasis on the results from any one year, which may reflect unusual or specific factors. It is sustained performance over the medium and long term that matters.

As you will have seen from the earlier part of the Annual Report, SSE has continued to deliver growth in profit before tax and the dividend. The Executive Directors are a strong team, with a long-standing and well-regarded track record in the sector in which SSE operates, and they have again continued to perform well. As one energy analyst put it in February 2009: 'SSE has a sector-leading management team that has consistently shown financial discipline.'

The Remuneration Committee has been well briefed on recent remuneration developments and has considered carefully the relevant benchmark market data. Taking these into account during the past year the Committee is satisfied that the current remuneration policy is sound and fit for purpose. Therefore no changes have been made to the policy.

The Committee has reviewed its approach to remuneration against best practice for any indications of misguided incentives or unacceptable risk-taking and is satisfied that there are no environmental, social or governance risks raised as a result of the reward policy. More fundamentally, SSE's strategy is one which is designed with risk management at its heart.

As part of the Board evaluation process, the effectiveness of the Remuneration Committee was reviewed, the results of which indicate that the Committee continues to operate effectively.

Susan Rice
Chairman, Remuneration Committee
20 May 2009

Remuneration Committee Meetings

	Number of meetings	Meetings attended
Susan Rice (Committee Chairman)	3	3
Lord Smith of Kelvin	3	3
Richard Gillingwater	3	3
Nick Baldwin	3	3

Remuneration Report – At a Glance

What are the Principles of the SSE Remuneration Policy?

The core principles of the company's remuneration policy are to:

- → attract and retain Executive Directors who are able to run the company effectively for the benefit of shareholders, customers and employees
- → adopt a competitive and practical approach to overall remuneration which meets the expectations of shareholders
- → reinforce the culture and teamwork required to deliver the long-term growth and sustainability of the business, and hence base salaries for Executive Directors are set at or below the relevant market median

What is SSE's Total Remuneration Policy?

Summary of Total Remuneration Policy

Fixed	Variable	
Base Salary	Short-term – Annual	Long-term – 3 years
Pension – Final Salary	Annual Bonus Plan maximum 100% of salary with 75% paid in cash and 25% deferred in shares	Performance Share Plan (PSP) – future performance over 3 years
Benefits in Kind (BIK) – car, private medical	Assessed against corporate financial performance and team and individual operational measures	50% linked to relative FTSE 100 TSR, 50% adjusted annual EPS growth RPI +3%-9%
Minimum Shareholding requirement equal to 100% Base Salary		

■ Base Salary/BIK ■ Pension ■ Bonus ■ PSP

What was each Component of the Remuneration?

Target

Stretch

The bar chart shows the four elements of total remuneration with each element shown as a proportion % of total remuneration. Base salary includes 1% benefits in kind – a car allowance and private medical plan. Target performance comprises annual bonus awarded at target level (ie 50% base salary) and, for the PSP, an assumption that 62.5% of shares under award will vest. Stretch performance is based on a bonus of 100% of base salary with demanding targets being met. PSP is calculated based on 150% of salary. The pension element is the average of each Executive Director's present value of providing a single year of pension.

What was on the Remuneration Committee Agenda for 2008/09?

Meeting	Regular standing items	Other agenda items
May	Approval of: Performance Share Plan New Awards; Performance Share Plan Vesting Awards; Annual Bonus Awards; Directors' Remuneration Report	Update on UK current and future remuneration governance and remuneration trends. Review of Performance Share Plan targets.
November	Executive Directors' and Chairman's remuneration review. Update on UK Executive Director market remuneration trends. Review of SSE Group-wide proposed salary increases. Review of Committee effectiveness	Review of Performance Share Plan TSR FTSE 100 constituent group. Remuneration Governance update.
March	Establishment of Bonus performance targets.	Initial review of market comparison companies for remuneration benchmarking. Market update on Performance Share Plan usage. Report on Dilution effects of Share Placing. Remuneration Governance and Trends update.

Remuneration Report – Remuneration Explained

Introduction
The following is the report of the Board of Directors in compliance with the Directors' Remuneration Report Regulations 2002. The report sets out the company's policy on Executive Directors' remuneration for the year ended 31 March 2009 and, so far as is reasonable, for subsequent years. Any changes in policy for years after 2009 will be described in future Remuneration Reports which will continue to be subject to shareholder approval.

The Role of the Remuneration Committee

The Remuneration Committee's members are Susan Rice, who chairs the Committee, Nick Baldwin, Richard Gillingwater and Lord Smith of Kelvin. Biographical details of the current Committee members are given on pages 64 and 65. The Committee met on three occasions, further details on the meetings and the agenda are contained in the schedule on page 67. In addition to the formal meetings, informal consultation takes place outwith Remuneration Committee meetings.

Under its Terms of Reference (published in the Corporate Governance section of the SSE website at www.scottish-southern.co.uk) the Committee is responsible for:

- setting the total remuneration policy on behalf of the Board;
- approving the detailed remuneration terms of the Executive Directors including their service contracts;
- approving the remuneration of the Chairman;
- approving the design and performance targets of incentive schemes; and
- granting awards under the company's Long-term Incentive Plans.

The Remuneration Committee regularly consults the Chief Executive, Ian Marchant, who attends and assists the Committee in respect of those Directors reporting to him, although he is not present when his own remuneration is under discussion.

In addition, the Director of People, Graham Juggins, and SSE's Senior Executive Remuneration Adviser, Jane Williams, provided information and advice on the Directors' remuneration, including comparative data drawn from published remuneration and benefit surveys, and advice on appropriate awards of bonuses, long-term incentives and comparator group pay and performance. The Company Secretary, Vincent Donnelly, provided information to the Committee on developments in corporate governance guidelines as they affect the Remuneration Committee. During the year the Committee received advice and views from Towers Perrin and from Merrill Lynch, on relevant aspects of remuneration policy. Both Towers Perrin and Merrill Lynch were appointed by the company on behalf of the Committee.

During the year, the committee meetings covered the following topics as indicated in the chart on the previous page:

- review of Total Remuneration Policy for Executive Directors;
- Executive Directors' and Chairman's salary review;
- SSE company Remuneration Policy;
- Bonus target setting and awards;
- awards under the Performance Share Plan;
- the operation of the Performance Share Plan, and its performance criteria; and
- review of the Remuneration Report.

The Board as a whole reviews the fees of the non-Executive Directors, whilst ensuring that no Director is involved in decisions on their own pay.

The Remuneration Committee's composition, responsibilities and operation comply with Section B of the Corporate Governance Code. In forming remuneration policy, the Committee has given full consideration to the best practice provisions set out in the Code.

Total Remuneration Policy

THE PRINCIPLES OF THE POLICY

The core principles of the company's remuneration policy are to:

- attract and retain Executive Directors who are able to run the company effectively for the benefit of shareholders, customers and employees;
- adopt a competitive and practical approach to overall remuneration which meets the expectations of shareholders; and
- reinforce the culture and teamwork required to deliver the long-term growth and sustainability of the business, and hence base salaries for Executive Directors are set at or below the relevant market median.

This has been achieved by providing remuneration consisting of basic salary and benefits including participation in a pension scheme, together with an Annual Bonus Scheme (some of which is compulsorily deferred) and a Performance Share Plan. The Annual Bonus Scheme requires the achievement of demanding performance targets against the company's core values of safety, service, efficiency, sustainability, excellence and teamwork. The Performance Share Plan has two challenging performance criteria firstly Total Shareholder Return (TSR) measured against the FTSE 100 and secondly Earnings Per Share (EPS) Growth in excess of RPI.

BENCHMARKING TOTAL REMUNERATION

The Executive Directors' total remuneration policy is to remain below median of FTSE 100 and FTSE 50. This demonstrates SSE's long-standing commitment to manage costs effectively to promote financial returns for shareholders. Further it reflects a culture in which Executive Directors and Senior Managers are motivated by building the company for the future. This is why long-term growth and sustainability of the business are of such importance when determining remuneration policy.

In addition to corporate and individual performance, the Committee takes account of total remuneration in companies that are of similar size principally in the FTSE 100 and FTSE 50, some specific comparisons in the utilities sector, and also general market data from surveys. The Committee acknowledges too that SSE operates predominantly in the UK with a growing portfolio of overseas renewable development opportunities secured through Airtricity. At some future point this overseas expansion may be reflected in the comparator groups.

THE BALANCE OF FIXED AND VARIABLE REMUNERATION

Given the nature of the company's business, the Committee believes that around half of the total remuneration should be performance-related, with up to two thirds where performance is exceptional. This is demonstrated in the table on page 67 which shows how the variable pay increases according to the achievement of stretch targets. The Committee is satisfied that the overall remuneration structure is set at levels which are reasonable and appropriate to reward performance sufficiently without causing any undue risk taking./-

Executive Directors' Remuneration 2008/09

Performance Measure	Purpose – Link to Strategy	Award Policy
Base Salary		
	Reflects market data, role, business and individual performance	Reviewed annually – 1 January
Short-term – Annual Bonus		
The specific standards of performance set by the Remuneration Committee are commercially confidential. There are three elements to the Annual Bonus as follows:	The performance targets are clearly linked to business objectives in the three elements as follows:	Maximum award of up to 100% of base salary. 75% in cash (non-pensionable), 25% compulsorily deferred into shares which only vest, subject to continued service, after three years:
Corporate → group financial performance relative to budgeted profit before tax	**Corporate** → delivery of stretching financial performance target	**Corporate** → 60% for corporate financial performance – the maximum corporate financial element is payable if performance exceeds by 10% or more the budgeted profit before tax target. No corporate element is payable if performance falls 5% below target.
Teamwork → safety performance → customer service → operational efficiency → business development/sustainability → promotion of innovation → effective leadership	**Teamwork** → designed to reflect and support company core values and delivery of overall objectives for the Group	**Teamwork** → 20% for teamwork
Personal → based on measurable and verifiable data relating to company values	**Personal** → objectives across a number of priority operational areas that link to the annual plan and strategy agreed by the Board	**Personal** → 20% for personal objectives
Long-term – Performance Share Plan		
Performance is measured against the following two elements over a three year period:	The two elements reflect both internal and external measures of performance.	Maximum award up to 150% of base salary each year. Awards released to the extent performance conditions are met.
Total Shareholder Return (TSR) against the FTSE 100	The relative TSR performance measure is dependent on the company's relative long-term share price performance and dividend return, and therefore brings a market perspective to the PSP. Further vesting of this element requires the Committee to be satisfied with the company's underlying financial performance.	50% based on TSR → 100% vests at or above the 75th percentile → 25% vests at median → straight-line basis between median and 75th percentile → no vesting of award if median performance is not achieved
Adjusted Earnings per Share (EPS)	Adjusted EPS growth is a key internal measure which is critical to the company's long-term success and ties in with the Group's strategic goals. These target ranges are designed to strike the right balance between being stretching at the top end, and being achievable and motivational at the lower end.	50% based on EPS → 100%: vests where EPS is RPI +9% above RPI → 25% vests where EPS is RPI +3% → straight-line basis between 3% and 9% above RPI → no vesting if EPS minimum growth of RPI +3% is not achieved

Remuneration Report – Remuneration Explained (continued)

SENIOR EXECUTIVES, MANAGERS AND EMPLOYEES

There are a number of senior executives below Board level who have a significant influence on the performance of the Group. The Committee remains fully aware of the need to ensure there is an appropriate relationship between Executive Director remuneration, and the levels of other senior executives', managers' and other employees' remuneration within the Group. The Committee considers this information when reviewing the remuneration of the Executive Directors and is satisfied that an appropriate remuneration and benefits structure exists to recognise and retain its key executives.

In addition the Committee considers the levels and type of remuneration increases for employees within the Group and any relevant external indices before committing to any salary increases for the Executive Directors.

BASE SALARY

The Committee conducted its regular review of salaries for Executive Directors in November 2008 as indicated on the Remuneration Committee Agenda Table on page 67 and decided that Executive Directors' salaries should increase for the following reasons: firstly that the salary, bonus and performance share plans when benchmarked to the FTSE 100 and FTSE 50 remain below market median. Secondly, SSE consistently achieves challenging financial and business targets and is continuing with its long-term growth plans. Thirdly, each of the Executive Directors have held senior management roles in which they have delivered significant results to shareholders for many years. Since 1998 SSE is one of only 11 FTSE 100 companies to have delivered annually dividend growth in excess of inflation. Finally the Committee took into account other salary reviews in the Group when considering an appropriate award. The normal management salary review was 5%. The main collective union agreement award was 4.4% together with individual increment progression averaging 1%. The Executive Directors received a salary increase of 5% with effect from 1 January 2009. The current salaries for the Executive Directors are as follows: Ian Marchant £840,000, Gregor Alexander £483,000, Colin Hood £630,000, Alistair Phillips-Davies £483,000. The Committee will continue to take full cognisance of the market and governance trends when reviewing remuneration in the forthcoming year.

Executive Directors' Salaries	
Ian Marchant	£840,000
Gregor Alexander	£483,000
Colin Hood	£630,000
Alistair Phillips-Davies	£483,000

CURRENT INCENTIVE PLANS

Short-term Incentive – Annual Bonus Plan
The important factors which determine the bonus award under the Annual Bonus Plan are detailed on page 69. The bonus for 2008/09 was based on corporate financial, teamwork and personal targets set at the beginning of the year. The bonus paid for these elements was 60% of salary, compared with a maximum possible of 100%, and with 75% paid in respect of 2007/08. It was also lower than that applied to other annual bonuses payable within SSE.

This was on the basis of an assessment by the Committee, which concluded that the majority of operational and financial targets were met during the year and that important steps were taken to position the company for future long-term success. There will however be continued focus on performance throughout SSE's operations including critical areas such as safety, customer service, generation plant availability and progress in renewable energy development.

For 2009/10 the structure of the bonus plan remains at 60% for corporate financial performance, 20% based on teamwork, including performance in Group safety and commitment to the Group values, and 20% on individual objectives. For 2009/10 the maximum and target bonus opportunity will remain at 100% and 50% respectively of base salary for the Executive Directors.

Of any bonus awarded, 75% is paid in cash and 25% deferred into shares which vest only after three years subject to continued service. Bonus earnings are not pensionable.

Long-term Incentives – Performance Share Plan
Under the rules of the Performance Share Plan, conditional allocations of shares up to a maximum of 150% of salary (100% for the 2006 award) may be made to Executive Directors and other senior executives. Since 2007, allocations equivalent to 150% of salary have been made to Executive Directors and at lower rates to other senior executives. The Committee intends that awards under the PSP in 2009 should be on similar terms. Awards will be released after three years subject to the meeting of demanding performance conditions relating to the company's relative total shareholder return (TSR) performance and the company's adjusted EPS growth. Further details of the performance targets are in the table on page 69.

The Committee considers that the use of these two performance measures, in these proportions, to be appropriate. The relative TSR performance measure is dependent on the company's relative long-term share price performance, and therefore brings a market perspective to the PSP. Further, vesting of this element requires the Committee to be satisfied with the underlying financial performance of the company. The TSR measure is balanced by a key internal measure, adjusted EPS growth, which is critical to the company's long-term success and ties in with the Group's strategic goals. The Committee considers that the achievement of real annual adjusted EPS growth of 9% above RPI per annum was, and remains, a suitably demanding target for maximum vesting in light of the regulatory regime in which the company operates.

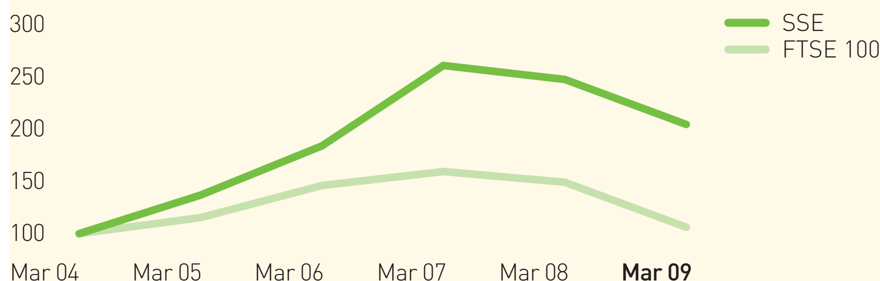
The first award under the PSP was made in 2006, and will vest shortly after the preliminary announcement of results for 2008/09 in May 2009. Both elements of the performance condition (relating to TSR and EPS performance respectively) were met. TSR outturn was in the upper quartile of the FTSE 100, and EPS growth was in excess of RPI +8% at 10.7% per annum. The Committee has concluded that this result is a fair reflection of the company's financial performance over the period. Accordingly, the full number of shares under this award will vest, together with an additional number of shares reflecting the notional reinvestment of dividends during the period. Achievement of these performance conditions was independently verified.

Minimum Shareholding Requirement for Executive Directors

	Minimum number of shares**	Shares held as at 31 March 2009
Ian Marchant	75,744	142,204
Gregor Alexander	43,553	46,128
Colin Hood	56,808	92,585*
Alistair Phillips-Davies	43,553	55,502*

* The shareholding in the above table takes account of certain holdings under the Deferred Bonus Scheme (net of tax) matured but may not have been exercised.
** Calculated using share price @ 31 March 2009 1,109p.

Total Shareholder Return



TSR Performance Graph
The graph above charts the cumulative TSR of the company since 1 April 2004 compared to the FTSE 100 Index over the same period. The company is a member of the FTSE 100 Index, and this was considered to be the most relevant index for comparative purposes. For the purposes of defining the constituents of the FTSE 100, companies moved from the FTSE as a result of a business transaction will be valued at the date of removal and then indexed to the FTSE 100 annual outturn. Those companies acquired by another FTSE constituent will be disregarded as the acquiring company is a FTSE 100 participant.

PENSIONS POLICY

Membership of a relevant pension plan is encouraged throughout the Group. All the Executive Directors were members of either the Southern Electric Pension Scheme or the Scottish Hydro Electric Pension Scheme when they were appointed to the Board, and they remain members. These are both funded final salary pension schemes. The Directors' service contracts provide for a possible maximum pension of two thirds final salary at age 60. In relation to Executive Directors who are subject to the scheme specific salary cap (which mirrors the provisions of the previous HM Revenue and Customs cap arrangements) the company provides top-up (unfunded) arrangements which are designed to provide an equivalent pension on retirement at age 60 to that which they would have earned if they had not been subject to the salary cap. The Executive Directors have no right to any special or preferential pension benefit terms upon leaving. However, in common with all members of the pension schemes who joined at the time the Directors joined the schemes, in the case of retirement through ill-health an unreduced pension based on service to expected retirement is paid. In the case of reorganisation or redundancy an unreduced accrued pension is paid to a member who has reached the age of 50 or above, with at least five years' service or, for a member who has not yet reached that age, it is payable with effect from 50.

Previous HM Revenue & Customs limits have ceased to apply to benefits provided by the pension schemes. If a member's accrued fund exceeds the new lifetime allowance (LTA), the benefits payable by the scheme from that excess will be subject to a higher rate of income tax. The company is maximising the use of the new allowance thereby providing Executive Directors with more of their existing benefits via registered schemes. In the case of Colin Hood, who was not subject to the previous earnings cap but is now limited by the LTA, further accrual is via an unfunded arrangement. There are no arrangements to compensate members for any change in their personal tax liability.

SHARE OWNERSHIP POLICY

Share ownership is encouraged throughout the Group. In addition the Committee believes that the interests of the Executive Directors and other senior Executives should be closely aligned with those of shareholders. The Performance Share Plan, Deferred Bonus Plan and employee share schemes provide considerable alignment. The company has also adopted a policy that the Executive Directors and certain other senior Executives should acquire and maintain a level of shareholding approximately equivalent to one year's salary, to be attained within a reasonable timescale. Consent to sell shares under the company's Share Dealing Code is not normally given (unless in exceptional circumstances or to fund a connected tax liability) until this level of shareholding is reached. It is also expected that all non-Executive Directors should hold a minimum of 2,000 shares in the company.

The table above contains the shareholdings of the Executive Directors as at the year-end and demonstrates that their personal shareholdings meet the requirements of the policy.

ALL-EMPLOYEE SHARE SCHEMES

Executive Directors are eligible to participate in the company's all-employee share schemes on the same terms as other employees. These schemes comprise:

(a) The Sharesave Scheme, a savings-related share option scheme which operates within specific tax legislation (including a requirement to finance exercise of the option using the proceeds of a monthly savings contract of up to £250 per month), and, in common with all such schemes, exercise of the option is not subject to satisfaction of a performance target. The option price is set at a discount of 10% to market value.

(b) The Share Incentive Plan (the SIP) allows employees to allocate part of their pre-tax salary to purchase shares up to a maximum of £125 per month. The SIP operates within specific tax legislation. During the first six months of the year, the company matched the first five shares purchased by participants, and during the second half of the year participants received monthly two free matching shares for each share purchased up to a maximum of six free shares.

(c) The long service award scheme which purchases 10, 20, 30, 40 or 50 shares on behalf of an employee on the occasion of the employee reaching 10, 20, 30, 40 or 50 years' service respectively with the Group./-

Remuneration Report – Remuneration Explained (continued)

Length of Service and Contract Term

	Industry service	Length of Board service	Notice to be given by the company
Ian Marchant	17	13 years*	12 months
Gregor Alexander	18	6 years	12 months
Colin Hood	31	8 years	12 months
Alistair Phillips-Davies	12	7 years	12 months

*including 3 years as Finance Director of Southern Electric plc.

Current Non-Executive Directors' Fees 2008/09

	Annual fee £000	Committee Chair fee £000	Total fees £000
Thomas Andersen	50	–	50
Nick Baldwin	50	–	50
Richard Gillingwater	50	–	50
René Médori	50	12	62
Susan Rice	60	10	70
Lord Smith of Kelvin	321	–	321

Funding of Share Schemes and Dilution

The company's Sharesave Scheme uses unissued shares to satisfy the exercise of share options. As at 31 March 2009, there were approximately 4.4 million share options outstanding under this scheme, and if all the outstanding options were exercised this would amount to 0.48% of the issued share capital of the company at that date.

Shares are purchased in the market to satisfy the exercise of awards under the Deferred Bonus Plan, the Performance Share Plan, and the Share Incentive Plan.

The Committee reviewed the effect on the EPS calculation in the Performance Share Plan of the share placing of 42 million shares in January 2009. It was confirmed that the effect was minimal.

Service Contracts

It is the company's policy that Executive Directors should have service contracts with the company which are terminable on 12 months' notice given by either party. The key aspects of each contract are as follows:

- The Executive Directors are employed under service contracts with the company each dated 11 March 2005;
- They are eligible under the contracts to participate in the company's Executive Directors' bonus scheme, the company's employee share schemes and Executive incentive plans;
- They are each entitled to a company car or a cash allowance, membership of the company's pension scheme including life assurance cover equal to four times salary, and private health insurance which also covers dependants; and
- The contracts are each for an indefinite term ending automatically on retirement date (age 60), but may be terminated by 12 months' notice given by the company or by 12 months' notice given by the Director.

The company may at its discretion elect to terminate any Executive Director's contract by making a payment in lieu of notice equal to the basic salary which would have been received during the notice period (excluding any bonus and any other emolument referable to the employment). Payments in lieu of notice may be made in staged payments, and such payments will either reduce or cease completely in circumstances where the departing Executive Director gains new employment. There is also a specific provision obliging the departing Executive to mitigate his/her loss in these circumstances. There are no special provisions applying in the event of change of control.

In the event that an Executive Director leaves in circumstances such as retirement or redundancy, the PSP shares will vest at their normal vesting date, and the number of shares will be reduced to reflect the point during the three year performance period when the Director leaves. If the Executive Director resigns or the service contract is terminated for any other reason any share awards under the Performance Share Plan will lapse from the effective date of contract termination.

In the event of a change of control of the company, performance in the PSP will be measured to the date of the change of control and will normally be scaled down to the period prior to the change of control.

OUTSIDE APPOINTMENTS

Executive Directors are entitled to accept a non-Executive appointment outside the company with the consent of the Board, as such appointments can enhance directors' experience and value to the company. Any fees received can be retained by the Director. In 2008/09 Ian Marchant held a non-Executive Director position with the John Wood Group plc, and received £44,000 in fees.

Non-Executive Directors

The remuneration of non-Executive Directors, apart from the company Chairman, is agreed by the Board annually, with the non-Executive Directors concerned not participating in this process. The fees are reviewed against companies of similar size and complexity.

The non-Executive Directors do not have service contracts but instead have letters of appointment. They are appointed for fixed terms of three years, subject to retirement by rotation and re-appointment at AGMs in terms of the company's Articles of Association. They do not participate in the Bonus Scheme, Deferred Bonus Plan, any of the share option schemes, or contribute to any Group pension scheme.

- The standard non-Executive fee, inclusive of Committee Memberships, is £50,000.
- The Chairman of the Audit Committee received an additional fee of £12,000.
- The Chairman of the Remuneration Committee received an additional fee of £10,000.
- The Senior Independent Director received an additional fee of £10,000.
- The Chairman received an inclusive flat fee of £317,000, increasing to £332,500 with effect from January 2009.

Remuneration Report – Remuneration in Detail

The Auditors are required to report on the information contained in Tables A, B and D.

Table A – Directors' Emoluments

	2009				2008
	Salary/fee £000	Bonuses £000	Benefits £000	Total £000	Total £000
Executive Directors					
Ian Marchant	810	378	19	1,207	1,208
Gregor Alexander	466	217	16	699	689
Colin Hood	608	283	17	908	899
Alistair Phillips-Davies	466	217	16	699	687
Non-Executive Directors					
Thomas Andersen (i)	13	–	–	13	0
Nick Baldwin	50	–	–	50	45
Richard Gillingwater	50	–	–	50	38
René Médori	62	–	–	62	57
Susan Rice	70	–	–	70	62
Lord Smith of Kelvin (Chairman)	321	–	–	321	293
Former Directors					
David Payne (ii)	-	-	-	-	24
Sir Kevin Smith (iii)	17	-	-	17	45
	2,933	1,095	68	4,096	4,047

(i) From date of appointment to the Board on 1 January 2009.
(ii) Retired from the Board 26 July 2007.
(iii) Retired from the Board 24 July 2008.

In addition to the annual cash bonus amount for this year, Ian Marchant, Gregor Alexander, Colin Hood and Alistair Phillips-Davies will be awarded £126k, £72k, £94k and £72k respectively in the form of deferred shares in respect of the bonus due to them for 2008/09. These share awards will not be made until June 2009 and therefore the number of shares to which the Executive Directors will be entitled will not be known until that date. These shares will, subject to continued employment, be released on the third anniversary of grant.

Table B – Directors' Retirement Benefits

		Accrued benefit			Transfer value of accrued benefit			
	Years of industry service	At 31 March 2009 £000	Increase in year including inflation £000	Increase in year excluding inflation £000	At 31 March 2009 £000	At 31 March 2008 £000	Increase less Directors' contributions £000	Increase in year excluding inflation £000
Ian Marchant	17	318	45	31	3,972	3,503	452	336
Gregor Alexander	18	181	27	22	2,242	1,799	425	258
Colin Hood	31	305	34	20	5,500	5,181	302	436
Alistair Phillips-Davies	12	131	21	17	1,552	1,253	282	133

Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table. The retirement age of Executive Directors is 60.

The following is information relating to the pension of Gregor Alexander as a participant in the HM Revenue & Customs approved Scottish Hydro Electric Pension Scheme.

(i) Dependants' pensions on death are half of members' pension entitlements, together with a capital sum equal to four times pensionable pay. On death in retirement, the Director's spouse will receive a pension equal to half of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.

(ii) All benefit payments are guaranteed to increase annually by the same percentage as state pensions, which are currently linked to movements in the UK Retail Price Index./-

Remuneration Report – Remuneration in Detail (continued)

The following is information relating to the Directors' pensions of Colin Hood, Ian Marchant and Alistair Phillips-Davies, as participants in the HM Revenue & Customs approved Southern Electric Group of the Electricity Supply Pension Scheme.

(i) Dependants' pensions on death are four-ninths of the member's pensionable pay, together with a capital sum equal to four times pensionable pay. If death occurs after attaining the age of 55 an additional lump sum between three to five times notional pension is payable dependent upon age and length of service. On death in retirement, the Director's spouse will receive a pension equal to two-thirds of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.

(ii) Post retirement increases are expected to be in line with inflation (guaranteed up to the level of 5% per annum and discretionary above that level). All the Executive Directors have unfunded retirement benefits which are included in their pension benefits above with provision in respect of their accrued value included in the Company's Balance Sheet.

Table C – Directors' Interests

	31 March 2009		1 April 2008*	
	Shares held	**Shares under option**	Shares held	Shares under option
Gregor Alexander	**46,128**	**151,576**	32,630	120,508
Thomas Andersen	**2,000**	**–**	2,000	N/A
Nick Baldwin	**2,119**	**–**	2,024	–
Richard Gillingwater	**2,000**	**–**	2,000	–
Colin Hood	**28,308**	**292,664**	27,967	227,324
Ian Marchant	**142,204**	**276,370**	119,178	223,656
René Médori	**2,050**	**–**	2,000	–
Alistair Phillips-Davies	**31,625**	**186,150**	31,353	136,026
Susan Rice	**4,632**	**–**	4,423	–
Lord Smith of Kelvin	**22,600**	**–**	22,600	–

* or date of appointment, if later.

From 31 March 2009 to 20 May 2009, the following changes to the interests of Directors took place:

Under standing orders for reinvestment of PEPs, on 1 April 2009, Ian Marchant acquired 11 shares and Colin Hood acquired 39 shares.

Under a standing order for reinvestment of an ISA, on 6 April 2009 Gregor Alexander acquired 12 shares.

Under the Share Incentive Plan, on 30 April 2009, Ian Marchant, Colin Hood and Gregor Alexander each acquired 12 shares and Alistair Phillips-Davies acquired 11 shares.

The Register of Directors' Interests (which is open to shareholders' inspection) contains full details of Directors' shareholdings and options to subscribe for shares.

Table D opposite shows the interests of the Executive Directors in awards granted under the Deferred Bonus Scheme (DBS), Deferred Bonus Plan 2006 (DBP 2006) and the Performance Share Plan (PSP) and in options granted under the ShareSave Scheme during the year ended 31 March 2009.

Table D – Executive Directors' Long Term Incentive Interests

	Share Plan	Date of Award	Normal Exercise Period (or Vesting Date)	No. of Shares under award as at 1 April 2008	Option Exercise Price	Additional shares awarded during the year[6]	No. of Shares released during the year	No. of Shares under award at 31 March 2009
Ian Marchant	DBS[4]	30/06/05	30/06/08-30/06/15	35,107			35,107[7]	
	DBS	06/06/06	06/06/09-06/06/16	46,081				46,081
	DBP 2006[5]	08/06/07	08/06/10	11,962				11,962
	DBP 2006	10/06/08	10/06/11			9,709		9,709
	PSP[3]	27/07/06	May 2009	54,142				54,142
	PSP[2]	26/07/07	May 2010	75,313				75,313
	PSP	10/06/08	May 2011			77,670		77,670
	Sharesave	01/10/04	01/10/09-31/03/10	1,051	622p			1,051
	Sharesave	01/10/08	01/10/11-31/03/12		1274p	442		442
Colin Hood	DBS[4]	11/07/02	11/07/05-11/07/12	16,108				16,108
	DBS	02/07/03	02/07/06-02/07/13	19,116				19,116
	DBS	20/07/04	20/07/07-20/07/14	25,249				25,249
	DBS	30/06/05	30/06/08-30/06/15	26,079				26,079
	DBS	06/06/06	06/06/09-06/06/16	33,446				33,446
	DBP 2006[5]	08/06/07	08/06/10	8,598				8,598
	DBP 2006	10/06/08	10/06/11			7,087		7,087
	PSP[3]	27/07/06	May 2009	40,607				40,607
	PSP[2]	26/07/07	May 2010	56,485				56,485
	PSP	10/06/08	May 2011			58,253		58,253
	Sharesave	01/10/05	01/10/10-31/03/11	1,492	886p			1,492
	Sharesave	01/10/07	01/10/10-31/03/11	144	1306p			144
Gregor Alexander	DBS[4]	30/06/05	30/06/08-30/06/15	17,386			17,386[7]	
	DBS	06/06/06	06/06/09-06/06/16	23,311				23,311
	DBP 2006[5]	08/06/07	08/06/10	6,518				6,518
	DBP 2006	10/06/08	10/06/11			5,493		5,493
	PSP[3]	27/07/06	May 2009	28,301				28,301
	PSP[2]	26/07/07	May 2010	42,364				42,364
	PSP	10/06/08	May 2011			44,661		44,661
	Sharesave	01/10/03	01/10/08-31/03/09	1,700	562p		1,700[8]	
	Sharesave	01/10/04	01/10/09-31/03/10	630	622p			630
	Sharesave	01/10/05	01/10/10-31/03/11	298	886p			298
Alistair Phillips-Davies	DBS[4]	20/07/04	20/07/07-20/07/14	16,211				16,211
	DBS	30/06/05	30/06/08-30/06/15	17,386				17,386
	DBS	06/06/06	06/06/09-06/06/16	23,311				23,311
	DBP 2006[5]	08/06/07	08/06/10	6,588				6,588
	DBP 2006	10/06/08	10/06/11			5,463		5,463
	PSP[3]	27/07/06	May 2009	28,301				28,301
	PSP[2]	26/07/07	May 2010	42,364				42,364
	PSP	10/06/08	May 2011			44,661		44,661
	Sharesave	01/10/05	01/10/10-31/03/11	1,865	886p			1,865

1. Shares which are released under the DBS, DBP 2006, and PSP attract additional shares in respect of the notional reinvestment of dividends. Shares released under the DBS during the year included the following arising from such notional reinvestment: Ian Marchant – 4,324 shares; Gregor Alexander – 2,141 shares.
2. The performance conditions applicable to awards under the PSP since 2007 are described on page 70.
3. The 2006 award under the PSP was subject to a slightly different target in that full vesting would occur after three years for EPS growth of RPI plus 8% and TSR at or above 75th percentile, and 30% of the award vesting for median performance for TSR and EPS growth of RPI plus 3%. This award will vest shortly after preliminary announcement of the company's results for 2008/09 in May 2009. As described on page 70, the performance conditions were met in full, so that the full number of shares stated will be released, plus a further number of shares in respect of notional reinvestment of dividends.
4. The DBS was the company's main long-term incentive arrangement prior to the introduction of the PSP in 2006. Vesting of shares was dependent on continued service over a three year period. The number of shares placed under option under the DBS depended on meeting financial and non-financial performance criteria in the financial years preceding the award, and therefore no further performance condition applies to the vesting of DBS options. The final DBS options, which were granted in June 2006 in relation to 2005/06 performance, will vest in June 2009, but participants may exercise their options during the period indicated in the table.
5. Since 2007, 25% of annual bonus payable to Executive Directors and Senior Managers has been satisfied as a conditional award of shares under the DBP 2006. Vesting of shares is dependent on continued service over a three year period. In view of the linkage to annual bonus, no further performance condition applies to the vesting of DBP 2006 awards.
6. The market value of a share on the date on which these awards were made was 1145.5p.
7. The market value of a share on the date on which these awards were realised was 1400p.
8. The market value of a share on the date this option was exercised was 1445p.

The closing market price of the shares at 31 March 2009 was 1109p and the range for the year was 1040p to 1541p. Awards granted during the year were granted under the DBP 2006 and the PSP. Options were granted under the Sharesave scheme. The aggregate amount of gains made by the Directors on the exercise of share options and realisation of awards during the year was £840,423.00 (2008 – £838,836.90). No options or awards lapsed in the year.

This report was approved by the Board and signed on its behalf by:

Susan Rice Remuneration Committee Chairman, 20 May 2009

Independent Auditor's Report
to the members of Scottish and Southern Energy plc

We have audited the Group and parent company financial statements (the 'financial statements') of Scottish and Southern Energy plc for the year ended 31 March 2009 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors
The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 65.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the financial statements, Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements. The information given in the Director's Report includes that specific information presented in the Chief Executive's Statement that is cross referenced from the Business Review section of the Director's Report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion
In our opinion:
- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 March 2009 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2009;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the financial statements, Article 4 of the IAS Regulation; and
- the information given in the Director's Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
20 May 2009

Consolidated Income Statement
for the year ended 31 March

	Note	2009 Before exceptional items and certain re-measurements £m	2009 Exceptional items and certain re-measurements (note 5) £m	2009 Total £m	2008 Before exceptional items and certain re-measurements £m	2008 Exceptional items and certain re-measurements (note 5) £m	2008 Total £m
Revenue	3	**25,424.2**	**–**	**25,424.2**	15,256.3	–	15,256.3
Cost of sales		**(23,552.7)**	**(1,291.7)**	**(24,844.4)**	(13,509.8)	(187.8)	(13,697.6)
Gross profit		**1,871.5**	**(1,291.7)**	**579.8**	1,746.5	(187.8)	1,558.7
Operating costs	4	**(576.5)**	**–**	**(576.5)**	(605.7)	–	(605.7)
Other operating income		**–**	**102.7**	**102.7**	0.1	55.0	55.1
Operating profit before jointly controlled entities and associates		**1,295.0**	**(1,189.0)**	**106.0**	1,140.9	(132.8)	1,008.1
Jointly controlled entities and associates:							
Share of operating profit		**246.4**	**–**	**246.4**	242.6	–	242.6
Share of interest		**(128.2)**	**–**	**(128.2)**	(127.6)	–	(127.6)
Share of movement on derivatives		**–**	**3.8**	**3.8**	–	4.2	4.2
Share of tax		**(39.3)**	**(1.1)**	**(40.4)**	(41.9)	31.2	(10.7)
Share of profit on jointly controlled entities and associates	13	**78.9**	**2.7**	**81.6**	73.1	35.4	108.5
Operating profit	3	**1,373.9**	**(1,186.3)**	**187.6**	1,214.0	(97.4)	1,116.6
Finance income	7	**209.7**	**–**	**209.7**	202.6	–	202.6
Finance costs	7	**(369.8)**	**25.8**	**(344.0)**	(233.9)	(1.5)	(235.4)
Profit before taxation		**1,213.8**	**(1,160.5)**	**53.3**	1,182.7	(98.9)	1,083.8
Taxation	8	**(300.6)**	**359.6**	**59.0**	(306.8)	96.2	(210.6)
Profit for the year		**913.2**	**(800.9)**	**112.3**	875.9	(2.7)	873.2
Attributable to:							
Equity holders of the parent		**913.2**	**(800.9)**	**112.3**	875.6	(2.7)	872.9
Minority interest		**–**	**–**	**–**	0.3	–	0.3
Basic earnings per share (pence)	10			**12.7p**			101.1p
Diluted earnings per share (pence)	10			**12.8p**			101.0p
Adjusted earnings per share (pence)	10			**108.0p**			105.6p
Dividends paid in the year (£m)	9			**£551.9m**			£502.8m

The accompanying notes are an integral part of these financial statements.

Balance Sheets as at 31 March

	Note	Consolidated 2009 £m	Consolidated 2008 restated £m	Company 2009 £m	Company 2008 £m
Assets					
Property, plant and equipment	12	**7,232.2**	6,334.3	**–**	–
Intangible assets:					
Goodwill	11	**724.0**	659.0	**–**	–
Other intangible assets	11	**253.0**	256.9	**–**	–
Investments in associates and jointly controlled entities	13	**918.7**	917.8	**456.9**	516.9
Investments in subsidiaries	14	**–**	–	**2,154.2**	2,137.8
Other investments	13	**18.3**	6.0	**–**	–
Trade and other receivables	17	**–**	–	**2,066.9**	1,772.7
Retirement benefit assets	27	**–**	85.8	**–**	85.8
Deferred tax assets	23	**100.1**	43.1	**32.7**	–
Derivative financial assets	29	**449.2**	318.9	**–**	–
Non-current assets		**9,695.5**	8,621.8	**4,710.7**	4,513.2
Intangible assets	11	**213.9**	138.9	**–**	–
Inventories	16	**366.7**	251.2	**–**	–
Trade and other receivables	17	**5,659.6**	3,400.3	**3,465.7**	2,429.2
Cash and cash equivalents	18	**295.9**	255.3	**135.1**	104.2
Derivative financial assets	29	**1,537.7**	1,106.5	**178.1**	1.1
Current assets		**8,073.8**	5,152.2	**3,778.9**	2,534.5
Total assets		**17,769.3**	13,774.0	**8,489.6**	7,047.7
Liabilities					
Loans and other borrowings	22	**1,060.1**	1,847.6	**916.4**	1,696.3
Trade and other payables	19	**4,364.9**	3,399.9	**2,635.5**	3,580.2
Current tax liabilities	20	**254.6**	220.8	**–**	9.0
Provisions	24	**13.8**	9.5	**–**	–
Derivative financial liabilities	29	**2,451.0**	1,229.4	**130.8**	–
Current liabilities		**8,144.4**	6,707.2	**3,682.7**	5,285.5
Loans and other borrowings	22	**4,336.1**	2,073.6	**2,868.5**	612.6
Deferred tax liabilities	23	**594.7**	967.3	**–**	9.6
Trade and other payables	19	**426.0**	490.1	**–**	–
Provisions	24	**60.2**	107.3	**–**	–
Retirement benefit obligations	27	**273.5**	134.9	**–**	–
Derivative financial liabilities	29	**959.5**	313.3	**–**	–
Non-current liabilities		**6,650.0**	4,086.5	**2,868.5**	622.2
Total liabilities		**14,794.4**	10,793.7	**6,551.2**	5,907.7
Net assets		**2,974.9**	2,980.3	**1,938.4**	1,140.0
Equity:					
Share capital	25	**460.2**	435.1	**460.2**	435.1
Share premium	26	**835.3**	315.7	**835.3**	315.7
Capital redemption reserve	26	**22.0**	22.0	**22.0**	22.0
Equity reserve	26	**0.8**	3.9	**0.8**	3.9
Hedge reserve	26	**19.6**	2.3	**43.3**	7.1
Translation reserve	26	**146.6**	25.4	**–**	–
Retained earnings	26	**1,492.7**	2,175.6	**576.8**	356.2
Total equity attributable to equity holders of the parent		**2,977.2**	2,980.0	**1,938.4**	1,140.0
Minority interest	26	**(2.3)**	0.3	**–**	–
Total equity		**2,974.9**	2,980.3	**1,938.4**	1,140.0

These financial statements were approved by the Board of Directors on 20 May 2009 and signed on their behalf by:

Gregor Alexander
Finance Director

Lord Smith of Kelvin
Chairman

Statements of Recognised Income and Expense
for the year ended 31 March

	Consolidated		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Gains on effective portion of cash flow hedges (net of tax)	**16.5**	11.6	**36.2**	18.0
Transferred to income statement on cash flow hedges (net of tax)	**–**	8.0	**–**	–
Effective net investment hedge (net of tax)	**(102.9)**	(21.1)	**–**	–
Actuarial (loss) on retirement benefit schemes (net of tax)	**(200.8)**	(17.4)	**(78.0)**	(43.3)
Exchange difference on translation of foreign operations	**221.7**	46.5	**–**	–
Jointly controlled entities and associates:				
Share of gains/(losses) on effective portion of cash flow hedges (net of tax)	**3.2**	(6.8)	**–**	–
Share of actuarial (losses)/gain on retirement benefit schemes (net of tax)	**(38.3)**	16.4	**–**	–
Net (expense)/income recognised directly in equity	**(100.6)**	37.2	**(41.8)**	(25.3)
Profit for the year	**112.3**	873.2	**852.0**	550.6
Total recognised income and expense for the year	**11.7**	910.4	**810.2**	525.3
Attributable to:				
Equity holders of the parent	**11.7**	910.1	**810.2**	525.3
Minority interests	**–**	0.3	**–**	–
	11.7	910.4	**810.2**	525.3

FINANCIAL STATEMENTS

Cash Flow Statements for the year ended 31 March

	Consolidated		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Cash flows from operating activities				
Profit for the year after tax	**112.3**	873.2	**852.0**	550.6
Taxation	**(59.0)**	210.6	**(40.8)**	(2.4)
Movement on financing and operating derivatives	**1,265.9**	167.1	**(37.5)**	1.6
Exchange loss in relation to foreign investment	**–**	22.2	**–**	–
Finance costs	**369.8**	233.9	**447.0**	251.2
Finance income	**(209.7)**	(202.6)	**(256.9)**	(191.7)
Share of jointly controlled entities and associates	**(81.6)**	(108.5)	**–**	–
Income from investment in subsidiaries	**–**	–	**(970.7)**	(609.3)
Pension service charges less contributions paid	**(49.3)**	(44.4)	**(14.5)**	(13.4)
Depreciation and impairment of assets	**315.9**	267.8	**–**	–
Amortisation and impairment of intangible assets	**14.4**	32.5	**–**	–
Impairment of inventories	**8.2**	–	**–**	–
Release of provisions	**(47.5)**	–	**–**	–
Deferred income released	**(16.7)**	(15.1)	**–**	–
(Increase) in inventories	**(127.7)**	(25.9)	**–**	–
(Increase) in receivables	**(2,048.3)**	(571.5)	**(1,508.9)**	(779.0)
Increase/(decrease) in payables	**958.0**	725.5	**(538.0)**	990.1
Increase/(decrease) in provisions	**4.7**	(6.4)	**–**	–
Charge in respect of employee share awards (before tax)	**14.3**	10.8	**–**	–
Profit on disposal of property, plant and equipment	**(2.0)**	(65.3)	**–**	–
Profit on disposal of 50% of Greater Gabbard Offshore Winds	**(102.7)**	–	**–**	–
Profit on disposal of fixed asset investment	**(2.2)**	–	**(2.2)**	–
Loss on disposal of replaced assets	**0.3**	0.4	**–**	–
Cash generated from operations	**317.1**	1,504.3	**(2,070.5)**	197.7
Dividends received from jointly controlled entities	**39.8**	35.1	**–**	–
Dividends paid to minority investment holders	**(2.6)**	–	**–**	–
Dividends received from subsidiaries	**–**	–	**970.7**	979.3
Finance income	**74.4**	61.2	**192.2**	124.9
Finance costs	**(219.2)**	(108.6)	**(348.2)**	(201.3)
Income taxes paid	**(255.5)**	(283.6)	**(255.3)**	(289.3)
Payment for consortium relief	**(0.4)**	(7.6)	**(0.4)**	(7.6)
Net cash from operating activities	**(46.4)**	1,200.8	**(1,511.5)**	803.7
Cash flows from investing activities				
Purchase of property, plant and equipment	**(1,172.2)**	(798.8)	**–**	–
Purchase of other intangible assets	**(37.5)**	(16.9)	**–**	–
Deferred income received	**24.8**	8.9	**–**	–
Proceeds from sale of property, plant and equipment	**3.8**	100.6	**–**	–
Proceeds from disposal of 50% of Greater Gabbard Offshore Winds	**308.5**	–	**–**	–
Purchase of 50% of Greater Gabbard Offshore Winds	**(40.0)**	–	**–**	–
Proceeds from sale of fixed asset investment	**2.4**	–	**2.4**	–
Loans to jointly controlled entities	**(262.0)**	(50.1)	**–**	–
Purchase of Airtricity (note 15)	**(2.1)**	(1,302.2)	**(2.1)**	(1,302.2)
Purchase of businesses and subsidiaries (note 15)	**(26.3)**	(65.7)	**–**	–
Cash acquired in purchases	**0.1**	597.3	**–**	–
Investment in jointly controlled entities and associates	**(44.7)**	–	**–**	–
Investment in Marchwood Power (note 15)	**(19.7)**	–	**–**	–
Loans and equity repaid by jointly controlled entities	**79.7**	10.8	**60.0**	–
Increase in other investments	**(12.5)**	(14.5)	**–**	–
Net cash from investing activities	**(1,197.7)**	(1,530.6)	**60.3**	(1,302.2)

	Consolidated		Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Cash flows from financing activities				
Proceeds from issue of share capital	**479.6**	2.2	**479.6**	2.2
Repurchase of ordinary share capital for cancellation	**–**	(237.0)	**–**	(237.0)
Dividends paid to company's equity holders	**(551.9)**	(502.8)	**(551.9)**	(502.8)
Employee share awards share purchase	**(15.8)**	(12.4)	**(15.8)**	(12.4)
New borrowings	**3,203.1**	2,275.1	**3,266.5**	1,696.4
Borrowings acquired in purchases	**–**	(543.0)	**–**	–
Repayment of borrowings	**(1,835.3)**	(466.6)	**(1,696.3)**	(349.5)
Net cash from financing activities	**1,279.7**	515.5	**1,482.1**	596.9
Net increase in cash and cash equivalents	**35.6**	185.7	**30.9**	98.4
Cash and cash equivalents at the start of year (note 18)	**243.1**	48.4	**104.2**	5.8
Net increase in cash and cash equivalents	**35.6**	185.7	**30.9**	98.4
Effect of foreign exchange rate changes	**14.9**	9.0	**–**	–
Cash and cash equivalents at the end of year (note 18)	**293.6**	243.1	**135.1**	104.2

Notes on the Financial Statements
for the year ended 31 March

1. SIGNIFICANT ACCOUNTING POLICIES

General information
Scottish and Southern Energy plc (the Company) is a company domiciled in Scotland. The address of the registered office is Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ. The Group's operations and its principal activities are set out in the Chief Executive's Statement at pages 8 to 17. The consolidated financial statements for the year ended 31 March 2009 comprise those of the Company and its subsidiaries (together referred to as the Group). The Company financial statements present information about the Company as a separate entity and not about the Group. Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own income statement and related notes.

Basis of preparation

Statement of compliance
The financial statements were authorised for issue by the directors on 20 May 2009. The financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations as adopted by the European Union (adopted IFRS).

Going concern
The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and expects to issue further debt in the capital markets during 2009/10 to meet its funding requirements. The financial statements are therefore prepared on a going concern basis. Further details of the Group's liquidity position and going concern review are provided in note 29 of the financial statements on page 133.

Basis of measurement
The financial statements of the Group and the Company are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair-value: certain derivative financial instruments, financial instruments classified as available for sale and the assets and liabilities of the Group pension scheme. The directors believe the financial statements present a true and fair view. The financial statements of the Group and Company are presented in pounds sterling. Operations and transactions conducted in currencies other than pounds sterling are included in the consolidated financial statements in accordance with the Group's foreign currencies accounting policy.

Use of estimates and judgements
The preparation of financial statements conforming with adopted IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The areas involving a higher level of judgement or estimation are summarised at pages 89 and 90.

Exceptional items and certain re-measurements
As permitted by IAS 1 *Presentation of Financial Statements*, the Group has disclosed additional information in respect of jointly controlled entities and associates, exceptional items and certain re-measurements on the face of the income statement to aid understanding of the Group's financial performance. An item is treated as exceptional if it is considered unusual by nature and scale and of such significance that separate disclosure is required for the financial statements to be properly understood. 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.

Standards, amendments and interpretations
The following accounting standards, amendments and interpretations have been adopted by Group from 1 April 2008:

- IFRIC 14 – IAS 19, The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction

The impact of adopting this interpretation was to increase liabilities recognised in relation to the Southern Electric Pension Scheme by £89.8m. The following published standards and interpretations are not yet effective and have not been early adopted by the Group:

- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Net Investment in a Foreign Operation
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- IFRS 8 Operating Segments
- Amendment to IAS 1 Presentation of Financial Statements – A Revised Presentation
- Amendments to IAS 23 Borrowing Costs
- Amendments to IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries
- Amendments to IFRS 3 Business Combinations
- Amendments to IAS 39 and IFRS 7

The impact of these new standards has not been fully analysed and this will be assessed in future accounting periods.

Basis of consolidation

The financial statements consolidate the financial statements of the Company and its subsidiaries together with the Group's share of the results and net assets of its jointly controlled entities and associates.

Subsidiaries
Subsidiaries (including special purpose entities) are those entities controlled by the Group or the Company. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity in order to obtain benefits from its activities. In assessing control, potential voting rights that are exercisable or convertible are taken into account. The financial statements of subsidiaries acquired are consolidated in the financial statements of the Group from the date that control commences until the date control ceases. All business combinations are accounted for by applying the purchase method of accounting.

The special purpose entities referred to relate to entities in which the Group has a 50% shareholding but whose activities the Group is deemed to control under SIC-12 Consolidation – Special Purpose Entities.

In the Company, investments in subsidiaries are carried at cost less any impairment charges. Pre-acquisition dividends are accounted for as a reduction in the cost of investment in the subsidiary.

Associates
Associates are those entities in which the Group has significant influence but not control over the financial and operating policies, namely where the Group has a shareholding of between 20% and 50% of the voting rights. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

Joint ventures
Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. In the consolidated financial statements, investments are accounted for under the equity method of accounting. Jointly controlled operations are businesses which use assets and liabilities that are separable from the rest of the Group. In these arrangements, the Group accounts for its own share of property, plant and equipment, carries its own inventories, incurs its own expenses and liabilities and raises its own finance.

In the Company, investments in jointly controlled entities are carried at cost less any impairment charges.

Transactions eliminated on consolidation
Intra-Group balances and any unrealised gains and losses or income and expenses arising from Intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

Accounting policies

Revenue recognition: energy, services and goods relating to the sale of energy
Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and that the revenue can be reliably measured. Revenue comprises sales of energy, use of system income, gas storage facility revenue, the value of services and facilities provided and goods sold during the year in the normal course of business.

Revenue on energy sales, comprises sales to retail end-user customers including an estimate of the value of electricity and gas supplied to customers between the date of the last meter reading and the year end. Revenue on energy sales also includes monies received from the electricity and gas balancing markets in the UK and other wholesale energy market sales. Unread energy sales are estimated using historical consumption patterns taking account of industry volume reconciliation processes. Revenue associated with business interruption insurance claims is recognised as revenue in the income statement only when it is virtually certain that the claim will be successful.

Revenue from use of energy systems includes an estimation of the volume of electricity distributed or transmitted by customers based on independently procured electricity settlement systems data. Annual revenue is dependent on being approved by the industry regulator, Ofgem. Certain circumstances may result in the regulatory 'allowed' income being over- or under-recovered in the financial year. Any over- or under-recovery is included into the calculation of the following year's regulatory use of system revenue within agreed parameters. No adjustment is made for over- or under-recoveries in the year that they arise.

Where the Group has an ongoing obligation to provide services, revenues are recognised as the service is performed and amounts billed in advance are treated as deferred income and excluded from current revenue. For one-off services, such as connections, revenue is recognised at the date of service. Revenue from fixed-fee service contracts is recognised over the life of the contract, in relation to the benefit received by the customer.

Gas storage facilities revenues are recognised evenly over the contract period, whilst revenues for the injection and withdrawal of gas are recognised at the point of gas flowing into or out of the storage facilities.

Sales of goods are recognised when goods are delivered and title has passed, along with the risks and rewards of ownership.

Notes on the Financial Statements (continued)
for the year ended 31 March

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants and customer contributions
A government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same years in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement on a systematic basis over the useful life of the asset to match the depreciation charge. Customer contributions in respect of major connections and capital grants have been recorded as deferred income and released to the income statement over the estimated life of the related assets.

Leases
The determination of whether an arrangement contains a lease is dependent on whether the arrangement relates to use and control of a specific asset. Leases are classified as finance leases if the arrangement transfers substantially all the risks and rewards of ownership to the lessee. All other leases are categorised as operating leases.

(i) Operating lease obligations
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Finance lease obligations
Assets held under finance leases are capitalised and held as part of property, plant and equipment. The accounting policy for such arrangements is described on page 85.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each year during the lease term in order to produce a constant periodic rate of interest on the remaining balance of the liability.

Foreign currencies
The consolidated financial statements are presented in pounds sterling, which is the functional currency of the Company and the Group's presentational currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured accordingly.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Any gain or loss arising on the restatement of such items is taken to the income statement with the exception of exchange gains or losses on foreign currency borrowings that provide a hedge against a net investment in a foreign entity or exchange gains or losses incurred as part of a qualifying cash flow hedge. Exchange gains or losses on net investment hedges are taken against the consolidated translation reserve, a separate component of equity, to the extent the hedge is effective. Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated at the historic rate at the date of transaction.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into pounds sterling at the balance sheet closing rate. The results of these operations are translated at the average rate in the relevant period. Exchange differences on retranslation of the opening net assets and the results are transferred to the translation reserve and are reported in the statement of recognised income and expense. Exchange differences on foreign currency borrowings, foreign exchange contracts or foreign currency swaps used as part of a hedge against net investment in a foreign entity are transferred to the translation reserve.

Finance income and costs
Finance income comprises interest receivable on funds invested and expected returns on pension scheme assets recognised in the income statement. Finance costs comprise interest payable on borrowings, the release of discounting on provisions, interest on pension scheme liabilities and accretion of the debt component on the convertible loan less capitalised interest.

Interest on the funding attributable to major capital projects is capitalised during the years of construction and depreciated as part of the total cost over the useful life of the asset.

Interest income and costs are recognised in the income statement as they accrue, on an effective interest method. The issue costs and interest payable on bonds and all other interest payable and receivable is reflected in the income statement on the same basis.

Taxation
Taxation on the profit for the year comprises current and deferred tax. Taxation is recognised in the income statement unless it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities other than in business combinations that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset within the same tax authority and where the Company intends to either settle them on a net basis, or to realise the asset and settle the liability simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Dividends

Dividend income is recognised on the date the Group's right to receive payments is established.

Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairments. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of other directly attributable costs. All items of property, plant and equipment are accounted for under the cost model within IAS 16.

Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment, and depreciated accordingly.

(ii) Leased assets

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Assets held under finance leases are recognised as part of the property, plant and equipment of the Group at the fair-value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Benefits received and receivable as an incentive to enter into an operating lease are also allocated on a straight line basis over the lease term.

(iii) Hydro civil assets

The Group is obliged under the Reservoirs Act 1975 to maintain its hydro infrastructure network, including its dams, tunnels and other hydro civil engineering structures (hydro civil assets). All items of property, plant and equipment within hydro civil assets, with the exception of land, are subject to depreciation.

In accordance with the transition provisions of IFRS 1, the Group identified the carrying value of these assets at privatisation and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, has been subject to depreciation over a useful economic life of 100 years. All subsequent maintenance expenditure is chargeable directly to the income statement.

(iv) Depreciation

Depreciation is charged to the income statement to write off cost, less residual values, on a straight line basis over their estimated useful lives. Depreciation policy, useful lives and residual values are reviewed at least annually, for all asset classes to ensure that the current method is the most appropriate. The estimated useful lives are as follows:

	Years
Hydro civil assets	100
Power stations	20 to 60
Wind farm developments	20 to 25
Overhead lines, underground cables and other network assets	40 to 80
Gas storage facilities	25 to 50
Other transmission and distribution buildings, plant and equipment	10 to 45
Shop refurbishment, fixtures, equipment, vehicles and mobile plant	3 to 10

Notes on the Financial Statements (continued)
for the year ended 31 March

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Heritable and freehold land is not depreciated.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

(v) Subsequent expenditure
It is the Group policy to capitalise qualifying replacement expenditure and depreciate it over the expected useful life of the replaced asset. Replaced assets are derecognised at this point. Where an item of property, plant and equipment is replaced and it is not practicable to determine the carrying amount of the replaced part, the cost of the replacement adjusted for inflation will be used as an approximation of the cost of the replaced part at the time it was acquired or constructed.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the item of property, plant and equipment to which it relates.

Business combinations
The acquisition of subsidiaries is accounted for under the purchase method. The acquired business is measured at the date of acquisition as the aggregate fair-value of assets, liabilities and contingent liabilities as required under IFRS 3 *Business Combinations* excluding non-current assets (or disposal groups) that are classified as held-for-sale, which are recognised and measured at fair-value less costs to sell. The excess of the cost of acquisition over the fair-value of the acquired business is represented as goodwill.

Intangible assets
(i) Goodwill and impairment testing
Goodwill arising on a business combination represents the excess of the cost of acquisition over the Group's interest in the fair-value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least on an annual basis.

For the purpose of impairment testing, goodwill is allocated to those cash-generating units expected to benefit from the combination's synergies. The cash-generating units used for goodwill impairment testing purposes are the operating units one level below the Group's segmental businesses or are the segments themselves. The cash-generating units are therefore representative of how goodwill was recognised and but do not represent business segments as reported to management.

If the carrying amount of the cash-generating unit exceeds its recoverable amount, an impairment charge will be recognised immediately in the income statement and will not be subsequently reversed. The recoverable amount is the higher of the cash-generating unit's fair-value less costs to sell and its value-in-use. The impairment charge will initially be adjusted against the goodwill allocated to the cash-generating unit Thereafter, the remaining assets of the cash-generating unit will be written-down proportionately.

Goodwill may also arise upon investments in jointly-controlled entities and associates. Such goodwill is recorded within the carrying amount of the Group's investment and any impairment loss is included within the share of result from jointly-controlled entities and associates.

On disposal or closure of a previously acquired business, any attributed goodwill will be included in determining the profit or loss on disposal.

(ii) Research and development
Expenditure on research activities is charged to the income statement as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products or processes, is capitalised if the product or process is considered to be technically and commercially feasible and the Group intends to complete the intangible asset for use or for sale.

(iii) Allowances and emissions
The European Emissions trading scheme (EU ETS) has been in operation since 1 January 2005. The IASB withdrew IFRIC 3 *Emission Rights* in June 2005 and it has not been replaced with definitive guidance or interpretation for CO_2 ('carbon') emissions trading.

The Group recognises carbon allowances granted in a period at nominal value (nil value). Carbon allowances purchased are recorded at cost within intangible assets. A liability is recognised when the forecast level of emissions in any period exceed the level of allowances held and this is recorded as a current liability. Up to the level of allowances held the liability is measured at the cost of purchased allowances. When carbon emissions liabilities are forecast to exceed the carbon allowances held, the net liability is measured at the market price of allowances. Movements in the market value of the liability are recognised in operating profit. Forward carbon contracts are measured at fair-value with gains or losses arising on re-measurement being recognised in the income statement. The intangible asset is surrendered at the end of the compliance period reflecting the consumption of the economic benefit and is derecognised at its carrying value. As a result, no amortisation is booked but an

impairment charge may be recognised should the carrying value exceed market value. Where allowances granted are used to settle a liability relating to a previous period, a creditor balance is recorded for the increased liability in the current period.

Under the Renewable Obligations Certificates (ROCs) scheme, certificates obtained from own generation are awarded by a third party, Ofgem. Self-generated certificates are recorded at market value and purchased certificates are recognised at cost, both within intangible assets. The liability under the renewables obligation is recognised based on electricity supplied to customers, the percentages set by Ofgem and the prevailing market price. The intangible asset is surrendered at the end of the compliance period reflecting the consumption of economic benefit. As a result no amortisation is recorded during the period.

(iv) Development wind assets

Costs capitalised as development wind intangibles represent the costs incurred in bringing individual wind farm projects to the consented stage. Costs associated with reaching the consent stage include options over land rights, planning application costs and environmental impact studies. These may be costs incurred directly or part of the fair-value exercise on acquisition of a controlling interest in a project. Development wind assets are not amortised until the asset is substantially complete and ready for its intended use. The asset is subject to impairment testing on an annual basis until this time. At the point that the project reaches the consent stage and is approved by the Board, the carrying value of the project is transferred to property, plant and equipment as assets under construction. Amortisation is over the expected useful life of the related operational asset. The asset is derecognised on disposal, or when no future economic benefits are expected from their use.

(v) Other intangible assets

Other intangible assets that have been acquired by the Group including brands are stated at cost less accumulated amortisation and impairment losses. Software licenses are stated at cost less accumulated amortisation. Expenditure on internally generated brands is expensed as incurred. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of these other intangible assets. The amortisation periods utilised are as follows:

	Years
Brand values	10
Application software licences	5
Customer lists	5
Contracts	Shorter of contract term or 5

Impairment testing

The carrying amounts of the Group's assets, other than inventories or deferred tax assets, are reviewed each financial year to determine whether there is any indication of impairment. If there is evidence of impairment, the recoverable amount, being the higher of the fair-value less costs to sell and the value-in-use of the asset, is estimated to determine the extent of any such impairment. For goodwill and other intangible assets with an indefinite life or not ready for use, the test for impairment is carried out annually. For financial assets, impairment is determined based on the present value of estimated future cash flows discounted at the effective rate initially used at inception.

Inventories and work in progress

Inventories are valued at the lower of cost (on a first-in, first-out basis) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of fuel stocks is based on the weighted average principle. The valuation of work in progress is based on the cost of labour, the cost of contractors, the cost of materials plus other directly attributable costs.

Recognition of revenue and profit on construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured as the proportion of cost incurred on work performed to date compared to the estimated total contract cost, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When it becomes probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately in the income statement.

Employee benefit obligations

(i) Defined benefit pension schemes

The Group operates two defined benefit pension schemes, one of which is operated by the Company. Pension scheme assets are measured using bid market values. Pension scheme liabilities are measured using the projected unit credit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Any increase in the present value of liabilities within the Group's defined benefit pension schemes expected to arise from employee service in the year is charged as service costs to operating profit.

The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in finance income and finance costs, respectively. Actuarial gains and losses are recognised in full in the consolidated statement of recognised income and expense. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet.

Notes on the Financial Statements (continued)
for the year ended 31 March

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Defined contribution pension schemes
The Group also operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amounts charged represent the contributions payable to the schemes in the year and are charged directly to the income statement.

(iii) Equity and equity-related compensation benefits
The Group operates a number of employee share schemes as described in the Remuneration Report and note 28. These schemes enable Group employees to acquire shares of the Company.

The exercise prices of the sharesave scheme are set at a discount to market price at the date of the grant. The fair-value of the sharesave scheme option granted is measured at the grant date by use of a Black-Scholes model. The fair-value of the options granted is recognised as an expense on a straight-line basis over the period that the scheme vests. Estimates are updated for non-market conditions at each balance sheet date with any adjustment in respect of the current and prior years being recognised in the income statement.

The costs associated with the other main employee schemes are recognised over the period to which they relate.

The charge related to the equity shares in the Company awarded under the share schemes is treated as an increase in the cost of investment held by the Company in the subsidiary companies of the Group. Prior year amounts are not material and have therefore not been adjusted for.

Financial instruments
The Group uses a range of financial instruments to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price fluctuations in its normal course of business and in accordance with the Group's risk management policies. The Group's risk management policies are further explained in note 29.

Accounting policies under IAS 32 and 39
(i) Interest rate and foreign exchange derivatives
Financial derivative instruments are used by the Group to hedge interest rate and currency exposures. All such derivatives are recognised at fair-value and are re-measured to fair-value each reporting period. Certain derivative financial instruments are designated as being held for hedging purposes. The designation of the hedge relationship is established at the inception of the contract and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on re-measurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a 'fair-value' or 'cash flow' hedge. Derivatives that are not designated as hedges are treated as if held for trading, with all fair-value movements attributable to the risk being hedged being recorded through the income statement.

A derivative classified as a 'fair-value' hedge recognises gains and losses from re-measurement immediately in the income statement. Loans and borrowings are measured at cost except where they form the underlying transaction in an effective fair-value hedge relationship. In such cases, the carrying value of the loan or borrowing is adjusted to reflect fair-value movements with the gain or loss being reported in the income statement.

A derivative classified as a 'cash flow' hedge recognises the portion of gains or losses on the derivative which are deemed to be effective directly in equity in the hedge reserve. Any ineffective portion of the gains or losses is recognised in the Income Statement. When hedged cash flows result in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the consolidated income statement in the same period in which the hedged cash flows affect the consolidated income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At the point of discontinuation, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction affects profit or loss. On settlement, the cumulative gain or loss recognised in equity is recognised in the income statement.

(ii) Commodity derivatives
Within its regular course of business, the Group routinely enters into sale and purchase derivative contracts for commodities such as electricity, gas, coal and oil. Where the contract was entered into and continues to be held for the purpose of receipt or delivery in accordance with the Group's expected sale, purchase or usage requirements, the contracts are designated as 'own use' contracts and are measured at cost. These contracts are not within the scope of IAS 39.

Derivative commodity contracts which are not designated as own use contracts are accounted for as trading derivatives and are recognised in the balance sheet at fair-value. Where a hedge accounting relationship is designated and is proven to be effective, the changes in fair-value will be recognised in accordance with the rules noted in part (i) to this note.

Other commodity contracts, where own use is not established and a hedge accounting relationship is not designated, are measured at fair-value with gains and losses on re-measurement being recognised in the income statement in cost of sales.

(iii) Embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives where the characteristics of the derivatives are not closely related to those of the host contracts.

(iv) Net investment hedges
Hedges of net investments in foreign operations are accounted for in a manner similar to cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity, in the translation reserve, and any gain or loss on the ineffective portion of the hedge is recognised in the income statement. On disposal of the foreign operation, the cumulative value of any gains or losses recognised directly in equity is transferred to the income statement.

(v) Convertible bond
The Group has issued a convertible bond which represents debt that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair-value. This is accounted for as a compound financial instrument, net of transaction costs. The equity component of the convertible bond is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest method.

(vi) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(vii) Trade receivables
Trade receivables do not carry any interest and are measured at cost less an appropriate allowance for irrecoverable receivables.

(viii) Interest-bearing loans and borrowings
All such loans and borrowings are initially recognised at fair-value including transaction costs and are subsequently measured at amortised cost, except where the loan or borrowing is the hedged item in an effective fair-value hedge relationship.

(ix) Share capital
Ordinary shares are accounted for as equity. Costs associated with the issue of new shares are deducted from the proceeds of issue.

Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Decommissioning costs
The estimated cost of decommissioning at the end of the useful lives of certain assets is reviewed periodically. Provision is made for the estimated cost of decommissioning. Decommissioning dates are uncertain but are expected to be between 2009 and 2035. A corresponding decommissioning asset is recognised and is included within property, plant and equipment. Changes in these provisions are recognised prospectively. The unwinding of the discount on the provision is included in finance costs and the depreciation for the asset is straight-line over the expected useful life of the asset.

Critical accounting judgements and key sources of estimation uncertainty
In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The most critical of these accounting judgement and estimation areas are noted.

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

Notes on the Financial Statements (continued)
for the year ended 31 March

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Retirement benefits
The assumptions in relation to the cost of providing post-retirement benefits during the period are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the earnings of the Group. The value of scheme assets is impacted by the asset ceiling test which restricts the surplus that can be recognised to assets that can be recovered fully through refunds or reductions in future contributions.

(iii) Impairment testing
The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that the value of those assets is impaired. In assessing for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit (CGU). The recoverable amount of the assets, or the appropriate CGU, is measured as the higher of their fair-value less costs to sell and value in use. Value in use calculations requires the estimation of future cash flows to be derived from the respective CGUs and to select and an appropriate discount rate in order to calculated their present value. The fair-values less costs to sell methodology used for the wind farms CGUs also requires the discounting of cash flows from the projects within the respective CGUs. The estimation of the timing and value of underlying projected cash flows and the selection of appropriate discount rates involves management judgement. Subsequent changes to these estimates or judgements may impact the carrying value of the assets within the respective CGUs.

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

(v) Financial Instruments – fair-values
The valuation of the financial instruments is based upon published price quotations in active markets and valuation techniques where such information is not available. Energy commodity contracts are classified as either derivative contracts under IAS 39 or as contracts for the Group's own use requirements. Only IAS 39 derivatives are accounted for on a fair-value basis. More detail on this is included in note 29.

(vi) Exceptionals and re-measurements
The criteria for identifying what constitutes an exceptional item are outlined in note 1 Exceptional Items and Certain Re-measurements.

2. CHANGE IN ACCOUNTING POLICY

Intangible assets – allowances and emissions
In the financial statements up to 31 March 2008, the policy in relation to CO_2 ('carbon') allowances granted was to recognise these allowances as a current intangible asset at fair-value at the date of grant. Carbon emissions liabilities were measured at the cost of purchased or granted allowances up to the level of allowances held. As a consequence, to the extent that granted allowances assets were recognised, an equal and opposite component of the emissions liability was recognised.

In the current year, the Group has ceased to recognise granted allowances at fair-value and instead records these at nominal value (nil value). This change has been made to simplify disclosures in relation to the EU ETS and will bring the Group in line with the emerging consensus on treatment of granted allowances.

This change in accounting policy has nil effect on reserves. The restatements to the comparative year balance sheet are as follows:

Impact of change in disclosure:

	31 March 2008 £m	31 March 2007 £m
Other intangible assets	**597.8**	190.6
Less: restatement	**(202.0)**	(19.2)
	395.8	171.4
Other creditors	**(910.4)**	(526.1)
Less: restatement	**202.0**	19.2
	(708.4)	(506.9)
Impact on reserves	**–**	–

Other restated amounts
In addition, within the notes to the financial statements, certain items have been reclassified to enhance understanding of the prior year results and to aid comparability with the current year presentation. Certain provisional fair-value estimates in relation to acquisitions in the previous year have been agreed and are reflected in the current year. These have no impact on equity or the income statement.

3. SEGMENTAL INFORMATION

Primary reporting format – business segments

The primary segments are as reported for management purposes and reflect the day-to-day management of the business. The Group's primary segments are the distribution and transmission of electricity in the north of Scotland, the distribution of electricity in the south of England (together referred to as Power Systems) and the generation and supply of electricity and sale of gas in Great Britain and Ireland (Generation and Supply). The Group's 50% equity share in Scotia Gas Networks Limited, a business which distributes gas in Scotland and the south of England (see note 13) is included as a separate business segment where appropriate due to its significance.

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

(a) Revenue by segment

	Total revenue		Intra-segment revenue (i)		External revenue	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Power Systems						
Scotland	**292.1**	283.6	**104.1**	108.4	**188.0**	175.2
England	**450.9**	434.0	**204.1**	194.6	**246.8**	239.4
	743.0	717.6	**308.2**	303.0	**434.8**	414.6
Generation and Supply						
Retail	**8,516.5**	5,648.6	**8.2**	7.0	**8,508.3**	5,641.6
Wholesale and trading	**15,409.4**	8,353.9	**–**	–	**15,409.4**	8,353.9
Other	**440.7**	260.5	**20.7**	6.1	**420.0**	254.4
	24,366.6	14,263.0	**28.9**	13.1	**24,337.7**	14,249.9
Other businesses	**1,077.2**	1,017.8	**425.5**	426.0	**651.7**	591.8
	26,186.8	15,998.4	**762.6**	742.1	**25,424.2**	15,256.3

(i) Intra-segment revenue is derived from use of system income received by the Power Systems businesses from Generation and Supply, provision of Contracting, Metering and Connections services, use of Gas Storage facilities, Telecoms infrastructure charges, internal heat and light charges and other Corporate services. All are provided at arm's length basis.

Revenue within Generation and Supply includes retail sales from energy supply customers, wholesale and trading revenue and other sales. Wholesale and trading revenue includes revenues from generation plant output and the gross value of all wholesale power and gas sales including settled physical and financial trades. These are entered into to optimise the performance of the generation plants and to support the energy supply business. Purchase trades are included in cost of sales.

Revenue from the Group's investment in Scotia Gas Networks (SSE share being 2009 – £365.7m; 2008 – £361.2m) is not recorded in the revenue line in the income statement.

(b) Operating profit by segment

	2009					2008				
	Adjusted £m	**JCE/ 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**	Adjusted £m	JCE/ 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
Power Systems										
Scotland	**160.4**	**–**	**160.4**	**–**	**160.4**	150.2	–	150.2	–	150.2
England	**243.3**	**–**	**243.3**	**–**	**243.3**	232.7	–	232.7	–	232.7
	403.7	**–**	**403.7**	**–**	**403.7**	382.9	–	382.9	–	382.9
Scotia Gas Networks	**180.5**	**(146.3)**	**34.2**	**3.9**	**38.1**	161.5	(139.3)	22.2	30.3	52.5
Energy Systems	**584.2**	**(146.3)**	**437.9**	**3.9**	**441.8**	544.4	(139.3)	405.1	30.3	435.4
Generation and Supply	**832.0**	**(20.9)**	**811.1**	**(1,190.2)**	**(379.1)**	711.1	(29.9)	681.2	(182.7)	498.5
Other businesses	**134.1**	**(0.3)**	**133.8**	**–**	**133.8**	137.8	(0.3)	137.5	55.0	192.5
	1,550.3	**(167.5)**	**1,382.8**	**(1,186.3)**	**196.5**	1,393.3	(169.5)	1,223.8	(97.4)	1,126.4
Unallocated expenses (ii)	**(8.9)**	**–**	**(8.9)**	**–**	**(8.9)**	(9.8)	–	(9.8)	–	(9.8)
	1,541.4	**(167.5)**	**1,373.9**	**(1,186.3)**	**187.6**	1,383.5	(169.5)	1,214.0	(97.4)	1,116.6

(i) The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair-value movements on financing derivatives and tax from jointly controlled entities and associates. The share of Scotia Gas Networks interest includes loan stock interest payable to the consortium shareholders. The Group has accounted for its 50% share of this, £33.6m (2008 – £35.4m), as finance income (note 7).
(ii) Unallocated expenses comprise corporate office costs which are not directly allocable to particular segments.

Notes on the Financial Statements (continued)
for the year ended 31 March

3. SEGMENTAL INFORMATION (continued)

The Group's share of operating profit from jointly controlled entities and associates has been recognised in the Generation and Supply segment other than that for Scotia Gas Networks Limited, which is recorded in a separate segment, and PriDE (South East Regional Prime), which is recognised in Other businesses (£1.4m before tax; 2008 – £1.0m before tax).

(c) Assets and liabilities

	Segment assets (i)		Segment liabilities (ii)	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Power Systems				
Scotland	**1,621.7**	1,495.2	**953.4**	931.8
England	**2,479.6**	2,335.4	**1,490.2**	1,461.2
	4,101.3	3,830.6	**2,443.6**	2,393.0
Scotia Gas Networks (iii)	**424.5**	501.1	**–**	–
Energy Systems	**4,525.8**	4,331.7	**2,443.6**	2,393.0
Generation and Supply	**16,069.8**	12,312.7	**16,244.8**	11,435.1
Other businesses	**1,640.8**	1,843.9	**1,236.5**	1,429.5
Corporate and unallocated	**12,763.6**	9,910.7	**12,100.2**	10,161.1
	35,000.0	28,399.0	**32,025.1**	25,418.7
Less: inter-segment	**(17,230.7)**	(14,625.0)	**(17,230.7)**	(14,625.0)
	17,769.3	13,774.0	**14,794.4**	10,793.7

(i) Segment assets consist of property, plant and equipment, goodwill, other intangible assets, financial assets (operating derivatives) and receivables. Unallocated assets include pension assets, deferred tax assets, financial assets (financing derivatives), investments and cash and cash equivalents.
(ii) Segment liabilities consist of operating liabilities. Unallocated liabilities include taxation, corporate borrowings, pension liabilities and deferred taxation.
(iii) The asset balance represents the Group's net investment in Scotia Gas Networks. The Group's share of the capital additions in Scotia Gas Networks is not included within Property, Plant and Equipment.

(d) Capital expenditure

	Capital additions to intangible assets (note 11)		Capital additions to property, plant and equipment (note 12)	
	2009 £m	2008 restated £m	**2009 £m**	2008 £m
Power Systems				
Scotland	**–**	–	**128.9**	100.0
England	**–**	–	**185.7**	164.4
	–	–	**314.6**	264.4
Generation and Supply	**351.3**	163.2	**757.6**	351.9
Other businesses	**–**	3.4	**218.6**	165.9
Corporate and unallocated	**2.4**	10.7	**–**	–
	353.7	177.3	**1,290.8**	782.2

Capital additions does not include assets acquired in acquisitions.

(e) Included within operating profit

	Depreciation/ impairment on property, plant and equipment (note 12)		Amortisation/ impairment of intangible assets (note 11)	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Power Systems				
Scotland	**45.2**	40.5	**–**	–
England	**75.2**	68.8	**–**	–
	120.4	109.3	**–**	–
Generation and Supply	**142.7**	118.2	**4.8**	9.7
Other businesses	**52.8**	40.3	**5.5**	–
Corporate and unallocated	**–**	–	**4.1**	4.0
	315.9	267.8	**14.4**	13.7

The Group's share of Scotia Gas Networks depreciation (2009 – £52.1m; 2008 – £46.0m) and amortisation (2009 – nil; 2008 – nil) is not included within operating costs. Property, plant and equipment impairment charges of nil (2008 – £12.2m) are included within Generation and Supply.

Secondary reporting format – geographical segments

The Group operates in two main geographical areas:

	2009			2008		
	UK £m	**Europe £m**	**Total £m**	UK £m	Europe £m	Total £m
Revenue – external	**25,045.7**	**378.5**	**25,424.2**	15,183.4	72.9	15,256.3
Total assets (i)	**16,592.4**	**1,176.9**	**17,769.3**	12,583.6	1,190.4	13,774.0
Capital expenditure (ii)	**1,158.7**	**132.1**	**1,290.8**	778.1	4.1	782.2
Expenditure on intangible assets (iii)	**321.7**	**32.0**	**353.7**	174.8	2.5	177.3

(i) Based on location of assets.
(ii) Capital expenditure on property, plant and equipment (note 12) based on location of assets.
(iii) Capital expenditure on other intangible assets (note 11) based on location of assets.

4. OTHER OPERATING INCOME AND EXPENSE

Group operating costs can be analysed thus:

	2009 £m	2008 £m
Distribution costs	**205.3**	214.6
Administration costs	**371.2**	391.1
	576.5	605.7

Group operating profit is stated after charging (or crediting) the following items:

	2009 £m	2008 £m
Depreciation and impairment of property, plant and equipment (note 12)	**315.9**	267.8
Impairment of inventories (note 16)	**8.2**	–
Research and development costs	**4.4**	3.7
Operating lease rentals (note 31)	**220.6**	268.9
Release of deferred income in relation to customer contributions and capital grants	**(16.7)**	(15.1)
Gain on disposal of property, plant and equipment (i)	**(2.0)**	(65.3)
Gain on disposal of fixed asset investments	**(2.2)**	–
Loss on disposal of replaced assets	**0.3**	0.4
Impairment of intangible asset (note 11)	**2.2**	2.0
Amortisation of brand costs (note 11)	**1.1**	1.1
Amortisation of intangible assets (note 11)	**11.1**	4.2

(i) The prior year gain on disposal of property, plant and equipment includes the exceptional gain on disposal.

Notes on the Financial Statements (continued)
for the year ended 31 March

4. OTHER OPERATING INCOME AND EXPENSE (continued)

Auditor's remuneration

	2009 £m	2008 £m
Statutory audit services – audit of the Group's accounts	**0.2**	0.2
Statutory audit of subsidiary accounts	**0.6**	0.4
Audit of parent and subsidiary entities	**0.8**	0.6
Tax services	**0.4**	0.1
Other services	**0.4**	0.9

Tax service fees incurred in the year were £0.4m (2008 – £0.1m). In addition to the amounts shown above, the auditor received fees of £0.04m (2008 – £0.03m) for the audit of the Scottish Hydro-Electric Pension Scheme. Statutory audit of subsidiary accounts includes £0.3m (2008 – £0.2m) in relation to Airtricity. Other service fees include fees incurred in relation to potential acquisitions and work in relation to regulatory accounts and returns required by Ofgem. A description of the work of the Audit Committee is set out on page 58 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

Amounts paid to the Company's auditor in respect of services to the Company other than the audit of the Company's financial statements have not been disclosed separately as the information is required instead to be disclosed on a consolidated basis.

5. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

(i) Exceptional items

During the year, the Group disposed of 50% of its equity shareholding in Greater Gabbard Offshore Winds Limited (GGOWL) to RWE npower renewables Limited, the UK fully owned subsidiary of RWE Innogy GmbH for a total cash consideration of £308.5m.

GGOWL was originally a jointly controlled entity between Airtricity, acquired by SSE in February 2008, and Fluor International Limited. In May 2008, SSE acquired Fluor's 50% stake for a cash consideration of £40.0m, while stating its intention to dispose of it later in the year.

The total proceeds on disposal was £308.5m, which comprised £165.6m reimbursement of 50% of the capital costs already incurred in developing the project and £142.9m in relation to the 50% of the equity. The gain on sale recognised was £102.7m, which has been disclosed separately in the income statement as an exceptional item. While no tax charge was recognised in relation to the gain on disposal, a tax credit was recognised on the reversal of deferred tax related to the derecognition of fair-value items deemed to have been part of the costs of disposal (£5.7m). Further detail on this transaction is included at note 15.

In the previous financial year, the Group disposed of telecoms sites assets to the Wireless Infrastructure Company Limited, for a consideration of £79.0m. The gain recognised on this disposal was £55.0m. This gain has been disclosed separately in the income statement. Also in the previous financial year, the Group incurred an unhedged translation loss of £22.2m on € denominated debt held in relation to the acquisition of Airtricity Holdings Limited (see note 15). This has been recognised as exceptional following the Group's decision to restructure the borrowings associated with this element of the acquisition in order to match sterling exposures with sterling funding. As a consequence this translation loss was a non-recurring item.

(ii) Certain re-measurements

Certain re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category includes the movement on derivatives as described in note 29.

(iii) Taxation

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

In addition to this, the Group has also separately disclosed in the previous financial year the effect of the change in the base corporation tax rate of 30% to 28%, which was effective from 1 April 2008. This had an impact on any temporary differences which existed at 1 April 2008 (note 8).

These transactions can be summarised thus:

	2009 £m	2008 £m
Exceptional items		
Gain on disposal of share in Greater Gabbard Offshore Winds (note 15)	102.7	–
Disposal of telecoms masts assets	–	55.0
Share of change in corporation tax in jointly controlled entities and associates	–	32.4
Exceptional loss on translation	–	(22.2)
	102.7	65.2
Certain re-measurements		
Movement on operating derivatives	(1,291.7)	(187.8)
Movement on financing derivatives	25.8	20.7
Share of movement on derivatives in jointly controlled entities (net of tax)	2.7	3.0
	(1,263.2)	(164.1)
(Loss)/profit before taxation	**(1,160.5)**	(98.9)
Exceptional items		
Effect of change in corporation tax on deferred tax liabilities and assets	–	55.4
Taxation on other exceptional items	5.7	(9.9)
	5.7	45.5
Taxation on certain re-measurements	353.9	50.7
Taxation	**359.6**	96.2
Impact on profit for the year	(800.9)	(2.7)

6. DIRECTORS AND EMPLOYEES

(i) Employee costs

	Consolidated 2009 £m	Consolidated 2008 £m
Employee costs:		
Wages and salaries	530.1	433.1
Social security costs	48.0	38.9
Share-based remuneration (note 28)	14.3	10.8
Pension costs (note 27)	35.4	36.3
	627.8	519.1
Less: capitalised as property, plant and equipment	(79.9)	(60.9)
	547.9	458.2

Employee numbers:

	Consolidated 2009 Number	Consolidated 2008 Number	Company 2009 Number	Company 2008 Number
Numbers employed at 31 March	18,795	16,892	4	4

The average number of people employed by the Group (including Executive Directors) during the year was:

	Consolidated 2009 Number	Consolidated 2008 Number	Company 2009 Number	Company 2008 Number
Power Systems	2,045	1,938	–	–
Generation and Supply	8,536	7,047	–	–
Contracting, Connections and Metering	5,714	5,312	–	–
Other businesses and corporate services	1,901	1,480	4	4
	18,196	15,777	4	4

The costs associated with the employees of the Company, who are the executive Directors of the Group, are borne by Group companies. No amounts are charged to the Company.

Notes on the Financial Statements (continued)
for the year ended 31 March

6. DIRECTORS AND EMPLOYEES (continued)

(ii) Directors' remuneration and interests
Information concerning Directors' remuneration, shareholdings, options, long term incentive schemes and pensions is shown in the Remuneration Report on pages 66 to 75. No Director had, during or at the end of the year, any material interest in any other contract of significance in relation to the Group's business.

7. FINANCE INCOME AND COSTS

Recognised in income statement

	2009			2008		
	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Finance income:						
Return on pension scheme assets	135.3	–	135.3	141.4	–	141.4
Interest income from short term deposits	9.4	–	9.4	4.9	–	4.9
Other interest receivable:						
Scotia Gas Networks loan stock	33.6	–	33.6	35.4	–	35.4
Other jointly controlled entities and associates	14.6	–	14.6	10.8	–	10.8
Other receivable	16.8	–	16.8	10.1	–	10.1
Total finance income	209.7	–	209.7	202.6	–	202.6
Finance costs:						
Bank loans and overdrafts	(149.9)	–	(149.9)	(52.5)	–	(52.5)
Other loans and charges	(132.9)	–	(132.9)	(81.2)	–	(81.2)
Interest on pension scheme liabilities	(130.1)	–	(130.1)	(117.4)	–	(117.4)
Accretion of convertible debt component (note 22)	(0.6)	–	(0.6)	(4.6)	–	(4.6)
Notional interest arising on discounted provisions	(5.1)	–	(5.1)	(3.6)	–	(3.6)
Foreign exchange translation of monetary assets and liabilities	(2.4)	–	(2.4)	2.1	(22.2)	(20.1)
Less: interest capitalised (i)	51.2	–	51.2	23.3	–	23.3
Total finance costs	(369.8)	–	(369.8)	(233.9)	(22.2)	(256.1)
Changes in fair-value of financing derivative assets or liabilities designated at fair-value through profit or loss	–	25.8	25.8	–	20.7	20.7
Net finance costs	(160.1)	25.8	(134.3)	(31.3)	(1.5)	(32.8)
Finance income	209.7	–	209.7	202.6	–	202.6
Finance costs	(369.8)	25.8	(344.0)	(233.9)	(1.5)	(235.4)
Net finance costs	(160.1)	25.8	(134.3)	(31.3)	(1.5)	(32.8)

(i) The capitalisation rate applied in determining the amount of borrowing costs to capitalise in the period was 5.46% (2008 – 5.52%).

Recognised in equity

	2009 £m	2008 £m
Gains on effective portion of cash flow hedges (i)	21.7	27.2
Share of gains/(losses) on effective portion of cash flow hedges (i)	8.4	(9.5)
	30.1	17.7

(i) Before deduction of tax.

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

	2009 £m	2008 £m
Net finance costs	(134.3)	(32.8)
(add)/less:		
Share of interest from jointly controlled entities and associates		
Scotia Gas Networks loan stock	(33.6)	(35.4)
Other jointly controlled entities and associates	(94.6)	(92.2)
	(128.2)	(127.6)
Accretion of convertible debt component (note 22)	0.6	4.6
Ineffective portion of movement on net investment hedge	–	22.2
Movement on financing derivatives	(25.8)	(20.7)
Adjusted finance income and costs	(287.7)	(154.3)
(add)/less:		
Return on pension scheme assets	(135.3)	(141.4)
Interest on pension scheme liabilities	130.1	117.4
Notional interest arising on discounted provisions	5.1	3.6
Adjusted finance income and costs for interest cover calculations	(287.8)	(174.7)

8. TAXATION

Analysis of charge recognised in the income statement:

	2009			2008		
	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Current tax						
UK corporation tax	298.6	–	298.6	315.3	13.6	328.9
Adjustments in respect of previous years	(10.1)	–	(10.1)	(18.9)	–	(18.9)
Total current tax	288.5	–	288.5	296.4	13.6	310.0
Deferred tax						
Current year	13.8	(359.6)	(345.8)	11.4	(54.4)	(43.0)
Effect of UK corporation tax rate change	–	–	–	–	(55.4)	(55.4)
Adjustments in respect of previous years	(1.7)	–	(1.7)	(1.0)	–	(1.0)
Total deferred tax	12.1	(359.6)	(347.5)	10.4	(109.8)	(99.4)
Total taxation charge/(credit)	300.6	(359.6)	(59.0)	306.8	(96.2)	210.6

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

	2009 £m	2009 %	2008 £m	2008 %
Group profit before tax	53.3		1,083.8	
Less: share of results of associates and jointly controlled entities	(81.6)		(108.5)	
(Loss)/profit before tax	(28.3)		975.3	
Tax on (loss)/profit on ordinary activities at standard UK corporation tax rate of 28% (2008 – 30%)	(7.9)	28.0	292.6	30.0
Tax effect of:				
Expenses not deductible for tax purposes	3.7	(13.1)	5.6	0.6
Non-taxable income	(34.4)	121.5	(0.4)	–
Effect of change of UK corporation tax rate	–	–	(55.4)	(5.7)
Impact of foreign tax rates and foreign dividends	0.3	(1.1)	(0.6)	(0.1)
Adjustments to tax charge in respect of previous years	(11.8)	41.7	(21.0)	(2.1)
Consortium relief not paid for	(9.1)	32.2	(9.7)	(1.0)
Utilisation of tax losses	(1.5)	5.3	(0.5)	(0.1)
Other items	1.7	(6.0)	–	–
Group tax (credit)/charge and effective rate	(59.0)	208.5	210.6	21.6

Notes on the Financial Statements (continued)
for the year ended 31 March

8. TAXATION (continued)

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

	2009 £m	2009 %	2008 £m	2008 %
Total taxation (credit)/charge	(59.0)	208.5	210.6	21.6
Effect of adjusting items (see below)	–	(213.2)	–	(4.5)
Total taxation (credit)/charge on adjusted basis	(59.0)	(4.7)	210.6	17.1
(add)/less:				
Share of current tax from jointly controlled entities and associates	11.9	1.0	20.8	1.7
Exceptional items	5.7	0.5	(9.9)	(0.8)
Effect of change of UK corporation tax rate	–	–	55.4	4.5
Tax on movement on derivatives	353.9	28.2	50.7	4.1
Deferred tax (excluding share of jointly controlled entities)	(12.1)	(1.0)	(10.4)	(0.8)
Adjusted current tax charge and effective rate	300.4	24.0	317.2	25.8

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

	2009 £m	2008 £m
Profit before tax	53.3	1,083.8
add:		
Exceptional items and certain re-measurements	1,160.5	98.9
Share of tax from jointly controlled entities and associates	39.3	41.9
Accretion of convertible debt component (note 22)	0.6	4.6
Adjusted profit before tax	1,253.7	1,229.2

In the year ended 31 March 2008, it was confirmed that the corporation tax rate applicable to the Group's UK businesses would change from 30% to 28% from 1 April 2008. Temporary differences which existed at 1 April 2008 will reverse at 28% rather than 30%, which was the basis at 31 March 2007. Consequently, the Group recognised the following credits in respect of this in the period to 31 March 2008:

	£m
Adjustments recognised in Income Statement in respect of Group entities	55.4
Adjustments recognised in Equity in respect of Group entities	(2.4)
	53.0
Share of adjustments recognised in Income Statement in joint ventures and associates	32.4
Share of adjustments recognised in Equity in joint ventures and associates	(0.5)
	84.9

Tax charge/(credit) recognised directly in equity

	2009 £m	2008 £m
Relating to:		
Pension scheme actuarial movements	(78.1)	(7.2)
Cash flow and net investment hedge movements	(34.5)	(1.9)
Share based payments	2.7	0.1
Convertible bond	–	(1.8)
Change in UK corporation tax rate	–	2.4
	(109.9)	(8.4)

All tax recognised directly in equity is deferred tax other than £(0.5)m (2008 – £(0.8)m) current tax relating to employee share awards.

9. DIVIDENDS

	2009 £m	2008 £m
Amounts recognised as distributions from equity:		
Final dividend for the previous year of 42.4p (2008 – 39.9p) per share	**370.0**	345.5
Interim dividend for the current year of 19.8p (2008 – 18.1p) per share	**181.9**	157.3
	551.9	502.8
Proposed final dividend for the current year of 46.2p (2008 – 42.4p) per share	**425.2**	368.9

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The final dividend paid for the previous year, £370.0m (42.4p, 2008 – 39.9p), was declared on 29 May 2008, approved at the Annual General Meeting on 24 July 2008 and was paid to shareholders on 26 September 2008. An interim dividend for the current year, £181.9m (19.8p, 2008 – 18.1p), was paid on 27 March 2009.

10. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 31 March 2009 is based on the net profit attributable to equity shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 March 2009. All earnings are from continuing operations.

Adjusted earnings per share

Adjusted earnings per share has been calculated by excluding the charge for deferred tax, net finance income relating to pensions, items disclosed as exceptional, and the impact of IAS 39.

	Year ended 31 March 2009 Earnings £m	Year ended 31 March 2009 Earnings per share pence	Year ended 31 March 2008 Earnings £m	Year ended 31 March 2008 Earnings per share pence
Basic	**112.3**	**12.7**	872.9	101.1
Exceptional items and certain re-measurements (note 5)	**800.9**	**90.7**	2.7	0.3
Basic excluding exceptional items and certain re-measurements	**913.2**	**103.4**	875.6	101.4
Adjusted for:				
Deferred tax (note 8)	**12.1**	**1.4**	10.4	1.2
Deferred tax from share of jointly controlled entities and associates results	**27.4**	**3.1**	21.1	2.5
Accretion of convertible debt component (note 7)	**0.6**	**0.1**	4.6	0.5
Adjusted	**953.3**	**108.0**	911.7	105.6
Basic	**112.3**	**12.7**	872.9	101.1
Convertible debt interest (net of tax)	**1.2**	**0.1**	9.8	1.1
Dilutive effect of convertible debt	**–**	**–**	–	(1.2)
Diluted	**113.5**	**12.8**	882.7	101.0
Exceptional items and certain re-measurements	**800.9**	**90.5**	2.7	0.3
Diluted excluding exceptional items and certain re-measurements	**914.4**	**103.3**	885.4	101.3

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

	31 March 2009 Number of shares (millions)	31 March 2008 Number of shares (millions)
For basic and adjusted earnings per share	**883.0**	863.2
Effect of exercise of share options	**0.8**	2.0
	883.8	865.2
Effect of dilutive convertible debt	**1.7**	8.8
For diluted earnings per share	**885.5**	874.0

Notes on the Financial Statements (continued)
for the year ended 31 March

11. INTANGIBLE ASSETS

Consolidated

	Goodwill	Allowances and certificates restated (i)	Development assets (ii)	Wind farm developments (iii)	Brands (iv)	Other intangibles (v)	Total restated
	£m	£m	£m	£m	£m	£m	£m
Cost:							
At 1 April 2007 reported	293.2	231.6	1.4	–	9.0	19.7	554.9
Restatement (note 2)	–	(73.1)	–	–	–	–	(73.1)
At 1 April 2007 restated	293.2	158.5	1.4	–	9.0	19.7	481.8
Additions	1.1	157.0	–	6.2	–	13.0	177.3
Acquisitions (note 15)	344.8	–	–	223.7	2.2	14.2	584.9
Transfer to property, plant and equipment (note 12)	–	–	–	(20.4)	–	–	(20.4)
Disposals	–	(170.2)	(1.4)	–	–	–	(171.6)
Exchange adjustments	19.9	–	–	13.2	0.2	0.4	33.7
At 31 March 2008	659.0	145.3	–	222.7	11.4	47.3	1,085.7
Prior year acquisitions (note 15)	1.2	–	–	1.1	–	8.8	11.1
Additions	–	318.0	–	33.3	–	2.4	353.7
Acquisitions (note 15)	22.0	–	–	147.9		–	169.9
Transfer to property, plant and equipment (note 12)	–	–	–	(213.0)	–	–	(213.0)
Disposals	(17.4)	(243.0)	–	–	–	–	(260.4)
Exchange adjustments	59.2	–	–	28.3	0.4	1.3	89.2
At 31 March 2009	**724.0**	**220.3**	**–**	**220.3**	**11.8**	**59.8**	**1,236.2**
Aggregate amortisation and impairment:							
At 1 April 2007 reported	–	(53.9)	–	–	(2.6)	(14.6)	(71.1)
Restatement (note 2)	–	53.9	–	–	–	–	53.9
At 1 April 2007	–	–	–	–	(2.6)	(14.6)	(17.2)
Charge for the year	–	(6.4)	–	(2.0)	(1.1)	(4.2)	(13.7)
At 31 March 2008	–	(6.4)	–	(2.0)	(3.7)	(18.8)	(30.9)
Charge for the year	–	–	–	(2.2)	(1.1)	(11.1)	(14.4)
At 31 March 2009	**–**	**(6.4)**	**–**	**(4.2)**	**(4.8)**	**(29.9)**	**(45.3)**
Carrying amount:							
At 31 March 2009	**724.0**	**213.9**	**–**	**216.1**	**7.0**	**29.9**	**1,190.9**
At 31 March 2008	659.0	138.9	–	220.7	7.7	28.5	1,054.8
At 1 April 2007	293.2	158.5	1.4	–	6.4	5.1	464.6

The Group does not hold any intangible assets with indefinite lives.

Intangible assets have been analysed as current and non-current as follows:

	2009 £m	2008 £m
Current	**213.9**	138.9
Non-current	**977.0**	915.9
	1,190.9	1,054.8

(i) Allowances and certificates

Allowances and certificates consist of purchased carbon emissions allowances and generated or purchased Renewable Obligations Certificates (ROCs). The accounting policy in relation to granted carbon emissions allowances has been changed from that applied in the previous financial year (see note 2).

(ii) Development assets

Development costs relate to the design, construction and testing of renewable generation devices which the Group believes will generate probable future economic benefits.

(iii) Wind farm developments
Costs capitalised as development wind intangibles including options over land rights represent the costs incurred in bringing individual wind farm projects to the consented stage. Costs associated with reaching the consent stage include planning application costs and environmental impact studies. These may be costs incurred directly or at cost as part of the fair-value exercise on acquisition of a controlling interest in a project. At the point the development reaches the consent stage and is approved for construction, the carrying value is transferred to Property, Plant and Equipment (note 12). At the point a project is no longer expected to reach the consent stage, the carrying amount of the project is impaired. The acquisitions in the year includes all items in note 15 including the investment in the Greater Gabbard Offshore Winds joint venture at 14 May 2008.

(iv) Brands
Included within brands are the acquired brands of Atlantic Electric and Gas and the Airtricity supply brand used in Ireland. The Group have assessed the economic life of brands to be 10 years and the brands are being amortised over this period. The charge is reported as part of operating costs.

(v) Other intangible assets
Included within other intangible assets are customer lists, contracts, application software licence fees, software development work, software upgrades and purchased PC software packages. Amortisation is over the shorter of the contract term or five years.

The Company does not hold intangible assets.

Impairment review of goodwill

Goodwill is allocated to those cash-generating units (CGUs) expected to benefit from the respective business combination for impairment testing purposes. Certain goodwill valuations have changed in the current year following agreement of final fair valuations attributable to business combinations concluded in the previous financial year. In particular, the goodwill recognised on the Airtricity acquisition has been allocated to different CGUs from those disclosed on a provisional basis in the previous year. This followed a more detailed consideration of the goodwill recognised and its origin. A summary of the change from provisional to final valuations on the previous year acquisitions is included in note 15. Consequently, the allocation of goodwill to the identified CGUs associated with the Airtricity group has been restated to more accurately reflect where goodwill is expected to arise through the strategic development of the respective portfolios.

A summary of the goodwill allocated to CGUs and the group's primary operating segments is presented below:

Cash-generating unit	Operating segment	2009 £m	2008 restated £m
Ireland wind farms	Generation and Supply	**164.4**	138.4
UK wind farms	Generation and Supply	**241.0**	200.0
European wind farms	Generation and Supply	**24.3**	19.8
UK Supply	Generation and Supply	**187.0**	187.0
UK Generation	Generation and Supply	**40.0**	42.7
Gas Storage	Other Businesses	**56.2**	56.2
Other (i)	Other Businesses	**11.1**	14.9
		724.0	659.0

(i) Represents goodwill balances across a number of business units. The amount of goodwill allocated to these units is not significant compared to the aggregate carrying value of the business units or the aggregate value of goodwill held by the Group. This represents a change in presentation from the previous year. The conclusion of the impairment tests conducted is that no impairment is required.

The recoverable amount of the UK Supply, UK Generation, Gas Storage and Other CGUs is determined by reference to value-in-use calculations. These calculations, as a starting point, use pre-tax cash flow projections based on the Group's five year business model which has been approved by the board. The Group's business model is based on past experience and reflects the Group's view of markets, prices, risks and its strategic objectives. Commodity prices used are based on observable market data and, where this is not available, on internal estimates. The recoverable amount of the Airtricity wind farm CGUs is based on the fair-value less costs to sell methodology. The basis applied has been deemed appropriate as it is consistent with the way in which the economic value of the individual CGUs is assessed by management and would be by other market participants. The method applied is to determine fair-value by assessing the discounted pre-tax cash flows expected to be earned by the individual wind farm projects within the respective CGUs. The three identified CGUs (Ireland wind farms, UK wind farms, European wind farms) share many of the same risk factors and are discounted accordingly.

Notes on the Financial Statements (continued)
for the year ended 31 March

11. INTANGIBLE ASSETS (continued)

The key assumptions used for the main value-in-use calculations are as follows:

Cash-generating unit	2009 Discount rate (%)	2008 Discount rate (%)	2009 and 2008 Cash flow projection period (years)
All wind farms (onshore and offshore)	**10.0%-12.0%**	7.5%-10.0%	25
UK Supply	**12.2%**	10.1%	5
UK Generation	**10.5%**	11.5-17.1%	15
Gas Storage	**11.0%**	12.9%	20

Management have determined the pre-tax cash flows of each CGU based on past performance and its expectations of market development. Further detail on how these have been derived is included in the specific commentaries. The discount rates used are pre-tax nominal and reflect specific risks attributable to the relevant operating segments. The discount rates used have been benchmarked against externally published rates used by comparable quoted companies operating in the respective market sectors. The inflation rates used are based on publicly available forecasts for the areas of operation of the CGU and internal estimates. These have been set at 2.5% for all territories. The recoverable amount derived from the value-in-use or fair-value less costs to sell calculation is compared to the carrying amount of each CGU to determine whether the respective CGUs require to be impaired.

Specific comments on the key value-in-use and fair-value less cost to sell calculations for the main CGUs and the results of the tests conducted follow:

All wind farm CGUs

For goodwill impairment testing purposes, all wind farm CGUs were established following the acquisition of the Airtricity group on 15 February 2008. In order to assess the respective recoverable amounts against an appropriate carrying value, goodwill has been allocated to the main geographic regions in which the business operates. The established wind farm CGUs (Ireland, UK, rest of Europe) are then assessed by considering the specific market attributes of those regions. Currency cash flows are set at the exchange rate at the time the impairment test is conducted. Aside from these specific market factors, the basis of review of the respective CGUs are identical.

Wind farm projects have an estimated useful life of up to 25 years and it is considered appropriate by management to assess the carrying amount against cash flow projections covering this period. The Ireland and UK wind CGUs include wind farms in operation and all CGUs include projects in the construction phase or in the development portfolio phase. These development projects are those which have not received consent or have not concluded all environmental or planning studies and as a consequence the associated cash flows have been probability adjusted.

Cash inflows for all projects are based on expected generation output from projects based on wind studies and past experience and are valued at forward power prices based on market information, where available, or internal model assumptions.

Cash outflows are based on planned capital expenditure and expected maintenance costs. The power prices and costs of operation are the most significant distinguishing factors in the respective CGU regions. Growth is based on the expected output of the respective wind farms at their available operational capacity over their life cycle.

Outcome of tests

The recoverable amounts of all wind farms CGUs exceeded the respective carrying values at the time of the impairment test. While cash flow projections are subject to inherent uncertainty, reasonably possible changes in the key assumptions applied in assessing the fair-value less cost to sell would not cause a change to the conclusion reached.

UK Supply
Goodwill carried in relation to the acquisition, in 2001, of SWALEC is attributed to the Group's UK retail electricity and gas supply business CGU. The group manages its UK Generation and Supply activities as one integrated business but for the purposes of the value-in-use calculation only, the projected cash flows of the Supply business are considered independently. This is reliant on judgement being applied in relation to the margin being earned by the supply business. The margin assumed is based on current contractual terms and historic gross margin percentages earned. Revenues are based on the expected market share derived from the market share at the time of the approval of the business model adjusted for forecasted growth. Growth in customer numbers is anticipated at around 4.5% per annum over the forecast period and cash outflows associated with increased customer service are incorporated accordingly. This growth rate is supported by reference to both past performance and management expectation. Margins also take account of forward wholesale energy price curves for both electricity and gas. The CGU excludes the Airtricity supply business in Ireland, which did not have goodwill attributed to it in any event.

Outcome of test
The recoverable amount of the UK Supply CGU exceeded the respective carrying value at the time of the impairment test. While cash flow projections are subject to inherent uncertainty, reasonably possible changes in the key assumptions applied in assessing the value-in-use would not cause a change to the conclusion reached.

UK Generation
Goodwill recognised on the Group's acquisition of Fiddler's Ferry and Ferrybridge (FFF) and Medway is attributed to the UK Generation portfolio CGU. These plants are operated as part of the integrated Generation and Supply business segment. For the purpose of the value-in-use calculation only, the projected cash flows of the main UK Generation plants have been considered as an independent CGU. The plants included in this CGU include all gas, coal and hydro generation plants but excludes cash flows from contract energy plants, combined heat and power plants and embedded generation plants, as these plants operate independently of the main generation production portfolio.

Assumptions on market prices are made by reference to forward market prices and published market estimations, where available, and to internal model inputs beyond the observable period. Prices forecast include wholesale power prices and input costs such as wholesale gas prices, coal and oil prices as well as carbon emissions costs. Forecasts of availability and efficiency are based on management expectation and past performance. For the projected period, historic average temperatures and rainfall have been assumed. The period of the cash flow projections applied is between 5 and 10 years but it should be noted that the assets which are the basis of the review have remaining useful economic lives of between 15 and, in the case of hydro civil assets, 100 years. The discount rates applied have been standardised at a pre-tax nominal rate of 10.5%. In the previous year, a range of rates were applied although the higher rate disclosed of 17.1% was for clean-coal technologies, which are not currently part of the Group's operating portfolio or its basis of cash projection. Consequently, the comparative needs to be considered in this light. Growth has been assumed to follow the expected operational availability of the plants within the CGU over the period noted.

Outcome of test
The recoverable amount of the main UK Generation CGU exceeded its carrying value at the time of the impairment test. While cash flow projections are subject to inherent uncertainty, reasonably possible changes in the key assumptions applied in assessing the value-in-use would not cause a change to the conclusion reached.

Gas Storage
Goodwill was recognised on the acquisition of the Hornsea gas storage facility in 2002/03. Initial cash flow projections are based on gross margins expected to be achieved in the period of the five year business model. Beyond this period, cash flows have been extrapolated at a growth rate lower than the long-term growth rate of the economy for a further period of 15 years, which takes the CGU toward the end of its expected economic life. This longer period more accurately reflects the long-term infrastructure nature of these assets and the returns that can be expected to be earned. Assumptions on margin for the business plan period are based on expected demand for gas storage and take into account published and projected gas wholesale prices, planned capital expenditure required to maintain the value of the facility and estimated operating costs.

Outcome of test
The recoverable amount of the gas storage CGU exceeded its carrying value at the time of the impairment test. While cash flow projections are subject to inherent uncertainty, reasonably possible changes in the key assumptions applied in assessing the value-in-use would not cause a change to the conclusion reached.

Notes on the Financial Statements (continued)
for the year ended 31 March

12. PROPERTY, PLANT AND EQUIPMENT

	Power generation and gas storage assets £m	Land and buildings £m	Network assets £m	Vehicles and miscellaneous equipment £m	Total £m
Consolidated					
Cost:					
At 1 April 2007	3,032.5	119.4	4,574.1	233.1	7,959.1
Additions	392.8	33.6	324.4	31.4	782.2
Acquisitions (iii)	751.8	–	–	4.8	756.6
Transfer from intangible assets (note 11) (iv)	20.4	–	–	–	20.4
Disposals (ii)	(11.1)	(7.1)	(23.5)	(8.4)	(50.1)
Exchange rate adjustments	30.7	–	–	–	30.7
At 31 March 2008	4,217.1	145.9	4,875.0	260.9	9,498.9
Prior year acquisitions (note 15)	(4.2)	–	–	–	(4.2)
Additions (vii)	813.9	65.4	368.1	43.4	1,290.8
Transfer from intangible assets (note 11) (iv)	213.0	–	–	–	213.0
Disposals (ii)	–	–	(3.4)	(9.4)	(12.8)
Disposal of 50% of Greater Gabbard (v)	(397.4)	–	–	–	(397.4)
Exchange rate adjustments	124.8	–	–	–	124.8
At 31 March 2009	**4,967.2**	**211.3**	**5,239.7**	**294.9**	**10,713.1**
Depreciation:					
At 1 April 2007	889.5	24.2	1,826.4	176.9	2,917.0
Charge for the year	121.3	2.8	126.8	16.9	267.8
Disposals (ii)	(2.7)	–	(9.2)	(8.3)	(20.2)
At 31 March 2008	1,008.1	27.0	1,944.0	185.5	3,164.6
Charge for the year (vi)	156.8	4.6	137.4	17.1	315.9
Disposals (ii)	–	–	(3.3)	(7.4)	(10.7)
Exchange rate adjustments	11.2	–	–	(0.1)	11.1
At 31 March 2009	**1,176.1**	**31.6**	**2,078.1**	**195.1**	**3,480.9**
Net book value					
At 31 March 2009	**3,791.1**	**179.7**	**3,161.6**	**99.8**	**7,232.2**
At 31 March 2008	3,209.0	118.9	2,931.0	75.4	6,334.3
At 1 April 2007	2,143.0	95.2	2,747.7	56.2	5,042.1

(i) The net book value of generation and gas storage assets includes decommissioning costs with a net book value of £21.8m, (2008 – £25.0m). In the year to 31 March 2009 the net book value of decommissioning costs related to office and computer equipment was reduced by £0.7m to £1.9m (2008 – £2.6m). This arises from the Group's obligations under the EU Waste Electrical and Electronic Equipment (WEEE) directive.
(ii) Assets disposed includes those assets which have been replaced after damage or obsolescence in the year.
(iii) In the year to 31 March 2008, assets acquired in business combinations included the operational and under construction wind farm assets of Airtricity and the Combined Heat and Power biomass generation asset at Slough Heat and Power.
(iv) Represents the carrying value of wind farm development assets transferred from intangible assets (note 11) which have reached the consent stage and have been approved for construction.
(v) On disposal of 50% of the shareholding of Greater Gabbard Offshore Winds Limited, the value of property, plant and equipment expended to the date of disposal was part refunded by the acquiring joint venture partner, RWE Innogy, and partly equity accounted on the investment in the joint venture (see note 15).
(vi) There were no impairment charges in the year against Generation assets (2008 – £12.2m).
(vii) Additions in the year to 31 March 2009 include £310.9m in respect of the capital expenditure incurred in Greater Gabbard Offshore Winds during the Group's period of full ownership (100%) from 14 May 2008 to 3 November 2008.

Land is predominantly heritable or freehold. The net book value of other land and buildings includes freehold £120.1m (2008 – £67.9m) and short leasehold £nil (2008 – £nil). Generation assets comprise generating stations and related plant and machinery and include all hydro civil assets. Cumulative interest capitalised for the Group, included in the cost of tangible fixed assets amounts to £119.2m (2008 – £68.0m).

At the balance sheet date the cumulative amounts capitalised in respect of assets in the course of construction were as follows:

	2009 £m	2008 £m
Generation and gas storage assets	**464.9**	842.9
Network assets	**124.5**	88.0
Corporate land and buildings	**58.3**	34.2
	647.7	965.1

Included within the assets in the course of construction is the Group's share of expenditure on the Aldbrough gas storage facility.

Included within property, plant and equipment are the following assets held under finance leases:

	Network assets £m	Vehicles and miscellaneous equipment £m	Total £m
Cost			
At 1 April 2007 and 31 March 2008	5.1	7.0	12.1
Disposal	(0.1)	–	(0.1)
At 31 March 2009	**5.0**	**7.0**	**12.0**
Depreciation			
At 1 April 2007	4.5	6.0	10.5
Charge for the year	0.2	0.2	0.4
At 31 March 2008	4.7	6.2	10.9
Charge for the year	0.3	0.8	1.1
At 31 March 2009	**5.0**	**7.0**	**12.0**
Net book value			
At 31 March 2009	**–**	**–**	**–**
At 31 March 2008	0.4	0.8	1.2
At 1 April 2007	0.6	1.0	1.6

The Company does not hold any property, plant or equipment.

13. INVESTMENTS

(a) Associates and Joint Ventures

	Scotia Gas Networks		Other jointly controlled entities		Associates		
	Investment £m	Shareholder loans £m	Investment £m	Shareholder loans £m	Investment £m	Shareholder loans £m	Total £m
Consolidated							
Share of net assets/cost							
At 1 April 2007	156.9	281.9	63.2	98.1	102.2	–	702.3
Acquisitions (note 15)	–	–	119.7	–	–	–	119.7
New equity investments	–	–	5.8	–	8.1	–	13.9
Increase in shareholder loans	–	–	–	5.6	–	–	5.6
Repayment of shareholder loans	–	–	–	(10.8)	–	–	(10.8)
Dividends received	–	–	(19.5)	–	(15.6)	–	(35.1)
Share of (loss)/profit after tax	52.6	–	33.8	–	22.1	–	108.5
Share of other reserves adjustments	9.6	–	–	–	–	–	9.6
Exchange rate adjustments	–	–	4.1	–	–	–	4.1
At 31 March 2008	219.1	281.9	207.1	92.9	116.8	–	917.8
Transfer out (i)	–	–	(38.0)	–	–	–	(38.0)
Transfer in (ii)			36.8	–	–	–	36.8
New equity investments	–	–	25.5	–	13.6	3.0	42.1
Increase in shareholder loans	–	–	–	22.2	–	–	22.2
Repayment of shareholder loans	–	(60.0)	–	(19.7)	–	–	(79.7)
Dividends received	–	–	(14.5)	–	(25.3)	–	(39.8)
Share of profit after tax	38.1	–	9.9	–	33.6	–	81.6
Share of other reserves adjustments	(54.6)	–	19.5	–	–	–	(35.1)
Exchange rate adjustments	–	–	10.8	–	–	–	10.8
At 31 March 2009	**202.6**	**221.9**	**257.1**	**95.4**	**138.7**	**3.0**	**918.7**

(i) At 14 May 2008, the Group acquired 50% of Greater Gabbard Offshore Winds Limited, for a net consideration of £33.4m, including cash of £40.0m (note 15). At this point, the Group assumed 100% ownership and consequently the carrying value held as investment in jointly controlled entities was transferred with the equity being fully consolidated in the accounts.

Notes on the Financial Statements (continued)
for the year ended 31 March

13. INVESTMENTS (continued)

(ii) At 3 November 2008, the Group disposed of 50% of Greater Gabbard Offshore Winds Limited and consequently recognised the remaining fair-value equity investment as investment in jointly controlled entities at that point. The Group also has an interest-bearing loan of £183.5m in the venture.

	Scotia Gas Networks		
	Investment £m	Shareholder loans £m	Total £m
Company			
Share of net assets/cost			
At 1 April 2007 and 1 April 2008	235.0	281.9	516.9
Repayment of shareholder loans	–	(60.0)	(60.0)
At 31 March 2009	**235.0**	**221.9**	**456.9**

The investment in Scotia Gas Networks is disclosed separately to aid understanding of the Group's financial performance. Prior to the investment in Scotia Gas Networks, the Company did not have any investments in joint ventures or associates.

Details of the principal jointly controlled entities, operations and associates are as follows:

	Country of incorporation	31 March 2009 Holding %	31 March 2008 Holding %	Principal activity
Jointly controlled entities				
PriDE (South East Regional Prime) Limited (ii)	England and Wales	**50**	50	Defence estates contractor
Seabank Power Limited (iii)	England and Wales	**50**	50	Electricity generation
Scotia Gas Networks Limited (v)	England and Wales	**50**	50	Investment in gas networks
Marchwood Power Limited (i)	England and Wales	**50**	50	Electricity generation
Braes of Doune Wind Farm (Scotland) Limited (vi)	Scotland	**50**	50	Wind generation
Midas Energy Limited (vi)	Republic of Ireland	**50**	50	Wind generation
Greater Gabbard Offshore Winds Ltd (vi)	England and Wales	**50**	50	Wind development
St John Hill Limited (vi)	Scotland	**50**	50	Wind development
IE CHP (UK & Eire) Limited (iv)	Scotland	**50**	50	Fuel cell power systems
Aquamarine Power Limited (i)	Scotland	**50**	50	Marine energy conversion
Gothia Airtricity Vind AB (vi)	Sweden	**50**	–	Wind development
Green Way Limited (vi)	Republic of Ireland	**50**	–	Wind development
Associates				
Barking Power Limited (i)	England and Wales	**30**	30	Electricity generation
Derwent Co-generation Limited (i)	England and Wales	**49.5**	49.5	Electricity generation
Vital Holdings Limited (iv)	England and Wales	**30**	30	Efficient energy provision
Insource Energy Limited (iv)	England and Wales	**33.3**	33.3	Energy and waste management
Onzo Limited (iv)	England and Wales	**24.5**	24.5	Energy displays
Geothermal International Limited (iv)	England and Wales	**20**	–	Ground source heat pump systems

	Location of operations	31 March 2009 Holding %	31 March 2008 Holding %	Principal activity
Jointly controlled operations (unincorporated)				
Aldbrough	England	**66.7**	66.7	Development of gas storage facility
Beatrice	Scotland	**50**	50	Development of offshore wind farm facility

The above companies' shares consist of ordinary shares only. All companies operate in Great Britain and Ireland. Seabank Power Limited and Marchwood Power Limited have accounting periods ending on 31 December. All other companies have accounting periods ending on 31 March.

(i) Shares held by SSE Generation Limited
(ii) Shares held by Southern Electric Contracting Limited
(iii) Shares held by SSE Seabank Investments Limited
(iv) Shares held by SSE Venture Capital Limited
(v) Shares held by Scottish and Southern Energy plc
(vi) Shares held by Airtricity Holdings Limited (or subsidiaries)

At 31 March 2009, the Group had invested £35.8m (2008 – £16.1m) in Marchwood Power Limited. In addition to this, the Group had provided an interest-bearing loan of £123.0m (2008 – £44.5m) to Marchwood Power, which is reported in Other receivables (note 17).

The material significance of the Scotia Gas Networks Limited investment warrants separate disclosure from other jointly controlled entities. Accordingly, the result from the Group's share of these businesses is included as a separate segment in the analysis of Group operating profit (note 3). The results of Scotia Gas Networks Limited, of which the Group has a 50% share, can be illustrated thus:

	2009			2008		
	Before exceptional items and certain re-measurements £m	**Exceptional items and certain re-measurements £m**	**Total £m**	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Operating profit	**361.0**	**–**	**361.0**	323.0	–	323.0
Finance costs: excluding loan stock	**(173.0)**	**10.8**	**(162.2)**	(165.4)	8.4	(157.0)
Finance costs: interest on loan stock	**(67.1)**	**–**	**(67.1)**	(70.8)	–	(70.8)
Profit before tax	**120.9**	**10.8**	**131.7**	86.8	8.4	95.2
Taxation	**(52.4)**	**(3.0)**	**(55.4)**	(42.4)	52.4	10.0
Profit for the year	**68.5**	**7.8**	**76.3**	44.4	60.8	105.2
SSE share of profit	**34.2**	**3.9**	**38.1**	22.2	30.4	52.6

As an investor, Scottish and Southern Energy plc received £33.6m (2008 – £35.4m) in relation to loan stock interest payable to the Group.

The balance sheet of Scotia Gas Networks Limited can be summarised as follows (100%):

	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m
Scotia Gas Networks Limited				
31 March 2009	**5,042.0**	**184.2**	**(262.8)**	**(4,648.0)**
31 March 2008	4,764.2	161.8	(609.2)	(3,878.6)

The financial statements of the Group's other jointly controlled entities and associates can be summarised as follows (100%):

	Current assets £m	Non-current assets £m	Current liabilities £m	Non-current liabilities £m	Revenues £m	Profit after tax £m
Jointly controlled entities						
31 March 2009	**122.3**	**554.6**	**(91.6)**	**(411.6)**	**320.3**	**21.7**
31 March 2008	147.6	443.3	(214.6)	(231.7)	313.4	57.0
Associates						
31 March 2009	**163.9**	**453.3**	**(108.0)**	**(140.8)**	**570.7**	**99.6**
31 March 2008	137.6	468.2	(74.7)	(192.4)	292.4	62.0

(b) Other investments

	Solarcentury £m	Sigma £m	RockTron £m	Other £m	Total £m
At 1 April 2007	3.0	0.5	–	0.6	4.1
Additions in the year	1.1	0.8	–	–	1.9
At 31 March 2008	4.1	1.3	–	0.6	6.0
Additions in the year	–	1.1	10.0	1.4	12.5
Disposals in the year	–	–	–	(0.2)	(0.2)
At 31 March 2009	**4.1**	**2.4**	**10.0**	**1.8**	**18.3**

Notes on the Financial Statements (continued)
for the year ended 31 March

14. SUBSIDIARY UNDERTAKINGS

Details of the principal subsidiary undertakings are as follows:

	Country of incorporation	2009 Holding %	2008 Holding %	Principal activity
SSE Services plc (i)	England and Wales	**100**	100	Finance and IT support services
SSE Energy Supply Limited (i)	England and Wales	**100**	100	Electricity supply
Airtricity Holdings Limited (i)	Ireland	**100**	100	Wind farm developer
SSE Telecommunications Limited (i)	Scotland	**100**	100	Telecommunication services
SSE Generation Limited (i)	England and Wales	**100**	100	Electricity generation
Medway Power Limited (ii)	England and Wales	**100**	100	Electricity generation
Keadby Generation Limited (ii)	England and Wales	**100**	100	Electricity generation
Slough Heat and Power Limited (ii)	England and Wales	**100**	100	Electricity generation
Scottish Hydro Electric Transmission Limited (iii)	Scotland	**100**	100	Transmission of electricity
Scottish Hydro Electric Power Distribution plc (iii)	Scotland	**100**	100	Distribution of electricity
Southern Electric Power Distribution plc (iii)	England and Wales	**100**	100	Distribution of electricity
S+S Limited (iii)	Scotland	**100**	100	Electricity connections
Southern Electric Contracting Limited (iv)	England and Wales	**100**	100	Electrical contractor
Southern Electric Gas Limited (v)	England and Wales	**100**	100	Gas supply
SSE Hornsea Limited (v)	England and Wales	**100**	100	Gas storage
Neos Networks Limited (vi)	England and Wales	**100**	100	Telecommunication services

The above companies' shares consist of ordinary shares only. All companies operate in Great Britain and Ireland except for SSE Insurance Limited which operates in the Isle of Man. All companies have accounting periods ending on 31 March.

A full list of Group companies will be included in the company's annual return and the shares are held by:

(i) Scottish and Southern Energy plc
(ii) Shares held by SSE Generation Limited.
(iii) Shares held by SSE Power Distribution Limited.
(iv) Shares held by SSE Contracting Group Limited.
(v) Shares held by SSE Energy Supply Limited.
(vi) Shares held by SSE Telecommunications Limited.

Investment in subsidiaries

	Total £m
Company	
At 1 April 2007	777.9
Acquired in the year (i)	1,349.1
Increase in existing investments (ii)	10.8
At 31 March 2008	2,137.8
Increase in existing investments (ii)	16.4
At 31 March 2009	**2,154.2**

(i) In the previous financial year, the Company acquired 100% of the issued share capital in Airtricity Holdings Limited. Details of this acquisition are included at note 15.
(ii) The increase in existing investments held by the Company relates to equity shares in the Company awarded to the employees of the subsidiaries of the Group under the Group's share schemes, which are recognised as in increase in the cost of investment in those subsidiaries as directed by IFRIC 11. This also includes an additional £2.1m paid in relation to the acquisition of Airtricity Holdings Limited in the previous financial year.

Service concession arrangements

In 50:50 partnership with Royal Bank Leasing Limited, the Group has established three companies to provide street lighting services to councils under the Private Finance Initiative (PFI). These services are thereafter sub-contracted to Southern Electric Contracting Limited, a wholly owned subsidiary. The companies established are as follows:

Company	Council
Tay Valley Lighting (Stoke on Trent) Limited	Stoke-on-Trent
Tay Valley Lighting (Newcastle and North Tyneside) Limited	Newcastle and North Tyneside
Tay Valley Lighting (Leeds) Limited	Leeds City Council

Under SIC-12 Consolidation – Special Purpose Entities, despite being 50% owned, the Tay Valley Lighting companies are categorised as subsidiaries and are accounted for accordingly. The debt associated with these companies is non-recourse to the Group. The arrangements for all three companies are materially similar.

In addition to these, the Group acquired the Seeboard Trading Limited group on 3 March 2008 which performs similar services under three PFI contracts. The terms of the service concession arrangement are similar to those operated by the Tay Valley Lighting companies. The council and contract holder within the acquired group are as follows:

Company	Council
Dorset Lighting Limited	Dorset County Council
Ealing Lighting Limited	London Borough of Ealing
Islington Lighting Limited	London Borough of Islington

Characteristics of the arrangements

Description

The contracts are 25 year arrangements to replace ageing street-lighting stock and to subsequently maintain the new assets throughout each Councils' areas.

Significant terms

The cash flows under the PFI arrangements come from the unitary charge for these services paid by the Councils. The unitary charge can only be adjusted if performance under the contract falls below the required standards. Any significant change to the services proposed by either party is subject to a formal change procedure and agreement to such a change is required by the other party.

Nature and extent of rights and obligations

The assets are part of the public highway and ownership of the assets remains with the Councils. The contract holding companies are licensed to replace and maintain the assets for the period of the contract. This obligation is passed down to Southern Electric Contracting Limited or to other companies within the Seeboard Trading group through the operating sub-contract. Any failure to provide the services to the required standards will result in financial penalties which are taken from the unitary charge.

The companies have 25 year contracts with no extension options. Termination during this period can be initiated through a number of routes including service provider default, force majeure or the event of a risk becoming uninsurable, authority default, voluntary authority termination, or termination for a prohibited act or breach of refinancing provisions. In all cases, a formula exists for calculating compensation payments to the service provider.

Throughout the contract period there are a number of circumstances under which the companies could potentially be required to provide additional services:

(i) Changes in the law
If circumstances arise where by a change in legislation would mean a change in the way the services are to be provided the companies would be liable for part of the cost of this change. This liability is capped.

(ii) Final survey
The Councils have the ability to deduct 20% of the unitary charge in the last two years if an independent survey indicates the assets are unlikely to have a 5-year residual life.

The Group's exposure to unforeseen obligations is insured.

Notes on the Financial Statements (continued)
for the year ended 31 March

15. ACQUISITIONS AND DISPOSALS

(a) Acquisitions

(i) Greater Gabbard Offshore Winds Limited (GGOWL)
GGOWL was originally a jointly controlled entity between Airtricity, acquired by SSE in February 2008, and Fluor International Limited. The company was created specifically to develop the Greater Gabbard Offshore wind farm in the outer Thames Estuary. On 14 May 2008, Airtricity Holdings acquired the remaining 50% equity shareholding in Greater Gabbard Offshore Winds Limited from Fluor International Limited for cash consideration of £40.0m, increasing its stake from 50% to 100%. Subsequently, on 3 November 2008, Airtricity Holdings sold 50% of its equity shareholding in GGOWL to RWE npower renewables Limited, the UK fully owned subsidiary of RWE Innogy GmbH. RWE npower renewables also reimbursed SSE for 50% of the capital costs already incurred in developing the project.

The total proceeds on disposal was £308.5m, which comprised £165.6m reimbursement of 50% of the capital costs incurred in developing the project and £142.9m in relation to 50% of the equity. The gain on sale recognised was £102.7m, which has been separately disclosed as an exceptional item.

The transactions can be summarised thus:

Acquisition of 50% on 14 May 2008:

	Book value of 50% acquired £m	Fair-value acquired £m
Goodwill	–	9.4
Development assets	6.6	40.0
Loans	(6.6)	(6.6)
Deferred tax	–	(9.4)
Net assets	–	33.4
Consideration paid being:		
Cash		40.0
Loans assumed		(6.6)
		33.4

On acquisition of the second 50%, the wholly owned GGOWL entity was fully consolidated as a subsidiary in the Group. The fair-values previously attributed to jointly controlled entities established on acquisition of Airtricity Holdings were consequently transferred to development assets. The project achieved consent in the period between full consolidation and part-disposal and as a result the expenditure incurred at the point of board approval was transferred from development assets to property, plant and equipment, including the previously mentioned fair-values. Consequently, at the point of disposal, a higher project book value in relation to property, plant and equipment had been recorded than the proceeds reimbursed by RWE Innogy. This can be summarised thus:

Disposal of 50% on 3 November 2008:

	Book value £m
Property, plant and equipment	397.4
Goodwill	17.4
Loans	(331.2)
Deferred tax	(9.4)
Net assets	74.2
50% of value of business disposed of:	37.1
Consideration paid for 50% being:	
Cash received by Group	308.5
Less: contribution to loans	(165.6)
Less: costs of disposal	(3.1)
Net proceeds of disposal	139.8
Gain on disposal	102.7

(ii) Other acquisitions

In the year, the Group acquired the following companies, all of which are involved in the construction and development of wind farms.

Entity acquired	Country of incorporation	Date of acquisition	Shareholding acquired	Provisional consideration £m
Aldeia Velha	Portugal	14 April 2008	100 %	0.5
Riviera Group	Portugal	26 June 2008	60%	1.3
Nextwind S.R.L	Italy	26 June 2008	60%	3.2
Airtricity Marao SA	Portugal	21 August 2008	90%	0.5
Atlantico SA	Portugal	14 October 2008	90%	–
Limerick West Windfarm Ltd	Republic of Ireland	17 October 2008	100%	5.3
Griffin Wind Farm Ltd	Scotland	13 January 2009	89.8%	42.4
Slaheny Energy Ltd	Republic of Ireland	20 January 2009	100%	2.4
				55.6

The provisional book values and fair-values of the assets and liabilities acquired were as follows:

	Carrying value of acquired entities £m	Fair-value of acquired entities £m
Goodwill	–	12.6
Development assets	–	69.9
Property, plant and equipment	6.1	0.1
Cash and cash equivalents	0.1	0.1
Other net current liabilities	(6.7)	(6.7)
Deferred tax	–	(12.6)
Net (liabilities)/assets	(0.5)	63.4
Less: non-controlling interest		(7.8)
Total consideration		55.6

The non-controlling interest values were calculated by taking a proportionate share of the recognised amounts of the acquiring companies identifiable net assets at the acquisition date. The total consideration was represented by £37.6m cash and £18.0m deferred consideration.

No significant profit or loss was recognised from these acquisitions in the period to 31 March 2009.

(b) Acquisitions in the previous year

(i) Airtricity

On 15 February 2008, the Company acquired 100% of the issued share capital in Airtricity Holdings Limited ('Airtricity') for a combined consideration of £1,351.2m. The total value of the businesses acquired was £1,005.2m. This included cash assets of €793.2m including the remaining proceeds of Airtricity's disposal of its North American business in late 2008.

A comparison of the provisional and final fair-values of the assets and liabilities acquired, and their respective book values, is shown below:

	Provisional carrying value of acquired business £m	Provisional fair-value of acquired business £m	Final carrying value of acquired business £m	Final fair-value of acquired business £m	Change in fair-value of assets and liabilities £m
Intangible assets	62.5	228.2	62.5	229.3	1.1
Property, plant and equipment	401.4	707.0	401.4	707.0	–
Investment in jointly controlled entities	49.8	119.7	49.8	119.7	–
Derivatives and other financial assets	(1.9)	13.2	(1.9)	13.2	–
Cash and cash equivalents	594.0	594.0	594.0	594.0	–
Other net current assets/(liabilities)	15.3	17.4	9.7	12.0	(5.4)
Loans and borrowings	(517.3)	(522.3)	(517.3)	(522.3)	–
Deferred tax	(3.0)	(146.4)	(3.0)	(147.7)	(1.3)
Net assets	600.8	1,010.8	595.2	1,005.2	(5.6)
Goodwill		338.3		346.0	7.7
Total consideration		1,349.1		1,351.2	2.1

Notes on the Financial Statements (continued)
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15. ACQUISITIONS AND DISPOSALS (continued)

The changes in the fair-values of the acquired assets and liabilities of the Airtricity group mainly relates to changes in the carrying values of certain working capital items acquired, changes to the fair-values attributed to the acquired wind farm development assets and changes to the deferred tax calculated in relation to the fair-value adjustments recognised. The final consideration increased by £2.1m on settlement of related incidental fees.

Goodwill has arisen in relation to the future development potential of the Airtricity businesses including synergies relating to the purchase and includes recognition of deferred tax on the fair-value adjustments made. Goodwill has been subject to impairment test review (note 11).

(ii) Other acquisitions
The group also made the following acquisitions in the previous financial year:

Entity acquired	Date of acquisition	Shareholding acquired	Provisional consideration £m
I&H Brown Toddleburn Limited	20 December 2007	100%	4.5
Slough Heat and Power Limited	1 January 2008	100%	48.7
CHP Supply Limited (Republic of Ireland)	25 January 2008	100%	2.0
Hills Electrical & Mechanical plc	8 February 2008	100%	0.2
Seeboard Trading Limited	29 February 2008	100%	9.5
			64.9

All businesses operate in the United Kingdom with the exception of CHP Supply Limited, which is registered in the Republic of Ireland.

A comparison of the provisional fair-values attributed to the acquired businesses and their final fair-values is shown below:

	Provisional carrying value of acquired businesses £m	Provisional fair-value of acquired businesses £m	Final fair-value of acquired businesses £m	Change in fair-value of assets and liabilities £m
Intangible assets	–	11.9	20.7	8.8
Property, plant and equipment	46.9	49.6	45.4	(4.2)
Other financial assets	–	16.9	16.9	–
Inventories	9.8	9.7	5.7	(4.0)
Cash and cash equivalents	3.3	3.3	3.3	–
Other net current assets/(liabilities)	22.7	15.6	2.7	(12.9)
Loans and borrowings	(25.7)	(25.7)	(25.7)	–
Deferred tax	(8.5)	(16.1)	(8.6)	7.5
Other provisions	(0.9)	(6.8)	(6.8)	–
Net assets	47.6	58.4	53.6	(4.8)
Goodwill		6.5	–	(6.5)
Total consideration		64.9	53.6	(11.3)

The decrease in consideration paid in relation to these acquisitions relates to settlement of contingent consideration on the Slough Heat and Power and Seeboard Trading acquisitions and the recognition of pension liabilities related to the employees of the acquired Slough Heat and Power group of companies.

On final assessment of the fair-values of the acquired businesses, an increase in the fair-value of intangible assets acquired (primarily customer lists and contracts) was recognised and a reduction in the deferred tax liabilities acquired was also recorded, relating to the changes in fair-value adjustments and the recognition of the pension liabilities at Slough Heat and Power. As a consequence, no goodwill was recognised in relation to the transactions.

16. INVENTORIES

	Consolidated	
	2009	2008
	£m	£m
Fuel and consumables	**345.8**	224.5
Work in progress	**27.4**	32.6
Goods for resale	**2.5**	2.3
Less: provisions held	**(9.0)**	(8.2)
	366.7	251.2

The Group has recognised £504.9m as a cost of sale in the year (2008 – £798.9m) and have also recognised £8.2m (2008 – £3.4m) relating to stock write-downs and increases in provisions held. The Company does not hold any inventories.

17. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Current assets				
Retail receivables	**994.6**	554.0	**–**	–
Wholesale and trading trade receivables	**1,978.0**	1,165.6	**–**	–
Other trade receivables	**360.7**	322.6	**–**	–
Total trade receivables	**3,333.3**	2,042.2	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**3,052.7**	2,328.5
Other receivables	**589.0**	389.4	**413.0**	100.7
Cash held as collateral	**86.9**	5.6	**–**	–
Prepayments and accrued income	**1,650.4**	963.1	**–**	–
	5,659.6	3,400.3	**3,465.7**	2,429.2
Non-current assets				
Amounts owed by subsidiary undertakings	**–**	–	**2,066.9**	1,772.7
	5,659.6	3,400.3	**5,532.6**	4,201.9

Wholesale and trading trade receivables includes a balance of £190.9m (2008 – nil) in relation to contractual balances due from British Energy.

Other receivables includes £123.0m (2008 – £44.5m) receivable from Marchwood Power Limited (note 13) and financial assets totalling £481.7m (2008 – £170.4m). Cash held as collateral relates to amounts deposited on commodity trading exchanges.

Trade receivables and other financial assets are part of the Group's financial exposure to credit risk as explained in note 29.

18. CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Bank balances	**145.7**	125.8	**12.1**	0.7
Call deposits	**150.2**	129.5	**123.0**	103.5
Cash and cash equivalents	**295.9**	255.3	**135.1**	104.2

Cash and cash equivalents (which are presented as a single class of assets in the face of the balance sheet) comprise cash at bank and short term highly liquid investments with a maturity of three months or less.

	Consolidated		Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Cash and cash equivalents (from above)	**295.9**	255.3	**135.1**	104.2
Bank overdraft (note 22)	**(2.3)**	(12.2)	**–**	–
Cash and cash equivalents in the statement of cash flows	**293.6**	243.1	**135.1**	104.2

Notes on the Financial Statements (continued)
for the year ended 31 March

19. TRADE AND OTHER PAYABLES

	Consolidated 2009 £m	Consolidated 2008 restated £m	Company 2009 £m	Company 2008 £m
Current liabilities				
Amounts due to subsidiary undertakings	–	–	2,517.2	3,526.7
Trade payables	2,603.6	1,849.0	–	–
Other creditors	1,023.0	708.4	118.3	53.5
Accruals and deferred income (i)	738.3	842.5	–	–
	4,364.9	3,399.9	2,635.5	3,580.2
Non-current liabilities				
Accruals and deferred income (ii)	426.0	490.1	–	–
	4,790.9	3,890.0	2,635.5	3,580.2

(i) Current accruals and deferred income includes customer contributions of £15.4m (2008 – £14.9m) and government grants of £0.1m (2008 – £0.1m).
(ii) Non-current accruals and deferred income includes customer contributions of £258.0m (2008 – £246.9m) and government grants of £2.0m (2008 – £2.1m). Carbon emissions liabilities within other creditors have been restated in the previous financial year (note 2).

20. CURRENT TAX LIABILITIES

	Consolidated 2009 £m	Consolidated 2008 £m	Company 2009 £m	Company 2008 £m
Corporation tax	254.6	220.8	–	9.0

21. CONSTRUCTION CONTRACTS

	2009 £m	2008 £m
Contracts in progress at balance sheet date:		
Amounts due from contract customers included in trade and other receivables (note 17)	41.4	32.0
Amounts due to contract customers included in trade and other payables (note 19)	(24.4)	(26.8)
Contract costs incurred plus recognised profits less recognised losses to date	221.9	189.1
Less: Progress billings	(231.6)	(202.9)
	(9.7)	(13.8)

In the year to 31 March 2009, contract revenue of £481.9m (2008 – £403.8m) was recognised.

At 31 March 2009, retentions held by customers for contract work amounted to £1.6m (2008 – £0.9m). Advances received from customers for contract work amounted to £6.4m (2008 – £4.1m).

At 31 March 2009, amounts of £nil (2008 – £nil) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months.

The Company does not hold any construction contracts.

22. LOANS AND OTHER BORROWINGS

	Consolidated 2009 £m	Consolidated 2008 £m	Company 2009 £m	Company 2008 £m
Current				
Bank overdraft	2.3	12.2	–	–
Other short-term loans	1,057.7	1,835.3	916.4	1,696.3
	1,060.0	1,847.5	916.4	1,696.3
Obligations under finance leases	0.1	0.1	–	–
	1,060.1	1,847.6	916.4	1,696.3
Non-current				
Loans	4,335.7	2,073.1	2,628.3	372.4
Obligations under finance leases	0.4	0.5	–	–
Amounts owed to subsidiary undertakings	–	–	240.2	240.2
	4,336.1	2,073.6	2,868.5	612.6

(i) Borrowings

Borrowing facilities
The Group has an established €1.5bn Euro Commercial Paper programme. Paper can be issued in a range of currencies and is swapped back into sterling.

The Group entered into a new £850m committed borrowing facility on 3 April 2009. This facility, which matures in June 2012, replaces a £650m facility which had been due to expire in November 2009. The new facility will again act as a liquidity backstop to the Group's commercial paper issuance.

The Group also has a €150m committed bridge facility, of which €20m was drawn down as at 31 March 2009. This facility was originally €2.5bn in size and has been nearly fully refinanced during the course of the year. The remaining commitment is due to expire in June 2009, but this maturity date is extendable for a further 12 months, to June 2010, at SSE's option.

Analysis of borrowings

Loans and borrowings

	2009 Weighted average interest rate (vii) %	2009 Face value £m	2009 Fair-value £m	2009 Carrying amount £m
Current				
Bank overdrafts (i)	0.50	2.3	2.3	2.3
Other short-term loans – amortising (ii)	8.79	88.4	90.3	88.4
Other short-term loans – non-amortising (iii)	2.67	904.1	900.9	900.8
3.75% Convertible bond repayable on 29 October 2009 (vi)	3.75	15.9	19.6	15.6
Non-recourse funding (iv)	5.51	52.9	55.8	52.9
Total current		1,063.6	1,068.9	1,060.0
Non-current				
Bank loans – amortising (ii)	6.36	21.4	22.7	21.4
Bank loans – non-amortising (v)	4.93	603.7	641.3	605.2
6.125% Eurobond repayable on 29 July 2013	6.13	555.1	579.9	552.9
5.75% Eurobond repayable 5 February 2014	5.75	700.0	729.0	695.5
Non-recourse funding (iv)	6.10	144.8	150.1	144.8
Between two and five years		2,025.0	2,123.0	2,019.8
Bank loans – non-amortising (v)	3.09	25.0	24.9	25.0
Non-recourse funding (iv)	5.89	309.0	326.0	309.0
5.875% Eurobond repayable on 26 September 2022	5.88	300.0	311.0	296.3
8.375% Eurobond repayable on 20 November 2028	8.38	500.0	606.1	491.8
5.50% Eurobond repayable on 19 June 2032	5.50	350.0	319.2	350.2
4.625% Eurobond repayable on 20 February 2037	4.63	325.0	247.5	323.4
6.25% Eurobond repayable on 27 August 2038	6.25	350.0	336.9	345.3
4.454% Index linked loan repayable on 27 February 2044	2.16	100.0	105.4	99.3
1.429% Index linked bond repayable on 20 October 2056	1.52	109.0	106.0	109.0
Over five years		2,368.0	2,383.0	2,349.3
Fair-value adjustment (note 29)		–	–	(33.4)
Total non-current		4,393.0	4,506.0	4,335.7
Total		5,456.6	5,574.9	5,395.7

Notes on the Financial Statements (continued)
for the year ended 31 March

22. LOANS AND OTHER BORROWINGS (continued)

Loans and borrowings

	2008 Weighted average interest rate (vii) %	2008 Face value £m	2008 Fair-value £m	2008 Carrying amount £m
Current				
Bank overdrafts (i)	6.25	12.2	12.2	12.2
Other short-term loans – amortising (ii)	7.72	23.4	24.4	23.4
Other short-term loans – non-amortising (iii)	5.46	1,804.1	1,803.6	1,803.4
Non-recourse funding (iv)	6.23	8.5	8.5	8.5
Total current		1,848.2	1,848.7	1,847.5
Non-current				
Bank loans – amortising (ii)	7.33	195.1	197.1	195.1
Bank loans – non-amortising (v)	7.32	336.4	343.6	336.4
3.75% Convertible bond repayable on 29 October 2009 (vi)	3.75	79.3	123.3	76.3
Non-recourse funding (iv)	6.19	39.4	39.4	39.4
Between two and five years		650.2	703.4	647.2
Bank loans – amortising (ii)	6.40	192.1	195.3	192.1
Bank loans – non-amortising (v)	5.56	109.2	110.2	109.2
Non-recourse funding (iv)	6.29	50.9	50.9	50.9
5.875% Eurobond repayable on 26 September 2022	5.88	300.0	290.8	296.1
5.50% Eurobond repayable on 19 June 2032	5.50	350.0	324.8	350.3
4.625% Eurobond repayable on 20 February 2037	4.63	325.0	260.6	323.3
1.429% Index linked bond repayable on 20 October 2056	5.29	104.0	105.9	104.0
Over five years		1,431.2	1,338.5	1,425.9
Total non-current		2,081.4	2,041.9	2,073.1
Total		3,929.6	3,890.6	3,920.6

(i) Bank overdrafts are repayable on demand.
(ii) Balances under amortising loans are adjusted for capital repayments or drawings in the financial year. These are held with the European Investment Bank (EIB) in a combination of fixed and floating rates.
(iii) Balances include commercial paper and cash advances.
(iv) The Tay Valley Lighting companies formed under 50:50 partnership with Royal Bank Leasing Limited to provide street-lighting services are categorised as subsidiaries under SIC-12 (note 14). The debt held by these companies is included on consolidation but is non-recourse to the Group.
(v) The floating rate European Investment Bank advances are reset quarterly at a rate normally less than three month LIBOR. Other loans include a mixture of fixed and floating debt repayable between 2009 and 2014.
(vi) The liability component of the convertible bond is presented separately under IAS 32.
(vii) The weighted average interest rates are as noted. The weighted average interest rates for the Group (including swaps) for the year ended 31 March 2009 was 5.25% (2008 – 5.23%).

Convertible bond
The convertible bond was issued on 29 October 2004 in exchange for £300.0m in cash. The bond entitles holders to convert the bond into ordinary shares at any time up to 24 October 2009 at the applicable conversion share price. With effect from 26 September 2008, the effective conversion price of the bond changed from £9.00 per ordinary share at the date of issue to £8.88 per ordinary share.
The conversion price is subject to adjustment in certain circumstances set out in the offering circular including payment of dividends greater than amounts set out in the circular, capital restructuring and change of control. Conversion is at the option of the bond holder.

At 31 March, bond holders had converted debt with a nominal value of £257.6m at the £9.00 per share conversion price and £26.5m at the £8.88 per share conversion price. Conversion took place in the following periods:

	Nominal value of bond converted £m	Number of shares
Year to 31 March 2007	0.1	11,111
Year to 31 March 2008	220.6	24,512,537
Year to 31 March 2009	63.4	7,081,333
Total to 31 March 2009	**284.1**	**31,604,981**

The net proceeds received from the issue of the bond have been split between a liability element and an equity component, the liability element representing the initial fair-value of the debt excluding the embedded option to convert the liability into equity of the Group.

	At 31 March 2009 £m	At 1 April 2008 £m
Nominal value of issue of convertible bond	**15.9**	79.3
Costs of issue	**(0.1)**	(0.3)
Net proceeds of convertible bond issued	**15.8**	79.0
Less: equity component and accreted debt element	**(0.2)**	(2.7)
Liability component	**15.6**	76.3

On partial conversion, a debt element of £60.7m (2008 – £208.6m) was converted from debt to equity. The costs of issue of the bond are amortised over the term of the bond. An additional interest charge of £0.6m (2008 – £4.6m) was recorded.

For the purpose of diluted Earnings per Share (EPS), convertible bond interest of £1.7m (2008 – £14.0m) is added back to earnings and the number of potential ordinary shares to be issued includes the following in respect of this bond:

	2009 Number of shares	2008 Number of shares
Weighted average number of shares	**1,728,352**	8,809,685

(ii) Finance lease liabilities
Future finance lease commitments are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Amounts payable:				
Within one year	**0.1**	0.1	**0.1**	0.1
Between one and five years	**0.3**	0.4	**0.3**	0.3
After five years	**0.4**	0.5	**0.1**	0.2
	0.8	1.0	**0.5**	0.6
Less: future finance charge	**(0.3)**	(0.4)		
Present value of lease obligations	**0.5**	0.6		

The average lease term is 7.5 years. For the year ended 31 March 2009, the average effective borrowing rate was 8% (2008 – 8%). Interest rates are fixed at the contract date. All leases, held by the Group's telecoms businesses, are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair-value of the Group's lease obligations approximates their carrying amount. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.
The Company does not have any obligations under finance leases.

Notes on the Financial Statements (continued)
for the year ended 31 March

23. DEFERRED TAXATION

The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated capital allowances £m	Fair-value gains/(losses) on derivatives £m	Convertible bond £m	Retirement benefit obligations £m	Share based payments £m	Other (i) £m	Total £m
Consolidated							
At 1 April 2007	898.0	19.4	4.0	(27.6)	(4.7)	(31.4)	857.7
Effect of tax rate change – income statement	(60.2)	1.7	(0.2)	–	–	3.3	(55.4)
Effect of tax rate change – equity	–	1.1	–	1.0	0.3	–	2.4
Acquisitions	18.5	(1.0)	–	–	–	145.0	162.5
Charge/(credit) to Income Statement	4.0	(50.7)	(1.4)	20.5	(0.3)	(16.1)	(44.0)
Charge/(credit) to equity	–	7.1	(1.8)	(7.7)	0.6	(9.0)	(10.8)
Exchange adjustments	0.8	(0.1)	–	–	–	11.1	11.8
At 1 April 2008	861.1	(22.5)	0.6	(13.8)	(4.1)	102.9	924.2
Prior year acquisitions (note 15)	–	–	–	–	–	(6.2)	(6.2)
Acquisitions (note 15)	–	–	–	–	–	12.6	12.6
Charge/(credit) to Income Statement (note 8)	24.7	(352.3)	(0.2)	15.3	(0.6)	(34.4)	(347.5)
Charge/(credit) to equity (note 8)	–	5.2	–	(78.1)	3.2	(39.7)	(109.4)
Exchange adjustments	1.7	–	–	–	–	19.2	20.9
At 31 March 2009	**887.5**	**(369.6)**	**0.4**	**(76.6)**	**(1.5)**	**54.4**	**494.6**

	Accelerated capital allowances £m	Fair-value gains/(losses) on derivatives £m	Convertible bond £m	Retirement benefit obligations £m	Share based payments £m	Other £m	Total £m
Company							
At 1 April 2007	–	(13.6)	4.0	38.4	–	(0.9)	27.9
Effect of tax rate change – income statement	–	0.6	(0.2)	–	–	0.1	0.5
Effect of tax rate change – equity	–	–	–	(2.6)	–	–	(2.6)
Charge/(credit) to Income Statement	–	12.9	(1.4)	6.2	–	(6.3)	11.4
Charge/(credit) to equity	–	0.3	(1.8)	(18.0)	0.9	(9.0)	(27.6)
At 1 April 2008	–	0.2	0.6	24.0	0.9	(16.1)	9.6
Charge/(credit) to Income Statement	–	10.5	(0.2)	6.3	–	(40.4)	(23.8)
Charge/(credit) to equity	–	11.8	–	(30.3)	–	–	(18.5)
At 31 March 2009	**–**	**22.5**	**0.4**	**–**	**0.9**	**(56.5)**	**(32.7)**

(i) Includes deferred tax on fair valuation adjustments in business combinations. Deferred tax recognised on full acquisition of Greater Gabbard Offshore Winds was derecognised on disposal of 50% of the shareholding.

Certain deferred tax assets and liabilities have been offset, including the asset balances analysed the tables above. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Consolidated		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Deferred tax liabilities	**594.7**	967.3	**–**	9.6
Deferred tax assets	**(100.1)**	(43.1)	**(32.7)**	–
Net deferred tax liabilities/(assets)	**494.6**	924.2	**(32.7)**	9.6

The deferred tax assets disclosed relate to the Group's pension scheme liabilities.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £1.7m (2008 – £2.1m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Temporary differences arising in connection with interests in associates and jointly controlled entities are recorded as part of the Group's share of investment in those entities. The aggregate amount of these is a charge of £1.0m (2008 – £10.1m credit).

24. PROVISIONS

	Onerous energy contracts (i) £m	Decommissioning (ii) £m	Other (iii) £m	Total £m
Consolidated				
At 1 April 2008	54.4	31.5	30.9	116.8
Charged in the year	–	–	12.0	12.0
Unwind of discount	–	4.7	0.4	5.1
Released during the year	(42.6)	–	(4.9)	(47.5)
Utilised during the year	(8.3)	–	(4.3)	(12.6)
Translation Difference	0.2	–	–	0.2
At 31 March 2009	**3.7**	**36.2**	**34.1**	**74.0**
At 31 March 2009				
Non-current	3.7	36.0	20.5	60.2
Current	–	0.2	13.6	13.8
	3.7	**36.2**	**34.1**	**74.0**
At 31 March 2008				
Non-current	53.1	31.3	22.9	107.3
Current	1.3	0.2	8.0	9.5
	54.4	31.5	30.9	116.8

(i) The onerous energy contracts provision related primarily to future losses on purchase contracts designated as held for own use and were therefore outside the scope of IAS 39, and future losses on other specific contracts. The purchase contracts have been assessed as no longer being onerous in the current year following the increase in commodity prices. The remaining other contract losses will be incurred over a maximum period to 2019.
(ii) Provision has been made for the estimated net present cost of decommissioning certain generation and gas storage assets. The estimate is based on a forecast of clean-up costs at the time of decommissioning discounted for the time value of money. The timing of costs provided is dependent on the lives of the facilities. In the year to March 2009, the Group has also increased the provision in relation to its projected decommissioning obligations under the EU Waste Electrical and Electronic Equipment (WEEE) directive, which passed into law on 2 January 2007, by £0.1m to £3.6m (2008 – £3.5m).
(iii) Other provisions include balances held in relation to restructuring, insurance and warranty claims. In addition, the Group has an employer financed retirement benefit provision for pensions for certain directors and former directors and employees.

The Company does not hold provisions.

25. SHARE CAPITAL

	Number (millions)	£m
Company		
Equity: ordinary shares of 50p each:	**1,200.0**	**600.0**
Authorised:		
At 31 March 2009 and 1 April 2008		
Allotted, called up and fully paid:		
At 1 April 2008	870.1	435.1
Issue of shares (i)	1.2	0.6
Conversion of convertible debt to equity (ii)	7.1	3.5
Equity placement (iii)	42.0	21.0
At 31 March 2009	**920.4**	**460.2**

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) The Company issued 1.2 million (2008 – 0.4 million) shares during the year under the savings-related share option schemes, and discretionary share option schemes for a consideration of £8.1m (2008 – £2.2m).
During the year, on behalf of the Company, the employee share trust purchased 1.1 million shares for a consideration of £15.8m (2008 – 0.8 million shares, consideration of £12.4m). At 31 March 2009, the trust held 3.7 million shares (2008 – 2.7 million) which had a market value of £41.4m (2008 – £37.8m).
(ii) During the year, the Company issued a total of 7.1 million shares (2008 – 24.5 million) under the terms of the convertible bond at conversion rates of £9.00 (4.1 million shares) and £8.88 (3.0 million shares) per ordinary share.
(iii) In the year, the Company issued 42 million shares following the equity placement announcement in January 2009. The shares were issued at £11.40 and equated to 4.8% of the issued share capital. Transaction costs associated with the placement of £7.3m were netted against the proceeds from the issue.

Notes on the Financial Statements (continued)
for the year ended 31 March

26. RESERVES

	Share premium account £m	Capital redemption reserve £m	Equity reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Minority interest £m	Total £m
Consolidated								
Reconciliation of movement in reserves								
At 1 April 2007	99.1	13.7	14.6	(10.5)	–	2,048.0	–	2,164.9
Profit for the year	–	–	–	–	–	872.9	0.3	873.2
Effective portion of changes in fair-value of cash flow hedges	–	–	–	11.6	–	–	–	11.6
Transferred to income and expense on cash flow hedges	–	–	–	8.0	–	–	–	8.0
Effective net investment hedge (net of tax)	–	–	–	–	(21.1)	–	–	(21.1)
Premium on issue of shares	2.0	–	–	–	–	–	–	2.0
Repurchase of shares	–	8.3	–	–	–	(239.8)	–	(231.5)
Convertible bond converted to equity	214.6	–	(10.7)	–	–	–	–	203.9
Exchange differences on translation of foreign operation	–	–	–	–	46.5	–	–	46.5
Actuarial losses on retirement benefit schemes (net of tax)	–	–	–	–	–	(17.4)	–	(17.4)
Jointly controlled entities:								
Share of change in fair-value of effective cash flow hedges	–	–	–	(6.8)	–	–	–	(6.8)
Share of actuarial gains on retirement benefit schemes (net of tax)	–	–	–	–	–	16.4	–	16.4
Dividends to shareholders	–	–	–	–	–	(502.8)	–	(502.8)
Credit in respect of employee share awards	–	–	–	–	–	10.8	–	10.8
Investment in own shares	–	–	–	–	–	(12.4)	–	(12.4)
Current and deferred tax recognised in equity in respect of employee share awards (note 8)	–	–	–	–	–	(0.1)	–	(0.1)
At 31 March 2008	315.7	22.0	3.9	2.3	25.4	2,175.6	0.3	2,545.2
Premium on issue of shares	458.0	–	–	–	–	–	–	458.0
Convertible bond converted to equity	61.6	–	(3.1)	–	–	–	–	58.5
Profit for the year	–	–	–	–	–	112.3	–	112.3
Effective portion of changes in fair-value of cash flow hedges	–	–	–	16.5	–	–	–	16.5
Effective net investment hedge (net of tax)	–	–	–	–	(102.9)	–	–	(102.9)
Exchange differences on translation of foreign operation	–	–	–	(2.4)	224.1	–	–	221.7
Actuarial losses on retirement benefit schemes (net of tax)	–	–	–	–	–	(200.8)	–	(200.8)
Jointly controlled entities:								
Share of change in fair-value of effective cash flow hedges	–	–	–	3.2	–	–	–	3.2
Share of actuarial losses on retirement benefit schemes (net of tax)	–	–	–	–	–	(38.3)	–	(38.3)
Dividends to shareholders	–	–	–	–	–	(551.9)	(2.6)	(554.5)
Credit in respect of employee share awards	–	–	–	–	–	14.3	–	14.3
Investment in own shares	–	–	–	–	–	(15.8)	–	(15.8)
Current and deferred tax recognised in equity in respect of employee share awards (note 8)	–	–	–	–	–	(2.7)	–	(2.7)
At 31 March 2009	**835.3**	**22.0**	**0.8**	**19.6**	**146.6**	**1,492.7**	**(2.3)**	**2,514.7**

	Share premium account £m	Capital redemption reserve £m	Equity reserve £m	Hedge reserve £m	Retained earnings £m	Total £m
Company						
Reconciliation of movement in reserves						
At 1 April 2007	99.1	13.7	14.6	(10.9)	591.9	708.4
Profit for the year	–	–	–	–	550.6	550.6
Effective portion of changes in fair-value of cash flow hedges	–	–	–	18.0	–	18.0
Premium on issue of shares	2.0	–	–	–	–	2.0
Convertible bond converted to equity	214.6	–	(10.7)	–	–	203.9
Repurchase of ordinary shares for cancellation	–	8.3	–	–	(239.8)	(231.5)
Actuarial gains on retirement benefit schemes (net of tax)	–	–	–	–	(43.3)	(43.3)
Investment in own shares	–	–	–	–	(12.4)	(12.4)
Increase in investment in subsidiaries	–	–	–	–	10.8	10.8
Dividends to shareholders	–	–	–	–	(502.8)	(502.8)
Current and deferred tax recognised in equity in respect of employee share awards	–	–	–	–	(0.1)	(0.1)
Other movements	–	–	–	–	1.3	1.3
At 31 March 2008	315.7	22.0	3.9	7.1	356.2	704.9
Premium on issue of shares	458.0	–	–	–	–	458.0
Convertible bond converted to equity	61.6	–	(3.1)	–	–	58.5
Profit for the year	–	–	–	–	852.0	852.0
Effective portion of changes in fair-value of cash flow hedges	–	–	–	36.2	–	36.2
Actuarial gains on retirement benefit schemes (net of tax)	–	–	–	–	(78.0)	(78.0)
Investment in own shares	–	–	–	–	(15.8)	(15.8)
Increase in investment in subsidiaries	–	–	–	–	14.3	14.3
Dividends to shareholders	–	–	–	–	(551.9)	(551.9)
At 31 March 2009	**835.3**	**22.0**	**0.8**	**43.3**	**576.8**	**1,478.2**

The profit for the year attributable to shareholders dealt with in the financial statements of the Company was £852.0m (2008 – £550.6m). As allowed by section 230 of the Companies Act 1985, the Company has not presented its own income statement. The translation reserve reported in the previous year has been reported as part of retained earnings brought forward.

The capital redemption reserve comprises the value of shares redeemed or purchased by the company from distributable profits.

The hedge reserve comprises the effective portion of the cumulative net change in the fair-value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

The equity reserve comprises the equity component of the Group's convertible bond (note 22).

The translation reserve comprises exchange translation differences on foreign currency net investments offset by exchange translation differences on borrowings and derivatives classified as net investment hedges under IAS 39.

27. RETIREMENT BENEFIT OBLIGATIONS

Defined benefit schemes

The Group has two funded final salary pension schemes which provide defined benefits based on final pensionable pay. The schemes are subject to independent valuations at least every three years. The future benefit obligations are valued by actuarial methods on the basis of an appropriate assessment of the relevant parameters. The Company operates one of these schemes, being the Scottish Hydro-Electric scheme.

The Group also has an Employer Financed Retirement Benefit scheme and a Group Personal Pension Plan. The Group Personal Pension Plan operates on a Money purchase basis and has been arranged with Friends Provident. The Company matches employee contributions up to a specified limit, in most circumstances this is set at 6%. The Company may also provide additional contributions of 3% after five and ten year's continuous Company service.

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for the year ended 31 March

27. RETIREMENT BENEFIT OBLIGATIONS (continued)

Pension summary:

	Scheme type	Net actuarial gain/(loss) recognised in respect of the pension asset in the SoRIE 2009 £m	2008 £m	Net pension (liability)/asset 2009 £m	2008 £m
Scottish Hydro Electric (Company)	Defined benefit	**(188.4)**	146.3	**–**	85.8
Southern Electric	Defined benefit	**(170.6)**	38.7	**(273.5)**	(134.9)
		(359.0)	185.0	**(273.5)**	(49.1)

The Scottish Hydro Electric Pension Scheme net asset of £nil (2008 – £85.8m) is presented after an irrecoverable surplus restriction of £130.5m (2008 – £210.6m). The Company is only able to recognise the surplus to the extent that it is expected to be recoverable from estimated reductions to scheme contribution rates.

The individual pension scheme details based on the latest formal actuarial valuations are as follows:

	Scottish Hydro Electric	Southern Electric
Latest formal actuarial valuation	31 March 2006	31 March 2007
Valuation carried out by	Hymans Robertson	Hewitt, Bacon & Woodrow
Value of assets based on valuation	£970.0m	£1,101.5m
Value of liabilities based on valuation	£942.0m	£1,361.3m
Valuation method adopted	Projected Unit	Projected Unit
Average salary increase	5.3%	5.2%
Average pension increase	3.0%	3.2%
Value of fund assets/accrued benefits	103.0%	80.9%

Both schemes have been updated to 31 March 2009 by qualified independent actuaries. The valuations have been prepared for the purposes of meeting the requirements of IAS 19. The major assumptions used by the actuaries in both schemes were:

	At 31 March 2009	At 31 March 2008
Rate of increase in pensionable salaries	**4.5%**	5.0%
Rate of increase in pension payments	**3.0%**	3.5%
Discount rate	**6.7%**	6.9%
Inflation rate	**3.0%**	3.5%

The assumptions relating to longevity underlying the pension liabilities at 31 March 2009 are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions equivalent to future longevity for members in normal health at age 65 are as follows:

	At 31 March 2009 Male	At 31 March 2009 Female	At 31 March 2008 Male	At 31 March 2008 Female
Currently aged 65	**22**	**24**	21	23
Currently aged 45	**24**	**27**	23	25

The impact on the schemes liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2009		At 31 March 2008	
	Increase/ decrease in assumption	Effect on scheme liabilities	Increase/ decrease in assumption	Effect on scheme liabilities
Discount rate	**0.1%**	**+/-1.6%**	0.1%	+/-1.6%
Currently aged 45	**1 year**	**+/-3.0%**	1 year	+/-3.0%

Valuation of combined pension schemes

	Consolidated				Company			
	Long-term rate of return expected at 31 March 2009 %	**Value at 31 March 2009 £m**	Long-term rate of return expected at 31 March 2008 %	Value at 31 March 2008 £m	**Long-term rate of return expected at 31 March 2009 %**	**Value at 31 March 2009 £m**	Long-term rate of return expected at 31 March 2008 %	Value at 31 March 2008 £m
Equities	**7.7**	**665.8**	8.0	939.6	**7.7**	**318.2**	8.0	383.1
Government bonds	**4.2**	**576.7**	4.5	481.5	**4.2**	**361.2**	4.5	268.5
Corporate bonds	**6.7**	**244.3**	6.9	343.0	**6.7**	**94.6**	6.9	232.3
Other investments	**3.4**	**300.0**	5.6	316.9	**4.3**	**86.0**	5.6	121.7
Total fair-value of plan assets		**1,786.8**		2,081.0		**860.0**		1,005.6
Irrecoverable surplus		**(130.5)**		(210.6)		**(130.5)**		(210.6)
Present value of defined benefit obligation		**(1,929.8)**		(1,919.5)		**(729.5)**		(709.2)
(Deficit)/surplus in the scheme		**(273.5)**		(49.1)		**–**		85.8
Deferred tax thereon		**76.6**		13.7		**–**		(24.0)
Net pension (liability)/asset		**(196.9)**		(35.4)		**–**		61.8

Movements in the defined benefit obligation during the year

	Consolidated		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
At 1 April	**(1,919.5)**	(2,202.3)	**(709.2)**	(862.1)
Movements in the year:				
Service costs	**(21.8)**	(29.2)	**(8.7)**	(12.1)
Member contributions	**(8.1)**	(7.5)	**(3.3)**	(2.8)
Benefits paid	**96.5**	95.0	**38.1**	36.3
Interest on pension scheme liabilities	**(130.1)**	(117.4)	**(48.0)**	(46.0)
Actuarial gains	**53.2**	341.9	**1.6**	177.5
At 31 March	**(1,929.8)**	(1,919.5)	**(729.5)**	(709.2)

Movements in scheme assets during the year

	Consolidated		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
At 1 April	**1,870.4**	2,110.4	**795.0**	990.2
Movements in the year:				
Expected return on pension scheme assets	**135.3**	141.4	**64.7**	66.7
Assets distributed on settlement	**(96.5)**	(95.0)	**(38.1)**	(36.3)
Employer contributions	**71.1**	73.6	**14.5**	13.4
Member contributions	**8.1**	7.5	**3.3**	2.8
Actuarial (losses)	**(412.2)**	(156.9)	**(190.0)**	(31.2)
Irrecoverable surplus	**80.1**	(210.6)	**80.1**	(210.6)
At 31 March	**1,656.3**	1,870.4	**729.5**	795.0

Charges/(credits) recognised

	Consolidated		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Current service cost (charged to operating profit)	**21.8**	29.2	**8.7**	12.1
	21.8	29.2	**8.7**	12.1
Charged/(credited) to finance costs:				
Expected return on pension scheme assets	**(135.3)**	(141.4)	**(64.7)**	(66.7)
Interest on pension scheme liabilities	**130.1**	117.4	**48.0**	46.0
	(5.2)	(24.0)	**(16.7)**	(20.7)

Notes on the Financial Statements (continued)
for the year ended 31 March

27. RETIREMENT BENEFIT OBLIGATIONS (continued)

History of surplus/(deficit)

	Consolidated					Company				
	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m	**2009 £m**	2008 £m	2007 £m	2006 £m	2005 £m
Total fair-value of plan assets	**1,786.8**	2,081.0	2,110.4	2,017.3	1,651.3	**860.0**	1,005.6	990.2	955.8	785.8
Irrecoverable surplus	**(130.5)**	(210.6)	–	–	–	**(130.5)**	(210.6)	–	–	–
Present value of defined benefit obligation	**(1,929.8)**	(1,919.5)	(2,202.3)	(2,211.1)	(1,878.9)	**(729.5)**	(709.2)	(862.1)	(865.6)	(686.9)
(Deficit)/surplus in the scheme	**(273.5)**	(49.1)	(91.9)	(193.8)	(227.6)	**–**	85.8	128.1	90.2	98.9

Return on assets
As required by IAS 19, the expected return on assets is based on the long-term expectation of returns for each asset class at the beginning of the year. The return on equities is 3.5% per annum in excess of the yield on government bonds. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation at 31 March 2009.

The actual return on plan assets is as follows:

	Consolidated		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Actual return on plan assets	**(276.9)**	(12.0)	**(125.3)**	35.5

History of experience gains and losses

	Consolidated					Company				
	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m	**2009 £m**	2008 £m	2007 £m	2006 £m	2005 £m
Total actuarial gains and (losses) recognised in the Statement of Recognised Income and Expense before adjustment for taxation	**(359.0)**	185.0	47.4	(14.1)	(18.3)	**(188.4)**	146.3	17.6	(29.0)	6.2
Experience (losses) on scheme liabilities	**(222.2)**	(122.2)	(40.0)	(123.3)	(38.0)	**–**	–	–	–	–

The cumulative actuarial gains and losses recognised in the Statement of Recognised Income and Expense before adjustment for taxation since the adoption of IAS 19 is £318.5m losses (2008 – £81.2m gains).

Defined contribution scheme
The total contribution paid by the Group to defined contribution schemes was £13.6m (2008 – £7.1m).

Employer financed retirement benefit (EFRB) pension costs
The increase in the year in relation to the EFRB was £2.0m (2008 – £1.1m reduction in the provision). This is included in other provisions (note 24). In addition to the movement in the provision, £0.2m (2007 – £0.6m) was utilised as a result of payments made to the Southern Electric Pension Scheme.

Staff costs analysis
The pension costs in note 6 can be analysed thus:

	2009 £m	2008 £m
Service costs	**21.8**	29.2
Defined contribution scheme payments	**13.6**	7.1
	35.4	36.3

Expected contribution in the year to 31 March 2010
The Group expects to make contributions of £15.3m and £60.3m to the Scottish Hydro Electric Pension Scheme and the Southern Electric Pension Scheme in the year to 31 March 2010, respectively.

28. EMPLOYEE SHARE-BASED PAYMENTS

The Scottish and Southern Energy Group operates a number of share schemes for the benefit of its employees. Details of these schemes, all of which are equity-settled, are as follows:

(i) Savings-related share option schemes ('Sharesave')
This scheme gives employees the option to purchase shares in the Company at a discounted market price, subject to the employees remaining in employment for the term of the agreement. Employees may opt to save between £5 and £250 per month for a period of 3 or 5 years. At the end of this period, the employees have six months to exercise their options by using the cash saved (including a bonus equivalent to interest). If the option is not exercised, the funds may be withdrawn by the employee and the option expires.

(ii) Share Incentive Plan (SIP)
This scheme allows employees the opportunity to purchase shares in the Company on a monthly basis. Employees may nominate an amount between £10 and £125 to be deducted from their gross salary. This is then used to purchase shares ('Partnership' shares) in the market on the final business day of each month. These shares are then held in trust for a period of 5 years, at which point they are transferred at no further cost to the employee. These shares may be withdrawn at any point during the 5 years, but tax and national insurance would then be payable on any amounts withdrawn.

In addition to the shares purchased on behalf of the employee, the Company will also match the purchase up to a maximum of 6 (previously 5) shares ('Matching' shares) per month. Again these shares are held in trust for the five years until they are transferred to the employee. If an employee leaves during the first three years, or removes his/her 'partnership' shares, these 'matching' shares are forfeited.

In addition to the above, the following special awards of free shares have been made:

Award made	31 March 2005	31 March 2007	31 March 2008
Free shares per employee	50	20	10
Date at which employee must still be employed to receive award (in addition to 31 March)	20 August 2005	30 May 2007	1 August 2008

These awards were made to all employees in recognition of their contribution to the success of the company. Under the arrangements for the awards, the shares will be held in trust for five years, at which point they will be transferred to the employees at no cost to the employee. These shares may be withdrawn at any point during years four and five, but income tax and national insurance would then be payable on any amounts withdrawn.

(iii) Deferred bonus scheme
This scheme applied to senior managers and executive directors. Those eligible were awarded shares based on performance in the year. These shares were purchased shares and are held in trust on behalf of the employee for a period of three years, at which point the employee is entitled to exercise the award. In addition to shares purchased using the adjusted bonus award, additional shares will also be purchased by the Trustee using amounts received equivalent to any dividends which would have been received on the shares held by the trust. If the employee resigns, they lose all outstanding awards.

This scheme has been replaced by the current Annual Bonus Scheme. Under this scheme, 25% of all eligible employees' annual bonus is deferred into shares which only vest after three years, subject to continued service. The number of shares awarded is determined by dividing the relevant pre-tax bonus amount by the share price shortly after the announcement of the results for the financial year to which the bonus relates.

(iv) Performance Share Plan
This scheme applies to executive directors and senior executives. The level of these awards are subject to certain performance conditions over the three year performance period, which can be summarised as follows:

Date of award		27 July 2006	26 July 2007	10 June 2008
Maximum value of award as a % of base salary		100	150	150
Performance conditions				
Total shareholder return (50% of award) (i)	Full vesting	> 75th percentile	> 75th percentile	> 75th percentile
	25% vesting	–	median	median
	30% vesting	median	–	–
Earnings per share (50% of award) (ii)	Full vesting	RPI + 8%	RPI + 9%	RPI + 9%
	25% vesting	–	RPI + 3%	RPI + 3%
	30% vesting	RPI + 3%	–	–

Notes on the Financial Statements (continued)
for the year ended 31 March

28. EMPLOYEE SHARE-BASED PAYMENTS (continued)

These awards will vest after three years to the extent that certain performance conditions are met.

(i) Total Shareholder Return (TSR) target relative to other FTSE 100 companies over the performance period. Pro rata vesting will take place between the median and 75th percentile, with no vesting if the minimum target is not met.

(ii) Under the EPS performance condition, pro rata vesting between 3% and the upper level above RPI, with no vesting if the minimum EPS growth target is not achieved.

As allowed by IFRS 2, only options granted since 7 November 2002, which were unvested at 1 January 2005, have been included.

A charge of £14.3m (2008 – £10.8m) was recognised in the Income Statement in relation to these schemes.

Details used in the calculation of the costs of these schemes are as follows:

(i) Savings-related share option scheme

The movement in savings related share option schemes in the year were as follows:

Consolidated

As at 31 March 2009

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	**Outstanding at end of year**	Date from which exercisable	Expiry date
25 July 2003	562	786,541	–	(775,473)	(4,332)	**6,736**	1 October 2008	31 March 2009
16 July 2004	622	3,516	–	(3,033)	(483)	**–**	1 October 2007	31 March 2008
16 July 2004	622	547,803	–	(3,093)	(8,336)	**536,374**	1 October 2009	31 March 2010
14 July 2005	886	359,570	–	(350,829)	(4,739)	**4,002**	1 October 2008	31 March 2009
14 July 2005	886	1,127,221	–	(4,345)	(28,605)	**1,094,271**	1 October 2010	31 March 2011
11 July 2006	999	385,885	–	(3,051)	(19,389)	**363,445**	1 October 2009	31 March 2010
11 July 2006	999	632,609	–	(1,554)	(38,615)	**592,440**	1 October 2011	31 March 2012
10 July 2007	1,306	309,354	–	(288)	(33,826)	**275,240**	1 October 2010	31 March 2011
10 July 2007	1,306	594,317	–	–	(57,421)	**536,896**	1 October 2012	31 March 2013
17 July 2008	1,274	–	358,938	–	(25,940)	**332,998**	1 October 2011	31 March 2012
17 July 2008	1,274	–	681,826	–	(37,078)	**644,748**	1 October 2013	31 March 2014
		4,746,816	**1,040,764**	**(1,141,666)**	**(258,764)**	**4,387,150**		

As at 31 March 2008

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Outstanding at end of year	Date from which exercisable	Expiry date
25 July 2003	562	3,169	–	(1,066)	(2,103)	–	1 October 2006	31 March 2007
25 July 2003	562	802,001	–	(5,235)	(10,225)	786,541	1 October 2008	31 March 2009
16 July 2004	622	292,442	–	(285,960)	(2,966)	3,516	1 October 2007	31 March 2008
16 July 2004	622	565,246	–	(1,867)	(15,576)	547,803	1 October 2009	31 March 2010
14 July 2005	886	377,722	–	(5,192)	(12,960)	359,570	1 October 2008	31 March 2009
14 July 2005	886	1,159,491	–	(458)	(31,812)	1,127,221	1 October 2010	31 March 2011
11 July 2006	999	416,848	–	(2,825)	(28,138)	385,885	1 October 2009	31 March 2010
11 July 2006	999	669,139	–	(341)	(36,189)	632,609	1 October 2011	31 March 2012
10 July 2007	1,306	–	316,861	(22)	(7,485)	309,354	1 October 2010	31 March 2011
10 July 2007	1,306	–	610,452	–	(16,135)	594,317	1 October 2012	31 March 2013
		4,286,058	927,313	(302,966)	(163,589)	4,746,816		

As share options are exercised continuously throughout the year, the weighted average share price during the period of 1,290p (2008 – 1,503p) is considered representative of the weighted average share price at the date of exercise. The weighted average share price of forfeitures is simply the option price to which the forfeit relates.

Company

As at 31 March 2009

Award Date	Option price (pence)	Outstanding at start of year	Granted	Exercised	**Outstanding at end of year**	Date from which exercisable	Expiry date
25 July 2003	562	1,700	–	(1,700)	**–**	1 October 2008	31 March 2009
16 July 2004	622	1,681	–	–	**1,681**	1 October 2009	31 March 2010
14 July 2005	886	3,655	–	–	**3,655**	1 October 2010	31 March 2011
10 July 2007	1,306	144	–	–	**144**	1 October 2010	31 March 2011
17 July 2008	1,274	–	442	–	**442**	1 October 2011	31 March 2012
		7,180	442	(1,700)	**5,922**		

As at 31 March 2008

Award Date	Option price (pence)	Outstanding at start of year	Granted	Outstanding at end of year	Date from which exercisable	Expiry date
25 July 2003	562	1,700	–	1,700	1 October 2008	31 March 2009
16 July 2004	622	1,681	–	1,681	1 October 2009	31 March 2010
14 July 2005	886	3,655	–	3,655	1 October 2010	31 March 2011
10 July 2007	1,306	–	144	144	1 October 2010	31 March 2011
		7,036	144	7,180		

No options were forfeited in the year. Of the outstanding options at the end of the year, none were exercisable.

The fair-value of these share options at the measurement date, calculated using the Black-Scholes model, and the assumptions made in that model are as follows:

	July 2003		July 2004		July 2005		July 2006		July 2007		July 2008	
	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year
Fair-value of option	97p	105p	108p	117p	126p	137p	217p	227p	287p	313p	304p	339p
Expected volatility	17%	17%	17%	17%	15%	15%	19%	19%	25%	25%	28%	28%
Risk free rate	4.7%	4.8%	4.7%	4.8%	4.1%	4.2%	4.7%	4.7%	5.8%	5.7%	4.9%	5.0%
Expected dividends	4.6%	4.6%	4.6%	4.6%	4.2%	4.2%	4.8%	4.8%	5.3%	5.2%	4.1%	4.2%
Term of the option	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Underlying price at grant date	630p	630p	699p	699p	967p	967p	1,180p	1,180p	1,460p	1,460p	1,397p	1,397p
Strike price	562p	562p	622p	622p	886p	886p	999p	999p	1,306p	1,306p	1,274p	1,274p

Expected price volatility was determined by calculating the historical volatility of the Group's share price over the previous 12 months.

(ii) Share Incentive Plan

Matching Shares

	Consolidated				Company			
	2009		2008		**2009**		2008	
	Shares	**Weighted average price (pence)**	Shares	Weighted average price (pence)	**Shares**	**Weighted average price (pence)**	Shares	Weighted average price (pence)
Outstanding at start of year	**994,453**	**1,170**	750,971	1,034	**1,180**	**1,071**	940	959
Granted during the year	**397,958**	**1,260**	287,023	1,506	**260**	**1,260**	240	1,507
Forfeited during the year	**(103,503)**	**887**	(26,235)	1,211	**(140)**	**887**	–	–
Exercised during the year	**(28,532)**	**1,290**	(17,306)	1,503	**–**	**–**	–	–
Outstanding at end of year	**1,260,376**	**1,248**	994,453	1,170	**1,300**	**1,129**	1,180	1,071
Exercisable at end of year	**334,530**	**1,238**	204,167	747	**560**	**817**	480	747

As shares are exercised continuously throughout the year, the weighted average share price during the period of 1,290p (2008 – 1,503p) is considered representative of the weighted average share price at the date of exercise.

The fair-value of shares in the share incentive plan is not subject to valuation using the Black-Scholes model. However, the fair-value of shares granted in the year is equal to the weighted average price and is based on the price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

Notes on the Financial Statements (continued)
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28. EMPLOYEE SHARE-BASED PAYMENTS (continued)

Free shares

	Consolidated				Company			
	2009		2008		**2009**		2008	
	Shares	**Weighted average price (pence)**	Shares	Weighted average price (pence)	**Shares**	**Weighted average price (pence)**	Shares	Weighted average price (pence)
Outstanding at start of year	**648,230**	**1,161**	433,300	965	**280**	**1,113**	200	965
Granted during the year	**151,440**	**1,417**	245,020	1,484	**40**	**1,417**	80	1,484
Forfeited during the year	**(23,360)**	**1,161**	(22,860)	1,182	**–**	**–**	–	–
Exercised during the year	**(50,581)**	**1,290**	(7,230)	1,503	**–**	**–**	–	–
Outstanding at end of year	**725,729**	**1,205**	648,230	1,161	**320**	**1,151**	280	1,113
Exercisable at end of year	**362,567**	**965**	–	–	**200**	**965**	–	–

As shares are exercised continuously throughout the year, the weighted average share price during the period of 1,290p (2008 – 1,503p) is considered representative of the weighted average share price at the date of exercise.

The fair-value of these shares is not subject to valuation using the Black-Scholes model. However, the fair-value of shares granted in the year is equal to the weighted average price and is based on the price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

(iii) Deferred bonus scheme

	Consolidated				Company			
	2009		2008		**2009**		2008	
	Shares	**Weighted average price (pence)**	Shares	Weighted average price (pence)	**Shares**	**Weighted average price (pence)**	Shares	Weighted average price (pence)
Outstanding at start of year	**574,484**	**1,273**	600,030	976	**316,349**	**984**	340,970	924
Granted during the year	**167,802**	**1,545**	118,276	1,455	**27,752**	**1,545**	33,666	1,455
Forfeited during the year	**(3,715)**	**1,273**	(2,189)	1,220	**–**	**–**	–	–
Exercised during the year	**(126,096)**	**1,386**	(141,633)	1,452	**(52,493)**	**1,401**	(58,287)	1,434
Outstanding at end of year	**612,475**	**1,324**	574,484	1,273	**291,608**	**961**	316,349	984
Exercisable at end of year	**205,434**	**789**	105,330	665	**104,041**	**789**	72,635	665

The fair-value of the deferred bonus shares is not subject to valuation using the Black-Scholes model. However, the fair-value of shares granted in the year is equal to the weighted average price and is based on the price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

(iv) Performance Share Plan

	Consolidated				Company			
	2009		2008		**2009**		2008	
	Shares	**Weighted average price (pence)**	Shares	Weighted average price (pence)	**Shares**	**Weighted average price (pence)**	Shares	Weighted average price (pence)
Outstanding at start of year	**630,567**	**1,347**	256,554	1,220	**367,877**	**1,345**	151,351	1,220
Granted during the year	**504,456**	**1,545**	374,013	1,434	**225,245**	**1,545**	216,526	1,434
Outstanding at end of year	**1,135,023**	**1,435**	630,567	1,347	**593,122**	**1,421**	367,877	1,345

Of the outstanding options at the end of the year, none were exercisable.

The fair-value of the performance share plan shares is not subject to valuation using the Black-Scholes model. The fair-value of shares granted in the year is equal to closing market price on the date of grant.

29. FINANCIAL INSTRUMENTS AND RISK

This note presents information about the fair-value of the Group's financial instruments, the Group's exposure to the risks associated with those instruments, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further qualitative disclosures are included throughout these consolidated financial statements.

The Group has exposure to the following risks from its use of financial instruments:

(i) Credit risk
(ii) Liquidity risk and Going Concern
(iii) Commodity risk
(iv) Currency risk
(v) Interest rate risk

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board established the Risk and Trading Committee, a standing committee of the Board comprising three executive directors and senior managers from the Generation and Supply and Finance functions, to oversee the control of these activities. This committee is discussed further in the Directors Report.

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

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

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

Before detailing the relevant qualitative and quantitative disclosures in relation to the potential risks faced by the Group, details on the different categories of financial instrument and the carrying and fair-values of each of those categories is provided below.

A. CATEGORIES OF FINANCIAL INSTRUMENTS AND FAIR-VALUES OF THOSE ASSETS AND LIABILITIES

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

	2009 Amortised cost or other (i) £m	2009 Designated at fair-value (ii) £m	2009 Total carrying value £m	2009 Fair-value £m	2008 Amortised cost or other (i) £m	2008 Designated at fair-value (ii) £m	2008 Total Carrying value £m	2008 Fair-value £m
Financial assets								
Current								
Trade receivables	3,333.3	–	3,333.3	3,333.3	2,042.2	–	2,042.2	2,042.2
Other receivables	481.7	–	481.7	481.7	170.4	–	170.4	170.4
Cash collateral	86.9	–	86.9	86.9	5.6	–	5.6	5.6
Cash and cash equivalents	295.9	–	295.9	295.9	255.3	–	255.3	255.3
Derivative financial assets	–	1,537.7	1,537.7	1,537.7	–	1,106.5	1,106.5	1,106.5
	4,197.8	1,537.7	5,735.5	5,735.5	2,473.5	1,106.5	3,580.0	3,580.0
Non-current								
Derivative financial assets	–	449.2	449.2	449.2	–	318.9	318.9	318.9
	4,197.8	1,986.9	6,184.7	6,184.7	2,473.5	1,425.4	3,898.9	3,898.9
Financial Liabilities								
Current								
Trade payables	(2,603.6)	–	(2,603.6)	(2,603.6)	(1,849.0)	–	(1,849.0)	(1,849.0)
Bank loans and overdrafts	(1,060.0)	–	(1,060.0)	(1,068.9)	(1,847.5)	–	(1,847.5)	(1,848.7)
Derivative financial liabilities	–	(2,451.0)	(2,451.0)	(2,451.0)	–	(1,229.4)	(1,229.4)	(1,229.4)
	(3,663.6)	(2,451.0)	(6,114.6)	(6,123.5)	(3,696.5)	(1,229.4)	(4,925.9)	(4,927.1)
Non-current								
Loans and Borrowings (iii)	(4,369.1)	33.4	(4,335.7)	(4,472.6)	(2,073.1)	–	(2,073.1)	(2,041.9)
Derivative financial liabilities	–	(959.5)	(959.5)	(959.5)	–	(313.3)	(313.3)	(313.3)
	(4,369.1)	(926.1)	(5,295.2)	(5,432.1)	(2,073.1)	(313.3)	(2,386.4)	(2,355.2)
	(8,032.7)	(3,377.1)	(11,409.8)	(11,555.6)	(5,769.6)	(1,542.7)	(7,312.3)	(7,282.3)
Net financial liabilities	(3,834.9)	(1,390.2)	(5,225.1)	(5,370.9)	(3,296.1)	(117.3)	(3,413.4)	(3,383.4)

(i) Recorded at amortised cost or loans and receivables.
(ii) IAS 39 financial instruments.
(iii) Includes non-recourse borrowings.

Notes on the Financial Statements (continued)
for the year ended 31 March

A. CATEGORIES OF FINANCIAL INSTRUMENTS AND FAIR-VALUES OF THOSE ASSETS AND LIABILITIES (continued)

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

	2009 Amortised cost or other (i) £m	2009 Designated at fair-value (ii) £m	2009 Total carrying value £m	2009 Fair-value £m	2008 Amortised cost or other (i) £m	2008 Designated at fair-value (ii) £m	2008 Total carrying value £m	2008 Fair-value £m
Financial assets								
Current								
Cash and cash equivalents	**135.1**	**–**	**135.1**	**135.1**	104.2	–	104.2	104.2
Amounts owed by subsidiary undertakings	**3,052.7**	**–**	**3,052.7**	**3,052.7**	2,328.5	–	2,328.5	2,328.5
Derivative financial assets	**–**	**178.1**	**178.1**	**178.1**	–	1.1	1.1	1.1
	3,187.8	**178.1**	**3,365.9**	**3,365.9**	2,432.7	1.1	2,433.8	2,433.8
Non-current								
Amounts owed by subsidiary undertakings	**2,066.9**	**–**	**2,066.9**	**2,066.9**	1,772.7	–	1,772.7	1,772.7
	5,254.7	**178.1**	**5,432.8**	**5,432.8**	4,205.4	1.1	4,206.5	4,206.5
Financial Liabilities								
Current								
Bank loans and overdrafts	**(900.8)**	**–**	**(900.8)**	**(900.8)**	–	–	–	–
Convertible bond	**(15.6)**	**–**	**(15.6)**	**(19.6)**	–	–	–	–
Amounts owed to subsidiary undertakings	**(2,517.2)**	**–**	**(2,517.2)**	**(2,517.2)**	(3,526.7)	–	(3,526.7)	(3,526.7)
Derivative financial liabilities	**–**	**(130.8)**	**(130.8)**	**(130.8)**	–	–	–	–
	(3,433.6)	**(130.8)**	**(3,564.4)**	**(3,568.4)**	(3,526.7)	–	(3,526.7)	(3,526.7)
Non-current								
Loans and borrowings	**(2,661.7)**	**33.4**	**(2,628.3)**	**(2,841.5)**	(372.4)	–	(372.4)	(414.1)
Amounts owed to subsidiary undertakings	**(240.2)**	**–**	**(240.2)**	**(240.2)**	(240.2)	–	(240.2)	(240.2)
	(2,901.9)	**33.4**	**(2,868.5)**	**(3,081.7)**	(612.6)	–	(612.6)	(654.3)
	(6,335.5)	**(97.4)**	**(6,432.9)**	**(6,650.1)**	(4,139.3)	–	(4,139.3)	(4,181.0)
Net financial (liabilities)/asset	**(1,080.8)**	**80.7**	**(1,000.1)**	**(1,217.3)**	66.1	1.1	67.2	25.5

(i) Recorded at amortised cost or loans and receivables.
(ii) IAS 39 financial instruments.

Basis of determining fair-value
Certain assets and liabilities designated and carried at amortised cost are loans and receivables. For certain current assets and liabilities their carrying value is equivalent to fair-value due to short term maturity.

Assets and liabilities designated at fair-value and the fair-value of other financial assets and liabilities have been determined by reference to closing rate market values. This basis has been used in valuing interest rate instruments, foreign currency hedge contracts and denominated long-term fixed rate debt. Commodity contracts fair-values are based on published price quotations.

The fair-values are stated at a specific date and may be different from the amounts which will actually be paid or received on settlement of the instruments. The fair-value of items such as property, plant and equipment, internally generated brands or the Group's customer base are not included as these are not financial instruments.

B. RISKS FROM USE OF FINANCIAL INSTRUMENTS

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations.

Credit risk arising from the Group's normal commercial operations is controlled by individual business units operating in accordance with Group policies and procedures. Generally, for significant contracts, individual business units enter into contracts or agreements with counterparties having investment grade credit ratings only, or where suitable collateral or other security has been provided. Counterparty credit validation is undertaken prior to contractual commitment.

Credit risk management for the Group's regulated businesses is performed in accordance with industry standards as set out by the Regulator and is controlled by the individual business units. The Group's greatest credit risks lie with the non-regulated operations of the Generation and Supply business and the activities carried out by the Group's Treasury function, for which specific credit risk controls that match the risk profile of those activities are applied.

Exposure to credit risk in the supply of electricity and gas arises from the potential of a customer defaulting on their invoiced payables. The financial strength and creditworthiness of business customers is assessed prior to commencing, and for the duration of, their contract of supply. Domestic customers' creditworthiness is reviewed from a variety of internal and external information.

Exposure to credit risk in the procurement of wholesale energy and fuel is managed by reference to agreed transaction credit limits which are determined by whether the counterparty:

(i) holds an investment grade credit rating; or

(ii) can be assessed as adequately creditworthy in accordance with internal credit rules using information from other external credit agencies; or

(iii) can provide a guarantee from an investment grade rated entity or post suitable collateral or provide other acceptable assurances in accordance with group procedures where they have failed to meet the above conditions; or

(iv) can be allocated a non-standard credit limit approved by the Risk Committee within its authorised limits as delegated by the Group Board.

Credit support clauses or side agreements are typically included or entered into to protect the Group against counterparty failure or non-delivery. Within the Generation and Supply business, increasing volumes of commodity derivative products are now traded through cleared exchanges to further mitigate credit risk. Such exchanges are subject to strict regulation by the UK Financial Services Authority (FSA) and participants in these exchanges are obliged to meet rigorous capital adequacy requirements.

Individual counterparty credit exposures are monitored by category of credit risk and are subject to approved limits. At 31 March 2009, the Group's Generation and Supply business had pledged £221m (2008 – £135m) of cash collateral and letters of credit and had received £28m (2008 – £74m) of cash collateral and letters of credit principally to reduce exposures on commodity price risk.

Bank credit exposures, which are monitored and reported on daily, are calculated on a mark-to-market basis and adjusted for future volatility and probability of default. Any issues relating to these credit exposures are presented for discussion and review by the Risk Committee.

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to cash. These are subject to insignificant risk of change in value or credit risk. Derivative financial instruments are entered into to cover the Group's market risks – commodity risk, interest rate risk, currency risk – and are consequently covered elsewhere in this note.

Trade receivables represent the most significant exposure to credit risk and are stated net of collateral held, letters of credit or other credit enhancements. The trade receivables total includes an allowance for impairment.

Notes on the Financial Statements (continued)
for the year ended 31 March

B. RISKS FROM USE OF FINANCIAL INSTRUMENTS (continued)

Concentrations of risk
Trade receivables recorded by reported segment held at the 31 March were:

	2009 £m	2008 £m
Power Systems		
Scotland	**20.0**	18.6
England	**35.6**	19.7
	55.6	38.3
Generation and Supply		
Retail customers	**994.6**	554.0
Wholesale and trading receivables	**1,978.0**	1,165.6
Other	**113.5**	74.7
Other businesses	**191.6**	209.6
	3,333.3	2,042.2

The Generation and Supply segment accounts for 92.6% (2008 – 87.9%) of the Group's trade receivables. Trade receivables associated with the Group's 9.05 million electricity and gas customers are recorded in this segment. The Group also has significant receivables associated with its wholesale and trading activities which are generally settled within 2 to 4 weeks from invoicing. The Group's exposure to credit risk is therefore subject to diversification with no exposure to individual customers totalling >10% of trade receivables. The Group's biggest customer balance, due from a wholesale electricity customer, is less than 6% (2008 – 5%) of the total.

The ageing of trade receivables at the reporting date was:

	2009 £m	2008 £m
Not past due	**3,008.1**	1,873.8
Past due but not individually impaired:		
0-30 days	**192.6**	106.0
31-90 days	**96.0**	61.6
Over 90 days	**163.3**	116.5
	3,460.0	2,157.9
Less: allowance for impairment	**(126.7)**	(115.7)
Net trade receivables	**3,333.3**	2,042.2

The Group has past due debt which has not had an impairment allowance set aside to cover potential credit losses. The Group has procedures to pursue customers in significant arrears and believes its impairment policy in relation to such balances is appropriate. Those debts which are neither past due nor impaired are expected to be recoverable.

The Group has other receivables which are financial assets totalling £481.7m (2008 – £176.0m). The Company does not have trade receivables.

The movement in the allowance for impairment of trade receivables was:

	2009 £m	2008 £m
Balance at 1 April	**115.7**	85.3
Increase in allowance for impairment	**35.2**	69.5
Impairment losses recognised	**(39.9)**	(50.2)
Recovery of impairment loss previously recognised	**15.7**	8.6
Acquired allowance	**–**	2.5
Balance at 31 March	**126.7**	115.7

At the end of each reporting period a review of the provision for bad and doubtful debts is performed. It is an assessment of the potential amount of trade receivables which will not be paid by customers after the balance sheet date. This amount is calculated by reference to the age, status and risk of each receivable.

(ii) Liquidity risk and Going Concern

Liquidity risk, the risk that the Group will have insufficient funds to meet its liabilities, is managed by the Group's Treasury function. The Group can have significant movements in its liquidity position due to movements in commodity prices, working capital requirements, the seasonal nature of the business and phasing of its capital expenditure programme.

Treasury is responsible for managing the banking and liquidity requirements of the Group, risk management relating to interest rate and foreign exchange exposures, and for managing the credit risk relating to the banking counterparties with which it transacts. Short term liquidity is reviewed daily by Treasury. The department's operations are governed by policies determined by the Board and any breaches of these policies are reported to the Risk Committee and Audit Committee. The longer term liquidity position is reviewed on a regular basis by the Board.

In relation to the Group's liquidity risk, the Group's policy is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Group's approach to managing liquidity is to seek to ensure that the Group has available committed borrowings and facilities equal to at least 105% of forecast borrowings over a rolling 12 month period. However due to the level of debt refinancing combined with the deteriorating conditions in the capital and banking markets during the latter half of 2008, the Group decided to temporarily relax this test and focus on a shorter rolling period. The Directors consider this to be an acceptable funding policy taking into account the carrying cost of long term debt compared to short term debt.

The Group uses a cash flow forecast to monitor its ongoing borrowing requirements. Typically, the Group will fund any short term borrowing positions by issuing commercial paper or borrowing from uncommitted bank lines and will invest in money market funds when it has a cash surplus. In addition to the borrowing facilities listed at note 21, the Group has £75m of uncommitted bank lines and a £20m overdraft facility.

On 3 April the Group entered into a new £850m revolving credit facility which will mature in June 2012. A further £150m of bilateral facilities have been agreed and approved subject to documentation, and these will also mature in June 2012. At the time of signing the accounts, these facilities were undrawn.

Under the going concern principle, the Group expects to issue medium to long term debt during the year ended 31 March 2010. In addition, liquidity in the commercial paper market and the availability of undrawn committed bank facilities has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern. In coming to this conclusion the Directors have taken into account the successful issuance of £2.4bn of medium to long term debt during the year ended 31 March 2009, the Group's credit rating, the successful renewal and increase of committed bank facilities and current market conditions. The statement of going concern is included in the Directors' Corporate Governance report on page 61.

Treasury also manage the Group's interaction with its relationship banks (defined as those banks that support the company's financing activities through their ongoing participation in the committed lending facilities that are maintained by the Group). These are each allocated financial limits, subject to the maintenance of a minimum credit rating of 'A' or equivalent allocated by a recognised major ratings group. In respect of short-term cash management, counterparties are subject to review and approval according to defined criteria.

High volatility in commodity prices during the year has resulted in substantially increased cash amounts being posted in respect of mark-to-market related margin calls on exchange traded positions. As at 31 March 2009, the value of outstanding cash collateral posted totalled £86.9m (2008 – £5.6m), representing a net cash outflow during the year of £81.3m.

The contractual cash flows shown in the following tables are the contractual undiscounted cashflows under the relevant financial instruments. Where the contractual cashflows are variable based on a price, foreign exchange rate or index in the future, the contractual cashflows in the following tables have been determined with reference to the relevant price, foreign exchange rate, interest rate or index as at the balance sheet date. In determining the interest element of contractual cashflows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cashflows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the amounts in the following tables are on the assumption the holder redeems at the earliest opportunity.

The numbers in the following tables have been included in the Group's cash flow forecasts for the purposes of considering Liquidity Risks as noted above.

Notes on the Financial Statements (continued)
for the year ended 31 March

B. RISKS FROM USE OF FINANCIAL INSTRUMENTS (continued)

The following are the contractual liabilities of financial liabilities excluding the impact of netting agreements.

Liquidity risk

	2009 Carrying value £m	2009 Contractual cash flows £m	2009 0-12 months £m	2009 1-2 years £m	2009 2-5 years £m	2009 > 5 years £m	2008 Carrying value £m	2008 Contractual cash flows £m	2008 0-12 months £m	2008 1-2 years £m	2008 2-5 years £m	2008 > 5 years £m
Financial liabilities												
Loans and borrowings												
Bank overdrafts	2.3	(2.3)	(2.3)	–	–	–	12.2	(12.2)	(12.2)	–	–	–
Commercial paper and cash advances	900.8	(904.2)	(904.2)	–	–	–	1,696.3	(1,706.7)	(1,706.7)	–	–	–
Bank loans – floating	220.0	(238.1)	(5.9)	(74.3)	(132.7)	(25.2)	150.0	(187.8)	(7.8)	(7.5)	(145.9)	(26.6)
Bank loans – fixed	520.0	(622.9)	(117.8)	(57.4)	(447.7)	–	270.2	(331.0)	(39.0)	(39.3)	(173.0)	(79.7)
Unsecured bonds – fixed	3,263.7	(6,780.4)	(195.8)	(195.9)	(1,843.7)	(4,545.0)	1,073.6	(2,755.0)	(53.4)	(53.4)	(160.6)	(2,487.6)
Convertible bond	15.6	(16.5)	(16.5)	–	–	–	76.3	(83.7)	(3.0)	(80.7)	–	–
Non-recourse funding	506.7	(689.8)	(74.5)	(56.0)	(154.2)	(405.1)	99. 1	(99.0)	(8.6)	(8.8)	(30.5)	(51.1)
Airtricity debt	–	–	–	–	–	–	542.9	(726.6)	(145.9)	(214.7)	(117.9)	(248.1)
Fair-value adjustment	(33.4)	–	–	–	–	–	–	–	–	–	–	–
	5,395.7	(9,254.2)	(1,317.0)	(383.6)	(2,578.3)	(4,975.3)	3,920.6	(5,902.0)	(1,976.6)	(404.4)	(627.9)	(2,893.1)
Finance lease obligations	0.5	(0.8)	(0.1)	(0.1)	(0.3)	(0.3)	0.6	(0.6)	(0.2)	(0.2)	(0.2)	–
	5,396.2	(9,255.0)	(1,317.1)	(383.7)	(2,578.6)	(4,975.6)	3,921.2	(5,902.6)	(1,976.8)	(404.6)	(628.1)	(2,893.1)
Derivative financial liabilities												
Operating derivatives designated at fair-value	3,218.4	(2,892.4)	(2,497.0)	(158.3)	(226.0)	(11.1)	1,492.3	3,478.0	2,881.2	496.8	78.0	22.0
Interest rate swaps used for hedging	79.3	(79.3)	(16.1)	(13.1)	(31.1)	(19.0)	12.8	(12.8)	(3.8)	(3.7)	(4.2)	(1.1)
Interest rate swaps designated at fair-value	112.3	(112.3)	(5.3)	(5.3)	(14.3)	(87.4)	24.4	(24.4)	(1.3)	(1.3)	(3.8)	(18.0)
Forward exchange contracts held for hedging	0.3	(21.9)	(20.6)	(0.6)	(0.7)	–	3.8	(88.8)	(58.4)	(21.6)	(8.8)	–
Forward exchange contracts designated at fair-value	0.2	(16.5)	(16.5)	–	–	–	9.4	(46.5)	(9.1)	(4.8)	(25.2)	(7.4)
	3,410.5	(3,122.4)	(2,555.5)	(177.3)	(272.1)	(117.5)	1,542.7	3,305.5	2,808.6	465.4	36.0	(4.5)
Other financial liabilities												
Trade payables	2,603.6	(2,603.6)	(2,603.6)	–	–	–	1,849.0	(1,849.0)	(1,849.0)	–	–	–
	2,603.6	(2,603.6)	(2,603.6)	–	–	–	1,849.0	(1,849.0)	(1,849.0)	–	–	–
Total	11,410.3	(14,981.0)	(6,476.2)	(561.0)	(2,850.7)	(5,093.1)	7,312.9	(4,446.1)	(1,017.2)	60.8	(592.1)	(2,897.6)
Derivative financial assets												
Financing derivatives	(178.1)	(550.6)	(447.3)	(24.4)	(45.6)	(33.3)	(35.6)	(197.3)	(104.8)	(27.6)	(25.4)	(39.5)
Operating derivatives designated at fair-value	(1,808.8)	(1,394.0)	(371.8)	(833.9)	(181.8)	(6.5)	(1,389.8)	(3,957.9)	(3,245.7)	(497.3)	(211.0)	(3.9)
	(1,986.9)	(1,944.6)	(819.1)	(858.3)	(227.4)	(39.8)	(1,425.4)	(4,155.2)	(3,350.5)	(524.9)	(236.4)	(43.4)
Net total (i)	9,423.4	(16,925.6)	(7,295.3)	(1,419.3)	(3,078.1)	(5,132.9)	5,887.5	(8,601.3)	(4,367.7)	(464.1)	(828.5)	(2,941.0)

(i) The Group believes the liquidity risk associated with out-of-the-money operating derivative contracts needs to be considered in conjunction with the profile of payments or receipts arising from derivative financial assets. It should be noted that cash flows associated with future energy sales and commodity contracts which are not IAS 39 financial instruments are not included in this analysis, which is prepared in accordance with IFRS 7.

The Company has the following liquidity maturity profile:

Liquidity risk

	2009 Carrying value £m	2009 Contractual cash flows £m	2009 0-12 months £m	2009 1-2 years £m	2009 2-5 years £m	2009 > 5 years £m	2008 Carrying value £m	2008 Contractual cash flows £m	2008 0-12 months £m	2008 1-2 years £m	2008 2-5 years £m	2008 > 5 years £m
Financial liabilities												
Loans and borrowings												
Commercial paper and cash advances	**900.8**	**(904.2)**	**(904.2)**	**–**	**–**	**–**	1,696.3	(1,706.7)	(1,706.7)	–	–	–
Bank loans – floating	**70.0**	**(72.3)**	**(1.9)**	**(70.4)**	**–**	**–**	–	–	–	–	–	–
Bank loans – fixed	**210.0**	**(264.8)**	**(12.5)**	**(12.5)**	**(239.8)**	**–**	–	–	–	–	–	–
Unsecured bonds – fixed	**2,381.7**	**(4,516.8)**	**(155.6)**	**(155.6)**	**(1,722.0)**	**(2,483.6)**	296.1	(564.4)	(17.6)	(17.6)	(52.9)	(476.3)
Convertible bond	**15.6**	**(16.5)**	**(16.5)**	**–**	**–**	**–**	76.3	(83.7)	(3.0)	(80.7)	–	–
Fair-value adjustment	**(33.4)**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
	3,544,7	**(5,774.6)**	**(1,090.7)**	**(238.5)**	**(1,961.8)**	**(2,483.6)**	2,068.7	(2,354.8)	(1,727.3)	(98.3)	(52.9)	(476.3)
Derivative financial liabilities												
Interest rate swaps used for hedging	**33.4**	**(33.4)**	**(7.4)**	**(7.4)**	**(18.6)**	**–**	20.4	(20.4)	(1.0)	(1.0)	(3.0)	(15.4)
Interest rate swaps designated at fair-value	**96.8**	**(96.8)**	**(4.1)**	**(4.1)**	**(12.2)**	**(76.4)**	–	–	–	–	–	–
Forward exchange contracts held for hedging	**0.3**	**(21.9)**	**(20.6)**	**(0.6)**	**(0.7)**	**–**	(9.8)	(202.8)	(90.8)	(43.4)	(28.8)	(39.8)
Forward exchange contracts designated at fair-value	**0.3**	**(16.5)**	**(16.5)**	**–**	**–**	**–**	(11.7)	(130.8)	(82.1)	(10.6)	(30.7)	(7.4)
	130.8	**(168.6)**	**(48.6)**	**(12.1)**	**(31.5)**	**(76.4)**	(1.1)	(354.0)	(173.9)	(55.0)	(62.5)	(62.6)
Other financial liabilities												
Amounts due to subsidiary undertakings	**2,517.2**	**(2,517.2)**	**(2,517.2)**	**–**	**–**	**–**	3,526.7	(3,526.7)	(3,526.7)	–	–	–
	2,517.2	**(2,517.2)**	**(2,517.2)**	**–**	**–**	**–**	3,526.7	(3,526.7)	(3,526.7)	–	–	–
Total	**6,192.7**	**(8,460.4)**	**(3,656.5)**	**(250.6)**	**(1,993.3)**	**(2,560.0)**	5,594.3	(6,235.5)	(5,427.9)	(153.3)	(115.4)	(538.9)
Derivative financial assets												
Financing derivatives	**(178.1)**	**(550.6)**	**(447.3)**	**(24.4)**	**(45.6)**	**(33.3)**	–	–	–	–	–	–
Net total	**6,014.6**	**(9,011.0)**	**(4,103.8)**	**(275.0)**	**(2,038.9)**	**(2,593.3)**	5,594.3	(6,235.5)	(5,427.9)	(153.3)	(115.4)	(538.9)

(iii) Commodity risk

The Group's Generation and Supply business faces exposure to energy commodity price movements and also to physical commodity volume requirements as part of its normal course of business. This arises from the Group's requirement to source gas or electricity to supply customers, or to procure fuel to produce electricity from its generation assets.

The Group's strategy is to manage all exposures to commodity risk through volumetric limits and to measure the exposure by use of a Value at Risk (VaR) model. The exposure is subject to financial limits established by the Board and managed by the Risk and Trading Committee and is reported to the Committee on a monthly basis and to the Board when certain trigger levels are exceeded. Within this approach, only certain of the Group's energy commodity contracts are deemed to constitute financial instruments under IAS 39. As a result, while the Group manages the commodity price risk associated with both financial and non-financial commodity contracts, it is only the fair-value of IAS 39 financial instruments which represents the exposure of the Group's commodity price risk under IFRS 7. This is a consequence of the accounting policy which requires that commodity contracts which are designated as financial instruments under IAS 39 should be accounted for on a fair-value basis with changes in fair-value reflected in profit or equity. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts. As fair-value changes in own use contracts are not reflected through profit or equity, these do not represent the IFRS 7 commodity price risk. Therefore, as the overall Group VaR associated with the Generation and Supply business is monitored for internal risk management purposes and is outside the scope of IAS 39, these measures are not required to comply with IFRS 7.

Operationally, the economic risks associated with this exposure are managed through a selection of longer and shorter term contracts for commodities such as gas, electricity, coal and oil, and also the flexibility of the Group's fleet of generation assets.

Notes on the Financial Statements (continued)
for the year ended 31 March

B. RISKS FROM USE OF FINANCIAL INSTRUMENTS (continued)

Short-term exposures arise from the requirement to match volumes of procured gas, electricity and power station fuel with demand for gas and electricity by its customers, which can vary from expectations and result in a requirement to close the resulting positions at unfavourable prices. This aspect of commodity risk is managed through the ability to increase or decrease energy production either in the form of flexible purchase contracts or assets such as pumped storage generating plant, flexible hydro generating plant, standby oil plant and gas storage.

Longer-term exposures are managed through the Group's generation plant and longer term contracts (including forwards, futures contracts and other financial instruments). These, in turn, are used to reduce short-term market exposures.

Certain commodity contracts are entered into primarily for own use purposes to supply to existing customers or to fuel existing power stations. However, as noted, a number of these contracts do not qualify for own use treatment under IAS 39 and are subject to fair-value measurement through the income statement. In addition to this, the Group enters into certain contracts to manage commodity price and volume risk. These are also subject to fair-value measurement through the income statement. Finally, certain other physical contracts are treated as the hedging instrument in documented cash flow hedging relationships where the hedged item is the forecast future purchase requirement to meet production or customer demand. The accounting policies associated with such items are explained in note 1.

The consequential commodity risk which derives from these activities is quantified by the use of a Value at Risk (VaR) model which considers exposures in all commodities and provides an estimate of the potential change to the Groups forecast profits over a given period and to a given confidence level. The calculated financial risk is controlled through the imposition of a number of risk limits approved by the Board and monitored and managed by the Risk Committee. The Group's exposure to Commodity risk is reported to and monitored by the Risk Committee and to the Board by exception.

The Group's exposure to commodity price risk according to IFRS 7 is measured by reference to the Group's IAS 39 commodity contracts. IFRS 7 requires disclosure of a sensitivity analysis for market risks that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables impacting upon the fair-value or cash flows associated with the Group's financial instruments.

Therefore, the sensitivity analysis provided discloses the effect on profit or loss and equity at the balance sheet date assuming that a reasonably possible change in the relevant commodity price had occurred, and been applied to the risk exposures in existence at that date. The reasonably possible changes in commodity prices used in the sensitivity analysis were determined based on calculated or implied volatilities where available, or historical data.

The sensitivity analysis has been calculated on the basis that the proportion of commodity contracts that are IAS 39 financial instruments remains consistent with those at that point. Excluded from this analysis are all commodity contracts that are not financial instruments under IAS 39.

	2009		2008	
	Base Price (i)	Reasonably possible increase/decrease in variable	Base Price (i)	Reasonably possible increase/decrease in variable
Commodity prices				
UK gas (p/therm)	**59**	**+/-12**	63	+/-10
UK power (£/MWh)	**49**	**+/-10**	59	+/-7
UK coal (US$/tonne)	**83**	**+/-18**	121	+/-12
UK emissions (€/tonne)	**13**	**+/-4**	22	+/-4
UK oil (US$/bbl)	**62**	**+/-15**	100	+/-10

(i) The base price represents the average forward market price over the duration of the active market curve used to calculate the sensitivity analysis.

The impacts of reasonably possible changes in commodity prices on profit after taxation based on the rationale described are as follows:

	2009		2008	
	Impact on profit (£m)	Impact on equity (£m)	Impact on profit (£m)	Impact on equity (£m)
Incremental profit/(loss)				
Commodity prices combined – increase	**417.4**	**–**	(28.9)	(0.8)
Commodity prices combined – decrease	**(417.4)**	**–**	28.9	0.8

The sensitivity analysis provided is hypothetical and is based on the Group's commodity contracts under IAS 39. This analysis should be used with caution as the impacts disclosed are not necessarily indicative of the actual impacts that would be experienced. It should also be noted that these sensitivities are based on calculations which do not consider all interrelationships, consequences and effects of such a change in those prices.

(iv) Currency risk

The Group publishes its consolidated financial statements in sterling but also conducts business in foreign currencies. As a result, it is subject to foreign currency exchange risk arising from exchange rate movements which will be reflected in the Group's transaction costs or in the underlying foreign currency assets of its foreign operations.

The Group's policy is to use forward contracts, swaps and options to manage its exposures to foreign exchange risk. All such exposures are transactional in nature, and relate primarily to procurement contracts, commodity purchasing and related freight requirements, commodity hedging, long term plant servicing and maintenance agreements, and the purchase and sale of carbon emission certificates. The policy is to seek to hedge 100% of its currency requirements arising under all committed contracts excepting commodity hedge transactions, the requirements for which are significantly less predictable. The policy for these latter transactions is to assess the Group's requirements on a rolling basis and to enter into cover contracts as appropriate.

Following the acquisition last year of the Airtricity business, the Group has foreign operations with consequent currency exposure issues. The refinancing in the current financial year has sought to match the Group's net assets whose functional cash flows are denominated in euros, with borrowings held in euros. For net assets whose functional cash flows are in sterling, the Group has ensured sterling denominated borrowings are in place.

Significant exposures are reported to, and discussed by, the Risk and Trading Committee on an ongoing basis and additionally form part of the bi-annual Treasury report to the Audit Committee.

At the balance sheet date, the total nominal value of outstanding forward foreign exchange contracts that the Group has committed to is:

	2009 £m	2008 £m
Forward foreign exchange contracts	**1,286.1**	916.3

The Group's exposure to foreign currency risk was as follows:

	2009				2008			
	¥m	DKK (million)	€m	$m	¥m	DKK (million)	€m	$m
Loans and borrowings	28,000.0	–	1,092.0	97.5	–	–	1,115.0	100.0
Purchase and commodity contract commitments	–	181.3	673.6	1,906.3	–	241.2	203.6	1,936.6
Gross exposure	–	181.3	1,765.6	2,003.8	–	241.2	1,318.6	2,036.6
Forward exchange/swap contracts	28,000.0	181.3	333.9	967.5	–	241.2	202.4	1,458.9
Net exposure (in currency)	–	–	1,431.7	1,036.3	–	–	1,116.2	577.7
Net exposure (in £m)	–	–	1,324.7	724.7	–	–	888.1	290.8

This represents the net exposure to foreign currencies, reported in pounds sterling, and arising from all group activities. All sensitivity analysis has been prepared on the basis of the relative proportions of instruments in foreign currencies being consistent as at the balance sheet date. This includes only monetary assets and liabilities denominated in a currency other than sterling and excludes the translation of the net assets of foreign operations but not the corresponding impact of the net investment hedge.

The sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually changing. The calculations are based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the Group.

A 10% change in foreign currency exchange rates would have had the following impact on profit after taxation, based on the assumptions presented above:

	Equity		Income Statement	
	At 31 March 2009 £m	At 31 March 2008 £m	At 31 March 2009 £m	At 31 March 2008 £m
US Dollars	–	–	58.0	23.3
Euro	51.9	39.8	54.1	31.3
DKK	–	–	–	–
¥	–	–	–	–
	51.9	39.8	112.1	54.6

The impact of a decrease in rates would be an identical reduction in the annual charge. There is no impact on equity as the analysis relates to the Group's net exposure at the balance sheet date. Contracts qualifying for hedge accounting are, by definition, part of the Group's covered position.

(v) Interest rate risk

Interest rate risk derives from the Group's exposure to changes in the value of an asset or liability or future cash flows through changes in interest rates.

Notes on the Financial Statements (continued)
for the year ended 31 March

B. RISKS FROM USE OF FINANCIAL INSTRUMENTS (continued)

The Group's policy is to manage this risk by stipulating that a minimum of 50% of Group borrowings be subject to fixed rates of interest, either directly through the debt instruments themselves or through the use of derivative financial instruments. Such instruments include interest rate swaps and options, forward rate agreements and, in the case of debt raised in currencies other than sterling, cross currency swaps. These practices serve to reduce the volatility of the Group's financial performance.

Although interest rate derivatives are primarily used to hedge risk relating to current borrowings, under certain circumstances they may also be used to hedge future borrowings. Any such pre-hedging is unwound at the time of pricing the underlying debt, either through cash settlement on a net present value basis or by transacting offsetting trades. The floating rate borrowings mainly comprise commercial paper issued at interest rates of LIBOR plus a variable margin and cash advances from the European Investment Bank (EIB).

The impact of a change in interest rates is dependent on the specific details of the financial asset or liability in question. Changes in fixed rate financial assets and liabilities, which account for the majority of cash, loans and borrowings, are not measured at fair-value through the income statement. In addition to this, changes to fixed-to-floating hedging instruments which are recorded under cash flow hedge accounting also do not impact the income statement. Changes in variable rate instruments and hedging instruments and hedged items recorded under fair-value hedge accounting are recorded through the income statement. The exposure measured is therefore based on variable rate debt and instruments.

The net exposure to interest rates at the balance sheet date can be summarised thus:

	2009 Carrying amount £m	2008 Carrying amount £m
Interest bearing/earning assets and liabilities:		
– Fixed	**(4,735.9)**	(2,381.4)
– Floating	**(553.5)**	(1,320.4)
	(5,289.4)	(3,701.8)
Represented by:		
Cash and cash equivalents	**295.9**	255.3
Derivative financial liabilities	**(155.7)**	(35.9)
Loans and borrowings	**(5,429.1)**	(3,920.6)
Finance lease obligations	**(0.5)**	(0.6)
	(5,289.4)	(3,701.8)

Following from this, the table below represents the expected impact of a change in 100 basis points in short term interest rates at the reporting date in relation to equity and income statement. The analysis assumes that all other variables, in particular foreign currency rates, remain constant. An increase in exchange rates would be a change to either the income statement or equity. The assessment is based on a revision of the fair-value assumptions included in the calculated exposures in the previous table.

All sensitivity analysis has been prepared on the basis of the proportion of fixed to floating instruments being consistent as at the balance sheet date and is stated after the effect of taxation.

The sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually changing. The calculations are based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the Group.

	2009 £m	2008 £m
Income Statement	**6.1**	13.2
Equity	**–**	–
	6.1	13.2

The impact of a decrease in rates would be an identical reduction in the annual charge. There is no impact on equity as the analysis relates to the Group's net exposure at the balance sheet date. Contracts qualifying for hedge accounting are, by definition, part of the Group's net exposure.

(vi) Income statement disclosures

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

The net movement reflected in the Income Statement can be summarised thus:

	2009 £m	2008 £m
Operating derivatives		
Total result on operating derivatives (i)	**(3,964.8)**	135.7
Less: amounts settled (ii)	**2,673.1**	(323.5)
Movement in unrealised derivatives	**(1,291.7)**	(187.8)
Financing derivatives (and hedged items)		
Total result on financing derivatives (i)	**70.5**	(116.8)
Less: amounts settled (ii)	**(44.7)**	137.5
Movement in unrealised derivatives	**25.8**	20.7
Net income statement impact	**(1,265.9)**	(167.1)

(i) Total result on derivatives in the income statement represents the total amounts (charged) or credited to the income statement in respect of operating and financial derivatives.
(ii) Amounts settled in the year represent the result on derivatives transacted which have matured or been delivered and have been included within the total result on derivatives.

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

	2009 £m	2008 £m
Derivative financial assets		
Non-current	**449.2**	318.9
Current	**1,537.7**	1,106.5
	1,986.9	1,425.4
Derivative liabilities		
Non-current	**(926.1)**	(313.3)
Current	**(2,451.0)**	(1,229.4)
	(3,377.1)	(1,542.7)
Fair-value adjustment to hedge item (loans and borrowings) (note 22)	**(33.4)**	–
Total derivative liabilities	**(3,410.5)**	(1,542.7)
Net liability	**(1,423.6)**	(117.3)

(vii) Cash flow hedges

The Group designates contracts which qualify as hedges for accounting purposes either as cash flow hedges or fair-value hedges. Cash flow hedges are contracts entered into to hedge a forecast transaction or cash flow risk generally arising from a change in interest rates or foreign currency exchange rates and which meet the effectiveness criteria prescribed by IAS 39. The Group's accounting policy on cash flow hedges is explained in note 1.

The following table indicates the contractual maturities of the expected transactions and the qualifying cash flow hedges associated:

Cash flow hedges

	2009 Carrying amount £m	2009 Expected cash flows £m	2009 0-12 months £m	2009 1-2 years £m	2009 2-5 years £m	2009 > 5 years £m	2008 Carrying amount £m	2008 Expected cash flows £m	2008 0-12 months £m	2008 1-2 years £m	2008 2-5 years £m	2008 > 5 years £m
Interest rate swaps:												
Liabilities	**(10.0)**	**(10.0)**	**(4.2)**	**(2.6)**	**(3.2)**	**–**	(5.9)	(5.9)	(1.8)	(1.7)	(2.2)	(0.2)
Forward exchange contracts:												
Assets	**52.2**	**(556.3)**	**(489.1)**	**(10.9)**	**(23.0)**	**(33.3)**	13.1	(114.4)	(32.9)	(21.8)	(19.9)	(39.8)
Liabilities	**(0.3)**	**(21.9)**	**(20.6)**	**(0.6)**	**(0.7)**	**–**	(3.4)	(88.4)	(57.9)	(21.6)	(8.9)	–
	51.9	**(578.2)**	**(509.7)**	**(11.5)**	**(23.7)**	**(33.3)**	9.7	(202.8)	(90.8)	(43.4)	(28.8)	(39.8)

Net investment hedge

The Group's net investment hedge consists of debt issued in the same currency (€) as the net investment in Airtricity. The hedge compares the element of the net assets of Airtricity whose functional cash flows are denominated in € to the matching portion of the € borrowings held by the Group. This therefore provides protection against movements in foreign exchange rates.

Notes on the Financial Statements (continued)
for the year ended 31 March

B. RISKS FROM USE OF FINANCIAL INSTRUMENTS (continued)

Gains and losses in the hedge are recognised in equity (2009 – £142.9m, 2008 – £30.1m) and will be transferred to the income statement on disposal of the foreign operation. Gains and losses on any ineffective portion of the hedge are recognised immediately in the income statement (2009 – £nil, 2008 – £22.2m loss). The loss recognised in the income statement in the previous year was considered to be exceptional as the Group has ensured that operations within Airtricity whose functional cash flows are denominated in pounds sterling have been matched by pounds sterling denominated debt.

(viii) Capital management

The Board's policy is to maintain a strong balance sheet and credit rating so as to maintain investor, creditor and market confidence and to sustain future development of the business. Details of the capital management objectives, policies and procedures are included in the Financial Management section of the Business Statement of this report.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. The use of share buy-backs is the Group's benchmark for investment decisions and is utilised at times when management believe the Group's shares are undervalued. No share buy-backs were made during the year.

On 7 January 2009, the Group conducted a book-built, non-pre-emptive placing of 42.0 million new ordinary shares. The shares were placed at a price of £11.40 each which was within 1% of the average closing price of the shares in the preceding four weeks. Based on this price, the gross proceeds of the placing were £479.0m, representing approximately 4.8% of the Group's share capital. The shares carried the right to the interim dividend paid on 27 March 2009 and carry the right to subsequent dividends.

The placing of shares was one of a series of steps taken which reflects the Group's flexible and prudent approach to financing investment. It also enhanced the group's future options by providing additional sources of funding for appropriate investment and acquisition opportunities.

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 prudently within the current economic environment.

30. 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.

	2009 Sale of goods and services £m	2009 Purchase of goods and services £m	2009 Other transactions £m	2008 Sale of goods and services £m	2008 Purchase of goods and services £m	2008 Other transactions £m
Jointly controlled entities:						
Seabank Power Limited	**5.2**	**(82.4)**	**20.7**	19.5	(150.6)	27.0
PriDE (South East Regional Prime) Limited	**54.3**	**–**	**–**	39.2	–	–
Scotia Gas Networks Limited	**59.0**	**(134.7)**	**35.0**	56.0	(106.9)	35.3
Marchwood Power Limited	**–**	**–**	**104.6**	–	–	2.7
Greater Gabbard Offshore Winds Limited	**1.0**	**–**	**–**	–	–	–
Associates:						
Barking Power Limited	**0.7**	**(177.5)**	**(0.1)**	0.7	(85.0)	0.4
Derwent Co-generation Limited	**37.4**	**(94.6)**	**–**	22.0	(82.2)	–
Logan Energy Limited	**0.7**	**–**	**–**	–	–	–
Green Highland Renewables Limited	**0.2**	**–**	**–**	–	–	–

The transactions with Seabank Power Limited, Barking Power Limited and Derwent Co-generation Limited relate to the contracts for the provision of energy or the tolling of energy under power purchase arrangements. PriDE (South East Regional Prime) Limited operates a long-term contract with Defence Estates for management of MoD facilities in the South East of England. All operational activities are sub-contracted to the ventures partners including Southern Electric Contracting Limited. 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. Sales of goods to related parties were made at an arms length price. The transactions with Marchwood Power Limited relate to fees and loan interest.

During the year, the Group paid non-refundable advance deposits of £2.3m (2008 – £nil) to Onzo Limited (an associated Company).

The balances outstanding with related parties at 31 March were as follows:

Consolidated

	Amounts owed by related parties		Amounts owed to related parties	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Jointly controlled entities:				
Seabank Power Limited	**75.8**	82.9	**23.1**	57.0
PriDE (South East Regional Prime) Limited	**6.6**	–	**–**	0.4
Greater Gabbard Offshore Winds Limited	**0.2**	–	**–**	–
Scotia Gas Networks Limited	**305.2**	303.7	**0.3**	0.4
Marchwood Power Limited	**154.2**	60.7	**–**	–
Associates:				
Barking Power Limited	**0.1**	0.3	**17.7**	7.5
Derwent Co-generation Limited	**8.3**	0.1	**9.5**	9.5
Logan Energy Limited	**–**	–	**0.1**	–

The amounts outstanding are trading balances, are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties. Aggregate capital loans to jointly controlled entities and associates are shown in note 13.

During the year, the Company entered into the following transactions with its subsidiaries (note 14):

	2009 £m	2008 £m
Company		
Loans granted to subsidiaries	**330.0**	–
Loans repaid by subsidiaries	**25.0**	–
Interest charged to subsidiaries	**143.8**	124.1
Sale of goods	**–**	–
Purchase of goods	**–**	–
Balances outstanding at 31 March:		
Loan balances outstanding at the year end	**1,388.1**	1,083.1

Remuneration of key management personnel

The remuneration of the executive directors, who are the key management personnel of the Group, is set out below in aggregate.

	2009 £m	2008 £m
Short-term employment benefits	**3.5**	3.4

In addition, the key management personnel receive share based remuneration, details of which are found at note 28. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report. The key management personnel are employed by the Company.

Information regarding transactions with post-retirement benefit plans is included in note 27.

31. COMMITMENTS AND CONTINGENCIES

(i) Capital commitments

	2009 £m	2008 £m
Capital expenditure:		
Contracted for but not provided	**1,451.5**	534.7

(ii) Operating lease commitments

(a) Leases as lessee:

	2009 £m	2008 £m
Amount included in the income statement relating to the current year leasing arrangements		
Minimum lease payments – power purchase agreement	**198.9**	247.0
Other lease payments	**21.7**	21.9
	220.6	268.9

Notes on the Financial Statements (continued)
for the year ended 31 March

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2009 £m	2008 £m
Power purchase agreements		
Within one year	**221.0**	211.1
In second to fifth years inclusive	**483.5**	596.9
After five years	**278.2**	331.9
	982.7	1,139.9
Other leases		
Within one year	**23.1**	16.9
In second to fifth years inclusive	**32.3**	25.1
After five years	**87.0**	72.0
	142.4	114.0
Total		
Within one year	**244.1**	228.0
In second to fifth years inclusive	**515.8**	622.0
After five years	**365.2**	403.9
	1,125.1	1,253.9

The average power purchase agreement lease term is 5 years.

The obligations under power purchase agreements with various power generating companies are not deemed to qualify as finance leases under IAS 17.

(b) Leases as lessor:
The Group leases out two combined heat and power plants under finance leases. The future minimum lease payments under non-cancellable leases are as follows:

	2009 £m	2008 £m
Within one year	**0.3**	0.3
In second to fifth years inclusive	**1.0**	1.0
After five years	**0.5**	0.8
	1.8	2.1

During the year ended 31 March 2009 £0.3m was recognised as rental income in the income statement (2008 – £0.3m). Lease payments are straight line over the term of the lease. The Company has no operating lease commitments as either a lessee or a lessor.

(iii) Guarantees and indemnities
Scottish and Southern Energy plc has provided guarantees on behalf of subsidiary and associated undertakings as follows:

	2009 £m	2008 £m
Bank borrowing	**18.3**	34.9
Performance of contracts	**2,309.0**	588.7
Purchase of gas	**70.5**	120.5

Following the acquisition from Fluor International Limited of their 50% stake in Greater Gabbard Offshore Winds Limited in April 2008, the Company entered into guarantees in respect of 100% of the major contracts for this project which is reflected in the above guarantees. Following the sale of 50% to RWE npower renewables Limited in November 2008, the Company is now indemnified for 50% of these guarantees.

In addition, unlimited guarantees have been provided on behalf of subsidiary undertakings in relation to four contracts in respect of performance of work and any liabilities arising. Southern Electric Power Distribution plc and the Company have provided guarantees to the Southern Group of the ESPS in respect of the funding required by the scheme.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Shareholder Information

Company Website – www.scottish-southern.co.uk
The company's website contains a wide range of information including a dedicated Investor Centre section where shareholders can find more information about the services available to them, download forms, view and update their shareholding online, manage their portfolio and view share price and dividend histories and trading graphs.

Shareholder Services
Scottish and Southern Energy offers a number of services including:

- elect for eCommunications;
- telephone and internet share dealing services with ShareGift option;
- merge multiple share accounts; and
- dividend reinvestment plan.

Further information on these services and other services can be found on the company's website at www.scottish-southern.co.uk> investor centre>shareholder services.

Shareholder Enquiries
Shareholders can contact the registrar, Computershare Investor Services PLC (Computershare), by phoning the dedicated shareholder helpline on 0845 143 4005, or writing to them at: The Pavilions, Bridgwater Road, Bristol BS13 8FB.

Voting Electronically
The website and the Guidance Notes on the reverse of the Proxy Form contain information on how shareholders can appoint their proxy electronically. Online proxies can be checked and updated up until 12 noon on 21 July 2009 (48 hours prior to the AGM).

Share Price Information
The share price of Scottish and Southern Energy appears on www.scottish-southern.co.uk.
It also appears in the financial columns of the national press and on various broadcast interactive services.

Company Communications
Since 2000 companies have been able to communicate with shareholders electronically with regard to certain types of documentation. Provisions of the Companies Act 2006 (which came into force in January 2007) enable companies to use electronic communications with shareholders as the default position, so long as shareholders are informed of the options available to them with regard to the availability of shareholder documentation.

In March 2008 the company wrote to shareholders as part of a so-called 'Deemed Consent' mailing with details of the different means by which the company could inform them of the availability of shareholder documentation. These were notification of availability of documentation by means of (1) email alert (2) letter or (3) by the issue of the documentation in printed form.

As a result of this programme approximately 41,000 (of 370,000) shareholders chose option (1). A further 250,000 shareholders receive written notification of the electronic availability of shareholder communications (option 2).

In recognition of the reduced environmental impact arising from these forms of communication the company, on behalf of shareholders, has donated over £90,000 to the World Wildlife Fund's ('WWF') International Forest Programme since offering this alternative last year. At present around 80,000 shareholders receive a printed copy of the Annual Report.

eCommunications Programme
Shareholders who have not previously signed up to the Deemed Consent programme can sign up by visiting the website www.scottish-southern.co.uk/ecomms. Shareholders will be asked to provide their Shareholder Reference Number.

Benefits of eCommunication

- Shareholders will receive email notification of the availability of the half year results and have access to annual reports and company announcements.
- Shareholders can lodge their proxy appointments securely over the internet.
- A donation of £2 will be made to WWF's International Forest Programme.

Keep us Informed
Where delivery of an email fails, the company is required to recommence sending paper copies of documents. Shareholders can help avoid this by:

- keeping the company informed of changes to email addresses by visiting www.scottish-southern.co.uk/ecomms and following the instructions under 'address change'; and
- regularly clearing out email inboxes.

Multiple Share Accounts
If you receive more than one Annual Report mailing, this may be due to having more than one share account due to minor differences in name and address details. Shareholders can merge multiple share accounts by completing a Multiple Share Account Form. Shareholders can obtain a form by calling the registrar's dedicated shareholder helpline on 0845 143 4005.

A donation of £2 will be made to WWF's International Forest Programme for every merged share account.

Dividend Reinvestment Plan (DRP)
The DRP is a simple and cost effective way to build a shareholding in the company by using cash dividends to buy additional shares. Shareholders can join the DRP by downloading a Dividend Reinvestment Plan Mandate Form and Terms and Conditions from www.scottish-southern.co.uk>investor centre>shareholder services>dividend reinvestment or by telephoning the shareholder helpline on 0845 143 4005 to request a form.

Share Dealing Service
A telephone share dealing service has been arranged with Stocktrade which provides a simple way of buying or selling Scottish and Southern Energy plc ordinary shares. Full details can be obtained by telephoning 0845 601 0995 and quoting reference 'Low Co 33'.

Also, Computershare Investor Services PLC offer telephone and internet share dealing services to buy or sell SSE ordinary shares. Further details can be obtained from www.computershare.com/dealing/uk or by telephoning 0870 703 0084.

The value of shares can fall and shareholders may get back less than they invest. Shareholders should consult a professional adviser authorised under the Financial Services and Markets Act 2000 if they are in any doubt about the suitability of an investment.

Financial Calendar
Annual General Meeting
23 July 2009

Ex dividend date
19 August 2009

Record date
21 August 2009

Final dividend payable
25 September 2009

Half-year results announcement
11 November 2009

Shareholder Information (continued)

The Group's half-year results will be published on the company's website at www.scottish-southern.co.uk on 11 November 2009 and will detail ex dividend and record dates for the interim dividend payable in March 2010. Paper copies of the half-year results are not distributed to individual shareholders, although shareholders who have elected for eCommunications do receive notification of the half-year results on the company's website.

Copy Reports

Copies of the Annual Report and Accounts 2009 can be obtained, free of charge, from the Company Secretary, Scottish and Southern Energy plc, Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ or by accessing the company's website at www.scottish-southern.co.uk.

The company's Corporate Responsibility Report 2009 can be viewed at www.scottish-southern.co.uk.

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