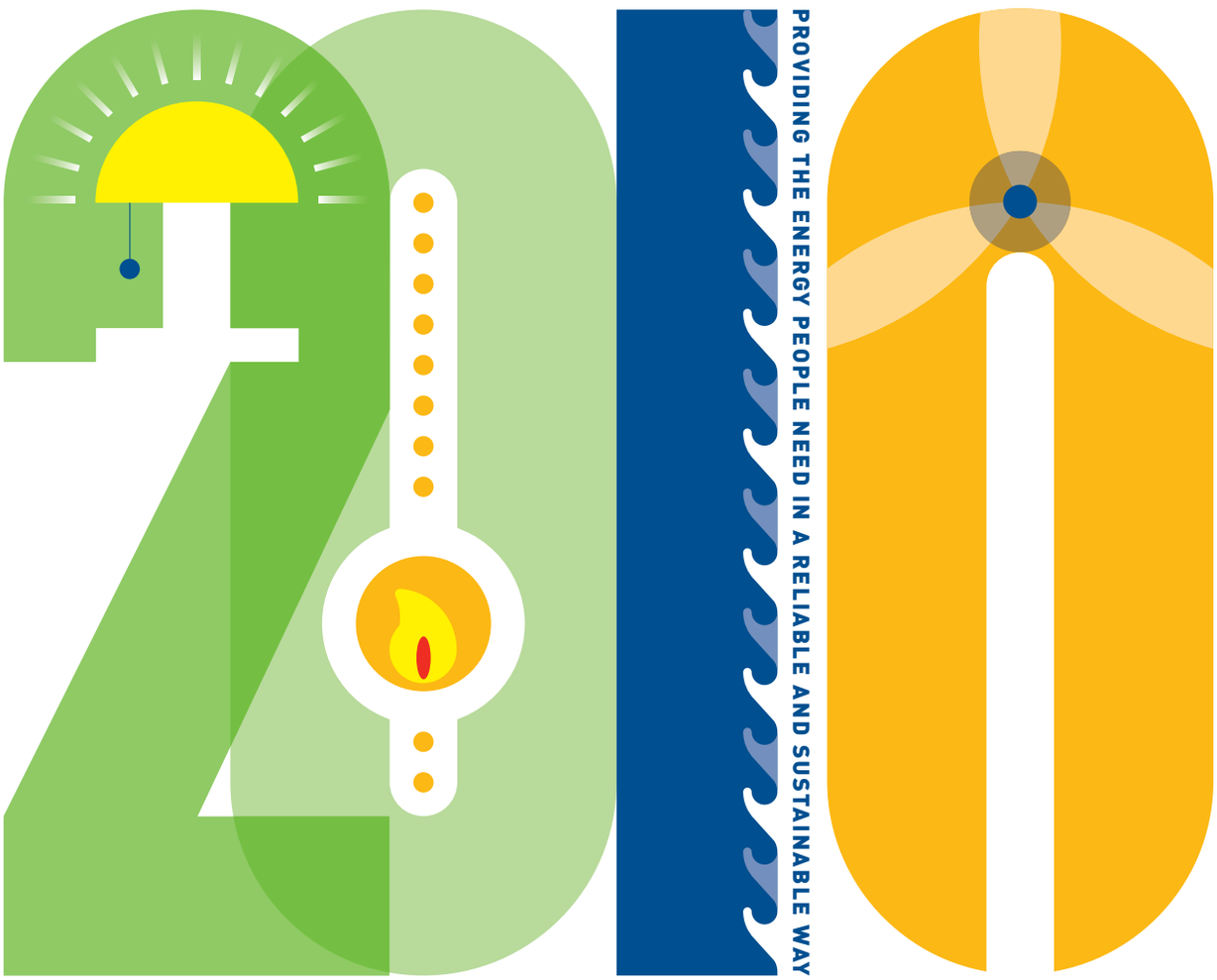


SSE

Scottish and Southern Energy plc
Annual Report 2010

* 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.

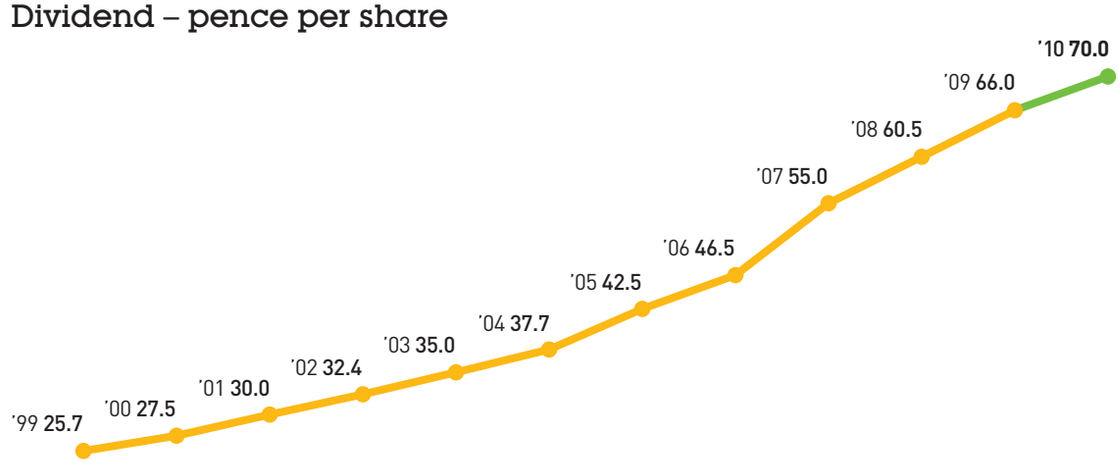
What SSE does

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

Its 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 market-based and economically-regulated businesses in energy production, storage, distribution, supply and related services, mainly in the UK and Ireland.

This Annual Report sets out what SSE achieved in 2009/10 and its plans for 2010/11 and beyond.

Dividend – pence per share

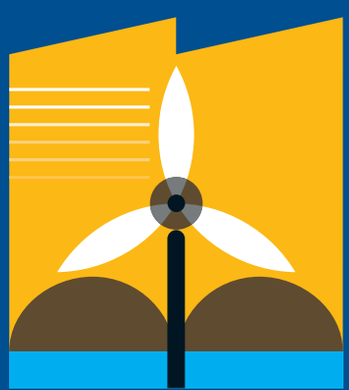


How SSE provides energy

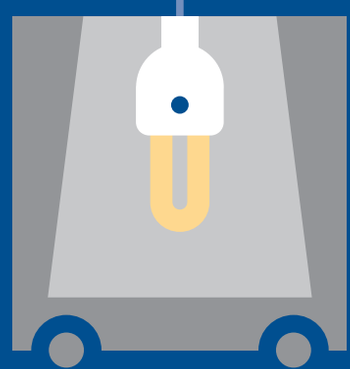
Generation | Supply | Fuel Production and Storage | Energy Services | Networks

Market based

Gas-fired power

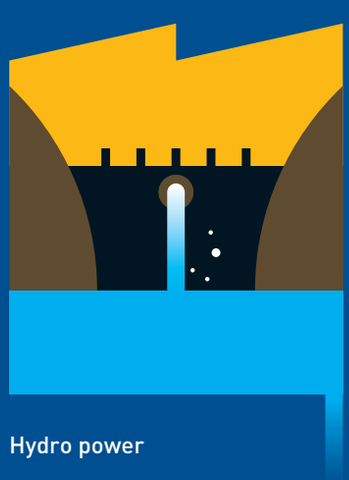


Wind power

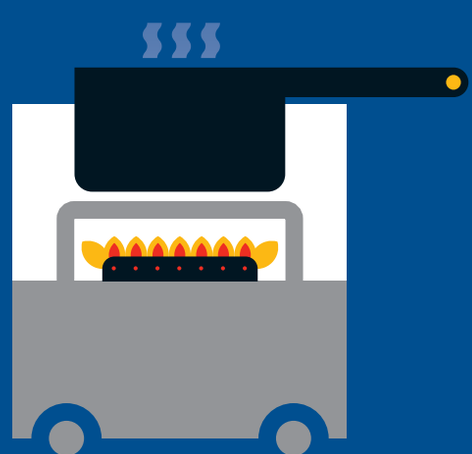


Electricity supply

Coal-fired power

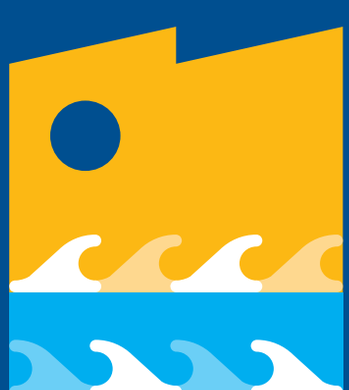


Hydro power



Gas supply

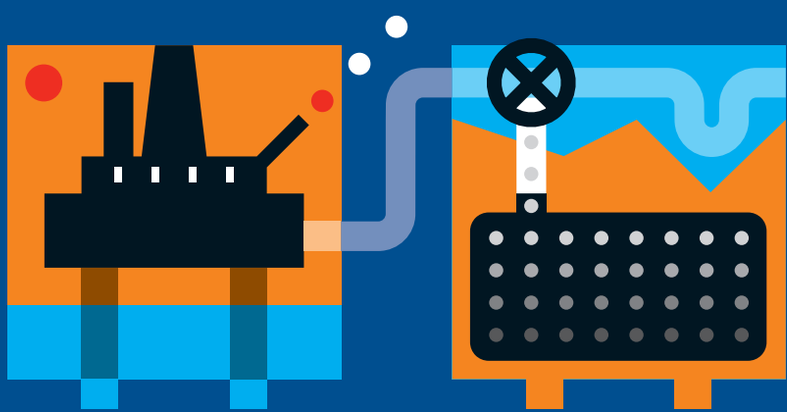
Biomass power



Emerging technologies

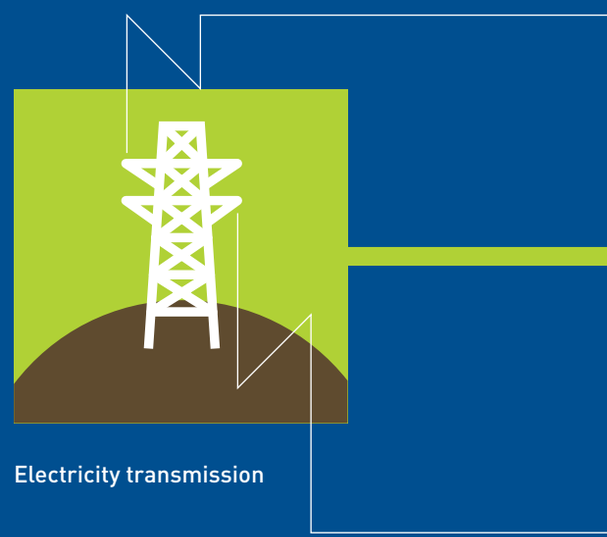
Home services

Economically regulated



Gas production

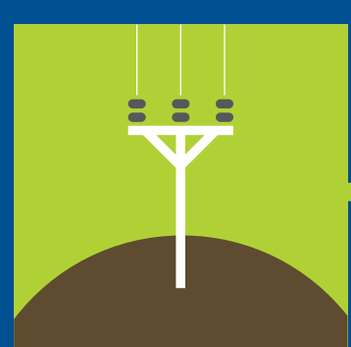
Gas storage



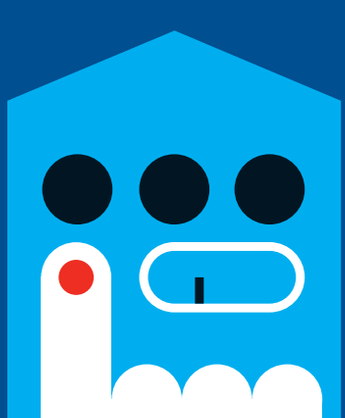
Electricity transmission

Utility solutions

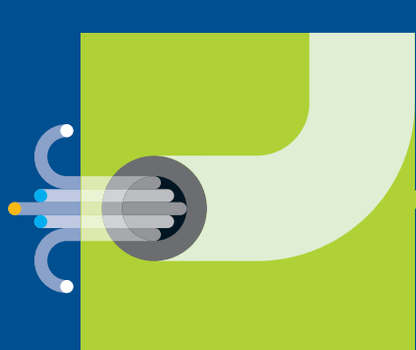
Street-lighting



Electricity distribution



Metering

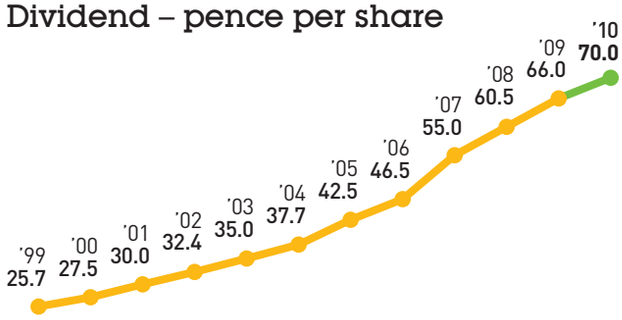


Telecom networks

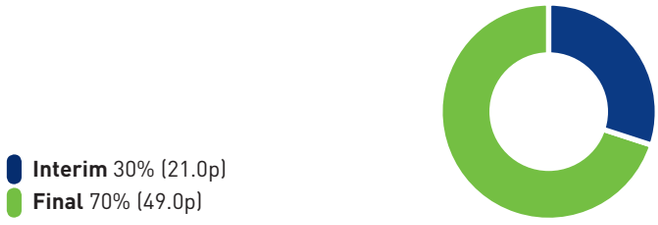
Gas distribution

Key performance indicators

Dividend – pence per share

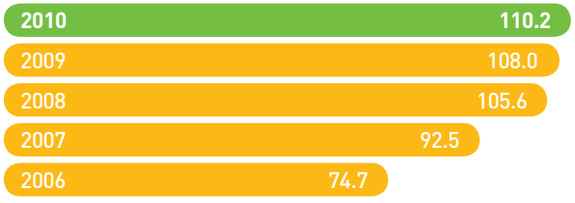


Dividend – composition

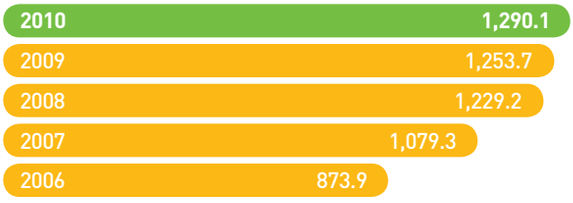


Dividend cover – times

Adjusted earnings per share* – pence



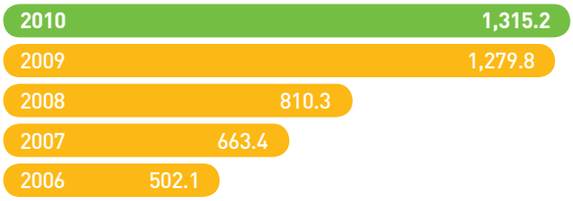
Adjusted profit before tax* – £m



Operating profit by business – £m

	2008	2009	**2010**
Generation and Supply	711.1	832.0	**896.0**
Energy networks	544.4	584.2	**599.5**
Gas storage	50.9	42.7	**41.8**
Telecoms	14.3	15.5	**16.4**
Contracting, Connections and Metering	68.7	74.8	**80.2**

Capital expenditure – £m



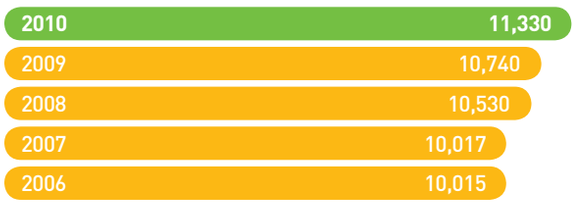
Capital expenditure 2009/10 – %

Safety, sustainability and teamwork

	2006	2007	2008	2009	**2010**
Total Recordable Injury Rate – per 100,000 hours worked	N/A	N/A	N/A	0.16	**0.14**
Power station CO_2 emissions – grams per kWh	622	555	496	491	**494**
Reportable environmental incidents	0	0	1	1	**2**
Number of employees	12,287	13,427	16,892	18,795	**20,177**

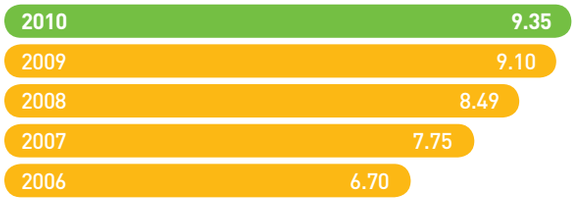
Principal assets

Generation capacity – MW

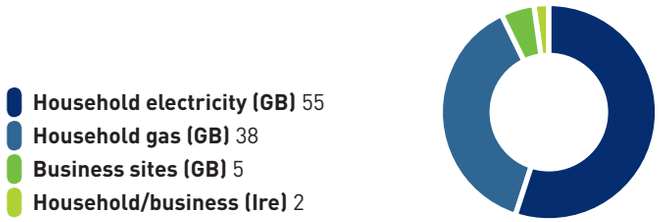


Generation capacity – composition %

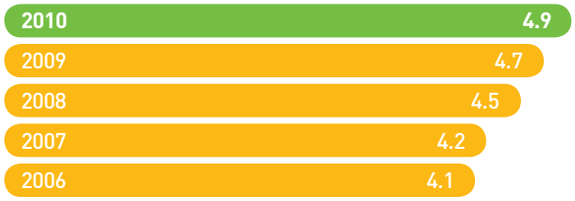
Energy customer numbers – millions



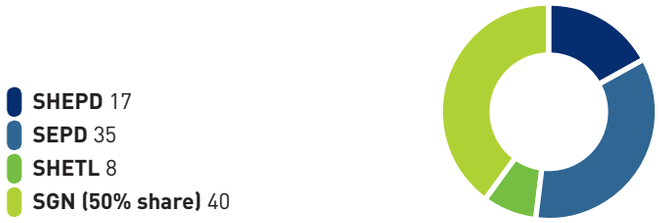
Energy customer numbers – composition %



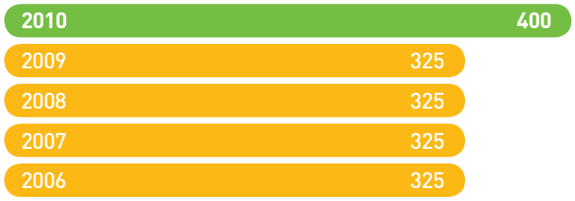
Networks regulated asset value – £bn



Networks regulated asset value – %



Gas storage capacity – million cubic metres



Gas storage capacity – composition %

Other assets and contracts

	2006	2007	2008	2009	**2010**
Telecoms network (owned and leased) – km	7,500	7,500	8,000	10,300	**11,200**
Contracting order book – £m	87	95	99	101	**115**
Out-of-area networks in operation	19	24	33	47	**53**
Water inset appointments	N/A	N/A	1	2	**5**

Chairman and Chief Executive
Questions and answers

In SSE, the Chairman (Lord Smith of Kelvin, below right) is responsible for the operation of the Board, ensuring it works effectively. The Chief Executive (Ian Marchant, below left) is responsible for the management of the business, implementing the strategy and policies agreed by the Board. Here they answer key questions about SSE's performance and plans for the future.

How would you sum up SSE's performance in 2009/10?

Robert → It was business as usual, in that the Company delivered a 2.9% increase in adjusted profit before tax* and the Board is recommending a 6.1% increase in the full-year dividend. Since it was formed in 1998, SSE has achieved 11 successive years of increasing profits and dividend. That's quite a track record to build on in the future.

Ian → Solid. As well as turning in a sound financial performance, we continued to lead the sector in customer service in both energy supply and electricity distribution. Our power stations and electricity networks performed well. Most encouragingly of all, our safety performance was the best ever in SSE's history. We want to make it better still, and safety will continue to be a big priority in 2010/11.

What was the rationale for the new dividend targets for 2010/11 onwards?

Ian → In the half-year results in November 2009, we said that our priority in setting new dividend targets would be to make sure that they are realistic and attainable, thereby giving shareholders the fullest possible confidence in their achievability. That's what our targets for dividend growth are designed to do. We believe that a target of annual real dividend growth of at least 2% in each of the three years to March 2013 is the right way forward.

You've always said dividend growth is supported by investment, and SSE's capital and investment expenditure is now well over £1bn a year. Are you confident of the Company's ability to manage investment on this scale?

Robert → Confident, yes; complacent, no. The SSE team has managed a wide range of capital investment projects over the last few years and delivered major new assets. That said, some projects have taken longer than expected and there have been difficulties at others. So we have no grounds for complacency. The positive thing, however, is that capital investment is an area in which SSE has now built up significant experience and capability. That's what gives me confidence for the future.

Ian → The assets we are developing are intended to last for decades and any short-term difficulties obviously have to be seen in that context. We do continually evaluate our investment programme and have no doubt that the value needed to support our new dividend growth targets, and sustained real growth over the long term, is being created.

Did the Board review SSE's strategy in 2009/10 and, if so, what was the outcome?

Robert → We did have lengthy discussions on strategy, to make sure that sustained annual real growth in the dividend, which is our first responsibility to shareholders, is deliverable. Those discussions confirmed that our strategy – operating and investing in a range of market-based and economically-regulated energy businesses – is right for the future.

Are you confident about the Company's ability to finance investment on the scale that's likely to be necessary over the next few years?

Ian → Yes. SSE is a well-financed company with a strong balance sheet, which is carefully maintained. We've also shown that we will move quickly to take the right financing options, including bonds, loans and, should new investment or acquisition opportunities arise, equity.

Robert → Maintaining a strong balance sheet is one of SSE's key financial principles the Board sticks to. Another is making sure that investments are well-founded. They should be capable of earning returns above the cost of capital and they should enhance earnings and contribute to dividend growth.

Are dividends being paid and investments being financed by keeping household energy prices higher than they need to be?

Ian → No. Unit prices started coming down in March last year and we followed that up with another package of changes this March. Household bills are also coming down because all the energy efficiency investment we've made in recent years is now really working, with gas consumption falling over the last few years. That is the sustainable way forward, in every sense.

Energy bills are controversial and so is Executive remuneration. The Association of British Insurers has said that Executive Directors' remuneration should be designed to 'contribute to the creation of sustainable long term value'. Do you think that is the case at SSE?

Robert → Yes, without a doubt. SSE's team of Executive Directors are obviously well-paid but they are certainly not over-paid. They have all been with the Company since it was formed in 1998, and they are clearly delivering sustainable long-term value. Under their leadership, SSE has increased profits and dividends every year, while improving service to customers and investing in the country's energy future.

Does SSE have strength in depth among its employees?

Ian → As Executive Directors, Colin Hood, Gregor Alexander, Alistair Phillips-Davies and I all depend on the excellent work done by the rest of the management team and everyone else throughout SSE. I might be the captain, but I'm only one member of an experienced, committed and talented team and it's a privilege to work with them. This is an organisation that is built to last, and I believe we have the strength in depth to make sure it will.

Employee issues, Executive remuneration and energy bills would often be tagged 'corporate responsibility' issues. How does SSE handle the corporate responsibility agenda?

Robert → I've been involved with many companies over the years, and I've also done some work with the likes of Scottish Business in the Community, and I have to say I like the SSE approach. There is no corporate responsibility division. It's not an add-on. It's up to the Board and every employee to deliver responsible business practice every day. This approach is supported by a very strong set of core values and I think it works well.

Ian → We've taken the integrated approach a step further this year, and decided not to produce a separate Corporate Responsibility Report. There is a lot of information on our Company website, but the basic principle is that this Report should set out SSE's approach to, and performance in, business and should in itself enable people to judge whether SSE is a responsible company.

What are SSE's big priorities for 2010/11?

Ian → The same as every other year: safe working; excellent customer service; well-run power stations and energy networks; good progress on major capital investment projects; and cost efficiency.

Robert → I'd just like to add that the fact SSE's priorities are no different this year from last is a strength. It's when they start changing that you have to worry!

No two years are the same. Do any particular risks stand out for 2010/11?

Robert → Like any responsible Board, we take risk management very seriously. We have a pretty low appetite for risk and would never regard 'boring' as a negative tag to be shaken off; quite the reverse. More specifically as a Board we'll again be keeping a close eye on the investment programme because of its scale and significance for the future.

Ian → 2010/11 will obviously be influenced by the uncertain economic outlook. However, SSE is in the business of providing something – energy – that people need, rather than want. We also set great store by having a balanced range of market-based and economically-regulated businesses. So the economic risk is manageable and doesn't threaten our big priorities.

As we look at things in 2010, much of the focus for SSE's sector is already on 2020 and the stretching EU and UK targets for renewable energy and carbon emissions reductions. What part do you think SSE can play over the next decade in achieving those targets?

Robert → I take a very hard-headed view of this. The world's natural resources are being used up at an unsustainable rate. That's why we have to make rapid progress in reducing dependency on carbon, and a successful SSE, capable of financing and delivering major investment programmes over the next decade and beyond, should be in a prime position to help in the transition towards a lower-carbon economy.

Ian → We'll help customers transform the way they consume energy. We'll also invest in low-carbon energy production and better ways of distributing energy. We are very well-placed, having already made significant commitments to, and investments in, electricity generation, energy networks, supply and services. We have a low-carbon vision for SSE, and we're working hard to realise it.

Strategic overview

Purpose, strategy and principles
SSE's core purpose is to provide the energy people need in a reliable and sustainable way. In line with this, its 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 market-based and economically-regulated businesses in energy production, storage, distribution, supply and related services, mainly in the UK and Ireland.

Implementation of this strategy continues 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; and
- use of purchase in the market of the Company's own shares as the benchmark against which financial decisions are taken.

It is the application of these principles which supports the fulfilment of SSE's first responsibility to shareholders: the delivery of sustained real dividend growth.

SSE's strategy provides it with three key advantages:

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

SSE is the only energy company listed on the London Stock Exchange that owns and operates economically-regulated businesses, such as electricity networks, and market-based businesses, such as electricity generation and energy supply, in the UK. This means it is able to pursue operational, investment or acquisition opportunities throughout the electricity and gas sector to achieve consistently the levels of profitability required to support sustained real dividend growth.

It also means that SSE is able to derive stable and more predictable levels of profit from some of its activities and more variable levels from others (which, in turn, have greater potential for growth). As a result of this balance, SSE has greater resilience to risks associated with shorter-term trends or issues within its sector or the wider economy than do other companies with less diversity within their business model.

Delivery against purpose, strategy and principles
The Board is recommending a final dividend of 49p per share, making a full-year dividend of 70p, an increase of 6.1% on the previous year. The full-year dividend payment for 2009/10 is covered 1.57 times by SSE's adjusted profit after tax and is double the dividend per share paid seven years ago, in 2002/03.

The first full-year dividend was paid by SSE in 1999, so the recommended full-year dividend increase of 6.1% represents the eleventh successive above-inflation dividend increase since then. SSE is one of just seven FTSE 100 companies to have delivered better-than-inflation dividend growth every year during this period, and ranks fourth amongst that group in terms of compound annual growth rate over that time.

This real growth in the dividend, sustained since SSE was formed, has been supported by growth in SSE's main business areas, achieved as a result of operational efficiency, investment and, in some cases, acquisition:

- through investment and acquisition, the Regulated Asset Value (RAV) of SSE's energy networks businesses has doubled in five years, to over £4.9bn;
- also through investment and acquisition, the capacity of SSE's power stations has almost doubled in six years, to 11.3GW; and
- as a result of effective operation of core businesses, the number of customer accounts to which SSE supplies energy has doubled in eight years, to over 9.3 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 and the fastest-growing energy company in Ireland.

Future environment
The need to secure energy to heat and power homes, organisations and businesses, and the need to safeguard the environment for future generations, means the framework within which energy companies operate is, and will remain, a major public policy issue in the UK and Ireland and in the EU as a whole.

The context for energy policy in the UK and Ireland, SSE's principal areas of operation, is set by the EU 2020 Climate and Energy Package, adopted in April 2009, and the EU Renewable Energy Directive, which came into force in May 2009. The Directive requires Member States to deliver on average 20% of their final energy consumption by 2020 using renewable energy sources. The UK target is that 15% of all energy (electricity, heat and transport) should come from renewables by 2020. This target is the most challenging of any EU Member State because, to achieve it, around 30% of the electricity consumed in the UK will have to come from renewable sources, compared with just 5.5% at present; for Ireland a similar step-change in renewable energy output will be necessary.

In February 2010, the second report of the UK Industry Taskforce on Peak Oil & Energy Security, of which SSE is a member, was published. Called 'The Oil Crunch', the report said 'it seems inevitable that global demand will move to a point where it consistently exceeds supply. The effect must be a structural increase in oil prices, coupled with the prospects of oil shortages and a consequent increase in market volatility. The only questions are "how soon and by how much?"'. At the same time, some analysis suggests that natural gas produced from shale could become an increasingly important source of energy over the next decade.

In addition, the period to 2020 will see:

- the closure of a number of coal- and oil-fired power stations by 2015, under the EU's Large Combustion Plant Directive;
- many nuclear power stations reaching the end of their design lives, with a number of advanced gas-cooled reactor (AGR) stations scheduled to close from 2014 onwards;
- the age and relative efficiency of a number of older gas-fired power stations becoming an increasingly significant issue; and
- the growing use of electricity to meet heat and transport needs so that its share of total energy demand increases significantly.

In July 2009, Ernst & Young estimated that £199bn of investment is needed by 2025 to meet the UK's energy goals. In October 2009, the UK energy regulator, Ofgem, published a comprehensive review of Britain's energy supplies which concluded that investment of up to £200bn is needed to secure energy supplies and meet carbon emissions targets (excluding UK Continental Shelf gas production). It updated its review in February 2010 and stated that 'the risks to gas security of supply remain high in the latter half of this decade'.

The coming decade will also see, in Great Britain, the installation of smart meters in every home, to allow the quantity and value of electricity and gas used by the customer to be continuously monitored and to ensure that information about its use and cost is available to the customer and exchanged with the supplier through two-way electronic communications.

The new UK government has agreed to implement a programme of measures to fulfil its ambitions for a 'low-carbon and eco-friendly economy'. It has agreed to seek to increase the target for energy from renewable sources, subject to the advice of the Climate Change Committee. It also proposes to establish an emissions performance standard that will prevent coal-fired power stations being built unless they are equipped with sufficient carbon capture and storage (CCS) to meet an emissions performance standard. SSE is confident it will be able to continue to work with MPs from all parties to ensure UK energy policy can deliver secure, affordable and lower-carbon energy.

Economic development
Investment on the scale required demonstrates how the transition to a low-carbon economy represents a substantive opportunity to create jobs in the UK and Ireland. For example, in October 2009, SSE selected Glasgow as the location for its new Centre of Engineering Excellence for Renewable Energy, in partnership with the University of Strathclyde. This will lead to the creation of around 300 skilled professional 'green' jobs over the next three years. Already, SSE directly employs over 800 people in the development or operation of projects or programmes to reduce the carbon dioxide impact of energy production and consumption.

The Offshore Valuation Group, an informal collaboration of government and industry organisations, concluded, in May 2010, that the rapid development of the UK's offshore resource – using fixed wind, floating wind, tidal stream, tidal range and wave technologies – could 'generate the electricity equivalent of one billion barrels of oil per year, or the same as the average annual output of UK North Sea oil and gas over the past four decades'. It estimates that the supply chain necessary to achieve this would have annual revenues of over £60bn in 2050 and could employ around 145,000 people in manufacturing, installation, operations and maintenance.

Priorities for SSE
SSE welcomes the focus on sustainability and security in energy, and believes that the EU Climate and Energy Package and Renewable Energy Directive, the prospect of an 'oil crunch', the requirement to safeguard energy supplies and the introduction of smart meters will mean the following priorities will feature in its business activities:

- Generation: developing new capacity to produce electricity in a sustainable way that supports the transition to a lower-carbon economy;
- Supply: helping to keep electricity and gas bills as affordable as possible by offering ways to enable and encourage customers to be more efficient in their use of energy;
- Fuel Production and Storage: securing gas supplies to meet future energy needs and helping maintain dependable supplies by providing more storage capacity for the UK, as imports of gas rise;
- Networks: ensuring the distribution of energy remains reliable through investment in networks, as sources and use of electricity and gas change; and
- Services: meeting customers' requirements for energy products and services that are needed for the transition to a lower-carbon economy.

As the UK becomes increasingly dependent on imports of energy, and as the need for action to replace its ageing infrastructure and to de-carbonise its economy continues to intensify, the importance and value of efficient electricity generation and energy storage, distribution, supply and services will all increase. SSE, as the broadest-based energy company in the UK and the fastest-growing energy company in Ireland, is in a good position to help provide the services and infrastructure that energy customers in the UK and Ireland will need and thus secure continuing, sustained real dividend growth.

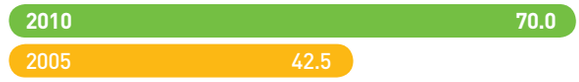
Outlook for 2010/11 and beyond
The economic outlook for 2010/11 continues to be uncertain. In this context, SSE offers three key advantages, enabling it to deliver a consistent financial performance:

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

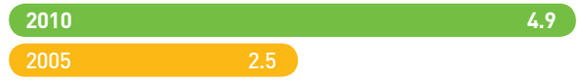
Taking account of the current and future environment and its impact on the energy sector in the UK and Ireland, SSE's operational priorities during 2010/11 are to:

- carry out all work in a safe and responsible manner, with a lower Total Recordable Injury Rate;
- deliver maximum efficiency throughout all business activities;
- maintain and build on sector-leading performance in all aspects of customer service, from energy supply to energy networks;

Dividend – pence per share



Networks regulated asset value – £bn



Power station capacity – GW

Strategic overview (continued)

- increase the total number of energy supply and home services customer accounts across the Great Britain and Ireland markets, while supporting progress towards increased energy efficiency;
- ensure power stations maintain a high level of availability to generate electricity in response to customers' needs and market conditions; and
- focus on cost control and customer relationship management to sustain its energy services businesses through the current period of economic uncertainty.

Its investment priorities are to:

- deliver additional assets in renewable energy, electricity networks and gas storage which contribute to secure and lower-carbon supplies of energy;
- meet other key milestones in its investment programme in generation, electricity networks and gas storage; and
- take forward the additional options that it has identified for investment from the middle of this decade onwards.

The delivery of a strong operational performance and the achievement of its investment priorities should enable SSE to discharge its first responsibility to shareholders: to deliver its full-year dividend target.

Future dividend
According to Capita Registrars Dividend Monitor, published in February 2010, dividend payments by UK companies fell by 15% in 2009, compared with the previous year. As Capita said: 'Dividends matter.'

Dividends have always mattered to SSE, as the delivery of above-inflation increases in every year since it was formed demonstrates. In the period to 2003, dividend growth was supported principally by efficient operations: securing the synergies arising from the original merger of Scottish Hydro Electric and Southern Electric in 1998.

In the subsequent period, it continued to be supported by efficient operations, some capital investment and principally by acquisitions which were successful because they were founded on SSE's key financial principle for deal-making: discipline.

This period culminated in the acquisition of Airtricity in February 2008, one of the stated objectives of which was to 'provide SSE with a major new range of investment opportunities from which to secure dividend growth over the next decade', adding to established opportunities in renewable energy, thermal generation, electricity networks and gas storage.

Following the general decline in UK dividend payments in 2009, SSE remains acutely aware of the importance of sustained real growth in the dividend. It is also mindful of the need to ensure that any future dividend targets are realistic, attainable and consistent with financing future investment in assets which, in turn, will provide the additional cash flows to support further dividend growth.

Against this background, and taking account of the breadth of operational and investment opportunities that exist throughout its business, SSE's new target is to deliver annual increases in the dividend of at least 2% more than Retail Price Index (RPI) inflation in each of the three years to March 2013, with sustained real growth thereafter. For this purpose, inflation is defined as the average annual rate across each of the 12 months to March. SSE believes that these targets can be achieved while maintaining a dividend cover consistent with its established range.

Assuming inflation of 2.8% (the average rate in the five years to March 2010) over each of the next three years, the achievement of these above-inflation targets will mean SSE's full-year dividend per share in 2013 will reach at least 80p, which is more than three times the first dividend it paid, in 1999.

Throughout this three-year period, SSE will be undertaking a major programme of investment in assets which, in turn, will earn revenue to support sustained real dividend growth in the period from 2013 onwards.

Safety and environment
While SSE's first responsibility to shareholders is to deliver sustained real growth in the dividend, it will only be able to achieve this if it exercises a wider corporate responsibility to others, such as customers and employees, on whom its success ultimately depends. It seeks to do this by maintaining a strong emphasis on its six core values, the 'SSE SET' of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. In particular, SSE believes that the effective management of safety issues is a barometer of effective management of all operational issues.

In 2009/10, SSE's safety performance was as follows (comparisons with the previous year):

- the Total Recordable Injury Rate, which includes lost-time, reportable and medical treatment injuries, was 0.14 per 100,000 hours worked, compared with 0.16;
- the Accident Frequency Rate (lost-time and reportable injuries) was 0.03 per 100,000 hours worked, compared with 0.07; and
- the total working days lost from injury was 73, down from 361.

SSE's target for any given year is zero environmental incidents which result in it being served with a formal statutory notice by a government environment protection agency. There were two such incidents in 2009/10: fuel spills at Havant and Tummel Bridge. In November 2009, SSE was fined £20,000 under the Water Environment (Controlled Activities) (Scotland) Regulations 2005 and the Water Environment and Water Services (Scotland) Act 2003 following an escape of diesel from a holding tank at its Loch Carnan power station on Uist in November 2008.

Risk management
SSE's overall business model, and strategy and culture, is designed with risk firmly in mind. It has:

- a clear and moderate financial goal – sustained real growth in the dividend;
- a well-established strategy based on a balanced range of economically-regulated and market-based energy businesses;
- a business model which features diversity of assets within those businesses, thereby limiting the value and extent of, and exposure to, any single risk;
- a limited appetite for, and tolerance of, business risk;
- a commitment to effective identification, monitoring and management of risks; and
- a clear and transparent decision-making process.

On Board decision-making, specific findings from the independent review of SSE Board effectiveness, carried out in the autumn of 2009 by Independent Audit Ltd, included 'a remarkable consensus of opinion' on the following:

- there is 'an open, informal atmosphere which encourages everyone to contribute';
- discussion is 'rigorous'; and
- the Executive Directors 'respond positively and constructively to challenge'.

Financial overview

Financial results for 2009/10
These results for the year to 31 March 2010 are reported under International Financial Reporting Standards, as adopted by the EU. SSE's focus has consistently been, and remains, 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.

This 'adjusted profit before tax*' was first adopted as a key performance indicator by SSE in 2005/06, and it has been applied consistently since then. It reflects the underlying profits of SSE's business and the basis on which it is managed and avoids the volatility introduced by IAS 39. The table below reconciles SSE's reported profit before tax to its adjusted profit before tax*.

IAS 39 requires companies to record certain forward commodity contracts that are deemed to be derivative financial instruments at 'fair value'. At 31 March 2010, there was a net derivative financial liability in SSE's balance sheet arising from IAS 39 of £985.1m, before tax, compared with a net liability of £1,423.6m, before tax, at 31 March 2009.

The liability principally relates to some forward commodity purchase contracts for gas, coal, oil, carbon and wholesale electricity that SSE, like all major energy suppliers, has to enter into to ensure that the future requirements of its customers are met. IAS 39 requires SSE to record these contracts at their 'fair value'. This involves comparing their contractual price against the prevailing forward market price at the financial year end. At 31 March 2010 the average contractual price was higher than the market price (in other words, 'out of the money'), albeit by a smaller amount than at the same time last year, leading to a smaller liability.

Thus the movement on derivatives under IAS 39 of £399.8m shown in the table below and on the face of the income statement is primarily due to a reduction in the 'out of the money' position on commodity contracts between 31 March 2009 and 31 March 2010. SSE sets out these movements in fair value separately, as remeasurements, as they do not reflect the underlying performance of the business and the extent of the actual profit or loss arising over the life of the contracts giving rise to this liability will not be determined until they unwind; for around 50% of the total energy volume, this will be over the next 12 months.

Adjusted profit before tax* in 2009/10
Adjusted profit before tax* rose by 2.9%, from £1,253.7m to £1,290.1m. This is moderate growth, consistent with the objective which SSE set out in its Annual Report 2009. SSE's adjusted profit before tax reflects four key steps forward in its Generation and Supply business in 2009/10, compared with the previous year:

- The installation of flue gas desulphurisation (FGD) equipment in early 2009 meant there were no related restrictions on running hours at Fiddler's Ferry and Ferrybridge power stations.
- The return to service in June 2009 of Medway power station, following a 15-month unplanned outage, meant the availability of SSE's gas-fired power stations to generate electricity was significantly better.
- There was an increased number of customer accounts to which SSE supplies electricity and gas in the Great Britain and Ireland markets (600,000 more in April 2009 than in April 2008).
- A better balance between the cost of energy procured and the cost of energy supplied was achieved following the energy supply losses sustained during the previous financial year to protect customers from the worst effects of exceptionally high wholesale prices.

At the same time however:

- output of renewable energy was much lower than expected because of the unusually dry, cold and still weather conditions experienced during the winter of 2009/10 and the loss of output from the Glendoe hydro electric scheme;
- the achieved price of electricity produced from renewable sources was lower; and
- although the output of electricity from gas- and coal-fired power stations was higher, the difference between the cost of the primary fuel and the price of the electricity generated from it (the 'spark' and 'dark' spread respectively) was lower.

Adjusted profit before tax* for 2010/11
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 11 successive increases in adjusted profit before tax*.

Adjusted profit before tax* is an important measure of performance in any given year. In SSE's view, however, adjusted profit before tax* is not an end in itself and SSE does not have the goal of maximising profit in any single year or over any particular period. It takes a longer-term view and believes that profit is a means to an end: sustained real growth in the dividend, the delivery of which is its first responsibility to shareholders.

SSE's adjusted profit before tax* in any single year will always be determined by issues such as:

- the availability of its gas- and coal-fired power stations to generate electricity;
- the output of renewable energy from its hydro electric stations and wind farms;
- the impact of the weather on energy production and consumption;
- the actual underlying level of energy consumption;

Profit before tax

	March 10 £m	March 09 £m	March 08 £m
Reported profit before tax	**1,638.6**	53.3	1,083.8
Movement on derivatives (IAS 39)	**(399.8)**	1,262.1	162.9
Exceptional items	**–**	(102.7)	(32.8)
Tax on JVs and Associates	**51.3**	40.4	10.7
Interest on convertible debt	**–**	0.6	4.6
Adjusted profit before tax*	**1,290.1**	1,253.7	1,229.2
Adjusted current tax charge	**(274.1)**	(300.4)	(317.2)
Adjusted profit after tax*	**1,016.0**	953.3	912.0
Reported profit after tax	**1,235.5**	112.3	873.2
Number of shares for basic and adjusted EPS (million)	**921.9**	883.0	863.2
Adjusted EPS*	**110.2p**	108.0p	105.6p
Basic EPS	**134.0p**	12.7p	101.1p

Financial overview (continued)

2010 at a glance: Investment and capital expenditure

Thermal generation investment – £m

146.2

2009 – 216.2

Renewable generation investment – £m

666.6

2009 – 525.6

Electricity networks investment – £m

334.5

2009 – 314.6

Gas storage investment – £m

46.3

2009 – 55.4

Total investment and capital expenditure* – £m

1,315.2

2009 – 1,279.8

Share of SGN capital expenditure/ replacement expenditure – £m

206.4

2009 – 191.4

* Including some not specified above.

- the interaction between wholesale prices for energy and fuel and the prices for the electricity and gas charged to customers; and
- the timely commissioning of new assets.

In terms of 2010/11, SSE believes that its balanced range of market-based and economically-regulated energy businesses, and the diversity of opportunities within those businesses, will deliver a level of adjusted profit before tax* capable of supporting the achievement of its new full-year dividend target.

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 benefit 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 2009/10, SSE's adjusted earnings per share* were 110.2p, compared with 108.0p in the previous year.

Dividend

Final dividend for 2009/10
SSE cannot emphasise enough that its first responsibility to shareholders is to deliver sustained real growth in the dividend. The Board is recommending a final dividend of 49p per share, compared with 46.2p in the previous year, an increase of 6.1%. This will make a full-year dividend of 70p, which is:

- an increase of 6.1% compared with 2008/09;
- a real-terms increase of 5.6%, based on the average annual rate of inflation in the UK between April 2009 and March 2010, which exceeds the target of 4%;
- the 11th successive real-terms above-inflation dividend increase since the first full-year dividend of 25.7p paid by SSE in 1998/99;
- double the dividend paid in 2002/03, since when there has been compound annual growth of 10.4%; and
- covered 1.57 times by SSE's adjusted profit after tax.

Dividend target for 2010/11 and beyond
Its newly-adopted targets mean SSE is aiming to deliver an increase in the full-year dividend of at least 2% more than inflation in 2010/11. The same target is in place for 2011/12 and 2012/13, with sustained real growth thereafter also being targeted.

Scrip Dividend Scheme
A resolution will be put to shareholders at the Annual General Meeting to propose the introduction of a Scrip Dividend Scheme. The proposed Scrip Dividend Scheme is intended to replace the current dividend reinvestment plan. It will give shareholders the option to receive new fully paid Ordinary Shares in the Company in place of their cash dividend payments.

Investment and capital expenditure

Introduction
In March 2008, SSE announced it was undertaking a five-year capital investment programme for the period to March 2013 projected to total around £6.7bn – one of the biggest currently being undertaken in the UK by a FTSE 100 company. In keeping with its financial principle that investments should be 'well-founded', SSE believes that projects within the programme will achieve returns which are greater than the cost of capital, enhance earnings and contribute to dividend growth.

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. In addition to its core investment programme, SSE – through its 50% stake in Scotia Gas Networks (SGN) – is also making a significant investment in regulated gas networks.

All of this investment is in line with SSE's core purpose: to provide the energy people need in a reliable and sustainable way. It will support the maintenance and development of assets which are of strategic significance in the context of the energy trends identified in the EU 2020 Climate and Energy Package and Ofgem's analysis of the UK's energy supplies published in October 2009. SSE's investment programme is, therefore, well-founded, in accordance with its financial principles, and it will deliver:

- a significantly enhanced asset base in key businesses;
- additional fuel for electricity production in the form of renewable sources of energy; and
- additional cash flows and profits, which will support future dividend growth.

Investment in 2009/10
2009/10 represented the second year of SSE's five-year investment programme, and capital and investment expenditure (excluding SGN) totalled £1,315.2m, building on the expenditure of £1,279.8m in the previous year. During 2009/10:

- the investment of £146.2m in **thermal generation** included SSE's 50% share of the development of the new Combined Cycle Gas Turbine (CCGT) power station at Marchwood, which became operational in December 2009, on time and on budget at less than £500/kW;
- the investment of £666.6m in **renewable generation** included SSE's 50% share (£244.9m) of the investment at Greater Gabbard offshore wind farm, and £60m in Walney;
- the investment of £46.3m in **gas storage** included £26.6m invested in the new facility at Aldbrough, which takes the total invested by SSE in this development to £207.9m; and
- the investment of £334.5m in **electricity networks** took the total for the 2005-10 Distribution Price Control period to £1.29bn.

A total of £1.1bn has been invested by SSE in assets which were still largely under construction at 31 March 2010, including its share of the cumulative investment in Greater Gabbard (£455.5m).

In addition, SSE's 50% share of SGN's capital and replacement expenditure was £206.4m, compared with £191.4m in the previous year. SGN's total capital investment in 2009/10 was £168.1m, taking the amount so far for the 2008-13 gas Distribution Price Control period to £525.3m.

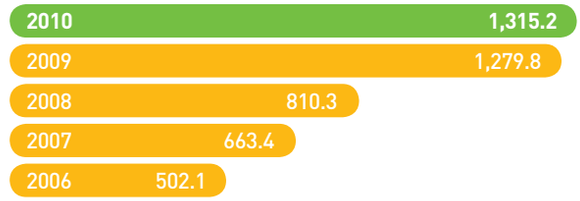
Management of investment programme
SSE's programme of investment in major new assets got under way with the development and construction of Hadyard Hill which, in 2006, became the first wind farm in the UK to generate 100MW of electricity. Since then, SSE has developed other new assets, such as Marchwood, the UK's first new gas-fired power station for five years, and the UK's first new gas storage capacity for four years, at Aldbrough. It has also completed the installation of flue gas desulphurisation equipment at Fiddler's Ferry and Ferrybridge power stations, thereby making it possible for electricity generation to continue at those locations beyond 2015.

Nevertheless, the transition from efficient operator of energy assets to also being a developer of significant energy infrastructure has presented challenges. Some of SSE's projects took longer to complete than the original (often ambitious) timetable suggested and there have been difficulties at others, such as the Glendoe hydro electric scheme. Understanding project risk (including construction), implementing best project management practice, processes and systems, together with a rigorous 'lessons learned' programme, has helped SSE ensure the delivery of current and future projects. The development of proven contracting strategies and the selection of experienced delivery partners all form part of an integrated and carefully-governed management system, ensuring that value is delivered from the investment programme.

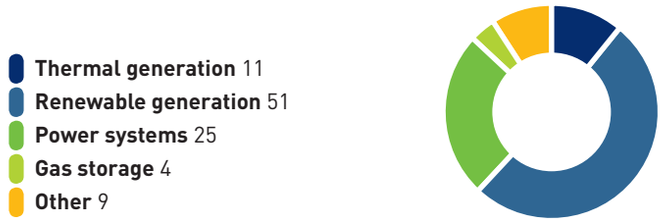
These features are at the heart of the way SSE takes forward its investment programme, which is managed by an experienced team, the members of which recognise that it is most important to invest sufficient time and resources during the development phase of the project.

SSE remains committed to constructing robust assets, capable of generating

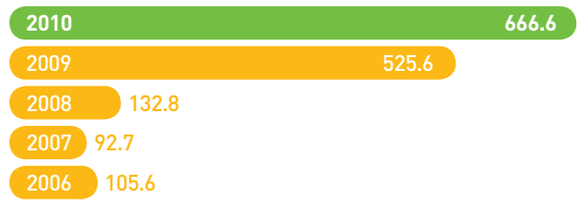
Capital expenditure – £m



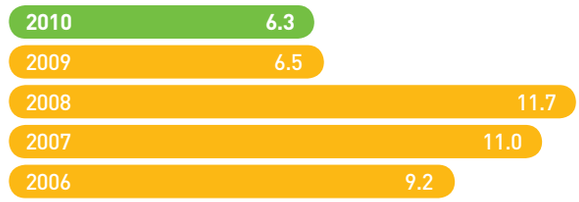
Capital expenditure 2009/10 – %



Renewable energy capital expenditure – £m



Underlying interest cover – times



Financial overview (continued)

revenue on a reliable basis and delivering value in the long term. The management of the project portfolio will not be sacrificed in the interests of short-term concerns. SSE keeps the economic evaluation of its investment programme under continuous review and remains confident that significant value is being created, based on actual project delivery and on the most up-to-date project costs and schedules.

Future investment priorities in 2010/11 and beyond
SSE expects its capital and investment expenditure will be around £1.7bn during 2010/11 as significant projects such as the Clyde, Griffin and Greater Gabbard wind farms and the Aldbrough gas storage facility continue to make progress and as other major developments, such as the replacement of the Beauly-Denny transmission line, get under way. Around 75% of SSE's 2008-13 investment programme is relatively low risk, involving well-established technologies such as onshore wind farms, thermal power stations and electricity networks.

SSE constantly monitors its five-year investment programme, to make sure that it is taking advantage of the best opportunities to invest and that the best projects are prioritised – and all at the optimum time. This was demonstrated by its decision to delay projects previously included in its 2008-13 programme in order to include within it the 367MW Walney offshore wind farm, in which it acquired a 25.1% stake in December 2009. A significant factor in the decision to include Walney in the investment programme was the phased and performance-related nature of the total cash consideration and construction costs.

The main components of risk involved in any individual investment decision – market, technology and construction – are all very carefully considered within the investment appraisal process and risk premia are applied to the expected rate of return where appropriate. The need to maintain diversity within the programme is also a factor in investment decision-making. That part of SSE's 2008-13 investment programme which is deemed to be higher risk – around 25% – involves technologies such as offshore wind farms and gas storage and is generally undertaken in partnership with other experienced developers in order to mitigate the higher risks. This illustrates the care with which decisions are taken, to ensure they are consistent with SSE's financial principles, targeting returns which are risk-adjusted, 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 2010, after taking account of interest rate swaps, 75.1% of SSE's borrowings were at fixed or inflation-linked rates.

Borrowings are mainly 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 the Republic of Ireland are also substantial. Transactional foreign exchange risk arises in respect of procurement contracts, fuel and carbon purchasing, commodity hedging and energy trading operations, and long-term service agreements for plant.

SSE's policy is to hedge all material transactional foreign exchange exposures through the use of forward currency purchases and/or derivative instruments. 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 £5.4bn at 31 March 2010, compared with £5.1bn at 31 March 2009. There were outstanding liquid funds of £109m at 31 March 2010 relating to power purchase agreements and wholesale energy transactions, the majority of which was reconciled and settled in April 2010. On an adjusted basis, therefore, including these liquid funds, SSE's net debt was £5.29bn at 31 March 2010 compared with £4.82bn at 31 March 2009.

The adjusted net debt of £5.29bn results in a Net Debt/EBITDA ratio of around 2.9 on 31 March 2010 (excluding SGN).

Strong cash flow from operations, including effective management of working capital has helped to keep the increase in adjusted net debt to a lower level than expected, as have the adjustments to SSE's investment programme following the acquisition of a 25.1% stake in the Walney offshore wind farm. In summary while capital and investment expenditure was £1.3bn, the increase in adjusted net debt was limited to £470m.

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 debt maturity as at 31 March 2010 was 11.0 years, compared with 11.8 years at 31 March 2009.

SSE's debt structure remains strong, with around £4.9bn of medium- to long-term borrowings in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans. Less than £100m of medium- to long-term borrowings will mature in the year to 31 March 2011. The balance of SSE's adjusted net debt is financed with short-term commercial paper and bank debt.

Financing investment
SSE's investment programme is supported by its carefully-maintained balance sheet, which remains one of the strongest in the utility sector, in line with its established financial principles. Its corporate credit ratings are now 'A-' (Standard & Poors) and 'A3' (Moody's). In line with the trend across the energy and utility sectors, and with the revisions to their ratings criteria which the agencies chose to make, they were both downgraded in 2009, having been on 'negative watch' following the acquisition of Airtricity in 2008. Nevertheless, they remain consistent with securing funding at a reasonable cost.

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 would otherwise be the case. This is demonstrated by its success in securing new funding and facilities totalling £4.8bn between July 2008 and March 2010, despite the very difficult market conditions experienced by all borrowers during that time. This included, during 2009/10:

- new committed bank facilities totalling £1bn, which mature in June 2012, to replace an existing £650m facility which had been due to mature in November 2009;
- a nine-year, £500m sterling bond with a coupon of 5%, issued by SSE in September 2009; and
- a £400m loan facility from the European Investment Bank to help finance the development of renewable energy schemes in the UK and Ireland.

SSE's five-year investment programme for the period to March 2013 is, therefore, well-financed. It will, however, move quickly to take the right financing options, including bonds, loans and, should new investment or acquisition opportunities arise, equity.

Net finance costs
The table below reconciles reported net finance costs to adjusted net finance costs, which SSE believes is a more meaningful measure. In line with this, SSE's adjusted net finance costs during 2009/10 were £335.9m, compared with £287.7m in the previous year.

The average interest rate for SSE, excluding JCE/Associate interest, during the year was 5.35%, compared with 5.25% for the previous year. Based on adjusted interest costs, underlying interest cover for 2009/10 was 6.3 times (excluding interest related to SGN), compared with 6.5 times in 2008/09; including interest related to SGN it was 5.6 times.

Excluding shareholder loans, SGN's net debt at 31 March 2010 was £3.1bn, and within the adjusted interest costs of £292.4m, the element relating to SGN's net finance costs was £63.0m (compared with £86.5m in the previous year), after netting loan stock interest payable to SSE. Its contribution to SSE's adjusted profit before tax* was, therefore, £120.7m, compared with £94.0m in the previous years.

Convertible bond maturity and authority to purchase own shares
SSE's 3.75% Convertible Bond, which had an initial nominal value of £300m, matured on 24 October 2009.

During 2009/10, 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 22 July 2010, and this remains a benchmark against which financial decisions are taken.

Pensions
In line with the IAS 19 treatment of pension scheme assets, liabilities and costs, pension scheme liabilities of £720.3m are recognised in the balance sheet at 31 March 2010, gross of deferred tax. This represents an increase in net liabilities of £446.8m compared with the position at March 2009, principally due to the reduction in the discount rate applied to future liabilities.

During 2009/10, employer cash contributions amounted to:

- £44.2m for the Scottish Hydro Electric scheme; and
- £66.0m for the Southern Electric scheme.

Employer cash contributions include the deficit repair contributions for the Scottish Hydro Electric scheme and the Southern Electric scheme of £29.5m and £38.8m respectively.

As part of the electricity Distribution Price Control for 2005-2010, it was agreed that allowances equivalent to the regulated business' share of deficit repair contributions in respect of the Southern Electric scheme should be included in price controlled revenue. The Price Control for 2010-2015 maintains this commitment to fully fund the regulated business' share of deficit repair contributions for both the Southern and now the Scottish Hydro Electric pension schemes, with an incentive around ongoing pension costs.

Finance costs

	March 10 £m	March 09 £m
Reported net finance costs	**265.3**	134.3
add/(less)		
Share of JCE*/Associate interest	**107.1**	128.2
Interest on convertible debt	**–**	(0.6)
Movement on derivatives	**(36.5)**	25.8
Adjusted net finance costs	**335.9**	287.7
Return on pension scheme assets	**100.7**	135.3
Interest on pension scheme liabilities	**(127.5)**	(130.1)
Finance lease interest	**(13.2)**	–
Notional interest arising on discounted provisions	**(3.5)**	(5.1)
Adjusted interest costs**	**292.4**	287.8

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

Tax charge

	March 10 £m	March 09 £m
Reported tax charge/(credit)	**403.1**	(59.0)
add back:		
Share of JCE/Associate tax	**51.3**	40.4
less:		
Deferred tax	**(69.4)**	(39.5)
Tax on exceptional items and certain remeasurements	**(110.9)**	358.5
Adjusted current tax charge	**274.1**	300.4

Tax

To assist the understanding of SSE's tax position, the adjusted current tax charge is calculated as shown in the tax charge table (left).

The effective adjusted current tax rate, based on adjusted profit before tax*, was 21.2%, compared with 24.0% in the previous year, on the same basis. The impact of SSE's higher capital expenditure programme and the changes introduced in Budget 2007 and 2009 have had, and will continue to have, a positive impact on the effective current tax rate. The reported tax charge is £403.1m, compared with a tax credit of £59m in the previous year. This reflects the deferred tax associated with the derivatives mark-to-market position.

SSE's contribution to government revenues in the UK, including Corporation Tax, Employers' National Insurance Contributions and Business Rates totalled £474.6m during 2009/10, compared with £484.9m in the previous year. The total includes joint ventures and associates.

Performance indicators

Financial overview

SSE's first responsibility to shareholders is to deliver sustained real growth in the dividend. See Financial overview on pages 11 to 15.

	2008	2009	**2010**	Change	
Adjusted profit before tax* – £m	1,229.2	1,253.7	**1,290.1**	+2.9%	●
Adjusted earnings per share* – pence	105.6	108.0	**110.2**	+2.0%	●
Dividend per share – pence	60.5	66.0	**70.0**	+6.1%	●
Capital expenditure – £m	810.3	1,279.8	**1,315.2**	+2.8%	●
Adjusted net debt – £bn	3.7	4.8	**5.3**	+10.4%	●
Average debt maturity – years	8.6	11.8	**11.0**	-6.8%	●
Underlying interest cover – times	11.7	6.5	**6.3**	-3.1%	●
Dividend cover – times	1.73	1.57	**1.57**	0.0%	●
Generation and Supply operating profit* – £m	711.1	832.0	**896.0**	+7.7%	●
Power Systems operating profit* – £m	382.9	403.7	**415.8**	+3.0%	●
Southern Electric Power Distribution operating profit* – £m	232.7	243.3	**256.9**	+5.6%	●
Scottish Hydro Electric Power Distribution and Transmission operating profit* – £m	150.2	160.4	**158.9**	-0.9%	●
Scotia Gas Networks operating profit* (SSE share) – £m	161.5	180.5	**183.7**	+1.8%	●
Gas storage operating profit* – £m	50.9	42.7	**41.8**	-2.1%	●
Telecoms operating profit* – £m	14.3	15.5	**16.4**	+5.8%	●
Contracting, Connections and Metering operating profit* – £m	68.7	74.8	**80.2**	+7.2%	●

Generation

SSE owns 11,330MW of capacity for generating electricity in the UK and Ireland and is investing around £4bn in capacity between 2008-13. See Generation on pages 21 to 30.

	2008	2009	**2010**	Change	
Assets					
Gas- and oil-fired generation capacity – MW	4,500	4,510	**4,590**	+1.8%	●
Coal-fired generation capacity (inc biomass co-firing) – MW	4,000	4,010	**4,370**	+9.0%	●
Total thermal generation capacity – MW	8,500	8,520	**8,960**	+5.2%	●
Total conventional hydro capacity – MW	1,050	1,150	**1,150**	0.0%	●
Total pumped storage – MW	300	300	**300**	0.0%	●
Total wind farm capacity – MW	600	690	**840**	+21.7%	●
Total dedicated biomass capacity – MW	80	80	**80**	0.0%	●
Total renewable (inc pumped storage) generation capacity – MW	2,030	2,220	**2,370**	+6.8%	●
Total electricity generation capacity – MW	10,530	10,740	**11,330**	+5.5%	●
Operations					
Gas-fired power station availability – %	95	76	**94**	+23.7%	●
Gas-fired power station thermal efficiency – %	49	51	**49**	-3.9%	●
Coal-fired power station availability – %	91	89	**92**	+3.4%	●
Coal- and biomass-fired power station thermal efficiency – %	36	35	**35**	0.0%	●
Power station water consumption – million cubic metres	2.9	2.9	**2.8**	-3.4%	●
Hydro storage – % of maximum water for generation	73	73	**52**	-28.8%	●
Wind farm availability – %	96	96	**97**	+1.0%	●

● Positive ● Neutral or Not Applicable ● Negative

	2008	2009	**2010**	Change	
Output					
Gas- and oil-fired output – TWh	18.2	15.3	**15.4**	+0.7%	
Coal-fired output (inc biomass co-firing) – TWh	12.0	7.8	**11.5**	+47.4%	
Total output from thermal power stations – TWh	30.2	23.1	**26.9**	+16.4%	
– including ROC-qualifying co-firing output – GWh	368	267	**218**	-18.3%	
Dedicated biomass – GWh	33	148	**136**	-8.1%	
Conventional hydro – GWh	3,518	3,316	**3,016**	-9.0%	
– including ROC-qualifying hydro output – GWh	1,702	1,656	**1,456**	-12.1%	
Wind energy (UK) – GWh*	389	953	**1,007**	+5.7%	
Wind energy (RoI) – GWh*	110	765	**854**	+11.6%	
Total output of renewable energy – GWh	4,050	5,182	**5,013**	-3.3%	
Total output from pumped storage – GWh	381	273	**395**	+51.3%	
Emissions					
Power station CO_2 emissions – million metric tonnes	22.7	19.3	**23.1**	+19.7%	
Power station CO_2 emissions – grams per kWh	496	491	**494**	+0.6%	
Power station SO_2 emissions – metric tonnes	37,125	17,318	**14,848**	-14.3%	
Power station SO_2 emissions – grams per kWh	0.903	0.441	**0.323**	-26.8%	
Power station NO_x emissions – metric tonnes	39,643	21,046	**27,121**	+28.9%	
Power station NO_x emissions – grams per kWh	0.964	0.536	**0.591**	+10.3%	
Investment					
Thermal generation – £m	246.2	216.2	**146.2**	-32.4%	
Renewable generation – £m	132.8	525.6	**666.6**	+26.8%	

* Including output from joint ventures and associates.

Supply

SSE supplies electricity and gas to 9.35 million customers in the competitive energy supply markets in Great Britain and Ireland. See Supply on pages 31 to 35.

	2008	2009	**2010**	Change	
Customer numbers					
Electricity customer accounts (GB domestic) – millions	4.90	5.10	**5.17**	+1.4%	
Gas customer accounts (GB domestic) – millions	3.15	3.50	**3.54**	+1.1%	
Energy customers (GB business sites) – millions	0.40	0.45	**0.45**	0.0%	
Total GB energy customer accounts – millions	8.45	9.05	**9.16**	+1.2%	
All-island energy market customers (Ireland) – 000s	40	50	**190**	+280.0%	
Total energy customer accounts – millions	8.85	9.10	**9.35**	+2.7%	
Home Services customer accounts – 000s	235	330	**410**	+24.2%	
Total customer accounts (GB and Ireland) – millions	8.73	9.43	**9.76**	+3.5%	
Operations					
Calls received from customers – millions	18	22	**21**	-4.5%	
Complaints/referrals to Energy Ombudsman	N/A	N/A	**374**	N/A	
Referrals to Consumer Direct	N/A	504	**542**	+7.5%	
Homes insulated under the Carbon Emissions Reduction Target – 000s	N/A	191	**274**	+43.5%	
Customers registered on Priority Services Register – 000s	367	518	**613**	+18.3%	
Customers with tailor made payment plans – 000s	200	237	**233**	-1.7%	
Customers with loyalty plans – millions	1.86	2.32	**3.16**	+36.2%	
Customers paying by direct debit or standing order – %	N/A	58	**58**	0.0%	
Domestic/small business customer aged debt – £m	70	72	**90**	+25.0%	
Electricity disconnections – per 1,000 customers	0.03	0.02	**0.02**	0.0%	
Gas disconnections – per 1,000 customers	0.22	0.07	**0.02**	-71.4%	

Performance indicators (continued)

Networks

SSE owns three regional electricity networks and has a 50% stake in two regional gas networks in Great Britain. See Networks on pages 37 to 43.

	2008	2009	**2010**	Change	
Assets					
Electricity networks Regulated Asset Value – £bn	2.73	2.89	**2.97**	+2.8%	●
Gas network Regulated Asset Value (SSE share) – £bn	1.75	1.82	**1.97**	+8.2%	●
Total Regulated Asset Value of energy network assets – £bn	4.48	4.71	**4.94**	+4.9%	●
Southern Electric Power Distribution mains in commission – km	75,747	76,269	**77,004**	+1.0%	●
Scottish Hydro Electric Power Distribution mains in commission – km	46,454	46,662	**46,859**	+0.4%	●
Scottish Hydro Electric Transmission mains in commission – km	4,913	4,913	**4,913**	0.0%	●
Total electricity mains in commission – km	127,114	127,844	**128,776**	+0.7%	●
Scotia Gas Networks mains in commission – km	73,705	73,995	**73,799**	-0.3%	●
Telecoms network – km	8,000	10,300	**11,200**	+8.7%	●
Operations					
Electricity distributed – TWh	42.9	42.9	**42.1**	-1.9%	●
Southern Electric Power Distribution average customer minutes lost	67	66	**65**	-1.5%	●
Southern Electric Power Distribution customer interruptions per 100 customers	66	64	**61**	-4.7%	●
Scottish Hydro Electric Power Distribution average customer minutes lost	72	75	**74**	-1.3%	●
Scottish Hydro Electric Power Distribution customer interruptions per 100 customers	69	76	**76**	0.0%	●
Gas distributed – TWh	169.3	173.5	**163.0**	-6.0%	●
Uncontrolled gas escapes attended within one hour – %	97.5	98.6	**97.9**	-0.7%	●
Telecoms operational faults fixed within Service Level Agreements – %	98	98	**98**	0.0%	●
Investment					
Electricity networks capital expenditure – £m	264.4	314.6	**334.5**	+6.3%	●
SGN capital/repair expenditure (SSE share) – £m	189.5	191.4	**206.4**	+7.8%	●

Services

SSE provides a range of energy-related services to industrial, commercial and public sector customers in the UK and Ireland. See Services on pages 43 to 46.

	2008	2009	**2010**	Change	
Contracting, connections and metering					
New electrical connections	42,800	36,000	**24,300**	-32.5%	●
New gas connections	8,200	7,300	**6,700**	-8.2%	●
Out-of-area networks in operation	33	47	**53**	+12.8%	●
Contracting order book (year end) – £m	99	101	**115**	+13.9%	●
Meters read once a year – %	95	95	**95**	0.0%	●
Meters read twice a year – %	81	77	**79**	+2.6%	●
Gas storage					
Net capacity – mcm	325	325	**400**	+23.1%	●
Customer nominations met – %	100	100	**100**	0.0%	●

● Positive ● Neutral or Not Applicable ● Negative

Safety, sustainability and teamwork

In addition to service, efficiency and excellence, SSE measures its performance against its other core values – safety, sustainability and teamwork.

	2008	2009	**2010**	Change	
Safety					
Total Recordable Injury Rate per 100,000 hours worked	N/A	0.16	**0.14**	-12.5%	
Blameworthy serious/potentially serious road traffic incidents per 100 vehicles	0.18	0.37	**0.34**	-8.1%	
Total Recordable Injury Rate per 100,000 hours worked (Contractors)	0.35	0.50	**0.31**	-38.0%	
Accident Frequency Rate HSE reportable/lost time	0.04	0.07	**0.03**	-57.1%	
Working days lost from injury	N/A	361	**73**	-79.8%	
Sustainability					
Power station IPC/IPPC breaches	2	1	**1**	0.0%	
Oil leaked – litres	42,189	27,931	**31,179**	+11.6%	
Waste produced by offices and depots – tonnes	30,299	27,120	**24,070**	-11.2%	
Waste sent to landfill from offices and depots – tonnes	8,282	6,979	**5,461**	-21.7%	
Water consumption in principal offices – cubic metres	102,070	105,557	**105,234**	-0.3%	
Water consumption in principal offices – cubic metres per whole time equivalent	6.7	6.1	**5.5**	-9.8%	
Energy consumption in principal offices – GWh	21	26	**23**	-11.5%	
Energy consumption in principal offices – MWh per WTE	4	4	**4**	0.0%	
Distance travelled on SSE business – km per WTE	14,530	14,931	**13,421**	-10.1%	
Business flights	8,265	9,393	**9,542**	+1.6%	
Business flights per 1,000 employees	489	500	**473**	-5.4%	
Business rail journeys	8,285	13,178	**13,921**	+5.6%	
Business rail journeys – per 1,000 employees	496	701	**690**	-1.6%	
Operational vehicles business travel – million km	181.7	207.8	**205.2**	-1.2%	
Company cars business travel – million km	31.2	37.1	**40.7**	+9.7%	
Average emissions from Company and operational vehicles – grams/km	156.5	154.2	**150.5**	-2.4%	
Teamwork					
Employees – headcount	16,892	18,795	**20,177**	+7.3%	
Employees – monthly average	15,777	18,196	**19,308**	+6.1%	
Employees – average age	41	38	**39**	+2.6%	
Turnover of employees – %	11.9	11.5	**8.7**	-24.3%	
Absence from work per employee – days	6.03	5.89	**5.31**	-9.8%	
Gender split – all employees – male/female	74/26	74/26	**73/27**	N/A	
Gender split – Leadership Group – male/female	88/12	87/13	**88/12**	N/A	
Breaches of equal opportunities legislation	0	0	**0**	0.0%	
Employees in Share Incentive Plan – %	38	38	**42**	+10.5%	
Community					
Funds set aside for community benefit – £000s	906	1,162	**1,980**	+70.4%	
Funds set aside for charitable causes – £000s	873	1,001	**1,410**	+40.9%	
Total charitable and community donations – £000s	1,779	2,163	**3,390**	+56.7%	
Research and development					
Research and development – £m	3.7	4.4	**3.7**	-15.9%	
Committed investment in clean-tech ventures (cumulative) – £m	60	88	**109**	+23.9%	
Suppliers					
New suppliers	1,024	1,037	**1,233**	+18.9%	
Suppliers for more than three years	4,270	4,029	**4,438**	+10.1%	

Business overview

Generation and Supply

Introduction
SSE owns just over 11,300MW of capacity for generating electricity, a net increase of 600MW since 1 April 2009. The large majority (over 10,850MW) of this capacity is in Great Britain in which total capacity is around 83,000MW, including the capacity to import from France. The remainder (450MW) is in Northern Ireland and the Republic of Ireland, where there is an all-island Single Electricity Market, of around 10,000MW, which is separate from the market in Great Britain.

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

- 4,590MW of gas- and oil-fired capacity;
- 4,370MW of coal-fired capacity (with biomass co-firing capability); and
- 2,370MW of renewable (hydro, wind and dedicated biomass) capacity.

This balance between coal- and gas-fired generation capacity, and the balance between fossil fuel and renewable sources of energy, avoids dependency on a single technology or commodity and gives SSE the greatest diversity in fuels for generating electricity among UK generators. As a result, SSE has significant optionality in the management of its power stations. It is this diversity and the optionality that goes with it which enable SSE to manage the risks inevitably associated with primary fuel procurement. Management of these risks is also assisted by the fact that SSE is the largest generator of electricity from renewable sources across the UK and Ireland.

SSE's diverse electricity generation assets are balanced by its electricity and gas supply customer base. As at 31 March 2010, SSE supplied energy to 9.16 million customer accounts in Great Britain and 190,000 accounts in Northern Ireland and the Republic of Ireland, 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; and
- the fourth largest supplier in the Irish all-island energy market, which has around 3.1 million accounts in total.

SSE's 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, provide the associated services such as metering and billing and promote the efficient use of energy.

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. To ensure customers' requirements are 'hedged', energy is sourced up to two years or more in advance of it actually being used. SSE also buys gas, coal, oil and biomass to use in the production of electricity from its power stations, as well as carbon dioxide emissions allowances.

SSE's long-term power purchase agreements with Barking Power Ltd (in which it has a 30.4% stake) and Derwent Cogeneration Ltd (in which it has a 49.5% stake) are due to expire in September 2010. The current contract, under which British Energy supplied SSE with 5TWh (terrawatt-hours) of electricity during 2009/10 and will supply 5TWh during 2010/11 (arranged as part of SSE's acquisition of the Swalec energy supply business in 2000) ends in March 2011. In order to provide continuing long-term stability to the energy portfolio, further contractual arrangements have been agreed. These include the 15-year tolling agreement with Marchwood Power Ltd which commenced in 2009.

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 a vertically-integrated business. This means its power stations and fuel supply contracts are used to support performance in electricity (and, by extension, energy) supply. As the UK Treasury and Department of Energy and Climate Change said in March 2010: 'Vertical integration offers several benefits, including lower risk from wholesale electricity price volatility, economies of scale and price smoothing.'

Against this background, SSE seeks to maintain a well-balanced portfolio of assets, contracts and customers, and over recent years its growth in power station capacity has been similar to its growth in supply customer numbers. This balanced, integrated business, featuring a diverse range of assets, has, therefore, value that goes beyond the sum of its parts – not least because its exposure to particular commodity price outcomes is reduced.

SSE seeks to maintain a well-balanced portfolio of assets, contracts and customers, and over recent years its growth in power station capacity has been similar to its growth in energy customer numbers. This balanced, integrated business, featuring a diverse range of assets, has, therefore, value that goes beyond the sum of its parts.

Generation and Supply performance overview
Operating profit* in Generation and Supply was £896.0m, compared with £832.0m in the previous year, contributing 55.1% of SSE's total operating profit* in 2009/10. The main differences between 2009/10 and the previous year are set out under 'Adjusted Profit Before Tax' above. (SSE reports the underlying financial performance of Generation and Supply excluding the impact of IAS 39 remeasurements which are unrealised as it continues to believe that this does not represent underlying business performance.)

Total revenue for Generation and Supply was £20.5bn, which accounted for 91%

of SSE's total revenue in 2009/10, of which £8.2bn was in relation to sales of electricity and gas to industrial, commercial and domestic customers.

Electricity generated and supplied
During 2009/10, SSE generated 47.2TWh of electricity, including power stations in which it has a part-ownership or contractual interest. It also purchased 5.6TWh of electricity through long-term contracts with other generators. In the year, it supplied 32.7TWh of electricity to its domestic and small business customers and 27.0TWh was supplied under contract to industrial and commercial customers. Net balances were traded in the wholesale electricity market.

Average electricity usage per GB household customer of SSE fell from 4,748kWh in 2008/09 to 4,540kWh in 2009/10 and gas usage fell from 598 therms to 558 therms.

Consolidated segmental statement
Ofgem has introduced a requirement on electricity generators and suppliers to publish a Consolidated Segmental Statement showing revenue, costs and profits from electricity generation and electricity and gas supply activities. This statement must be published no later than six months after the end of the financial year (ie by 30 September 2010) and will be accompanied by a narrative on the assumptions used to determine income and cost.

This assumption-based approach is necessary, because the requirement to produce such a statement will not have any significant impact on SSE's long-standing approach of managing its generation and supply activities as a single value chain. The presentation of Generation and Supply in SSE's financial statements will not change.

From a wider point of view, companies adopting an integrated approach to generation and supply are most likely to be able to deliver the level of investment needed in generation in the UK and Ireland because the risks associated with such large-scale and long-term investments are mitigated by the income earned from supplying electricity and gas to customers.

Generation

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 2006 to 2020.

→ **Gas-fired power** page 22
→ **Coal- and biomass-fired power** page 23
→ **Hydro power** page 26
→ **Wind power** page 27
→ **Emerging technologies** page 29

Context
Over the next decade, around 20GW of the UK's capacity for generating electricity (largely coal, oil and nuclear) is scheduled to close because of its age or its inability to comply with higher environmental standards. In July 2009, the UK government's Low Carbon Transition Plan included a projection of possible shares of electricity generated from different sources in 2020, based on energy demand estimated at 370TWh:

→ Renewables: 31% (up from 6%)
→ Gas: 29% (down from 45%)
→ Coal: 22% (down from 32%)
→ Nuclear: 8% (down from 13%)
→ Other sources such as CHP: 10% (up from 3%)

All of this has five major implications for electricity generation over the next 10 years:

→ a balance of fuels used within the UK's generation portfolio will remain critical in providing security of supply, through allowing diversity of primary energy sources;
→ 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;
→ the UK will have to provide replacement capacity for conventional and nuclear generation plant which is expected to retire;
→ legally-binding targets for renewable energy and carbon dioxide emissions support the value of renewables and will require sustained major programmes of investment; and
→ 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. The value of established and flexible capacity is likely to be reinforced.

The extent of the investment required in electricity generation, and the high up-front costs associated with the low-carbon technologies which the investment is needed to deliver, will require the public policy framework in the UK to evolve over the next few years, with interventions to support those low-carbon technologies. SSE is open-minded about the precise nature of these interventions, as long as existing low-carbon investments are safeguarded and the investment climate remains positive. It believes that the progressive decarbonisation of its electricity generation portfolio means it is well-placed if the cost associated with carbon dioxide emissions increases.

Generation objectives
In this context, SSE's key objectives in Generation, covering operations and investment, remain relevant and appropriate. The operational objectives are to:

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

SSE's investment objectives in Generation cover both existing and new power-producing plant. They are to:

→ maintain a diverse portfolio of power stations, with the flexibility to respond to customer demand and market conditions;
→ invest in developments supported by EU Member States' financial frameworks (such as the UK's Renewables Obligation) to help ensure legally-binding targets for renewable energy in 2020 can be met; and
→ develop and pursue a diverse range of options for adding to its portfolio of power stations, and thus support security of supply.

Business overview (continued)

2010 at a glance: Electricity generation capacity

Gas and oil generation – MW

4,590

2009 – 4,510

Coal and biomass generation – MW

4,370

2009 – 4,010

Hydro generation – MW

1,450

2009 – 1,450

Wind generation – MW

840

2009 – 690

Dedicated biomass generation – MW

80

2009 – 80

Total generation capacity – MW

11,330

2009 – 10,740

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 2006, the first full year after it acquired coal-fired power stations, to 2020. This will be achieved through a combination of more electricity being produced from renewable sources and from cleaner fossil fuels such as gas, and less being produced from coal, the most carbon-intensive fuel.

Gas-fired generation – operations
SSE owns 4,590MW of gas- and oil-fired electricity generation capacity, including its share of joint ventures.

Although the total installed capacity of Peterhead power station is 1,840MW, its maximum level of access to the transmission network at any one time is now 1,180MW, the same as the station's Unit One capacity, following the release of 344MW of electricity Transmission Entry Capacity (TEC) rights at the station in March 2010 to reduce Transmission Network Use of System (TNUoS) charges. Only 1,180MW has, therefore, been included in the overall capacity total for SSE's gas-fired power stations. The balance, in the station's Unit Two, allows Peterhead to provide replacement generation capacity when Unit One is undergoing outages.

Electricity generation plant remains exposed to significant operational costs. Costs include high and volatile TNUoS charges in the northern part of the country, business rates, maintenance and insurance. As the changes at Peterhead demonstrate, SSE monitors closely these costs in the context of the income which generation plant is able to earn and takes action to make sure that plant is able to operate economically over the medium term.

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 by customer demand and market conditions. During 2009/10, SSE's principal wholly-owned gas-fired power stations (Fife, Keadby, Medway and Peterhead) achieved 94% of their maximum availability to generate electricity, excluding planned outages, compared with 76% availability in the previous year. This reflected the return to service of Medway power station in June 2009, following a 15-month unplanned outage. The new power station at Marchwood (see below) achieved 100% availability between the time it became commercially available in December 2009 and the end of March 2010.

The amount of electricity generated by SSE at gas-fired power stations in which it has an ownership or contractual interest was 32.1TWh in 2009/10 (including 15.4TWh from wholly-owned stations), compared with 28TWh in the previous year (including 15.3TWh from wholly-owned stations).

During 2009, SSE's Engineering Centre completed a detailed review of the way that SSE's power-producing assets are managed. The review was supported by external engineering advisers. It confirmed that the asset management of SSE's power station plant, and the underpinning engineering judgements, are at, or above, expected industry standards. At the same time, it identified some potential improvements in the execution of maintenance.

Against this background, SSE has designed and implemented an updated model for managing its generation assets, with four key stages:

- asset scoping and monitoring;
- asset life management;
- engineering strategy development, including risk management; and
- advanced planning and execution, with detailed works and investment planning taking place prior to the implementation of any programme of planned outages.

The adoption of a consistent approach in the management of its assets, which have different characteristics and which have been developed, acquired or upgraded over a number of years, plus other steps, such as the acquisition of strategically-significant spare parts for generating plant to mitigate major failures, and the ongoing development of the Engineering Centre itself, including its Equipment Performance Centre, should help SSE ensure its generation assets deliver on a consistent basis levels of availability that meet both market and sustainability requirements.

Gas-fired generation – investment
Ofgem's 'Project Discovery – Energy Market Scenarios', published in October 2009, highlighted that Britain will face significant levels of gas imports, in particular for gas-fired power plants to replace lost nuclear and coal-fired generation capacity, and that this will increase the country's exposure to uncertainties in the global gas market.

To avoid over-dependence on a single fuel, SSE operates a diverse generation portfolio and actively develops a diverse range of options to add to it. At the same time, CCGT continues to be the benchmark technology in generation, making a growing contribution to meeting the UK's electricity requirements, because of its relatively low costs, short construction time and high thermal efficiency. With a carbon intensity around half that of coal-fired power stations, investment in CCGT assists in the transition to lower-carbon electricity generation.

The 840MW CCGT plant in Southampton developed by Marchwood Power Ltd, a 50:50 joint venture between SSE and ESB International, became available for full commercial operation in December 2009, making it the UK's first new gas-fired power station for five years. All of the station's output is contracted to SSE.

With a net thermal efficiency in excess of 58%, Marchwood is one of the most efficient gas-fired power stations in the UK. SSE's total investment in Marchwood was around £180m, comprising equity and debt, reflecting the fact the plant was procured before the significant increase in costs experienced in the electricity generation sector in 2007 and 2008. With a construction cost of less than £500/kW, it was a particularly well-timed and well-founded investment.

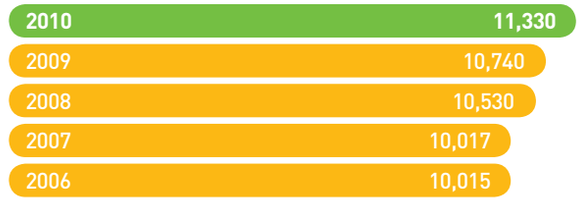
In May 2009, SSE acquired Abernedd Power Company Limited from BP Alternative Energy. Abernedd has applied for consent to construct and operate a new CCGT power station, with a capacity of over 800MW, on a brownfield site in Baglan Bay in South Wales, where there is already in place electricity transmission, 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. Subject to planning consent being secured, SSE has decided to schedule construction of the new power station with a view to generation plant first becoming operational in around 2015 (which is slightly later than originally envisaged, but reflects the short-term fall in demand for electricity following the economic downturn in the UK). This demonstrates that SSE has flexibility in the timing and nature of the development – flexibility it has already used to delay by around a year the proposed development of the first phase of the power station.

In addition, SSE has identified other options for additional CCGT capacity. These include:

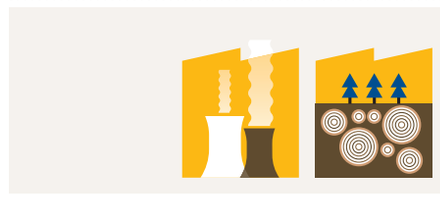
- the potential development of new capacity at Keadby power station. SSE has effective consent to develop 710MW of capacity at Keadby and in April 2009 it secured an agreement to connect a new 850MW power plant to the electricity transmission network from 2016; and
- the creation of additional capacity at Barking Power Ltd, in which SSE has a 30.4% stake. Barking has consent to develop a new 470MW CCGT, which – if constructed – would effectively add around 140MW to the portfolio of gas-fired generation assets owned by SSE.

In April 2010, BG Group announced it had reached an agreement to sell its 50% interest in Seabank Power Limited, which operates the 1,140MW CCGT near Bristol in which SSE has the other 50% interest. SSE has pre-emption rights in respect of BG Group's interest in Seabank Power Limited, which it does not expect to exercise.

Total generation capacity – MW



Generation capacity – composition %



Coal and biomass generation – operations
During 2009/10, SSE generated 11.5TWh of electricity at its coal-fired power stations at Fiddler's Ferry and Ferrybridge, compared with 7.8TWh in the previous year. The stations achieved 92% of their maximum availability to generate electricity, excluding planned outages, compared with 89% in the previous year.

The increase in output reflects the removal, in the early part of 2009, of the constraints on running hours at the stations imposed by Article 5(1) of the Large Combustion Plant Directive (LCPD), following hot commissioning of flue gas desulphurisation (FGD) equipment. The equipment has been installed to cover all of the capacity at Fiddler's Ferry and half of the capacity at Ferrybridge (3,000MW in total), making it possible for it to remain operational beyond 2015 (subject to emerging policy under the proposed Industrial Emissions Directive). The other 1,000MW of capacity at Ferrybridge was opted out of the LCPD and so operates under restrictions on its ability to generate electricity and must close in 2015.

Business overview (continued)

The installation of FGD equipment means that the power stations are able to use higher-sulphur coal mined in the UK. As a result, in April 2009, SSE 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 up to 2015. This should be enough to meet around 15% of the station's requirements during that period. In addition, SSE has advanced a secured loan to UK Coal, on which interest is payable, to be repaid by 2014.

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 218GWh, compared with 267GWh in the previous year (included within the above total for the stations as a whole). This follows the change on 1 April 2009, since when electricity output resulting from co-firing receives 0.5 ROCs per MWh, compared with 1.0 ROC per MWh previously. Electricity suppliers can now meet up to 12.5% of their Renewables Obligation from this technology.

Coal and biomass generation – investment
In August 2009, SSE acquired Uskmouth Power Company Limited, the owner and operator of the 363MW Uskmouth coal-fired power station near Newport, South Wales for a total cash consideration of £27m (including £10m of cash and working capital balances). Uskmouth comprises three independent power generating units, each with 121MW of capacity. The power station dates from the 1960s and was substantially refurbished in 2000, including having FGD equipment fitted. It routinely operates on a two-shift basis to help meet shorter-term power requirements. Following the acquisition, around 100 people employed at the station joined SSE. The integration of Uskmouth into SSE's portfolio of power generating assets went well. Its availability was 96% following completion of an outage that was extended because of the need to secure spare parts.

The LCPD also requires reduced emissions of nitrogen oxides. SSE has already invested £31m to install SOFA (Separated Overfire Air) and BOFA (Boosted Overfire Air) equipment at the stations to reduce such emissions. From 2016 limits on emissions of nitrogen oxides 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 next year, into options for installing Selective Catalytic Reduction (SCR) technology at Fiddler's Ferry. The alternative to fitting SCR is to operate the station within limits required under a derogation from the LCPD's requirements.

SSE has applied for consent to install the SCR technology at Fiddler's Ferry under Section 36 of the Electricity Act 1989. Its analysis of the issues around installing SCR will also take into consideration the progress of the draft EU Industrial Emissions Directive, which the European Commission has proposed in order to overhaul seven existing pieces of legislation on industrial emissions, including the LCPD, into a single directive. As a result, it does not expect to take a decision on installing SCR until 2011.

Coal and biomass generation – decarbonisation
Coal is a critically important fuel for the UK, because of its flexibility, its availability and because it reduces reliance on imported gas. Existing coal-fired power stations still have a crucial role to play in maintaining secure supplies of electricity, but it is clear that that role will have to change if legally-binding carbon dioxide emissions targets are to be met. In October 2009, the UK's Committee on Climate Change re-stated its previous recommendation that 'there can be no role for conventional coal generation in the UK beyond the early 2020s'. SSE certainly believes that no new coal-fired power stations should be built without full carbon dioxide abatement and that no coal-fired power stations without such abatement should be allowed to operate beyond 2030.

In April 2010 it secured consent from Wakefield District Council to develop at Ferrybridge the UK's biggest carbon dioxide capture trial facility. The £21m trial will be carried out in collaboration with Doosan Babcock and Vattenfall and will demonstrate the carbon dioxide capture element of carbon capture and storage (CCS) technology. In March 2009, it secured £6.3m of funding from the UK Department of Energy and Climate Change, the Technology Strategy Board and Northern Way. Construction work is expected to start later this year, with the trial itself commencing in 2011 and running through to the end of 2012.

The scale of the project, equivalent to 5MW of coal-fired power generating capacity producing 100 tonnes of carbon dioxide per day, bridges the gap between the various laboratory-scale trials that are under way and the larger-scale projects envisaged by the UK government. The significance of the project therefore lies in its scale and its ability to demonstrate: the operational characteristics of capture plant on an actual power station; and the performance of the amine solvent on real flue gas.

Coal and biomass generation – recycling
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 as its main raw material in the production of plasterboard.

The ash separation plant developed at Fiddler's Ferry by RockTron (Widnes) Ltd is now operational. 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 become marketable mineral products, with the largest volume being initially used as cement substitutes.

SSE now has 49.9% of the equity in RockTron (Widnes) Ltd, a subsidiary of RockTron Ltd, enabling it to secure a share of the income from the ash

SSE certainly believes that no new coal-fired power stations should be built without full carbon dioxide abatement and that no coal-fired power stations without such abatement should be allowed to operate beyond 2030.

separation plant, in addition to the benefits which 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 18.9 million tonnes of carbon dioxide emissions allowances per calendar year, including the allowances for Marchwood and Uskmouth. Its emissions allowances requirement for 2009/10, beyond those allocated under EU ETS, was 4.9 million tonnes. This compares with 2.5 million tonnes in the previous year. During 2009/10, the price of allowances ranged from around €11.50 to around €15.50 per tonne. From 2013, all of the carbon dioxide emissions allowances for electricity producers will be auctioned.

Emissions of carbon dioxide
In 2009/10, emissions of carbon dioxide from power stations in which SSE has an ownership or contractual interest totalled 23.1 million tonnes, compared with 19.3 million tonnes in the previous year, reflecting the increase in the amount of electricity generated from thermal power stations following the unusually low level in the previous year. 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 2009/10. SSE's carbon emissions data is externally verified by a UK Accreditation Service (UKAS)-accredited organisation.

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 2009/10 was 494g/kWh, compared with 491g/kWh in the previous year, reflecting the greater thermal content of SSE's electricity fuel mix.

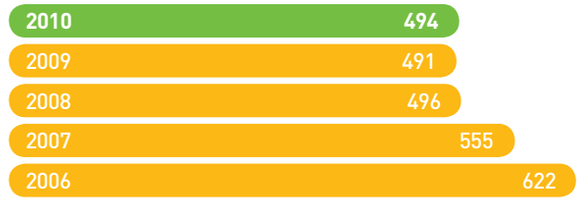
The decisions SSE takes and the investments it makes are influenced by this target. For example, since 2005/06, it has invested over £65m in carbon dioxide efficiency improvements, or to facilitate the burning of carbon neutral fuels such as biomass, at its coal-fired power stations. More fundamentally, SSE's extensive programme of investment in energy from renewable sources, including the acquisition in December 2009 of a 25.1% stake in the Walney offshore wind farm development, demonstrates its financial commitment to a lower-carbon future.

Since 2000, the Carbon Disclosure Project (CDP) has, on behalf of institutional investors, 'challenged the world's largest companies to measure and report their carbon emissions; integrating the long-term value and cost of climate change into their assessment of the financial health and future prospects of their business'. In 2009, CDP received the highest response rate to date. SSE secured a score of 78%, the same as in 2008, missing the Carbon Disclosure Leadership Index by just 1%.

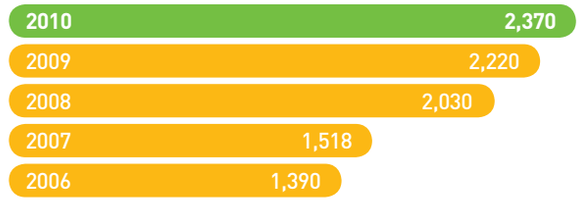
Renewable energy – overview
Tackling climate change and securing future supplies remain the two main goals of energy policy in the UK, Ireland and the EU. Against this background, the EU Renewable Energy Directive imposes legally-binding targets on Member States, specifying the proportion of all energy consumption that must be met by renewable energy sources by 2020. The national target for the UK is 15% (compared with 2.25% achieved in 2008) and for the Republic of Ireland it is 16%. In practice, this is likely to mean that around one third of the countries' electricity requirements will have to be met from renewable sources. Amongst other things, decarbonising the production of electricity through investment in renewable sources of energy will help to reduce dependence on imported gas.

The Renewables Obligation (RO) has been the UK's main support scheme for electricity generated from renewable sources since 2002. Under the RO, generators receive Renewable Obligation Certificates (ROCs) for electricity generated from eligible renewable sources and electricity suppliers are required to source an increasing proportion of their

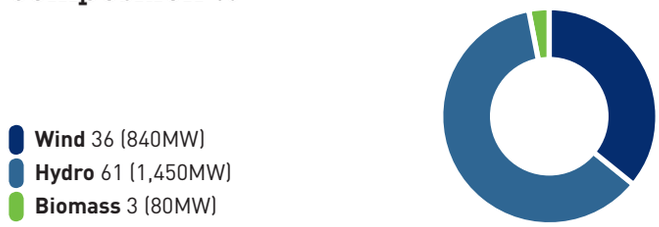
Power station CO_2 emissions – grams per kWh



Renewable generation capacity – MW



Renewable energy capacity – composition %



Business overview (continued)

electricity from eligible renewable sources; in 2009/10, the proportion was:

- 0.097 ROCs per MWh (or 9.7%) of electricity supplied in England, Wales and Scotland; and
- 0.035 ROCs per MWh (or 3.5%) of electricity supplied in Northern Ireland.

In 2010/11 it is 0.111 ROCs per MWh of electricity supplied in England, Wales and Scotland and 0.0427 ROCs in Northern Ireland. The effect of this is to encourage the necessary investment in electricity generation from renewable sources by enhancing the value of the output.

A number of changes to the RO were introduced on 1 April 2010. Key changes were:

- an extension of the life of the RO to at least 2037;
- an increase in the level of 'headroom' between the proportion of renewable electricity required by the RO and the expected level of output; and
- an increase in the ROCs earned on output from all offshore wind farm projects accredited between April 2010 and March 2014, from 1.5 to 2.0. (The Walney and Greater Gabbard offshore wind farms are expected to be fully accredited in 2011 and 2012 respectively.)

The effect of these changes is to provide developers and investors with greater long-term certainty about, and confidence in, the financial support for electricity generated from renewable sources.

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 2,370MW of commissioned renewable energy capacity in the UK and Ireland, comprising hydro electric schemes (including pumped storage), wind farms and a dedicated biomass facility at Slough, an increase of 150MW during the year. Of this, 1,050MW qualify for ROCs (including dedicated biomass).

Total output from all of SSE's conventional hydro electric schemes, wind farms and its dedicated biomass plant was 5,013GWh during 2009/10, compared with 5,182GWh in 2008/09. This was over 10% lower than expected because of the unusually dry and still weather conditions experienced in the winter of 2009/10.

Looking ahead, SSE has set itself the target of owning 4,000MW of renewable energy capacity in the UK and Ireland that is either commissioned or under construction 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 for renewable energy and carbon dioxide emissions in the UK and Ireland. It is also making comprehensive plans to build on its 2008-13 programme of investment in renewable energy in the subsequent years.

Moreover, in addition to the clear environmental benefits associated with harnessing their power, water and wind are key sources of free and indigenous primary energy which reduce SSE's exposure to volatile prices for fossil fuels, especially gas, sources of which are in decline but which will be in huge demand from growing, populous economies across the world.

Hydro generation – operations
SSE owns and operates just over 1,450MW of capacity in hydro electric schemes, including the 300MW pumped storage facility at Foyers, on Loch Ness.

Total output from the conventional hydro electric schemes was 3,016GWh during 2009/10, compared with 3,316GWh during the previous year. As at 31 March 2010, the amount of water held in SSE's reservoirs which could be used to generate electricity was 52% of the maximum, compared with 73% in the previous year. The unusually cold weather experienced from December to March, with prolonged spells of sub-zero temperatures, resulted in the amount of water running off into reservoirs being much less than normal.

In order to encourage long-term investment to maintain smaller schemes, the output of refurbished hydro electric stations with capacity of up to 20MW qualifies for ROCs, as does the output from all stations commissioned after 2002. SSE has just over 500MW of capacity in this category. Of the total hydro output in 2009/10, 1,456GWh qualified for ROCs, compared with 1,656GWh 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 almost 1,500GWh in 2010/11.

In August 2009, SSE identified a blockage caused by a fall of rock near the top of the tunnel carrying water from the reservoir to the power station at the 100MW Glendoe hydro electric scheme, thus stopping operations at the station. The repair will require the construction of two new tunnels: one around 900 metres, to divert water around the blockage; and a second, shorter, access tunnel. The tunnelling work will be carried out using the drill and blast method. BAM Nuttall has been retained as the contractor for this work, which is under way. Nevertheless, the extent of the repair work is such that electricity generation is unlikely to resume before the summer of 2011.

Hydro generation – investment
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. Since the Renewables Obligation was introduced in April 2002, SSE has invested around £450m in refurbishing and developing hydro electric schemes in Scotland. Investment in this area totalled £4.6m during 2009/10.

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 has submitted to Scottish Ministers an application for consent to develop a 60MW pumped storage scheme as part of 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.

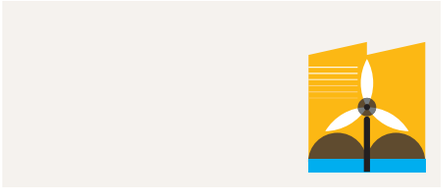
In an average year, Sloy produces around 120GWh of electricity and adding to it a pumped storage facility would allow it to store an additional 100GWh of electricity in a typical year to help meet peak demand. SSE currently expects that developing a pumped storage facility at Sloy will require investment of over £30m.

In addition, SSE is proposing to develop two new large-scale pumped storage hydro electric schemes at Coire Glas at Loch Lochy and Balmacaan at Loch Ness. In October 2009, it asked the Scottish Government for its formal opinion on

the scope of the environmental impact statement that would accompany planning applications for the schemes, currently planned to be submitted during 2012. Construction is unlikely to start before 2014 at the earliest, and progress of the schemes (and other such developments) will be dependent upon a satisfactory public policy and regulatory framework, including TNUoS charges.

They would be the first brand new pumped storage schemes to be developed in Great Britain since work began on the Dinorwig scheme in Wales in 1974. Subject to final agreements and design, it is envisaged that the proposed schemes would each have an installed capacity of between 300MW and 600MW; and each would be able to produce in excess of 1,000GWh of electricity in a typical year to help meet peak demand.

In both cases, the upper reservoirs would be large, enabling electricity generation to continue for longer periods, without the need to pump water from the loch below, than is the case for other pumped storage schemes in Great Britain. Both schemes would require the construction of a dam to impound water and create the upper reservoirs, but it is currently envisaged that water pumping and electricity generation at both developments will be carried out under ground, thereby avoiding any visual impact in the Great Glen itself.



Wind generation – operations
As at 31 March 2010, SSE owns and operates 840MW of onshore wind farm capacity in the UK and Ireland, compared with 690MW at 31 March 2009. Of the 2010 total, 370MW is in the Republic of Ireland. SSE also has 2MW of onshore wind farm capacity in Portugal.

Output from SSE's portfolio of wind farms in 2009/10 was (comparison with previous year in brackets):

- 1,007GWh in the UK, (953GWh); and
- 854GWh in the Republic of Ireland, (765GWh).

On average, the turbines at SSE's wind farms in the UK and Ireland achieved 97% of their maximum availability to generate electricity, compared with 96% in the previous year. Their average load factor was lower than expected, at just over 26%, compared with 29% in the previous year, due to the unusually still weather conditions experienced in the winter of 2009/10.

Wind generation – investment overview
When SSE entered into the agreement to acquire Airtricity (which has since been re-named SSE Renewables for renewable energy development) 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 capacity now totals 1,780MW, comprising:

- 840MW in operation;
- 790MW in construction or pre-construction; and
- 150MW with consent for development.

SSE has also submitted for approval by the relevant planning authorities in the UK and Ireland proposals for onshore wind farms with a total capacity of 1,400MW. Beyond this, SSE has around 2GW of onshore wind farm capacity development opportunities in the pre-planning phase in the UK and Ireland and over 3GW under development in mainland Europe.

In addition to its onshore capacity, SSE has offshore wind farm capacity in operation or under construction totalling almost 350MW, comprising:

- a 50% stake in the 10MW Beatrice offshore wind farm in the Moray Firth;
- a 50% share of the 500MW Greater Gabbard development now under construction in the outer Thames Estuary; and
- a 25.1% share of the 367MW Walney offshore wind farm now under construction in the Irish Sea.

All of this means that SSE now has 3,660MW of renewable energy capacity (onshore wind, offshore wind, hydro and dedicated biomass) in operation, under construction or with consent for development in the UK and the Republic of Ireland.

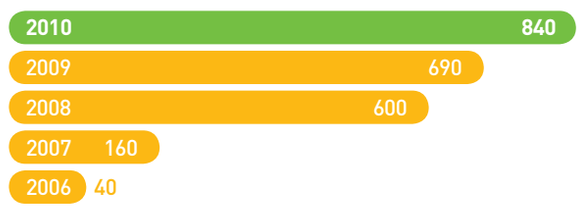
Not included within this total is the foreshore lease that SSE holds to develop in excess of 500MW at the fully-consented Arklow Bank site in the Irish Sea. The timing of future developments at Arklow Bank will be dependent upon, amongst other things, the extent of financial support for offshore wind farms available from the Irish government.

In December 2009, SSE and DONG Energy announced an agreement to form a 50:50 joint venture to develop three offshore wind farms in the Dutch sector of the North Sea with a total capacity of just over 1,000MW, which SSE previously had the entire right to develop. As a result, SSE also now has around 800MW of offshore wind farm capacity with consent for development in northern Europe, including the Dutch sector of the North Sea. This agreement, and that to acquire Walney, demonstrated SSE's flexible approach to the development of its wind energy capacity, with acquisitions and disposals both being considered to optimise the overall portfolio.

Wind generation – investment approach
While capacity, as measured by megawatts, is of central importance in on- and offshore wind farm development, there are four other critical factors which help determine the electricity output from that capacity and thus the value of any development:

- site selection;
- wind analysis carried out by a specialist team;
- site optimisation to maximise output, including turbine layout; and
- turbine selection to match turbine characteristics with wind conditions and ensure reliability.

Onshore wind capacity – MW



Business overview (continued)

SSE has an experienced wind energy development team comprising over 250 people with the specialist skills to make sure that these factors are rigorously applied so that the electricity output from the wind farm capacity it develops is maximised.

Onshore wind investment projects
The principal projects within SSE's onshore wind farm construction portfolio are Clyde (350MW), in South Lanarkshire, and Griffin (156MW), in Perthshire:

- Clyde: Work at the site is continuing, following the resolution of the secondary, and some of the primary, radar-related issues associated with the consent granted for the development. The wind farm is being developed in three sections, with the appointments of the remaining lead contractors for each of the three sections expected to be finalised this year. Clyde is expected to have a load factor of around 35% and produce over 1,000GWh of electricity in a typical year. The first section of the development should be completed by the end of 2011 and the development as a whole in 2012. Its total construction cost is expected to be around £500m.
- Griffin: Pre-construction work is well under way at the site, in which SSE now has a 100% stake. The annual output is expected to be around 400GWh. Its construction cost is expected to be around £200m and it should be completed in 2012.

SSE has a total of 14 wind farm projects currently under construction and expects a total of over 100MW of onshore wind farm capacity currently under construction to be commissioned during 2010/11.

In addition to the timely completion of construction work, the commissioning of wind farm developments is dependent on their ability to connect to the electricity network. This has been identified as one of the key barriers to new renewable energy across the UK and Ireland.

SSE is pursuing other options for the development of its onshore wind farm portfolio and will shortly ask the Scottish Government for its formal opinion on the scope of the environmental statement that would accompany the planning application for a 67 turbine extension to the Clyde wind farm.

Offshore wind investment projects
SSE has a stake in two major wind farms under construction off the coast of the UK: Greater Gabbard (500MW; 50%; in partnership with RWE npower renewables through Greater Gabbard Offshore Winds Limited); and Walney (367MW; 25.1%; in partnership with DONG Energy):

- Greater Gabbard: Following the initial delay in commencing foundation installation, good progress has been made and half of the 140 turbine foundation monopiles and almost one third of the transition pieces have now been installed, as has the first of two transformer platforms. Greater Gabbard Offshore Winds Limited expects to resolve satisfactorily, as part of the normal contractual process, the claim it has received for additional costs relating to foundation monopiles. Commissioning of the onshore sub-station is well-advanced and installation of the first export cable, inter-array cables and turbines is under way. Greater Gabbard is expected to have a load factor of over 40% and produce around 1,900GWh of electricity in a typical year, of which SSE will take 50%. The wind farm is expected to require a total investment by SSE of around £650m, excluding connection to the electricity grid. The development remains on course to be completed in 2012.
- Walney: SSE acquired its 25.1% stake in Walney from DONG Energy, which retains a 74.9% stake, for a total consideration of up to around £39m, of which around £17m is subject to the operational performance of the wind farm. As a shareholder in the project, SSE will pay its pro rata share of the construction costs (just under £250m) with payments being made when each phase of the wind farm is commissioned. Walney will be constructed in two phases, each totalling 183.6MW. Construction of the first phase is now under way, with the first monopiles installed and construction of the second phase scheduled to start in the spring of 2011. The wind farm is therefore expected to enter commercial operation in two phases: during the first half of 2011 and towards the end of 2011. DONG Energy is leading the construction and operation of the wind farm. The wind farm is expected to have an average load factor of around 43% and produce around 1,300GWh of electricity in a typical year. SSE and DONG Energy will market the output of the wind farm in proportion to their equity stakes. Excluding the connection to the Great Britain electricity network, the cost of constructing Walney is expected to total just under £1bn. DONG Energy has provided SSE with financial guarantees relating to the final capital cost of the project and its timely completion.

In December 2009, the UK government announced that 2.0 ROCs will be earned by the output of all offshore wind projects accredited between April 2010 and March 2014, an increase from 1.5 ROCs, and this was confirmed by Parliamentary Order in April 2010.

Offshore wind future opportunities
SSE believes that the Greater Gabbard and Walney projects give it a strong offshore wind construction portfolio for the next few years. Beyond that, other options are being developed. In May 2010, SSE and RWE npower renewables secured rights from The Crown Estate to develop a 500MW wind farm close to the existing Greater Gabbard development. A planning application is expected to be submitted to the Infrastructure Planning Commission by 2011, with a decision expected in 2012. A grid connection for the project was secured with National Grid in 2009, to be potentially available from October 2015.

In addition, SSE is a member of two consortia which have secured development partner status from The Crown Estate in Round 3 of its UK offshore wind farm development programme:

- Forewind, formed by SSE, RWE npower renewables, Statoil and Statkraft, has been awarded development partner status for the 9GW offshore wind farm proposed for Dogger Bank, 125km from the coast of Yorkshire; and
- Seagreen, formed by SSE and Fluor Corporation, has been awarded development partner status for the proposed 3.4GW offshore wind farm proposed for the Firth of Forth, 25km from the coast of Fife.

SSE's capacity share of the two proposed wind farm developments totals around 4GW. Over the next few years, both consortia will be working closely with The Crown Estate to undertake site-specific surveys, secure grid connections and work with stakeholders before bringing forward applications to build the wind farms. As a result, construction work would not begin until 2015 at the earliest.

SSE has also been awarded exclusive rights from The Crown Estate to develop offshore wind farms at locations in

Scottish territorial waters (including two where it is in partnership with other specialist developers) with a total capacity of over 2GW, of which its share is 1.7GW. 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. Fluor Limited and SSE have decided against taking the proposed Bell Rock development any further. This is a result of existing and ongoing radar activity in the area for which mitigation has been examined and no solution found.

SSE believes that harnessing the power of offshore wind will enable the UK to generate significant amounts of low-carbon energy from a totally renewable source and therefore meet the country's energy security and climate change objectives. Its success in the Round 3 and Scottish territorial waters processes adds to its options for developing its generation portfolio in the longer term. The strength of those options in offshore wind is reinforced by its:

- partnerships with other developers, in line with its drive to minimise the inevitable risks involved in projects of this kind and to maximise the development potential of the sites; and
- focus on establishing a strong supply chain for offshore wind developments through, for example, participation in the Carbon Trust's Offshore Wind Accelerator, a research and development initiative to reduce costs, and investment in Burntisland Fabrication Ltd (BiFab) (see 'Emerging Technologies' below).

SSE's priority in offshore wind for the next three years is the successful completion and commissioning of Greater Gabbard and Walney. The opportunities secured through the Round 3 and Scottish territorial waters processes are for development in the second half of this decade.

Wind generation – businesses and communities
Energy price certainty and environmental targets continue to drive businesses' demand for wind turbines sited on their premises and there is significant community interest in the potential for wind energy to help meet sustainable energy needs and bring local benefits. SSE's first consented community wind turbine will be erected later this year for the Sanday Development Trust on the Orkney island of Sanday. A further 50MW of projects are nearing readiness for submission to the relevant planning authorities and 450MW of projects are currently in development.

Wind generation investment – Continental Europe
In addition to its wind and hydro investments in the UK and Ireland, SSE has options to invest in renewable energy in Europe, principally Portugal, Scandinavia, Italy, Germany and the Netherlands where there are particular opportunities for growth in renewables. 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. At the same time, SSE continues to believe that the scope for the development of its existing businesses in the UK and Ireland is very substantial, and investments there will continue to be prioritised.

Emerging technologies – marine energy
SSE has a 47.8% stake in Aquamarine Power, which in September 2009 successfully completed the first round of its fundraising to raise £10m from investors in the UK and Ireland. This followed the successful deployment of a full scale demonstrator of Aquamarine's 300kW Oyster wave energy converter at its testing berth at the European Marine Energy Centre (EMEC) in Orkney. Testing is expected to take up to two years. Aquamarine expects to have a fully commissioned, commercially available wave farm in place by 2014.

In March 2010, SSE was awarded exclusive rights to develop 400MW of wave and tidal energy at four sites in the Pentland Firth and Orkney Waters and a further 400MW with its partners, Aquamarine Power and OpenHydro. The award was part of the world's first commercial leasing programme for wave and tidal energy generation projects, undertaken by The Crown Estate.

Over the next few years, SSE and its partners will be working closely with The Crown Estate and other stakeholders before bringing forward applications to construct the wave and tidal energy developments. The vast majority of construction work is not expected to begin until after 2015.

As the leading generator of renewable energy in the UK, SSE is committed to building on its existing renewable portfolio by developing viable wave and tidal sites using industry-leading marine technologies. It will now work closely with statutory bodies, local communities and The Crown Estate to take forward this significant opportunity.

Alternative energy – operations
SSE's plant at Slough has a current generating capacity of 80MW and remains the UK's largest dedicated biomass energy facility. During 2009/10, it produced 136GWh of electricity qualifying for ROCs, compared with 148GWh during the previous year. The output from dedicated regular biomass plants attracts 1.5 ROCs per MWh.

Alternative energy – investment
Experience of managing the plant at Slough has given SSE a platform from which to invest in biomass and other alternative fuels such as those derived from waste. In line with its approach of developing a number of options for the site, SSE has submitted an application for consent to develop for a multi-fuel combined heat and power (CHP) facility at Ferrybridge.

The reliability of fuel sources is a key issue in alternative energy. The proposed multi-fuel CHP facility would use a range of fuel sources, which could include biomass, waste-derived fuels and wood products, to generate 108MW of electricity and to provide heat to the Ferrybridge site. It would be compliant with the Waste Incineration Directive. The development is currently estimated to require investment of around £350m and SSE expects to take a decision on whether to proceed with it in the course of the next year.

In addition, the acquisition of the three-unit power station at Uskmouth gives SSE further options for the development of new lower-carbon generation assets alongside the existing generation assets.

Alternative energy – biogas
In May 2010, SSE agreed to invest a net £11.3m to allow the construction of Scotland's largest biogas plant at the former landfill site at Barkip in North Ayrshire. The deal made SSE the first energy company in the UK to commit to the construction and operation of an anaerobic digestion biogas plant of this type. The Barkip site will be capable of processing

Business overview (continued)

around 80,000 tonnes of waste annually, producing enough gas to generate up to 2MW of electricity. The new project will enable SSE to gain experience in owning and operating this technology, which it believes could offer opportunities beyond on-site electricity generation, including connection to the gas distribution network in the future.

Alternative energy – Forth Energy
Forth Energy, the joint venture between SSE and Forth Ports PLC created in 2008, has prepared proposals for the development of dedicated biomass power stations at four of Forth Ports' sites in Scotland. It is undertaking consultations on the proposals and intends to seek consent during the course of this year to build the plants. The plants are proposed for Dundee, Leith, Rosyth and Grangemouth. Their total installed capacity would be around 400MW and they could also produce heat to be used at other facilities at the Forth Ports' sites and, potentially, other neighbouring sites.

Emerging technologies – SSE Ventures
In 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. These include Aquamarine Power and RockTron (Widnes) Ltd (see above) and Smarter Grid Solutions Ltd (see below).

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.

For example, in April 2010, SSE purchased a 15% stake in Burntisland Fabrications Ltd for a total consideration of £11m. In addition to the equity stake, SSE has secured an agreement with BiFab for the supply of at least 50 jacket substructures annually to support SSE's offshore wind developments.

BiFab is an established fabricator of structures and equipment for the oil and gas industry which has recently extended its expertise into the fabrication of jacket substructures suitable for offshore wind developments. BiFab has already attracted government support to develop a new manufacturing facility for offshore wind jacket substructures.

SSE's investment will be used to further develop this facility and this is expected to expand BiFab's capabilities to a total annual capacity of up to 130 units. The investment follows BiFab's successful delivery of jackets for the Greater Gabbard offshore wind project.

Through equity and loans, and including the BiFab investment, SSEV has invested or committed to invest a total of £120m in a variety of emerging technologies since it was formed and now holds direct or indirect stakes in a total of 36 companies. In total, these companies employ over 1,000 people.

Nuclear power
It is expected that the total capacity of the UK's nuclear power stations will fall by over 7,000MW by 2020, even if advanced gas-cooled reactor (AGR) stations are allowed by the Nuclear Installations Inspectorate to operate for five years beyond their existing planned closure dates. History suggests that the performance and reliability of nuclear power stations with extended lives tends to deteriorate.

These question marks do not apply to modern nuclear power stations, which Malcolm Wicks MP said in his August 2009 review of energy security represent a proven, low-carbon generation technology which could benefit security of energy supply by increasing the diversity of the fuel mix and reducing reliance on gas imports. He suggested that nuclear power should provide some 35%-40% of the country's electricity after 2030.

SSE believes that some participation in new nuclear power stations may make sense in view of its commitment to a diverse generation portfolio and complements its core investment in renewable sources of energy.

During 2009, a consortium of GDF Suez SA, Iberdrola SA and SSE, in which SSE has a 25% stake, secured an option to purchase from the Nuclear Decommissioning Authority land for the development of new nuclear power generating plant adjacent to Sellafield in Cumbria, for a total cash consideration that could reach £70m.

The consortium now intends to prepare detailed plans for developing new nuclear power plant at the site with a total capacity of up to 3.6GW. These plans will be prepared in consultation with the safety authorities and local stakeholders and will be submitted for consideration by the relevant planning authorities, with the aim of being able to begin construction of the first new reactor around 2014. On this basis, the new power station would not be commissioned before 2020.

Generation priorities for 2010/11 and beyond
SSE's key operational objectives in Generation during 2010/11 are the same as in any given year:

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

During 2010/11, SSE expects to invest over £1bn in maintaining and upgrading existing generation assets and in developing new assets. Its investment priorities in 2010/11 are to:

- complete asset maintenance and refurbishment programmes on time and on budget;
- meet key milestones in new asset development, including completion of another 100MW of onshore wind farm capacity and first electricity generation at Greater Gabbard; and
- make progress in developing the diverse range of investment options it has created for the second half of this decade.

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 programme is 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 thermal generation. All of this will support security of energy supply.

This focus on good operational performance and on effective investment is designed to give SSE a balanced and growing portfolio of efficient electricity generation assets, with a diminishing environmental impact, in which its exposure to fossil fuel price volatility is increasingly diluted.

SSE will also actively seek to maintain optionality and diversity in the future development of its generation portfolio so that it remains on course 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 2006 to 2020.

Supply

A sustainable supply business is one which provides the energy and related products and services that people actually need in the higher-unit price, lower-carbon environment expected in the future.

→ **Electricity supply** page 31
→ **Gas supply** page 31
→ **Home services** page 35

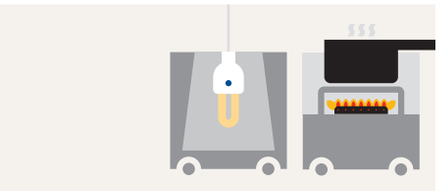
Context
The Great Britain energy regulator, Ofgem, states on its website that: 'Competition in the retail energy markets has brought considerable benefits to industrial, commercial and domestic customers since it was introduced. Allowing customers to choose the supplier of their choice keeps the pressure on costs and promotes greater choice of tariffs and services for customers.'

This was endorsed by the UK Treasury and the UK Department of Energy and Climate Change, who stated in March 2010 that: 'In principle, competitive markets should provide the best outcome for consumers. The liberalisation of Great Britain's market has delivered increased choice in tariffs and services and the ability to switch supplier.' It added that the UK's electricity switching rate per annum is the highest in Europe and the highest of any sizeable competitive energy market in the world. Over the last five years, more energy and gas customers switched supplier than in any other UK consumer services sector of a comparable size, apart from car insurance.

As part of its market monitoring role, Ofgem publishes periodic reports on developments in the domestic retail market and conducts investigations and consultations into the performance of the domestic and the non-domestic markets. As retail competition develops the regulatory framework is kept under review.

Ofgem published its most recent 'Electricity and Gas Supply Market Report' in February 2010, which reiterated a key point from its Energy Supply Probe in 2008: 'The Probe highlighted that the energy supply businesses of the Big 6 act as a hedge for the electricity generation businesses... Generally we found that the top priority of the vertically integrated energy businesses was to deliver profits from the business as a whole and that, as part of this, suppliers accepted that changing wholesale prices may lead to profit shifting from upstream to downstream and vice versa.'

Ofgem's February 2010 Report also noted 'the declining trend in domestic average gas consumption since 2005'. This reflects the fact that obligations on energy suppliers to help customers make energy savings have been in place since 1994. In July 2009, it was announced that the current energy efficiency scheme, the Carbon Emissions Reduction Target (CERT), would be extended to 2012 and that smart meters should be installed in every home by 2020. In addition, the Community Energy Saving Programme (CESP) came into effect on 1 September 2009. It requires gas and electricity suppliers and electricity generators to deliver energy-saving measures to domestic customers in specific low income areas of Great Britain.



Energy supply objectives
All of this demonstrates that the key issues in energy supply are prices, products, customer service and energy efficiency. Against this background, SSE's objective is to retain and gain energy supply customers by:

→ offering consistently competitive prices over the medium term;
→ providing market-leading products and services to help transform energy consumption;
→ delivering a quality of service that goes beyond best-in-sector; and
→ successfully delivering energy efficiency schemes.

As consumption of energy changes, SSE believes that a sustainable supply business is one which provides the energy and the related products and services that people actually need in the higher-unit price, lower-carbon environment expected in the future. This is central to retaining and gaining customers.

Energy supply operations – customer numbers
SSE supplies electricity and gas in Great Britain as Southern Electric and SSE (England), Swalec (Wales), Scottish Hydro (Scotland) and Atlantic. During 2009/10, it achieved a net gain of 100,000 energy supply customer accounts in Great Britain, taking the total to 9.16 million. This was the eighth successive year in which SSE achieved a net gain in energy supply customer numbers and means it has more than doubled its total number in that period. The total comprises:

→ 5.17 million domestic electricity customer accounts;
→ 3.54 million domestic gas customer accounts; and
→ 0.45 million business electricity and gas sites.

Within the total, 3.16 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 £205,000 from SSE in respect of energyplus Pulse customers during 2009/10, taking the total since the product was launched to over £1.1m).

The total also includes M&S Energy, a dual fuel product launched in October 2008 by SSE and Marks & Spencer (M&S). The product is available to M&S customers exclusively through M&S' stores and website, and by 31 March 2010 had attracted 175,000 customer accounts.

During 2009/10, SSE, supplying energy as Airtricity, increased its customer base in the all-island electricity market in Ireland from 50,000 accounts to 190,000. Of these accounts, 75% are household and 25% are industrial and commercial.

Energy supply operations – prices in Great Britain
Over the past few years, SSE has maintained a responsible pricing policy, with the objectives of providing consistently competitive prices over the medium term and protecting customers from the full impact of volatile wholesale prices. The application of this policy means SSE was the cheapest energy supplier on average over the five years to 31 March 2010, compared to all other major suppliers in the GB market (based on a standard quarterly or monthly direct debit dual fuel annualised bill calculated at the end of every month averaged across all regions and based on industry

Business overview (continued)

2010 at a glance: Customers

Household gas customers (GB) – millions

3.54

2009 – 3.50

Household electricity customers (GB) – millions

5.17

2009 – 5.10

Business energy customers (GB) – millions

0.45

2009 – 0.45

Home services customers (GB) – millions

0.41

2009 – 0.33

Energy customers (Ireland) – millions

0.19

2009 – 0.05

Total customer numbers – millions

9.76

2009 – 9.43

standard electricity consumption of 3,300kWh per annum and gas consumption of 20,500kWh per annum).

SSE introduced a package of changes in prices for household gas supply from 29 March 2010 under which it cut unit prices, adjusted the fixed charge element in bills and removed the extra charges levied on its single fuel and pre-payment tariffs compared with standard credit tariffs.

The effect of these changes on a typical customer using the industry standard amount of gas was to reduce SSE's gas bills by: 4% or £30 (standard credit/direct debit); 7% or £56 (single fuel); and 9% or £70 (pre-payment). The removal of the extra charges levied on SSE's gas pre-payment tariff followed the earlier removal of the extra charges levied on its electricity pre-payment tariff.

Future trends in energy prices for domestic customers will depend on what happens in wholesale electricity and gas markets, with public policy and regulatory decisions on energy production, distribution and consumption also having a significant impact. For example, the costs associated with the EU ETS, RO and CERT are all on an increasing trend, as are the costs of distributing energy. The UK Energy Act 2010 contains measures, such as a financial support mechanism for carbon capture and storage (CCS) and mandatory social price support, which will maintain upward pressure on retail energy prices.

In practice, the competitive supply market and the exhaustive scrutiny to which energy suppliers are subject represent the best means of ensuring that prices under any scenario are as low as possible.

Energy supply operations – bills in Great Britain

There is a clear distinction between the price of a unit of energy and the amount that customers pay for heating and powering their homes. The sustained investment in energy efficiency programmes undertaken in recent years is delivering a sustained reduction in the amount of gas being consumed in Britain's homes.

In 'Energy Trends' in March 2010, the UK Department of Energy and Climate Change reported that the UK was one of just seven of the EU-27 countries to increase progress on energy efficiency between 2000 and 2007 compared with 1996-2000. It also showed that in the UK in 2009, compared with 2008:

- final consumption of electricity fell by 6.8%, with domestic use down by 3.2%; and
- demand for gas was 7.7% lower, with consumption in the domestic sector down by 5.4% (provisional estimate).

In spite of progressively colder winters over the last three years, SSE household customers reduced their average usage to:

- 558 therms of gas, compared with 598 therms in the previous year, and 597 therms in 2007/08; and
- 4,540kWh of electricity, compared with 4,748kWh in the previous year, and 4,834kWh in 2007/08.

On a weather-corrected basis, average household usage of both gas and electricity reduced in all three years. As a result of these trends, households are less exposed to the impact of high prices than they otherwise would be. In 2009/10, the reduction in energy consumption meant household bills were around 5.5% lower than they would have been had consumption levels in 2007/08 been maintained, reducing the average bill by around £70 per annum.

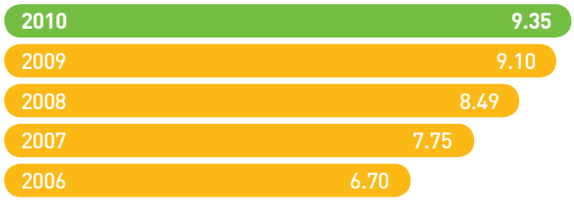
Much more progress is possible. The UK Committee on Climate Change stated in October 2009 that 'energy efficiency in homes could be improved by 35% by 2020' with an ambitious programme of improved insulation, the installation of energy efficient condensing boilers and major improvements in electrical appliance efficiency. SSE believes that achieving this step change in energy efficiency must be a key priority over the next decade.

Energy supply operations – payment profiles

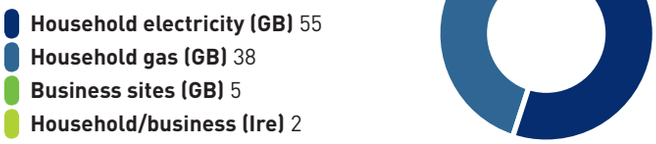
A total of 58% of SSE's domestic electricity and gas accounts are paid by direct debit or standing order. A further 11% are paid through pay-as-you-go (or pre-payment) meters and the balance are on credit terms and settled by cheque or other such payment methods. In September 2009, Ofgem published data on payment methods which showed that 50% of all electricity customers in Great Britain and 53% of all gas customers pay by direct debit.

As at 31 March 2010, 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 £90m, compared with £72m in March 2009, an increase of 25%. A bad debt-related charge to profits of £73m has been

Energy customer numbers – millions



Energy customer numbers – composition %



made. This comprises a £20m increase in the energy supply bad debt provision and £53m of debt write-off and compares with a charge of £35m in the previous year.

As expected, given the general economic climate, 2009/10 posed significant debt management challenges, with the volume of work in this area for SSE's Customer Service division increasing. SSE has sought to manage this situation by taking a number of steps, including rigorous assessment of the credit-worthiness of potential business customers and making earlier contact with the customer (business or household) when it becomes apparent that payments are in arrears, so that the issues are more manageable from everyone's point of view. The work of office-based credit agents is supplemented by the work of field-based teams (the number and geographic coverage of which has been increased) who work with customers to resolve debt.

As a result, aged debt among business customers has been reduced from £15m to £12m and aged debt levels were on a reducing trend towards the end of the financial year. Nevertheless, with the economic outlook remaining uncertain, there is a significant risk that aged debt will remain at a high level in 2010/11.

Energy supply operations – customer service

SSE's growth in energy supply has been achieved while being independently and consistently recognised as the customer service benchmark for the rest of the energy supply industry. To provide customers with the best possible value for money, SSE believes that it needs to provide best-in-sector service and products, as well as competitive prices over the medium term.

SSE's position as the customer service benchmark for the rest of the energy supply industry is illustrated by:

- the Customer Satisfaction Report from www.uSwitch.com, published in September 2009, in which SSE was ranked the best energy supplier for the sixth successive time. www.uSwitch.com stated: 'SSE remains the customer service benchmark for the rest of the industry.';
- the JD Power and Associates 2009 UK Electricity and Gas Supplier Customer Satisfaction Study, in which SSE's four supply brands took four of the top five places in electricity supply and gas supply, with its Atlantic brand ranked first in electricity; and
- the UK Customer Satisfaction Index, published by the Institute of Customer Service in January 2010, in which SSE was the top performer in the Utilities sector.

Under the Consumer, Estate Agents and Redress (CEAR) Act 2007, customers who are unable to resolve issues with their energy 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 2009/10, there were 374 SSE-related complaints to the Ombudsman, compared with 183 in the six months following the launch of the new arrangements in October 2008.

Although SSE maintained its best-in-sector position in customer service during 2009/10, it was a year in which the profile of the energy supply sector remained very high. In total, SSE's energy supply customers in Great Britain made 21 million calls to the Company's teams in Basingstoke, Cardiff, Cumbernauld, Havant and Perth during 2009/10. These conversations allow SSE to assess, consider and respond to customers' concerns and, over time, adapt the services and products it provides accordingly.

SSE measures the performance of key customer service functions such as General Enquiries and House Moves through a Net Promoter Score (NPS). The most recent results suggest the NPS ranges from +38% to +54%.

More broadly, SSE recognises that energy supply in Great Britain is not well-regarded among customers for its transparency. In response the UK government undertook to require energy suppliers to publish information about available tariffs in annual statements. In keeping with its commitment to further improvements in customer service, and maintaining its sector-leading position, SSE has committed to going above this requirement and publishing information on all bills. This was welcomed by MPs from all parties in an Early Day Motion in the House of Commons in March 2010.

Web and email are now firmly established as the second most common means of communication with the Company used by SSE's customers. Around 18% of SSE's transactions with customers now take place online and its customers now have 490,000 paperless billing accounts, up from 287,000 a year before. This, in turn, indicates that the popularity of e-services such as paperless billing is likely to continue to increase rapidly over the next few years. Enabling customers to carry out more transactions online if they choose is now one of SSE's top customer service priorities. In line with that, the capability of its websites were upgraded during 2009/10 to create a technical platform to allow the deployment of enhanced functionality in the future.

Business overview (continued)

Domestic customers' payment methods – %

Energy supply operations – energy efficiency
Using energy more efficiently is the fastest and most cost-effective way of reducing customers' energy costs, sustaining supplies for the long term and reducing emissions of carbon dioxide. As an energy supplier, SSE has obligations under the CERT scheme to deliver energy efficiency measures to households throughout Great Britain and in 2009/10 funded the installation of cavity wall insulation in 146,000 homes and loft insulation in 128,000 homes (excluding DIY insulation). This is up from 87,000 homes and 104,000 homes respectively.

In its CERT Annual Report, a review of CERT in 2008/09, published in August 2009, Ofgem stated that SSE had met half of its overall carbon emissions reduction obligation for the three years to 2011. SSE also achieved the highest level of solid wall insulation for hard-to-treat properties among all the obligated energy suppliers.

Complementing CERT, the CESP aims to deliver energy efficiency measures on a community basis. The CESP will promote a 'whole house' approach, to be delivered through the development of community-based partnerships involving local authorities and energy suppliers via a house-by-house, street-by-street approach. SSE's first CESP programmes will begin during 2010/11 at locations throughout England, Scotland and Wales.

CESP and CERT will require the commitment of significant resources by energy suppliers, including SSE, in the coming years. Nevertheless, SSE supports the goal of securing substantial savings in energy bills and reductions in emissions of carbon dioxide and achieving greater energy efficiency continues to be the most sustainable way of achieving this.

Energy supply operations – vulnerable customers
While any type of poverty, including fuel poverty, fundamentally results from an 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 struggle to pay for their basic energy needs.

SSE's social tariff, energyplus care, gives eligible dual fuel customers a discount compared with its standard tariff, as well as other help including benefit entitlement checks and free energy efficient appliances and home insulation. During 2009/10, SSE implemented a two-tier level of assistance for fuel-poor customers, featuring a rebate as well as energyplus care, and thus has been able to assist a larger number of customers than would be the case if the flat rate was maintained. The number of customer accounts benefiting from these measures at 31 March 2010 was 155,000, compared with 103,000 the previous year.

This fulfilled SSE's voluntary agreement with the UK government to operate schemes with a total value of £22m to help vulnerable customers in 2009/10. Under this agreement, SSE's contribution will increase to around £27m in 2010/11. In addition to this, SSE issued credits worth a total of almost £3.5m in January 2010 to its 280,000 customers using gas pre-payment meters to assist them during the coldest part of the year.

The Energy Act 2010 created a statutory framework for schemes which allow the Secretary of State for Energy and Climate Change to require energy suppliers to support vulnerable customers under the existing voluntary agreement (see above). It also set a framework requiring energy suppliers to provide a specified level of social price support (direct assistance with energy bills) to more of the most vulnerable customers. Further details, including the nature of the benefit and the eligibility criteria, will be set out in secondary legislation after a consultation later this year.

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 2010, customers with 233,000 electricity and gas accounts were taking advantage of these arrangements.

Energy supply operations – energy products
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 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 2009/10, customers with an additional 50,000 energy accounts joined better plan, taking the total to 215,000.

Increasingly, smart technologies will feature in SSE's products and it is working on a number of options for using new technology to provide customers with greater control over their energy consumption and, therefore, its cost.

Using energy more efficiently is the fastest and most cost-effective way of reducing customers' energy costs, sustaining supplies for the long term and reducing emissions of carbon dioxide.

Energy supply operations – other products
'Home 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 offers a range of gas boiler, central heating and wiring maintenance and installation products and services for household customers across 43 postcode areas covering around two thirds of its energy supply customer base.

During 2009/10, it increased its maintenance customer numbers by 37%, to 158,000, and performed gas and electric installation and re-wiring work in 7,000 properties, an increase of 13%.

During 2010/11, SSE will aim to increase further the number of customers with energy-related products by expanding its product and service range, improving operational productivity and efficiency and enhancing customer service levels. The expansion of its home services activities in this way, with the supporting infrastructure, systems and processes that are being developed, will allow SSE to deploy a comprehensive 'whole house' approach to home energy services.

The talk telecoms package, under which telephone line rental, calls and broadband services are supplied, now has 252,000 customers, an increase of 32,000 on the previous year.

The talk package has benefited from being aligned to, and integrated with, SSE's main energy customer systems and processes and this has allowed it to grow customer numbers organically since it was launched in 2003.

In response to the evolving telecommunications market, SSE continually reviews the structure of its telephony products and tariffs and expects to introduce minimum terms contracts during 2010/11 to retain and attract additional customers.

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

Energy supply operations – Ireland
During 2007, SSE identified Ireland as a market where the skills used in Great Britain could be successfully deployed, giving it additional room for expansion.

In 2009/10, through Airtricity, it increased its customer base in the all-island electricity market in Ireland from 50,000 accounts to 190,000 including 10,000 customers in Northern Ireland. Almost all of these accounts are paid by direct debit and almost half of them are online accounts. SSE is now the third largest energy supplier in the Republic of Ireland and the fourth largest in the all-island market.

The profile of Airtricity as a supplier of energy has been significantly enhanced by SSE's acquisition of the assets of ESB Contracts, the street-lighting business of ESB (see Street-lighting below). It currently maintains around 300,000 street lights in the Republic of Ireland.

Energy supply priorities in 2010/11
During 2010/11, and beyond, SSE will seek to:

- provide consistently competitive prices;
- increase the number of customer accounts across the Great Britain and Irish all-island markets;
- secure further efficiencies in day-to-day operations, including the ways in which customers are retained and gained and the ways in which they are given the services they need;
- maintain best-in-sector service, including improvements in billing, call handling times and enhancements to online and smart services;
- increase further the number of customers on better plan and other loyalty programmes;
- deliver energy efficiency improvements, principally through the CERT and CESP programmes; and
- continue to ensure customers' energy accounts are well-managed.

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

Fuel Production and Storage

The growing demand in the UK for more gas storage facilities to help provide security of supply of gas means such facilities have long-term value, especially if their cycle rate is fast enough.

→ **Gas storage** page 36
→ **Gas production** page 36

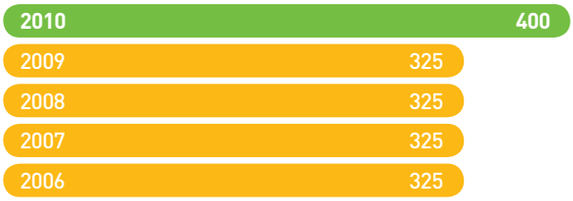
Overview
It is generally recognised that the UK now has insufficient gas storage. This under-capacity reflects the reliance it was able to place in past years on gas production from the North Sea. As North Sea gas declines, UK imports will continue to increase to meet demand from domestic customers, the increasing number of gas-fired power stations and other industrial and commercial users. Imports could be put at risk by periods of unusually low temperatures, operational failures in pipelines delivering gas to the UK, political disputes in gas-producing regions or high demand in other parts of the world.

SSE owns and operates the UK's largest onshore gas storage facility near Hornsea in East Yorkshire, in which around 325 million cubic metres (mcm) of gas can be stored in a total of nine caverns. Hornsea accounts for around 7% of the total gas storage capacity in the UK and 15% of deliverability. With Statoil (UK) Ltd, SSE is developing another gas storage facility at nearby Aldbrough, where an initial 115mcm of capacity in four caverns is already available for commercial operation. To form such caverns, salt deposits around 2km under ground are leached out by seawater which, in turn, is replaced (dewatered) by gas under pressure.

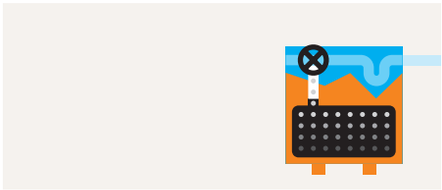
On 31 March 2010, SSE entered into an agreement with Hess Corporation (UK) to acquire its natural gas producing assets in three regions of the North Sea (Everest/ Lomond; Easington Catchment; and

Business overview (continued)

Gas storage capacity – million cubic metres



Bacton) for a total cash consideration of US$423m. The transaction is subject to the receipt of all necessary partner and regulatory approvals.



Gas storage – operations
Gas Storage delivered an operating profit* of £41.8m, during 2009/10, compared with £42.7m in the previous year, due to lower differentials between summer and winter gas prices.

At Hornsea, gas can be injected at a rate of 2mcm per day and delivered to the National Transmission System 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. During 2009/10, including the critical period of the UK's unusually cold winter, Hornsea maintained its excellent record of dependability and was 100% available to customers, except in instances of planned maintenance. This enabled storage customers to manage their gas market risks and respond to gas trading opportunities.

The new capacity which became available at Aldbrough during 2009/10 (115mcm in total – see below) also performed well during 2009/10, with multiple cycles of the capacity and significant delivery on to the National Transmission System during the cold period early in 2010. Following the start of commercial operations in July 2009, 387mcm of gas were injected in to the new capacity and 401mcm were withdrawn. Aldbrough added £2m to operating profit in Gas Storage.

Gas storage – investment
The growing demand in the UK for more gas storage facilities to help provide security of supply of gas means such facilities 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'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 2009/10, with the first commercial operations getting under way. Aldbrough now provides a total of 115mcm of capacity in four caverns – the first new gas storage capacity to become available in the UK for four years. A further 85mcm of capacity is expected to become available in the course of 2010/11.

When fully commissioned, currently expected to be in 2012, it will have the capacity to inject gas and store up to 370mcm in nine under ground caverns (of which SSE will own two thirds). 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.

SSE still expects its total investment on the development at Aldbrough to be around £290m. With its ability to inject and deliver gas rapidly to meet fluctuations in demand and supply, Aldbrough will provide a valuable source of flexibility to the UK gas market as it becomes increasingly dependent on imported gas to meet its energy needs.

SSE and Statoil (UK) Ltd have 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 around 700mcm. SSE expects to take a final decision on whether and how to invest in a second phase of development at Aldbrough by early 2011.

Gas production
In March 2010, SSE entered into an agreement with Hess Limited to acquire its natural gas assets and infrastructure in three regions of the North Sea (Everest/Lomond; Easington Catchment; and Bacton).

SSE has agreed to pay a total cash consideration of US$423m for Hess' assets, maintaining its commitment to its financial principle of a disciplined

This timely acquisition of natural gas assets will enable SSE to enter the upstream gas sector in a measured way by buying proven and geographically diverse production assets. These assets will provide a new source of primary fuel and a hedge for SSE's gas generation and supply activities.

approach to acquisitions. The transaction is subject to the receipt of all necessary partner and regulatory approvals.

The gas resources which SSE is acquiring total around 3,965 million therms (mth). The headline transaction price for these resources is $6.6-barrels of oil equivalent. Additional, less certain resources of gas may also be identified through further exploration. The main production asset operators are BG Group, BP and Perenco.

SSE currently needs on average around 13.5mth of gas per day to supply its customers and to fuel its power stations, and gas from the acquired assets, will provide around 8% of that initially, declining over the next 10 years.

While the upstream gas assets represent the large majority of the transaction, SSE will also acquire a number of other assets from Hess, including its 17.7% equity interest in the Central Area Transmission System (CATS) pipeline, which delivers over 10% of the UK's total gas demand through a 400km pipeline from the central North Sea to a processing terminal in Teesside. The CATS pipeline is operated by BP.

This timely acquisition will enable SSE to enter the upstream gas sector in a measured way by buying proven and geographically diverse production assets. These assets will provide a new source of primary fuel and a hedge for SSE's gas generation and supply activities. The acquisition will also give SSE involvement throughout the gas chain – production, transmission, storage, distribution and supply.

Fuel Production and Storage priorities in 2010/11 and beyond
SSE's operational and investment priorities in Fuel Production and Storage during 2010/11 are to:

- maintain its excellent record of safety and reliability at Hornsea;
- ensure safe and effective operation of capacity at Aldbrough;
- maximise the amount of capacity at Aldbrough that is available for commercial storage;
- make a decision on whether to proceed with the Aldbrough extension; and
- complete the acquisition of gas production assets, in keeping with its financial principles.

Networks

SSE is the only energy company in the UK to be involved in electricity distribution, gas distribution and electricity transmission. After electricity and gas, telecoms is SSE's third networks business.

- **Electricity distribution** page 38
- **Electricity transmission** page 41
- **Gas distribution** page 42
- **Telecom networks** page 43

Networks overview
SSE owns three electricity network companies:

- Scottish Hydro Electric Transmission;
- Scottish Hydro Electric Power Distribution; and
- Southern Electric Power Distribution.

These networks transmit and distribute electricity to 3.5 million businesses, offices and homes via 128,000km of overhead lines and under ground cables.

SSE also has an equity interest of 50% in, and provides corporate and management services to Scotia Gas Networks (SGN) which, through Southern Gas Networks and Scotland Gas Networks, owns and operates the medium and low pressure networks which deliver gas to 5.7 million properties in their areas of the UK.

All of these companies are the subject of economic regulation through a Price Control set by Ofgem which sets for periods of five years the index-linked revenue they can earn, through charges levied on network users, to cover their costs and earn a return on their regulated assets. Ofgem also places incentives on companies to be more efficient and innovative and to deliver an enhanced quality of service.

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.

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, a new Distribution Price Control started on 1 April 2010 and will run until 31 March 2015 and the current Transmission Price Control is now expected to run until 31 March 2013. 2009/10 was the second year of the gas Distribution Price Control for the five years to 31 March 2013.

As at 31 March 2010, SSE's estimate of Ofgem's valuation of the assets of its electricity distribution and transmission businesses (the Regulated Asset Value, or RAV) was £2.97bn, based on Ofgem's methodology, including £405m for transmission. This gives it around 12% of the total Great Britain electricity transmission and distribution RAV.

SGN estimates that the RAV of the networks it owns was around £3.94bn, based on Ofgem's methodology, as at 31 March 2010. 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 £1.97bn which, when added to its electricity networks businesses, gives it a total RAV of £4.94bn, making it the second largest distributor of energy in Great Britain.

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. 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.

Moreover, in addition to being relatively low risk in themselves, the absolute level of risk in these businesses has been progressively reduced through the regulatory process with, for example, companies' income no longer being dependent on the volume of energy distributed through their networks.

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

Business overview (continued)

2010 at a glance: Energy networks

Electricity distribution (SEPD) RAV – £m

1,705

2009 – 1,660

Electricity distribution (SHEPD) RAV – £m

858

2009 – 834

Electricity transmission (SHETL) RAV – £m

405

2009 – 380

Gas distribution (Southern) RAV* – £m

1,370

2009 – 1,270

Gas distribution (Scotland) RAV* – £m

598

2009 – 548

Total energy networks RAV – £bn

4.9

2009 – 4.7

* SSE share (50%).

market by separating the management of electricity generation companies from that of transmission operators. An Independent System Operator (ISO) – where companies retain ownership of their transmission networks although their operation is managed by a separate independent body (the ISO) – 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 and provides capacity and bandwidth services for commercial and public sector organisations and other communications providers. Its network now extends to around 11,200km throughout Great Britain.

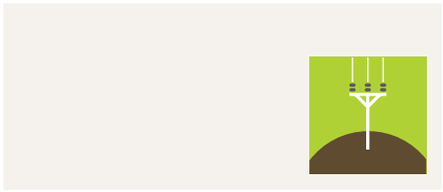
Energy networks performance overview
Operating profit* in Energy Networks increased by 2.6%, from £584.2m to £599.5m, contributing 36.9% of SSE's total operating profit*. This comprised:

- £415.8m in electricity networks, compared with £403.7m in the previous year; and
- £183.7m representing SSE's share of the operating profit* for SGN, compared with £180.5m in the previous year.

Electricity networks

Objectives
SSE's objectives in electricity networks are to:

- comply fully with all safety standards and environmental requirements;
- ensure that they are managed as efficiently as possible, including maintaining tight controls over operational expenditure;
- provide good performance in areas such as reliability of supply, customer service and innovation and thus earn additional incentive-based revenue under the various Ofgem schemes;
- deliver capital expenditure programmes so that the number and duration of power cuts experienced by customers is kept to a minimum;
- grow the RAV of the networks businesses and so secure increased revenue from them; and
- engage constructively with the regulator, Ofgem.



Southern Electric Power Distribution operations
In Southern Electric Power Distribution (SEPD) in 2009/10:

- operating profit* increased by 5.6% to £256.9m;
- electricity distributed fell by 0.7TWh to 33.7TWh;
- the average number of minutes of lost supply per customer was 65, down from 66;
- the number of supply interruptions per 100 customers was 61, down from 64; and
- performance-based additional income of £15.8m is expected to be earned, compared with the final out-turn of £12.0m in the previous year.

The increase in operating profit reflects changes in the price of units distributed, which have mitigated the reduction in volume. 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 operations
In Scottish Hydro Electric Power Distribution (SHEPD) and Scottish Hydro Electric Transmission (SHETL) in 2009/10:

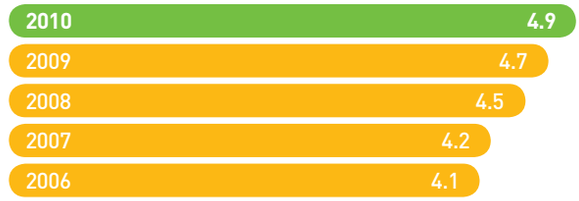
- operating profit* fell from £160.4m to £158.9m;
- electricity distributed fell by 0.1TWh to 8.4TWh;
- the average number of minutes of lost supply per customer was 74, down from 75;
- the number of supply interruptions per 100 customers was 76, the same as the previous year; and
- performance-based additional income of £8.2m is expected to be earned, compared with the final out-turn of £6.0m in the previous year.

The fall in operating profit follows the fact that the number of units of electricity distributed was down compared with the previous year. In addition, the recovery of transmission upgrade-related costs has been delayed to 2010/11. Performance in respect of both minutes lost and interruptions was, however, ahead of Ofgem's QSIS targets.

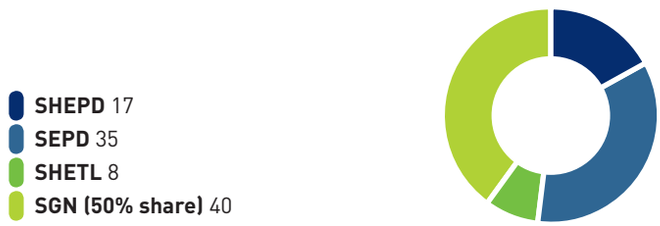
Energy volumes
The volume of electricity distributed by SSE during 2009/10 was 42.1TWh, down from 42.9TWh in the previous year and the volume of gas transported by SGN during the year also fell, by 10.5TWh to 163TWh.

Under the electricity Distribution Price Control for 2010-15, the volume of electricity distributed will no longer affect companies' income. Only 3.5% of SGN's income is volume-related. This further reduces the level of risk associated with energy networks businesses.

Networks regulated asset value – £bn



Networks asset value – %



Operations – power distribution quality of service
According to Ofgem's Distribution Quality of Service Report, published in December 2009, covering performance in respect of Customer Interruptions and Customer Minutes Lost, SSE's two networks earned additional revenue of £46m in nominal prices in the four years to March 2009 (the most recent period for which comparative data is available), making them the two most successful electricity distribution companies in Great Britain. This reflects effective investment in the automation of the networks and effective operational responses to electricity supply interruptions.

Operations – 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. As part of the most recent Price Control review in December 2009, Ofgem published analysis which showed SSE continues to be at the forefront of efficiency for overall operating costs.

This is based on SSE's straightforward operating model, under which the vast majority of activities are in-house. Under this model:

- customer-facing activities, such as restoring power supplies or providing new connections are managed from a network of 14 depots in communities throughout central, southern England and the north of Scotland;
- network management activities, such as inspections, maintenance and investment are carried out in Operational Production Groups; and
- there is a strong emphasis on work being in-sourced and carried out by directly-employed people.

Operations – customer service reward scheme
In August 2009, SSE received an award of £200,000 under Ofgem's Customer Service Reward Scheme 2008/09 'in recognition of the breadth of its corporate responsibility programme which was seen to go beyond core business drivers'.

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 2009/10.

Investment is focused on 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 2009/10 was £334.5m (comprising £274.8m in distribution and £59.7m in transmission). In the 2005-10 electricity Distribution Price Control period, SSE invested £1,084.8m in its distribution networks (which excludes metering) and a further £208.1m in its transmission network. This represents an 88% increase compared with the previous Price Control, 2000-2005.

One feature of the 2005-10 Price Control that was widely welcomed was the ability to place under ground electricity lines which were previously overhead, to help restore views in national parks and areas of outstanding natural beauty. For example:

- in early 2010, SSE engineers removed a 30 metre electricity pylon in Langstone Harbour as part of a £1.6m project to remove 700 metres of overhead line from the harbour and from the road linking Langstone with Hayling Island and replacing it with under ground cabling – the area is a Site of Special Scientific Interest; and
- in the autumn of 2009, SSE placed under ground 500m of cable to replace an overhead line at Sligachan on Skye, thus enhancing the classic view from Sligachan Bridge towards the Cuillins.

Business overview (continued)

The need for further significant investment in Great Britain's electricity distribution networks, to maintain and/or replace ageing assets or to provide additional capacity was a key feature of the electricity Distribution Price Control for 2010-15 and it allows for total investment of £14bn in the networks over the next five years. For SSE, this is likely to mean investment of around £210m in its distribution networks in 2010/11.

Distribution Price Control review 2010-15
In December 2009, SSE decided, on balance, to accept Ofgem's final proposals for the electricity Distribution Price Control for the five years from 1 April 2010 in respect of Scottish Hydro Electric Power Distribution and Southern Electric Power Distribution.

SSE assessed Ofgem's final proposals against the combined impact of three key criteria:

- the scope to earn additional revenue through operational efficiency and excellence;
- the treatment of ongoing pension costs; and
- the allowed return for shareholders as measured by the weighted average cost of capital.

On its own, the headline-allowed weighted average cost of capital contained within the proposals (4.0%, on a post-tax, real return on capital basis) would not be enough to provide an adequate return on investment in electricity distribution or transmission. In addition to the cost of capital, however, Ofgem's proposals contained enhanced incentive mechanisms in areas such as customer service. They also reduced further the level of risk associated with energy network businesses by ensuring that the volume of electricity distributed will no longer affect companies' income.

The overall package should, therefore, allow SSE, the most efficient operator in Great Britain, to add to the return it earns from its electricity distribution assets by delivering good operational performance and innovations in network management.

Examples of SSE's activities which should support the achievement of a sufficient return include:

- dynamic line rating that allows the overhead line network to be operated to its maximum capacity rather than to constraints based on design assumptions;
- protective coatings and enhanced condition assessments that allow the life of assets to be extended without risking performance degeneration; and
- trench-less cable-laying technology, which reduces the public disruption and costs associated with cable-laying.

In addition, SSE will seek to secure a significant proportion of the new £500m Low Carbon Network Fund, designed by Ofgem to support larger-scale trials of advanced technology, including smart grids. It will also seek to manage effectively the new arrangement under which 100% of support costs are deemed to be expenses and 85% of network costs are deemed to be capital, with associated output measures in place.

Smart grids
SSE and Smarter Grid Solutions Ltd have commercially deployed smart grid technology on SSE's power distribution network on Orkney, allowing the connection of 15MW of extra new renewable energy generation, an increase of one third, with the potential for this to grow further. The Orkney Smart Grid is based on the principle that capacity exists in real-time on the power distribution grid due to variation in demand for electricity and diversity in the output of grid-connected generators. This innovative smart grid technology permits greater numbers of renewable generators to be connected to the existing electricity network, in a cheaper and faster way than traditional means, by allowing generators to access power network capacity not normally available under conventional network planning requirements.

Smart grid technology has the potential to improve significantly the efficiency of the electricity distribution and transmission networks in the UK and this deployment provides a blueprint for how smart grids can be used to connect high penetrations of renewable generation in a cost effective way and resolve grid congestion as a result. The connection of similar levels of renewable generation on Orkney by the conventional means of network reinforcement would have cost around £30m, compared with smart-related costs of less than £1m. In other words, the total cost of developing and delivering this innovative solution has been substantially cheaper and much faster than the alternatives.

Energy network regulation – future developments
In January 2010, Ofgem published its 'Emerging Thinking' document on the future of electricity and gas network regulation. It suggests that the RPI-X price control mechanism needs to be changed as it will not be able to cope with the pace, uncertainty and scale of change needed to deliver sustainable energy supplies for customers. The document's proposals are designed to change the focus of regulation from companies' costs to looking more at what companies can deliver in terms of reliable networks, safety and investment to support low-carbon generation and meet the needs of customers.

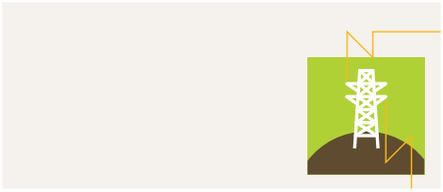
This approach builds on the electricity Distribution Price Control 2010-15, and could amount to a form of contract between Ofgem and the regulated network company, with the emphasis on delivery of certain key outputs. Ofgem is consulting on its 'emerging thinking' before more 'concrete and detailed' proposals are published in the summer of 2010.

Electric vehicles
Electric vehicles will be an essential part of the move towards a low-carbon transport infrastructure. The next decade is likely to see a significant uptake of such vehicles, which some reports have suggested could reach around 1.5 million in the UK as early as 2020. They also have the potential to influence dramatically the demand profile and quantity of electricity required by customers, and will impact on all aspects of SSE's business, including electricity distribution.

For this reason, SSE is taking part in the Technology Strategy Board's Ultra Low Carbon Vehicle Demonstration (ULCVD) project, which consists of eight consortia bringing over 300 vehicles to trial. The two consortia in which SSE is involved are with:

- BMW UK Ltd, Oxford Brookes University and the South East England Development Agency: 40 MINI E vehicles are being trialled by members of the public, SSE employees and fleet users in southern England. SSE has installed 32 Amp domestic charging facilities at the homes of the drivers, together with the smart metering to gather usage data. SSE is also installing public charging posts at selected locations; and
- Ford, Strathclyde University and the London Borough of Hillingdon: 20 prototype electric vehicles are being introduced and SSE will be providing the private and public charging infrastructure.

When their numbers become significant, electric vehicles could change greatly the volume and pattern of electricity demand, and it is for this reason – in addition to supporting the low-carbon objectives behind them – that SSE is so actively involved in the ULCVD project.



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 (and other) sources within it.

Four major developments currently under way have the potential to transform the scale and scope of SSE's electricity transmission business:

- Knocknagael, Beauly-Blackhillock-Kintore and Beauly-Dounreay: In January 2010, Ofgem announced authorisation of pre-construction and construction funding for these three upgrades in the SHETL area, which form part of the first tranche of transmission projects to help connect renewable energy to the electricity network. These projects have a total value of almost £200m and should all be completed by 2014.
- Beauly-Denny: Scottish Ministers announced in January 2010 that they have granted consents, with associated conditions, to install a 400,000 volt overhead electricity transmission line to replace the existing 132,000 volt overhead transmission line between Beauly and Denny. The existing line will be dismantled. The final cost of replacing the Beauly-Denny line can only be established once analysis of all of the conditions associated with the consent has been completed; and full construction work can only begin once it is clear that all of the conditions can be satisfied and Ofgem is able to confirm the investment is necessary, efficient and economical. SSE has concluded it should be able to undertake preliminary construction works this year, with a value of around £50m, with a further four summers of construction work required to complete the new line.
- Western Isles: SSE's proposal for an electricity transmission connection between the Western Isles and the north west of Scotland features, for the 77km mainland section, an under ground cable between the west coast of Sutherland and the Beauly substation. SHETL submitted to Scottish Ministers an application for consent to construct the connection in October 2008. The connection will be required to transmit renewable energy from the Western Isles, and a significant milestone was reached in January 2010 when a developer received approval for a 118MW wind farm at Eishken.
- Shetland: In July 2009, SHETL submitted planning applications for converter stations associated with the proposed 320km subsea high voltage direct current (HVDC) transmission link between the Shetland Islands and Moray on the Scottish mainland to accommodate renewable energy developments in Shetland. It would also connect properties in Shetland to the mainland electricity network for the first time. Related to this, in December 2009, the European Commission announced that SSE had been successful in securing a capital grant of €74m under the European Energy Programme for Recovery. The grant is towards the incremental cost of including an intermediate offshore HVDC hub off Caithness on the route of the proposed Shetland link and increasing the capacity of the southern section to Moray. The hub is at the centre of a potential innovative three-ended 'Y' configuration, with legs from Caithness and Shetland to accommodate substantial planned renewable energy developments in the far north east of Scotland and the Northern isles.

Looking to the longer term, SSE has participated in the Electricity Networks Strategy Group, sponsored by Ofgem and the UK Department of Energy and Climate Change and involving all of the transmission companies in Great Britain. It has identified a potential need for sub-sea cable links between Scotland and England known as 'bootstraps'. SSE expects to be a major participant in this and other transmission developments over the next decade and beyond.

Electricity distribution and transmission priorities in 2010/11 and beyond
During 2010/11 SSE's priorities in electricity networks are to:

- maintain safe and reliable supplies of power and to restore supplies as quickly as possible in the event of interruptions;
- respond effectively to the new arrangements in electricity distribution for allocating costs between support activities (expenses) and networks (capital);
- deliver successfully its investment plans in its electricity distribution networks;
- deploy innovative techniques to maximise the returns from good performance in electricity networks; and
- make further progress in upgrading the transmission network in the north of Scotland.

Scottish Hydro Electric Transmission (SHETL) is responsible for operating, maintaining and investing in the transmission network in its area. 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 (and other) sources within it.

Business overview (continued)

With such significant investment requirements over the next few years, not least in providing the infrastructure to accommodate electricity produced from renewable sources, the scope for additional incremental growth in electricity networks is clear. When opportunities arise to supplement that growth through the acquisition of additional networks, SSE considers them carefully. It will not, however, depart from its long-stated financial principle of deploying a selective and disciplined approach to acquisitions.

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 75,000km 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 £183.7m in 2009/10, compared with £180.5m in the previous year. This is primarily due to two things:

- the impact of the price changes agreed as part of the five-year Price Control to March 2013 has been sustained; and
- underlying operational efficiencies have been 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.

In October 2009, SGN successfully issued two new sterling bonds: a 30-year, £125m index-linked bond; and a nine-year, £300m fixed-rate bond.

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, in 2009/10, 97.9% were attended within one hour.

During 2009/10, SGN's gas transportation volumes were:

- 55.2TWh in Scotland, compared with 58.6TWh in the previous year; and
- 107.8TWh in Southern, compared with 114.9TWh in the previous year.

Only 3.5% of SGN's transportation income is volume-related; the remaining 96.5% is related to the maximum capacity requirements of its customers.

When SGN acquired its networks in June 2005, National Grid was contracted to provide it with services with a total value of £30m per annum. In the five years since, services have been brought within SGN, and by the end of 2010/11, it is expected that SGN's remaining service contracts with National Grid will total £7m per annum. These contracts cover transmission services, control and IT services and emergency call handling.

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 2009/10, SGN invested £412.8m in capital expenditure and mains and services replacement projects, compared with £382.8m 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 2009/10 SGN replaced over 1,050km of its metallic gas mains with modern polyethylene pipes.

SGN has commenced work on a £21m project to replace the under-sea gas main between the south coast mainland and the Isle of Wight. The project involves the longest directional drill ever undertaken (3.9km), going across the Solent between Lepe and Gurnard. Two tunnels will be bored to take two 30cm diameter gas pipes, which will be installed some 30m to 50m below the seabed.

SGN is committed to making new gas connections to existing homes that are not on mains gas as affordable as possible and is running a new scheme to help fuel-poor customers. Already over 4,000 acceptances have been received to provide a mains gas connection to homes under the new Ofgem-approved scheme. One of the first communities to benefit was Rattray in Perthshire where, thanks to an extension to the gas network, some 300 homes will now have access to mains gas, giving residents the choice of gas-fired heating for the first time.

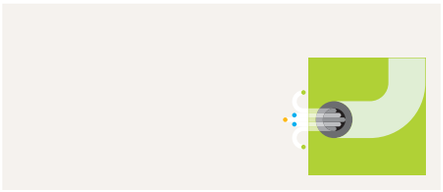
This scheme, along with other initiatives on carbon monoxide safety and reducing environmental impacts, helped SGN secure a £550,000 award from Ofgem under its first ever discretionary rewards scheme for the UK's gas distribution networks. The scheme, which is judged by a panel of industry experts, was established as part of Ofgem's gas Distribution Price Control 2008-13.

After electricity and gas, Telecoms is SSE's third networks business. Its origins lie in the installation, a decade ago, of fibre optic cable on SSE's electricity network. The business combines SSE Telecoms and Neos Networks and operates a 11,200km UK-wide telecoms network.

Investment will continue to be a top priority and, in line with that, SGN expects to invest around £400m in capital expenditure and mains and services replacement projects during 2010/11.

Scotia Gas Networks priorities in 2010/11 and beyond
During 2010/11, SGN's priorities are to:

- deliver a safe and secure gas supply to customers;
- deliver to time and budget the 2010/11 mains replacement and capital works programmes; and
- provide sector-leading customer service and exceed the standards of response levels set by Ofgem.



Telecoms networks

Introduction to telecoms
After electricity and gas, Telecoms is SSE's third networks business. Its origins lie in the installation, a decade ago, of fibre optic cable on SSE's electricity network. The business combines SSE Telecoms and Neos Networks and, following several acquisitions in recent years, including the ATLAS Connect fibre network from Scottish Enterprise in March 2010, it now operates a 11,200km UK-wide telecoms network.

This network provides capacity and bandwidth services for companies, public sector organisations, internet service providers, application service providers and other licence operators and now comprises:

- fibre optic cabling which SSE owns (5,000km);
- leased lit fibre (2,600km); and
- microwave radio (3,600km).

As a result, SSE is the fourth largest telecoms network company in the UK. 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.

To complement its core telecoms network business, SSE completed the acquisition of a Fareham-based data centre business in June 2009.

Telecoms operations
SSE's combined Telecoms business achieved an operating profit* of £16.4m during 2009/10, compared with £15.5m in the previous year. This reflected principally increased sales and ongoing cost controls.

Telecoms investment
In 2009/10, SSE undertook capital expenditure of £25.9m in respect of its telecoms network, principally focused on improving network reliability and reach.

The data centre at Fareham was acquired for £4.85m. It provides capacity for more than 2,000 racks for the co-location of IT services within the 80,000 square feet secure site and 15MW of power in a resilient and energy efficient environment, which will include one of the UK's largest rooftop solar photovoltaic installations. The data centre uses a modular design which allows customers to select the level of service that they require.

Following the acquisition, a trading division, SSE Data Centres, was created, and in October 2009 it was awarded a new long-term contract to provide Kingfisher plc with its own dedicated data centre pod to support IT infrastructure to be migrated from a number of existing data centres. The connection between telecoms networks and data storage is illustrated by the fact that SSE secured two orders for bandwidth capacity from Kingfisher following this agreement. In addition, in April 2010, a 10-year data storage contract was signed with Thompson Reuters.

Telecoms priorities in 2010/11 and beyond
SSE's priorities in Telecoms in 2010/11 are to:

- complete the integration of recently acquired network assets;
- retain and gain customers for key services such as capacity and bandwidth; and
- add to the of number of customers for its data centre business.

The achievement of these priorities should enable SSE Telecoms to continue to make progress towards becoming the UK's leading alternative telecoms network.

Services

SSE is aiming to consolidate its position among the leading GB-wide electrical and mechanical contractors and prepare for the rapid move to lower-carbon technologies that will take place over the next decade.

- **Street-lighting** page 44
- **Utility solutions** page 45
- **Metering** page 45

Energy-related services overview
As well as being involved in Generation and Supply, Fuel Production and Storage and Networks, SSE also provides an additional range of energy services which complement its other businesses: Contracting and Connections (including utility solutions) and Metering. These are important services, on which customers depend, so that their increasingly complex energy requirements can be met.

Contracting, Connections and Metering

Operating profit* in Contracting, Connections and Metering was £80.2m during 2009/10, compared with £74.8m in the previous year.

Introduction to Contracting
SSE Contracting trades principally as Southern Electric Contracting (SEC) and has three main areas of activity:

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

It is one of the largest mechanical and electrical contracting businesses in the UK. It operates from over 60 regional offices throughout Great Britain and also trades as Swalec Contracting in Wales and Scottish Hydro Contracting in Scotland.

Business overview (continued)

Contracting performance during 2009/10
SSE Contracting continued to make solid progress during 2009/10, with its order book ending the year at £115m, despite the UK's economic difficulties. The order book was supported by significant new contract wins with a number of major organisations in recent months, including Southend University Hospital, Murco Petroleum, British Telecom, Network Rail and Glasgow Housing Association.

A major proportion of SSE Contracting's business is from public sector bodies and end-user client organisations with a high degree of repeat business or long-term contracts. This has put it in a relatively good position to withstand the initial effects of the economic downturn. Given the downturn, during the year, it focused on:

- pre-sales activity, with careful analysis of the markets and areas of work it should prioritise; and
- post-sales control, with a strong emphasis on controlling costs while meeting customers' requirements.

There is clearly a risk that the business' order book and profitability will be affected as a result of the cumulative impact of the continuing economic uncertainty and the expected constraints on public expenditure. As a result, cost control and customer relationships will remain particularly high priorities for SSE Contracting during 2010/11.

Contracting – street-lighting
SSE Contracting remains the UK's leading street-lighting contractor, and in 2009/10 retained contracts with 26 authorities to maintain over 1.1 million lighting columns.

In August 2009, SSE was awarded the £225m, 25-year South Coast Streetlighting PFI (Private Finance Initiative) contract, through its PFI street-lighting entity Tay Valley Lighting. Under the contract, SSE Contracting will replace and maintain 250,000 street lights, illuminated signs and bollards on behalf of Hampshire and West Sussex County Councils and Southampton City Council. It took the number of local authorities with which SSE has long-term street-lighting replacement and maintenance PFI contracts to 10 and the number of lighting units covered by such contracts to over 530,000.

Again through Tay Valley Lighting, SSE has been appointed preferred bidder on the Nottingham City Council street-lighting PFI project. The 25-year contract involves the replacement and maintenance of around 40,000 columns, and illuminated signs. Tay Valley Lighting is actively bidding for a number of other PFI projects.

In November 2009, SSE acquired the assets of ESB Contracts Ltd (ESBC), the street-lighting business of ESB, for a total cash consideration of €6.4m, making it Ireland's leading street-lighting contractor. ESBC maintained around 300,000 street lights in the Republic of Ireland. Street-lighting will in due course become the subject of competitive tendering by local authorities. Under SSE's ownership, the business is known as Airtricity Utility Solutions and employs over 100 people, including people who previously worked with ESBC. Including Ireland, SSE now maintains around 1.4 million street lights.

Over the last 12 months SSE also acquired the rights to 'Mayflower', an intelligent management system for controlling street-lighting from a central location. The functionality of the system will allow local authorities to switch lights on and off and to dim them when there is less requirement for high lighting levels. Mayflower already has orders for over 300,000 units.

Contracting – microgeneration
SSE Contracting is also spearheading SSE's response to the introduction on 1 April 2010 of Feed-in Tariffs (FiTs) to encourage householders, communities and other groups to generate their own electricity from low-carbon technologies such as solar PV. The capacity of installations can be up to 5MW. FiTs will be followed by the Renewable Heat Incentive in April 2011.

Microgeneration is a very small market at the moment, but it is growing fast and FiTs will provide additional impetus to this growth. With its technical, contract management and project management skills, SSE Contracting is ideally-placed to provide customers with the services they need in all aspects of microgeneration and developing the full array of necessary services is now under way.

SSE is to become the first utility in the UK to build and monitor its own development of zero-carbon homes. The 10-home development, under construction near Slough, is being built on land previously occupied by an SSE office building. The properties have been designed to achieve the highest specification for sustainable building, Code Level 6 in the Code for Sustainable Homes. The installation of renewable energy features will be carried out by SSE Contracting and SSE Utility Solutions. All new homes built in England from 2016 onwards must be zero carbon.

In one of the first ever live demonstrations of what will be needed to achieve highly energy efficient living, SSE will test the every-day performance of the technology installed in the homes, such as a photovoltaic (solar) roof and a renewable district heating system. The development will feature a renewable energy heat hub, housing five different types of micro-generation including air and ground source heat pumps, a biomass boiler and solar thermal panels. The homes will be fitted with the latest energy efficient appliances and SSE will use smart meters to monitor the energy and water usage of the homes for 24 months.

The information gleaned will help SSE understand how householders respond and adapt to zero-carbon living. It will also provide SSE and its related companies, such as those linked with SSE Ventures, with valuable information to share with stakeholders such as construction partners, technology manufacturers and industry bodies.

Contracting priorities in 2010/11 and beyond
The key priority for SSE Contracting during 2010/11 is to position itself for the long term by:

- working safely;
- delivering a high standard of service to all customers;
- maintaining a strong order book;
- maximising business opportunities with existing customers;
- adding to its list of street-lighting contracts; and
- building up opportunities in microgeneration, including the zero-carbon homes project.

This, in turn, should enable SSE Contracting to consolidate its position among the leading GB-wide electrical and mechanical contractors and prepare for the rapid move to lower-carbon technologies that will take place over the next decade.

SSE is to become the first utility in the UK to build and monitor its own development of zero-carbon homes. In one of the first ever live demonstrations of what will be needed to achieve highly energy efficient living, SSE will test the every-day performance of the technology installed in the homes, such as a photovoltaic (solar) roof and a renewable district heating system.

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 the following activities to form SSE Utility Solutions:

- out-of-area embedded electricity networks (previously known as 'National Networks');
- licensed gas transportation (SSE Pipelines);
- water and sewerage services (SSE Water); and
- low-carbon local energy (energy services or 'ESCo').

SSE Utility Solutions is, therefore, able to provide a one-stop solution for multi-utility infrastructure requirements to customers in the property development and house-building sectors. It can design, construct, own and operate this range of closely-related services.

Electricity connections
During 2009/10, SSE completed 24,300 electrical connections, compared with 36,000 in the previous year. This was the third successive year in which the number of connections completed fell, and the weakness of the economy means SSE expects a further decline in 2010/11 – 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 53 energised electricity networks outside these two areas, with development work ongoing at a number of these, and a further 25 are under construction, including residential and commercial developments across England, Scotland and Wales. In total, SSE has 436MW of networks capacity, including 157MW currently under construction. Nevertheless, a reduction in new development activity in the UK economy has been 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. This business 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 2009/10 it connected a further 6,700 premises, taking the total number of connections to more than 66,000. This is despite a significant number of building sites being mothballed, and building projects being deferred, which means the number of gas connections completed in 2010/11 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. 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, had five as at March 2010 and has since been awarded a sixth. Under these appointments, SSE will provide water and sewerage services to over 5,000 properties.

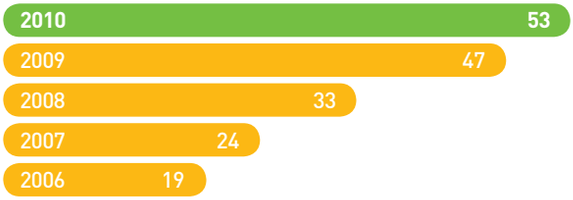
Utility Solutions – energy services
SSE Energy Services provides low-carbon local energy services, such as the commercial and domestic heating system and 4.5MW Combined Heat and Power (CHP) facility at Woolwich. During 2009/10, it secured energy services agreements for local energy infrastructure for a further two heat networks. It is developing biomass, heat pump and wind energy solutions for communities and commercial enterprises. 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 two years ago and SSE is now seeking to participate in other markets such as health, education and defence.

Utility Solutions priorities for 2010/11 and beyond
SSE Utility Solutions increased its market share during 2009/10 by focusing on providing good customer service and because a number of its competitors operated under significant financial constraints as a result of the economic downturn. During 2010/11 its priority is to build on this increase and further increase its number of electricity networks, gas connections, water and sewerage inset appointments and energy services agreements.

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 Great Britain to establish a national metering business. 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.

Business overview (continued)

Out-of-area networks in operation



Metering performance during 2009/10
In total, SSE owns 3.8 million meters. During 2009/10 it collected:

- 6.8 million electricity readings, up from 6.4 million in the previous year; and
- 3.9 million gas readings, up from 2.6 million.

This increase reflects the fact that SSE has completed the in-sourcing of its meter reading and electricity meter operation services throughout Great Britain, a year ahead of schedule.

Before the in-sourcing was completed, SSE relied on a combination its own employees in central southern England and the north of Scotland and up to nine external agencies elsewhere in the country to read electricity and gas meters and install and repair electricity meters.

In line with its general preference for services and operations to be carried out in-house, SSE decided to in-source metering services in a programme which started in 2007. This programme has now been completed and, as a result, SSE's metering team now comprises 1,500 directly-employed people working in all parts of Great Britain. In addition to securing annual cost savings of at least £5m, the in-house metering team delivers more reliable metering services, allows more effective management of customer data and creates face-to-face contact between SSE and its customers. It thus helps in the retention of customers.

Longer term, SSE's Great Britain-wide metering team will be able to support the transition to smart meters which will take place over the next 10 years and will help SSE deploy other energy-related services and products during that time.

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. All homes in Great Britain are expected to have smart meters by 2020.

In early 2010, SSE successfully completed the first community-wide energy reduction trials in the UK, helping two communities achieve a 10% reduction in their electricity consumption. The trials, part of the Energy Demand Research Project (EDRP), involved working with communities to help them achieve the reduction over a two-and-a-half-year period.

The EDRP trials are managed by Ofgem, on behalf of the UK Department of Energy and Climate Change, and aim to gain an understanding of how consumers react to improved information about their energy consumption. The trials consist of different elements using different methods to provide feedback on energy consumption.

SSE was the only energy supplier in the EDRP to hold trials involving engagement with entire communities. The trials were held in North Leigh in Oxfordshire, Alyth in Perthshire and St Athan in South Wales. The communities of North Leigh and Alyth achieved their community-wide 10% energy reduction and received an award of £20,000 each from SSE. The trial in St Athan started later, and is therefore not due to be completed until later this year, but good progress is being made.

A variety of measures was available to each community including smart meters, real-time display devices (which show energy use in monetary value), energy efficiency advice and insulation offers. As well as the support provided by SSE, the communities arranged various events locally, designed to involve the whole community.

The information that has been obtained during the trials has been and will be extremely useful and it will be used to help shape the future of the energy industry. The primary purpose of the trials was to understand how people use energy and how savings can be made when more control is given to individuals and communities.

Metering priorities in 2010/11 and beyond
For Metering, the key priorities are:

- maximising the number of bills issued to customers on the basis of an actual – as opposed to estimated – meter reading; and
- applying the lessons learned from the EDRP to inform a full roll-out of smart meters throughout the country.

SSE believes that there must be radical changes in the way that energy is produced and consumed and these energy reduction trials, which have used a number of innovative technologies, will assist customers in reducing their energy consumption. It 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.

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.

Corporate governance
Chairman's introduction

Lord Smith of Kelvin
Chairman

I am pleased to introduce the Corporate Governance Report for 2009/10. It explains our approach to corporate governance in detail by describing: the SSE team; risk management and internal control; how the Board works; and setting out the work of each of the five Board Committees – Audit, Risk and Trading, Nomination, Safety, Health and Environment and Remuneration.

The Board does not regard corporate governance as a burden but as the best way of ensuring that SSE is a consistently successful, well-run and responsible business, capable of delivering increases in the dividend payable to shareholders in the short, medium and long term.

Evaluation
A strong corporate governance framework is particularly important. In the current economic business environment it is vital that the risks to which SSE is exposed are properly identified and managed. That is one of the reasons why the Board decided this year that the evaluation of its performance should be carried out by an external party for the first time. This evaluation paid particular attention to risk management, and is reported on in more detail in the following report.

The independent evaluation was a worthwhile exercise and it is interesting to note that the proposals for the new Combined Code on Corporate Governance now provide that external Board evaluation should take place at least every three years. We contributed to the consultation on the review of the Combined Code and welcome the changes which have been proposed.

Values
SSE pays particular attention to the highest level of governance and strives to foster a culture that values proper ethical standards, personal and corporate integrity and respect for others. We have recently produced a code of business practice, 'Doing the right thing', which brings all our main policies on responsible practice together in one place. This has been distributed to everyone in SSE, and is also a key part of the induction programme for everyone joining the Company as a new employee. There is a lot more information about SSE's key policies on issues relating to responsible business practice on the SSE website.

More broadly, the SSE SET of core values – Safety, Service, Efficiency, Sustainability, Excellence and Teamwork – remain SSE's guiding principles. As set out in the Remuneration Report, employees' performance against them is appraised annually and the most important of them all – Safety – is the first item on the agenda for every Board meeting.

Commitment
The commitment of the Directors to the business of SSE remains undiminished. The non-Executive Directors devote a significant amount of time to SSE over and above attendance at Board and Committee meetings. During the year each non-Executive Director visited key business locations throughout SSE and had briefings from members of the SSE team on a range of matters such as credit management, energy trading and major projects. Board meetings took place on a number of SSE sites, including the regional office in Reading and the customer service centre at Cumbernauld. I know that all of the non-Executive Directors value their association with SSE and with the excellent team of people employed by the Company.

The entire Board is committed to supporting SSE during the next phase of its development. Throughout that time, we will work together to make sure that SSE continues to be a responsible, well-run company with strong corporate governance.

Lord Smith of Kelvin
Chairman
18 May 2010

Corporate governance (continued)
The SSE team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The Board of Directors

01 **Lord Smith of Kelvin**
02 **Alistair Phillips-Davies**
03 **Thomas Andersen**
04 **Ian Marchant**
05 **René Médori**
06 **Colin Hood**
07 **Gregor Alexander**
08 **Richard Gillingwater CBE**
09 **Lady Rice CBE**
10 **Nick Baldwin**


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Lord Smith of Kelvin
Chairman
Robert joined the Board as a non-Executive Director in June 2003 and became Chairman in January 2005. He is also: Chairman of the Weir Group plc; a non-Executive Director of Standard Bank Group Ltd; Chairman of Glasgow 2014 Ltd, the organising committee for the Commonwealth Games; 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.

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 also: a member of the UK Business Council for Sustainable Energy; Chairman of the Scottish Climate Change Business Delivery Group; Chairman of the 2020 Delivery Group; a member of Ofgem's Environmental Advisory Group; a member of the Energy Research Partnership; a non-Executive Director of John Wood plc and Maggie's Cancer Centres; and became Chairman of the Engineering Construction Forum in 2009. Ian is a member of the Nomination Committee, Risk and Trading 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, Human Resources and IT. Colin is a Director of Scotia Gas Networks and became a non-Executive Director of FirstGroup plc in May 2009. He is SSE's Lead Director for Health and Safety matters and is Chairman of the Safety, Health and Environment Advisory Committee.

Lady Rice CBE
Senior Independent Director
Susan joined the Board as non-Executive Director in July 2003 and became Senior Independent Director in 2007. She is Managing Director of the Lloyds Banking Group Scotland. Susan 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 with several other organisations. Susan chairs the Remuneration Committee and is a member of the Nomination Committee.

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

Alistair Phillips-Davies
Energy Supply Director
Alistair was appointed Energy Supply Director and joined the Board in 2002, having previously been Energy Trading Director. 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, Customer Service, Sales, Marketing and Energy Services. He is Chairman of the Energy Retail Association and chairs the Risk and Trading 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 Chair of the Public Weather Service Customer Group. He is also Chairman of TreeHouse Trust. Nick is a member of the Audit, Remuneration and Nomination Committees.

René Médori
Audit Committee Chairman
René joined the Board as a non-Executive Director in June 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. He is a member of the Risk and Trading Committee.

Thomas Thune Andersen
Non-Executive Director
Thomas joined the Board as a non-Executive Director in 2008. He is a non-Executive Director of Petrofac Plc and of VKR Holding. He was 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, until 2009. He is a member of the Audit, Nomination, and Safety, Health and Environment Advisory Committees.

Corporate governance (continued)
The SSE team (continued)

On 31 March 2010, SSE employed 20,177 people, an increase of 1,382 on the previous year. Fundamental to the Company's success is the 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 Board of Directors

The Board is accountable to SSE's shareholders for the good conduct of the Company's affairs and is collectively responsible for creating and sustaining shareholder value through the overall management of the Company, while ensuring that a sound system of internal control and risk management is in place. 'How the Board Works' is set out on pages 56 to 58.

The senior management team

A total of 31 senior executives and managers report directly to SSE's four Executive Directors. The average length of service in SSE of these senior executives and managers is 18 years and their average age is 46 years.

These senior executives and other managers, plus the Executive Directors, are members of SSE's issue- and business-specific Leadership Teams, which meet monthly to oversee the operational and financial performance of, and issues facing, the Company. The issues covered by the Leadership Teams include: Safety, Health and Environment; People and Resources; Generation and Fuel; Electricity Networks; Operational Excellence; Policy and Regulation; and Business and Domestic Customers.

Employee issues

The Executive Directors and senior executives and managers are among the 20,177 people directly employed by SSE on 31 March 2010. Most of these people work in the United Kingdom; around 300 are employed in the Republic of Ireland; and a total of 30 work in mainland Europe and four in China. Of all employees, 73% are men and 27% are women; a total of 80% of SSE's managers, including Leadership Team members, are men and 20% are women. The average age of SSE's employees is 39 years. In 2009/10, there was a 8.7% turnover of employees, compared with 11.5% in the previous year.

Participation
SSE believes that there is a commonality of interest between employees and customers and shareholders. To reinforce that it:

- encourages employees to become and remain customers by providing them with a 10% discount on its prices for electricity and gas supply, plus discounts on energy efficiency installations, central heating and wiring maintenance and telephone and broadband services; and
- provides opportunities for employees to become and remain shareholders in SSE through a Share Incentive Plan and a Sharesave Scheme. Employee participation in these schemes is now 42% and 34% respectively.

Within SSE, employee participation is encouraged through adherence to the Company's Teamwork value. The appraisal process for employees, including the senior management team, specifically evaluates their performance in Teamwork, along with performance in respect of SSE's other core values: Safety, Service, Efficiency, Sustainability and Excellence. In keeping with these values, SSE produced and distributed to all employees in March 2010 a comprehensive code of business practice, 'Doing the right thing'. It highlights, summarises and complements a range of ethics-related policies which SSE has in place. The importance of doing the right thing was again emphasised by the UK's Bribery Act 2010.

In addition to a wide range of internal communication media and events, employee participation in SSE is also encouraged through the Chief Executive's Blog, inter-active online forums, division- and subject-specific employee surveys, Director-led regional roadshows and the Licence to Innovate scheme, which enables employees to research, review and test-trial new ideas.

Joint Negotiating and Consultative Committee
SSE benefits from a well-established Joint Negotiating and Consultative Committee which includes lay and full-time representatives from four recognised trade unions. In February 2008, the unions' ballot produced a substantial vote in favour of SSE's pay offer for the three years to 31 March 2011. Discussions have commenced with the trade unions on the type of collective agreement that will support the ongoing growth and development of the business. Pay arrangements in SSE's Contracting division are in line with national construction agreements.

Rights
SSE has in place a comprehensive range of policies to safeguard the interests of employees and potential employees. Like all responsible organisations it has in place an actively-managed equal opportunities policy, in keeping with the spirit as well as the letter of the law in the UK and elsewhere, designed to ensure fair and equal treatment of employees and potential employees across the seven protected grounds (as defined by the UK's Equality and Human Rights Commission) – age, disability, gender, race, religion and belief, sexual orientation and gender reassignment. Adjustments are made to support and train staff who become disabled during their employment to enable them to continue and develop in their role. There were no occasions during 2009/10 when SSE was found to have failed to comply with equal opportunities legislation.

The Equality Act 2010 will harmonise and extend existing discrimination law in the UK. SSE intends to take the opportunity of the revised legislation to review all of its policies in this area and, where necessary or desirable, update them. It has established an Equality Working Group to help achieve this.

Responsibilities
Along with the rights summarised above, SSE also believes that employees have responsibilities, summarised in eight People Principles, adopted in 2008 and built around its core value of Teamwork:

- **T**ake all active steps to ensure there is no intimidation or discrimination.
- **E**ngage in safe, healthy and environmentally-friendly working practices.
- **A**lways know and understand what is expected of you in your job.
- **M**aintain respect and support for colleagues at all times.
- **W**ork continuously to improve team and individual performance.
- **O**btain constructive feedback on your performance from your line manager.
- **R**eceive appropriate training, development and rewards.
- **K**now and embrace the Company's core values.

Through the application of these principles, SSE seeks to maintain a positive

organisational culture and to provide a fulfilling place for people to work.

Training and development
The skills and competencies of employees are critical to the energy sector in the UK, the Republic of Ireland and elsewhere. SSE needs to ensure the safe and efficient operation of its businesses and the reliable provision of services to customers. In addition, SSE needs to develop new skills and flexibility to manage new technologies. It is, therefore, critical that employees of SSE have the training, development and work experience they need to fulfil their potential. In order to do this, SSE uses a range of delivery media for training.

During 2009/10, SSE invested £2.2m in externally-provided training, taking the total to £7.7m over the last three years. This helped to deliver training to 3,600 employees during the year, in addition to the 7,800 people who received formal in-house training. In the past two years, SSE has opened new technical and general training centres at Thatcham and Perth. These centres enable people to train in the types of environment in which they will eventually work, providing a realistic experience in a safe, controlled setting. This training is supplemented by operational awareness days, during which best-in-class working practices are demonstrated to employees through detailed coaching and assessment in operational environments.

SSE recognises that the continued success of its business requires the ongoing development and growth of employees, as well as the effective recruitment, retention and development of talent into its business. As part of this process, SSE has in place a succession planning process and offers a range of development programmes suited to the needs of school leavers, trainees, trainee engineers, graduates and apprentices. In 2009/10, 260 people were recruited through these schemes.

Innovation, research and development

The SSE team of people has extensive knowledge, expertise and know-how. New ideas, improvements to process and design and innovation have been key to SSE's successes to date and are fundamental to the Company's ability to adapt to the challenges of the future. The Company's Excellence value states that: 'We strive to get better and smarter and more innovative and be the best in everything we do.'

As a spur to employee participation, idea generation, continuous improvement and operational excellence, SSE maintains and promotes a Licence to Innovate scheme, under which any employee can suggest ideas for improving the way SSE operates, consistent with its core values. People with ideas with significant potential are granted a Licence to Innovate, under which they can spend two months researching further their proposal. Subject to the outcome of the research, the idea may then be piloted prior to full implementation.

Over 2,000 Licences to Innovate were issued during 2009/10, of which over 400 were implemented. A number of Licences have created value in excess of £1m. Others have contributed to improved performance in specific areas, such as driving safety – a critical issue for SSE, which has 6,000 Company vehicles on the road in the UK and Ireland.

SSE's focus on innovation complements its work in research and development, where new processes, services, products and technologies are created, enabling it to remain a successful company in the future. During 2008/09, SSE created a corporate research and development function, which now works with people throughout SSE and external organisations such as the University of Strathclyde, the University of Reading and KEMA, a leading authority in energy consulting and testing and certification. SSE's focus is on the following key areas: smart homes; renewable energy; carbon capture and storage; customer attitudes and energy efficiency; appliances; street-lighting; smart electricity grids; and telecoms.

In total, during 2009/10, SSE invested £3.7m in research and development activities. This was in addition to the £12m which SSE Ventures invested in companies during 2009/10 which are developing and deploying renewable, sustainable and energy efficiency-enhancing products and services. See page 30.

The horizon of SSE Ventures and of SSE's research and development activities is mainly the next decade, including influencing current operational development and deployment activities. SSE also maintains a long-term outlook through the work of its Central Research Unit, which examines in detail issues which could affect SSE and its customers over the next 10, 20 or 40 years. These range from electricity storage to developments in social networking.

Community and charitable activities

SSE encourages its employees to be active citizens in the communities in which they live and work through, for example, its Into Action scheme. This matches the contribution of employees who are either raising money for, or giving time to, a charity, or who are involved in running local community or youth sports groups, up to a limit of £500. Its focus on safety is reflected in 'Make it Zero', which rewards business units that deliver a full year without any lost-time or reportable injuries with a donation to a charity of the business unit's choice.

Through these and other schemes, such as financial support for programmes near SSE's wind farms, SSE made payments of £3.4m to charitable and community programmes in the UK during 2009/10. It is building on this during 2010/11 with the development of a company-wide employee volunteering programme and further promotion of and support for the recently introduced 'Give As You Earn' scheme, to give employees maximum choice in the cause they support, and facilitate them doing so in a tax-efficient way.

Corporate responsibility index

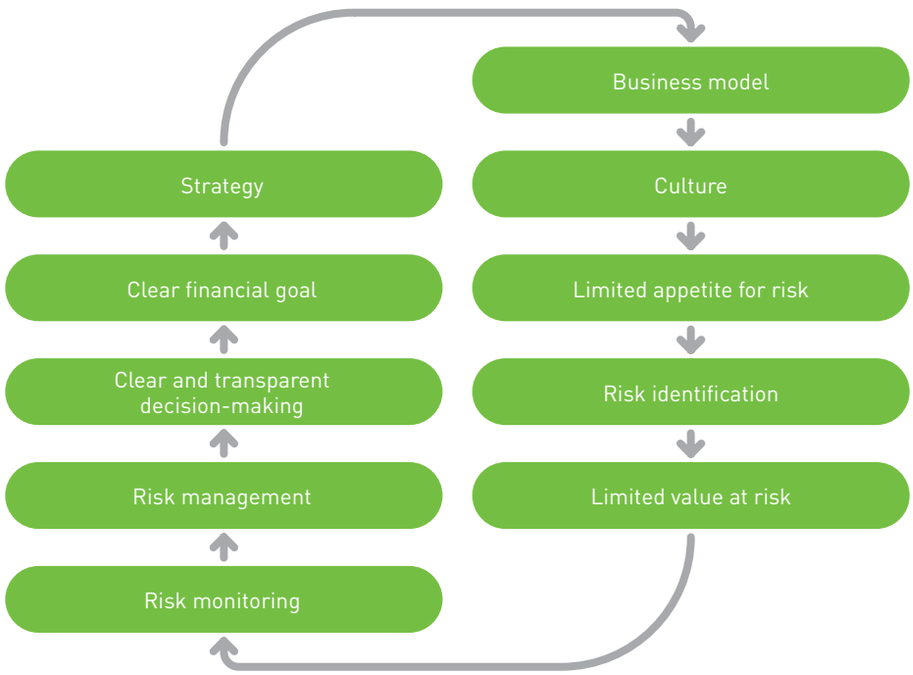
Everyone who is employed by SSE is expected to demonstrate and deliver responsible business practice in whatever they do. As a result, SSE does not have a separate corporate responsibility division or committee, believing it is not an add-on, and should not be treated as such. This Annual Report is intended to demonstrate that SSE is a responsible company, and further information is provided in its 'A-Z of Corporate Responsibility' at www.sse.com.

Business in the Community's Corporate Responsibility Index provides an authoritative benchmark for companies to evaluate their 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 for the Index for 2009, released in April 2010, SSE retained its Platinum Plus rating.

Corporate governance (continued)
Risk management

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

Risk management model



Risk management

As SSE has previously observed, there are many definitions of 'risk management' but some organisations with apparently textbook approaches to the issue have been 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 are designed with risk firmly in mind.

Clear financial goal
SSE has a clear – and moderate – financial goal: to deliver sustained real growth in the dividend payable to shareholders. To attain that goal, it does not need to seek artificially high rates of growth in profitability or take operational or investment decisions which are high risk. All members of the Board believe that this goal must not be subverted for any other financial end.

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.

Strategy
SSE seeks to achieve its financial goal through the implementation of a well-established strategy: the efficient operation of, and investment in, a balanced range of economically-regulated and market-based energy businesses. SSE is the only company listed on the London Stock Exchange involved in such a wide range of energy businesses in the UK.

Business model
The practical application of its strategy means SSE derives income and profit from:

- three separate economically-regulated activities – electricity transmission, electricity distribution and gas distribution;
- electricity production, using a diverse variety of fuels – gas, oil, coal, biomass, wind and water;
- energy supply – gas and electricity; and
- other energy-related activities such as gas storage, contracting, connections, metering and telecoms.

This means that while they have a common core – energy – there is balance and diversity in the sources of SSE's income and profit.

Culture
Central to SSE's approach to risk management is its core value of Teamwork, defined as supporting and valuing colleagues and working together in an open and honest way. This ensures a full discussion of the risks and potential rewards associated with any major decision – discussion which involves people because of what they know, not simply who they are.

Specific findings from the independent review of SSE Board effectiveness, carried out in the autumn of 2009 by Independent Audit Ltd, included 'a remarkable consensus of opinion' on the following:

- there is 'an open, informal atmosphere which encourages everyone to contribute';
- discussion is 'rigorous'; and
- the Executive Directors 'respond positively and constructively to challenge'.

Limited appetite for risk
The Teamwork value, combined with other factors such as the clear, moderate (but nevertheless fundamentally important) financial goal of sustained real growth in the dividend, mean SSE has a limited appetite for risk. At the same time, its approach in respect of economically-regulated businesses, which in themselves are lower-risk, is more risk-averse than is the case in other, market-based activities. In these areas, such as electricity generation, 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).

Risk identification
The Teamwork value, the emphasis on people's knowledge rather than status, and the maintenance of a very experienced team, complemented by the recruitment of additional specialist skills where necessary, are all designed to ensure that the risks associated with operations and investments are identified, understood, recorded, mitigated and monitored.

Limited value at risk
The limited appetite for risk and the process of risk identification, allied to the maintenance of a balanced model, in which diversity of operations and investments is a key feature, all mean that the extent of any single risk and the value associated with it is limited.

Risk monitoring
Risks are monitored by the relevant business units within SSE, with an overview provided by the Group Internal Audit Department for the Audit Committee meetings held in May and November of each year and for the Board meeting held in March. During 2009/10, the Group Audit function carried out over 60 separate audits of functions, activities and issues managed by SSE, providing a large number of reports to senior management throughout the year. These include environmental audits carried out by SSE's Group Environmental Auditor. Each audit report included agreed management actions to improve the overall management of risk. The work of Group Audit complements the work done by business-specific compliance functions in areas such as energy trading, domestic sales, IT and customer service.

Risk management
In summary, SSE's approach to risk management is characterised by: the clarity of its financial goal; its strategy and business model, which help to limit the value at risk; its culture and limited appetite for risk; and its work on risk identification and risk management.

Clear and transparent decision-making
Such an approach to risk management still requires one essential feature: clear and transparent decision-making to make the overall approach effective, in support of its clear financial goal.

Risk categories

At its meeting in March 2010, the Board of SSE reviewed SSE's principal risk categories and the effectiveness of SSE's system of internal controls. The risks are set out under six principal categories, summarised below.

One additional risk is the weather – particularly its impact on the production and consumption of energy in the Generation and Supply business. The extent of this risk is contained by the diversity within SSE's generation portfolio, the further diversity within its renewable energy portfolio, and the integrated nature of its generation and energy supply activities.

No list of risks can ever be totally comprehensive. Circumstances change and the unexpected happens so the extent and materiality of any risk can vary. Nevertheless, in its ongoing review of risk, SSE is confident that its assessment of the principal risk categories is correct and that its analysis of individual risks is soundly-based.

Risk categories	Risks in this category	How risk is managed
Strategic risk This means a risk which could adversely affect SSE's ability to achieve its core financial objective of sustained real growth in the dividend. **More information** See Strategic Overview on pages 8 to 10	Risks could arise from issues such as the impact of climate change and scarcity of natural resources and commodities, the emergence of new, so-called 'disruptive' technologies, poorly-judged acquisitions or investments, fundamental weaknesses in project management or sustained reputational damage.	SSE manages strategic risk by operating and investing in a balanced range of market-based and economically-regulated energy businesses, thus limiting the value at risk associated with any single business issue. Furthermore, its approach to risk identification, monitoring and management is applied in detail to individual issues as they arise, thereby further diluting strategic risk.
Financial risk This means a risk which could result in a material financial loss to SSE or an inability to meet its obligations. **More information** See Risk and Trading Committee on page 62 and Financial Overview on pages 11 to 15	Risks could arise from issues such as participation in wholesale markets for gas and electricity and other commodities, an adverse movement in exchange rates between sterling and other currencies or inability to secure short-, medium- or long-term funding.	SSE has a Risk and Trading Committee which manages the financial exposures, operations and internal controls related to participation in wholesale energy and commodity markets and to Treasury-related activities. SSE maintains a balanced approach to financing its operations and investments, founded on maintenance of a strong balance sheet.

Corporate governance (continued)
Risk management (continued)

Risk categories	Risks in this category	How risk is managed
Credit risk This means a risk of default by a contractual counter-party resulting in failure to settle or deliver on liabilities or an inability to finance its operations and investments. **More information** See Financial Overview on pages 11 to 15 and Risk and Trading Committee on page 62	This risk applies especially in wholesale energy and commodity activity and in the supply of energy to major customers. In other areas, such as SSE's economically-regulated businesses, credit risks are managed in accordance with industry standards as set out by Ofgem. Like other companies, SSE seeks external funding at an economic rate to finance its activities.	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. SSE also observes a number of financial principles, including maintenance of a strong balance sheet.
Market risk This means a risk of major change arising in one or more of the markets in which SSE is an active participant. **More information** See Generation and Supply on pages 20 to 35 and Services on pages 43 to 46	SSE is active in a number of markets, including energy supply and energy services such as contracting. Any participant in competitive markets is exposed to risks associated with competitors' behaviour and customers' changing expectations and requirements.	SSE actively monitors, manages and develops its proposition in all of the markets in which it takes part and talks every day to customers to make sure it is meeting their expectations. It has specific Leadership Teams comprising managers tasked with promoting SSE's position in the provision of products and services to households and businesses.
Operational risk This means the risks associated with the day-to-day operations of SSE, across all of its business activities, and relating to processes, systems or people. **More information** See Business Overview on pages 20 to 46	SSE is a complex business and operational risks range from management of electricity generation plant and overhead power lines to safety, health or environmental issues and compliance with legislation and regulations.	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. SSE also prioritises the development and retention of experienced employees whose risk management experience is used. SSE has in place insurance policies in respect of all major operational risks.
Political and regulatory risk This means environmental, safety, regulatory and general legislative and public policy changes which could affect any part of SSE's business. **More information** See Strategic Overview on pages 8 to 10 and Networks on pages 37 to 43	In SSE's economically-regulated businesses, the principal risk arises from Ofgem's determination of the Price Control for electricity distribution and transmission and gas distribution. In market-based businesses, the principal risk arises from the high political profile of electricity generation and energy supply.	SSE has a Policy and Regulation Leadership Group to oversee political and regulatory matters. It maintains a high level of constructive interaction with regulators, policy-makers, legislators, officials and other opinion formers in the political and legislative process.

Internal control

Risk management depends on a strong system of internal control, which is fundamental to achieving SSE's strategic objectives. The Board is responsible for the overall system of internal control and risk management, and it either directly, or through its committees, sets performance targets and policies for the management of key risks facing SSE. The system of internal control is designed to manage, rather than eliminate, risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

All employees are expected to adhere to the Company's business practice and the SSE values of – Safety, Service, Efficiency, Sustainability, Excellence and Teamwork – which are embedded in the culture. Their consistent application are central to all activities in SSE. The Teamwork value, the emphasis on people's knowledge rather than status, and the maintenance of a very experienced team, complemented by the recruitment of additional specialist skills where necessary, are all designed to ensure that the risks associated with operations are fully understood. Reporting within the Company is structured so that the key issues are escalated through the management team, ultimately to the Board if appropriate.

The key elements of SSE'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 to the Audit Committee and other Board Committees by management and internal audit;
  - the provision of quality reporting by the external Auditors to the Audit Committee;
  - 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 SSE'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 Executive Directors:

- monitor operational and financial performance of SSE;
- develop and implement SSE strategy, operational plans, policies, procedures and budgets;
- assess and control all SSE risks; and
- monitor competitive forces in each area of operation.

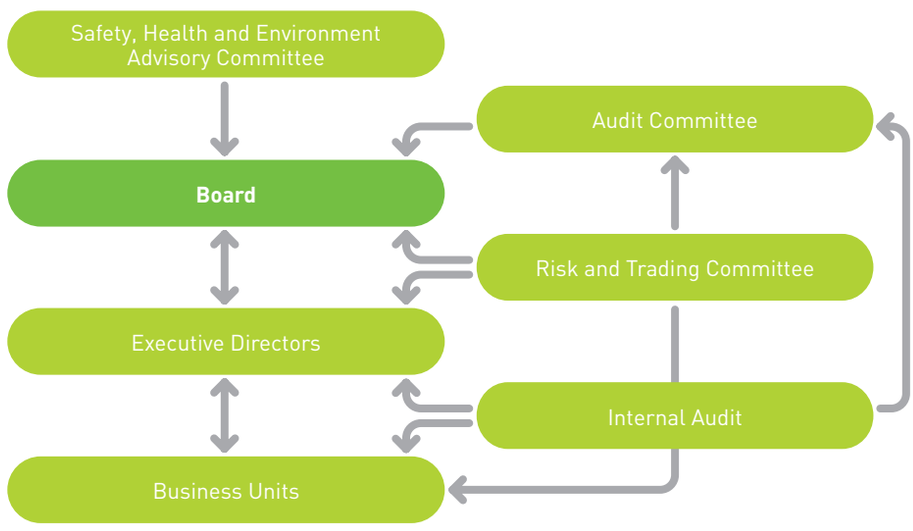
The Internal Audit department:

- 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 SSE'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 SSE's key policies and principles; and
- provides the Audit Committee and Board with objective assurance on SSE's control environment.

The role of the Audit Committee, Risk and Trading Committee and Safety, Health and Environment Advisory Committee in the Group's system of internal control and risk management is set out in the individual committee reports.

Reviewing the system of internal control and monitoring its effectiveness is delegated to the Audit Committee and is reviewed at least annually by the Board. 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 2009 to 18 May 2010 (being the last practical day prior to the printing 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 Process



Corporate governance (continued)
How the Board works

The framework of corporate governance
The Board is accountable to the Company's shareholders for the good conduct of the Company's affairs. This report sets out how the Company applies the principles of the Combined Code on Corporate Governance (the Code) issued by the Financial Reporting Council in June 2008.

Throughout the year the Company monitored developments in corporate governance best practice and participated in the consultation process on changes to the Combined Code and Audit Committee governance. 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 remains 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 SSE 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. Amendments to the Memorandum and Articles of Association are being proposed at the Annual General Meeting in 2010, to reflect the full implementation of the Companies Act 2006 and the implementation of the Shareholder Rights Directive in the UK. An explanation of the changes being proposed are contained in the Notice of Annual General Meeting 2010.

Board decisions
A formal list 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 list is reviewed regularly by the Board and is published on the SSE website.

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 the Board operates effectively whilst providing appropriate challenge to management; and
- meets with analysts and other representatives of institutional investors, and participates in both the interim and annual results presentations.

The Chairman regularly meets with managers and employees at locations throughout the Group.

Biographical information on the Chairman is set out on page 49.

The Chief Executive:
- is responsible for the operational management of SSE's business; and
- implements the 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 Leadership Teams which oversee the operational and financial performance of, and issues facing, the Company.

Biographical information on the Chief Executive is set out on page 49.

Balance of the Board
There are 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 non-Executive Directors:

- scrutinise, measure and review the performance of management;
- assist in the development of strategy;
- review the Group financial information;
- ensure systems of internal control and risk management are appropriate and effective;
- manage the relationship with the external Auditors; 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 is satisfied 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 Safety, Health and Environment Advisory Committee. Further details on the membership and operation of these Committees are set out on pages 60 to 74.

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. Their appointment letters are available on the SSE website.

Senior Independent Director
Susan Rice is the Senior Independent Director. She undertook management visits during the year and also attended a meeting of the Risk and Trading Committee. She is available to meet with major shareholders on request and attended the City presentation of SSE's results. Susan 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 retire by rotation and stand for re-appointment by shareholders at the first AGM following their appointment and for re-appointment at least every three years. Nick Baldwin, Richard Gillingwater and Alistair Phillips-Davies 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. Biographical details for all the Directors are set out on page 49.

Attendance at Board and Board committee meetings
There is normally full attendance at Board and committee meetings, although occasionally there may be non-attendance due to unforeseen circumstances or prior commitments which could not be rearranged. If unable to attend a meeting the Director will provide comments and feedback to either the Chairman, Committee Chairman or Company Secretary, who ensure that the comments received are raised at the meeting.

The Board has six full Board meetings during the year. These start with an evening meeting when the Board is normally given a presentation by senior management on a particular business topic. The meeting then continues the following day and is often followed by a meeting of one of the Board Committees such as the Remuneration Committee or the Health, Safety and Environmental Advisory Committee. The table sets out the attendance of the Directors at these full Board meetings.

In addition, the Board has an Update Conference Call in the month between the bi-monthly full Board meetings. These calls usually last for around one hour and are used to update the Board on the business performance and brief the Board on any current issues. A Board decision or approval may be required at the Update Conference Call if the matter cannot wait until the following Board meeting. In these circumstances the call is recorded as an ad hoc Board meeting. Participation in the four ad hoc Board meetings is also shown in the table above.

Attendance at Board meetings

	Board meetings	Board conference call meetings
Lord Smith of Kelvin	6/6	4/4
Gregor Alexander	6/6	4/4
Thomas Andersen	6/6	4/4
Nick Baldwin	6/6	3/4
Richard Gillingwater	6/6	4/4
Colin Hood	6/6	4/4
Ian Marchant	6/6	4/4
René Médori	6/6	4/4
Alistair Phillips-Davies	6/6	4/4
Lady Rice	6/6	4/4

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. At each meeting, the Chief Executive presents an update report on all aspects of the Group's business and the Finance Director presents a report on financial performance.

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

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 SSE.

All the non-Executive Directors had individual meetings, briefings and site visits during the year, separate from the full schedule of Board meetings. The briefings focused 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 major project offices, main customer service centres, and power stations.

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 Company'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. This procedure was not required to be used during the year.

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 Company 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 the individual and to the Company. Any such appointments are included in the biographical information set out on page 49.

Conflicts of interest
During the year a review of the Board members' interests and appointments

Corporate governance (continued)
How the Board works (continued)

was carried out by the Company Secretary. The Board considered and authorised each Directors' reported actual and potential conflicts of interest at the Board meeting in January 2010. In accordance with the Company's Articles of Association and relevant legislation, each Director abstained from approval of their own position. The Board continues 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 participate in an annual process of performance evaluation.

The Board evaluation process this year was carried out by external facilitators, Independent Audit Ltd. This was the first time that the Board evaluation had been carried out by an external party. The evaluation process involved individual meetings with each Director, the Company Secretary and senior managers who have experience of the Board and committee meetings. The findings of Independent Audit were issued to the Board and the senior managers, and formed the basis of a presentation and full discussion at the Board meeting in January 2010. The Board found the outcome of this external evaluation very helpful in focusing on certain areas of the Board and Company business. In particular, Independent Audit were asked to look at risk governance, and they had a number of helpful recommendations covering matters which could merit further consideration, such as risk management, structures and responsibilities. Other recommendations addressed Board and senior Executive succession planning, and more regular meetings of the non-Executive Directors and Chairman, in the absence of management. Following their report, a number of the recommendations are being taken forward by the Board for further review. The report of Independent Audit was however very reassuring about the high level of Board effectiveness in general.

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

The Board external review was welcomed as a constructive exercise, and will be repeated at regular points in the future.

Board committees

The Board has delegated authority to five principal committees to carry out certain tasks as defined in each committee's terms of reference. The terms of reference for all committees are set by the Board, are reviewed regularly, and are available on the SSE website. Membership is determined by the Board, on the recommendation of the Nomination Committee and in consultation with each committee chairman. Minutes of committee meetings are included on the agenda of the next Board meeting.

The relationship between the Board, its committees and the management of the Company can be summarised as shown in the table below.

In addition, there are a number of senior executive Leadership Teams which assist the Executive Directors in their responsibilities for the governance and management of the Group.

Details of each committee, including membership, meetings, role and activities in 2009/10, are set out in the committee reports on pages 60 to 74.

Engagement with shareholders and major stakeholders

Disclosure Group
The Disclosure Group comprises the Chief Executive, Finance Director, Company Secretary, Director of Corporate Affairs, Investor Relations Manager and the Assistant Company Secretary. It provides a framework for the handling and disclosure of inside information and other information of interest to shareholders and the investment community. The Disclosure Group meets regularly and assists and informs decisions concerning the identification, control and release of inside information and investor relations activities. Periodically, it reviews SSE's disclosure controls and procedures and ensures that the relevant individuals are aware of their obligations in regard to the identification, release and control of inside information.

Copies of all announcements can be accessed on SSE's website.

Relations with shareholders
The Company continued work to develop an effective dialogue with all shareholders, based on a mutual understanding of objectives. The Board believes that this is fundamental to ensuring that the Company's strategy is understood and that any questions or issues are dealt with in a constructive way.

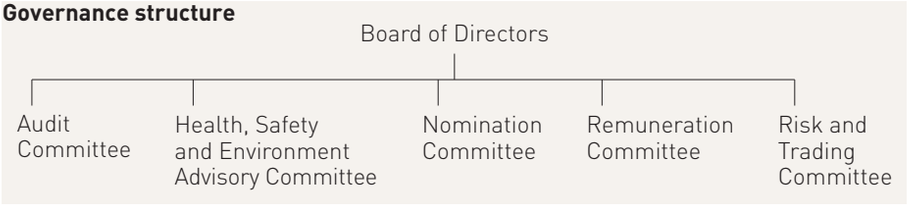
The Company maintains regular contact with institutional shareholders, fund managers and analysts through a programme of dialogue, meetings, presentations, events and site visits led by the Chief Executive and Finance Director. The Investor Relations Manager has day-to-day responsibility for communications with institutional shareholders. Brokers' reports and analysts' briefings are regularly distributed to Directors. The Board receives regular reports on the various issues raised by institutional shareholders, fund managers and analysts which allow Directors to form a view of the priorities and concerns of the Company's stakeholders. As part of the induction programme for Directors, arrangements are made for analysts to meet with newly appointed Directors.

The Chairman attended the Company's interim and preliminary results presentations in May 2009 and November 2009. The Chairman also met a number of major institutional shareholders during the year to gain a first-hand understanding of key issues.

Susan Rice, the Senior Independent Director, is available to shareholders if they have concerns that contact through the normal channels has either failed to resolve or is deemed inappropriate. She attended the interim results presentation in November 2009.

SSE's website contains up-to-date information for shareholders and other interested parties including share price

Governance structure



information, announcements and news releases, investor and analyst presentations, and a section containing information on shareholder services. The Company's Annual Report and other shareholder circulars are also published on the SSE website.

Communications with shareholders
Shareholders have a choice on how to receive their Company communications such as the Annual Report. The Company recognises the benefit of electronic communications and during the year, contacted relevant shareholders to encourage them to register for email communication. As recognition of the reduced cost and environmental impact of this form of communication, the Company, on behalf of shareholders, makes a donation to the World Wildlife Fund's International Forest Programme for every shareholder that elects for email communication or receives Company documentation via the SSE website.

Annual General Meeting
The Company's AGM will be held at the Bournemouth International Centre, Exeter Road, Bournemouth BH2 5BH on Thursday, 22 July 2010 at 12 noon. Details of the business to be proposed at the meeting are contained in the Notice of Annual General Meeting.

The AGM provides an interesting opportunity for the Board to communicate with shareholders and provide an update on the performance and plans of SSE. 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 asked to vote on each resolution by a show of hands. The Chairman announces the proxy votes cast for each resolution at the meeting, and the voting results are placed on the Company's website following the meeting, in addition to being announced to the London Stock Exchange.

Communications with 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 Company'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 framework to enable it to invest in secure and lower-carbon supplies of energy in the UK and Ireland.

Supply chain

Other stakeholders include the suppliers and contractors upon whom SSE depends for the long-term success of its business. While the relationships between SSE and its contractors and suppliers are the responsibility of the Executive Directors and the rest of the management team, the Board recognises that SSE should promote responsible practices within its supplier and contractor base. SSE's aims in this area are to:

- integrate human rights, labour, environmental and ethical considerations into its main procurement processes;
- raise awareness of human rights, labour, environmental and ethical concerns amongst buyers, traders and suppliers;
- understand where human rights, labour, environmental and ethical risks lie in its supply chain; and
- identify specific procurement activities where the risks and/or opportunities merit further investigation and conduct such investigations as required.

SSE provides advice and guidance to suppliers on an individual basis and to potential suppliers via the SSE website. There is an emphasis on encouraging suppliers and those involved in tender processes to propose innovative ways of meeting SSE's needs in a way that minimises environmental impact.

In addition to ongoing work to increase the sustainability of SSE's supply chain, including training, recording risks, contract reviews and close liaison with suppliers, in 2009/10 SSE undertook a number of initiatives to enhance its performance.

SSE's Procurement team undertook a review of almost 70 of the Company's main suppliers to ensure that their approach to corporate responsibility is compatible with its own. The focus was on issues of bribery and corruption, labour conditions and environmental matters and the review looked most closely at suppliers involved in the supply of contracted services, including catering, cleaning and security; the provision of gas and electricity infrastructure components; and the supply of clothing, footwear and personal protective equipment.

SSE has for several years subscribed to the Verify scheme, which is operated by an independent company, Achilles. It assesses the environmental, health and safety and quality commitment of potential suppliers and contractors. SSE expects existing and potential suppliers and contractors to co-operate fully with the Verify process.

Whilst the Verify scheme is useful, SSE would like to see it extended to assessing labour standards and organisations' approach to eliminating bribery and corruption. In 2009/10 SSE began work with Achilles on this with the intention of having Verify evolved to cover such issues in the near future.

The Achilles carbon reduction programme allows suppliers to measure, manage and report their organisational footprint via CEMARS (Certified Emissions Management and Reduction Scheme).

In 2009/10, SSE achieved its target of encouraging 20 of its main suppliers to sign up to the scheme. SSE also successfully completed the process itself and achieved CEMARS certification.

SSE's Head of Procurement is the Chair of the Achilles Carbon Reduction Steering Group for 2010, indicating SSE's commitment to improving measurement and management of carbon throughout the supply chain.

Corporate governance (continued)
Audit Committee

René Médori
Audit Committee Chairman

Members and meetings

Membership	Attendance at meetings
René Médori (Committee Chairman)	3/3
Thomas Andersen	2/3
Nick Baldwin	3/3
Richard Gillingwater	3/3

The Board has determined that each member of the Committee is independent and that the membership meets the requirements of the Code. In accordance with the Code, René Médori is identified as having recent and relevant financial experience through his position as Finance Director of a major international listed company.

The Finance Director, Energy Supply Director, Head of Group Internal Audit and the external Auditors normally attend and report at its meetings. The Company Chairman also regularly attends Audit Committee meetings. Senior management including the Group Treasurer and Corporate Finance Manager, Group Financial Controller, Director of Energy Portfolio Management, Director of Corporate Affairs and Head of Portfolio Support may also be invited to present reports. During the year, the Committee met privately with the external Auditors, and separately with the Head of Group Internal Audit.

The Company Secretary is Secretary to the Audit Committee.

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

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. The Audit Committee's remit, which is set out in its terms of reference, includes responsibility for:

- ensuring that the Company's financial reports and formal announcements represent an accurate, clear and balanced assessment of the Company's position and prospects;
- monitoring and reviewing the effectiveness of the Company's accounting systems, internal control policies and procedures and risk management systems;
- monitoring and reviewing the effectiveness of the Company's internal audit function;
- monitoring and reviewing 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;
- monitoring and reviewing the significant risks identified by each business unit as well as the mitigating action against those risks;
- monitoring and reviewing the arrangements by which employees can in confidence raise concerns about any possible improprieties in financial and other matters; and
- reviewing the significant financial reporting issues and judgments.

Activities in 2009/10
The Audit Committee had three meetings in the year. The key activities of the Audit Committee during the year are set out below:

Financial statements
- reviewed the financial statements in the 2009 report and accounts and the interim results. As part of this review the Committee received from the external Auditors 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 reports 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 2010;
- 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;
- reviewed Post-Investment Appraisal Reports; and
- received reports under the Group whistleblowing policy and reviewed the implementation of this policy.

External audit process

- reviewed the effectiveness of the overall audit process for 2009/10, meeting with the Auditors and management separately to identify any areas of concern in the preparation of the financial statements;
- reviewed independence and objectivity 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 internal control and 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 Auditors

- reviewed changes in the Audit team; and
- 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.

The Audit Committee continued to monitor the level of non-audit work undertaken by the Auditors.

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 3 to the Financial Statements.

KPMG Audit Plc has been the external auditor of the enlarged Group since 1999. Under its terms of reference, the Audit Committee has responsibility for recommending to the Board the appointment, re-appointment and removal of the external Auditors. The Audit Committee considers that the relationship with the Auditors is working well and remains satisfied with their effectiveness. There are no contractual obligations restricting the Company's choice of external auditor. The external Auditors are required to rotate the audit partners responsible for the Group and subsidiary audits every five years and the current lead partner has been in place for one year.

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.

René Médori
Chairman

Corporate governance (continued)
Risk and Trading Committee

Alistair Phillips-Davies
Risk and Trading Committee
Chairman

Members and meetings

Membership	Attendance at meetings
Alistair Phillips-Davies (Committee Chairman)	12/12
Gregor Alexander	12/12
Ian Marchant	12/12

The membership also includes senior managers from energy trading, electricity generation, regulation, finance and treasury. During the year, the Board Chairman and the Senior Independent Director each attended a meeting of the Committee.

The Assistant Company Secretary is Secretary to the Risk and Trading Committee.

The minutes of the Risk and Trading Committee are issued to the full Board as soon as available after the meeting and the proceedings are reported at the following Board meeting.

Role
The Risk and Trading Committee's role is to support the Board's risk management responsibilities by reviewing the strategic, market, credit, operational and liquidity risks and exposures arising from the Company's energy trading, generation and treasury operations. The Committee provides direction on strategies to mitigate these risks in accordance with financial objectives, risk appetite and control requirements set by the Board.

In addition to reviewing the wider business and economic environment in which SSE operates, the main responsibilities of the Committee include:

- reviewing current and potential future risks associated with the operation of SSE's physical power generation and gas storage assets;
- assessing conditions in the main wholesale commodity markets in which SSE operates, and providing guidance on trading strategies that reflect market conditions, financial exposures and business objectives;
- considering reports on financial risk exposures that have arisen as a consequence of changing demand patterns, plant performance and commodity prices;
- reviewing reports on counterpart credit exposures, and approving mitigating actions where necessary;
- considering reports on wholesale trading activities and any breaches of internal limits, controls or policies that may have occurred;
- within its delegated authorities, considering requests for approval of changes to individual trading limits, counterparty credit limits and commodity exposure limits;
- considering requests to adopt new trading products or concepts that are proposed to mitigate existing and potential financial or operational risks; and
- reviewing Group funding, foreign exchange and interest rate exposure together with other key financial risks.

The Committee maintains a close relationship with the Company's Audit Committee, its external Auditors and Executive Directors.

Activities in 2009/10
The Risk and Trading Committee met 12 times during the year. At each meeting updates were provided by Committee members and other senior staff on the status of power generation and gas storage plant, wholesale market conditions, commodity exposures, energy trading strategies, counterparty credit exposures and key corporate funding issues including interest rate movements, foreign exchange exposures and inflation projections.

Other activities of the Committee during the year included:

- considering a number of proposals to adopt new trading products or strategies to hedge financial or operational risks;
- approving commercial contracts within its delegated authority levels;
- reviewing retail tariff setting options in the context of forecast wholesale energy prices, customer demand patterns and competitor activity;
- considering new business strategies, especially those which may signify a move away from the Company's traditional markets and areas of operation;
- reviewing proposals to update governance and control arrangements in line with business strategy and risk appetite; and
- updating the Committee's Terms of Reference and recommending to the Board their approval and adoption.

Review
The Risk and Trading Committee was included in the Board evaluation process undertaken by Independent Audit. It acknowledged the Committee's focus on SSE's participation in wholesale markets for electricity and gas and markets for coal, oil, biomass and carbon dioxide emissions allowances and on Treasury-related matters. SSE's principal risk categories (see pages 53 to 54) include financial and credit risks and so the role of the Risk and Trading Committee in overall corporate governance within SSE is very important. The review said that the Committee's work was 'well-regarded' by those people it interviewed but also suggested some options for the future, which are being considered.

Alistair Phillips-Davies
Chairman

Corporate governance (continued)
Nomination Committee

Lord Smith of Kelvin
Nomination Committee Chairman

Members and meetings

Membership	Attendance at meetings
Lord Smith of Kelvin (Committee and Board Chairman)	1/1
Thomas Andersen	1/1
Nick Baldwin	1/1
Richard Gillingwater	1/1
René Médori	1/1
Lady Rice	1/1
Ian Marchant	1/1

The Committee is chaired by the Chairman of the Company and its membership comprises of all the non-Executive Directors and the Chief Executive.

The Board Chairman would not chair the meeting when it was dealing with any matter concerning the chairmanship of the Board. In this case the meeting would be chaired by a non-Executive Director elected by the remaining members. Members of the Committee do not take part in discussions when their own performance or when their continued appointment is being considered.

The Company Secretary is Secretary to the Nomination Committee.

Role
The Nomination Committee's role is to review the leadership needs of the Board and senior management, with a view to ensuring SSE's continued ability to compete effectively in the marketplace. The Nomination Committee's remit, which is set out in its terms of reference, includes responsibility for:

- reviewing the structure, size and composition of the Board and its committees and making recommendations to the Board on any desired changes;
- reviewing the succession plans for the Executive Directors;
- making recommendations to the Board on suitable candidates to fill vacancies for non-Executive Directors and Executive Directors;
- ensuring that the procedure for appointing new Directors is rigorous and transparent and that appointments are made on merit and against objective criteria for purpose; and
- reviewing potential conflicts of interest of Directors.

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.

Activities in 2009/10
The Nomination Committee had one meeting during the year, and reviewed the Board structure, succession planning, committee membership and Directors' conflicts of interest.

Lord Smith of Kelvin
Chairman

Corporate governance (continued)
Safety, Health and Environment Advisory Committee

Colin Hood
Safety, Health and Environment Advisory Committee Chairman

Members and meetings

Membership	Attendance at meetings
Colin Hood (Committee Chairman)	3/3
Thomas Andersen	3/3

The membership also comprises certain senior executives, namely the Group Services Director, Director of Generation and the Group Safety, Health and Environment Manager. The Chief Executive also attends when required. The Assistant Company Secretary is secretary to the Committee.

The Safety, Health and Environment Advisory Committee has three main responsibilities. They are to:

- ensure that SSE's health and safety policy and environment policy statements are adhered to;
- set safety, health and environmental targets for improved performance; and
- monitor safety, health and environmental performance in SSE.

In exercising these responsibilities, the Committee focuses on SSE's Safety and Sustainability values:

- we believe all accidents are preventable, so we do everything safely and responsibly, or not at all; and
- we operate ethically, taking the long-term view to achieve growth while safeguarding the environment.

Policy
People in SSE have many different working environments – from full-scale industrial processes to offices. One thing is the same, however: everyone's role in achieving safe working conditions. SSE's Safety Management System focuses on five 'Ps':

- **Policy:** defining how things get done in SSE;
- **People:** helping employees to act safely;
- **Processes:** managing risks and delivering safe systems of work;
- **Plant:** maintaining the integrity of plant and equipment; and
- **Performance:** managing and improving SHE performance.

Safety performance
During 2009/10, SSE's Lost Time/Reportable Injury Rate was 0.03, compared with 0.07 in the previous year. Its Total Recordable Injury Rate (TRIR), covering lost-time, reportable and medical treatment injuries, was 0.14 per 100,000 hours worked, compared with 0.16 in the previous year. This translated into 73 working days lost as a result of injuries across SSE, down from 361 in the previous year – making it SSE's best-ever year for safety performance. The objective is to make performance better still.

The number of dangerous or potentially dangerous road traffic accidents involving SSE employees driving Company vehicles was 0.34 per 100 vehicles, compared with 0.37 the year before.

Contractors' safety performance
The safety of contractors working on SSE sites is largely the responsibility of their employers, but SSE works actively with its contractors in increasing their safety standards. For this group, the TRIR was 0.31 per 100,000 hours worked, compared with 0.5 in the previous year.

The construction and operation of wind farms offshore presents new challenges and risks to SSE. Significant progress has been achieved to establish the best possible safe working procedures to manage these activities.

Health and Safety Executive
Judith Hackett, Health and Safety Executive Chair, spoke at SSE's conference on safety for contractors in October 2009. Her theme was that a fully integrated health and safety system needs employee involvement and engagement, competent and relevant expert advice and guidance – and strong leadership. The Committee endorses this view.

Health promotion
SSE's Health and Well-being Action Plan provides the basis for workplace health programmes and initiatives, all designed to help employees be in good shape for work. A healthy, committed workforce is clearly central to business success.

SSE's policy is to deal with all sickness absence in a sympathetic and constructive way, helping people make a speedy return to health and to work by seeking and acting on medical advice. During 2009/10, the average number of days of absence from work was 5.31, compared with 5.89 in the previous year.

Environmental management
SSE's main environmental impact is generally regarded as emissions of carbon dioxide from electricity generation (see page 17). At the same time, many of the Company's day-to-day operations take place in areas which are environmentally sensitive.

The Committee's priority is to make sure that the five 'Ps' apply to environmental management and that negative impacts – in particular, pollution to the local environment – are prevented. SSE's duty to protect the environment starts when work is first planned at any particular site and continues until SSE clears up that site and leaves it.

The key target in any single year is to ensure there are no environmental incidents which result in SSE receiving an enforcement notice from the Environment Agency or the Scottish Environment Protection Agency. There were two such incidents during 2009/10. In November 2009, SSE was fined £20,000 following an escape of diesel from a holding tank at the Loch Carnan power station on Uist in November 2008.

Good environmental stewardship involves on-site energy efficiency and management of waste, and SSE has specialist managers responsible for these areas. The goal of the waste management policy is to minimise waste and the unnecessary use of natural resources by re-using and recycling materials. During 2009/10, 5,461 tonnes of waste were sent from SSE's offices and depots for disposal at landfill sites, a fall of 21.75%.

Priorities for 2010/11
The Committee's priorities for 2010/11 remain to:

- support progress towards SSE's ultimate goal of injury-free working;
- promote the health and well-being of people working for SSE; and
- ensure effective environmental management throughout SSE.

Colin Hood
Chairman

Corporate governance (continued)
Remuneration Report – Introduction

Lady Rice CBE
Remuneration Committee
Chairman

Remuneration is an area of great sensitivity and plays a critical role in the sustained, long-term growth of the dividend and the success of any business. The reputation of a company, the morale of its employees, the ongoing support of its shareholders and the enthusiasm of its customers, can all be shaped to some extent by the strength of its remuneration policy. The Remuneration Committee is determined that SSE should have as robust a remuneration policy as possible.

The spotlight in 2009/10 focussed on executive remuneration across the corporate world with reports and new guidance, mainly for financial services companies. To the extent that these offered a different framework for best practice, we assessed SSE remuneration policy against these guidelines. As SSE evolves and grows as a business, embarking on major capital investment programmes, we wanted to be sure that the remuneration policy continues to be fit for purpose, so we also initiated a major review of nearly all aspects of executive remuneration.

Review
Important factors in this review included the linkages between remuneration for Executive Directors, other senior executives and managers and other employees. Moreover, we explored new ways of comparing SSE's Executive Directors' performance to their peers, such as relative performance of the Company in relation to the money invested through remuneration in the Executive Director team. We also tested the external benchmarks typically used for comparisons.

The review comprised a detailed survey of Executive Directors and some others to understand their views about remuneration, a review of external benchmarks within the UK and within Europe, with an assessment of the various elements of the bonus and long-term incentive. It is always the Remuneration Committee's goal to ensure that the shareholders are receiving value for money.

SSE's Remuneration Committee understands the external environment in which the Company operates. The Committee endorses a key point made by the Investment Committee of the Association of British Insurers (ABI) last December – that performance-related remuneration should seek to reward business performance 'in line with corporate strategy which should aim at sustainable, long-term value creation'.

Sustainable
Sustainable is an important word used frequently at SSE. It refers to that part of our strategic focus which is on sustainable energy. It encompasses our corporate commitment to customers; our aim is to keep these relationships for the long term. It includes as well our commitment to deliver sustained real growth in the shareholder dividend, a principal source of an investor's long-term return.

SSE is one of just seven companies in the FTSE 100 to have delivered above-inflation increases in the dividend every year since the foundation year in 1998. Additionally, SSE ranks fourth amongst FTSE 100 companies in terms of compound annual growth rate in dividend over that same period. Throughout this time, the four Executive Directors held either Board or senior management positions, and have led the Company to these achievements. Their total Board service is 38 years with total Company service of over 80 years which includes their stewardship of the predecessor companies Southern Electric and Scottish Hydro Electric.

SSE's Remuneration Committee believes that sustained performance over the medium and long term counts more than performance in any single year, which may be affected by unusual or exceptional issues. Sustained performance is what the Executive Directors continue to deliver and we take pride in this record.

Performance
At the same time, and at a time of extraordinary economic challenge, SSE delivered growth in adjusted profit before tax as well as in the dividend. Performance in strategic objectives such as safety performance and customer service strengthened again. The performance in all those operational areas which link to the Company's core values is set out on pages 20 to 46 of this Report.

The Executive Directors are committed to adding to the 11 successive years of above-inflation dividend growth by continuing to provide the energy people need in a reliable and sustainable way – the Company's core purpose.

Principles
The Committee is governed by the principles of the Company's remuneration policy and, in particular, by the importance of reinforcing the culture and the teamwork essential to delivering the long-term growth and sustainability of SSE. This reduces any chance of misguided incentives leading to inappropriate risk-taking – one of the key objectives of the Committee.

The Committee considered a range of reports and analyses of executive remuneration which confirmed that this year's package of salaries, benefits and bonuses remains below relevant median market levels, consistent with our practice over many years. The Committee also confirmed that remuneration for the Chairman and non-Executive Directors is also below market median.

Long-term
The Committee and the Executive Directors welcome the accountability regarding executive remuneration in companies listed on the London Stock Exchange. Indeed, accountability is a key part of the culture at SSE.

The Remuneration Report clearly sets out our agenda in 2009/10 and it demonstrates that SSE remuneration is integral to the Company's purpose, strategy and values. Most importantly, the Committee believes that it represents good value for shareholders over the long term. In 2010/11, we will complete the strategic review of remuneration by determining whether the long-term incentive plan is appropriately aligned to the Company's future strategic plans.

In the course of this year's review, a number of shareholders were consulted who have already given views on the long-term incentives as well as other aspects of remuneration. I will welcome such feedback in the future and welcome feedback now on this Remuneration Report or remuneration issues more generally.

Lady Rice CBE
Chairman

Corporate governance (continued)
Remuneration Report – At a glance

What are the principles of the SSE Executive Remuneration Policy?

- Attract and retain Executive Directors who run the Company effectively for the benefit of shareholders, customers and employees.
- Adopt a competitive and practical approach to total remuneration which meets shareholder expectation.
- Reinforce the culture and teamwork to deliver the long-term growth and sustainability of the business.
- Set Total Remuneration Policy at levels which promote the long-term development of the business and reward individuals in line with performance.

What is SSE's Total Executive Remuneration Policy?

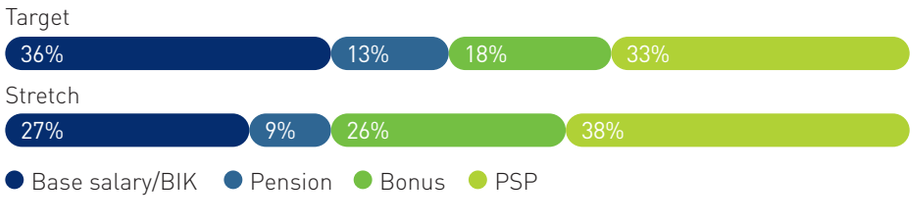
Summary of remuneration policy

Fixed remuneration	Variable remuneration	
Base salary	Short-term – annual Annual Bonus Plan – 75% maximum cash and 25% deferred shares Linked to individual and team performance, corporate, financial and operational measures	Long-term – 3 years Performance Share Plan (PSP) – 3 years 50% linked to relative FTSE 100 TSR, 50% adjusted annual EPS growth RPI 3%-9%
Pension – final salary		
Benefits in kind – car, private medical		

Minimum shareholding requirement equal to 100% Base Salary

How is the remuneration package structured?

Total Remuneration Policy (% each component element)



Base salary includes 1% benefits in kind – a car allowance and private medical plan. The pension element is the average of each Executive Director's present value of providing a single year of pension. Target performance comprises annual bonus awarded at target level (ie 50% base salary) and, for the PSP, an actuarial 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.

What were the Executive Directors paid in the year ending 31 March 2010?

	Base salary £000s	Benefits £000s	Bonus £000s	**Total £000s**	Total (2009) £000s
Ian Marchant	840	19	372	**1,231**	1,207
Colin Hood	630	17	279	**926**	908
Gregor Alexander	483	16	214	**713**	699
Alistair Phillips-Davies	483	16	214	**713**	699

Executive Directors' salary and incentive plans 2009/10

Performance measure	Purpose – link to strategy	Policy and decisions
Base salary		
	Reflects market data, role, business and individual performance measured against SSE's strategy as set out on pages 8 to 10 of this Report.	Following the annual review in November 2009, the decision on any change was deferred until March 2010, when the salary for the Chief Executive was left unchanged, and the salary of the other three directors was increased by 2.5%.
Short term – Annual Bonus		59% awarded
The Annual Bonus is determined by the Remuneration Committee's assessment of the performance of SSE during the year, based on three key areas.	The performance targets are clearly linked to SSE's strategy in three key ways: financial performance; teamwork; and personal objectives relating to the Company's priorities.	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.
Financial performance (60%) Group financial performance is measured by adjusted profit before tax, which reflects the underlying profits of SSE's business.	**Financial performance (60%)** Adjusted profit before tax is a key means of achieving SSE's first responsibility to shareholders: sustained real growth in the dividend.	**Financial performance (max 60%)** During 2009/10, SSE delivered a 2.9% increase in adjusted profit before tax – resulting in a target payment of 50% of maximum.
Teamwork (20%) Teamwork is measured by performance against the 'SSE SET' of core values: Safety; Service; Efficiency; Sustainability; Excellence; and Teamwork. Performance against these values is assessed through SSE's appraisal process.	**Teamwork (20%)** SSE believes it will only be successful financially if it exercises a wider corporate responsibility to others, such as customers and employees, on whom its success ultimately depends. Its core values summarise this approach.	**Teamwork (max 20%)** **Safety:** Total Recordable Injury Rate improved. **Service:** Top-ranking performance in principal independent surveys. **Efficiency:** Top-ranking performance in electricity distribution measured by Ofgem. **Sustainability:** Additional 150MW of renewable energy capacity in operation. **Excellence:** Sector leadership shown in key areas, eg establishment of Centre of Excellence in Renewable Energy. **Teamwork:** Independent Board review confirmed Executive Directors work very well together. The Committee awarded an above target payment of 80% of maximum.
Personal objectives (20%) In keeping with its Teamwork value, and to avoid setting Executive Directors potentially conflicting personal objectives, SSE believes personal objectives should form a part of the Annual Bonus. They are designed to support achievement of SSE's strategy and reinforce its values.	**Personal objectives (20%)** Personal objectives set during the year include: management of political and regulatory issues (Ian Marchant); major project construction (Colin Hood); financing to support investment programme (Gregor Alexander); and energy trading and fuel procurement (Alistair Phillips-Davies).	**Personal objectives (max 20%)** Overall, the Remuneration Committee concluded that progress was made in each of these areas during 2009/10 and that individually and collectively the Executive Directors delivered good performance during the year – resulting in an above target payment of 65% of maximum.
Long term – Performance Share Plan		16.19% awarded
For awards granted in 2007 performance is measured against the following two elements over a three-year period.	The two elements of TSR and EPS reflect relative and absolute measures of performance.	Maximum award of 150% of base salary each year. Awards are released to the extent performance conditions are met.
Total Shareholder Return (TSR) → 100% vests at or above 75th percentile → 25% vests at median → straight-line basis between median and 75th percentile → no vesting of award if median performance not achieved	The relative TSR measure is dependent on SSE's relative long-term share price performance and dividend return (sustained real growth is SSE's first responsibility to shareholders). Further vesting of this element requires the Remuneration Committee to be satisfied with SSE's underlying financial performance.	**TSR (max 50%)** Out-turn below 50th percentile of the FTSE 100, 0% of TSR element awarded.
Adjusted Earnings per Share (EPS) → 100% vests where EPS is 9% above RPI → 25% vests where EPS is 3% above RPI → straight-line basis between 3% and 9% above RPI → no vesting if EPS minimum growth of RPI +3% is not achieved	Adjusted EPS is used to monitor SSE's performance over the medium term because it is straightforward: it defines the amount of profit after tax that has been earned for each Ordinary Share.	**EPS (max 50%)** Out-turn growth at 3.6% per annum, 32.4% of EPS element awarded.

Corporate governance (continued)
Remuneration Report – Remuneration explained (continued)

Agenda 2009/10	Regular items	Other items
May	Directors Remuneration Report. Approval of Performance Share Awards, Vesting and New Awards. Approval of the Annual Bonus awards.	Company remuneration methodology.
September	–	Strategic Review. Review and confirmation of Short-Term Incentive targets. Emerging Remuneration trends. Utility Company comparator group review.
November	Review of Total Remuneration Policy for Executive Directors. Executive Director Salary Review Policy. External regulatory environment.	Long-Term Incentive Review. Strategic review update.
February	–	Bonus and Share Awards.
March	Review of Directors – Senior Executives Salaries and Total Remuneration. Chairman's Remuneration Review. SSE Group 2010 salary increase policy. Approval of the 2009/10 Bonus awards. Establishment of the 2010/11 Bonus Performance targets.	Employment Contracts. Talent Management. Long-Term Incentive review. Utility Company remuneration. Strategic Review update.

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.

This report sets out the Company's policy on Executive Directors' remuneration for the year ended 31 March 2010 and complies with the regulations made under the Companies Act 2006. The report will be presented at the AGM on 22 July 2010 for approval and shareholders will be able to ask questions on the report at the AGM.

How the Remuneration Committee works

Members and meetings

Membership	Attendance at meetings
Lady Rice (Committee Chairman)	5/5
Nick Baldwin	5/5
Richard Gillingwater	5/5
Lord Smith of Kelvin	5/5

Informal consultation takes place outwith the scheduled meetings as necessary.

Terms of reference

- sets the total remuneration policy on behalf of the Board;
- approves the detailed remuneration terms of the Executive Directors including their service contracts and the impact on senior management remuneration across the organisation;
- approves the remuneration of the Chairman;
- approves the design and performance targets of incentive schemes;
- grants awards under the Company's Long-term Incentive Plans; and
- monitors the total remuneration of the Senior Executives below Board level.

Advisors

- The Chief Executive and the Director of Human Resources advised the Committee on matters relating to the appropriateness of awards for the Executive Directors and Senior Executives although they were not present for discussions on their own remuneration.
- In addition the Director of Human Resources advised on HR strategy and the application of policies across the organisation.
- The Company Secretary advised the Committee on corporate governance guidelines.
- Deloitte, Towers Watson and People Innovation Ltd (all appointed by the Committee) provided market information drawn from published surveys and advice on appropriate awards of bonuses, long-term incentives, and comparator group pay and performance.
- Bank of America Merrill Lynch provided advice on shareholder views and, Ernst and Young provided financial policy updates. They were appointed by the Committee for these services.

Total Remuneration Policy

Total Remuneration Policy is integral to overall HR Strategy and the SSE values are supported in the objectives, plan design and application of the policy.

What was new in 2009/10?
In addition to the customary items of the Remuneration Agenda, the Committee discussed the following:

- Strategic Review of Executive remuneration in SSE;
- Investment Return on Executive Director Remuneration for shareholders;
- Senior Executive Total Remuneration;
- talent management; and
- employment contracts.

During the year, the Committee completed a strategic review of the remuneration policy to assess its appropriateness and the extent to which objectives and principles of the policy are being met. The Board, the Executive Directors and selected Senior Managers participated, with the results discussed at a dedicated meeting in September and subsequently.

The principles
The core principles of the Company's remuneration policy are outlined in the 'At a Glance' section as shown on page 66 together with policy details and diagrams which illustrate the degree of stretch in the target and maximum values of the packages.

The policy comprises base salary, benefits including a defined benefit pension plan, and both short-term incentive and long-term incentive plans. The current short- and long-term incentive plans are shown in the chart on page 67.

Total Remuneration Policy
The Executive Directors' total remuneration policy is to remain below median of the FTSE 20-50 excluding financial services.

SSE's policy is to retain Executive Directors who are motivated by the long-term success of the Company, rather than short-term remuneration. For peer group comparison, the Committee takes account of total remuneration in specific UK Utility companies and their reported financial results.

This reflects SSE culture in which Executive Directors and Senior Managers are motivated by developing the Company for the future, and explains why long-term growth and sustainability of the business are of such importance when determining remuneration policy.

Certain institutional shareholders were consulted on the implications of some changes proposed for tax efficiency purposes to bonus and deferred bonus payment dates for the year ending 2009/10 only. The Committee decided to permit relevant employees to accelerate part of the short-term incentive payment to March and the Deferred Bonus Shares due to mature in June 2010. The Deferred Bonus Shares do not have performance criteria and will be retained at least until their maturity date.

The balance of fixed and variable remuneration
Taking into account the SSE business profile, the Remuneration Committee believes that around 50% of the total remuneration should be performance-related, increasing up to 66% for exceptional performance as shown in the table on page 66. The Committee believes that this overall remuneration structure is reasonable and rewards performance sufficiently without causing undue risk taking.

Senior executives, managers and employees
The Committee is aware of the importance of an appropriate relationship between the remuneration levels of the Executive Directors, senior executives, managers and other employees within the Group.

There are a number of senior executives just below Board level who have a significant influence on Group performance. Full details of their total remuneration, benchmarked to the relevant market place using the same methodology as for the Executive Directors, were reviewed by the Committee. The conclusion was the remuneration package is sufficiently attractive to reward this key group of executives and is consistent with the overall policy approach.

Base salary
The Committee is mindful of the remuneration increases for the different groups of employees and considers other relevant external indices such as RPI or CPI in the process of reviewing base salary for the Executive Directors.

The Committee conducted its regular review of salaries for Executive Directors in November 2009 and deferred its decision until March 2010. It considered the following factors in the light of recent market and governance trends:

- Total remuneration and basic salary, when benchmarked where relevant to FTSE 20-50 excluding Financial Services, are behind market median for the Executive Directors.
- The Executive Directors have delivered again a strong financial performance with significant results to shareholders in a difficult trading year as dividend growth has exceeded inflation for the eleventh consecutive year.
- Other salary reviews in the Group included the main collective agreement award of 3.25%. Management salaries increased by an average of 3%.

Taking into account these points, the Committee recommended a salary increase for the Executive Directors of up to 2.5%. The Chief Executive elected not to accept a salary increase for the current year.

Any salary increase will be effective from 1 April 2010, fifteen months since the previous increase in January 2009.

Executive Directors' salaries 2010/11

Ian Marchant	£840,000
Colin Hood	£645,750
Gregor Alexander	£495,075
Alistair Phillips-Davies	£495,075

Current incentive plans
Short-term incentive – Annual Bonus Plan
The purpose of the Annual Bonus Plan is to reward Executive Directors' performance during the year, based on an analysis of financial results, teamworking and personal objectives. Performance is considered in the context of targets set in each of the areas at the start of the financial year. In addition, the Remuneration Committee considers Executive Directors' management of, and performance in, all of the business issues that arose during the year.

For 2009/10, the total Annual Bonus paid to the Executive Directors was 59% of salary, compared with 60% in the previous year and with the maximum payable of 100%. Around half of the bonus was payable in respect of financial performance and around half in respect of teamworking and performance against personal objectives. 'Executive Directors' salary and incentive plans 2009/10', on page 67, sets out performance metrics used in the assessment of the Annual Bonus for 2009/10.

For 2010/11, the structure of the Annual Bonus will remain the same as in 2009/10. The maximum bonus payable will be 100% of salary, split between financial performance (60%), teamworking (20%) and personal objectives (20%). In any single year, it is expected that the Annual Bonus paid will be around 50% of Executive Directors' salary for on-target performance. The Annual Bonus is paid 75% in cash, and 25% deferred into shares which vest after three years, subject to continued service.

Long-term incentives – Performance Share Plan
The Performance Share Plan is the main scheme to reward Executive Directors and other senior executives over a three-year period for the continued profitable growth of SSE as measured, up to 2009/10, by Earnings per Share and the Total Shareholder Return compared to the FTSE 100.

In 2006, awards were equivalent to 100% of salary for the Executive Directors and this out-turn in 2009 was reported last year. Since 2007, awards equivalent to 150% of salary have been made to Executive Directors and at lower rates to other senior executives. It is planned that for the next year PSP Awards should be on a similar basis.

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 67.

The TSR performance measure is dependent on the Company's relative long-term share price performance within the FTSE 100 bringing a market perspective to the plan. The 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

Corporate governance (continued)
Remuneration Report – Remuneration explained (continued)

growth, which is critical to the Company's long-term success and ties in with the Group's strategic goals.

The Committee considered that the achievement of real annual adjusted EPS growth of 9% above RPI per annum was a demanding target for maximum vesting in light of the regulatory regime applicable to the Company. Further details of this scheme are set out on page 67.

The first PSP award made in 2006 vested in full in May 2009 as both elements of the performance condition (relating to TSR and EPS performance respectively) were met. TSR out-turn was in the upper quartile of the FTSE 100 and EPS growth was 10.7% above inflation per annum. Achievement of these performance conditions was independently verified.

The 2007 award will vest shortly after the preliminary announcement of results for 2009/10 in May 2010. The TSR out-turn was below median for FTSE 100 so this part of the PSP will not vest. EPS growth was 3.6% above inflation per annum, and accordingly 32.4% of the EPS element in the 2007 award will vest.

The Remuneration Committee has reviewed the performance criteria of the PSP. It is anticipated that for awards in 2010/11 there will be four performance criteria of 25% each as follows: relative TSR performance compared to FTSE 100; relative TSR performance compared to a dedicated peer group of UK and other European utilities; EPS growth of RPI plus 2% (threshold vesting) to 8% (full vesting); and Dividend per share growth of RPI plus 2% (threshold vesting) to 6% (full vesting).

The Remuneration Committee considered that the added criteria were appropriate when rebalancing the mix of performance criteria in that TSR performance compared to a dedicated peer group of UK and other European utilities (the MSCI Europe Utilities) provided a sector emphasis (whilst continuing to bring a market perspective to the plan) and the Dividend per share growth target reflected the Company's objective to deliver strong real dividend growth in the future (while maintaining a dividend cover consistent with its established range). The Committee will review all targets to ensure that they remain both relevant and stretching in line with the prevailing business and economic environment, when considering future awards.

Pensions policy

Pension Plan membership is a very important part of the remuneration strategy because of the long-term goals and horizons of the business coupled with the need to build long-term commitment to the Company from employees key to the success of the Company. Consequently it is SSE remuneration policy to invest for the future pay of each employee once their working life is completed. Each employee is encouraged to join the relevant plan.

Full details of the Executive Directors' pension plans can be found in Table B of the audited information on page 72.

All the Executive Directors remain members of either the Southern Electric Pension Scheme or the Scottish Hydro Electric Pension Scheme and their plan membership predates their Board appointments. These are both funded final salary pension schemes and the terms of these schemes apply equally to all members.

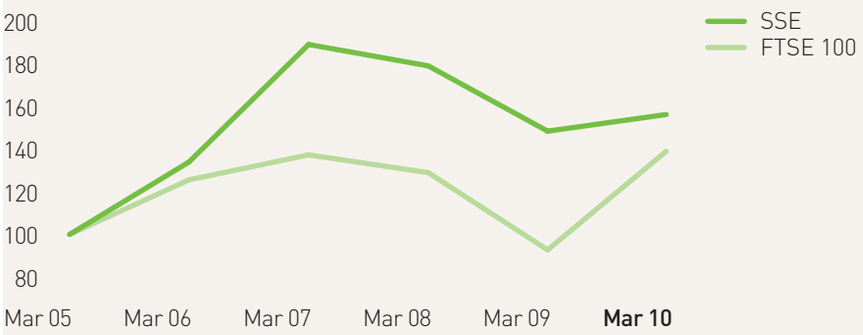
The Directors' service contracts provide for a possible maximum pension of two thirds final salary at age 60. In relation to Executive Directors who are subject to the scheme-specific salary cap (which mirrors the provisions of the previous HM Revenue and Customs cap arrangements) the Company provides 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.

Overall 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 same time as the Directors, the following provisions relating to leaving the Company apply:

- For retirement through ill-health an unreduced pension based on service to expected retirement is paid.
- In the event of any reorganisation or redundancy an unreduced accrued pension is paid to a member who is aged 50 or above, with at least five years' service or, for a member who has not yet reached that age, it will be payable with effect from 50.
- From the age of 55, a scheme member is entitled to leave the Company and receive a pension, reduced for early payment, unless the Company gives consent and funds this pension being paid on an unreduced basis.

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.

SSE TSR performance: 31 March 2005 to 31 March 2010



The graph above charts the cumulative TSR (Total Shareholder Return) of SSE since 1 April 2005, compared to the FTSE 100 Index over the same period. The Company is a member of the FTSE 100 and it was considered to be the most relevant benchmark for comparison purposes. For the purposes of defining the constituents of the FTSE 100, companies removed 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 out-turn. Those companies acquired by another FTSE constituent will be disregarded as the acquiring company is a FTSE 100 participant.

Share ownership policy
Employee share ownership is a key part of total Remuneration policy and is designed to help maintain long-term commitment and business understanding, offering the opportunity to benefit from any growth in shareholder value.

- The interests of the Executive Directors and other senior executives are closely aligned with those of other shareholders. The Performance Share Plan, the deferral of 25% of the Annual Bonus award and employee share schemes facilitate this alignment.
- The Executive Directors and certain other senior executives are required to maintain a shareholding equivalent to one year's salary which is built up within a reasonable timescale. Consent to sell shares 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 percentage shareholdings of the Executive Directors against the guidelines are shown below.

Directors' shareholdings as percentage of annual salary

	% of salary
Ian Marchant	286
Colin Hood	221
Gregor Alexander	191
Alistair Phillips-Davies	210

Based on a share price at 31 March 2010 of £11.01.

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:

- The Sharesave Scheme which allows employees options to acquire shares using the proceeds of a monthly savings contract of up to £250 per month. Exercise of the options is not subject to satisfaction of any performance target. The option price is set at a discount maximum of 20% to market value.
- The Share Incentive Plan (the SIP) which allows employees to allocate part of their pre-tax salary to purchase shares up to a maximum of £125 per month. Participants receive two free matching shares monthly for each share purchased up to a maximum of six free shares.
- The long service award scheme which purchases 10, 20, 30, 40 or 50 shares on behalf of an employee on the occasion of the employee reaching 10, 20, 30, 40 or 50 years' service respectively with the Group.

Funding of share schemes and dilution
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 Company's Sharesave Scheme uses unissued shares to satisfy the exercise of share options. As at 31 March 2010, there were approximately 4.6 million share options outstanding under this scheme, and if all the outstanding options were exercised this would amount to 0.5% of the issued share capital of the Company at that date.

Service contracts

It is the Company's policy that Executive Directors should have service contracts with the Company which can be terminated on 12 months' notice given by either party.

The current Executive Directors' service contracts contain the key items shown in the table above.

Service contract key items

Provision	Detailed terms
Notice period	→ 12 months by either Company or Director
Retirement date	→ Age 60
Termination payment	→ Up to 12 months salary (excluding any bonus or other enhancement) → Payment in lieu of notice in staged payments subject to the Executive gaining new employment → No special change of control provisions → Obligation on departing Executives to mitigate loss
Remuneration	→ Salary, pension and benefits → Company car or cash allowance → Participation in bonus scheme, employee share schemes and Executive incentive plans → Private Health Insurance
Non competition	→ During employment and for six months after leaving
Contract dates	→ All four contracts dated 11 March 2005

Length of service

	Industry service	Length of Board service
Ian Marchant	18	14 years*
Gregor Alexander	19	7 years
Colin Hood	32	9 years
Alistair Phillips-Davies	13	8 years

* Including two years as Finance Director of Southern Electric plc.

The Company may at its discretion 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). Payment may be made in staged payments, and will either reduce or cease completely where the departing Executive Director gains new employment.

If an Executive Director retires or is made redundant, the PSP shares will be reduced to reflect the point during the three year performance period when the Director leaves. If the Executive Director leaves for any other reason, PSP share awards will lapse.

In the event of a change of control of the Company, performance in the PSP will be measured to that date 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 are retained by the Director.

Corporate governance (continued)
Remuneration Report – Remuneration in detail

In 2009/10 Ian Marchant held a non-Executive Director position with the John Wood Group plc, and received £44,000 in fees; and Colin Hood accepted a position as non-Executive Director of FirstGroup plc, and received £39,500 in fees.

Non-Executive Directors

- The non-Executive Directors have letters of appointment, and are appointed for fixed terms of three years, subject to retirement by rotation and re-appointment at AGMs.
- They do not participate in the Bonus Scheme, Deferred Bonus Plan, any of the share option schemes, or contribute to any Group pension scheme although as indicated above are required to hold 2000 Company shares.
- The fees of the independent non-Executive Directors are agreed by the Board, with the non-Executive Directors concerned not participating in this process.
- The fees are reviewed against companies of similar size and complexity. To be consistent with wider remuneration policy, fees are set at below median.
- The non-Executive Directors do not receive any additional fees for Committee Membership, only for Chairmanship of the Committees.

Reasonable travelling and other expenses are paid for costs incurred in the course of their duties.

The fees for the year ending 31 March 2010 are listed below:

Board	£52,500
Audit Committee Chairmanship	£12,000
Remuneration Committee Chairmanship	£10,000
Senior Independent Director	£10,000
Company Chairman	£332,000

The basic Board fee was increased to £54,000 and the Chairman fee was increased to £340,812 from 1 April 2010.

The Auditors are required to report on the information contained in Tables A, B and D.

Table A – Directors' remuneration excluding LTIP and pension information

	2010				2009
	Salary/fee £000s	**Bonuses £000s**	**Benefits £000s**	**Total £000s**	Total £000s
Executive Directors					
Ian Marchant	**840**	**372**	**19**	**1,231**	1,207
Gregor Alexander	**483**	**214**	**16**	**713**	699
Colin Hood	**630**	**279**	**17**	**926**	908
Alistair Phillips-Davies	**483**	**214**	**16**	**713**	699
Non-Executive Directors					
Thomas Andersen – Appointed 1 January 2009	**52**	**–**	**–**	**52**	13
Nick Baldwin	**52**	**–**	**–**	**52**	50
Richard Gillingwater	**52**	**–**	**–**	**52**	50
René Médori	**64**	**–**	**–**	**64**	62
Lady Rice	**72**	**–**	**–**	**72**	70
Lord Smith of Kelvin (Chairman)	**332**	**–**	**–**	**332**	321
Former Directors					
Sir Kevin Smith – Retired 24 July 2008	**–**	**–**	**–**	**–**	17
	3,060	**1,079**	**68**	**4,207**	4,096

Notes
In addition to the annual cash bonus amount for this year, Ian Marchant, Gregor Alexander, Colin Hood and Alistair Phillips-Davies will be awarded £124k, £71k, £93k and £71k respectively in the form of deferred shares in respect of the bonus due to them for 2009/10. These share awards will not be made until June 2010 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 in June 2013.

Table B – Directors' pension information

		Accrued benefit			Transfer value of accrued benefit			
	Years of industry service	**At 31 March 2010 £000s**	Increase in year including inflation £000s	Increase in year excluding inflation £000s	**At 31 March 2010 £000s**	At 31 March 2009 £000s	Increase less Directors' contributions £000s	Increase in year excluding inflation £000s
Ian Marchant	18	**349**	31	31	**5,683**	3,972	1,692	484
Gregor Alexander	19	**198**	16	16	**3,038**	2,242	778	163
Colin Hood	32	**336**	31	31	**6,891**	5,500	1,374	562
Alistair Phillips-Davies	13	**147**	16	14	**2,154**	1,552	584	196

Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the table above. 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 linked to the UK Retail Price Index.

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.

(ii) On death in retirement, the Director's spouse will receive a pension equal to two-thirds of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.

(iii) Post retirement increases are expected to be in line with inflation (guaranteed up to the level of 5% per annum and discretionary above that level).

(iv) 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' share interests

	31 March 2010		31 March 2009	
	Shares held	**Shares under option**	Shares held	Shares under option
Gregor Alexander	**85,917**	**161,936**	46,128	151,576
Thomas Andersen	**2,000**	**–**	2,000	-
Nick Baldwin	**2,244**	**–**	2,119	–
Richard Gillingwater	**2,000**	**–**	2,000	–
Colin Hood	**129,376**	**211,984**	28,308	292,664
Ian Marchant	**218,500**	**281,166**	142,204	276,370
René Médori	**2,050**	**–**	2,050	–
Alistair Phillips-Davies	**94,631**	**162,220**	31,625	186,150
Lady Rice	**4,904**	**–**	4,632	–
Lord Smith of Kelvin	**22,600**	**–**	22,600	–

Notes
From 31 March 2010 to 18 May 2010, the following changes to the interests of Directors took place:

Under a standing order for reinvestment of an ISA, on 5 April 2010 Gregor Alexander acquired 13 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 (page 74) shows the interests of the Executive Directors in awards granted under the Deferred Bonus Scheme (DBS), Deferred Bonus Plan 2006 and the Performance Share Plan (PSP) and in options granted under the ShareSave Scheme during the year ended 31 March 2010.

Corporate governance (continued)

Remuneration Report – Remuneration in detail (continued)

Table D –Directors' long term incentive plan interests

	Share plan	Date of award	Normal exercise period (or vesting date)	No. of shares under award as at 1 April 2009	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 2010
Ian Marchant	DBS	06/06/06	06/06/09-06/06/16	46,081			46,081[7]	
	DBP 2006[5]	08/06/07	08/06/10	11,962			11,962[8]	
	DBP 2006	10/06/08	10/06/11	9,709				9,709
	DBP 2006	02/06/09	02/06/12			10,730		10,730
	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
	PSP	02/06/09	May 2012			107,302		107,302
	Sharesave	01/10/04	01/10/09-31/03/10	1,051	622p		1,051[9]	
	Sharesave	01/10/08	01/10/11-31/03/12	442	1274p			442
Colin Hood	DBS[4]	11/07/02	11/07/05-11/07/12	16,108			16,108[8]	
	DBS	02/07/03	02/07/06-02/07/13	19,116			19,116[8]	
	DBS	20/07/04	20/07/07-20/07/14	25,249			25,249[8]	
	DBS	30/06/05	30/06/08-30/06/15	26,079			26,079[8]	
	DBS	06/06/06	06/06/09-06/06/16	33,446			33,446[8]	
	DBP 2006[5]	08/06/07	08/06/10	8,598			8,598[8]	
	DBP 2006	10/06/08	10/06/11	7,087				7,087
	DBP 2006	02/06/09	02/06/12			8,047		8,047
	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
	PSP	02/06/06	May 2012			80,476		80,476
	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	06/06/06	06/06/09-06/06/16	23,311			23,311[7]	
	DBP 2006[5]	08/06/07	08/06/10	6,518			6,518[8]	
	DBP 2006	10/06/08	10/06/11	5,493				5,493
	DBP 2006	02/06/09	02/06/12			6,169		6,169
	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
	PSP	02/06/09	May 2012			61,698		61,698
	Sharesave	01/10/04	01/10/09-31/03/10	630	622p		630[9]	
	Sharesave	01/10/05	01/10/10-31/03/11	298	886p			298
	Sharesave	01/10/09	01/10/14-31/03/15		1042p	1,253		1,253
Alistair Phillips-Davies	DBS[4]	20/07/04	20/07/07-20/07/14	16,211			16,211[7]	
	DBS	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[7]	
	DBP 2006[5]	08/06/07	08/06/10	6,588			6,588[8]	
	DBP 2006	10/06/08	10/06/11	5,463				5,463
	DBP 2006	02/06/09	02/06/12			6,169		6,169
	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
	PSP	02/06/09	May 2012			61,698		61,698
	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. In addition to the shares released under DBS and DBP 2006, as indicated in the table above, the following shares were realised arising from such notional reinvestment of dividends: Ian Marchant – 7,852 shares, Colin Hood – 36,800 shares, Gregor Alexander – 4,040 shares, Alistair Phillips-Davies – 10,926 shares. In addition to the shares released under the PSP, as indicated in the table above, the following shares were realised arising from such notional reinvestment of dividends: Ian Marchant –7,040 shares, Colin Hood – 5,280 shares, Gregor Alexander – 3,678 shares, Alistair Phillips-Davies – 3,678 shares.
2. The performance conditions applicable to awards under the PSP since 2007 are described on page 67.
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 the median performance for TSR and EPS growth of RPI plus 3%.
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.
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 1174p.
7. The market value of a share on the date on which these awards were realised was 1130p.
8. The market value of a share on the date on which these awards were realised was 1111p. The vesting date of 10 June 2010 for the awards granted in 2007 was accelerated, with the consent of the Committee, to March 2010.
9. The market value of a share on the date this option was exercised was 1158p.

The closing market price of the shares at 31 March 2010 was 1101p and the range for the year was 1039p to 1198p. 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 £5,832,166.48 (2009 – £840,423.00). No options or awards lapsed in the year.

This report was approved by the Board and signed on its behalf by:

Lady Rice CBE Remuneration Committee Chairman, 18 May 2010

Corporate governance (continued)
Other statutory information

Principal activities
Scottish and Southern Energy plc is the holding company of the Group. 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 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 2010 and of the position of the Group at the end of that financial year. The information that fulfils these requirements, and is deemed to be the Directors' Report, is contained within pages 4 to 76 of this Annual Report.

Directors
The Directors during the year and at the date of this report are:

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

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

Nick Baldwin, Richard Gillingwater and Alistair Phillips-Davies retire by rotation at the AGM and, being eligible, and in accordance with the Articles of Association, will offer themselves for re-appointment.

Biographical details of all Directors are set out on page 49. Details of the service contract for Alistair Phillips-Davies and the letters of appointment for Nick Baldwin and Richard Gillingwater are set out in the Remuneration Report on pages 71 and 72.

The interests of the Directors in the Ordinary Shares of the Company at 31 March 2010 are set out in the Remuneration Report on page 73.

Directors' insurance and indemnities
The Directors have the benefit of the indemnity provision contained in the Company's Articles of Association. 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 £1,235.3m. The Directors recommend a final dividend of 49p per Ordinary Share which, subject to approval at the AGM, will be payable on 24 September 2010 to shareholders on the Register of Members at close of business on 30 July 2010. With the interim dividend of 21p per Ordinary Share paid on 26 March 2010, this makes a total dividend of 70p per Ordinary Share.

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 2010/11 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 28.

Share capital
Details of the Company's authorised and issued share capital at 31 March 2010, which includes options granted under the Group's employee share option schemes, are set out in notes 25 and 27 to the Financial Statements.

Annual General Meeting
The 21st AGM of the Company will be held on 22 July 2010 at 12 noon in the Bournemouth International Centre, Exeter Road, Bournemouth BH2 5BH. The Notice of Annual General Meeting 2010, which contains full explanations of the business to be conducted at the AGM, is set out in a separate shareholder circular.

Substantial shareholdings
At 18 May 2010, the following interests in the issued Ordinary Share capital of the Company have been disclosed in accordance with the requirements of the UK Listing Authority's Disclosure and Transparency Rules:

Entity	Number of shares*	Percentage*
Capital Research and Management Company	46,267,405	5.02%
Legal & General Group Plc	36,673,080	3.97%
Norges Bank	27,941,614	3.03%

* At date of disclosure by relevant entity.

Since the date of disclosure to the Company, the interests of the shareholders 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.

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 38 days at 31 March 2010.

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 and 28 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 Plan whose shares remain in the schemes' trusts give directions to the trustees to vote on their behalf by way of a Form of Direction.

Corporate governance (continued)
Other statutory information (continued)

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 page 57. The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

The Company is not aware of any significant agreements to which it is party that take effect, alter or terminate upon a change of control of the Company following a takeover. 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.

Details of any post balance sheet events are provided at note 31 to the accounts.

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
18 May 2010

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

Ian Marchant
Chief Executive
18 May 2010

Gregor Alexander
Finance Director

Independent auditors' report
to the members of Scottish and Southern Energy plc

We have audited the financial statements of Scottish and Southern Energy plc for the year ended 31 March 2010 set out on pages 78 to 149. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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
As explained more fully in the Directors' Responsibilities Statement set out on page 76, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements
In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:
- the Directors' statement, set out on page 75, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

John Luke (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
18 May 2010

Consolidated income statement
for the year ended 31 March

	Note	2010 Before exceptional items and certain remeasurements £m	2010 Exceptional items and certain remeasurements (note 4) £m	2010 Total £m	2009 Before exceptional items and certain remeasurements £m	2009 Exceptional items and certain remeasurements (note 4) £m	2009 Total £m
Revenue	2	**21,550.4**	**–**	**21,550.4**	25,424.2	–	25,424.2
Cost of sales		**(19,504.8)**	**432.2**	**(19,072.6)**	(23,552.7)	(1,291.7)	(24,844.4)
Gross profit		**2,045.6**	**432.2**	**2,477.8**	1,871.5	(1,291.7)	579.8
Operating costs	3	**(683.7)**	**–**	**(683.7)**	(576.5)	–	(576.5)
Other operating income		**–**	**–**	**–**	–	102.7	102.7
Operating profit before jointly controlled entities and associates		**1,361.9**	**432.2**	**1,794.1**	1,295.0	(1,189.0)	106.0
Jointly controlled entities and associates:							
Share of operating profit		**264.1**	**–**	**264.1**	246.4	–	246.4
Share of interest		**(107.1)**	**–**	**(107.1)**	(128.2)	–	(128.2)
Share of movement on derivatives		**–**	**4.1**	**4.1**	–	3.8	3.8
Share of tax		**(50.1)**	**(1.2)**	**(51.3)**	(39.3)	(1.1)	(40.4)
Share of profit on jointly controlled entities and associates	13	**106.9**	**2.9**	**109.8**	78.9	2.7	81.6
Operating profit	2	**1,468.8**	**435.1**	**1,903.9**	1,373.9	(1,186.3)	187.6
Finance income	6	**203.2**	**–**	**203.2**	209.7	–	209.7
Finance costs	6	**(432.0)**	**(36.5)**	**(468.5)**	(369.8)	25.8	(344.0)
Profit before taxation		**1,240.0**	**398.6**	**1,638.6**	1,213.8	(1,160.5)	53.3
Taxation	7	**(292.2)**	**(110.9)**	**(403.1)**	(300.6)	359.6	59.0
Profit for the year		**947.8**	**287.7**	**1,235.5**	913.2	(800.9)	112.3
Attributable to:							
Equity holders of the parent		**947.6**	**287.7**	**1,235.3**	913.2	(800.9)	112.3
Minority interest		**0.2**	**–**	**0.2**	–	–	–
Basic earnings per share (pence)	9			**134.0p**			12.7p
Diluted earnings per share (pence)	9			**133.9p**			12.8p
Adjusted earnings per share (pence)	9			**110.2p**			108.0p
Dividends paid in the year (£m)	8			**£618.5m**			£551.9m

The accompanying notes are an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 March

	Consolidated	
	2010 £m	2009 £m
Profit for the year	**1,235.5**	112.3
(Loss)/gain on effective portion of cash flow hedges	**(26.6)**	22.9
Taxation on cashflow hedges	**2.1**	(6.4)
	(24.5)	16.5
Effective net investment hedge	**(47.2)**	(142.9)
Taxation on net investment hedge	**13.2**	40.0
	(34.0)	(102.9)
Actuarial losses and other equity movements on retirement benefit schemes	**(508.8)**	(278.9)
Taxation on actuarial losses and other equity movements on defined benefit pension schemes	**142.5**	78.1
	(366.3)	(200.8)
Exchange difference on translation of foreign operations	**0.4**	221.7
Jointly controlled entities and associates:		
Share of (loss)/gain on effective portion of cash flow hedges	**(30.0)**	4.4
Share of taxation on cashflow hedges	**19.1**	(1.2)
	(10.9)	3.2
Share of actuarial losses on retirement benefit schemes	**(82.1)**	(53.2)
Share of taxation of actuarial losses on retirement benefit schemes	**23.0**	14.9
	(59.1)	(38.3)
Net share from jointly controlled entities and associates	**(70.0)**	(35.1)
Other comprehensive income	**(494.4)**	(100.6)
Total comprehensive income for the period	**741.1**	11.7
Attributable to:		
Equity holders of the parent	**740.9**	11.7
Minority interest	**0.2**	–
	741.1	11.7

Balance sheets
as at 31 March

	Note	Consolidated 2010 £m	Consolidated 2009 £m	Company 2010 £m	Company 2009 £m
Assets					
Property, plant and equipment	11	**8,204.2**	7,232.2	**–**	–
Biological assets	12	**4.4**	–	**–**	–
Intangible assets:					
Goodwill	10	**726.3**	724.0	**–**	–
Other intangible assets	10	**288.2**	253.0	**–**	–
Investments in associates and jointly controlled entities	13	**1,037.3**	918.7	**473.9**	456.9
Investments in subsidiaries	14	**–**	–	**2,172.1**	2,154.2
Other investments	13	**9.2**	18.3	**–**	–
Trade and other receivables	17	**–**	–	**3,456.1**	2,066.9
Deferred tax assets	23	**157.1**	100.1	**116.9**	32.7
Derivative financial assets	28	**466.3**	449.2	**47.5**	–
Non-current assets		**10,893.0**	9,695.5	**6,266.5**	4,710.7
Intangible assets	10	**213.3**	213.9	**–**	–
Inventories	16	**272.5**	366.7	**–**	–
Trade and other receivables	17	**5,018.8**	5,659.6	**2,428.0**	3,465.7
Cash and cash equivalents	18	**261.7**	295.9	**99.7**	135.1
Derivative financial assets	28	**1,468.3**	1,537.7	**56.6**	178.1
Current assets		**7,234.6**	8,073.8	**2,584.3**	3,778.9
Total assets		**18,127.6**	17,769.3	**8,850.8**	8,489.6
Liabilities					
Loans and other borrowings	22	**903.7**	1,060.1	**815.6**	916.4
Trade and other payables	19	**4,064.5**	4,364.9	**2,619.3**	2,635.5
Current tax liabilities	20	**216.9**	254.6	**4.0**	–
Provisions	24	**6.5**	13.8	**–**	–
Derivative financial liabilities	28	**2,020.7**	2,451.0	**45.2**	130.8
Current liabilities		**7,212.3**	8,144.4	**3,484.1**	3,682.7
Loans and other borrowings	22	**5,143.3**	4,336.1	**3,341.4**	2,868.5
Deferred tax liabilities	23	**624.0**	594.7	**–**	–
Trade and other payables	19	**324.5**	426.0	**–**	–
Provisions	24	**83.2**	60.2	**–**	–
Retirement benefit obligations	26	**720.3**	273.5	**251.1**	–
Derivative financial liabilities	28	**899.0**	959.5	**82.8**	–
Non-current liabilities		**7,794.3**	6,650.0	**3,675.3**	2,868.5
Total liabilities		**15,006.6**	14,794.4	**7,159.4**	6,551.2
Net assets		**3,121.0**	2,974.9	**1,691.4**	1,938.4
Equity:					
Share capital	25	**461.5**	460.2	**461.5**	460.2
Share premium		**857.5**	835.3	**857.5**	835.3
Capital redemption reserve		**22.0**	22.0	**22.0**	22.0
Equity reserve		**–**	0.8	**–**	0.8
Hedge reserve		**(16.2)**	19.6	**21.0**	43.3
Translation reserve		**113.4**	146.6	**–**	–
Retained earnings		**1,686.6**	1,492.7	**329.4**	576.8
Total equity attributable to equity holders of the parent		**3,124.8**	2,977.2	**1,691.4**	1,938.4
Minority interest		**(3.8)**	(2.3)	**–**	–
Total equity		**3,121.0**	2,974.9	**1,691.4**	1,938.4

These financial statements were approved by the Board of Directors on 18 May 2010 and signed on their behalf by:

Gregor Alexander
Finance Director

Lord Smith of Kelvin
Chairman

Scottish and Southern Energy plc, Registered No: SC117119

Statement of changes in equity
for the year ended 31 March

Consolidated
Reconciliation of movement in reserves

	Share capital £m	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**
At 1 April 2009	460.2	835.3	22.0	0.8	19.6	146.6	1,492.7	(2.3)	**2,974.9**
Profit for the year	–	–	–	–	–	–	1,235.3	0.2	**1,235.5**
Effective portion of changes in fair value of cash flow hedges (net of tax)	–	–	–	–	(24.5)	–	–	–	**(24.5)**
Effective net investment hedge (net of tax)	–	–	–	–	–	(34.0)	–	–	**(34.0)**
Exchange differences on translation of foreign operation	–	–	–	–	(0.4)	0.8	–	–	**0.4**
Actuarial gains on retirement benefit schemes (net of tax)	–	–	–	–	–	–	(366.3)	–	**(366.3)**
Jointly controlled entities and associates:									
Share of change in fair value of effective cash flow hedges	–	–	–	–	(10.9)	–	–	–	**(10.9)**
Share of actuarial losses on retirement benefit schemes (net of tax)	–	–	–	–	–	–	(59.1)	–	**(59.1)**
Total comprehensive income for the period	–	–	–	–	(35.8)	(33.2)	809.9	0.2	**741.1**
Dividends to shareholders	–	–	–	–	–	–	(618.5)	(1.7)	**(620.2)**
Convertible bond converted to equity	0.9	15.8	–	(0.8)	–	–	–	–	**15.9**
Issue of shares	0.4	6.4	–	–	–	–	–	–	**6.8**
Credit in respect of employee share awards	–	–	–	–	–	–	17.9	–	**17.9**
Investment in own shares	–	–	–	–	–	–	(15.8)	–	**(15.8)**
Current and deferred tax recognised in equity in respect of employee share awards	–	–	–	–	–	–	0.4	–	**0.4**
At 31 March 2010	**461.5**	**857.5**	**22.0**	**–**	**(16.2)**	**113.4**	**1,686.6**	**(3.8)**	**3,121.0**

Company
Reconciliation of movement in reserves

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Equity reserve £m	Hedge reserve £m	Retained earnings £m	**Total £m**
At 1 April 2009	460.2	835.3	22.0	0.8	43.3	576.8	**1,938.4**
Profit for the year	–	–	–	–	–	575.9	**575.9**
Effective portion of changes in fair value of cash flow hedges (net of tax)	–	–	–	–	(22.3)	–	**(22.3)**
Actuarial gains on retirement benefit schemes (net of tax)	–	–	–	–	–	(206.9)	**(206.9)**
Total comprehensive income for the period	–	–	–	–	(22.3)	369.0	**346.7**
Dividends to shareholders	–	–	–	–	–	(618.5)	**(618.5)**
Convertible bond converted to equity	0.9	15.8	–	(0.8)	–	–	**15.9**
Issue of shares	0.4	6.4	–	–	–	–	**6.8**
Increase in investment in subsidiaries	–	–	–	–	–	17.9	**17.9**
Investment in own shares	–	–	–	–	–	(15.8)	**(15.8)**
At 31 March 2010	**461.5**	**857.5**	**22.0**	**–**	**21.0**	**329.4**	**1,691.4**

Statement of changes in equity (continued)
for the year ended 31 March

Consolidated
Reconciliation of movement in reserves

	Share capital £m	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**
At 1 April 2008	435.1	315.7	22.0	3.9	2.3	25.4	2,175.6	0.3	**2,980.3**
Profit for the year	–	–	–	–	–	–	112.3	–	**112.3**
Effective portion of changes in fair value of cash flow hedges (net of tax)	–	–	–	–	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 gains on retirement benefit schemes (net of tax)	–	–	–	–	–	–	(200.8)	–	**(200.8)**
Jointly controlled entities and associates:									
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)**
Total comprehensive income for the period	–	–	–	–	17.3	121.2	(126.8)	–	**11.7**
Dividends to shareholders	–	–	–	–	–	–	(551.9)	(2.6)	**(554.5)**
Convertible bond converted to equity	3.5	61.6	–	(3.1)	–	–	–	–	**62.0**
Issue of shares	21.6	458.0	–	–	–	–	–	–	**479.6**
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	–	–	–	–	–	–	(2.7)	–	**(2.7)**
At 31 March 2009	**460.2**	**835.3**	**22.0**	**0.8**	**19.6**	**146.6**	**1,492.7**	**(2.3)**	**2,974.9**

Company
Reconciliation of movement in reserves

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Equity reserve £m	Hedge reserve £m	Retained earnings £m	**Total £m**
At 1 April 2008	435.1	315.7	22.0	3.9	7.1	356.2	**1,140.0**
Profit for the year	–	–	–	–	–	852.0	**852.0**
Effective portion of changes in fair value of cash flow hedges (net of tax)	–	–	–	–	36.2	–	**36.2**
Actuarial gains on retirement benefit schemes (net of tax)	–	–	–	–	–	(78.0)	**(78.0)**
Total comprehensive income for the period	–	–	–	–	36.2	774.0	**810.2**
Dividends to shareholders	–	–	–	–	–	(551.9)	**(551.9)**
Convertible bond converted to equity	3.5	61.6	–	(3.1)	–	–	**62.0**
Issue of shares	21.6	458.0	–	–	–	–	**479.6**
Credit in respect of employee share awards	–	–	–	–	–	14.3	**14.3**
Investment in own shares	–	–	–	–	–	(15.8)	**(15.8)**
At 31 March 2009	**460.2**	**835.3**	**22.0**	**0.8**	**43.3**	**576.8**	**1,938.4**

Cash flow statements
for the year ended 31 March

	Note	Consolidated 2010 £m	Consolidated 2009 £m	Company 2010 £m	Company 2009 £m
Cash flows from operating activities					
Profit for the year after tax		**1,235.5**	112.3	**575.9**	852.0
Taxation		**403.1**	(59.0)	**(0.6)**	(40.8)
Movement on financing and operating derivatives		**(395.7)**	1,265.9	**44.9**	(37.5)
Finance costs		**432.0**	369.8	**235.6**	447.0
Finance income		**(203.2)**	(209.7)	**(259.7)**	(256.9)
Share of profit/loss of jointly controlled entities and associates		**(109.8)**	(81.6)	**–**	–
Income from investment in subsidiaries		**–**	–	**(577.5)**	(970.7)
Pension service charges less contributions paid		**(88.8)**	(49.3)	**(44.2)**	(14.5)
Depreciation and impairment of assets		**356.4**	315.9	**–**	–
Amortisation and impairment of intangible assets		**22.2**	14.4	**–**	–
Impairment of inventories		**3.0**	8.2	**–**	–
Release of provisions		**(7.1)**	(47.5)	**–**	–
Release of deferred income		**(15.2)**	(16.7)	**–**	–
Decrease/(increase) in inventories		**97.2**	(127.7)	**–**	–
Decrease/(increase) in receivables		**914.3**	(2,048.3)	**(161.3)**	(1,508.9)
(Decrease)/increase in payables		**(486.8)**	958.0	**119.4**	(538.0)
Increase in provisions		**5.9**	4.7	**–**	–
Charge in respect of employee share awards (before tax)		**17.9**	14.3	**–**	–
Profit on disposal of property, plant and equipment		**(5.7)**	(1.7)	**–**	–
Profit on disposal of 50% of Greater Gabbard Offshore Winds		**–**	(102.7)	**–**	
Loss/(profit) on disposal of fixed asset investment		**0.1**	(2.2)	**–**	(2.2)
Cash generated from operations		**2,175.3**	317.1	**(67.5)**	(2,070.5)
Dividends received from jointly controlled entities		**23.7**	39.8	**–**	–
Dividends paid to minority investment holders		**(1.7)**	(2.6)	**–**	–
Dividends received from subsidiaries		**–**	–	**577.5**	970.7
Finance income		**102.5**	74.4	**223.0**	192.2
Finance costs		**(341.4)**	(219.2)	**(206.4)**	(348.2)
Income taxes paid		**(307.7)**	(255.5)	**(300.6)**	(255.3)
Payment for consortium relief		**–**	(0.4)	**–**	(0.4)
Net cash from operating activities		**1,650.7**	(46.4)	**226.0**	(1,511.5)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(995.0)**	(1,172.2)	**–**	–
Purchase of other intangible assets		**(4.2)**	(37.5)	**–**	–
Deferred income received		**18.7**	24.8	**–**	–
Proceeds from sale of property, plant and equipment		**40.2**	3.8	**–**	–
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		**0.9**	2.4	**–**	2.4
Other loans to jointly controlled entities	13	**(336.4)**	(262.0)	**–**	–
Purchase of businesses and subsidiaries	15	**(67.8)**	(28.4)	**–**	(2.1)
Cash acquired in purchases		**9.7**	0.1	**–**	–
Investment in jointly controlled entities and associates		**(61.8)**	(64.4)	**(17.0)**	–
Loans and equity repaid by jointly controlled entities		**34.5**	79.7	**–**	60.0
Increase in other investments		**(1.1)**	(12.5)	**–**	–
Net cash from investing activities		**(1,362.3)**	(1,197.7)	**(17.0)**	60.3

Cash flow statements (continued)
for the year ended 31 March

	Note	Consolidated 2010 £m	Consolidated 2009 £m	Company 2010 £m	Company 2009 £m
Cash flows from financing activities					
Proceeds from issue of share capital		**6.8**	479.6	**6.8**	479.6
Dividends paid to Company's equity holders		**(618.5)**	(551.9)	**(618.5)**	(551.9)
Employee share awards share purchase		**(15.8)**	(15.8)	**(15.8)**	(15.8)
New borrowings		**1,338.3**	3,203.1	**1,299.7**	3,266.5
Borrowings acquired in purchases		**–**	–	**–**	–
Repayment of borrowings		**(1,035.3)**	(1,835.3)	**(916.6)**	(1,696.3)
Net cash from financing activities		**(324.5)**	1,279.7	**(244.4)**	1,482.1
Net (decrease)/increase in cash and cash equivalents		**(36.1)**	35.6	**(35.4)**	30.9
Cash and cash equivalents at the start of year	18	**293.6**	243.1	**135.1**	104.2
Net (decrease)/increase in cash and cash equivalents		**(36.1)**	35.6	**(35.4)**	30.9
Effect of foreign exchange rate changes		**(5.0)**	14.9	**–**	–
Cash and cash equivalents at the end of year	18	**252.5**	293.6	**99.7**	135.1

The accompanying notes are an integral part of these financial statements.

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 given on the back cover. The Group's operations and its principal activities are set out in the Directors' Report on pages 6 to 46. The consolidated financial statements for the year ended 31 March 2010 comprise those of the Company and its subsidiaries (together referred to as the Group). The Company financial statements present information about the Company as a separate entity and not about the Group. Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement and related notes.

Basis of preparation
Statement of compliance
The financial statements were authorised for issue by the Directors on 18 May 2010. 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 has sufficient short-term and medium-term facilities to meet its funding requirements for 2010/11. In addition, the Group expects to issue further debt in the capital markets in 2010/11. 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 28 of the Financial Statements on page 138.

Basis of measurement
The financial statements of the Group and the Company are prepared on the historical cost basis except for derivative financial instruments, biological assets and the assets of the Group pension schemes which are stated at their fair value, and the liabilities of the Group pension schemes which are measured using the projected unit credit method. The Directors believe the financial statements present a true and fair view. The financial statements of the Group and Company are presented in pounds sterling. Operations and transactions conducted in currencies other than pounds sterling are included in the consolidated financial statements in accordance with the Group's foreign currencies accounting policy.

Use of estimates and judgements
The preparation of financial statements conforming with adopted IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The areas involving a higher level of judgement or estimation are summarised at pages 93 and 94.

Exceptional items and certain remeasurements
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 remeasurements 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 remeasurements are remeasurements 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 the Group from 1 April 2009:

- IFRS 7 'Financial Instruments – Disclosures' (amendment) is effective for accounting periods beginning on or after 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the amendment only results in additional disclosures, there is no impact on the Group's reported results.

- IFRS 8 'Operating Segments', effective for annual periods beginning on or after 1 January 2009, replaces IAS 14, Segment Reporting and requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, which has been identified as the Board. The adoption of IFRS 8 has led to a change in the segmental information disclosed, but has had no impact on the Group's reportable segments or on the reported results or financial position of the Group. Further information can be found in note 2.

- IAS 1 (Revised) 'Presentation of Financial Statements' is effective for annual periods beginning on or after 1 January 2009. The revised standard prohibits the presentation of income and expense in the statement of changes in equity, requiring non-shareholder changes in equity to be presented separately from shareholder changes in equity. All non-shareholder changes in equity are required to be presented in a performance statement. IAS 1 (Revised) permits a choice as to whether to present a single performance statement (being a Statement of Comprehensive Income) or two statements (being an Income Statement and a Statement of Comprehensive Income). The Group has elected to present two statements. Other changes introduced by the revised standard include a requirement to give the Statement of Changes in Equity equal prominence to the other Primary Statements. These Financial Statements have been prepared under the revised disclosure requirements.

Notes on the financial statements (continued)
for the year ended 31 March

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

- IFRS 2 (Amendment) 'Share-based Payments – Vesting Conditions and Cancellations', is effective for annual periods beginning on or after 1 January 2009. This amendment restricts the definition of 'vesting conditions' to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The main impact of this amendment for the Group arises from cancellations by employees of contributions to the Group's Sharesave schemes; in the event of a cancellation the Group must recognise immediately the amount of the expense that would have otherwise been recognised over the remainder of the vesting period. We have reviewed our Share Based Payments for the amendment and concluded that it has an immaterial impact on previously reported results and balances.

- IFRIC 12, 'Service concession arrangements', is effective for accounting periods ending on or after 29 March 2009. This amendment applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services, for example, under private initiative (PFI) contracts. The Group has contracts with various local authorities under PFI arrangements. These contracts qualify for accounting under IFRIC 12. The adoption of IFRIC 12, which applies retrospectively, did not have a material impact on previously reported results and balances.

The following amendments to existing standards and interpretations were also effective for the current period, but the adoption of these amendments to existing standards and interpretations did not have a material impact on the Financial Statements of the Group:

- IAS 23 (Amendment), Borrowing Costs;
- IAS 39 (Amendment), Financial Instruments: Recognition and Measurement – Reclassification of Financial Assets;
- IFRS 1 (Amendment), First-time adoption of IFRS, and IAS 27 (Amendment), Presentation of Financial Statements – Puttable financial instruments and obligations arising on liquidation;
- IFRIC 9 (Amendment), Re-assessment of Embedded Derivatives, and IAS 39 (Amendment), Financial Instruments: Recognition and Measurement;
- IFRIC 13, Customer Loyalty Programmes; and
- IFRIC 15, Agreements for the Construction of Real Estate.

At the date of authorisation of these Financial Statements, the following standards, amendments to existing standards and interpretations issued by the IASB and IFRIC, which have not been adopted in these Financial Statements, were in issue but not yet effective:

- IFRS 3 (Revised), Business Combinations, effective for annual periods beginning on or after 1 July 2009;
- Improvements to IFRSs (2009), effective for annual periods beginning on or after 1 July 2009 (or later);
- IFRS 2 (Amendment), Share Based Payment – Group Cash-settled Share-based Payment Transactions, effective for annual periods commencing on or after 1 January 2010;
- IAS 27 (Revised), Consolidated and Separate Financial Statements, effective for annual periods beginning on or after 1 July 2009;
- IFRIC 16, Hedges of Net Investment in a Foreign Operation; and
- IFRIC 18, Transfers of Assets from Customers, effective for annual periods beginning on or after 31 October 2009.

The above have not been early adopted by the Group and the impact of adopting these standards and amendments to existing standards is currently being assessed.

Additionally, the following standards, amendments to existing standards and interpretations, which were also in issue at the date of authorisation of these Financial Statements but not yet effective and have not received EU endorsement have not therefore been adopted by the Group in these Financial Statements:

- IFRIC 17, Distributions of Non-cash Assets to Owners, effective for annual periods beginning on or after 1 July 2009;
- IAS 39 (Amendment), Financial Instruments: Recognition and Measurement – Eligible Hedged Items, effective for annual periods beginning on or after 1 July 2009; and
- IFRIC 19, Extinguishing Financial Liabilities with Equity Investments, effective for annual periods beginning on or after 1 July 2010.

Basis of consolidation
The financial statements consolidate the financial statements of the Company and its subsidiaries together with the Group's share of the results and net assets of its jointly controlled entities and associates.

Subsidiaries
Subsidiaries (including special purpose entities) are those entities controlled by the Group or the Company. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity in order to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries acquired are consolidated in the financial statements of the Group from the date that control commences until the date control ceases. All business combinations are accounted for by applying the purchase method of accounting.

The special purpose entities referred to relate to entities in which the Group has a 50% shareholding but whose activities the Group is deemed to control under SIC-12 Consolidation – Special Purpose Entities.

In the Company, investments in subsidiaries are carried at cost less any impairment charges.

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 market energy 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 in the calculation of the following year's regulatory use of system revenue within agreed parameters. No adjustment is made for over- or under-recoveries in the year that they arise.

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.

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.

Notes on the financial statements (continued)
for the year ended 31 March

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 89.

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 and finance leases, 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 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, under ground 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

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 and the costs recorded as costs of disposal. Where an item of property, plant and equipment is replaced and it is not practicable to determine the carrying amount of the replaced part, the cost of the replacement adjusted for inflation will be used as an approximation of the cost of the replaced part at the time it was acquired or constructed.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the item of property, plant and equipment to which it relates.

Notes on the financial statements (continued)
for the year ended 31 March

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Biological Assets
Biological assets, such as living trees, are measured at their fair value less estimated point of sale costs. The valuation of forest assets is based on discounted cash flow models whereby the fair value of the biological asset is calculated using cash flows from continuous operations, that is, each forest asset is split into an appropriate grouping based on the maturity and/or type of trees. An expected future volume of Timber that will be produced from each of these groups is then derived. The expected volume is used to apply a market value to the groups of trees based on the market value of Standing Timber. These market values are discounted based on the time to full maturity to appropriately value each grouping.

Periodic changes resulting from growth, felling prices, discount rate, costs and other premise changes are included in operating profit on the income statement.

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 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 level of emissions in any compliance 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 the carbon emission liability exceeds the carbon allowances held, the net liability is measured at the anticipated settlement price. Movements in the market value of the liability are recognised in operating profit. Forward carbon contracts are measured at fair value with gains or losses arising on remeasurement 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, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there is evidence of impairment, the recoverable amount, being the higher of the fair value less costs to sell and the value-in-use of the asset, is estimated to determine the extent of any such impairment. For goodwill and other intangible assets with an indefinite life or which are not ready for use, the test for impairment is carried out annually. For financial assets measured at amortised cost the impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

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 comprehensive income. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet.

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 27. 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.

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 28.

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 hedge and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on remeasurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a fair value or cash flow hedge. Derivatives that are not designated as hedges are treated as if held for trading, with all fair value movements being recorded through the income statement.

A derivative classified as a fair value hedge recognises gains and losses from remeasurement 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 income statement in the same period in which the hedged cash flows affect the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At the point of discontinuation, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction affects profit or loss. On settlement, the cumulative gain or loss recognised in equity is recognised in the income statement.

(ii) Commodity derivatives
Within its regular course of business, the Group routinely enters into sale and purchase derivative contracts for commodities such as electricity, gas, coal 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 remeasurement being recognised in the income statement in cost of sales.

(iii) Embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives where the characteristics of the derivatives are not closely related to those of the host contracts.

(iv) Net investment hedges
Hedges of net investments in foreign operations are accounted in a manner similar to effective cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity, in the translation reserve, and any gain or loss on the ineffective portion of the hedge is recognised in the income statement. On disposal of the foreign operation, the cumulative value of any gains or losses recognised directly in equity is transferred to the income statement.

(v) Convertible bond
The Group issued a convertible bond which represented debt that could be converted to share capital at the option of the holder, where the number of shares issued did not vary with changes in their fair value. This was accounted for as a compound financial instrument, net of transaction costs. The equity component of the convertible bond was 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 did not have a conversion option. The interest expense recognised in the income statement was calculated on initial recognition 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. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received.

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 and vary according to asset lives but are expected to fall in the period up to 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.

(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.

Notes on the financial statements (continued)
for the year ended 31 March

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 calculate 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 28.

(vi) Exceptionals and remeasurements
The criteria for identifying what constitutes an exceptional item are outlined in note 1 Exceptional items and certain remeasurements.

2. SEGMENTAL INFORMATION

The Group has adopted IFRS 8 Operating Segments in the financial statements. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In the Group's case the chief operating decision maker has been identified as the Board. In contrast, the predecessor Standard (IAS 14 'Segment Reporting') required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach. Following the adoption of IFRS 8 the Group's reportable segments have not changed.

The Group's operating segments are therefore those used internally by the Board to run the business and make strategic decisions. The operating segments are also the Group's reportable segments.

The Group's operating 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), the generation and supply of electricity and sale of gas in Great Britain and Ireland (Generation and Supply) and other businesses. In addition to this the Group's 50% equity share in Scotia Gas Networks plc, a business which distributes gas in Scotland and the South of England (refer to note 13), is included as a separate segment where appropriate due to its significance.

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

Segment	Geographical location	Description
Power Systems	UK	Transmits and distributes electricity to over 3 million businesses, offices and homes.
Generation and Supply	Great Britain, Ireland and Europe	The Group views this as a single value chain within a vertically-integrated business. It generates and supplies electricity to domestic, commercial and industrial customers in Great Britain and Ireland. In addition it also supplies gas to customers in the same locations. Generation is provided by a portfolio of thermal power stations and from renewable sources of energy.
Other businesses:		
Contracting	UK and Ireland	Mechanical and electrical contracting services, public and highway lighting and electrical and instrumentation engineering.
Connections	UK	Electricity and gas connections for homes, offices and businesses, out-of-area electricity networks, licensed gas transportation and water and sewerage services.
Metering	UK	Supplies, installs and maintains electricity meters and provides data collection services.
Gas Storage	UK	Develops, owns and operates under ground onshore gas storage facilities.
Telecoms	UK	Provides network capacity, data centre and bandwidth services to customers.

The measure of profit used by the Board is adjusted operating profit, which is before exceptional items, the impact of IAS 32 and 39 and after the removal of taxation and interest on profits from jointly controlled entities and associates.

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

(a) Revenue by segment

	Total revenue		Intra-segment revenue (i)		External revenue	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Power Systems						
Scotland	**309.1**	292.1	**105.5**	104.1	**203.6**	188.0
England	**473.5**	450.9	**212.2**	204.1	**261.3**	246.8
	782.6	743.0	**317.7**	308.2	**464.9**	434.8
Generation and Supply						
Retail	**8,234.4**	8,516.5	**–**	8.2	**8,234.4**	8,508.3
Wholesale and trading	**12,000.3**	15,409.4	**12.0**	–	**11,988.3**	15,409.4
Other	**216.4**	440.7	**7.8**	20.7	**208.6**	420.0
	20,451.1	24,366.6	**19.8**	28.9	**20,431.3**	24,337.7
Other businesses	**1,173.9**	1,077.2	**519.7**	425.5	**654.2**	651.7
	22,407.6	26,186.8	**857.2**	762.6	**21,550.4**	25,424.2

(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: 2010 – £373.5m; 2009 – £365.7m) is not recorded in the revenue line in the income statement.

External revenue split by geographic location is as follows:

	2010 £m	2009 £m
UK	**21,123.2**	25,045.7
Europe	**427.2**	378.5
	21,550.4	25,424.2

(b) Operating profit by segment

	2010				
	Segment Result reported to the Board (i) £m	**JCE/Associate share of interest and tax (i) £m**	**Before exceptional items and certain remeasurements £m**	**Exceptional items and certain remeasurements £m**	**Total £m**
Power Systems					
Scotland	**158.9**	**–**	**158.9**	**–**	**158.9**
England	**256.9**	**–**	**256.9**	**–**	**256.9**
	415.8	**–**	**415.8**	**–**	**415.8**
Scotia Gas Networks	**183.7**	**(130.5)**	**53.2**	**2.4**	**55.6**
Energy Systems	**599.5**	**(130.5)**	**469.0**	**2.4**	**471.4**
Generation and Supply	**896.0**	**(26.5)**	**869.5**	**432.7**	**1,302.2**
Other businesses	**140.3**	**(0.2)**	**140.1**	**–**	**140.1**
	1,635.8	**(157.2)**	**1,478.6**	**435.1**	**1,913.7**
Unallocated expenses (ii)	**(9.8)**	**–**	**(9.8)**	**–**	**(9.8)**
	1,626.0	**(157.2)**	**1,468.8**	**435.1**	**1,903.9**

Notes on the financial statements (continued)
for the year ended 31 March

2. SEGMENTAL INFORMATION (continued)

	2009				
	Segment Result reported to the Board (i) £m	JCE/Associate share of interest and tax (i) £m	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Power Systems					
Scotland	160.4	–	160.4	–	160.4
England	243.3	–	243.3	–	243.3
	403.7	–	403.7	–	403.7
Scotia Gas Networks	180.5	(146.3)	34.2	3.9	38.1
Energy Systems	584.2	(146.3)	437.9	3.9	441.8
Generation and Supply	832.0	(20.9)	811.1	(1,190.2)	(379.1)
Other businesses	134.1	(0.3)	133.8	–	133.8
	1,550.3	(167.5)	1,382.8	(1,186.3)	196.5
Unallocated expenses (ii)	(8.9)	–	(8.9)	–	(8.9)
	1,541.4	(167.5)	1,373.9	(1,186.3)	187.6

(i) The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives and tax from jointly controlled entities and associates. The share of Scotia Gas Networks Limited interest includes loan stock interest payable to the consortium shareholders. The Group has accounted for its 50% share of this, £33.8m (2009 – £33.6m), as finance income (note 6).
(ii) Unallocated expenses comprise corporate office costs which are not directly allocable to particular segments.

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 (£0.9m before tax; 2009 – £1.4m before tax).

(c) Assets

	2010 £m	2009 £m
Power Systems		
Scotland	**1,757.5**	1,621.7
England	**2,660.2**	2,479.6
	4,417.7	4,101.3
Scotia Gas Networks (i)	**422.4**	424.5
Energy Systems	**4,840.1**	4,525.8
Generation and Supply	**16,023.0**	16,069.8
Other businesses	**1,845.2**	1,640.8
Corporate and unallocated	**12,028.3**	12,763.6
	34,736.6	35,000.0
Less: inter-segment	**(16,609.0)**	(17,230.7)
	18,127.6	17,769.3

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.

(i) The asset balance represents the Group's net investment in Scotia Gas Networks Limited. The Group's share of the capital additions in Scotia Gas Networks Limited is not included within Property, Plant and Equipment.

(d) Capital expenditure

	Capital additions to Intangible Assets (note 10)		Capital additions to Property, Plant and Equipment (note 11)	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Power Systems				
Scotland	**–**	–	**135.8**	128.9
England	**–**	–	**198.7**	185.7
	–	–	**334.5**	314.6
Scotia Gas Networks (iii)	**–**	–	**–**	–
Energy Systems	**–**	–	**334.5**	314.6
Generation and Supply	**484.7**	351.3	**487.9**	757.6
Other businesses	**–**	–	**164.8**	218.6
Corporate and unallocated	**1.6**	2.4	**–**	–
	486.3	353.7	**987.2**	1,290.8

Capital additions does not include assets acquired in acquisitions or assets acquired under finance leases.

(e) Included within operating profit

	Depreciation/impairment on Property, Plant and Equipment (note 11)		Amortisation/impairment of Intangible Assets (note 10)	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Power Systems				
Scotland	**48.5**	45.2	**–**	–
England	**79.7**	75.2	**–**	–
	128.2	120.4	**–**	–
Generation and Supply	**182.4**	142.7	**15.8**	4.8
Other businesses	**47.8**	52.8	**2.6**	5.5
Corporate and unallocated	**–**	–	**3.8**	4.1
	356.4	315.9	**22.2**	14.4

The Group's share of Scotia Gas Networks Limited depreciation (2010 – £53.1m; 2009 – £52.1m) and amortisation (2010 – nil; 2009 – nil) is not included within operating costs.

3. OTHER OPERATING INCOME AND EXPENSE

Group operating costs can be analysed thus:

	2010 £m	2009 £m
Distribution costs	**220.5**	205.3
Administration costs	**463.2**	371.2
	683.7	576.5

Notes on the financial statements (continued)
for the year ended 31 March

3. OTHER OPERATING INCOME AND EXPENSE (continued)

Group operating profit is stated after charging (or crediting) the following items:

	2010 £m	2009 £m
Depreciation and impairment of property, plant and equipment (note 11)	**356.4**	315.9
Impairment of inventories (note 16)	**3.0**	8.2
Research and development costs	**3.7**	4.4
Operating lease rentals (note 30)	**271.2**	220.6
Release of deferred income in relation to customer contributions and capital grants	**(15.2)**	(16.7)
Gain on disposal of property, plant and equipment	**(5.7)**	(1.7)
Loss/(gain) on disposal of fixed asset investments	**0.1**	(2.2)
Impairment of intangible assets (note 10)	**13.1**	2.2
Amortisation of brand costs (note 10)	**1.0**	1.1
Amortisation of intangible assets (note 10)	**8.1**	11.1

Auditors' remuneration

	2010 £m	2009 £m
Statutory audit services – audit of the Group's accounts	**0.2**	0.2
Statutory audit of subsidiary accounts	**0.7**	0.6
Audit of parent and subsidiary entities	**0.9**	0.8
Tax services	**0.2**	0.4
Other services	**0.1**	0.4

Tax service fees incurred in the year were £0.2m (2009 – £0.4m). In addition to the amounts shown above, the auditors received fees of £0.06m (2009 – £0.04m) for the audit of the Scottish Hydro Electric Pension Scheme. 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 pages 60 and 61 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

Amounts paid to the Company's auditor in respect of services to the Company other than the audit of the Company's financial statements have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

4. EXCEPTIONAL ITEMS AND CERTAIN REMEASUREMENTS

(i) Exceptional items
In the previous financial year, the Group disposed of 50% of its equity shareholding in Greater Gabbard Offshore Winds Limited (GGOWL) to 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).

(ii) Certain remeasurements
Certain remeasurements 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 28.

(iii) Taxation
The Group has separately recognised the tax effect of the exceptional items and certain remeasurements summarised above.

These transactions can be summarised thus:

	2010 £m	2009 £m
Exceptional items		
Gain on disposal of share in Greater Gabbard Offshore Winds (note 15)	**–**	102.7
	–	102.7
Certain remeasurements		
Movement on operating derivatives	**432.2**	(1,291.7)
Movement on financing derivatives	**(36.5)**	25.8
Share of movement on derivatives in jointly controlled entities (net of tax)	**2.9**	2.7
	398.6	(1,263.2)
Gain/(loss) before taxation	**398.6**	(1,160.5)
Exceptional items		
Taxation on other exceptional items	**–**	5.7
	–	5.7
Taxation on certain remeasurements	**(110.9)**	353.9
Taxation	**(110.9)**	359.6
Impact on profit for the year	**287.7**	(800.9)

5. DIRECTORS AND EMPLOYEES

(i) Staff Costs

	Consolidated	
	2010 £m	2009 £m
Staff costs:		
Wages and salaries	**574.9**	530.1
Social security costs	**53.8**	48.0
Share-based remuneration (note 27)	**17.9**	14.3
Pension costs (note 26)	**37.9**	35.4
	684.5	627.8
Less: capitalised as property, plant and equipment	**(87.4)**	(79.9)
	597.1	547.9

Employee numbers:

	Consolidated		Company	
	2010 Number	2009 Number	2010 Number	2009 Number
Numbers employed at 31 March	**20,177**	18,795	**4**	4

The average number of people employed by the Group (including Executive Directors) during the year was:

	Consolidated		Company	
	2010 Number	2009 Number	2010 Number	2009 Number
Power Systems	**2,088**	2,045	**–**	–
Generation and Supply	**9,007**	8,536	**–**	–
Contracting, Connections and Metering	**6,150**	5,714	**–**	–
Other businesses and corporate services	**2,063**	1,901	**4**	4
	19,308	18,196	**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

5. 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 65 to 74. 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.

6. FINANCE INCOME AND COSTS

Recognised in income statement

	2010			2009		
	Before exceptional items and certain remeasurements £m	**Exceptional items and certain remeasurements £m**	**Total £m**	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Finance income:						
Return on pension scheme assets	**100.7**	**–**	**100.7**	135.3	–	135.3
Interest income from short term deposits	**3.5**	**–**	**3.5**	9.4	–	9.4
Other interest receivable:						
Scotia Gas Networks loan stock	**33.8**	**–**	**33.8**	33.6	–	33.6
Other jointly controlled entities and associates	**20.1**	**–**	**20.1**	14.6	–	14.6
Other receivable	**35.1**	**–**	**35.1**	16.8	–	16.8
Foreign exchange translation of monetary assets and liabilities	**10.0**	**–**	**10.0**	–	–	–
Total finance income	**203.2**	**–**	**203.2**	209.7	–	209.7
Finance costs:						
Bank loans and overdrafts	**(49.9)**	**–**	**(49.9)**	(149.9)	–	(149.9)
Other loans and charges	**(284.1)**	**–**	**(284.1)**	(132.9)	–	(132.9)
Interest on pension scheme liabilities	**(127.5)**	**–**	**(127.5)**	(130.1)	–	(130.1)
Accretion of convertible debt component	**–**	**–**	**–**	(0.6)	–	(0.6)
Notional interest arising on discounted provisions	**(3.5)**	**–**	**(3.5)**	(5.1)	–	(5.1)
Foreign exchange translation of monetary assets and liabilities	**–**	**–**	**–**	(2.4)	–	(2.4)
Finance lease charges	**(13.2)**	**–**	**(13.2)**	–	–	–
Less: interest capitalised (i)	**46.2**	**–**	**46.2**	51.2	–	51.2
Total finance costs	**(432.0)**	**–**	**(432.0)**	(369.8)	–	(369.8)
Changes in fair value of financing derivative assets or liabilities at fair value through profit or loss	**–**	**(36.5)**	**(36.5)**	–	25.8	25.8
Net finance costs	**(228.8)**	**(36.5)**	**(265.3)**	(160.1)	25.8	(134.3)
Finance income	**203.2**	**–**	**203.2**	209.7	–	209.7
Finance costs	**(432.0)**	**(36.5)**	**(468.5)**	(369.8)	25.8	(344.0)
Net finance costs	**(228.8)**	**(36.5)**	**(265.3)**	(160.1)	25.8	(134.3)

(i) The capitalisation rate applied in determining the amount of borrowing costs to capitalise in the period was 6.62% (2009 – 5.46%).

Recognised in equity

	2010 £m	2009 £m
(Losses)/gains on effective portion of cash flow hedges (i)	**(26.6)**	22.9
Share of jointly controlled entity/associate (losses)/gains on effective portion of cash flow hedges (i)	**(30.0)**	4.4
	(56.6)	27.3

(i) Before deduction of tax.

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

	2010 £m	2009 £m
Net finance costs	**(265.3)**	(134.3)
(add)/less:		
Share of interest from jointly controlled entities and associates:		
Scotia Gas Networks loan stock	**(33.8)**	(33.6)
Other jointly controlled entities and associates	**(73.3)**	(94.6)
	(107.1)	(128.2)
Accretion of convertible debt component	**–**	0.6
Movement on financing derivatives	**36.5**	(25.8)
Adjusted finance income and costs	**(335.9)**	(287.7)
(add)/less:		
Return on pension scheme assets	**(100.7)**	(135.3)
Interest on pension scheme liabilities	**127.5**	130.1
Notional interest arising on discounted provisions	**3.5**	5.1
Finance lease charges	**13.2**	–
Adjusted finance income and costs for interest cover calculations	**(292.4)**	(287.8)

7. TAXATION

Analysis of charge recognised in the income statement:

	2010			2009		
	Before exceptional items and certain remeasurements £m	**Exceptional items and certain remeasurements £m**	**Total £m**	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Current tax						
UK corporation tax	**277.4**	**–**	**277.4**	298.6	–	298.6
Adjustments in respect of previous years	**(19.1)**	**–**	**(19.1)**	(10.1)	–	(10.1)
Total current tax	**258.3**	**–**	**258.3**	288.5	–	288.5
Deferred tax						
Current year	**32.2**	**110.9**	**143.1**	13.8	(359.6)	(345.8)
Adjustments in respect of previous years	**1.7**	**–**	**1.7**	(1.7)	–	(1.7)
Total deferred tax	**33.9**	**110.9**	**144.8**	12.1	(359.6)	(347.5)
Total taxation charge/(credit)	**292.2**	**110.9**	**403.1**	300.6	(359.6)	(59.0)

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

	2010 £m	2010 %	2009 £m	2009 %
Group profit before tax	**1,638.6**		53.3	
Less: share of results of associates and jointly controlled entities	**(109.8)**		(81.6)	
Profit/(loss) before tax	**1,528.8**		(28.3)	
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 28% (2009 – 28%)	**428.1**	**28.0**	(7.9)	28.0
Tax effect of:				
Expenses not deductible for tax purposes	**7.6**	**0.5**	3.7	(13.1)
Non taxable income	**(2.3)**	**(0.2)**	(34.4)	121.5
Impact of foreign tax rates and foreign dividends	**(0.2)**	**–**	0.3	(1.1)
Adjustments to tax charge in respect of previous years	**(17.4)**	**(1.1)**	(11.8)	41.7
Consortium relief not paid for	**(9.8)**	**(0.6)**	(9.1)	32.2
Utilisation of tax losses	**–**	**–**	(1.5)	5.3
Effect of enhanced reliefs and incentives	**(2.4)**	**(0.2)**	–	–
Other items	**(0.5)**	**–**	1.7	(6.0)
Group tax charge/(credit) and effective rate	**403.1**	**26.4**	(59.0)	208.5

Notes on the financial statements (continued)
for the year ended 31 March

7. TAXATION (continued)

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

	2010 £m	**2010 %**	2009 £m	2009 %
Total taxation charge/(credit)	**403.1**	**26.4**	(59.0)	208.5
Effect of adjusting items (see below)	**–**	**4.8**	–	(213.2)
Total taxation charge/(credit) on adjusted basis	**403.1**	**31.2**	(59.0)	(4.7)
(add)/less:				
Share of current tax from jointly controlled entities and associates	**15.8**	**1.2**	11.9	1.0
Exceptional items	**–**	**–**	5.7	0.5
Tax on movement on derivatives	**(110.9)**	**(8.6)**	353.9	28.2
Deferred tax (excluding share of jointly controlled entities)	**(33.9)**	**(2.6)**	(12.1)	(1.0)
Adjusted current tax charge and effective rate	**274.1**	**21.2**	300.4	24.0

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

	2010 £m	2009 £m
Profit before tax	**1,638.6**	53.3
(add)/less:		
Exceptional items and certain remeasurements	**(398.6)**	1,160.5
Share of tax from jointly controlled entities and associates	**50.1**	39.3
Accretion of convertible debt component	**–**	0.6
Adjusted profit before tax	**1,290.1**	1,253.7

Tax (credit)/charge recognised directly in equity

	2010 £m	2009 £m
Relating to:		
Pension scheme actuarial movements	**142.5**	(78.1)
Cash flow and net investment hedge movements	**(15.3)**	(34.5)
Share based payments	**0.4**	2.7
	(157.4)	(109.9)

All tax recognised directly in equity is deferred tax other than £nil (2009 – £(0.5)m) current tax relating to employee share awards.

8. DIVIDENDS

	2010 £m	2009 £m
Amounts recognised as distributions from equity:		
Final dividend for the previous year of 46.2p (2009 – 42.4p) per share	**425.1**	370.0
Interim dividend for the current year of 21.0p (2009 – 19.8p) per share	**193.4**	181.9
	618.5	551.9
Proposed final dividend for the current year of 49.0p (2009 – 46.2p) per share	**452.3**	425.2

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, £425.1m (46.2p, 2009 – 42.4p), was declared on 21st May 2009, approved at the Annual General Meeting on 23rd July 2009 and was paid to shareholders on 25th September 2009. An interim dividend for the current year, £193.4m (21.0p, 2009 – 19.8p), was paid on 26th March 2010.

9. EARNINGS PER SHARE

Basic earnings per share
The calculation of basic earnings per share at 31 March 2010 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 2010. 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 certain remeasurements as described in note 4.

	Year ended 31 March 2010 Earnings (i) £m	**Year ended 31 March 2010 Earnings per share pence**	Year ended 31 March 2009 Earnings (i) £m	Year ended 31 March 2009 Earnings per share pence
Basic	**1,235.3**	**134.0**	112.3	12.7
Exceptional items and certain remeasurements (note 4)	**(287.7)**	**(31.2)**	800.9	90.7
Basic excluding exceptional items and certain remeasurements	**947.6**	**102.8**	913.2	103.4
Adjusted for:				
Deferred tax (note 7)	**33.9**	**3.7**	12.1	1.4
Deferred tax from share of jointly controlled entities and associates results	**34.3**	**3.7**	27.4	3.1
Accretion of convertible debt component (note 6)	**–**	**–**	0.6	0.1
Adjusted	**1,015.8**	**110.2**	953.3	108.0
Basic	**1,235.3**	**134.0**	112.3	12.7
Convertible debt interest (net of tax)	**–**	**–**	1.2	0.1
Dilutive effect of convertible debt	**–**	**(0.1)**	–	–
Diluted	**1,235.3**	**133.9**	113.5	12.8
Exceptional items and certain remeasurements	**(287.7)**	**(31.2)**	800.9	90.5
Diluted excluding exceptional items and certain remeasurements	**947.6**	**102.7**	914.4	103.3

(i) Earnings attributable to equity holders of the parent.

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

	31 March 2010 Number of shares (millions)	31 March 2009 Number of shares (millions)
For basic and adjusted earnings per share	**921.9**	883.0
Effect of exercise of share options	**0.4**	0.8
	922.3	883.8
Effect of dilutive convertible debt	**0.7**	1.7
For diluted earnings per share	**923.0**	885.5

Notes on the financial statements (continued)
for the year ended 31 March

10. INTANGIBLE ASSETS

Consolidated

	Goodwill £m	Allowances and certificates (i) £m	Development assets (ii) £m	Wind farm developments (iii) £m	Brands (iv) £m	Other intangibles (v) £m	Total £m
Cost:							
At 1 April 2008	659.0	145.3	–	222.7	11.4	47.3	1,085.7
Prior year acquisitions	1.2	–	–	1.1	–	8.8	11.1
Additions	–	318.0	–	33.3	–	2.4	353.7
Acquisitions	22.0	–	–	147.9	–	–	169.9
Transfer to property, plant and equipment (note 11)	–	–	–	(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
Additions	–	470.9	0.5	13.3	–	1.6	486.3
Acquisitions (note 15)	18.5	–	36.5	12.5	–	2.0	69.5
Transfer to property, plant and equipment (note 11)	–	–	–	(11.7)	–	–	(11.7)
Disposals	–	(461.5)	–	–	–	–	(461.5)
Exchange adjustments	(16.2)	–	–	(7.3)	–	–	(23.5)
At 31 March 2010	**726.3**	**229.7**	**37.0**	**227.1**	**11.8**	**63.4**	**1,295.3**
Aggregate amortisation and impairment:							
At 1 April 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)
Charge for the year	–	(10.0)	–	(3.1)	(1.0)	(8.1)	(22.2)
At 31 March 2010	**–**	**(16.4)**	**–**	**(7.3)**	**(5.8)**	**(38.0)**	**(67.5)**
Carrying amount:							
At 31 March 2010	**726.3**	**213.3**	**37.0**	**219.8**	**6.0**	**25.4**	**1,227.8**
At 31 March 2009	724.0	213.9	–	216.1	7.0	29.9	1,190.9
At 1 April 2008	659.0	138.9	–	220.7	7.7	28.5	1,054.8

The Company does not hold intangible assets.

Intangible assets have been analysed as current and non-current as follows:

	2010 £m	2009 £m
Current	**213.3**	213.9
Non-current:		
Goodwill	**726.3**	724.0
Other	**288.2**	253.0
	1,227.8	1,190.9

(i) Allowances and Certificates
Allowances and Certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs).

(ii) Development assets
Development costs relate to the design, construction and testing of thermal and renewable generation sites and 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 11). 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.

(iv) Brands
Included within brands are the acquired brands of Atlantic Electric and Gas and the Airtricity supply brand used in Ireland. The Group has 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 license fees, software development work, software upgrades and purchased PC software packages. Amortisation is over the shorter of the contract term or five years.

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 retranslation.

A summary of the goodwill allocated to CGUs and the Group's operating segments is presented below:

Cash-generating unit	Operating Segment	**2010 £m**	2009 £m
Ireland wind farms	Generation and Supply	**160.3**	164.4
UK wind farms	Generation and Supply	**232.0**	241.0
European wind farms	Generation and Supply	**24.4**	24.3
UK Supply	Generation and Supply	**187.0**	187.0
UK Generation	Generation and Supply	**50.5**	40.0
Gas Storage	Other Businesses	**58.7**	56.2
Other (i)	Other Businesses	**13.4**	11.1
		726.3	724.0

(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. 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 use, as a starting point, pre-tax cash flow projections based on the Group's five year business model as 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 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 are 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

10. INTANGIBLE ASSETS (continued)

The key assumptions used for the main value-in-use calculations are as follows:

Cash-generating unit	**2010 Discount rate (%)**	2009 Discount rate (%)	2010 and 2009 Cash flow projection period (years)
All wind farms (onshore and offshore)	**9.5%-11.5%**	10.0%-12.0%	25
UK Supply	**10.2%**	12.2%	5
UK Generation (excluding wind)	**10.8%**	10.5%	15
Gas Storage	**10.8%**	11.0%	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 the cash flow projections 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 in estimating future income and expenditure 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 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 costs 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 in 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 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 is identical.

Wind farm projects have an estimated useful life of up to 25 years and it is considered appropriate by management to assess the carrying amount against cash flow projections covering this period. The Ireland and 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, continuing government support for wind ROCs and internal model assumptions.

Cash outflows are based on planned capital expenditure and expected maintenance costs. The power prices and costs of operation are the most significant distinguishing factors in the respective CGU regions. Growth is based on the expected output of the respective wind farms at their available operational capacity over their life cycle.

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 costs-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 2.6% 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 (excluding wind)
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. 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 10.8%, compared with 10.5% in the prior year. 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

11. 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 2008	4,217.1	145.9	4,875.0	260.9	9,498.9
Prior year acquisitions	(4.2)	–	–	–	(4.2)
Additions	813.9	65.4	368.1	43.4	1,290.8
Transfer from Intangible Assets (note 10) (iii)	213.0	–	–	–	213.0
Disposals	–	–	(3.4)	(9.4)	(12.8)
Disposal of 50% of Greater Gabbard (iv)	(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
Additions	531.5	29.2	387.2	39.3	987.2
Recognition of finance leases (vi)	387.8	–	–	–	387.8
Acquisitions (note 15) (ii)	6.4	7.3	7.5	5.2	26.4
Transfer from Intangible Assets (note 10) (iii)	11.7	–	–	–	11.7
Disposals	(67.9)	–	(2.2)	(65.5)	(135.6)
Exchange rate adjustments	(35.2)	–	–	(0.7)	(35.9)
At 31 March 2010	**5,801.5**	**247.8**	**5,632.2**	**273.2**	**11,954.7**
Depreciation:					
At 1 April 2008	1,008.1	27.0	1,944.0	185.5	3,164.6
Charge for the year	156.8	4.6	137.4	17.1	315.9
Disposals	–	–	(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
Charge for the year (v)	183.8	5.7	145.0	21.9	356.4
Disposals	(46.1)	–	(0.7)	(35.8)	(82.6)
Exchange rate adjustments	(3.7)	–	–	(0.5)	(4.2)
At 31 March 2010	**1,310.1**	**37.3**	**2,222.4**	**180.7**	**3,750.5**
Net book value					
At 31 March 2010	**4,491.4**	**210.5**	**3,409.8**	**92.5**	**8,204.2**
At 31 March 2009	3,791.1	179.7	3,161.6	99.8	7,232.2
At 1 April 2008	3,209.0	118.9	2,931.0	75.4	6,334.3

(i) The net book value of generation and gas storage assets includes decommissioning costs with a net book value of £22.0m, (2009 – £21.8m). In the year to 31 March 2010 the net book value of decommissioning costs related to office and computer equipment was reduced by £0.6m to £1.3m (2009 – £1.9m). This arises from the Group's obligations under the EU Waste Electrical and Electronic Equipment (WEEE) directive.

(ii) In the year to 31 March 2010, assets acquired in business combinations included the coal-fired generation assets at Uskmouth, the network assets of Atlasconnect Ltd, the data centre assets of Cantono data centre and the operational assets of the ESBC street-lighting business.

(iii) Represents the carrying value of wind farm development assets transferred from intangible assets (note 10) which have reached the consent stage and have been approved for construction.

(iv) On disposal of 50% of the shareholding of Greater Gabbard Offshore Winds, 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 as the investment in the joint venture (see note 15).

(v) There were no impairment charges in the year (2009 – £nil).

(vi) Of this total £369.3m relates to the recognition of the power purchase agreement entered into with Marchwood Power Ltd.

Land and buildings is predominantly heritable or freehold. Generation assets comprise generating stations and related plant and machinery and include all hydro civil assets.

At the balance sheet date the cumulative amounts capitalised in respect of assets in the course of construction were as follows:

	2010 £m	2009 £m
Generation and gas storage assets	**784.0**	464.9
Network assets	**204.7**	124.5
Corporate land and buildings	**1.9**	58.3
	990.6	647.7

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:

	Power generation and gas storage assets £m	Network assets £m	Vehicles and miscellaneous equipment £m	Total £m
Cost				
At 1 April 2008	–	5.1	7.0	12.1
Disposal	–	(0.1)	–	(0.1)
At 31 March 2009	–	5.0	7.0	12.0
Additions	387.8	–	–	387.8
At 31 March 2010	**387.8**	**5.0**	**7.0**	**399.8**
Depreciation				
At 1 April 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
Charge for the year	11.3	–	–	11.3
At 31 March 2010	**11.3**	**5.0**	**7.0**	**23.3**
Net book value				
At 31 March 2010	**376.5**	**–**	**–**	**376.5**
At 31 March 2009	–	–	–	–
At 1 April 2008	–	0.4	0.8	1.2

The Company does not hold any property, plant or equipment.

12. BIOLOGICAL ASSETS

The Group acquired approximately 2,394 hectares of forest land including planted trees during the year. The living trees are accounted for as biological assets and are disclosed in the table below:

	2010 £m
At 1 April	**–**
Purchases during the year	**4.4**
At 31 March	**4.4**

The pre-tax discount rate used in determining the fair value in 2010 was 8.0%. A 2.0% decrease/(increase) in the discount rate would increase/(decrease) the fair value of biological assets by approximately £0.6m.

No trees were harvested during the year.

The Company does not hold any biological assets.

Notes on the financial statements (continued)
for the year ended 31 March

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 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	–	(15.0)	–	(19.7)	–	–	(34.7)
Dividends received	(45.0)	–	(14.5)	–	(25.3)	–	(84.8)
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	157.6	266.9	257.1	95.4	138.7	3.0	918.7
Transfer (out)/in (iii)	–	–	(8.6)	–	18.8	–	10.2
Disposal	–	–	(1.0)	–	–	–	(1.0)
New equity investments	–	–	16.8	–	45.0	–	61.8
Increase in shareholder loans	–	16.6	–	11.4	–	46.5	74.5
Repayment of shareholder loans	–	(16.6)	–	(17.9)	–	–	(34.5)
Conversion of loan to equity	–	–	–	–	3.2	(3.2)	–
Dividends received	–	–	(8.5)	–	(15.2)	–	(23.7)
Share of profit after tax	55.6	–	28.9	–	25.3	–	109.8
Share of other reserves adjustments	(57.8)	–	(14.0)	–	–	–	(71.8)
Exchange rate adjustments	–	–	(6.7)	–	–	–	(6.7)
At 31 March 2010	**155.4**	**266.9**	**264.0**	**88.9**	**215.8**	**46.3**	**1,037.3**

(i) At 14 May 2008, the Group acquired the 50% of Greater Gabbard Offshore Winds Limited not already carried, for a net consideration of £33.4m, including cash of £40.0m. At this point, the Group assumed 100% ownership and consequently the carrying value held as investment in jointly controlled entities was transferred with the entity being fully consolidated in the accounts.

(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 £426.9m (2009 – £183.5m) in the venture.

(iii) Transfers (out)/in represent £8.6m of investment in Aquamarine Limited which has been reclassified as an associate from a joint venture following a reduction in our shareholding from 50.0% to 47.8%, £10.0m in relation to RockTron (Widnes) Limited, where we have increased our shareholding from 17.5% to 49.9%, and £0.2m in relation to Smarter Grid Solutions Limited, which has been transferred to associates as the Group's shareholding has increased from 12.5% to 29.9%.

	Scotia Gas Networks		Other joint ventures and associates		
	Investment £m	Shareholder loans £m	Investment £m	Shareholder loans £m	Total £m
Company					
Share of net assets/cost					
At 1 April 2008	235.0	281.9	–	–	516.9
Repayment of shareholder loans	–	(15.0)	–	–	(15.0)
Dividend received	(45.0)	–	–	–	(45.0)
At 31 March 2009	190.0	266.9	–	–	456.9
Transferred from other investments	–	–	10.0	–	10.0
Repayment of shareholder loans	–	(16.6)	–	–	(16.6)
Increase in shareholder loan	–	16.6	–	–	16.6
New equity investments	–	–	7.0	–	7.0
At 31 March 2010	**190.0**	**266.9**	**17.0**	**–**	**473.9**

The investment in Scotia Gas Networks is disclosed separately to aid understanding of the Group's financial performance.

Details of the principal jointly controlled entities, operations and associates are as follows:

	Country of incorporation	31 March 2010 Holding %	31 March 2009 Holding %	Principal activity
Jointly Controlled Entities				
PriDE (SERP) Limited (ii)	England and Wales	**50.0**	50.0	Defence estates contractor
Seabank Power Limited (iii)	England and Wales	**50.0**	50.0	Electricity generation
Scotia Gas Networks Limited (v)	England and Wales	**50.0**	50.0	Investment in gas networks
Marchwood Power Limited (i)	England and Wales	**50.0**	50.0	Electricity generation
Braes of Doune Wind Farm (Scotland) Limited (vi)	Scotland	**50.0**	50.0	Wind generation
Midas Energy Limited (vi)	Republic of Ireland	**50.0**	50.0	Wind generation
Greater Gabbard Offshore Winds Limited (vi)	England and Wales	**50.0**	50.0	Wind development
IE CHP (UK and Eire) Limited (iv)	Scotland	**50.0**	50.0	Fuel cell power systems
Greenway Energy Limited	Republic of Ireland	**50.0**	50.0	Wind Development
Associates				
Barking Power Limited (i)	England and Wales	**30.0**	30.0	Electricity generation
Derwent Co-generation Limited (i)	England and Wales	**49.5**	49.5	Electricity generation
Aquamarine Power Limited (iv)	Scotland	**47.8**	50.0	Marine energy conversion
Vital Holdings Limited (iv)	England and Wales	**30.0**	30.0	Efficient energy provision
Insource Energy Limited (iv)	England and Wales	**35.0**	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	**20.0**	20.0	Ground source heat pump systems
RockTron (Widnes) Limited	England and Wales	**49.9**	17.5	Ash Separation Plant
Smarter Grid Solutions Limited (iv)	England and Wales	**29.9**	12.5	Active Network Management
Walney (UK) Offshore Windfarms Limited (vi)	England and Wales	**25.1**	–	Offshore wind development

	Location of operations	31 March 2010 Holding %	31 March 2009 Holding %	Principal activity
Jointly Controlled Operations (unincorporated)				
Aldbrough	England	**66.7**	66.7	Development of gas storage facility
Beatrice	Scotland	**50.0**	50.0	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 SSE Renewables Holdings Limited (or subsidiaries)

At 31 March 2010, the Group had invested £40.4m (2009 – £35.8m) in Marchwood Power Limited. In addition to this, the Group had provided interest-bearing loans of £141.5m (2009 – £123.0m) to Marchwood Power and £426.9m (2009 – £183.5) to Greater Gabbard Offshore Winds, which are reported in other receivables (note 17).

Notes on the financial statements (continued)
for the year ended 31 March

13. INVESTMENTS (continued)

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 2). The results of Scotia Gas Networks Limited, of which the Group has a 50% share, can be illustrated thus:

	2010			2009		
	Before exceptional items and certain remeasurements £m	**Exceptional items and certain remeasurements £m**	**Total £m**	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Operating profit	**367.3**	**–**	**367.3**	361.0	–	361.0
Finance costs: excluding loan stock	**(126.0)**	**6.8**	**(119.2)**	(173.0)	10.8	(162.2)
Finance costs: interest on loan stock	**(67.5)**	**–**	**(67.5)**	(67.1)	–	(67.1)
Profit before tax	**173.8**	**6.8**	**180.6**	120.9	10.8	131.7
Taxation	**(67.5)**	**(1.9)**	**(69.4)**	(52.4)	(3.0)	(55.4)
Profit for the year	**106.3**	**4.9**	**111.2**	68.5	7.8	76.3
SSE share of profit	**53.2**	**2.4**	**55.6**	34.2	3.9	38.1

As an investor, Scottish and Southern Energy plc received £33.8m (2009 – £33.6m) 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 2010	**5,331.3**	**271.6**	**(672.6)**	**(4,619.4)**
31 March 2009	5,042.0	184.2	(262.8)	(4,648.0)

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 2010	**166.0**	**1,179.8**	**(135.3)**	**(1,002.8)**	**415.3**	**68.8**
31 March 2009	122.3	554.6	(91.6)	(411.6)	320.3	21.7
Associates						
31 March 2010	**188.2**	**438.5**	**(116.6)**	**(110.6)**	**451.2**	**74.6**
31 March 2009	163.9	453.3	(108.0)	(140.8)	570.7	99.6

(b) Other investments

	Solarcentury £m	Sigma £m	RockTron £m	Other £m	Total £m
At 1 April 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
Additions in the year	–	0.5	–	0.6	1.1
Transfers to Associates in the year	–	–	(10.0)	(0.2)	(10.2)
At 31 March 2010	**4.1**	**2.9**	**–**	**2.2**	**9.2**

14. SUBSIDIARY UNDERTAKINGS

Details of the principal subsidiary undertakings are as follows:

	Country of incorporation	2010 Holding %	2009 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
SSE Renewables 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 (viii)	England and Wales	**100**	100	Electricity generation
SSE Renewables Developments (UK) Limited (ix)	Northern Ireland	**100**	100	Wind generation development
SSE Renewables (Ireland) Limited (iii)	Ireland	**100**	100	Wind generation development
Airtricity Limited (iii)	Ireland	**100**	100	Energy supply
Airtricity Energy Supply (Northern Ireland) Limited (x)	Northern Ireland	**100**	100	Energy supply
Scottish Hydro Electric Transmission Limited (iv)	Scotland	**100**	100	Transmission of electricity
Scottish Hydro Electric Power Distribution plc (iv)	Scotland	**100**	100	Distribution of electricity
Southern Electric Power Distribution plc (iv)	England and Wales	**100**	100	Distribution of electricity
S+S Limited (iv)	Scotland	**100**	100	Electricity connections
SSE Contracting Group Limited (i)	England and Wales	**100**	100	Holding company
Southern Electric Contracting Limited (v)	England and Wales	**100**	100	Electrical contractor
Southern Electric Gas Limited (vi)	England and Wales	**100**	100	Gas supply
SSE Hornsea Limited (vi)	England and Wales	**100**	100	Gas storage
Neos Networks Limited (vii)	England and Wales	**100**	100	Telecommunication services

The above companies' shares consist of Ordinary Shares only. All companies operate in Great Britain and Ireland. All companies have accounting periods ending on 31 March.

Shares in the above subsidiaries are held by:

(i) Scottish and Southern Energy plc
(ii) SSE Generation Limited
(iii) SSE Renewables Holdings Limited
(iv) SSE Power Distribution Limited
(v) SSE Contracting Group Limited
(vi) SSE Energy Supply Limited
(vii) SSE Telecommunications Limited
(viii) Keadby Power Limited
(ix) SSE Renewables Holdings (UK) Limited
(x) SSE Renewables Group (UK) Limited

Investment in subsidiaries

	Total £m
Company	
At 1 April 2008	2,137.8
Increase in existing investments (i)	16.4
At 31 March 2009	2,154.2
Increase in existing investments (i)	17.9
At 31 March 2010	**2,172.1**

(i) The increase in existing investments held by the Company relates to equity shares in the Company awarded to the employees of the subsidiaries of the Group under the Group's share schemes, which are recognised as in increase in the cost of investment in those subsidiaries as directed by IFRIC 11.

Notes on the financial statements (continued)
for the year ended 31 March

14. SUBSIDIARY UNDERTAKINGS (continued)

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 since the Group bears the majority of the risks and rewards. 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 100% of the share capital of entities which perform 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 (Finance) Limited	Dorset County Council
Ealing Lighting (Finance) Limited	London Borough of Ealing
Islington Lighting (Finance) Limited	London Borough of Islington

Finally, the Group has entered into arrangements to operate services under three new PFI contracts from 1 April 2010. The council and the contract holder, which are wholly owned, are as follows:

Company	Council
Tay Valley Lighting (Hampshire) Limited	Hampshire County Council
Tay Valley Lighting (Southampton) Limited	Southampton City Council
Tay Valley Lighting (West Sussex) Limited	West Sussex County Council

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 a percentage of the unitary charge in the last two years if an independent survey indicates the assets are unlikely to have a 5-year residual life.

15. ACQUISITIONS AND DISPOSALS

(a) Acquisitions

In the year, the Group acquired the following companies.

Entity acquired	Country of incorporation	Date of acquisition	Shareholding acquired	Provisional consideration £m
Abernedd Power Company Limited (i)	England and Wales	20 May 2009	100%	39.3
Slieve Divena Wind Farm No 2 Ltd (ii)	Northern Ireland	22 May 2009	100%	7.3
Cantono Data Centre (Business) (iii)	Unincorporated	31 May 2009	100%	5.8
Uskmouth Power Company Limited (iv)	England and Wales	13 August 2009	100%	27.4
Munkflohogen Airtricity Vind AB (ii)	Sweden	17 September 2009	97%	1.9
Gaxsjohojden Airtricity Vind AB (ii)	Sweden	17 September 2009	97%	1.2
ESBC Streetlighting (Business) (v)	Unincorporated	30 November 2009	100%	5.8
Atlasconnect Limited (iii)	Scotland	09 March 2010	100%	0.8
Veddige Vindkraft AB (ii)	Sweden	15 March 2010	100%	2.3
				91.8

The acquired businesses conduct the following activities: (i) thermal generation development, (ii) construction and development of wind farms, (iii) telecoms services, (iv) thermal power station, (v) street-lighting maintenance contractor.

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	4.1	18.5
Intangible assets	0.5	51.0
Property, plant and equipment	93.4	26.4
Cash and cash equivalents	9.7	9.7
Other net current liabilities	(2.0)	(21.2)
Deferred tax	–	7.5
Net assets	105.7	91.9
Less: Non controlling interest		(0.1)
Total consideration		91.8

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 respective acquisition dates. The total consideration was represented by £67.8m cash, including fees paid on the Group's behalf and £24.0m deferred consideration.

No significant profit or loss was recognised from these acquisitions in the period to 31 March 2010.

(b) Acquisitions in the previous year

(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 (GGOWL) 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.

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.

Notes on the financial statements (continued)
for the year ended 31 March

15. ACQUISITIONS AND DISPOSALS (continued)

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 previous year, the Group also acquired the following companies, all of which are involved in the construction and development of wind farms, with the fair value substantially relating their development potential.

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
Intangible 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 respective acquisition dates. 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.

16. INVENTORIES

	Consolidated	
	2010 £m	2009 £m
Fuel and consumables	**248.9**	345.8
Work in progress	**30.7**	27.4
Goods for resale	**2.4**	2.5
Less: provisions held	**(9.5)**	(9.0)
	272.5	366.7

The Group has recognised £612.4m within cost of sales in the year (2009 – £504.9m) and have also recognised £3.0m (2009 – £8.2m) relating to stock write-downs and increases in provisions held. The Company does not hold any inventories.

17. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Current assets				
Retail debtors	**596.3**	883.1	**–**	–
Wholesale trade receivables	**1,381.6**	1,978.0	**–**	–
Other trade receivables	**528.3**	472.2	**–**	–
Trade receivables	**2,506.2**	3,333.3	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**1,804.6**	3,052.7
Other receivables	**857.5**	589.0	**623.4**	413.0
Cash held as collateral	**71.2**	86.9	**–**	–
Prepayments and accrued income	**1,583.9**	1,650.4	**–**	–
	5,018.8	5,659.6	**2,428.0**	3,465.7
Non-current assets				
Amounts owed by subsidiary undertakings	**–**	–	**3,456.1**	2,066.9
	5,018.8	5,659.6	**5,884.1**	5,532.6

Wholesale trade receivables includes a balance of £37.5m (2009 – £190.9m) in relation to contractual balances due from British Energy. Other receivables includes £141.5m (2009 – £123.0m) receivable from Marchwood Power Limited (note13) and financial assets totalling £640.5m (2009 – £481.7m). 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 28.

Notes on the financial statements (continued)
for the year ended 31 March

18. CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Bank balances	**132.7**	145.7	**3.8**	12.1
Call deposits	**129.0**	150.2	**95.9**	123.0
Cash and cash equivalents	**261.7**	295.9	**99.7**	135.1

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	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Cash and cash equivalents (from above)	**261.7**	295.9	**99.7**	135.1
Bank overdraft (note 22)	**(9.2)**	(2.3)	**–**	–
Cash and cash equivalents in the statement of cash flows	**252.5**	293.6	**99.7**	135.1

19. TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Current liabilities				
Amounts due to subsidiary undertakings	**–**	–	**2,569.0**	2,517.2
Trade payables	**2,161.6**	2,603.6	**–**	–
Other creditors	**1,207.3**	1,023.0	**50.3**	118.3
Accruals and deferred income (i)	**695.6**	738.3	**–**	–
	4,064.5	4,364.9	**2,619.3**	2,635.5
Non-current liabilities				
Accruals and deferred income (ii)	**324.5**	426.0	**–**	–
	4,389.0	4,790.9	**2,619.3**	2,635.5

(i) Current accruals and deferred income includes customer contributions of £19.5m (2009 – £15.4m) and government grants of £0.6m (2009 – £0.1m).
(ii) Non-current accruals and deferred income includes customer contributions of £251.3m (2009 – £258.0m) and government grants of £6.3m (2009 – £2.0m).

20. CURRENT TAX LIABILITIES

	Consolidated		Company	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Corporation tax	**216.9**	254.6	**4.0**	–

21. CONSTRUCTION CONTRACTS

	2010 £m	2009 £m
Contracts in progress at balance sheet date:		
Amounts due from contract customers included in trade and other receivables (note 17)	**39.3**	41.4
Amounts due to contract customers included in trade and other payables (note 19)	**(21.8)**	(24.4)
Contract costs incurred plus recognised profits less recognised losses to date	**183.1**	221.9
Less: Progress billings	**(184.0)**	(231.6)
	(0.9)	(9.7)

In the year to 31 March 2010, contract revenue of £460.1m (2009 – £481.9m) was recognised.

At 31 March 2010, retentions held by customers for contract work amounted to £1.6m (2009 – £1.6m). Advances received from customers for contract work amounted to £4.1m (2009 – £6.4m).

The Company does not hold any construction contracts.

22. LOANS AND OTHER BORROWINGS

	Consolidated		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Current				
Bank overdraft	**9.2**	2.3	**–**	–
Other short-term loans	**882.3**	1,057.7	**815.6**	916.4
	891.5	1,060.0	**815.6**	916.4
Obligations under finance leases	**12.2**	0.1	**–**	–
	903.7	1,060.1	**815.6**	916.4
Non-current				
Loans including convertible debt	**4,771.1**	4,335.7	**3,101.2**	2,628.3
Obligations under finance leases	**372.2**	0.4	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**240.2**	240.2
	5,143.3	4,336.1	**3,341.4**	2,868.5

(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.

During the year the Group entered into a new £900m revolving credit facility along with a £100m bilateral facility, on the same terms as the revolving credit facility. These facilities, which mature in June 2012, replace 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 has also entered into a £400m loan facility with the European Investment Bank which can be utilised over a one year period and can be drawn on a fixed or floating basis with a term of up to 10 years.

In September 2009, the Group issued a new nine year, £500m sterling bond, with a coupon of 5%.

Notes on the financial statements (continued)
for the year ended 31 March

22. LOANS AND OTHER BORROWINGS (continued)

Analysis of borrowings

Loans and borrowings

	2010 Weighted average interest rate (vii) %	2010 Face value £m	2010 Fair value £m	2010 Carrying amount £m
Current				
Bank overdrafts (i)	**0.50%**	**9.2**	**9.2**	**9.2**
Other short-term loans – amortising (ii)	**6.62%**	**7.7**	**8.6**	**7.7**
Other short-term loans – non-amortising (iii)	**1.14%**	**841.5**	**843.1**	**840.7**
Non-recourse funding (iv)	**6.22%**	**33.9**	**35.4**	**33.9**
Total current		**892.3**	**896.3**	**891.5**
Non-current				
Bank loans – amortising (ii)	**6.37%**	**13.7**	**15.4**	**13.7**
Bank loans – non-amortising (v)	**4.14%**	**595.2**	**638.6**	**596.5**
6.125% Eurobond repayable on 29 July 2013	**6.13%**	**534.4**	**594.2**	**532.7**
5.75% Eurobond repayable 5 February 2014	**5.75%**	**700.0**	**747.4**	**696.3**
Non-recourse funding (iv)	**6.02%**	**137.5**	**143.2**	**137.6**
Between two and five years		**1,980.8**	**2,138.8**	**1,976.8**
Bank loans – non-amortising (v)				
Non-recourse funding (iv)	**5.79%**	**312.6**	**325.6**	**312.6**
5.000% Eurobond repayable on 1 October 2018	**5.00%**	**500.0**	**501.5**	**495.3**
5.875% Eurobond repayable on 26 September 2022	**5.88%**	**300.0**	**313.0**	**296.6**
8.375% Eurobond repayable on 20 November 2028	**8.38%**	**500.0**	**664.5**	**492.2**
5.50% Eurobond repayable on 19 June 2032	**5.50%**	**350.0**	**352.4**	**350.2**
4.625% Eurobond repayable on 20 February 2037	**4.63%**	**325.0**	**283.2**	**323.4**
6.25% Eurobond repayable on 27 August 2038	**6.25%**	**350.0**	**382.5**	**345.5**
4.454% Index linked loan repayable on 27 February 2044	**4.46%**	**100.3**	**133.4**	**99.6**
1.429% Index linked bond repayable on 20 October 2056	**1.57%**	**107.6**	**110.2**	**107.6**
Over five years		**2,845.5**	**3,066.3**	**2,823.0**
Fair value adjustment (note 28)		**–**	**–**	**(28.7)**
Total non-current		**4,826.3**	**5,205.1**	**4,771.1**
Total		**5,718.6**	**6,101.4**	**5,662.6**

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 28)		–	–	(33.4)
Total non-current		4,393.0	4,506.0	4,335.7
Total		5,456.6	5,574.9	5,395.7

(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, term loans and EIB debt.
(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 2010 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 2010 was 5.35% (2009 – 5.25%).

Convertible bond
The convertible bond was issued on 29 October 2004 in exchange for £300.0m in cash. The bond entitled 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 was 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 was at the option of the bond holder.

Notes on the financial statements (continued)
for the year ended 31 March

22. LOANS AND OTHER BORROWINGS (continued)

At 31 March, bond holders had converted the final debt element with a nominal value of £15.9m 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
Year to 31 March 2010	15.9	1,792,000
Total to 31 March 2010	**300.0**	**33,396,981**

The net proceeds received from the issue of the bond were 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. On final conversion of the bond no liability component remained (2009 – £15.6m).

For the purpose of diluted Earnings per Share (EPS), convertible bond interest of £nil (2009 – £1.7m) is added back to earnings and the weighted average number of diluted shares to be included in the total number of shares was as follows:

	2010 Number of shares	2009 Number of shares
Weighted average number of shares	**709,719**	1,728,352

(ii) Finance lease liabilities

Future finance lease commitments are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Amounts payable:				
Within one year	**52.8**	0.1	**12.2**	0.1
Between one and five years	**205.7**	0.3	**57.4**	0.3
After five years	**537.7**	0.4	**314.8**	0.1
	796.2	0.8	**384.4**	0.5
Less: future finance charge	**(411.8)**	(0.3)		
Present value of lease obligations	**384.4**	0.5		

A new finance lease was entered into during the year with Marchwood Power Company Ltd, of which the Group owns 50% of the Ordinary Share capital. The lease is for use of their main asset, a 840MW Gas powered CCGT Electricity Generating Plant. The Term of the lease is 15 years with the Group having the option for a further 5 years extension at the end of this period. £6.5m of contingent rents for Marchwood were included within cost of sales for the period. Contingent rent consists of £/MWh charges for availability of the plant for energy production and a £/MWh charge for actual 'nominated' energy produced.

Of the remaining finance leases held by the Group, the average term of the telecom leases is 7.5 years and the term of the wind farm lease is 24 years. No arrangements have been entered into for contingent rental payments for these leases.

The fair value of the Group's lease obligations approximates their carrying amount. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets. The Company does not have any obligations under finance leases.

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 2008	861.1	(22.5)	0.6	(13.8)	(4.1)	102.9	924.2
Prior year acquisitions	–	–	–	–	–	(6.2)	(6.2)
Acquisitions (note 15)	–	–	–	–	–	12.6	12.6
Charge/(credit) to Income Statement	24.7	(352.3)	(0.2)	15.3	(0.6)	(34.4)	(347.5)
Charge/(credit) to equity	–	5.2	–	(78.1)	3.2	(39.7)	(109.4)
Exchange adjustments	1.7	–	–	–	–	19.2	20.9
At 1 April 2009	887.5	(369.6)	0.4	(76.6)	(1.5)	54.4	494.6
Acquisitions (note 15)	–	–	–	–	–	(7.5)	(7.5)
Charge/(credit) to Income Statement	17.2	113.1	(0.4)	17.4	–	(2.5)	144.8
Charge/(credit) to equity	–	(2.1)	–	(142.5)	(0.4)	(8.6)	(153.6)
Exchange adjustments	–	–	–	–	–	(11.4)	(11.4)
At 31 March 2010	**904.7**	**(258.6)**	**–**	**(201.7)**	**(1.9)**	**24.4**	**466.9**

	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
Company							
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 1 April 2009	–	22.5	0.4	–	0.9	(56.5)	(32.7)
Charge/(credit) to Income Statement	–	(12.6)	(0.4)	10.2	–	7.8	5.0
Charge/(credit) to equity	–	(8.7)	–	(80.5)	(0.4)	0.4	(89.2)
At 31 March 2010	**–**	**1.2**	**–**	**(70.3)**	**0.5**	**(48.3)**	**(116.9)**

(i) Includes deferred tax on fair value items recognised in business combinations in the prior year. In the previous year, 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	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Deferred tax liabilities	**624.0**	594.7	**–**	–
Deferred tax assets	**(157.1)**	(100.1)	**(116.9)**	(32.7)
Net deferred tax liabilities/(asset)	**466.9**	494.6	**(116.9)**	(32.7)

Notes on the financial statements (continued)
for the year ended 31 March

23. DEFERRED TAXATION (continued)

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 £nil (2009 – £1.7m). No liability was recognised in respect of these differences because the Group was in a position to control the timing of the reversal of the temporary differences and it was probable that such differences would 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 £34.1m (2009 – £1.0m credit).

A deferred tax asset has not been recognised on £35m of trading losses (2009 – £30m) due to uncertainty around the availability of future profits in the companies concerned.

24. PROVISIONS

	Onerous energy contracts (i) £m	Decommissioning (ii) £m	Other (iii) £m	Total £m
Consolidated				
At 1 April 2009	3.7	36.2	34.1	74.0
Charged in the year	–	2.4	4.3	6.7
Unwind of discount	–	3.3	0.2	3.5
Released during the year	(1.4)	–	(5.7)	(7.1)
Utilised during the year	(0.5)	–	(3.7)	(4.2)
Acquired	–	16.6	0.2	16.8
At 31 March 2010	**1.8**	**58.5**	**29.4**	**89.7**
At 31 March 2010				
Non-current	1.8	58.5	22.9	83.2
Current	–	–	6.5	6.5
	1.8	**58.5**	**29.4**	**89.7**
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

(i) The onerous energy contracts provision relates to future losses on specific contracts. These 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 2010, 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 £0.2m to £3.8m (2009 – £3.6m).

(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 AND RESERVES

	Number (millions)	£m
Company		
Allotted, called up and fully paid:		
At 1 April 2009	920.4	460.2
Issue of shares (i)	0.9	0.4
Conversion of convertible debt to equity (ii)	1.8	0.9
At 31 March 2010	**923.1**	**461.5**

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

(i) The Company issued 0.9 million (2009 – 1.2 million) shares during the year under the savings-related share option schemes, and discretionary share option schemes for a consideration of £6.8m (2009 – £8.1m).

During the year, on behalf of the Company, the employee share trust purchased 0.9 million shares for a total consideration of £15.8m (2009 – 1.1 million shares, consideration of £15.8m). At 31 March 2010, the trust held 4.3 million shares (2009 – 3.7 million) which had a market value of £47.7m (2009 – £41.4m).

(ii) During the year, the Company issued a total of 1.8 million shares under the terms of the convertible bond at conversion rate of £8.88 per Ordinary Share (2009 – 4.1 million and 3.0 million shares at £9.00 and £8.88 per Ordinary Share respectively).

The movement in reserves is reported in the Statement of Changes in Equity which is included as part of the primary statements on pages 81 and 82.

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.

The profit for the year attributable to shareholders dealt with in the financial statements of the Company was £575.9m (2009 – £852.0m). As allowed by section 408 of the Companies Act 2006, the Company has not presented its own income statement.

26. 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 years' and a further 3% after ten years' continuous Company service.

Notes on the financial statements (continued)
for the year ended 31 March

26. RETIREMENT BENEFIT OBLIGATIONS (continued)

Pension summary:

		Net actuarial gain/(loss) recognised in respect of the pension asset in the Statement of Comprehensive Income		Net pension liability	
	Scheme type	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Scottish Hydro Electric (Company)	Defined benefit	**(161.6)**	(188.4)	**(251.1)**	–
Southern Electric	Defined benefit	**(221.4)**	(170.6)	**(469.2)**	(273.5)
		(383.0)	(359.0)	**(720.3)**	(273.5)

The Scottish Hydro Electric Pension Scheme net liability of £251.1 (2009 – £nil) is presented after an IFRIC 14 minimum funding requirement restriction of £256.3m (2009 – £130.5m).

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 2009	31 March 2007
Valuation carried out by	Hymans Robertson	Hewitt, Bacon & Woodrow
Value of assets based on valuation	£860.0m	£1,101.5m
Value of liabilities based on valuation	£1,189.3m	£1,361.3m
Valuation method adopted	Projected Unit	Projected Unit
Average salary increase	Inflation curve plus 2.3% pa	5.2%
Average pension increase	2.7%	3.2%
Value of fund assets/accrued benefits	72.3%	80.9%

Both schemes have been updated to 31 March 2010 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 2010	At 31 March 2009
Rate of increase in pensionable salaries	**5.2%**	4.5%
Rate of increase in pension payments	**3.7%**	3.0%
Discount rate	**5.5%**	6.7%
Inflation rate	**3.7%**	3.0%

The assumptions relating to longevity underlying the pension liabilities at 31 March 2010 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 2010 Male	**At 31 March 2010 Female**	At 31 March 2009 Male	At 31 March 2009 Female
Currently aged 65	**23**	**24**	22	24
Currently aged 45	**25**	**27**	24	27

The impact on the schemes liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2010		At 31 March 2009	
	Increase/ decrease in assumption	**Effect on scheme liabilities**	Increase/ decrease in assumption	Effect on scheme liabilities
Discount rate	**0.1%**	**+/- 1.8%**	0.1%	+/- 1.6%
Longevity	**1 year**	**+/- 3.0%**	1 year	+/- 3.0%

Valuation of combined Pension Schemes

	Consolidated				Company			
	Long-term rate of return expected at 31 March 2010 %	**Value at 31 March 2010 £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 2010 %**	**Value at 31 March 2010 £m**	Long-term rate of return expected at 31 March 2009 %	Value at 31 March 2009 £m
Equities	**8.0**	**1,063.4**	7.7	665.8	**8.0**	**458.7**	7.7	318.2
Government bonds	**4.5**	**563.4**	4.2	576.7	**4.5**	**335.6**	4.2	361.2
Corporate bonds	**5.5**	**449.0**	6.7	244.3	**5.5**	**201.4**	6.7	94.6
Other investments	**4.1**	**222.5**	3.4	300.0	**3.9**	**123.1**	4.3	86.0
Total fair value of plan assets		**2,298.3**		1,786.8		**1,118.8**		860.0
IFRIC 14 liability		**(256.3)**		(130.5)		**(256.3)**		(130.5)
Present value of defined benefit obligations		**(2,762.3)**		(1,929.8)		**(1,113.6)**		(729.5)
Deficit in the schemes		**(720.3)**		(273.5)		**(251.1)**		–
Deferred tax thereon		**201.7**		76.6		**70.3**		–
Net pension liability		**(518.6)**		(196.9)		**(180.8)**		–

Movements in the defined benefit obligation during the year:

	Consolidated		Company	
	2010 £m	2009 £m	**2010 £m**	2009 £m
At 1 April	**(1,929.8)**	(1,919.5)	**(729.5)**	(709.2)
Movements in the year:				
Service costs	**(21.4)**	(21.8)	**(9.8)**	(8.7)
Member contributions	**(8.1)**	(8.1)	**(3.4)**	(3.3)
Benefits paid	**101.6**	96.5	**39.1**	38.1
Interest on pension scheme liabilities	**(127.5)**	(130.1)	**(48.0)**	(48.0)
Actuarial (losses)/gains	**(777.1)**	53.2	**(362.0)**	1.6
At 31 March	**(2,762.3)**	(1,929.8)	**(1,113.6)**	(729.5)

Movements in scheme assets during the year:

	Consolidated		Company	
	2010 £m	2009 £m	**2010 £m**	2009 £m
At 1 April	**1,656.3**	1,870.4	**729.5**	795.0
Movements in the year:				
Expected return on pension scheme assets	**100.7**	135.3	**49.9**	64.7
Assets distributed on settlement	**(101.6)**	(96.5)	**(39.1)**	(38.1)
Employer contributions	**110.2**	71.1	**44.2**	14.5
Member contributions	**8.1**	8.1	**3.4**	3.3
Actuarial gains/(losses)	**394.1**	(412.2)	**200.4**	(190.0)
IFRIC 14 liability	**(125.8)**	80.1	**(125.8)**	80.1
At 31 March	**2,042.0**	1,656.3	**862.5**	729.5

Charges/(credits) recognised:

	Consolidated		Company	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Current service cost (charged to operating profit)	**21.4**	21.8	**9.8**	8.7
	21.4	21.8	**9.8**	8.7
Charged/(credited) to finance costs:				
Expected return on pension scheme assets	**(100.7)**	(135.3)	**(49.9)**	(64.7)
Interest on pension scheme liabilities	**127.5**	130.1	**48.0**	48.0
	26.8	(5.2)	**(1.9)**	(16.7)

Notes on the financial statements (continued)
for the year ended 31 March

26. RETIREMENT BENEFIT OBLIGATIONS (continued)

History of (deficit)/surplus

	Consolidated					Company				
	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m	**2010 £m**	2009 £m	2008 £m	2007 £m	2006 £m
Total fair value of plan assets	**2,298.3**	1,786.8	2,081.0	2,110.4	2,017.3	**1,118.8**	860.0	1,005.6	990.2	955.8
IFRIC 14 liability	**(256.3)**	(130.5)	(210.6)	–	–	**(256.3)**	(130.5)	(210.6)	–	–
Present value of defined benefit obligation	**(2,762.3)**	(1,929.8)	(1,919.5)	(2,202.3)	(2,211.1)	**(1,113.6)**	(729.5)	(709.2)	(862.1)	(865.6)
(Deficit)/surplus in the scheme	**(720.3)**	(273.5)	(49.1)	(91.9)	(193.8)	**(251.1)**	–	85.8	128.1	90.2

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 2010.

The actual return on plan assets is as follows:

	Consolidated		Company	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Actual return on plan assets	**494.8**	(276.9)	**250.3**	(125.3)

History of experience gains and losses

	Consolidated					Company				
	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m	**2010 £m**	2009 £m	2008 £m	2007 £m	2006 £m
Total actuarial (losses) and gains recognised in the Statement of Comprehensive Income before adjustment for taxation	**(383.0)**	(359.0)	185.0	47.4	(14.1)	**(161.6)**	(188.4)	146.3	17.6	(29.0)
Experience (losses)/gains on scheme liabilities	**(59.8)**	0.8	(50.6)	(7.7)	138.1	**(49.7)**	–	–	–	–
Experience gains/(losses) on scheme assets	**394.1**	(412.2)	(153.4)	27.8	11.5	**200.4**	(190.0)	(31.2)	(9.7)	134.8

The cumulative actuarial gains and losses recognised in the Statement of Comprehensive Income before adjustment for taxation since the adoption of IAS 19 is £957.8m losses (2009 – £318.5m).

Defined contribution scheme

The total contribution paid by the Group to defined contribution schemes was £16.5m (2009 – £13.6m).

Employer financed retirement benefit (EFRB) pension costs

The increase in the year in relation to the EFRB was £2.9m (2009 – £2.0m). This is included in other provisions (note 24). In addition to the movement in the provision, £nil (2009 – £0.2m) was utilised as a result of payments made to the Southern Electric Pension Scheme.

Staff costs analysis

The pension costs in note 5 can be analysed thus:

	2010 £m	2009 £m
Service costs	**21.4**	21.8
Defined contribution scheme payments	**16.5**	13.6
	37.9	35.4

Expected contribution in the year to 31 March 2011

The Group expects to make contributions of £47.8m and £61.0m to the Scottish-Hydro Electric Pension Scheme and the Southern Electric Pension Scheme in the year to 31 March 2011, respectively.

27. 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:

Award made		26 July 2007	10 June 2008	30 June 2009
Maximum value of award as a % of base salary		150	150	150
Performance conditions				
Total shareholder return (50% of award) (i)	Full vesting 25% vesting	> 75th percentile median	> 75th percentile median	> 75th percentile median
Earnings per share (50% of award) (ii)	Full vesting 25% vesting	RPI + 9% RPI + 3%	RPI + 9% RPI + 3%	RPI + 9% RPI + 3%

Notes on the financial statements (continued)
for the year ended 31 March

27. 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 £17.9m (2009 – £14.3m) 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 schemes

The movement in savings related share option schemes in the year were as follows:

Consolidated

As at 31 March 2010

Award date	Option price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	**Outstanding at end of year**	Date from which exercisable	Expiry date (i)
25 July 2003	562	6,736	–	(2,492)	(4,244)	**–**	1 October 2008	31 March 2009
16 July 2004	622	536,374	–	(533,644)	(840)	**1,890**	1 October 2009	31 March 2010
14 July 2005	886	4,002	–	(209)	(3,793)	**–**	1 October 2008	31 March 2009
14 July 2005	886	1,094,271	–	(8,057)	(19,760)	**1,066,454**	1 October 2010	31 March 2011
11 July 2006	999	363,445	–	(342,055)	(5,235)	**16,155**	1 October 2009	31 March 2010
11 July 2006	999	592,440	–	(256)	(28,907)	**563,277**	1 October 2011	31 March 2012
10 July 2007	1,306	275,240	–	–	(60,747)	**214,493**	1 October 2010	31 March 2011
10 July 2007	1,306	536,896	–	–	(136,212)	**400,684**	1 October 2012	31 March 2013
17 July 2008	1,274	332,998	–	–	(80,500)	**252,498**	1 October 2011	31 March 2012
17 July 2008	1,274	644,748	–	–	(205,522)	**439,226**	1 October 2013	31 March 2014
30 June 2009	1,042	–	576,864	–	(37,765)	**539,099**	1 October 2012	31 March 2013
30 June 2009	1,042	–	1,156,570	–	(46,643)	**1,109,927**	1 October 2014	31 March 2015
		4,387,150	1,733,434	(886,713)	(630,168)	**4,603,703**		

(i) Options may remain exercisable beyond the expiry date due to individuals taking advantage of the right to a payment holiday during the term of the scheme.

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 share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,126p (2009: 1,290p) is considered representative of the weighted average share price at the date of exercise. The weighted average share price of forfeitures is the option price to which the forfeit relates.

Company

As at 31 March 2010

Award date	Option price (pence)	Outstanding at start of year	Granted	Exercised	**Outstanding at end of year**	Date from which exercisable	Expiry date
16 July 2004	622	1,681	–	(1,681)	**–**	1 October 2010	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
30 June 2009	1,042	–	1,253	–	**1,253**	1 October 2014	31 March 2015
		5,922	**1,253**	**(1,681)**	**5,494**		

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 2010
16 July 2004	622	1,681	–	–	1,681	1 October 2010	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		

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 2004		July 2005		July 2006		July 2007		July 2008		June 2009	
	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	108p	117p	126p	137p	217p	227p	287p	313p	304p	339p	244p	269p
Expected volatility	17%	17%	15%	15%	19%	19%	25%	25%	28%	28%	35%	35%
Risk free rate	4.7%	4.8%	4.1%	4.2%	4.7%	4.7%	5.8%	5.7%	4.9%	5.0%	2.7%	2.9%
Expected dividends	4.6%	4.6%	4.2%	4.2%	4.8%	4.8%	5.3%	5.2%	4.1%	4.2%	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	699p	699p	967p	967p	1,180p	1,180p	1,460p	1,460p	1,397p	1,397p	1,139p	1,139p
Strike price	622p	622p	886p	886p	999p	999p	1,306p	1,306p	1,274p	1,274p	1,042p	1,042p

Expected price volatility was determined by calculating the historical volatility of the Group's share price over the previous 12 months.

Notes on the financial statements (continued)
for the year ended 31 March

27. EMPLOYEE SHARE-BASED PAYMENTS (continued)

(ii) Share Incentive Plan

Matching Shares

	Consolidated				Company			
	2010		2009		**2010**		2009	
	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	**1,260,376**	**1,248**	994,453	1,170	**1,300**	**1,129**	1,180	1,071
Granted during the year	**594,251**	**1,137**	397,958	1,260	**288**	**1,137**	260	1,260
Forfeited during the year	**(41,145)**	**1,248**	(103,503)	887	**–**	**–**	(140)	887
Exercised during the year	**(68,258)**	**1,125**	(28,532)	1,290	**–**	**–**	–	–
Outstanding at end of year	**1,745,224**	**1,215**	1,260,376	1,248	**1,588**	**–**	1,300	1,129
Exercisable at end of year	**655,440**	**1,289**	334,530	1,238	**800**	**968**	560	817

As shares are exercised continuously throughout the year, the weighted average share price during the period of 1,125p (2009 – 1,290p) 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.

Free Shares

	Consolidated				Company			
	2010		2009		**2010**		2009	
	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	**725,729**	**1,205**	648,230	1,161	**320**	**1,151**	280	1,113
Granted during the year	**–**	**–**	151,440	1,417	**–**	**–**	40	1,417
Forfeited during the year	**(9,778)**	**1,205**	(23,360)	1,161	**–**	**–**	–	–
Exercised during the year	**(41,952)**	**1,125**	(50,581)	1,290	**–**	**–**	–	–
Outstanding at end of year	**673,999**	**1,210**	725,729	1,205	**320**	**1,151**	320	1,151
Exercisable at end of year	**326,058**	**965**	362,567	965	**200**	**965**	200	965

As shares are exercised continuously throughout the year, the weighted average share price during the period of 1,125p (2009 – 1,290p) 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			
	2010		2009		**2010**		2009	
	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	**612,475**	**1,324**	574,484	1,273	**291,608**	**961**	316,349	984
Granted during the year	**153,353**	**1,174**	167,802	1,545	**31,115**	**1,174**	27,752	1,545
Forfeited during the year	**–**	**–**	(3,715)	1,273	**–**	**–**	–	–
Exercised during the year	**(442,923)**	**1,121**	(126,096)	1,386	**(263,856)**	**1,120**	(52,493)	1,401
Outstanding at end of year	**322,905**	**1,367**	612,475	1,324	**58,867**	**1,349**	291,608	961
Exercisable at end of year	**1,750**	**1,265**	205,434	789	**–**	**–**	104,041	789

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			
	2010		2009		**2010**		2009	
	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	**1,135,023**	**1,435**	630,567	1,347	**593,122**	**1,421**	367,877	1,345
Granted during the year	**714,010**	**1,174**	504,456	1,545	**311,174**	**1,174**	225,245	1,545
Exercised during the year	**(256,554)**	**1,174**	–	–	**(151,351)**	**1,174**	–	–
Outstanding at end of year	**1,592,479**	**1,353**	1,135,023	1,435	**752,945**	**1,360**	593,122	1,421

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.

28. 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:

- Credit risk
- Liquidity risk
- Commodity risk
- Currency risk
- Interest rate risk

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board established the Risk 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 Committee.

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

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

Before detailing the relevant qualitative and quantitative disclosures in relation to the potential risks faced by the Group, details on the different categories of financial instrument and the carrying and fair values of each of those categories is provided below.

Notes on the financial statements (continued)
for the year ended 31 March

28. FINANCIAL INSTRUMENTS AND RISK (continued)

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:

	2010 Amortised cost or other (i) £m	**2010 Classified as trading (ii) £m**	**2010 Total carrying value £m**	**2010 Fair value £m**	2009 Amortised cost or other (i) £m	2009 Classified as trading (ii) £m	2009 Total carrying value £m	2009 Fair value £m
Financial Assets								
Current								
Trade receivables	**2,506.2**	**–**	**2,506.2**	**2,506.2**	3,333.3	–	3,333.3	3,333.3
Other receivables	**640.5**	**–**	**640.5**	**640.5**	481.7	–	481.7	481.7
Cash collateral	**71.2**	**–**	**71.2**	**71.2**	86.9	–	86.9	86.9
Cash and cash equivalents	**261.7**	**–**	**261.7**	**261.7**	295.9	–	295.9	295.9
Derivative financial assets	**–**	**1,468.3**	**1,468.3**	**1,468.3**	–	1,537.7	1,537.7	1,537.7
	3,479.6	**1,468.3**	**4,947.9**	**4,947.9**	4,197.8	1,537.7	5,735.5	5,735.5
Non-current								
Derivative financial assets	**–**	**466.3**	**466.3**	**466.3**	–	449.2	449.2	449.2
	–	**466.3**	**466.3**	**466.3**	–	449.2	449.2	449.2
	3,479.6	**1,934.6**	**5,414.2**	**5,414.2**	4,197.8	1,986.9	6,184.7	6,184.7
Financial Liabilities								
Current								
Trade payables	**(2,161.6)**	**–**	**(2,161.6)**	**(2,161.6)**	(2,603.6)	–	(2,603.6)	(2,603.6)
Bank loans and overdrafts (iii)	**(891.5)**	**–**	**(891.5)**	**(896.3)**	(1,060.0)	–	(1,060.0)	(1,068.9)
Finance lease liabilities	**(12.2)**	**–**	**(12.2)**	**(12.2)**	(0.1)	–	(0.1)	(0.1)
Derivative financial liabilities	**–**	**(2,020.7)**	**(2,020.7)**	**(2,020.7)**	–	(2,451.0)	(2,451.0)	(2,451.0)
	(3,065.3)	**(2,020.7)**	**(5,086.0)**	**(5,090.8)**	(3,663.7)	(2,451.0)	(6,114.7)	(6,123.6)
Non-current								
Loans and borrowings (iii)	**(4,799.8)**	**28.7**	**(4,771.1)**	**(5,205.1)**	(4,369.1)	33.4	(4,335.7)	(4,472.6)
Finance lease liabilities	**(372.2)**	**–**	**(372.2)**	**(372.2)**	(0.4)	–	(0.4)	(0.4)
Derivative financial liabilities	**–**	**(899.0)**	**(899.0)**	**(899.0)**	–	(959.5)	(959.5)	(959.5)
	(5,172.0)	**(870.3)**	**(6,042.3)**	**(6,476.3)**	(4,369.5)	(926.1)	(5,295.6)	(5,432.5)
	(8,237.3)	**(2,891.0)**	**(11,128.3)**	**(11,567.1)**	(8,033.2)	(3,377.1)	(11,410.3)	(11,556.1)
Net financial liabilities	**(4,757.7)**	**(956.4)**	**(5,714.1)**	**(6,152.9)**	(3,835.4)	(1,390.2)	(5,225.6)	(5,371.4)

(i) Recorded at amortised cost or loans and receivables.
(ii) IAS 39 financial instruments.
(iii) Includes non-recourse borrowings.

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

	2010 Amortised cost or other (i) £m	2010 Classified as trading (ii) £m	2010 Total carrying value £m	2010 Fair value £m	2009 Amortised cost or other (i) £m	2009 Designated at fair value (ii) £m	2009 Total carrying value £m	2009 Fair value £m
Financial Assets								
Current								
Cash and cash equivalents	**99.7**	**–**	**99.7**	**99.7**	135.1	–	135.1	135.1
Amounts owed by subsidiary undertakings	**1,804.6**	**–**	**1,804.6**	**1,804.6**	3,052.7	–	3,052.7	3,052.7
Derivative financial assets	**–**	**56.6**	**56.6**	**56.6**	–	178.1	178.1	178.1
	1,904.3	**56.6**	**1,960.9**	**1,960.9**	3,187.8	178.1	3,365.9	3,365.9
Non-current								
Amounts owed by subsidiary undertakings	**3,456.1**	**–**	**3,456.1**	**3,456.1**	2,066.9	–	2,066.9	2,066.9
Derivative financial assets	**–**	**47.5**	**47.5**	**47.5**	–	–	–	–
	3,456.1	**47.5**	**3,503.6**	**3,503.6**	2,066.9	–	2,066.9	2,066.9
	5,360.4	**104.1**	**5,464.5**	**5,464.5**	5,254.7	178.1	5,432.8	5,432.8
Financial Liabilities								
Current								
Bank loans and overdrafts	**(815.6)**	**–**	**(815.6)**	**(817.3)**	(900.8)	–	(900.8)	(900.8)
Convertible bond	**–**	**–**	**–**	**–**	(15.6)	–	(15.6)	(19.6)
Amounts owed to subsidiary undertakings	**(2,569.0)**	**–**	**(2,569.0)**	**(2,569.0)**	(2,517.2)	–	(2,517.2)	(2,517.2)
Derivative financial liabilities	**–**	**(45.2)**	**(45.2)**	**(45.2)**	–	(130.8)	(130.8)	(130.8)
	(3,384.6)	**(45.2)**	**(3,429.8)**	**(3,431.5)**	(3,433.6)	(130.8)	(3,564.4)	(3,568.4)
Non-current								
Eurobonds	**(2,858.6)**	**–**	**(2,858.6)**	**(3,203.1)**	(2,381.7)	–	(2,381.7)	(2,562.9)
Bank loans	**(271.3)**	**28.7**	**(242.6)**	**(270.2)**	(280.0)	33.4	(246.6)	(278.6)
Amounts owed to subsidiary undertakings	**(240.2)**	**–**	**(240.2)**	**(240.2)**	(240.2)	–	(240.2)	(240.2)
Derivative financial liabilities	**–**	**(82.8)**	**(82.8)**	**(82.8)**	–	–	–	–
	(3,370.1)	**(54.1)**	**(3,424.2)**	**(3,796.3)**	(2,901.9)	33.4	(2,868.5)	(3,081.7)
	(6,754.7)	**(99.3)**	**(6,854.0)**	**(7,227.8)**	(6,335.5)	(97.4)	(6,432.9)	(6,650.1)
Net financial (liabilities)/asset	**(1,394.3)**	**4.8**	**(1,389.5)**	**(1,763.3)**	(1,080.8)	80.7	(1,000.1)	(1,217.3)

(i) Recorded at amortised cost, available for sale, or loans and receivables.
(ii) IAS 39 financial instruments.

Basis of determining fair value
Certain assets and liabilities designated and carried at amortised cost are loans and receivables. For certain current assets and liabilities their carrying value is equivalent to fair value due to short term maturity.

Assets and liabilities designated at fair value and the fair value of other financial assets and liabilities have been determined by reference to closing rate market values. This basis has been used in valuing interest rate instruments, foreign currency hedge contracts and 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.

Notes on the financial statements (continued)
for the year ended 31 March

28. FINANCIAL INSTRUMENTS AND RISK (continued)

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 2010, the Group's Generation and Supply business had pledged £169.9m (2009 – £221.4m) of cash collateral and letters of credit and had received £28.6m (2009 – £28.0m) of cash collateral and letters of credit principally to reduce exposures on credit risk.

Bank credit exposures, which are monitored and reported on daily, are calculated on a mark-to-market basis and adjusted for future volatility and probability of default. Any issues relating to these credit exposures are presented for discussion and review by the Risk 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 or other credit enhancements. The trade receivables total includes an allowance for impairment.

Concentrations of risk

Trade receivables recorded by reported segment held at the 31 March were:

	2010 £m	2009 £m
Power Systems		
Scotland	**21.2**	20.0
England	**21.7**	35.6
	42.9	55.6
Generation and Supply		
Retail customers	**596.3**	883.1
Wholesale receivables	**1,381.6**	1,978.0
Other	**355.6**	225.0
Other businesses	**129.8**	191.6
	2,506.2	3,333.3

The Generation and Supply segment accounts for 93.2% (2009 – 92.6%) of the Group's trade receivables. Trade receivables associated with the Group's 9.35 million electricity and gas customers are recorded in this segment. The Group also has significant receivables associated with its wholesale activities which are generally settled within 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 biggest customer balance, due from a wholesale electricity customer (also a wholesale supplier), is less than 9% (2009: 6%) of the total trade receivables.

The ageing of trade receivables at the reporting date was:

	2010 £m	2009 £m
Not past due	**2,258.5**	3,008.1
Past due but not individually impaired:		
0 – 30 days	**153.6**	192.6
31 – 90 days	**57.9**	96.0
Over 90 days	**185.1**	163.3
	2,655.1	3,460.0
Less: allowance for impairment	**(148.9)**	(126.7)
Net Trade receivables	**2,506.2**	3,333.3

The Group has past due debt which has not had an impairment allowance set aside to cover potential credit losses. The Group has certain procedures to pursue customers in significant arrears and believes its impairment policy in relation to such balances is appropriate. Those debts which are neither past due nor impaired are considered to be good and are expected to be recoverable.

The Group has other receivables which are financial assets totalling £640.5m (2009 – £481.7m). The Company does not have trade receivables.

The movement in the allowance for impairment of trade receivables was:

	2010 £m	2009 £m
Balance at 1 April	**126.7**	115.7
Increase in allowance for impairment	**81.7**	35.2
Impairment losses recognised	**(70.2)**	(39.9)
Recovery of impairment loss previously recognised	**9.5**	15.7
Acquired allowance	**1.2**	–
Balance at 31 March	**148.9**	126.7

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.

Notes on the financial statements (continued)
for the year ended 31 March

28. FINANCIAL INSTRUMENTS AND RISK (continued)

B. RISKS FROM USE OF FINANCIAL INSTRUMENTS (continued)

(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 movement in commodity price, working capital requirements, the seasonal nature of the business and phasing of its capital reduction 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 while the longer term liquidity position is reviewed on a regular basis by the Board. The department's operations are governed by policies determined by the Board and any breaches of these policies are reported to the Risk Committee and Audit Committee.

In relation to the Group's liquidity risk, the Group's policy is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the 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. This test was relaxed during the year to March 2009 as a result of the deteriorating conditions in the capital and banking markets in the latter half of 2008. However as a result of £4.8bn of funds and facilities raised since July 2008 this test is back in place and being adhered to.

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 22, the Group has £20m of uncommitted bank lines and a £20m overdraft facility.

During the year, the Group entered into a new £900m revolving credit facility which will mature in June 2012 along with a £100m bilateral facility (on the same terms as the revolving credit facility) which also matures in June 2012. The Group also entered into a £400m loan facility with the European Investment Bank which can be utilised over a one year period and can be drawn on a fixed or floating basis with a term of up to 10 years. At the time of signing the accounts, these facilities were all undrawn.

Under the going concern principle, the Group expects to issue medium to long term debt during the year ended 31 March 2011. 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 £2.9bn of medium to long term debt since July 2008, 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 75.

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.

The movement in commodity prices during the year has resulted in a small decrease in the cash amount being posted in respect of mark-to-market related margin calls on exchange traded positions. As at 31 March 2010, the value of outstanding cash collateral posted totalled £71.2m (2009 – £86.9m), representing a net cash inflow during the year of £15.7m.

The contractual cash flows shown in the following tables are the contractual undiscounted cashflows under the relevant financial instruments. Where the contractual cashflows are variable based on a price, foreign exchange rate or index in the future, the contractual cashflows in the following tables have been determined with reference to the relevant price, foreign exchange rate, interest rate or index as at the balance sheet date. In determining the interest element of contractual cashflows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cashflows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the amounts in the following tables are on the assumption the holder redeems at the earliest opportunity.

The numbers in the following tables have been included in the Group's cashflow forecasts for the purposes of considering Liquidity Risk as noted above.

The following are the undiscounted contractual maturities of financial liabilities, including interest and excluding the impact of netting agreements:

Liquidity risk

	2010 Carrying value £m	2010 Contractual cash flows £m	2010 0-12 months £m	2010 1-2 years £m	2010 2-5 years £m	2010 > 5 years £m	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
Financial liabilities												
Loans and borrowings												
Bank overdrafts	**9.2**	**(9.2)**	**(9.2)**	**–**	**–**	**–**	2.3	(2.3)	(2.3)	–	–	–
Commercial paper and cash advances	**745.6**	**(745.6)**	**(745.6)**	**–**	**–**	**–**	900.8	(904.2)	(904.2)	–	–	–
Bank loans – floating	**281.6**	**(296.0)**	**(72.4)**	**(2.8)**	**(220.8)**	**–**	220.0	(238.1)	(5.9)	(74.3)	(132.7)	(25.2)
Bank loans – fixed	**530.9**	**(851.5)**	**(62.0)**	**(60.2)**	**(407.7)**	**(321.6)**	520.0	(622.9)	(117.8)	(57.4)	(447.7)	–
Unsecured bonds – fixed	**3,639.9**	**(6,956.7)**	**(215.2)**	**(215.2)**	**(1,807.4)**	**(4,718.9)**	3,263.7	(6,780.4)	(195.8)	(195.9)	(1,843.7)	(4,545.0)
Convertible bond	**–**	**–**	**–**	**–**	**–**	**–**	15.6	(16.5)	(16.5)	–	–	–
Non-recourse funding	**484.1**	**(648.9)**	**(53.6)**	**(51.0)**	**(145.7)**	**(398.6)**	506.7	(689.8)	(74.5)	(56.0)	(154.2)	(405.1)
Fair value adjustment	**(28.7)**	**–**	**–**	**–**	**–**	**–**	(33.4)	–	–	–	–	–
	5,662.6	**(9,507.9)**	**(1,158.0)**	**(329.2)**	**(2,581.6)**	**(5,439.1)**	5,395.7	(9,254.2)	(1,317.0)	(383.6)	(2,578.3)	(4,975.3)
Finance lease obligations	**384.4**	**(796.2)**	**(52.8)**	**(52.0)**	**(153.7)**	**(537.7)**	0.5	(0.8)	(0.1)	(0.1)	(0.3)	(0.3)
	6,047.0	**(10,304.1)**	**(1,210.8)**	**(381.2)**	**(2,735.3)**	**(5,976.8)**	5,396.2	(9,255.0)	(1,317.1)	(383.7)	(2,578.6)	(4,975.6)
Derivative financial liabilities												
Operating derivatives designated at fair value	**2,738.1**	**(11,514.2)**	**(8,421.2)**	**(1,870.1)**	**(1,174.8)**	**(48.1)**	3,218.4	(2,892.4)	(2,497.0)	(158.3)	(226.0)	(11.1)
Interest rate swaps used for hedging	**74.2**	**(74.3)**	**(15.9)**	**(14.8)**	**(26.2)**	**(17.4)**	79.3	(79.3)	(16.1)	(13.1)	(31.1)	(19.0)
Interest rate swaps designated at fair value	**101.6**	**(101.6)**	**(8.0)**	**(6.1)**	**(11.9)**	**(75.6)**	112.3	(112.3)	(5.3)	(5.3)	(14.3)	(87.4)
Forward exchange contracts held for hedging	**1.1**	**(3.3)**	**(2.0)**	**(1.2)**	**(0.1)**	**–**	0.3	(21.9)	(20.6)	(0.6)	(0.7)	–
Forward exchange contracts designated at fair value	**4.7**	**(198.0)**	**(179.4)**	**(58.2)**	**39.6**	**–**	0.2	(16.5)	(16.5)	–	–	–
	2,919.7	**(11,891.4)**	**(8,626.5)**	**(1,950.4)**	**(1,173.4)**	**(141.1)**	3,410.5	(3,122.4)	(2,555.5)	(177.3)	(272.1)	(117.5)
Other financial liabilities												
Trade payables	**2,161.6**	**(2,161.6)**	**(2,161.6)**	**–**	**–**	**–**	2,603.6	(2,603.6)	(2,603.6)	–	–	–
	2,161.6	**(2,161.6)**	**(2,161.6)**	**–**	**–**	**–**	2,603.6	(2,603.6)	(2,603.6)	–	–	–
Total	**11,128.3**	**(24,357.1)**	**(11,998.9)**	**(2,331.6)**	**(3,908.7)**	**(6,117.9)**	11,410.3	(14,981.0)	(6,476.2)	(561.0)	(2,850.7)	(5,093.1)
Derivative financial assets												
Financing derivatives	**(106.8)**	**(1,466.4)**	**(1,149.8)**	**(280.6)**	**(18.5)**	**(17.5)**	(178.1)	(550.6)	(447.3)	(24.4)	(45.6)	(33.3)
Operating derivatives designated at fair value	**(1,827.8)**	**8,200.6**	**6,930.1**	**1,175.5**	**119.2**	**(24.2)**	(1,808.8)	(1,394.0)	(371.8)	(833.9)	(181.8)	(6.5)
	(1,934.6)	**6,734.2**	**5,780.3**	**894.9**	**100.7**	**(41.7)**	(1,986.9)	(1,944.6)	(819.1)	(858.3)	(227.4)	(39.8)
Net total (i)	**9,193.7**	**(17,622.9)**	**(6,218.6)**	**(1,436.7)**	**(3,808.0)**	**(6,159.6)**	9,423.4	(16,925.6)	(7,295.3)	(1,419.3)	(3,078.1)	(5,132.9)

(i) The Group believes the liquidity risk associated with out-of-the-money operating derivative contracts needs to be considered in conjunction with the profile of payments or receipts arising from derivative financial assets. It should be noted that cash flows associated with future energy sales and commodity contracts which are not IAS 39 financial instruments are not included in this analysis, which is prepared in accordance with IFRS 7.

Notes on the financial statements (continued)
for the year ended 31 March

28. FINANCIAL INSTRUMENTS AND RISK (continued)

B. RISKS FROM USE OF FINANCIAL INSTRUMENTS (continued)

The Company has the following liquidity maturity profile:

Liquidity risk

	2010 Carrying value £m	**2010 Contractual cash flows £m**	**2010 0-12 months £m**	**2010 1-2 years £m**	**2010 2-5 years £m**	**2010 > 5 years £m**	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
Financial liabilities												
Loans and borrowings												
Commercial paper and cash advances	**745.6**	**(745.6)**	**(745.6)**	**–**	**–**	**–**	900.8	(904.2)	(904.2)	–	–	–
Bank loans – floating	**131.5**	**(142.5)**	**(71.2)**	**(1.7)**	**(69.6)**	**–**	70.0	(72.3)	(1.9)	(70.4)	–	–
Bank loans – fixed	**209.8**	**(252.4)**	**(12.5)**	**(12.5)**	**(227.4)**	**–**	210.0	(264.8)	(12.5)	(12.5)	(239.8)	–
Unsecured bonds – fixed	**2,858.6**	**(5,060.6)**	**(179.4)**	**(179.4)**	**(1,699.5)**	**(3,002.3)**	2,381.7	(4,516.8)	(155.6)	(155.6)	(1,722.0)	(2,483.6)
Convertible bond	**–**	**–**	**–**	**–**	**–**	**–**	15.6	(16.5)	(16.5)	–	–	–
Fair value adjustment	**(28.7)**	**–**	**–**	**–**	**–**	**–**	(33.4)	–	–	–	–	–
	3,916.8	**(6,201.1)**	**(1,008.7)**	**(193.6)**	**(1,996.5)**	**(3,002.3)**	3,544.7	(5,774.6)	(1,090.7)	(238.5)	(1,961.8)	(2,483.6)
Derivative financial liabilities												
Interest rate swaps used for hedging	**32.3**	**(32.3)**	**(9.2)**	**(9.2)**	**(13.9)**	**–**	33.4	(33.4)	(7.4)	(7.4)	(18.6)	–
Interest rate swaps designated at fair value	**89.9**	**(89.9)**	**(6.5)**	**(4.6)**	**(10.7)**	**(68.1)**	96.8	(96.8)	(4.1)	(4.1)	(12.2)	(76.4)
Forward exchange contracts held for hedging	**1.1**	**(3.3)**	**(2.0)**	**(1.2)**	**(0.1)**	**–**	0.3	(21.9)	(20.6)	(0.6)	(0.7)	–
Forward exchange contracts designated at fair value	**4.7**	**(198.0)**	**(179.4)**	**(58.2)**	**39.6**	**–**	0.3	(16.5)	(16.5)	–	–	–
	128.0	**(323.5)**	**(197.1)**	**(73.2)**	**14.9**	**(68.1)**	130.8	(168.6)	(48.6)	(12.1)	(31.5)	(76.4)
Other financial liabilities												
Amounts due to subsidiary undertakings	**2,569.0**	**(2,569.0)**	**(2,569.0)**	**–**	**–**	**–**	2,517.2	(2,517.2)	(2,517.2)	–	–	–
	2,569.0	**(2,569.0)**	**(2,569.0)**	**–**	**–**	**–**	2,517.2	(2,517.2)	(2,517.2)	–	–	–
Total	**6,613.8**	**(9,093.6)**	**(3,774.8)**	**(266.8)**	**(1,981.6)**	**(3,070.4)**	6,192.7	(8,460.4)	(3,656.5)	(250.6)	(1,993.3)	(2,560.0)
Derivative financial assets												
Financing derivatives	**(104.1)**	**(1,466.5)**	**(1,149.8)**	**(280.6)**	**(18.5)**	**(17.6)**	(178.1)	(550.6)	(447.3)	(24.4)	(45.6)	(33.3)
Net total	**6,509.7**	**(10,560.1)**	**(4,924.6)**	**(547.4)**	**(2,000.1)**	**(3,088.0)**	6,014.6	(9,011.0)	(4,103.8)	(275.0)	(2,038.9)	(2,593.3)

(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 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.

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.

	2010		2009	
	Base price (i)	**Reasonably possible increase/ decrease in variable**	Base price (i)	Reasonably possible increase/ decrease in variable
Commodity prices				
UK gas (p/therm)	**44**	**+/- 6**	59	+/-12
UK power (£/MWh)	**43**	**+/- 6**	49	+/-10
UK coal (US$/tonne)	**97**	**+/- 11**	83	+/-18
UK emissions (€/tonne)	**14**	**+/- 2**	13	+/-4
UK oil (US$/bbl)	**86**	**+/- 10**	62	+/-15

(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:

	2010		2009	
	Impact on profit £m	**Impact on equity £m**	Impact on profit £m	Impact on equity £m
Incremental profit/(loss)				
Commodity prices combined – increase	**196.0**	**Nil**	417.4	Nil
Commodity prices combined – decrease	**(196.0)**	**Nil**	(417.4)	Nil

Notes on the financial statements (continued)
for the year ended 31 March

28. FINANCIAL INSTRUMENTS AND RISK (continued)

B. RISKS FROM USE OF FINANCIAL INSTRUMENTS (continued)

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.

The Group has foreign subsidiary operations with significant euro-denominated net assets. The Group's policy is to hedge its net investment in its foreign operations by ensuring the net assets whose functional currency cash flows are denominated in euros are matched by borrowings in euros. For the acquired net assets whose functional cash flows are in sterling, the Group will ensure sterling denominated borrowings are in place to minimise currency risk.

Significant exposures are reported to, and discussed by, the Risk and Trading Committee on an ongoing basis and additionally form part of the bi-annual Treasury report to the Audit Committee.

At the balance sheet date, the total nominal value of outstanding forward foreign exchange contracts that the Group has committed to is:

	2010 £m	2009 £m
Forward foreign exchange contracts	**1,864.8**	1,286.1

The Group's exposure to foreign currency risk was as follows:

	2010				2009			
	¥m	**DKKm**	**€m**	**US$m**	¥m	DKKm	€m	US$m
Loans and borrowings	**28,000.0**	**–**	**1,370.0**	**210.0**	28,000.0	–	1,092.0	97.5
Purchase and commodity contract commitments	**253.4**	**843.1**	**627.5**	**2,818.4**	–	181.3	673.6	1,906.3
Gross exposure	**28,253.4**	**843.1**	**1,997.5**	**3,028.4**	–	181.3	1,765.6	2,003.8
Forward exchange/swap contracts	**28,253.4**	**843.1**	**843.2**	**1,538.9**	28,000.0	181.3	333.9	967.5
Net exposure (in currency)	**–**	**–**	**1,154.3**	**1,489.5**	–	–	1,431.7	1,036.3
Net exposure (in £m)	**–**	**–**	**1,028.1**	**980.5**	–	–	1,324.7	724.7

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 2010 £m	At 31 March 2009 £m	**At 31 March 2010 £m**	At 31 March 2009 £m
US Dollars	**–**	–	**78.4**	58.0
Euro	**58.4**	51.9	**23.9**	54.1
Danish Krone	**–**	–	**–**	–
Yen	**–**	–	**–**	–
	58.4	51.9	**102.3**	112.1

The impact of a decrease in rates would be an identical reduction in the annual charge.

(v) Interest rate risk

Interest rate risk derives from the Group's exposure to changes in the value of an asset or liability or future cash flows through changes in interest rates.

The Group's policy is to manage this risk by stipulating that a minimum of 50% of Group borrowings be subject to fixed rates of interest, either directly through the debt instruments themselves or through the use of derivative financial instruments. 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 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:

	2010 Carrying amount £m	2009 Carrying amount £m
Interest (bearing)/earning assets and liabilities:		
– Fixed	**(4,833.6)**	(4,735.9)
– Floating	**(1,090.7)**	(553.5)
	(5,924.3)	(5,289.4)
Represented by:		
Cash and cash equivalents	**261.7**	295.9
Derivative financial liabilities	**(110.5)**	(155.7)
Loans and borrowings	**(5,691.1)**	(5,429.1)
Finance lease obligations	**(384.4)**	(0.5)
	(5,924.3)	(5,289.4)

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.

Notes on the financial statements (continued)
for the year ended 31 March

28. FINANCIAL INSTRUMENTS AND RISK (continued)

B. RISKS FROM USE OF FINANCIAL INSTRUMENTS (continued)

The sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually hanging. The calculations are based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the Group.

	2010 £m	2009 £m
Income statement	**9.9**	6.1
	9.9	6.1

The impact of a decrease in rates would be an identical reduction in the annual charge. There is no impact on equity as the analysis relates to the Group's net exposure at the balance sheet date. Contracts qualifying for hedge accounting are, by definition, part of the Group's covered position.

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

The net movement reflected in the Income Statement can be summarised thus:

	2010 £m	2009 £m
Operating derivatives		
Total result on operating derivatives (i)	**(3,449.6)**	(3,964.8)
Less: Amounts settled (ii)	**3,881.8**	2,673.1
Movement in unrealised derivatives	**432.2**	(1,291.7)
Financing derivatives (and hedged items)		
Total result on financing derivatives (i)	**456.8**	70.5
Less: Amounts settled (ii)	**(493.3)**	(44.7)
Movement in unrealised derivatives	**(36.5)**	25.8
Net income statement impact	**395.7**	(1,265.9)

(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:

	2010 £m	2009 £m
Derivative financial assets		
Non-current	**466.3**	449.2
Current	**1,468.3**	1,537.7
	1,934.6	1,986.9
Derivative liabilities		
Non-current	**(899.0)**	(959.5)
Current	**(2,020.7)**	(2,451.0)
Total derivative liabilities	**(2,919.7)**	(3,410.5)
Net liability	**(985.1)**	(1,423.6)

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

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

	Level 1 £m	Level 2 £m	Level 3 £m	**Total £m**
Financial assets				
Energy derivatives	148.3	1,681.4	–	**1,829.7**
Interest rate derivatives	–	30.4	–	**30.4**
Foreign exchange derivatives	–	74.6	–	**74.6**
	148.3	1,786.4	–	**1,934.7**
Financial liabilities				
Energy derivatives	(191.5)	(2,546.6)	–	**(2,738.1)**
Interest rate derivatives	–	(175.9)	–	**(175.9)**
Foreign exchange derivatives	–	(5.8)	–	**(5.8)**
Loans and borrowings	–	28.7	–	**28.7**
	(191.5)	(2,699.6)	–	**(2,891.1)**

There were no transfers out of level 1 into level 2 and out of level 2 into level 1 during the year ended 31 March 2010.

(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

	2010 Carrying amount £m	**2010 Expected cash flows £m**	**2010 0-12 months £m**	**2010 1-2 years £m**	**2010 2-5 years £m**	**2010 > 5 years £m**	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
Interest rate swaps:												
Liabilities	**(7.1)**	**(7.1)**	**(3.2)**	**(2.1)**	**(1.8)**	**–**	(10.0)	(10.0)	(4.2)	(2.6)	(3.2)	Nil
Forward exchange contracts:												
Assets	**22.0**	**(543.5)**	**(485.5)**	**(11.8)**	**(19.4)**	**(26.8)**	52.2	(556.3)	(489.1)	(10.9)	(23.0)	(33.3)
Liabilities	**(1.1)**	**(3.3)**	**(2.0)**	**(1.2)**	**(0.1)**	**–**	(0.3)	(21.9)	(20.6)	(0.6)	(0.7)	Nil
	20.9	**(546.8)**	**(487.5)**	**(13.0)**	**(19.5)**	**(26.8)**	51.9	(578.2)	(509.7)	(11.5)	(23.7)	(33.3)

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.

Gains and losses in the hedge are recognised in equity and will be transferred to the income statement on disposal of the foreign operation (2010 – £47.2m, 2009 – £142.9m). Gains and losses on the ineffective portion of the hedge are recognised immediately in the income statement (2010 – £nil, 2009 – £nil).

Notes on the financial statements (continued)
for the year ended 31 March

28. FINANCIAL INSTRUMENTS AND RISK (continued)

B. RISKS FROM USE OF FINANCIAL INSTRUMENTS (continued)

(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-back was 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 the 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 dividend.

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 correct returns through dividends and long-term capital investment for growth. In doing so, the Group will maintain its capital discipline and will continue to operate within the correct economic environment prudently.

29. RELATED PARTY TRANSACTIONS

The immediate parent and ultimate controlling party of the Group is Scottish and Southern Energy plc (incorporated in Scotland).

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

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

	Sale of goods and services 2010 £m	**Purchase of goods and services 2010 £m**	**Other transactions 2010 £m**	Sale of goods and services 2009 £m	Purchase of goods and services 2009 £m	Other transactions 2009 £m
Jointly controlled entities:						
Seabank Power Limited	**3.0**	**(107.1)**	**7.1**	5.2	(82.4)	20.7
PriDE (South East Regional Prime) Limited	**40.5**	**–**	**–**	54.3	–	–
Scotia Gas Networks Limited	**54.9**	**(145.0)**	**–**	59.0	(134.7)	35.0
Marchwood Power Limited	**31.5**	**(65.7)**	**–**	–	–	104.6
Greater Gabbard Offshore Winds Ltd	**3.9**	**–**	**–**	1.0	–	–
Associates:						
Barking Power Limited	**2.5**	**(135.5)**	**15.2**	0.7	(177.5)	(0.1)
Derwent Co-generation Limited	**30.6**	**(96.6)**	**–**	37.4	(94.6)	–
Logan Energy Ltd	**0.8**	**–**	**–**	0.7	–	–
Green Highland Renewables Ltd	**0.3**	**–**	**–**	0.2	–	–
Vital Holdings Limited	**1.1**	**(0.6)**	**–**	–	–	–
Onzo Limited	**–**	**(1.0)**	**(4.9)**	–	–	–

The transactions with Marchwood Power Limited, 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 balances outstanding with related parties at 31 March were as follows:

Consolidated

	Amounts owed by related parties		Amounts owed to related parties	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Jointly controlled entities:				
Seabank Power Limited	**0.3**	4.6	**26.0**	23.1
PriDE (South East Regional Prime) Limited	**7.0**	6.6	**–**	Nil
Greater Gabbard Offshore Winds Limited	**–**	0.2	**–**	Nil
Scotia Gas Networks Limited	**16.4**	27.4	**1.3**	0.3
Marchwood Power Limited	**–**	0.4	**7.0**	Nil
Associates:				
Barking Power Limited	**16.4**	0.1	**9.3**	17.7
Derwent Co-generation Limited	**2.0**	8.3	**9.4**	9.5
Logan Energy Ltd	**–**	–	**0.1**	0.1
Onzo Limited	**–**	–	**1.2**	–

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.

(ii) Loans to related parties

	2010 £m	2009 £m
Loans to associates:		
At 1 April	**25.0**	10.4
Loans advanced during the year	**7.7**	14.6
Loan repayments received	**(1.1)**	–
Interest charged	**0.7**	1.1
Interest received	**(0.7)**	(1.1)
At 31 March	**31.6**	25.0
Loans to jointly controlled entities:		
At 1 April	**685.9**	425.3
Loans advanced during the year	**289.1**	286.9
Loan repayments received	**(27.4)**	(25.8)
Interest charged	**53.2**	52.8
Interest received	**(51.2)**	(53.3)
At 31 March	**949.6**	685.9
Loans to subsidiaries:		
At 1 April	**1,388.1**	1,083.1
Loans advanced during the year	**1,558.6**	330.0
Loan repayments received	**–**	(25.0)
Interest charged	**135.8**	143.8
Interest received	**(135.8)**	(143.8)
At 31 March	**2,946.7**	1,388.1

Notes on the financial statements (continued)
for the year ended 31 March

29. RELATED PARTY TRANSACTIONS (continued)

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.

	2010 £m	2009 £m
Short-term employment benefits	**3.6**	3.5

In addition, the key management personnel receive share based remuneration, details of which are found at note 27. 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 26.

30. COMMITMENTS AND CONTINGENCIES

(i) Capital commitments

	2010 £m	2009 £m
Capital expenditure:		
Contracted for but not provided	**994.5**	986.1

Contracted for but not provided capital commitments includes the fixed contracted costs of the Group's major capital projects. In practice, contractual variations may arise on the final settlement of these contractual costs. The stated capital commitments relate to the Group's own contractual obligations and do not include those of related parties.

(ii) Operating lease commitments

(a) Leases as lessee:

	2010 £m	2009 £m
Amount included in the income statement relating to the current year leasing arrangements		
Minimum lease payments – power purchase agreement	**229.6**	198.9
Other lease payments	**41.6**	21.7
	271.2	220.6

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2010 £m	2009 £m
Power purchase agreements		
Within one year	**178.1**	221.0
In second to fifth years inclusive	**374.9**	483.5
After five years	**217.7**	278.2
	770.7	982.7
Other leases		
Within one year	**41.0**	23.1
In second to fifth years inclusive	**63.0**	32.3
After five years	**94.3**	87.0
	198.3	142.4
Total		
Within one year	**219.1**	244.1
In second to fifth years inclusive	**437.9**	515.8
After five years	**312.0**	365.2
	969.0	1,125.1

The average power purchase agreement lease term is 7 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 previously leased out two combined heat and power plants under finance leases. During the year the Group disposed of these plants to the lessee resulting in a gain of £0.3m recorded in the Income Statement. Therefore, the future minimum lease payments are as follows:

	2010 £m	2009 £m
Within one year	**–**	0.3
In second to fifth years inclusive	**–**	1.0
After five years	**–**	0.5
	–	1.8

During the year ended 31 March 2010 £0.1m was recognised as rental income in the income statement (2009 – £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
The Company and various subsidiaries have provided guarantees on behalf of subsidiary, joint venture and associated undertakings as follows:

	2010 £m	2009 £m
Bank borrowing	**–**	18.3
Performance of contracts	**2,042.1**	2,309.0
Purchase of gas	**60.5**	70.5

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 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 five 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. Scottish Hydro Electric Power Distribution plc and the Company have provided guarantees to the Scottish Hydro Electric Pension Scheme 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.

31. POST BALANCE SHEET EVENTS

On 31 March 2010, the Group through its wholly-owned subsidiary, SSE E&P UK Limited, has entered into an agreement with Hess Limited to acquire its natural gas and infrastructure assets in the three regions of the North Sea.

On successful completion the Group expects to pay a total cash consideration of up to US$423m. The transaction is subject to the receipt of all necessary partner and regulatory approvals, as such the potential acquisition has not been included in the financial results for the year ended 31 March 2010. The transaction is expected to be concluded during the next financial year.

Shareholder information

Shareholder enquiries
Share Registrar:
Capita Registrars, Northern House,
Woodsome Park, Fenay Bridge,
Huddersfield HD8 0GA

Telephone: 0845 143 4005
Email: sse@capitaregistars.com

Financial calendar
Annual General Meeting
22 July 2010

Ex dividend date
28 July 2010

Record date
30 July 2010

Final dividend payable
24 September 2010

Half year results announcement*
10 November 2010

Website – www.sse.com
The Company's website contains a wide range of information including a dedicated Investor Centre section where you can find further information about shareholder services including:

- share price information;
- downloadable shareholder forms;
- view share price, dividend history and trading graphs;
- elect for eCommunications; and
- telephone and internet share dealing.

* Provisional date.

eCommunications programme
To sign up to our eCommunications Programme visit www.sse.com/ecomms. As a thank you we will donate £2 on your behalf to the World Wildlife Fund's (WWF) International Forest Programme.

Keep us informed
Keep us informed of changes to your email address by visiting www.sse.com/ecomms and follow the instructions under 'update your email address'.

Scrip Dividend Scheme/
Dividend Reinvestment Plan
The Company is proposing the introduction of a Scrip Dividend Scheme at the AGM 2010. If this Plan is introduced the Dividend Reinvestment Plan will be terminated. Full details available from our website or on request from the Registrar.

Copy reports
Copies of the Annual Report and Accounts 2010 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.sse.com.

Glossary

BOFA
Boosted Over Fire Air: a technology used in some modern coal-fired power stations which reduces the amount of nitrogen oxides produced by forcing air into the boiler at a higher rate and a higher position than usual, causing the coal to burn at a lower temperature than in traditional plants.

Carbon dioxide (CO_2)
One of the so-called 'greenhouse gasses' believed to contribute to global warming.

Carbon Disclosure Leadership Index
An assessment, undertaken by the Carbon Disclosure Project which considers the quality of organisations' disclosure on climate change-related issues. Participating companies complete a detailed survey which requires information on the organisation's climate change-related strategy and targets and data on emissions.

Carbon Disclosure Project
A not-for-profit organisation representing top institutional investors which provides a database of corporate climate change-related information to support their investment decisions.

CCGT
Combined Cycle Gas Turbines: turbines which utilise a more efficient process in the production of electricity. Waste heat from the gas-firing process which drives the first energy-generating turbine is used to heat water to steam which then drives a second turbine.

CCS
Carbon Capture and Storage: a means of mitigating the contribution of fossil fuel emissions to climate change which involves capturing carbon dioxide produced at large sources of emissions, such as power stations, and storing it away from the atmosphere. The carbon dioxide can be extracted either before or after the fuel is burnt.

CERT
Carbon Emissions Reduction Target: an obligation placed by the government on large energy suppliers which requires them to reduce the amount of CO_2 produced as a result of the energy used by householders in Great Britain. The aim of the current CERT program, which is due to run from April 2008 to March 2011, is to deliver measures that will provide overall lifetime CO_2 savings of 154 million tonnes. Under CERT, suppliers must focus 40 per cent of their activity on a priority group of vulnerable and low-income households. These include those in receipt of certain income and or disability benefits and pensioners over the age of 70. There are currently proposals in place to increase the amount of savings to 185MT of CO_2 and extend the time period of the program to December 2012.

CESP
Community Energy Saving Programme: part of the government's Home Energy Saving Programme. It requires larger gas and electricity suppliers and electricity generators to deliver energy saving measures to domestic consumers in specific low income areas of Great Britain. The Department for Energy and Climate Change (DECC) is responsible for setting the overall CESP target and the policy framework and Ofgem is responsible for administering the programme.

Clean-tech
Products, services, and processes that harness renewable materials and energy sources, reduce the use of natural resources, and cut or eliminate emissions and wastes.

Consumer Direct
A government-funded telephone and online service offering information and advice on consumer issues.

Consumer Focus
An organisation set up by the government in 2008 formed by the merger of energywatch, Postwatch and the National Consumer Council to represent the interests of consumers in the UK.

Distribution Price Control Review
A five-yearly review undertaken by industry regulator Ofgem in conjunction with licensed electricity distribution operators to ensure that the operators can earn a fair return after their efficient capital and operating costs are taken into account. The most recent review relates to the Price Control which applies from 1 April 2010.

Emission Limit Values
Limits set by the Large Combustion Plant Directive relating to the concentrations of oxides of sulphur and nitrogen and of particulates emitted by installations including large fossil-fuelled power stations. These emissions are measured real-time actual levels of emissions.

EU ETS
European Union Emissions Trading System: an annual scheme which allocates and facilitates the trading of greenhouse gas emissions allowances throughout the EU. Operators of installations covered by the scheme are allocated certificates annually by their government. Operators must ensure that they have sufficient certificates to cover their installation's emissions and have the option to buy additional certificates from other operators or to sell surplus certificates. EU ETS is one of the most important aspects in Europe's policies for meeting its Kyoto Protocol commitments.

EU Renewable Energy Directive
European legislation which places a legally-binding commitment on member States to increase the total proportion of energy derived from renewable sources 20% by 2020. Each Member State has its own target which reflects its current renewable energy provision; the UK's target is 15%. All forms of energy usage are covered by this target, including transport.

FGD
Flue Gas Desulphurisation: the process of removing sulphur dioxide from the exhaust flue gases in fossil-fuelled (primarily coal) power stations. FGD can remove between 90 and 94% of sulphur dioxide from flue gases.

Gas storage
The storage of natural gas, usually in under ground chambers, for release into the gas network at times of high demand, or when market prices are high.

Gigawatt (GW)
1,000 megawatts (1,000,000,000 watts).

Gigawatt/hour (GWh)
1,000 megawatt/hours.

Integrated Pollution Control (IPC) and Integrated Pollution Prevention and Control (IPPC)
Systems to control pollution from industry, enforced by the Environment Agency and Scottish Environmental Protection Agency.

Kilovolt (kV)
1,000 volts.

Kilowatt (kW)
1,000 watts.

Kilowatt/hour (kWh)
One unit of electricity.

Large Combustion Plant Directive
European legislation introduced in 2001 to control emissions of oxides of sulphur and nitrogen and of particulates from sources of large quantities of emissions, including power stations. All newer installations (licensed from 1987 onwards) must comply with Emission Limit Values (ELVs), while older installations can choose either

Glossary (continued)

to: comply with ELVs; take part in the National Emissions Reduction Plan; or opt out, which requires that installations operate only for limited hours and close down by the end of 2015.

Megawatt (MW)
1,000 kilowatts (1,000,000 watts).

Megawatt/hour (MWh)
1,000 units of electricity.

Nitrogen oxides (NO_x)
Toxic gasses produced by the combustion of carbon-based primary fuels by transport and in power stations (see also SO_2).

Offshore Wind Accelerator (OWA)
A research and development initiative co-funded by the Carbon Trust and five energy companies, including SSE, which aims to speed up the rate at which offshore wind technology develops. This includes developing new turbine foundations and installation techniques, improving access for maintenance, identifying the best way to lay out offshore wind farms and researching how to minimise the amount of energy lost in transmitting energy back to shore.

Ofgem
Office of Gas and Electricity Markets: the government regulator for the electricity and downstream natural gas markets in Great Britain. Its role is to promote choice and value for current and future gas and electricity customers. Funding is from annual licence fees recovered from licensed network companies.

Peak oil
The point in time at which maximum global oil production is achieved, prior to a decline in production.

Pumped storage
A form of electricity generation which uses the energy stored in water pumped from a lower level to an elevated reservoir to generate power. Whilst the process is a net user of energy, pumped storage is valuable as it can utilise low cost energy at times of low demand to raise water to the upper reservoir and can generate electricity at very short notice, helping balance supply and demand.

RAV
Regulated Asset Value, a key building block of a price control review. It is a financial construct for providing funds over a prolonged period and represents the value upon which companies earn a regulated return. At the most recent Distribution Price Control Review (DPCR5) Ofgem undertook a fundamental review of which costs are included in the RAV. From 1 April 2010, 85% of all network related expenditure will be funded as 'slow' money over 20 years through the RAV. The remaining 15% of network costs and all business support costs will be funded as 'fast' money, expensed and funded in the year of expenditure.

REFIT
Renewable Energy Feed In Tariff: a scheme applicable in the Republic of Ireland that financially supports suppliers who purchase renewable energy and thereby encourages provision of a guaranteed price to generators.

Regulated businesses
Parts of SSE's operations which are subject to regulation by Ofgem or other industry regulators such as Ofcom.

Renewables Obligation (RO)
The main support scheme for renewable electricity projects in the UK. Under the RO electricity suppliers in the UK are required to source an increasing proportion of the energy they supply to customers from renewable sources. The renewable energy is certified through the issue of Renewable Obligation Certificates (ROCs). Suppliers fulfil their obligation through the presentation of ROCs. If a supplier has a shortfall in its provision of renewable electricity, it must pay into a fund, the proceeds of which are paid back out to suppliers in proportion to the ROCs they present. Only certain forms of renewable energy qualify for this scheme.

Retro-fitting
In the context of sustainable electricity generation, installing new technologies to existing plant in order that the plant can operate more effectively under modern market conditions. May include equipment to reduce emissions of oxides of nitrogen and of sulphur, or to increase the thermal efficiency of plant, or to capture and store carbon emissions.

ROCs
Renewables Obligation Certificates: certificates issued by Ofgem for the energy generated by eligible renewable generators in accordance with the Renewables Obligation.

RPI-X
The basis of Ofgem's price control mechanisms in place since 1989, which ties revenue and expenditure growth to the retail price index (RPI) minus (or plus) X percentage points. Currently the subject of a review by Ofgem which is due to conclude in late summer 2010.

Run-of-river
Hydro electric generation schemes which utilise the energy from flowing watercourses, as opposed to water that has been collected and stored.

SCR
Selective Catalytic Reduction: a method of converting oxides of nitrogen, which are associated with acid rain, into inert nitrogen and water. SCR can be installed in new build power stations or retro-fitted to existing facilities.

Security of supply
In the context of electricity supply in the UK, the degree to which the energy infrastructure can be relied upon to generate, transmit and distribute electricity such that the needs of all system users are met.

SOFA
Separated Over Fire Air: a technology used in some modern coal-fired power stations which reduces the amount of nitrogen oxides produced by introducing air into the boiler at a higher point in the combustion process, causing the coal to burn at a lower temperature than in traditional plants.

Sulphur dioxide (SO_2)
Toxic gasses produced by the combustion of carbon-based primary fuels by transport and in power stations (see also NO_x).

TRIR
Total Recordable Injury Rate: a recognised measure of the total number of injuries per 100,000 hours worked. Injuries in this context are defined as those which: are reportable to the Health and Safety Executive; result in absence from work; or which require invasive medical treatment such as stitches.

UK Industry Task Force on Peak Oil
A group of British companies, including SSE, whose interests span a wide range of business sectors. The Task Force aims to highlight the importance of being prepared for an oil crunch when the era of relatively cheap oil extraction ends.

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