

REGISTERED NO.
2310571

SSE Generation Limited

Financial Statements for the year ended 31 March 2014

CONTENTS	Page No.
Report of the Directors	1
Strategic Report	2 -4
Statement of directors' responsibilities in respect of the Directors' Report, the Strategic Report and the Financial statements	5
Independent Auditor's Report to the Members	6
Profit and Loss Account	7
Balance Sheet	8
Reconciliation of Movements in Shareholders' Funds	9
Notes on the Financial statements	10 - 24

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SSE Generation Limited

Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31 March 2014.

1. Principal Activities

The Company's principal activity is the provision and maintenance of generation capacity for use by SSE Energy Supply Limited (SSEESL), a related company. The Company also invests in electricity generation enterprises and other energy related businesses.

2. Results and Dividends

The profit for the financial year amounted to £41.9m (2013 - £57.9m). The Company declared, approved and paid a dividend in the year of £21.0m (2013 - £10.5m).

3. Directors

The Directors who served during the year were as follows:

Paul Smith
Peter Donaldson
John Downes
Mark Hayward
Christopher Milne
Rhys Stanwix
Pamela Walsh

The Company Secretary who served during the year was Vincent Donnelly.

4. Auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that ought to have been taken as a Director to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

KPMG Audit Plc resigned as auditor during the year pursuant to section 516 of the Companies Act 2006. The Directors subsequently appointed KPMG LLP as auditor of the Company to fill the casual vacancy as auditor under section 485(3) of the Companies Act 2006. KPMG LLP has indicated its willingness to continue in office and a resolution to reappoint it as auditor will be proposed at the next annual general meeting.

ON BEHALF OF THE BOARD



Christopher Milne
Director
22 September 2014

SSE Generation Limited

Strategic Report

SSE Generation Limited (SSEGL) is a wholly owned subsidiary of SSE plc and part of the SSE Group (the 'Group'). Within the Group's integrated business model, the Company's power stations, along with those of its subsidiaries, are used to support performance in electricity supply and portfolio management, managed by SSEESL. The Company owns over 3,000 megawatts (MW) of electricity generation capacity. This comprises over 1,800 MW of hydro and wind capacity, over 1,100 MW of gas-fired capacity, including the Peterhead power station and 150MW of oil-fired capacity.

Key performance indicators

	2014	2013	Change %
Operating profit - £m	112.0	99.1	13.0
Capital expenditure - £m	182.6	71.5	155.4

Non Financial / Management	2014	2013	Change %
Availability – Peterhead power station	93%	95%	(2.1)
Availability – Main hydro stations (excluding pump storage facilities)	89%	86%	3.5

Financial performance

During 2013/14 operating profit in SSE Generation increased by 13.0%, from £99.1m to £112.0m, mainly as a result of increased Hydro output compared to previous year.

THERMAL GENERATION

Changing market structure

On 1 April 2013 the UK government introduced a new Climate Change Levy tax in the form of the Carbon Price Support Rate. This added a cost of around £5/tonne of CO₂ emissions in 2013 for fossil-fuelled generation in Great Britain, on top of the cost of complying with the EU ETS. The additional cost is set to rise to c. £18/tonne in 2015/16. The 2014 Budget announced that this additional cost would then be frozen until 2018/19, instead of increasing as previously proposed.

In July 2013, Ofgem proposed new interim mechanisms – the Supplemental Balancing Reserve (SBR) and Demand-Side Balancing Reserve – to deal with any shortfalls in generation capacity in advance of the planned introduction of the Capacity Market in 2018. National Grid originally intended to tender for both SBR and DSBR in early 2014, with the view to having contracts in place for Winter 2014/15. In June 2014, National Grid announced it would not be tendering for SBR, choosing instead to meet Winter 2014/15 needs through the DSBR service only. On 2 September 2014, National Grid reversed this decision and formally launched a tender seeking additional capacity for a 2014/15 SBR, citing renewed uncertainty about the ability for the UK's generation capacity to meet demand this winter. The tender will run until 30 September 2014, and successful generators must be available to generate when called from 1 November 2014.

Without certainty around SBR and the outcome of the Capacity Market auction process, investment decisions in new and existing thermal generation plant will continue to be difficult. Clarity and stability are, therefore, much-needed features of the energy policy landscape in Great Britain and their continued absence could eventually jeopardise the security of electricity supply.

Responding to difficult times for thermal generation

The market conditions for electricity generation in Great Britain have continued to be challenging. The extent of this can be seen by the very different issues impacting on SSE's thermal and renewable generation assets and the fact that public policy decisions can have quite different impacts on each element of the generation portfolio.

2013/14 saw the lowest spark spreads in the history of the GB energy market. Average spark spreads were around £1.5/MWh lower than the previous year.

SSE has three wholly-owned gas-fired power stations, with the largest capacity being Peterhead (Aberdeenshire; 1,180MW). During 2013/14 SSE's principal wholly-owned and operating gas-fired power station, Peterhead, was available to generate electricity 93% of the time, excluding planned outages.

Peterhead reduced available TEC to 400MW from 01 April 2014. SSE recently signed a contract with National Grid company to provide ancillary support services to the electricity system in the North of Scotland for one year. The contract allows National Grid to call up to 780MW of Peterhead's 1,180MW of capacity to provide these support services. This means its capacity will be unavailable to the market unless called by National Grid. Meanwhile the station will benefit from investment of £15m to enhance its efficiency and flexibility.

SSE Generation Limited

Strategic Report (continued)

Making the right contribution to Carbon Capture and Storage (CCS) developments

Achieving the EU's decarbonisation policy will broadly require a halving of CO₂ emissions in the electricity sector every decade between now and 2050. On this basis, the use of fossil fuels to generate electricity will eventually depend on the extent to which CCS technology can be applied to abate CO₂ emissions. Consequently, the development of viable carbon capture technology is essential to the UK's long term climate change and energy security objectives.

Against this background, SSE is continuing to work with Shell UK as a strategic partner in the proposed gas CCS project at SSE's gas-fired power station in Peterhead. The project aims to create the first industrial-scale application of CCS technology at a gas-fired power station anywhere in the world and capture up to 10 million tonnes of CO₂ over a 10-year period. Shell is leading the development of the project, and will take responsibility for the construction of the CO₂ capture plant and thereafter the operation, transport and storage elements of the project.

In February 2014, the UK Government announced that it would fund the next stage in the development of the project, the Front End Engineering Design (FEED) study, as part of its CCS commercialisation competition.

Generating electricity from 'multi-fuel'

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

The SSE and Wheelabrator Technologies Inc. 50:50 joint venture – Multifuel Energy Ltd (MEL) – is currently constructing a £300m multi-fuel generation facility adjacent to SSE's existing Ferrybridge power station. Construction of the facility is progressing well and it is scheduled to be operational in 2015. In May 2013, MEL confirmed that it is seeking planning consent for a second multi-fuel facility at the Ferrybridge site, prompted by a clear indication from potential fuel suppliers that there is demand in the market for further waste derived generation facilities. Early consultation work on this project is under way.

RENEWABLE GENERATION

Realising the potential of renewable sources of energy

SSE continues to respond to policy support for increased renewable generation capacity in the portfolio mix in GB, currently delivered through the financial support of the Renewables Obligation (the RO applies also in Northern Ireland). The new Contracts for Difference (CfD) support mechanism, due to be accessible from October 2014, is still being finalised. Absolute support will be limited by the Levy Control Framework budget which has the reasonable objective of controlling costs to customers from government energy policies. However it also means that less support will be available for new renewable generation in the future.

Successfully maintaining performance in renewable sources of energy

SSE continues to be the UK's leading generator of electricity from renewable sources and the largest generator of electricity from wind across the UK and Ireland. At 31 March 2014, SSE Generation Ltd's portfolio comprised of conventional hydro (1,150MW), onshore wind (383MW), and pumped storage (300MW), most of which qualified for the Renewable Obligation Certificates (ROCs), the main financial support scheme for renewable energy in the UK.

During 2013/14, total electricity output from SSE Generation Limited's portfolio increased compared to the previous year, with conventional hydro output increasing by 0.9TWh.

Generation priorities in 2014/15 and beyond

In Generation, SSE's 2014/15 operational priorities remain consistent with its established principles to:

- comply fully with all safety standards and environmental requirements;
- ensure power stations are available to respond to customer demand and market conditions;
- operate power stations efficiently to achieve the optimum conversion of primary fuel into electricity and
- continue to show discipline in the development of and investment in new generation projects.

SSE Generation Limited

Strategic Report (continued)

Principal risks and uncertainties

The Directors acknowledge that they have responsibility for the Company's systems of internal control and risk management and for monitoring their effectiveness. The purposes of these systems are to manage, rather than eliminate, the risk of failure to achieve business objectives, to provide reasonable assurance as to the quality of management information and to maintain proper control over the income, expenditure, assets and liabilities of the Company.

No system of control can, however, provide absolute assurance against material misstatement or loss. Accordingly, the Directors have regard to what controls, in their judgement, are appropriate to the Company's business and to the relative costs and benefits of implementing specific controls.

The main financial risks that the Company could face have been considered by the Directors and the Group's Risk and Trading Committee. These include mechanical failure at the Company's power stations, competition, availability of fuel, wholesale market prices of electricity, gas and other commodities, economic regulation and government policies and other factors. The Company's generation strategy is built upon managing these risks through owning a diverse range of assets and fuels from which to meet its customers' demand and reduce potential financial liabilities.

To mitigate these risks, regular maintenance work is performed at the power station to avoid unplanned outage; competitor activity is monitored; and effectiveness of performance in all key risk areas is regularly reviewed by management.

The Company transacts with other companies within the SSE plc group and is a key part of the Group's business and strategies. The principal risks and uncertainties faced by the Group are set out in the Group's annual report.

ON BEHALF OF THE BOARD



Christopher Milne
Director
22 September 2014

SSE Generation Limited

Statement of directors' responsibilities in respect of the Directors' Report, the Strategic Report and the Financial Statements

The directors are responsible for preparing the Directors' Report, the Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities.

SSE Generation Limited

Independent Auditor's Report to the Members of SSE Generation Limited

We have audited the financial statements of SSE Generation Limited for the year ended 31 March 2014 set out on pages 7 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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, and express an opinion on, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

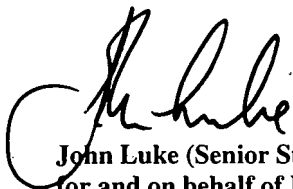
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.



John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
191 West George Street
Glasgow
G2 2LJ

22 SEPTEMBER 2014

SSE Generation Limited

Profit and Loss Account for the year ended 31 March 2014

	Note	2014 £m	2013 £m
Turnover		445.5	406.0
Cost of Sales		(211.2)	(186.5)
Cost of sales: Exceptional items	3	(100.8)	(100.4)
Gross profit		133.5	119.1
Administrative costs	2	(22.8)	(19.3)
Gain/(loss) on disposals	2	1.3	(0.7)
Operating profit	2	112.0	99.1
Income from fixed asset investments		20.9	22.1
Net interest payable	6	(68.8)	(53.0)
Profit on ordinary activities before taxation		64.1	68.2
Tax on profit on ordinary activities	7	(22.2)	(10.3)
Profit for the financial year	21	41.9	57.9

The above results are derived from continuing activities.

The accompanying notes form part of these financial statements.

SSE Generation Limited

Balance Sheet as at 31 March 2014

	Note	2014 £m	2013 £m
Fixed assets			
Tangible assets	9	1,418.3	1,266.7
Intangible assets	10	13.3	28.2
Investments	11	318.9	408.1
		<u>1,750.5</u>	<u>1,703.0</u>
Current assets			
Stock	12	2.1	2.2
Debtors:			
amounts falling due within one year	13	142.1	553.9
amounts falling after more than one year	13	-	38.0
Cash and cash equivalents	14	11.3	2.7
		<u>155.5</u>	<u>596.8</u>
Creditors:			
Amounts falling due within one year	15	(241.1)	(413.6)
Net current liabilities/(assets)		<u>(85.6)</u>	<u>183.2</u>
Total assets less current liabilities		<u>1,664.9</u>	<u>1,886.2</u>
Creditors:			
Amounts falling due after more than one year	16	(1,166.9)	(1,405.5)
Provisions for liabilities and charges			
Deferred taxation	18	(103.2)	(109.3)
Other	19	(1.5)	-
Net assets		<u>393.3</u>	<u>371.4</u>
Capital and reserves			
Called up share capital	20	104.4	104.4
Profit and loss account	21	288.9	267.0
Shareholders' funds		<u>393.3</u>	<u>371.4</u>

These financial statements were approved by the Directors on 22 September 2014 and signed on their behalf by



Christopher Milne, Director
Company Registered No: 2310571

SSE Generation Limited

Reconciliation of Movements in Shareholders' Funds as at 31 March 2014

	2014 £m	2013 £m
Profit for the financial year	41.9	57.9
Dividends paid to shareholders	(21.0)	(10.5)
Net charge in respect of employee share awards	1.0	0.9
Net addition to shareholders' funds	21.9	48.3
Opening shareholders' funds	371.4	323.1
Closing shareholders' funds	393.3	371.4

SSE Generation Limited

Notes on the Financial Statements for the year ended 31 March 2014

1. Principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with all applicable United Kingdom accounting standards. The principal accounting policies are summarised below and have been applied consistently.

SSE Generation Limited is a wholly owned subsidiary of SSE plc, and therefore relies upon group facilities to support its activities. The group's facilities and the rationale for preparing the group financial statements under the going concern basis are disclosed in full in the annual report and accounts of SSE plc. For this reason, the going concern basis has been adopted in preparing the financial statements of SSE Generation Limited.

Under Financial Reporting Standard 1 (FRS 1), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent undertaking includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of SSE plc, it has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the SSE Group (the Group).

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Turnover

Turnover comprises the value of goods, services and facilities provided during the year.

Research and development

Expenditure on research and development is charged to the profit and loss account as incurred.

Customer contributions and capital grants

Customer contributions and capital grants are recorded as deferred income and released to the profit and loss account over the estimated life used in calculating contributions.

Investment Income

Investment income comprises dividends received from the Company's investments in associated undertakings.

Interest

Interest on the funding attributable to major capital projects is capitalised during the period of construction and written off as part of the total cost over the operational life of the asset.

SSE Generation Limited

Notes on the Financial Statements for the year ended 31 March 2014

1. Principal accounting policies (continued)

Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation.

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantially enacted, by the balance sheet date.

Deferred taxation arises in respect of items where there are timing differences between their treatment for accounting and taxation purposes. This is recognised where an obligation to pay more tax in the future has originated but not reversed at the balance sheet date. A deferred tax asset is recognised only when it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Tangible fixed assets

(i) Depreciation

The Company is obliged under the Reservoirs Act 1975 to maintain its hydro infrastructure network, including its dams, tunnels and other hydro civil engineering structures. This network is maintained in good repair and is therefore considered to have an indefinite life. Expenditure to maintain the hydro generation infrastructure is dealt with using renewals accounting, and the annualised planned expenditure to maintain the operating capacity of this infrastructure is charged as depreciation to the profit and loss account.

Depreciation is provided on tangible fixed assets to write off cost, less residual values, on a straight line basis over their estimated operational lives. The estimated operational lives are as follows:

	Years
Generation assets	20 to 75

Cyclical maintenance on hydro civil assets of a longer life nature is capitalised and depreciated over the anticipated useful life of the refurbishment.

(ii) Subsequent expenditure

Expenditure incurred to replace a component of a tangible fixed asset that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the tangible fixed asset to which it relates.

Intangible assets

(i) Development Assets

Costs capitalised as development intangibles represent the costs incurred in bringing individual projects to the consented stage. These are principally wind farm developments but will also include other generation projects. 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 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 de-recognised on disposal, or when no future economic benefits are expected from their use.

Investments

Fixed asset investments are stated at cost less any provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

SSE Generation Limited
Notes on the Financial Statements
for the year ended 31 March 2014

1. Principal accounting policies (continued)

Stocks

Stocks are valued at the lower of cost and net realisable value.

Employee benefit obligations

(i) Pensions

Contributions to pension schemes on behalf of the employees of the Company are charged to the profit and loss account in accordance with the contributions incurred in the year.

(ii) Equity and equity-related compensation benefits

SSE plc, the ultimate parent of the Company, operates a number of All Employee Share Schemes as described in the Remuneration Report of the Group. These schemes enable Group employees to acquire shares of the ultimate parent company. The employees of the Company are entitled, where applicable, to participate in these schemes. The Company has not been charged with the cash cost of acquiring shares on behalf of its employees, this cost is borne by the Ultimate Parent Company. Where the fair value of the options granted has been measured, the Company has recognised the expense as if the share based payments related to the Company's own shares.

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 at each balance sheet date with any adjustment in respect of the current and prior years being recognised in the profit and loss financial statements.

The costs associated with the other main employee schemes, the share incentive plan and the deferred bonus scheme, are recognised over the period to which they relate.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to these financial statements.

2. Operating profit

The operating profit is arrived at after charging / (crediting):

	2014	2013
	£m	£m
Depreciation of tangible fixed assets	52.3	47.6
Operating lease rentals	2.5	2.1
Research and development	1.2	0.1
Net management fee in respect of services provided by group companies	22.8	19.0
(Gain)/loss on sale of assets	(1.3)	0.7

During October 2013, a development hydro site was sold at a gain of £1.3m.

The Company incurred an audit fee of £0.05m (2013 - £0.05m) in the year.

SSE Generation Limited

Notes on the Financial Statements for the year ended 31 March 2014

3. Exceptional Charges

	2014 £m	2013 £m
Exceptional Charges	1.5	-
Investment Impairment	99.3	16.5
Fixed asset impairment	-	83.9
	<u>100.8</u>	<u>100.4</u>

During March 2014, SSE Plc announced that a "Voluntary Early Release" scheme was available to employees seeking to leave the Company in return for a financial settlement. As a result of this process an exceptional charge has been recorded to account for the cost of releasing employees within this Company. Employees successful in their application will leave the Company over the course of 2014

In the year to 31 March 2014, an exceptional impairment charge of £99.3m (2013 – nil) was recorded against the investment in Keadby Generation Limited.

In the year to 31 March 2013, an exceptional impairment charge of £83.9m was recorded against the main power station asset in Peterhead. This was as a result of changing regulatory and economic conditions.

4. Staff costs and numbers

	2014 £m	2013 £m
Staff costs:		
Wages and salaries	31.9	30.0
Social security costs	3.2	3.2
Share based remuneration	1.0	0.9
Other pension costs	7.4	4.7
	<u>43.5</u>	<u>38.8</u>
Less: charged as capital expenditure	<u>(7.5)</u>	<u>(7.5)</u>
	<u>36.0</u>	<u>31.3</u>

	2014 Number	2013 Number
Number employed at 31 March - Operational	<u>688</u>	<u>659</u>

	2014 Number	2013 Number
The monthly average number of people employed by the Company during the year	<u>675</u>	<u>648</u>

5. Directors' remuneration

The level of emoluments of the Directors who provided services to the Company were as follows:

	2014 £m	2013 £m
Remuneration as executives	<u>1.5</u>	<u>0.5</u>

Retirement benefits are accruing to 5 (2013 - 5) Directors under a defined benefit scheme. The Company contributions paid in respect of these directors was £263,213 (2013 - £60,480).

Highest Paid Director

	2014 £m	2013 £m
Total emoluments	0.6	0.5
Company contributions to defined benefit scheme	0.1	0.1

SSE Generation Limited

Notes on the Financial Statements for the year ended 31 March 2014

6. Net interest payable

	2014 £m	2013 £m
Interest receivable		
Interest receivable from group undertakings	2.7	10.4
Foreign exchange translation of monetary assets and liabilities	-	4.2
	<u>2.7</u>	<u>14.6</u>
Interest payable		
Bank interest	(2.4)	(4.1)
Interest payable to group undertakings	(73.9)	(68.6)
	<u>(76.3)</u>	<u>(72.7)</u>
Interest capitalised	4.8	5.1
Net Interest Payable	<u>(68.8)</u>	<u>(53.0)</u>

7. Taxation

	2014 £m	2013 £m
Current tax:		
UK corporation tax	28.3	30.3
Deferred tax:		
Origination and reversal of timing differences	7.0	(15.2)
Effect of change in tax rate	(15.5)	(4.8)
Transfer	2.4	-
Total Deferred Tax	<u>(6.1)</u>	<u>(20.0)</u>
Total tax charge on profit on ordinary activities	<u>22.2</u>	<u>10.3</u>

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2014 £m	2013 £m
Profit before tax	<u>64.1</u>	<u>68.2</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 23% (2013 - 24%)	14.7	16.4
Effects of:		
Expenses not deductible for tax purposes	20.7	3.2
Capital allowances in excess of depreciation	(7.1)	15.6
IBA's permanent difference	-	0.8
Other timing differences	-	(0.5)
Non-taxable income	-	(5.3)
Share based remuneration	-	0.1
Current tax charge for year	<u>28.3</u>	<u>30.3</u>

The Finance Act 2013 announced a reduction in the Corporation tax rate for Financial year 2014/15 to 21% and a further 1% rate reduction, with the rate being reduced to 20% for Financial year 2015/16.

This change will reduce the Company's future tax current tax charge which has the effect of reducing the Company's net deferred tax liabilities recognised at 31 March 2014 by £15,490,746.

SSE Generation Limited

Notes on the Financial Statements for the year ended 31 March 2014

8. Dividends

	2014 £m	2013 £m
Amounts recognised as distributions from equity:		
Final dividend for the current year - 20.2p per share (2013 – 10.1p per share)	<u>21.0</u>	<u>10.5</u>

9. Tangible fixed assets

	Generation assets £m	Assets under the course of construction (AUC) £m	Total £m
Cost:			
At 1 April 2013	2,150.0	22.8	2,172.8
Additions	0.4	182.2	182.6
Transfer from SSE Barkip Limited	17.5	-	17.5
Transfer from SSE Renewables Developments (UK) Ltd	-	3.8	3.8
Transfers from AUC to fully commissioned	29.4	(29.4)	-
At 31 March 2014	<u>2,197.3</u>	<u>179.4</u>	<u>2,376.7</u>
Depreciation and impairment:			
At 1 April 2013	906.1	-	906.1
Charge for the year	52.3	-	52.3
At 31 March 2014	<u>958.4</u>	<u>-</u>	<u>958.4</u>
Net book value:			
At 31 March 2014	<u>1,238.9</u>	<u>179.4</u>	<u>1,418.3</u>
At 31 March 2013	1,243.9	22.8	1,266.7

On 01 April 2013, all assets within SSE Barkip Limited were transferred at cost value to SSE Generation Limited.

During the year SSE Generation Limited acquired a windfarm asset from SSE Renewables Developments (UK) Ltd for £3.8m.

10. Intangible fixed assets

	Development assets £m
Cost	
At 1 April 2013	29.1
Additions	75.7
Transfer to tangible fixed assets	(88.3)
Disposal	(2.3)
At 31 March 2014	<u>14.2</u>
Amortisation	
At 1 April 2013 and 31 March 2014	<u>0.9</u>
Net Book Value	
At 31 March 2014	<u>13.3</u>
At 31 March 2013	<u>28.2</u>

SSE Generation Limited

Notes on the Financial Statements for the year ended 31 March 2014

11. Fixed asset investments

	Investment in joint ventures £m	Investment in subsidiary undertakings £m	Total £m
At 1 April 2013	42.6	365.5	408.1
Addition	-	10.1	10.1
Impairment		(99.3)	(99.3)
At 31 March 2014	42.6	276.3	318.9

During the year, Keadby Power Limited's investment of £10.1m in Keadby Generation Limited was transferred into SSE Generation Limited.

During the year, the investment in Keadby Generation Ltd was impaired by £99.3m

Details of the principal subsidiary undertakings, joint ventures and associates are as follows:

Subsidiary undertakings	Holding	Proportion Held	Nature of Business
Medway Power Ltd	Ordinary shares	100%	Electricity generation
Keadby Generation Ltd	Ordinary shares	100%	Electricity generation
SSE Medway Operations Ltd	Ordinary shares	100%	Electricity generation
SSEPG (Operations) Ltd	Ordinary shares	100%	Electricity generation
SSE Power Ltd	Ordinary shares	100%	Generation investment
SSE Investments Ltd	Ordinary shares	100%	Generation investment
SSE Seabank Investments Ltd	Ordinary shares	100%	Generation investment
SSE Toddleburn Ltd	Ordinary shares	100%	Renewable generation development
Slough Heat and Power Ltd	Ordinary shares	100%	Integrated energy group
Abermedd Power Company Ltd	Ordinary shares	100%	Construction power plant
SSE Generation Ireland Ltd	Ordinary shares	100%	Electricity generation
Joint ventures	Holding	Proportion Held	Nature of Business
Marchwood Power Ltd	Ordinary shares	50.0%	Electricity generation
Multifuel Energy Ltd	'A' Ordinary shares	50.0%	Development of Multi-fuel sites
Associated undertakings	Holding	Proportion Held	Nature of Business
Barking Power Ltd	Ordinary shares	30.4%	Electricity generation
Derwent Cogeneration Ltd	Ordinary shares	49.5%	Electricity generation

All companies have accounting periods ending on 31 March.

Investment income includes income from associates/joint ventures of £20.9m (2013 - £22.1m).

SSE Generation Limited

Notes on the Financial Statements for the year ended 31 March 2014

12. Stocks

	2014 £m	2013 £m
Fuel, spares and consumables	2.1	2.2

13. Debtors

	2014 £m	2013 £m
Amounts falling due within one year:		
Trade debtors	2.4	7.1
Prepayments and accrued income	15.0	7.4
Other debtors	4.9	2.1
Amounts owed by group undertakings	81.8	537.3
Loans due from group undertakings	38.0	-
	142.1	553.9
Amounts falling due in greater than one year:		
Long term	-	38.0
	142.1	591.9

14. Cash and cash equivalents

	2014 £m	2013 £m
Short term deposits	11.3	2.7

15. Creditors: amounts falling due within one year

	2014 £m	2013 £m
Loans (note 17)	-	75.0
Trade creditors	5.1	9.5
Amounts owed to group undertakings	83.5	196.0
Corporation tax	67.4	60.4
Accruals and deferred income	74.5	59.8
Other creditors	10.6	12.9
	241.1	413.6

SSE Generation Limited

Notes on the Financial Statements for the year ended 31 March 2014

16. Creditors: amounts falling due after more than one year

	2014 £m	2013 £m
Loan from ultimate parent (note 17)	1,050.0	1,050.0
Amounts owed to group undertakings	116.9	355.5
	<u>1,166.9</u>	<u>1,405.5</u>

17. Borrowings

	2014 £m	2013 £m
Less than one year		
4.63% European Investment Bank repayable 27 May 2013	-	25.0
5.36% European Investment Bank repayable 20 November 2013	-	50.0
	<u>-</u>	<u>75.0</u>
Between two and five years		
6.50% Loan Stock repayable to SSE plc 31 March 2016	150.0	150.0
6.75% Loan Stock repayable to SSE plc 30 June 2018	50.0	-
	<u>200.0</u>	<u>150.0</u>
Over five years:		
6.75% Loan Stock repayable to SSE plc 30 June 2018	-	50.0
5.25% Loan Stock repayable to SSE plc 30 September 2019	600.0	600.0
5.625% Loan Stock repayable to SSE plc 31 March 2021	250.0	250.0
	<u>850.0</u>	<u>900.0</u>
	<u>1,050</u>	<u>1,125</u>

18. Deferred taxation

Deferred taxation is provided as follows:

	2014 £m	2013 £m
Accelerated capital allowances	93.8	110.5
Other timing differences	9.4	(1.2)
Provision for deferred tax	<u>103.2</u>	<u>109.3</u>

£m

Provision at 31 March 2013	109.3
Credit to profit and loss account	(6.1)
Provision at 31 March 2014	<u>103.2</u>

19. Provisions for liabilities and charges

	Restructuring provision £m
At 1 April 2013	-
Charged in the year	1.5
At 31 March 2014	<u>1.5</u>

SSE Generation Limited

Notes on the Financial Statements for the year ended 31 March 2014

20. Share capital

	Number	£m
Ordinary shares of £1.00 each:		
Allotted, called up and fully paid:		
At 1 April 2013 and 31 March 2014	104,370,002	104.4

21. Profit and loss account

	£m
At 1 April 2013	267.0
Profit for the year	41.9
Dividends	(21.0)
Charge in respect of employee share awards	1.0
At 31 March 2014	288.9

22. Pensions

The majority of the Company's employees are members of the Electricity Supply Pension Scheme which provides defined benefits based on final pensionable pay. The Company's contributions to this scheme are set in relation to the current service period only (i.e. these are not affected by any surplus or deficit in the scheme relating to past service of its own employees and any other members of the scheme) and as such are treated as a contribution to a defined contribution scheme. New employees can opt to join a personal pension scheme which is a money purchase scheme with the Company matching the members' contributions up to a maximum of 6% of salary. That scheme is managed by Friends Provident.

The Company's share of the total contributions payable to the pension schemes during the year was £7.4m (2013 - £4.7m).

23. Employee share-based payments

The majority of the Company's employees are participants in the following Group share schemes:

(i) Savings-related share option schemes ("Sharesave")

This scheme gives employees the option to purchase shares in the parent Company at a discounted market price, subject to them remaining in employment with the Group 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 and at the end of this period, 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.

SSE Generation Limited

Notes on the Financial Statements for the year ended 31 March 2014

23. Employee share-based payments (continued)

(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.

(iii) Deferred Annual Incentive Scheme

This scheme (previously deferred bonus scheme) applies to senior managers and Executive Directors. Under this scheme, 25% of 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

Award made		02 June 2010	02 June 2011	02 June 2012	02 June 2013
Maximum value of award as a % of base salary		150	150	150	150
Performance conditions					
Total shareholder return (i)	Full vesting	≥ 75th percentile	≥ 75th percentile	≥ 75th percentile	≥ 75 th percentile
	25% vesting	median	median	median	median
Earnings per share (ii)	Full vesting	RPI + 8%	RPI + 8%	RPI + 8%	RPI + 8%
	25% vesting	RPI + 2%	RPI + 2%	RPI + 2%	RPI + 2%
Dividend per share growth (iii)	Full vesting	RPI + 6%	RPI + 6%	RPI + 6%	RPI + 6%
	25% vesting	RPI + 2%	RPI + 2%	RPI + 2%	RPI + 2%

SSE Generation Limited

Notes on the Financial Statements for the year ended 31 March 2014

23. Employee share-based payments (continued)

(iv) Performance Share Plan (continued)

These awards will vest after three years to the extent that certain performance conditions are met.

(i) TSR target relative to other FTSE 100 companies and MCSI Europe Utilities (a dedicated peer group of UK and other European utilities) Index over the relevant 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.

(iii) Under the Dividend per share growth performance condition, pro rata vesting between 2% and 6% above RPI, with no vesting if the minimum dividend per share growth target is not achieved.

Details used in the calculation of these costs are as follows:

(i) Savings-related share option scheme

As at 31 March 2014

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Outstanding at end of year	Date from which exercisable	Expiry date
30 June 2009	1,042	5,998	-	(5,653)	(345)	-	1 October 2014	31 March 2015
30 June 2010	871	21,196	-	(20,163)	(1,033)	-	1 October 2013	31 March 2014
30 June 2010	871	138,639	-	(4,785)	(5,085)	128,769	1 October 2015	31 March 2016
29 June 2011	1,105	11,625	-	-	(1,343)	10,282	1 October 2014	31 March 2015
29 June 2011	1,105	27,603	-	(86)	(5,382)	22,135	1 October 2016	31 March 2017
29 June 2012	1,065	25,478	-	(32)	(1,977)	23,469	1 October 2015	31 March 2016
29 June 2012	1,065	31,272	-	-	(2,419)	28,853	1 October 2017	31 March 2018
05 July 2013	1,197	-	31,401	-	(1,772)	29,629	1 October 2016	31 March 2017
05 July 2013	1,197	-	29,181	-	(1,754)	27,427	1 October 2018	31 March 2019
		261,811	60,582	(30,719)	(21,110)	270,564		

As at 31 March 2013

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Outstanding at end of year	Date from which exercisable	Expiry date
10 July 2007	1,306	9,332	-	(9,332)	-	-	1 October 2012	31 March 2013
17 July 2008	1,274	2,645	-	-	(2,645)	-	1 October 2013	31 March 2014
30 June 2009	1,042	6,296	-	-	(298)	5,998	1 October 2014	31 March 2015
30 June 2010	871	23,796	-	(1,147)	(1,453)	21,196	1 October 2013	31 March 2014
30 June 2010	871	144,557	-	(126)	(5,792)	138,639	1 October 2015	31 March 2016
29 June 2011	1,105	13,158	-	-	(1,533)	11,625	1 October 2014	31 March 2015
29 June 2011	1,105	30,449	-	-	(2,846)	27,603	1 October 2016	31 March 2017
29 June 2012	1,065	-	26,812	-	(1,334)	25,478	1 October 2015	31 March 2016
29 June 2012	1,065	-	31,694	-	(422)	31,272	1 October 2017	31 March 2018
		230,233	58,506	(10,605)	(16,323)	261,811		

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,455p (2013 - 1,433p) is considered representative of the weighted average share price at the date of exercise. The weighted average share price of forfeitures is simply the option price to which the forfeit relates.

SSE Generation Limited
Notes on the Financial Statements
for the year ended 31 March 2014

23. Employee share-based payments (continued)

(i) Savings-related share option scheme (continued)

The fair value of these shares at the grant date, calculated using the Black-Scholes model, and the assumptions made in that model are as follows:

	July 2009		July 2010		July 2011		July 2012		July 2013	
	3 Year	5 year	3 year	5 Year	3 year	5 Year	3 year	5 year	3 year	5 year
Fair value of option	244p	269p	231p	246p	171p	163p	182p	159p	194p	168p
Expected volatility	35%	35%	19%	19%	18%	18%	18%	18%	15%	15%
Risk free rate	2.7%	2.9%	1.4%	2.2%	1.2%	2.1%	0.4%	0.9%	0.7%	1.4%
Expected dividends	4.1%	4.2%	1.7%	2.2%	6.1%	6.1%	5.9%	5.8%	5.9%	5.9%
Term of the option	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	1,139p	1,139p	1,089p	1,089p	1,393p	1,393p	1,391p	1,391p	1,579p	1,579p
Strike price	1,042p	1,042p	871p	871p	1,105p	1,105p	1,065p	1,065p	1,197p	1,197p

Expected price volatility was obtained by calculating the historical volatility of the Group's share price over the previous 12 months.

(ii) Share Incentive Plan

	2014		2013	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	102,643	1,240	91,031	1,184
Granted	31,392	1,470	30,590	1,395
Forfeited	(4,958)	1,383	(4,644)	1,263
Exercised	(3,986)	1,239	(3,300)	1,395
Transferred to pool	(14,032)	1,260	(11,034)	1,506
Outstanding at end of year	111,059	1,297	102,643	1,240
Exercisable at end of year	39,431	1,150	31,156	1,301

When shares have been held for a period of 5 years they are transferred to a pooled share account. At this point the holder has an unconditional right to the share.

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 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

	2014		2013	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	2,470	1,417	8,610	1,175
Exercised	(100)	1,404	(560)	1,432
Transferred to pool account	(2,370)	1,408	(5,580)	1,474
Outstanding at end of year	-	-	2,470	1,417
Exercisable at end of year	-	-	2,470	1,417

SSE Generation Limited

Notes on the Financial statements for the year ended 31 March 2014

23. Employee share-based payments (continued)

(ii) Share Incentive Plan (continued)

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 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) Annual Deferred incentive scheme

	2014		2013	
	Shares	Price (pence)	Shares	Price (pence)
Outstanding at start of year	24,924	1,257	26,828	1,189
Granted	10,240	1,496	8,540	1,383
Forfeited	-	1,208	(1,611)	1,230
Exercised	(8,419)	1,183	(8,833)	1,174
Outstanding at end of year	26,745	1,409	24,924	1,257
Exercisable at end of year	-	1,327	-	-

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 paid for the shares at the grant date as shares are acquired in the market as at that date to satisfy awards made under the scheme.

(iv) Performance share plan

	2014		2013	
	Shares	Price (pence)	Shares	Price (pence)
Outstanding at start of year	116,153	1,246	114,864	1,387
Granted	18,643	1,496	37,703	1,383
Forfeited	(10,372)	1,140	(31,246)	1,174
Exercised	(10,903)	1,079	(5,168)	1,174
Outstanding at end of year	113,521	1,408	116,153	1,246

Of the outstanding options at the end of the year, none were exercisable.

The fair value of the performance share plan shares is not subject to valuation using the Black-Scholes model. The fair value of shares granted in the year is equal to the closing market price on the date of grant.

SSE Generation Limited

Notes on the Financial statements for the year ended 31 March 2014

24. Capital commitments

(i) Capital expenditure

	2014 £m	2013 £m
Contracted for but not provided	<u>160.5</u>	<u>26.6</u>

(ii) Operating lease commitments

The payments under operating leases which are due to be made in the next year, analysed over the periods when the leases expire, are:

	Other assets	
	2014 £m	2013 £m
Between two and five years	1.2	1.2
After five years	<u>5.8</u>	<u>4.7</u>
	<u>7.0</u>	<u>5.9</u>

(iii) Guarantees and indemnities

The Company has provided guarantees on behalf of other group undertakings in respect of the performance of contracts amounting to £54.5m (2013 - £30.6m).

The Company has provided guarantees to SSE PLC for borrowings made amounting to £1,546.6m (2013 - £846.6m)

24. Ultimate holding company

The Company is a subsidiary of SSE plc, which is the ultimate parent company and is registered in Scotland. The largest and smallest group in which the results of the Company are consolidated is that headed by SSE plc. The consolidated financial statements of the group (which include those of the Company) are available from the Company Secretary, SSE plc, Inverlmond House, 200 Dunkeld Road, Perth PH1 3AQ or by accessing the Company's website at www.sse.com.

25. Post balance sheet event

On 31 July 2014, a fire occurred at the Ferrybridge Power Plant, an asset held in SSE Generation Limited subsidiary Keadby Generation Limited, within units 3 and 4. Current estimates indicate that unit 3 of the power station will be available for use by November 2014, and unit 4 will not return to use in the 2014/15 financial year.