

REGISTERED NO.
3757502

SSE Energy Supply Limited

Financial statements for the year ended 31 March 2014

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SSE Energy Supply Limited

Strategic Report

1. Business Review

Fulfilling key responsibilities as an energy supplier

The key responsibilities of the Energy Supply business are to:

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

SSE Energy Supply Ltd appreciates that its customers rely on its core product of electricity to heat and power their homes in order to live comfortably. It has, therefore, led the energy supply industry on the issue of energy affordability and in the year to 31 March 2014 it:

- became the only supplier to freeze unconditionally household energy prices in Great Britain until 2016;
- was one of only two suppliers to cut prices for all household customers in Great Britain, including fixed and capped price customers; and
- continued to lead the debate on the need to take costs out of energy bills and to fund energy policies more progressively through taxation, to ensure greater fairness and help the vulnerable.

SSE's Energy Supply business buys the electricity it needs through SSE's Energy Portfolio Management (EPM) division, the results of both of these divisions are recorded in this legal entity; SSE Energy Supply Ltd. While SSE believes that the integrated management of supply and EPM brings significant benefits for customers, including protection from price volatility in wholesale markets, it has also acknowledged that more needs to be done to make the energy sector easier to understand.

Therefore, on 26 March 2014, the company announced, that subject to securing the necessary third party consents, SSE will reorganise its companies so that there are separate legal entities for its energy supply and energy portfolio management activities. This change, which is scheduled to be completed by 31 March 2015, will enhance the transparency of the measurement and reporting of the performance of these businesses.

Supplying energy to customers

Operating profit (excluding exceptional items) increased from £96.6m in 2013 to £169.4m in 2014. This was primarily due to the price increase in electricity tariffs which came into effect during November 2013, and also better than forecast output from renewable sources of energy, including offshore wind farms which meant that the weighted average cost of electricity was lower than in prior years. As a result gross margin increased by 0.5% to 1.8%.

In the year to 31 March 2014, SSE's household electricity customer accounts fell from 4.87 million to 4.66 million.

The decline in customer account numbers reflects the highly competitive market conditions in Great Britain, in which there are 10 suppliers of scale (with at least 100,000 customers) aiming to retain and gain customers. Despite this, SSE's energy customer account numbers are still less than 6% below their peak in March 2011 and its price freeze to 2016 is a very positive commitment to household customers in Great Britain.

Working with politicians to tackle energy bills

SSE Energy Supply is committed to working with all stakeholders to minimize the bills that customers pay and has, over the last few years, highlighted that the outlook for energy bills was increasing due to upward cost pressures from:

- the increased cost of buying electricity on wholesale markets;
- paying for the investment to upgrade electricity networks to deliver energy to customers; and
- social and environmental levies put on energy bills by successive governments.

In the autumn of 2013 energy became particularly politicised. It was a key topic at UK party political conferences and continued to be so after the company made the difficult decision to respond to the upward cost pressures through announcing an average price rise of 8.2% for household customers in Great Britain, effective from 15 November. The decision to make changes to household tariffs was not taken lightly, and at the time SSE urged politicians of all parties to

SSE Energy Supply Limited

Strategic Report (continued)

1. Business Review (continued)

Working with politicians to tackle energy bills (continued)

take steps to remove social and environmental levies from energy bills and fund the policy objectives they are designed to achieve through general taxation.

This raised customer and political awareness and understanding of the issues and SSE welcomed the decision by the UK government to undertake a consultation on changes to improve the cost-effectiveness of the Energy Company Obligation (ECO), and other changes to these schemes. Over the course of 2014/15, the impact of these changes should see a typical customer benefit by around £50 as a specific result of:

- the extension by two years and simplification of the ECO, reducing the annual cost per customer by around £33;
- a government-funded rebate of £12 paid to every electricity customer in the autumn for the next two years; and
- distribution network operators (DNOs) making a voluntary commitment to reduce network costs in 2014/15, funding a one-off reduction of around £5 per customer.

SSE started to pass on the resulting savings to customers from March 2014 and – unlike some of its competitors - has also passed on the cost saving to customers on fixed and capped price tariffs.

In March 2014, SSE also announced a household energy price freeze in Great Britain until at least January 2016 - the longest ever in the sector. The move came in response to SSE's:

- research among its own customers which found that 80% were concerned about prices rising in the next two years;
- ability to model fully the costs of the new ECO scheme and its impact on customer bills; and
- ability to secure successfully energy in long-term wholesale markets.

In order to deliver its price freeze, SSE stated in March 2014 that it accepted that its profit margins from supplying customers with electricity are unlikely to recover to the level seen in 2012/13 before 2016/17 at the earliest.

SSE Energy Supply would like to extend its price freeze beyond 2016, or even cut prices if further costs can be taken out of energy. It believes further savings for consumers worth around £100 – forecast to rise to around £200 by 2020 – could be made with political action to end the practice of levying policy costs on energy bills. Recouping the cost through energy bills takes no account of an individual's ability to pay and is therefore socially regressive. SSE wrote to all the major political parties in March 2014, calling for more of these levies to be moved into general taxation, making bills cheaper and helping those less able to pay.

Helping vulnerable customers

In addition to campaigning on energy bills and freezing household prices until at least January 2016, the company helps vulnerable customers manage the impact of high energy prices in a number of other ways. During 2013/14, SSE spent over £50m providing assistance to over 330,000 vulnerable customers through the Warm Home Discount (WHD) scheme. This scheme enables pensioners and vulnerable customers to receive help with their fuel bills.

Under the WHD scheme, two groups of customers – a 'core' group of pensioners and a 'broader group' of other vulnerable customers – were given £135 to help with the cost of energy over the winter. Over 240,000 of SSE's customers have received core group rebates. SSE exceeded its 'broader group' obligation target of 58,000 by helping over 99,000 vulnerable customers. This was achieved via promotion by front line advisors and by working:

- with external partners such as Citizens Advice, National Energy Action and Energy Action Scotland to identify those most in need of help.
- As part of the Warm Homes Discount Scheme, the Priority Assistance Fund provides additional support to help low income and vulnerable customers. During 2013/14, the fund provided more than £4m of assistance to vulnerable customers, including debt relief, free energy efficient appliances, energy efficiency advice, help with bespoke payment arrangements and signposting to other organisations for help with more specialist issues.

SSE Energy Supply Limited

Strategic Report (continued)

1. Business Review (continued)

Helping vulnerable customers (continued)

- SSE also operates a free Careline priority service, dedicated to helping customers who are elderly, disabled or have special medical needs. Tailored and flexible payment arrangements are provided to pay for the electricity and gas that they use.
- Between the start of December and the end of February (or longer if the weather is unseasonably cold outside this time), SSE commits to a no disconnection policy covering all customers.
- Through its partnership with Social Enterprise Direct (part of Citizens Advice) SSE helped 210 customers increase their household income, with an average increase of £3,765 per annum (£72 per week).

Treating customers fairly

In August 2013 SSE Energy Supply launched *Treating Customers Fairly*, setting out the standards of conduct its customers can expect. In practice, it means ensuring customers are treated fairly and that the company works in a transparent, honest and professional way. The introduction of such standards is good news for customers as they are now enforceable by Ofgem, which has powers to investigate, and if appropriate, fine companies who fail to meet them.

The company has already implemented its own clear and tangible commitments. These are enshrined in its Customer Charter and backed up by its Customer Service Guarantee, through which the company promises to meet five key customer service standards or give customers £20.

Providing customers with sector-leading service

The company puts high standards of customer service at the heart of everything it does. During 2013/14 SSE was ranked number one for customer service in the uSwitch Customer Satisfaction Report – with customers voting SSE into top spot for the eighth year in a row. The annual survey, carried out for uSwitch by YouGov, asked more than 5,000 energy customers for their feedback on their energy supplier. As well as winning the Customer Service award, SSE was named 'Most Likely To Be Recommended' and best for Billing Services.

Taking further action to make a difference for customers

To build on its position, the company has offered a series of new initiatives during 2013/14, including::

- In July 2013, the company introduced a new energy bill design to be clearer and simpler for customers. Over 1,000 SSE customers provided input, and the new bill features ten key pieces of information and design features which customers requested. These include a simple front page summary and financial position, a clear presentation of billing periods and dates, easy-to understand prices and charges, easy to find contact information, and clear identification of whether the bill is estimated or actual.
- In August 2013, the company announced that it had ended the practice of unsolicited telephone calls to potential customers in Great Britain, recognising that they are unwelcome and intrusive.
- In February 2014, the company announced that it will issue automatic refunds to direct debit customers with more than £5 credit at the end of their yearly billing cycle.

Delivering for small business customers

SSE believes that small businesses play an important role in the UK economy and in August 2013, with support from the Government and the Federation of Small Businesses, it announced changes to make life easier for its small business customers. These changes mean that the company has ended the practice of automatic contract rollovers for small business customers, as well as extending to these customers its existing commitment not to back-bill micro-business customers for more than 12 months where they have previously been under-billed due to a genuine billing error on the company's part.

So now, when a small business customer comes to the end of a fixed-term contract and does not make arrangements to terminate or enter into a new contract, instead of being automatically locked in to a new deal, the customer will move to the company's Variable Business Rates. This allows these customers to move to a new deal with no exit fee, once their fixed period contract ends, as long as they give 30 days' notice.

SSE Energy Supply Limited

Strategic Report (continued)

1. Business Review (continued)

Delivering for small business customers (continued)

These changes will help SSE's small business customers, enabling them to focus on the more important challenge of running and growing their companies. SSE will continue to seek ways to help improve the service it provides to its business customers.

Working with customers to manage energy-related debt

Whilst the number of customers with an energy debt continues to fall, average balances per customer and subsequently gross aged debts have risen. With affordability remaining a real challenge there has been an increased reliance on structured repayment options such as the use of payment plans and prepayment meters to help customers manage bills. This in turn has extended repayment periods and has led to a greater proportion of receivables requiring additional provision.

This coming year will see an increased emphasis on engaging with customers with arrears as early as possible, securing payment arrangements that have lower balances at their inception and helping to spread the cost of energy across the year. This will require an increase in pro-active customer contact with a greater use of data and customer insight to target effort most effectively.

Transforming energy supply with smart meters

Smart meters have the potential to transform energy supply in Great Britain. They allow the quantity and value of electricity used to be continuously monitored by the customer and exchanged with the supplier electronically. Around 53 million smart meters are due to be installed in around 30 million homes and businesses by the end of 2020. Of these, SSE is set to install around nine million meters.

The company is progressing well through the foundation phase of the roll out which involves building and testing the systems. Throughout this stage, the company has endeavoured to keep installation volumes low due to its focus on a cost-effective rollout and the lack of maturity in the smart meter supply chain.

To date, the company has installed over 900 smart meters in customers' homes and undertaken multiple trials and pilots to refine solutions and to prove the stability and affordability of this emerging technology. Up to 75,000 meters will be installed over the next financial year, with mass deployment (Initial Live Operations) anticipated in late 2015, in line with the current DECC plans.

Rewarding customers through sponsorship

In October 2013, The SSE Hydro, a new 13,000-seater live entertainment venue in Glasgow, opened to the public. Sponsorship of the SSE Hydro gives SSE a customer offering that is unique in the energy supply market, with access to tickets for all events 48 hours in advance of public sale as well as the opportunity to win tickets or ticket upgrades through the SSE Rewards programme. The SSE Rewards programme is designed to help with customer retention as well as acquisition.

Following the success of The SSE Hydro a sponsorship agreement has been concluded between SSE and entertainment promoter AEG for the naming rights of the venue formerly known as the Wembley Arena, now The SSE Arena. This sponsorship will allow SSE to build on the sponsorship of The SSE Hydro with similar ticket pre-sales, upgrades and other benefits for customer in the southern half of the UK.

As part of this approach, and to reflect its strong commitment to Great Britain and Ireland, SSE has also sponsored the Glasgow 2014 Commonwealth Games, including sponsorship of each of the four home nation teams. Again the value of this sponsorship is in the opportunity to promote the SSE brand and to offer customer tickets and experiences during the Games.

SSE Energy Supply Limited

Strategic Report (continued)

2. Principal Risks and Uncertainties

The achievement of the company's goals necessarily involves taking risks. Energy markets are both complex and volatile, and the company believes that the process of identifying and controlling risk needs to be flexible, effective and dynamic. The risk management process is therefore designed to ensure that:

- Risks are taken knowingly and with a full understanding of their implications;
- Risks taken are proportionate and in keeping with achieving the company's goals;
- Risk is managed on both a "top down" and "bottom up" basis, and
- The wider control environment is strong and fully integrated

The requirement for good risk governance and its responsibility for clear and effective risk management is accepted and endorsed by the Directors.

The Directors of the company acknowledge that they have responsibility for the 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 businesses, to the materiality of the risks inherent in these businesses, and to the relative costs and benefits of implementing specific controls.

Control is maintained through an organisation structure with clearly defined responsibilities, authority levels and lines of reporting; the appointment of suitably qualified staff in specialised business areas; and continuing investment in high quality information systems. These methods of control are subject to periodic review as to their implementation and continued suitability.

The principal risks and uncertainties affecting the business include the following:

- Competition
- Exposure to volatility in wholesale energy prices
- Payment default from trade debtors
- Interest rates, inflation and liquidity
- Economic and Government regulation

The Board reviews and agrees policies for addressing each of these risks. The key issue of exposure to energy prices and volume is addressed by the Risk and Trading Committee which meets 13 times a year and consists of 2 SSE Group Directors and relevant senior managers. There is relatively little exposure to foreign currency risk as the United Kingdom is the Group's main area of operation. If fuel is contracted in foreign currency, it is the Group's policy to hedge all material purchases through the use of foreign currency swaps and forward rate contracts. There is always a risk of payment default from trade debtors and comprehensive credit vetting and effective payment terms are exercised for all significant financial statements. Good payment discipline is achieved in the domestic market by use of direct debit budget schemes. There is also the risk of mechanical or process failure in the Company's operations. Any material failure in the Group's licensed operations in energy supply is particularly significant. Operating risk is addressed through the Company's focus on seeking operational excellence and on maintaining the highest standards of safety and quality. The Company is exposed to economic regulation and government policy. There are management structures in place to mitigate, influence and respond to such developments, and to engage with the Industry Regulator, government ministers and officials, and other key bodies.

There are established procedures in place for regular budgeting and reporting of financial information. The Company's performance is reviewed by the Group Board and the Group Executive Committee. Reports include variance analysis and projected forecasts of the year compared to approved budgets and non-financial performance indicators. There are Company policies in place covering a wide range of issues and risks such as financial authorisations, IT procedures, health, safety and environmental risks, crisis management, and a policy on ethical principles. The effectiveness of the Company's systems of internal control is monitored by the SSE Group internal audit department which distributes reports and, where appropriate, action plans to senior managers, Directors and the external auditor.

SSE Energy Supply Limited

Strategic Report (continued)

3. Key Performance Indicators

Financial / Operational	2014	2013	% change
Operating profit (excluding exceptional) - £m	169.4	96.6	75.4
Electricity supplied to average household kWh	3,991	4,299	(7.2)
Electricity supply customers – millions	4.66	4.87	(4.3)

Non Financial / Management	2014	2013	% change
Customers with tailor-made payment plans (thousands)	449	269	66.9
Customer registered with Priority Service Register (thousands)	799	754	6.0
Customers on loyalty plans (thousands)	1,756	2,057	(14.6)
Complaints to third party organisations*	1,208	942	28.2
*Energy Ombudsman, Consumer Focus, and Consumer Direct			

ON BEHALF OF THE BOARD



William Morris
Director
8 September 2014

SSE Energy Supply Limited

Directors Report

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 activities during the year were the supply of electricity to industrial, commercial and domestic customers and the management of the Group's portfolio of flexible generating assets. The Company principally trades under the Scottish Hydro, Swalec and SSE brands across the United Kingdom.

2. Results and Dividends

The profit for the financial year amounted to £139.6m (2013 - £12.2m). A final dividend of £120.0m was declared, approved and paid in the year (2013 - £179.0m).

3. Directors

The Directors who served during the year were as follows:

Alistair Phillips-Davies (resigned 29 November 2013)
Anthony Keeling
Ian Manson (resigned 29 November 2013)
William Morris (appointed 29 November 2013)

4. Political and Charitable Donations

During the year, no charitable or political donations were made.

5. Employment Policies

Staff are actively encouraged to be involved in Company affairs in a wide variety of ways. These include monthly team meetings, briefing documents and internal videos. Policies on such matters as Equal Opportunities and Health and Safety are regularly communicated to staff and involvement is supported through local committees. New staff joining the Company receive induction training.

It is Company policy, where possible, to provide employment opportunities for disabled people. Staff who become disabled are supported in continuing employment through identification of suitable jobs and the provision of necessary retraining.

6. 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.

During the year KPMG Audit plc resigned as auditor and KPMG LLP was appointed. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

ON BEHALF OF THE BOARD



William Morris
Director
8 September 2014

SSE Energy Supply Limited

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

The directors are responsible for preparing the Strategic Report, the Directors' 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 judgements 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 Energy Supply Limited

Independent Auditor's Report to the Members of SSE Energy Supply Limited

We have audited the financial statements of SSE Energy Supply Limited for the year ended 31 March 2014 as set out on pages 10 to 26. 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 8, 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.

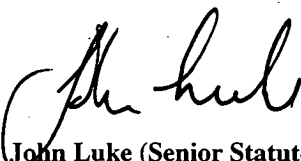
Opinion on other matter prescribed by the Companies Act 2006

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

11 September 2014

SSE Energy Supply Limited

Profit and Loss Account for the year ended 31 March 2014

	Note	2014 £m	2013 £m
Turnover		29,953.3	27,835.7
Cost of sales		(29,407.3)	(27,479.4)
Gross profit		546.0	356.3
Administrative costs		(376.6)	(259.7)
Impairment of intangible assets	2	(18.7)	(129.4)
Impairment of tangible assets	2	(29.2)	-
Exceptional items	2	(54.4)	(18.7)
Operating profit/(loss)	2	67.1	(51.5)
Income from fixed asset investment		120.6	79.6
Net interest payable	5	(46.4)	(33.3)
Profit/(loss) on ordinary activities before taxation		141.3	(5.2)
Tax on profit/(loss) on ordinary activities	6	(1.7)	17.4
Profit for the financial year	20	139.6	12.2

The above results are derived from continuing activities.

The accompanying notes are an integral part of these financial statements.

SSE Energy Supply Limited

Balance Sheet as at 31 March 2014

	Note	2014 £m	2013 £m
Fixed Assets			
Biological assets	8	-	3.4
Intangible assets	9	-	0.9
Tangible assets	10	357.1	359.3
Investments	11	1.7	1.7
		358.8	365.3
Current assets			
Biological assets	8	3.4	-
Intangible assets	9	443.7	394.3
Stock	12	273.4	177.8
Debtors:			
amounts falling due within one year	13	3,087.6	3,380.4
amounts falling due after more than one year	13	497.6	625.6
Cash at bank and in hand		134.6	183.7
		4,440.3	4,761.8
Creditors: amounts falling due within one year	14	(4,043.2)	(4,361.6)
Net current assets		397.1	400.2
Total assets less current liabilities		755.9	765.5
Creditors: amounts falling due after more than one year	15	(549.2)	(564.8)
Provisions for liabilities and charges			
Deferred taxation	17	(28.4)	(30.2)
Other provisions	18	(9.0)	(23.0)
Net assets		169.3	147.5
Capital and reserves			
Called up share capital	19	147.5	147.5
Profit and loss account	20	21.8	-
Equity Shareholders' funds		169.3	147.5

These financial statements were approved by the Directors on 8 September 2014 and signed on their behalf by



William Morris, Director

Company registered number: 3757502

SSE Energy Supply Limited

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

	2014 £m	2013 £m
Profit for the financial year	139.6	12.2
Dividends	(120.0)	(179.0)
Credit in respect of employee share awards (net of tax)	2.2	1.8
Net increase/(reduction) in shareholders' funds	21.8	(165.0)
Opening shareholders' funds	147.5	312.5
Closing shareholders' funds	169.3	147.5

SSE Energy Supply Limited

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

1. Significant 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 Energy Supply 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 Energy Supply 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 on energy sales comprises sales to retail end-user customers including and estimate of the value of electricity and gas supplied to customers between the date of the last meter reading and the year end. Turnover on energy sales also includes monies received from the electricity balancing markets in the UK and other wholesale market energy sales. Unread energy sales are estimated using historical consumption patterns taking into account of industry volume reconciliation processes.

Turnover from sales and optimisation trades in physical and financial energy and commodity contracts is recognised gross in the profit and loss.

Research and development

Expenditure on research and development is charged to the profit and loss account as incurred with the exception of expenditure on the development of certain major projects where the outcome of these projects is assessed as being reasonably certain as regards viability and technical feasibility. Such expenditure will be amortised once the product or service begins and will be amortised over the expected life of the product or service.

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.

SSE Energy Supply Limited

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

1. Significant accounting policies (continued)

Tangible fixed assets

(i) Depreciation

Depreciation is provided on tangible and intangible 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	15 to 20
Network assets	40 to 80
Fixtures, equipment, plant and machinery, vehicles and mobile plant	4 to 10

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.

(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) Allowances and emissions

The Company recognises carbon allowances granted in a period at nominal value (nil value). Carbon allowances purchased are recorded at cost within intangible assets. A liability is recognised when the forecast level of emissions in any period exceed the level of allowances held and this is recorded as a current liability. Up to the level of allowances held the liability is measured at the cost of purchased allowances. When carbon emissions liabilities are forecast to exceed the carbon allowances held, the net liability is measured at the market price of allowances. Movements in the market value of the liability are recognised in operating profit. Forward carbon contracts are measured at fair-value. 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.

The Renewable Obligations Certificates (ROCs) scheme is administered and accounted for in a similar but not identical manner to the European Emissions trading scheme. ROCs obtained from own generation are awarded by a third party. Self-generated ROCs are recorded at market value and purchased ROCs are recognised at cost 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.

(ii) Other intangible assets

Other intangible assets that have been acquired by the Company, including the Atlantic brand, are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated brands is expensed as incurred. Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful life of these other intangible assets. The amortisation period utilised is as follows:

	Years
Brand values	10

SSE Energy Supply Limited

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

1. Significant accounting policies (continued)

Intangible assets (continued)

(iii) Development assets

Development expenditure relates to costs incurred on developing new software for the Supply Transformation Programme. These costs will be amortised once the development of the software is complete and has been implemented.

Stocks

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

Employee benefit obligations

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.

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 an option pricing 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/(loss)

Operating profit/(loss) is arrived at after charging:

	2014 £m	2013 £m
Depreciation of tangible fixed assets	22.4	20.3
Amortisation of the brand	0.9	0.9
Net management fees in respect of services provided by group companies	43.1	50.0
Impairment of intangible assets (note 9)	18.7	129.4
Impairment of tangible fixed assets (note 10)	29.2	-
Other exceptional charges	54.4	18.7

Other exceptional charges in the year relate to £46.4m in relation to the Rocksavage contractual dispute claim which the company agreed to settle in March 2014 and was paid in April 2014, £6.5m in relation to the Voluntary Early Release (VER) scheme announced in March 2014 and £1.5m in relation to smart services, which has been identified as a non core business identified for closure.

The Company incurred an audit fee of £18,400 (2013 - £18,000) in the year.

SSE Energy Supply Limited

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

3. Staff costs and numbers

	2014 £m	2013 £m
Staff costs:		
Wages and salaries	51.7	51.6
Social security costs	5.0	4.9
Share based remuneration	2.2	1.8
Other pension costs	13.0	5.4
	<u>71.9</u>	<u>63.7</u>

Employee numbers

	2014 Number	2013 Number
Numbers employed at 31 March	<u>1,190</u>	<u>1,425</u>
	2014 Number	2013 Number
The monthly average number of people employed by the Company during the year	<u>1,095</u>	<u>1,385</u>

4. Directors' remuneration

The level of emoluments of the Director, and therefore highest paid Director, employed by the Company was as follows:

	2014 £000	2013 £000
Director's emoluments, including performance payments and benefits in kind	219	-
Company contributions to a defined benefit pension scheme	12	-
Company contributions to a defined contribution pension scheme	3	-
Accrued pension at 31 March 2014	<u>1</u>	<u>-</u>

There is only one director paid through the company and the above remuneration is for the period from 29 November 2013 (date of appointment) to the 31 March 2014.

5. Net interest payable

	2014 £m	2013 £m
Interest receivable:		
From group companies	9.4	17.1
Other interest receivable	0.1	0.4
Foreign exchange translation of monetary assets and liabilities	-	1.9
	<u>9.5</u>	<u>19.4</u>
Interest payable:		
To group companies	(16.9)	(17.7)
Other interest payable	(1.0)	(0.6)
Finance lease interest	(35.8)	(37.1)
Foreign exchange translation of monetary assets and liabilities	(3.8)	-
	<u>(57.5)</u>	<u>(55.4)</u>
Less: interest capitalised	1.6	2.7
Net interest payable	<u>(46.4)</u>	<u>(33.3)</u>

SSE Energy Supply Limited

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

6. Taxation

	2014 £m	2013 £m
Current tax:		
UK corporation tax	8.1	(28.0)
Adjustment in respect of prior periods	(4.6)	15.4
	<u>3.5</u>	<u>(12.6)</u>
Deferred tax:		
Origination and reversal of timing differences	(3.6)	7.6
Effect of change in tax rate (i)	(4.2)	(1.3)
Adjustment in respect of prior periods	6.0	(11.1)
Total deferred tax	<u>(1.8)</u>	<u>(4.8)</u>
Total tax on profit/(loss) on ordinary activities	<u>1.7</u>	<u>(17.4)</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/(loss) before taxation	<u>141.3</u>	<u>(5.2)</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 23% (2013 - 24%)	32.5	(1.2)
Effects of:		
Capital allowances in excess of depreciation	4.0	(2.7)
Expenses not deductible for tax purposes	(28.0)	(19.1)
Share based remuneration	-	(0.1)
Other timing differences	(0.4)	(4.9)
Adjustment in respect of previous periods	(4.6)	15.4
Current tax charge/(credit) for year	<u>3.5</u>	<u>(12.6)</u>

(i) The 2013 Finance Act announced that the U.K. corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 23% to 21% (effective from 1 April 2014) was substantively enacted on 3 July 2013 and substantive enactment of the rate of 20% with effect from 1 April 2015 also took place on 3 July 2013.

The deferred tax asset/liability at 31 March 2014 has therefore been calculated having regard to the rate of 20% substantively enacted at the balance sheet date.

7. Dividends

	2014 £m	2013 £m
Amounts recognised as distributions from equity:		
Final dividend for the current year of 81.4pp (2013 – 121.4p) per share	<u>120.0</u>	<u>179.0</u>

SSE Energy Supply Limited

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

8. Biological Assets

The company owns approximately 2,394 hectares of forest land including planted trees. The living trees are accounted for as biological assets and are disclosed in the table below:

	£m
At 1 April 2013 and 31 March 2014	3.4

No trees were harvested during the year. The forests are currently being marketed for sale and therefore being presented as current assets.

9. Intangible assets

	Current Assets Allowances & certificates (i) £m	Fixed Assets Brand Value (ii) £m	Development assets (iii) £m	Total £m
Cost				
At 1 April 2013	573.1	9.0	38.1	620.2
Additions	491.2	-	14.4	505.6
Disposals	(424.3)	-	(13.2)	(437.5)
At 31 March 2014	640.0	9.0	39.3	688.3
Amortisation				
At 1 April 2013	216.6	8.1	0.3	225.0
Charge for the year	-	0.9	-	0.9
Exceptional impairment (iv)	-	-	18.7	18.7
At 31 March 2014	216.6	9.0	19.0	244.6
Net Book Value				
At 31 March 2014	423.4	-	20.3	443.7
At 31 March 2013	356.5	0.9	37.8	395.2

Intangible assets have been analysed as current and non-current as follows:

	2014 £m	2013 £m
Current	443.7	394.3
Non-current	-	0.9
	443.7	395.2

(i) Allowances and Certificates

Allowances and certificates consist of purchased carbon emissions allowances and generated or purchased Renewable Obligations Certificates (ROCs).

(ii) Brand value

This represents the Atlantic brand, acquired on the acquisition of Atlantic Electric and Gas Limited during the year ended 31 March 2005. The Company has assessed the economic life, and therefore amortisation period, of the Atlantic brand to be 10 years. The brand is now fully amortised.

(iii) Development Assets

Development assets includes costs that have been capitalised in relation to the retail transformation programme

(iv) Exceptional impairment

The £18.7m exceptional impairment recorded in the year to 31 March 2014 relates to capitalised development costs in relation to the retail transformation project. The costs relate to discontinued developments and modules.

SSE Energy Supply Limited

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

10. Tangible fixed assets

	Generation Assets £m	IT and other miscellaneous equipment (i) £m	Total £m
Cost:			
At 1 April 2013	462.7	46.9	509.6
Additions	-	50.3	50.3
Disposals	(4.4)	-	(4.4)
At 31 March 2014	458.3	97.2	555.5
Depreciation:			
At 1 April 2013	150.3	-	150.3
Charge for the year	19.5	2.9	22.4
Exceptional Impairment (ii)	-	29.2	29.2
Disposals	(3.5)	-	(3.5)
At 31 March 2014	166.3	32.1	198.4
Net book value:			
At 31 March 2014	292.0	65.1	357.1
At 31 March 2013	312.4	46.9	359.3

(i) IT and other miscellaneous equipment relates to items that have been capitalised in relation to the retail transformation project. As the project has not yet been completed no depreciation has been recorded in the year.

(ii) Exceptional impairments of £29.2m were recorded in the year to 31 March 2014. £19.1m of this is in relation to the cessation of the project relating to the proposed mobile telephone business, the remaining £10.1m is in relation to the capitalised costs associated with the Retail Transformation programme (RTP) which have been identified as relating to discontinued developments and modules.

Tangible fixed assets include £289.3m (2013 - £307.7m) relating to the lease of the main asset, an 840MW Gas powered CCGT Electricity Generating Plant.

11. Fixed asset investments

	Investments £m
At 1 April 2013 and 31 March 2014	<u>1.7</u>

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

Subsidiary undertakings	Holding	Proportion Held	Nature of Business
Southern Electric Gas Limited	Ordinary shares	100%	Gas retail
Swalec Gas Limited	Ordinary shares	100%	Gas retail

12. Stocks

	2014 £m	2013 £m
Fuel, spares and consumables	<u>273.4</u>	<u>177.8</u>

SSE Energy Supply Limited

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

13. Debtors

	2014 £m	2013 £m
Amounts falling due within one year:		
Trade debtors	2,237.3	2,222.3
Prepayments and accrued income	563.8	677.1
Amounts owed by group undertakings	286.1	440.2
Group relief receivable	-	27.0
Other debtors	0.4	13.8
	<u>3,087.6</u>	<u>3,380.4</u>
Amounts falling due after more than one year:		
Amounts owed by group undertakings	497.6	625.6
	<u>3,585.2</u>	<u>4,006.0</u>

14. Creditors: amounts falling due within one year

	2014 £m	2013 £m
Trade creditors	2,422.6	2,414.8
Amounts owed to group undertakings	406.2	819.1
Other creditors	34.5	24.6
Corporation tax payable	9.1	-
Accruals and deferred income	1,155.2	1,087.9
Obligations under finance leases (note 16)	15.6	15.2
	<u>4,043.2</u>	<u>4,361.6</u>

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

	2014 £m	2013 £m
Loans from ultimate parent (note 16)	250.0	250.0
Obligations under finance leases (note 16)	299.2	314.8
	<u>549.2</u>	<u>564.8</u>

16. Loans and borrowings

	2014 £m	2013 £m
Non current, between 2 and 5 years		
6.75% Loan stock repayable to SSE plc on 30 June 2018	250.0	250.0
	<u>250.0</u>	<u>250.0</u>

Finance lease liabilities

Future finance lease commitments are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2014 £m	2013 £m	2014 £m	2013 £m
Amounts payable:				
Within one year	49.8	51.1	15.6	15.2
Between one and five years	197.3	198.8	79.1	72.8
After five years	325.0	373.4	220.1	242.0
	<u>572.1</u>	<u>623.3</u>	<u>314.8</u>	<u>330.0</u>
Less: future finance charges	(257.3)	(293.3)		
Present value of lease obligations	<u>314.8</u>	<u>330.0</u>		

SSE Energy Supply Limited

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

16. Loans and borrowings (continued)

The above relates to a finance lease with Marchwood Power Company Limited, of which the company owns 50% of the Ordinary Share capital. The lease is for use of their main asset, an 840MW Gas powered CCGT Electricity Generating Plant. The term of the lease is 15 years with the company having the option for a further 5 years extension at the end of this period.

17. Deferred taxation

Deferred taxation is provided as follows:

	2014 £m	2013 £m
Accelerated capital allowances	35.3	43.7
Other timing differences	(6.9)	(13.4)
Share based remuneration	-	(0.1)
Deferred tax provision	28.4	30.2
		£m
Provision at 1 April 2013		30.2
Credited to profit and loss account		(1.8)
Provision at 31 March 2014		28.4

18. Provisions for liabilities and charges

	Total (i) £m
At 31 March 2013	23.0
Charged in the year	8.4
Utilised during the year	(22.4)
At 31 March 2014	9.0

(i) Provisions includes a £6.5m exceptional provision charged in the year in relation to the Voluntary Early Release (VER) programme, the remaining balance relates to restructuring and other charges.

19. Share capital

	2014 £m	2013 £m
Equity:		
Authorised:		
147,500,100 ordinary shares of £1.00 each:	147.5	147.5
Allotted, called up and fully paid:		
147,500,001 ordinary shares of £1.00 each:	147.5	147.5

SSE Energy Supply Limited

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

20. Reserves

	Profit and loss account £m
At 31 March 2013	-
Profit for the financial year	139.6
Dividends to shareholders	(120.0)
Credit in respect of employee share awards (net of tax)	2.2
At 31 March 2014	<u>21.8</u>

21. Pensions

The majority of the Company's employees are members of the Electricity Supply Pension Scheme or the Scottish Hydro-Electric Pension Scheme which provide defined benefits based on final pensionable pay. The Company's contributions to these schemes are set in relation to the current service period only (i.e. these are not affected by any surplus or deficit in the schemes relating to past service of its own employees and any other members of the schemes) and as such are treated as contributions to a defined contribution schemes.

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. The scheme is managed by Friends Provident.

The Company's share of the total contribution payable to the pension schemes during the year was £13.0m (2013 - £5.4m).

22. 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.

(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 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.

SSE Energy Supply Limited

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

22. Employee share-based payments (continued)

(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

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

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

(i) Total Shareholder Return (TSR) target relative to other FTSE 100 companies and MSCI 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 the lower and 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
17 July 2008	1,274	6,908	-	(6,908)	-	-	1 October 2013	31 March 2014
30 June 2009	1,042	12,425	-	(972)	(1,712)	9,741	1 October 2014	31 March 2015
30 June 2010	871	26,379	-	(26,173)	(206)	-	1 October 2013	31 March 2014
30 June 2010	871	112,902	-	(2,052)	(3,159)	107,691	1 October 2015	31 March 2016
28 June 2011	1,105	14,623	-	(348)	(1,365)	12,910	1 October 2014	31 March 2015
28 June 2011	1,105	32,616	-	(163)	(2,752)	29,701	1 October 2016	31 March 2017
29 June 2012	1,065	34,188	-	(111)	(3,940)	30,137	1 October 2015	31 March 2016
29 June 2012	1,065	34,032	-	(125)	(3,994)	29,913	1 October 2017	31 March 2018
05 July 2013	1,197	-	56,120	-	(6,526)	49,594	1 October 2016	31 March 2017
05 July 2013	1,197	-	33,499	-	(2,177)	31,322	1 October 2018	31 March 2019
		274,073	89,619	(36,852)	(25,831)	301,009		

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

22. Employee share-based payments (continued)

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

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	8,238	-	(8,238)	-	-	1 October 2012	31 March 2013
17 July 2008	1,274	714	-	-	(714)	-	1 October 2011	31 March 2012
17 July 2008	1,274	7,342	-	-	(434)	6,908	1 October 2013	31 March 2014
30 June 2009	1,042	12,971	-	(12,710)	(261)	-	1 October 2012	31 March 2013
30 June 2009	1,042	14,629	-	-	(2,204)	12,425	1 October 2014	31 March 2015
30 June 2010	871	31,250	-	(1,424)	(3,447)	26,379	1 October 2013	31 March 2014
30 June 2010	871	118,816	-	-	(5,914)	112,902	1 October 2015	31 March 2016
28 June 2011	1,105	21,488	-	(144)	(6,721)	14,623	1 October 2014	31 March 2015
28 June 2011	1,105	44,859	-	(113)	(12,130)	32,616	1 October 2016	31 March 2017
29 June 2012	1,065	-	41,655	-	(7,467)	34,188	1 October 2015	31 March 2016
29 June 2012	1,065	-	38,001	-	(3,969)	34,032	1 October 2017	31 March 2018
		260,307	79,656	(22,629)	(43,261)	274,073		

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,384p (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.

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:

	June 2008		June 2009		June 2010		June 2011		June 2012		June 2013	
	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	304p	339p	244p	269p	231p	246p	171p	163p	182p	159p	194p	168p
Expected volatility	28%	28%	35%	35%	19%	19%	18%	18%	18%	18%	15%	15%
Risk free rate	4.9%	5.0%	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%	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	3 yrs	5 yrs
Underlying price at grant date	1,397p	1,397p	1,139p	1,139p	1,089p	1,089p	1,393p	1,393p	1,391p	1,391p	1,579p	1,579p
Strike price	1,274p	1,274p	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	112,774	1,240	99,026	1,195
Granted	53,514	1,470	36,044	1,395
Forfeited	(9,726)	1,383	(6,500)	1,263
Exercised	(10,545)	1,456	(5,650)	1,395
Transferred to pool	(14,832)	1,262	(10,146)	1,506
Outstanding at end of year	131,185	1,303	112,774	1,240
Exercisable at end of year	41,848	1,150	34,170	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. As shares are exercised continuously throughout the year, the weighted average share price during the period of 1,456p (2013: 1,395p) 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 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.

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

22. Employee share-based payments (continued)

Free shares

	2014		2013	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	2,024	1,417	18,338	1,145
Exercised	(461)	1,456	(1,886)	1,395
Transferred to pool	(1,563)	1,408	(14,428)	1,474
Outstanding at end of year	-	-	2,024	1,417
Exercisable at end of year	-	-	2,024	1,417

As shares are exercised continuously throughout the year, the weighted average share price during the period of 1,456p (2013: 1,395p) 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 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 annual incentive scheme

	2014		2013	
	Shares	Price (pence)	Shares	Price (pence)
Outstanding at start of year	54,650	1,257	57,409	1,198
Granted	32,170	1,496	19,442	1,383
Forfeited	-	-	(4,075)	1,196
Exercised	(18,167)	1,183	(18,126)	1,177
Outstanding at end of year	68,653	1,389	54,650	1,257
Exercisable at end of year	-	-	-	-

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	221,424	1,246	188,866	1,144
Granted	109,417	1,496	89,342	1,383
Forfeited	(38,775)	(1,140)	(46,198)	1,204
Exercised	(40,463)	(1,079)	(10,586)	1,174
Outstanding at end of year	251,603	1,398	221,424	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.

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

23. Commitments and contingencies

Guarantees and indemnities

The company has provided guarantees on behalf of other group undertakings as follows:

	2014 £m	2013 £m
Performance of contracts	16.0	16.0
Upward guarantee to SSE plc	<u>1,000.0</u>	<u>1,000.0</u>

24. Ultimate parent 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, Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ or by accessing the Company's website at www.sse.com.