

SSE Consolidated Segmental Statement

- year ending 31 March 2011

	UNIT	Generation	Supply				Aggregate
			Electricity		Gas		
			Domestic	Non Domestic	Domestic	Non Domestic	
Total Revenues	£m	850	2,520	2,798	1,954	181	7,453
Revenues (sales of electricity and gas)	£m	798	2,514	2,798	1,954	181	7,446
Other Revenues	£m	52	6	0	0	0	6
Total Operating Costs	£m	329	2,376	2,701	1,831	175	7,083
Direct Fuel Costs	£m	0	1,377	1,874	1,146	132	4,530
Other Direct Costs	£m	81	755	757	474	26	2,012
Indirect Costs	£m	248	244	69	210	17	540
WACO E/G	£/MWh, p/th	N/A	60.9	54.9	57.3	55.7	N/A
EBITDA	£m	521	143	97	123	7	370
Adjustment for D&A	£m	125	0	0	0	0	0
EBIT	£m	396	143	97	123	7	370
Volume	TWh, therms	29.6	22.6	34.1	1,999	237	N/A

DISCLOSURE NOTES

SSE operates its Generation and Supply business segment as an integrated value chain and does not separate out the generation and supply components. A stand alone retail supply business does not exist in SSE and it does not operate transfer pricing. As such, the licence requirements to produce a Consolidated Segmental Statement (CSS) require SSE to report financial information in a different way to how the business is operated. The notes below document the assumptions made and the approach taken in allocating costs between the different market segments required by the relevant licence obligations and take account of Ofgem's revised (May 2011) Financial Information Reporting Guidance.

How the accounts are presented

The accounts presented in the Consolidated Segmental Statement (CSS) are based on a business model of a generation business, a wholesale energy trading business and four retail supply businesses (domestic and non-domestic gas and electricity).

The generation business sells capacity (in respect of coal and gas generation) and renewable energy to the wholesale energy trading business. Generation also receives the benefit of Renewable Obligation Certificates (ROCs) and Levy Exempt Certificates (LECs) from wind and qualifying hydro and also ancillary services income.

The wholesale energy trading business: buys capacity from SSE generation and other joint venture or third party generators; procures fuel for generation (coal, gas, oil, biomass); purchases carbon tickets; buys power from contracts and over the counter trades; and procures gas for the retail gas businesses. The wholesale energy trading business also sells power in the wholesale and trading markets, transfers power and gas to SSE's retail supply businesses and participates in the balancing market.

The retail supply businesses procure gas and electricity from the wholesale energy trading business. The transfer pricing arrangements for the Weighted Average Cost of Electricity (WACoE) and the Weighted Average Cost of Gas (WACoG) are detailed in the paragraphs below.

Whilst SSE's generation businesses are in separate legal entities, the wholesale trading and electricity retail supply businesses are held in the same legal entity, SSE Energy Supply Ltd.

Generation

Generation receives its income from providing capacity to wholesale energy trading through Power Purchase Agreements (PPAs). The PPA charges are based on market rates multiplied by the amount of availability during the year plus a variable cost charge based on output. Actual output for renewable energy (wind and hydro) is charged at market rates. Income includes the benefit of ROCs and LECs. Other income includes ancillary services and other miscellaneous income.

As stated above, generation procures no fuel and therefore does not have a WACoE. Other direct costs include use of system charges and other sundry direct costs. Indirect costs include salaries and other people costs, maintenance, rates, corporate costs and IT charges.

The depreciation shown in the CSS is the amount recognised as a 'Business as Usual' charge and excludes generation asset impairments made at March 2011 (see paragraph below).

Generation volumes are the volume of power that can actually be sold in the wholesale market.

Wholesale energy trading and transfer pricing

Note that wholesale energy trading does not form part of the CSS but is included in the table which shows the reconciliation to the SSE Group Accounts.

In the CSS, electricity in respect of Non Half Hourly (NHH) metered customers (domestic and non domestic) is transferred to the retail supply business from wholesale energy trading at WACoE (at cost). The WACoE is made up of fuel (coal, gas, oil and biomass), internal and external PPAs, power purchases from contracts and trades, carbon tickets, market participation costs and other miscellaneous costs. For Half Hourly (HH) metered customers, the shaped energy cost at the point of sale is recorded, so this has been used as the energy cost in the CSS. The energy costs for domestic and non domestic NHH and HH retail include a risk premium to take into account marked to market volume risk, volatility and shape risk.

Gas is transferred to the retail gas business at actual WACoG which is made up of over the counter gas trades, purchase contracts and gas storage. The gas costs for domestic and non domestic retail includes a risk premium to take into account marked to market volume risk, volatility and shape risk.

SSE believes the approach taken for WACoE and WACoG reflects OFGEM's requirement that the transfer pricing methodology reflects the way SSE actually acquires energy.

The remaining balance for wholesale energy trading shown in the reconciliation below, relates to activities which are not considered part of the WACoE and WACoG calculations (which are therefore transferred out to retail). This includes participation in the balancing market and non-related activities such as wholesaling to other suppliers, minor non-licensed generation, trading with Ireland, CHP steam sales, oil sales and shipping charters.

Retail energy supply

Revenues are the value of electricity and gas supplied during the year excluding Value Added Tax, and include an estimate of the value of units supplied between the date of the last meter reading and the year end. Total sales volumes are based on national external settlements data. Revenue is expressed net of discounts, loyalty products and social tariff costs.

Other Direct costs include: Distribution Use of System; gas transportation (transmission and distribution); ROCs; LECs; market participation costs (including Balancing System Use of System (BSUoS)); and government schemes such as Carbon Emissions Reduction Target (CERT) and Community Energy Saving Programme (CESP).

Indirect costs include: sales and marketing; customer service; bad debts; supply costs; corporate recharges - including information technology and telecoms costs; metering asset and meter reading costs. Where costs cannot be directly allocated to a particular customer segment (domestic/non domestic) or fuel (electricity and gas), they have been allocated using costing models based on activity, customer billing or customer numbers - whichever is most appropriate.

The basis for the WACoE and WACoG costs are described above. The energy costs of 'Reconciliation by Difference' in retail gas are also included in this cost line.

Retail volumes are expressed at customer meter point net of transmission and distribution losses.

Reconciliation of the CSS to SSE Group Accounts 2010/11

SSE assesses its Generation and Supply business as a single value chain within a vertically integrated business. This means that power stations and fuel supply contracts are used to support performance in the supply of energy to customers. The table below reconciles the Earnings Before Interest and Tax (EBIT) figures in the CSS to the Generation and Supply segment EBIT figure reported in SSE's Annual Report and Accounts for the year ending 31 March 2011 (page 97). This has been done by highlighting the additional business areas not included in the CSS that contribute to the Generation and Supply segment EBIT figure.

Reconciliation to SSE Annual Report and Accounts 2010/11	EBIT £m
Generation (CSS)	396
Supply (CSS)	370
Wholesale Energy Trading	-4
Other Activities	3
Ireland	-26
Joint Ventures and Associates	111
Marchwood Finance Lease Adjustment	33
Generation & Supply Segment Total	883

Notes on other business segments:

Wholesale Energy Trading – this has been described in the paragraphs above;

Other activities – includes home services, retail telephony, contract energy packages, SSE Mineral Solutions Ltd and forestry.

Ireland – this is the combination of SSE's Irish supply business (Airtricity) and SSE Renewables Ltd wind generation which is predominantly in Ireland.

Joint Ventures (JVs) and Associates – the profit shown in the above table for Jointly Controlled Entities and Associates represents SSE's equity share of profits. The principal JVs are Seabank Power Ltd, Marchwood Power Ltd and Greater Gabbard Offshore Winds Ltd and principal Associates are Barking Power Ltd, Derwent Cogeneration Ltd and Aquamarine Power Ltd. During the course of the year SSE has held PPAs with Barking Power Ltd, Derwent Cogeneration Ltd, Seabank Power Ltd and Marchwood Power Ltd. The cost of these PPAs is shown in the cost of sales of SSE Energy Supply Ltd and forms an element of the WACoE in the CSS.

Marchwood Finance Lease Adjustment – this adjustment relates to the accounting treatment of SSE's PPA with Marchwood Power Ltd. The CSS (and SSE's internal management accounts) reflects the PPA capacity charges in cost of sales and these are therefore a relevant component of the WACoE. The statutory accounting treatment recognises this contract as a finance lease and therefore these payments are effectively charged as depreciation and finance costs. Because the CSS is prepared at EBIT level rather than Profit Before Tax (PBT), the finance charge would be excluded which would be misleading. It has therefore been shown as a reconciling item.

Impairment of Generation Assets - Pre tax exceptional items of £625m have been recognised in the Annual Accounts for the year ending 31 March 2011 and relate to impairment against the value of some electricity generating plant. Almost all are non cash and relate to:

- The new Industrial Emissions Directive (IED) restricting the running hours of coal plant from 2015 and the stations' probable closure in 2023;
- The expiry of certain tolling arrangements at associate investments, Barking Power Ltd and Derwent Cogeneration Ltd;
- The reduced economic life attributable to Keadby and Medway CCGTs; and
- The generally increased capacity and lowering demand for electricity in the UK.

SSE focuses its internal and external reporting on 'adjusted profit before tax' which excludes exceptional items, remeasurements arising from IAS 39 and removes taxation on profit of joint ventures and associates. This reflects the underlying profits of SSE, the basis on which it is managed and avoids the volatility that arises out of IAS 39. The generation asset impairment has therefore been excluded from the EBIT in the CSS.