



SSE plc's financial report for the six months to 30 September 2012

14 November 2012

| | Sep 2012 | Sep 2011 | Change | Sep 2010 |
|---|----------|----------|--------|----------|
| Total Recordable Injury Rate ¹ | 0.14 | 0.11 | + 27% | 0.10 |
| Reportable environmental incidents | 0 | 0 | - | 0 |

| | | | | |
|------------------------------------|----------|----------|---------|---------|
| Interim Dividend Per Share | 25.2p | 24.0p | + 5.0% | 22.4p |
| Adjusted Profit Before Tax* | £397.5m | £287.4m | + 38.3% | £385.5m |
| Adjusted Profit After Tax* | £333.5m | £235.4m | + 41.7% | £306.6m |
| Reported (Loss)/Profit Before Tax | £(26.8)m | £(81.3)m | n/a | £644.8m |
| Adjusted Earnings Per Share* | 35.3p | 25.1p | + 40.6% | 33.2p |
| Investment and Capital Expenditure | £699.2m | £796.9m | -12.3% | £653.6m |

| | | | | |
|--|---------|---------|----------|---------|
| Customer Minutes Lost (SHEPD) | 33 | 30 | + 3 mins | 34 |
| Customer Minutes Lost (SEPD) | 33 | 30 | + 3 mins | 33 |
| Energy Customer Accounts (GB and Ire) | 9.60m | 9.62m | - 0.02m | 9.59m |
| GB customer complaints to third parties | 421 | 407 | + 3.4% | 442 |
| Power Station Availability (Gas) | 98% | 98% | - | 96% |
| Power Station Availability (Coal) | 86% | 88% | - 2.3% | 87% |
| Capacity for Renewable Energy ² | 3,208MW | 2,538MW | + 670MW | 2,450MW |

¹Per 100,000 hours worked ²Including pumped storage

Lord Smith of Kelvin, Chairman of SSE, said:

"SSE's focus is always on full-year results, because the potential for volatility is always much greater in a half year period, but it is obviously encouraging that adjusted profit before tax* in the first six months has been restored to a level around that achieved in 2010. This does not hide the fact, however, that energy market conditions remain challenging. The prices achieved for generating electricity have been weak, and higher gas and non-energy costs unfortunately had to be reflected in the increase in household energy prices which SSE implemented last month. The Energy Supply business accounted for 8.1% of SSE's adjusted operating profit* in the period and its profit margin was 1.5%.

"While some observers may choose to criticise SSE for making a profit and paying a dividend, I believe that profit and dividend allow SSE to employ people, pay tax, provide services that customers need, make investments that keep the lights on and create jobs, while providing an income return that shareholders like pension funds need.

"SSE's balanced model of market-based and economically-regulated businesses, and the robustness of its strategy of focusing on operations and investment in each of those businesses, continues to prove its worth. Its commitment to the dividend remains the hallmark of a company that takes a disciplined and long-term approach to business here in the UK and in Ireland. For this reason, there can be every confidence that SSE will extend further its record of annual above-inflation dividend growth, and it is targeting a full-year increase of at least 2% more than RPI inflation, to around 84p, for 2012/13 and annual increases that are above RPI inflation in the following years."

* In line with SSE's approach since September 2005, this financial report describes adjusted operating profit before exceptional items, remeasurements arising from IAS 39, and after the removal of taxation and interest on profits from jointly controlled entities and associates, unless otherwise stated. In addition, it describes adjusted profit before tax before exceptional items, remeasurements arising from IAS 39 and after the removal of taxation on profits from jointly-controlled entities and associates. It also describes adjusted earnings and earnings per share before exceptional items, remeasurements arising from IAS 39 and deferred tax.

DELIVERING THE DIVIDEND

STRATEGY AND FINANCE

Delivering sustained real growth in the dividend

- Interim dividend up 5.0% to 25.2p per share
- Targeting full-year dividend increase of at least RPI +2% for 2012/13
- Targeting annual dividend increases above RPI inflation in 2013/14 and beyond
- Adjusted earnings per share* up 40.6% to 35.3p
- Adjusted profit before tax* up 38.3% from £287.4m to £397.5m (2010: £385.5m)
- Outlook for full-year adjusted profit before tax* to be provided in Q3 IMS, as planned
- Ongoing investment in new assets through six-month capital expenditure of £699.2m
- Adjusted net debt and hybrid capital up £298m to £7.054bn since 31 March 2012
- Medium/long-term funding, including hybrid capital, of £1.48bn secured at good rates
- Average debt maturity of 10.9 years

NETWORKS

Keeping the lights on and supporting growth

- Operating profit* up 19.3% to £399.5m
- 66.8% contribution to SSE operating profit*
- Capital investment in electricity networks up 58.8% to £285.2m
- Electricity transmission Regulated Asset Value forecast to reach £1bn by March 2013
- Preparations for 2013-21 Transmission Price Control period well advanced
- Total network RAV (inc share of SGN) forecast to reach £6.3bn by March 2013

RETAIL

Earning the right to make a profit

- Operating profit* of £75.7m, following operating loss of £101.4m a year ago
- 12.6% contribution to SSE operating profit* (Energy Supply contribution 8.1%)
- Energy Supply profit margin 1.5%
- Commitment to cap GB household prices until H2 2013 at the earliest
- Energy customer accounts (GB, Ire) up 50,000 to 9.60 million since 31 March 2012
- Average GB household gas consumption up 27.9%; electricity consumption up 2.8%
- All *Building Trust* commitments delivered and new Customer Charters planned

WHOLESALE

Securing the energy people and businesses need

- Operating profit* down by 44.5% to £123.2m
- 20.6% contribution to SSE operating profit*
- 188MW (net) of new capacity for renewable energy operational since 31 March 2012
- 93MW (net) of new capacity in disputed turbines at Greater Gabbard also operational
- Output from gas-fired power stations down 71.0%; from coal-fired stations up 41.5%
- Output of electricity from hydro down 35%; output of electricity from wind up 58%
- Acquisition of thermal generation assets in Ireland completed in October 2012
- US\$52.75m (£33m) acquisition of additional equity in gas production assets agreed
- Exceptional charge of £88.7m relating to Medway power station and CO₂ allowances
- SSE still entirely confident its wholesale energy market activity is fair and legitimate

Note: segmental operating profit % contributions presented before Unallocated.

STRATEGY AND FINANCE

Strategy

Continuing strategy for dividend growth

SSE's core purpose is to provide the energy people need in a reliable and sustainable way. In fulfilling this purpose, SSE requires the support of the shareholders who have invested in its shares, and it continues to believe their investment should be remunerated through the payment of dividends.

As a result of this, SSE's strategy is to deliver sustained real growth in the dividend payable to shareholders through the efficient operation of, and investment in, a balanced range of economically-regulated and market-based businesses in energy production, storage, distribution, supply and related services in the UK and Ireland.

Sticking to the financial principles which underpin dividend growth

This focus on the dividend requires SSE to maintain a disciplined, consistent and long-term approach to the management of business activities and this is underpinned by a series of long-standing financial principles:

- **strength:** maintenance of a strong balance sheet, evidenced by commitment to the current criteria for a single A credit rating;
- **rigour:** rigorous analysis to ensure investments are well-founded and achieve returns greater than the cost of capital;
- **discipline:** deployment of a selective and disciplined approach to acquisitions, which should enhance earnings per share over the medium and long term; and
- **measurement:** use of the economics of purchasing the company's own shares in the market as the first measurement against which financial decisions are taken.

The application of these principles supports the fulfilment of SSE's first financial goal: the delivery of annual dividend **growth**, greater than RPI inflation.

Targeting sustained real dividend growth over the long term

In practice, dividends are the principal way in which corporate profits are distributed and it is in recognition of this that SSE's key financial objective is the delivery of annual increases in the dividend paid to shareholders that are greater than RPI inflation, and its targets are to deliver:

- a full-year dividend increase of at least 2% more than RPI inflation for 2012/13; and
- annual dividend increases from 2013/14 onwards that are above RPI inflation.

In this context, inflation is defined as the average annual rate across each of the 12 months to March.

As stated in its Financial Report in May 2012, SSE's policy is that dividend targets should be:

- set in a way which is consistent with SSE's financial principles (see above);
- realistic and attainable, so there can be the fullest possible confidence in their achievability; and
- consistent with maintaining dividend cover over the medium term within a range around 1.5 times.

Maintaining a balanced range of energy businesses through which to achieve dividend growth

SSE has three reportable segments covering its Networks, Retail and Wholesale businesses:

- Networks – the economically-regulated transmission and distribution of electricity and gas and other related networks;

- Retail – the supply of electricity, gas and other services to household and business customers; and
- Wholesale – the production, storage and generation of energy and energy portfolio management.

This means it is the only company listed on the London Stock Exchange which owns, operates and invests in such a balanced group of economically-regulated energy businesses, such as electricity networks, and market-based energy businesses, such as energy supply and electricity generation.

This balance and diversity, along with its growing asset base and range of investment options, means that SSE has a broad platform from which to deliver the levels of profitability and the long term value required to support sustained real dividend growth. In addition, the risks to the achievement of that growth, such as volatility in energy markets, are contained by that balance and by the diversity of SSE's businesses, assets and investment options.

Moreover, the fact those businesses, assets and investment options are in Great Britain, Northern Ireland and the Republic of Ireland means that SSE is able to combine diversity with a depth of experience, knowledge and understanding of the markets in which it operates. In support of this, the average length of service of SSE's Executive Directors and Managing Directors is 17 years.

Sustaining dividend growth through a period of transition

Energy markets in Great Britain and Ireland operate in the context of the EU Climate Change and Renewable Energy Package, which aims to achieve by 2020:

- a reduction of at least 20% in the levels of greenhouse gas emissions across the EU, compared with 1990 levels; and
- an increase to at least 20% of all energy consumption being generated from renewable sources.

Moreover, the Large Combustion Plant Directive (LCPD) and now the Industrial Emissions Directive aim to control emissions such as sulphur dioxide and nitrogen oxides and mean that coal-fired power stations have to comply with emissions limit values or cease operation. The first phase of power plant closures under the LCPD have to take place by the end of 2015 at the latest.

Meanwhile, the amount of electricity generation capacity in Great Britain remains well in excess of that required to meet forecasts of peak demand, although Ofgem's first annual Electricity Capacity Statement, published in October 2012, forecast a reduction in the amount of spare electricity capacity on the system in the period to 2015/16.

The forthcoming Energy Bill is intended to establish a framework to reform the electricity market in Great Britain, including the introduction of a Contract for Difference Feed-in Tariff for electricity from low carbon sources and the creation of auctions for the provision of electricity generation capacity.

The objectives of the Bill – a secure, low carbon and affordable electricity system – are uncontroversial and SSE supports them. There are, however, two fundamental issues with the Bill, both commented on by the House of Commons Energy and Climate Change Committee in its report in July 2012:

- a lack of detail on key aspects of the proposed reforms; and, despite that lack of detail,
- a degree of complexity which could jeopardise their successful implementation.

Both of these issues will have to be dealt with as the Bill makes its way through the Houses of Parliament, a process that is likely to take at least one year. They pose potentially substantive difficulties for developers of new electricity generation capacity and jeopardise the development of an effective supply chain. At the same time, if concerns such as those set out

by the Energy and Climate Change Committee are addressed as the legislation is debated, the outcome may yet be a fair and workable future investment framework for the electricity market in Great Britain.

SSE's principal concern is to ensure that the proposed Contract for Difference Feed-in Tariff for electricity from low carbon sources is accompanied by counterparty arrangements and a payment model that are workable and do not have adverse financial consequences for electricity suppliers and their customers.

In addition to the period of transition in electricity production, the Prime Minister's confirmation in October 2012 that the UK government intends to legislate to ensure that energy suppliers have to give their lowest tariff to their customers means that the issue of price fairness between customer groups in energy supply should finally be addressed by all companies. This, in turn, would be consistent with Ofgem's October 2012 announcement of the latest proposals from its Retail Market Review. This included proposals to limit tariff numbers and simplify their underlying structure, new mechanisms to enable customers to compare tariffs between suppliers and Standards of Conduct with which to police the market.

SSE, having already radically simplified its products for new and existing customers, is well placed competitively to comply with these initiatives and believes that, subject to agreement on a fair and effective approach to implementation, they have the potential to lead to improved standards for energy customers throughout the market.

Customers' demand for energy in the UK and Ireland is on a downward trend through the effects of investment in, and greater awareness of, energy efficiency measures, more efficient appliances and price sensitivity on the part of customers. In October 2012, the EU Council of Ministers formally adopted the Energy Efficiency Directive, under which Member States will be required to set national targets for energy efficiency improvements and adopt related measures.

There is ongoing reform in the Single Electricity Market (SEM) on the island of Ireland and Common Arrangements for Gas are being developed by the Republic of Ireland and Northern Ireland to replicate the principles of the SEM.

Against this background, SSE believes that its strategy of operating and investing in a balanced range of market-based and economically-regulated businesses across just two increasingly interconnected markets, and the balanced range of assets within those businesses, is the one which is most likely to secure sustained real growth in the dividend payable to shareholders.

Setting the right long-term priorities to achieve dividend growth

In support of its strategy, SSE has identified five long-term priorities across its balanced range of businesses which reflect, and are consistent with, the issues arising as a result of the transition that is under way. The long-term priorities are:

- efficiency, responsiveness and innovation in energy networks;
- breadth and depth in the provision of energy-related services to businesses and other organisations;
- gaining and retaining the trust of a growing number of household energy customers;
- flexible and 'greener' electricity production; and
- competitive and sustainable energy procurement.

In focusing on these long-term priorities, SSE will maintain a strong emphasis on its six core values, the 'SSE SET' of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. This means that safety must come first. In the six months to 30 September 2012, its Total Recordable Injury Rate per 100,000 hours worked was 0.14, compared with 0.11 in the same six months in 2011.

This was, however, overshadowed by the extremely sad loss of the lives of two employees of contractors to SSE. SSE is continuing to work with its contractors to ensure their performance on all aspects of safety is of the highest standard possible.

Dividend Per Share and Adjusted Earnings Per Share*

Increasing the Interim Dividend in 2012/13

SSE's first financial responsibility to its shareholders is to remunerate their investment through the payment of dividends. The Board is recommending an interim dividend of 25.2p per share, compared with 24.0p in the previous year. This is:

- an increase of 5.0% compared with 2011/12;
- more than three times the first interim dividend paid by SSE in 1999; and
- more than double the interim dividend paid in 2005.

SSE is one of just five companies to have delivered better-than-inflation dividend growth every year since 1999, while remaining part of the FTSE 100 for at least 50% of that time, and ranks third amongst that group in terms of compound annual growth rate over that time.

Targeting further dividend increases in 2012/13 and beyond

SSE believes it will achieve its principal financial objective for 2012/13 - an increase of at least 2% more than RPI inflation in the dividend payable to shareholders. Thereafter, as set out in its Financial Report on 16 May 2012 and in its Notification of Close Period on 28 September 2012, its target is to deliver annual dividend increases which are greater than RPI inflation while maintaining dividend cover over the medium term within a range around 1.5 times.

Monitoring Adjusted Earnings Per Share*

To monitor financial performance over the medium term, SSE continues to focus on adjusted earnings per share*, which is calculated by excluding the charge for deferred tax, exceptional items and the impact of re-measurements arising from IAS 39 (see also 'Increasing Adjusted Profit Before Tax*' below).

Adjusted earnings per share* has the straightforward benefit of defining the amount of profit after tax that has been earned for each Ordinary Share and so reflects a clear view of underlying financial performance. Moreover, as stated in its Financial Report in May 2012, it is SSE's policy that dividend targets over the medium term should be consistent with the dividend being covered by its adjusted earnings per share* within a range of around 1.5 times.

In the six months to 30 September 2012, SSE's adjusted earnings per share* were 35.3p, based on 945.4 million shares, compared with 25.1p, based on 937.0 million shares, in the previous year. As with adjusted profit before tax* (see below), SSE's focus is on the full-year adjusted earnings per share*.

Adjusted Profit Before Tax*

Increasing Adjusted Profit Before Tax*

These financial results for the six months to 30 September 2012 are reported under International Financial Reporting Standards, as adopted by the EU. In line with its policy since 2005/06, SSE focuses on profit before tax before exceptional items, re-measurements arising from IAS 39, and after the removal of taxation on profits from jointly controlled entities and associates. As a result, this 'adjusted profit before tax'

- reflects the underlying profits of SSE's business;
- reflects the basis on which the business is managed; and
- avoids the volatility that arises from IAS 39.

The tables below reconcile SSE's adjusted profit before tax* to its reported profit before tax and set out the position after tax and in respect of adjusted earnings per share*. The volatility that arises from IAS 39 is also demonstrated.

| | Sep 12 £m | Sep 11 £m | Sep 10 £m | Sep 09 £m |
|---|----------------------|----------------------|----------------------|----------------------|
| Adjusted Profit before Tax* | 397.5 | 287.4 | 385.5 | 410.5 |
| Movement on derivatives (IAS 39) | (330.5) | (354.3) | 629.7 | 118.0 |
| Exceptional items | (88.7) | (13.1) | (388.8) | - |
| Tax on JCEs and Associates | (5.1) | (1.3) | 18.4 | (14.1) |
| Reported (Loss)/Profit before Tax* | (26.8) | (81.3) | 644.8 | 514.4 |
| | Sep 12 £m | Sep 11 £m | Sep 10 £m | Sep 09 £m |
| Adjusted Profit before Tax* | 397.5 | 287.4 | 385.5 | 410.5 |
| Adjusted Current Tax Charge | (64.0) | (52.0) | (78.9) | (94.4) |
| Adjusted Profit after Tax* | 333.5 | 235.4 | 306.6 | 316.1 |
| Reported Profit/(Loss) after Tax | 27.0 | (6.1) | 495.6 | 378.6 |
| Number of shares for basic and adjusted EPS (million) | 945.4 | 937.0 | 923.4 | 920.8 |
| Adjusted EPS* - pence | 35.3 | 25.1 | 33.2 | 34.2 |
| Basic EPS - pence | 2.9 | (0.7) | 53.7 | 41.0 |

Factors affecting Adjusted Profit before Tax*

Adjusted profit before tax* rose by 38.3%, from £287.4m to £397.5m in the six months to 30 September 2012 compared with the same period in 2011. As forecast in its Notification of Close Period on 28 September, all three of SSE's segments were profitable in the six months to 30 September 2012. In the same period in 2011, the Retail segment recorded an operating loss* of £101.4m, including an operating loss* of £133.7m in Energy Supply.

The increase in adjusted profit before tax* is, therefore, mainly attributable to a return to profitability in Energy Supply and a 19.3% increase in operating profit* in Networks.

Although Energy Supply had to sustain significantly higher costs such as gas purchasing and government-sponsored schemes, it was able to return to profitability largely as a result of:

- a 27.9% increase in average household consumption of gas in Great Britain; and
- a 2.8% increase in average household consumption of electricity in Great Britain.

The increase in consumption was in response to below average temperatures during the six months to 30 September 2012 compared with the same period in 2011, when the temperatures were above average. According to the Met Office April in 2012 was the coldest since 1989 and September in 2012 was provisionally the coldest since 1994. In Ireland, consumption of energy was similar to the previous year.

The 19.3% increase in operating profit* in Networks was achieved as a result of:

- investment in the asset base of Electricity Transmission; and
- the level and timing of recovery of allowed income in Electricity Distribution.

This was partly offset by the 44.5% reduction in operating profit* in Wholesale which demonstrates that SSE is continuing to operate in difficult market conditions, in which the weak position of the economy and low prices for electricity produced mean much electricity generation – especially from gas-fired stations – is barely profitable, if at all. SSE does not

expect these conditions to continue indefinitely, but while they do the delivery of significant profit growth will remain challenging.

SSE's focus is on full-year, as opposed to half-year, adjusted profit before tax* because of the impact that shorter-term issues can have on a six-month period. As stated in its Notification of Close Period on 28 September 2012, SSE expects that the adjusted profit before tax* achieved in the first six months of this financial year is likely to account for a substantially greater proportion of that it achieves in 2012/13 as a whole than was the case for 2011/12.

Impact of the movement on derivatives (IAS 39)

At 30 September 2012, there was a net derivative financial liability in SSE's balance sheet arising from IAS 39 of £327.6m, before tax, compared with a net liability of £17.6m, before tax, at 31 March 2012 and a net asset of £155.8m at 30 September 2011. This consists of:

- a liability arising from the valuation of financial instruments used by SSE to hedge its exposure to financial risks such as interest rates; and
- a liability relating to the valuation of forward commodity purchase contracts for gas, coal, oil, carbon and wholesale electricity that SSE, like all major energy suppliers, has to enter into to ensure that the future requirements of its customers are met.

IAS 39 requires SSE to record these contracts at their 'fair value' at each balance sheet date. This involves comparing the contractual price for commodities against the prevailing forward market price at 30 September. On that date this year, the average contractual price was higher than the market price (in other words, the contracts were 'out of the money'). The actual value of the contracts will be determined as the relevant commodity is delivered to meet customers' energy needs. For around 60% of the total energy volume, this will be over the next 12 months. As a result, SSE believes the movement in fair value of the contracts is not relevant to underlying performance in the period to 30 September 2012.

The movement on derivatives under IAS 39 of £330.5m shown in the table above and on the face of the Income Statement is primarily due to the change in the commodity contract position between the 'in the money' position on 31 March 2012 and the 'out of the money' position on 30 September 2012, when the average contractual price was higher than the prevailing forward market price. SSE sets out these movements in fair value separately, as re-measurements, as the extent of the actual profit or loss arising over the life of the contracts giving rise to this liability will not be determined until they unwind.

Exceptional items

The pre-tax exceptional items totalling £88.7m relate to the Wholesale segment and arise from issues at Medway power station and in respect of CO₂ emissions allowances:

- In 2008 SSE experienced significant unplanned interruptions to electricity generation at its Medway power station. This resulted in a number of associated costs which gave rise to a claim for an insurance payment, the expected value of which SSE recognised as a debtor in its accounts for that year. In the period to 30 September 2012, SSE agreed a payment with its insurers which, although still substantial, is lower than the amount originally expected.
- SSE's assets include purchased CO₂ emissions allowances, which it recognises at cost. SSE also enters into forward contracts for the future delivery of CO₂ allowances. Due to the continuing low market prices, SSE has restructured its portfolio of purchased and committed allowances, which resulted in the recognition of net exceptional charges in the period.

Delivering Adjusted Profit Before Tax* in 2012/13

SSE's first financial goal is not the maximisation of profit and profit is not the point of SSE. Profit is an essential means to a more important end: it supports the dividend, which is the key means through which it remunerates shareholders; it also enables investment which, in turn, also supports the dividend.

At the same time, SSE has delivered 13 successive increases in adjusted profit before tax* since it first reported full-year results in 1999. As in any other year, SSE's adjusted profit before tax* for 2012/13 as a whole will be determined by issues such as:

- the management of the overall energy portfolio, in the context of geopolitical and macro-economic issues;
- the interaction between wholesale prices for energy and fuel and the prices for the electricity and gas charged to customers;
- electricity market conditions and the ability of its operating thermal power stations to generate electricity and the price achieved for output;
- the output of renewable energy from its hydro electric stations and wind farms; and
- the actual and underlying level of customers' energy consumption.

In its Annual Report 2012, SSE stated that the energy sector is experiencing a period of profound change, and referred to external trends affecting it, such as continuing integration of UK energy prices in to the wider global market, older generation plant closures, increasing variability due to higher penetrations of renewable energy sources and the underlying fall in demand for energy.

Against this background, SSE believes that it should be consistent with its expectation at the start of each financial year, and with the position as set out in its Notification of Close Period on 28 September 2012, which is that it will not provide an outlook for adjusted profit before tax* before the publication of its third quarter Interim Management Statement, not least because its principal financial goal is dividend growth.

In terms of 2012/13, SSE continues to believe that its balanced range of market-based and economically-regulated energy businesses, and the diversity of opportunities within those businesses, should enable it to deliver a level of adjusted profit before tax* capable of supporting the achievement of its principal financial target for the year, a full-year dividend increase of at least 2% more than RPI inflation.

Investment and Capital Expenditure

| Investment and Capex Summary | Sep 12 £m | Sep 11 £m |
|---|----------------------|----------------------|
| Electricity Transmission | 167.5 | 84.9 |
| Electricity Distribution | 117.7 | 94.7 |
| Other Networks | 24.1 | 17.7 |
| Total Networks | 309.3 | 197.3 |
| Total Retail | 35.9 | 11.8 |
| Thermal Generation | 95.5 | 54.7 |
| Renewable Generation | 216.1 | 477.8 |
| Gas Storage | 21.0 | 14.5 |
| Gas Production | 2.8 | 0.3 |
| Total Wholesale | 335.4 | 547.3 |
| Other | 18.6 | 40.5 |
| Total investment and capital expenditure | 699.2 | 796.9 |
| 50% of SGN capital/replacement expenditure | 88.8 | 103.3 |

Investing for sustained real dividend growth

In November 2010, SSE said that it expected its investment and capital expenditure would be in the range of £1.5bn to £1.7bn in each of the five years to March 2015. In the six months to 30 September 2012, SSE's capital and investment expenditure totalled £699.2m, compared with £796.9m in the same six months in 2011.

During the six months to 30 September there was investment of:

- £167.5m in **electricity transmission**, of which £109.5m was spent on the work to replace SSE's section of the Beaulieu-Denny replacement line;

- £117.7m in **electricity distribution**, the majority of which was spent on system upgrades;
- £35.9m in **retail**, the majority of which was spent on work associated with preparations for the roll-out of smart meters;
- £95.5m in **thermal generation**, including refurbishment at Keadby and Medway, and development of future projects;
- £216.1m in **renewable generation**, a significant part of which was invested in completing the construction of the Clyde onshore and Greater Gabbard offshore wind farms as well as bringing Glendoe hydro scheme back to service; and
- £21.0m in **gas storage**, including investment in the new facility at Aldbrough.

This means that, for the first time since 2008, renewable energy did not comprise the largest element of SSE's capital and investment expenditure in a six month period; it was exceeded by the combined investment in economically-regulated electricity networks. In the three years to 31 March 2012, renewable energy accounted for just over 50% of SSE's capital and investment expenditure; in the three years to March 2015, it is likely to account for around 30% of SSE's overall total. Economically-regulated electricity networks are likely to require the biggest proportion of capital and investment expenditure during that period.

Delivering an expanded asset base

Since April 2010, SSE's investment and capital expenditure has totalled £3.85bn. This has resulted in a significantly expanded asset base for SSE, including:

- an increase of £900m in the RAV of its electricity networks;
- an increase of around 840MW in its capacity for generating electricity from wind farms (resulting in SSE's total wind capacity producing 1.7TWh of electricity in the six months to 30 September 2012); and
- the Aldbrough gas storage facility (SSE share – two thirds).

SSE keeps the economic evaluation of its investment programme under close scrutiny. It uses evaluation of previous projects in making individual investment decisions and in assessing the overall size and structure of its investment programme. SSE believes that a greatly expanded asset base and significant value have been and are being created from its capital and investment expenditure programme and that the long-term nature of the assets which it has developed and continues to develop means that value will be sustained in to the 2030s and beyond.

Delivering investment efficiently

Central to SSE's strategy is 'efficient' investment in a balanced range of economically-regulated and market-based energy businesses. This means that investments should be:

- consistent with SSE's financial principles and so should achieve returns which are greater than the cost of capital (with an appropriate risk premium applied to the expected rate of return from individual projects where appropriate for construction, market, technology, regulatory or legislative reasons), enhance earnings and contribute to dividend growth; and
- governed, developed, approved and executed in an effective manner, consistent with SSE's Major Projects Governance Framework which is, in itself, regularly updated.

The Framework, as stated above, is designed to ensure that - from opportunity assessment through to post-investment evaluation - projects are governed, developed, approved and executed in an effective manner. It is also designed to ensure that there is:

- rigorous control of the costs of major projects, so that value for money is achieved; and
- a clear focus on the return which they should generate.

The Framework also helps to inform and optimise the stage at which SSE enters the project development cycle, which can range from pre-planning development to the purchase of more

developed assets. This supports SSE in identifying the point of entry where it can best maximise the value associated with a development.

Making capital and investment expenditure decisions in 2012/13 and beyond

For 2012/13 as a whole SSE expects capital and investment expenditure to total around £1.6bn, including expenditure to be incurred on the recently acquired Great Island Combined Cycle Gas Turbine (CCGT) which is currently in construction. Looking ahead, there are four main categories in SSE's investment and capital expenditure plans to March 2015 and beyond:

- economically-regulated expenditure on electricity transmission upgrades;
- economically-regulated electricity distribution expenditure plus essential maintenance of other assets;
- expenditure that is already committed to development of new assets such as the CCGT at Great Island and new wind farms; and
- expenditure that is not yet committed but which could be incurred to support the development of new assets.

Decisions on whether to proceed with individual projects are made following rigorous analysis and:

- in the context of SSE's commitment to maintaining a diverse range of assets within its economically-regulated and market-based businesses;
- in the light of developments in public policy and regulation; and
- on the basis of the experience and skills available to SSE.

The uncommitted nature of some expenditure gives SSE flexibility in the management of its balance sheet in the years to 2015 and beyond. It continues to believe that a disciplined investment programme with the principles, shape and scale described above should allow it to maintain the development of a balanced and diverse range of assets to support annual dividend increases that are above RPI inflation while remaining consistent with the current criteria, including the key ratios, associated with a single A credit rating, without the need to issue new shares. It will deliver:

- further significant enhancements to the asset base in key businesses, including economically-regulated electricity networks;
- a continuing increase in fuel for electricity in the form of renewable sources of energy, supporting a reduction in the CO₂ intensity of electricity generated;
- a hedge against prices for fossil fuels; and
- additional cashflows and profits to support continuing dividend growth.

Investing in gas distribution through Scotia Gas Networks (SGN)

In addition to its own capital and investment expenditure programme, SSE effectively has a 50% interest in SGN's capital and replacement expenditure, through its 50% equity share in that business. SGN is self-financing and all debt relating to it is separate from SSE's balance sheet. Nevertheless, it is a very substantial business which gives SSE, through its 50% stake, a major interest in economically-regulated gas distribution. In the six months to 30 September 2012, a 50% share of SGN's capital and replacement expenditure was £88.8m, compared with £103.3m in the previous year.

Financial management and balance sheet

| Key Performance Indicators | Sep 12 | Mar 12 | Sep 11 |
|--|---------------|---------------|---------------|
| Adjusted net debt and hybrid capital (£bn) | 7.05 | 6.76 | 6.37 |
| Average debt maturity (years) | 10.9 | 10.5 | 11.6 |
| Adjusted interest cover ¹ (excluding SGN) | 3.9 | 5.9 | 3.7 |
| Shares in issue at 30 September (m) | 957.9 | 944.7 | 937.8 |
| Shares in issue (weighted average) (m) | 945.4 | 937.8 | 937.0 |

¹ including hybrid coupon

Managing net debt and maintaining cash flow

SSE's adjusted net debt and hybrid capital was £7.05bn at 30 September 2012, compared with £6.76bn at 31 March 2012 and £6.37bn at 30 September 2011. Fundamentally, this increase reflects the quantum and phasing of capital and investment projects to support sustained real dividend growth.

As the table below sets out, adjusted net debt excludes finance leases and includes outstanding liquid funds that relate to wholesale energy transactions. Hybrid capital is accounted for as equity within the Financial Statements but has been included within SSE's 'Adjusted net debt and hybrid capital' to aid comparability.

| Adjusted Net Debt and Hybrid Capital | Sep 12 | Mar 12 | Sep 11 |
|---|------------------|------------------|------------------|
| | £m | £m | £m |
| Adjusted Net Debt and hybrid capital | (7,054.2) | (6,755.8) | (6,371.9) |
| Less: hybrid capital | 2,186.6 | 1,161.4 | 1,161.4 |
| Adjusted Net Debt | (4,867.6) | (5,594.4) | (5,210.5) |
| Less: Outstanding Liquid Funds | (42.4) | (119.9) | (109.8) |
| Add: Finance Leases | (336.3) | (342.1) | (348.6) |
| Unadjusted Net Debt | (5,246.3) | (6,056.4) | (5,668.9) |

A strong debt structure through medium- and long-term borrowings

SSE's objective is to maintain a balance between continuity of funding and flexibility, with debt maturities set across a broad range of dates. Its average debt maturity, excluding hybrid securities, as at 30 September 2012 was 10.9 years, compared with 10.5 years at 31 March 2012.

SSE's debt structure remains strong, with around £5.0bn of medium/long term borrowings in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans. The table above also includes the issue by SSE of:

- hybrid capital of £1.162bn in September 2010; and
- hybrid capital of £1.025bn in September 2012.

The balance of SSE's adjusted net debt is financed with short-term commercial paper and bank debt.

SSE's adjusted net debt includes cash and cash equivalents totalling £894.4m. Around £1.5bn of medium-to-long-term borrowings will mature in the period to 31 March 2014.

Ensuring SSE is well-financed

SSE believes that maintaining a strong balance sheet, evidenced by a commitment to the current criteria for a single A credit rating, such as a funds from operations/debt ratio of 20% and a retained cash flow/debt ratio of 13%, is a key financial principle.

In August 2012, Standard & Poor's Rating Services affirmed SSE's long-term rating of A- while changing its rating outlook from 'stable' to 'negative'. Moody's corporate credit rating of SSE remains A3 with a 'stable' outlook.

SSE is committed to maintaining financial diversity and diversity of funding sources and will move quickly to take the right financing options, including issuing new bonds and loans. In line with that it:

- completed in April 2012 a private placement of senior notes with 22 US-based investors for a total consideration of US\$700m (equivalent to around £450m). The senior notes consist of four tranches with a weighted average maturity of 10.3 years and an all-in funding cost of around 4.25% once swapped to Sterling; and

- successfully issued in September 2012 hybrid capital securities comprising US\$700m and €750m, which are perpetual and subordinate to all senior creditors, with an all-in euro funding cost to SSE of around 5.6% per annum.

In addition, the Scrip Dividend Scheme introduced by SSE in 2010 reduces cash outflow and therefore supports the balance sheet, although the extent to which it will do so is inevitably difficult to predict. A total of 30,369 shareholders elected to receive the final dividend for the year to 31 March 2012 of 56.1 pence per ordinary share in respect of 307,842,342 ordinary shares in the form of Scrip dividend, resulting in a reduction in cash dividend funding of £172.7m. A total of 13,213,634 new ordinary shares, fully paid, were issued on 21 September 2012, representing an increase of 1.40% on the issued share capital on the dividend record date of 27 July 2012. The relevant Scrip Reference Share Price was 1,307 pence per ordinary share. The cumulative reduction in cash dividend funding since the Scrip alternative became available in September 2010 is now £407m.

Fundamentally, SSE believes its commitment to the long term means it must be disciplined when managing its balance sheet, prudent in financing its activities and rigorous and selective when making investment and acquisition decisions. At the same time, it believes that it has sufficient financial flexibility to pursue the best opportunities to provide the means with which to increase dividends. Moreover, SSE is prepared to dispose of assets where their retention is not fully consistent with or supportive of its overall strategy, as was demonstrated with the sale during 2011/12 of its interest in three onshore wind farms.

With regard to shorter-term funding, SSE's core revolving credit facilities of £900m are, and are expected to remain, undrawn. The facilities are the subject of an agreement with banks which runs to 2015. In addition to these facilities, SSE has a committed bilateral facility of £100m with one other bank.

Net Finance Costs

The table below reconciles reported net finance costs to adjusted net finance costs, which SSE believes is a more meaningful measure. In line with this, SSE's adjusted net finance costs during the first six months of 2012/13 were £193.6m, compared with £164.5m in the same period in 2011/12.

| | Sep 12 £m | Sep 11 £m |
|--|---------------------|---------------------|
| Adjusted net finance costs | 193.6 | 164.5 |
| add/(less): | | |
| Movement on derivatives | 56.9 | 15.4 |
| Share of JCE ¹ /Associate interest | (75.2) | (72.9) |
| Reported net finance costs | <u>175.3</u> | <u>107.0</u> |
| Adjusted net finance costs | 193.6 | 164.5 |
| Return on pension scheme assets | 66.1 | 72.7 |
| Interest on pension scheme liabilities | (70.8) | (74.6) |
| Finance lease interest | (18.5) | (19.2) |
| Notional interest arising on discounted provisions | (3.3) | (3.6) |
| Adjusted finance costs for interest cover calculation | <u>167.1</u> | <u>139.8</u> |

¹Jointly Controlled Entities

There was no charge for hybrid capital interest during the six months to 30 September 2012 as the coupon payment relating to the bonds issued in 2010 was made on 1 October 2012. Charges are presented as distributions to other equity holders and are reflected within adjusted earnings per share*.

The average interest rate for SSE, excluding JCE/Associate interest, during the six months was 5.17%, compared with 5.19% for the previous year. Based on adjusted interest costs, SSE's adjusted interest cover was (previous year's comparison in brackets):

- 3.9 times, excluding interest related to SGN (3.7 times); and
- 3.5 times, including interest related to SGN (3.2 times).

Excluding shareholder loans, SGN's net debt at 30 September 2012 was £3.3bn, and within the adjusted net finance costs of £193.6m, the element relating to SGN's net finance costs was £47.4m (compared with £48.4m in the previous year), after netting loan stock interest payable to SSE. Its contribution to SSE's adjusted profit before tax* was £75.3m, compared with £66.2m for the same period in the previous year.

Contributing to employees' pension schemes

In line with the IAS 19 treatment of pension scheme assets, liabilities and costs, pension scheme liabilities of £712.4m are recognised in the balance sheet at 30 September 2012, before deferred tax. This compares to a liability of £731.9m at 31 March 2012.

During the six months to 30 September 2012, employer cash contributions amounted to:

- £24.0m for the Scottish Hydro Electric scheme, including deficit repair contributions of £14.8m; and
- £39.2m for the Southern Electric scheme, including deficit repair contributions of £27.4m.

As part of the electricity Distribution Price Control for 2010-15, it was agreed that allowances equivalent to economically-regulated businesses' share of deficit repair contributions in respect of the Southern Electric and Scottish Hydro Electric schemes would be included in price controlled revenue, with an incentive around ongoing pension costs.

Tax

Being a responsible tax payer

Central to SSE's approach to tax is that it should be regarded as a responsible tax payer. As a consequence, SSE maintains a good relationship with HM Revenue & Customs, based on trust and cooperation.

SSE strives to manage efficiently its total tax liability, and this is achieved through operating within the framework of legislative reliefs. SSE does not take an aggressive stance in its interpretation of tax legislation, or use so-called 'tax havens' as a means of reducing its tax liability. SSE's tax policy is to operate within both the letter and spirit of the law at all times.

As a member of the Hundred Group of Finance Directors, SSE contributes to its annual Total Tax Contribution survey. SSE ranked 23rd in the 2011 survey, both in terms of tax paid and total tax contribution. The results of the 2012 survey are expected shortly.

Setting out SSE's tax position

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

| | Sep 12 £m | Sep 11 £m |
|--|---------------|---------------|
| Adjusted current tax charge | 64.0 | 52.0 |
| Add/(less) | | |
| Share of JCE/Associate tax | (5.1) | (1.3) |
| Deferred tax | 12.1 | 9.4 |
| Tax on exceptional items/certain re-measurements | (124.8) | (135.3) |
| Reported tax credit | <u>(53.8)</u> | <u>(75.2)</u> |

The effective adjusted current tax rate, based on adjusted profit before tax*, was 16.1%, compared with 18.1% in the same period last year, on the same basis. The impact of SSE's

higher capital expenditure programme and the series of UK Corporation Tax rate reductions announced in the 2010 and subsequent Budgets have had, and will continue to have, a positive impact on the effective current tax rate.

The deferred tax balance has been remeasured to reflect the latest of the series of annual reductions in the UK Corporation Tax rate that were announced in the 2010 Budget, and the deferred tax balances for future years will be remeasured as each subsequent rate reduction is enacted.

Priorities and Outlook for 2012/13 and beyond

Dealing with economic and energy market uncertainty

As previously stated, SSE's expectation at the start of each financial year is that it will not provide an outlook for adjusted profit before tax* before the publication of its third quarter Interim Management Statement, not least because its principal financial objective is dividend growth, and that remains the case for 2012/13.

Moreover, the economic outlook for the UK and Ireland in 2012/13 continues to be uncertain, and the global nature of energy markets means that SSE, like every other company in the sector, has to be prepared to manage the energy consequences of exceptional and unpredictable macro-economic, geopolitical or other events of potentially global significance. In addition, there is particular uncertainty about the electricity generation market in Great Britain.

SSE believes that its strategy – the efficient operation of, and investment in, a balanced range of economically-regulated and market based energy businesses in the UK and Ireland – is resilient in and appropriate for this uncertain environment.

Setting the right operational priorities

SSE believes that the efficient operation of its businesses in the UK and Ireland means in practice:

- carrying out all work in a safe and responsible manner, with a lower Total Recordable Injury Rate;
- maintaining particularly strong cost control throughout all business activities;
- demonstrating efficiency, responsiveness and innovation in the management of electricity and gas networks;
- improving the standards of service delivered to customers of its Retail businesses and continuing the drive to build trust in it as an energy supplier;
- optimising the management of its portfolio of energy assets and contracts and of its energy procurement;
- ensuring power generating plant maintains a high level of performance and availability to generate electricity in response to customers' needs and market conditions;
- integrating the newly acquired electricity generation assets and gas supply business on the island of Ireland; and
- working with the UK government and Ofgem to secure a stable and competitive framework for electricity generation and energy supply in Great Britain.

Setting the right investment priorities

SSE believes that the efficient investment in its businesses in the UK and Ireland means in practice:

- continuing progress in its programme of capital investment in electricity and (through Scotia Gas Networks) gas networks, including electricity transmission; and
- maintaining progress in the maintenance, construction and development of assets which support the achievement of flexible and 'greener' electricity generation.

Forecasting a full-year dividend increase of at least RPI plus 2%

The delivery of a strong operational performance and the achievement of its investment priorities should enable SSE to discharge its first financial responsibility to shareholders in 2012/13: an increase of at least 2% more than RPI inflation in the full-year dividend. It should also put SSE in a good position to deliver dividend increases from 2013/14 onwards that are greater than RPI inflation.

Further information

Disclaimer

This financial report contains forward-looking statements about financial and operational matters. Because they relate to future events and are subject to future circumstances, these forward-looking statements are subject to risks, uncertainties and other factors. As a result, actual financial results, operational performance and other future developments could differ materially from those envisaged by the forward-looking statements.

Investor Timetable

| | |
|--------------------------------------|--------------------|
| Ex-dividend date | 23 January 2013 |
| Record date | 25 January 2013 |
| Interim Management Statement | By 8 February 2013 |
| Final date for Scrip elections | 22 February 2013 |
| Payment date | 22 March 2013 |
| Financial results for 2012/13 | 22 May 2013 |
| AGM and Interim Management Statement | 25 July 2013 |

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Analysts' presentation

Start: 0900 (GMT)

Location: The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED

Webcast facility

You can join the webcast by visiting www.sse.com and following the link on the homepage.

Conference call

UK 0800 279 4841

US 1877 249 9037

When asked please provide conference number **6963644**.

Online information

News releases and announcements are made available on SSE's website at www.sse.com.

You can also follow the latest news from SSE through Twitter at www.twitter.com/sse.

NETWORKS

| Networks Key Performance Indicators | Sep 12 | Sep 11 |
|--|--------|--------|
| ELECTRICITY TRANSMISSION | | |
| Operating profit* - £m | 48.7 | 37.8 |
| Regulated Asset Value (RAV) - £m | 930 | 590 |
| Capital expenditure - £m | 167.5 | 84.9 |
| Connection offers provided in required period | 59 | 32 |
| ELECTRICITY DISTRIBUTION | | |
| Operating profit* - £m | 213.4 | 163.5 |
| Regulated Asset Value (RAV) - £m | 2,890 | 2,745 |
| Capital expenditure - £m | 117.7 | 94.7 |
| Customer minutes lost (SHEPD) | 33 | 30 |
| Customer minutes lost (SEPD) | 33 | 30 |
| SCOTIA GAS NETWORKS | | |
| Operating profit* (SSE's share) - £m | 122.7 | 114.6 |
| Regulated Asset Value (SSE's share) - £m | 2,320 | 2,200 |
| Capital and replacement expenditure (SSE's share)- £m | 88.8 | 103.3 |
| Uncontrolled gas escapes attended within one hour % | 99.0 | 99.1 |
| SGN gas mains replaced - km | 561 | 521 |
| OTHER NETWORKS | | |
| Operating profit* - £m | 14.7 | 19.1 |
| Capital expenditure - £m | 24.1 | 17.7 |
| Lighting Services maintenance contracts (GB and Ire) | 48 | 54 |
| Lighting Services PFI contracts with Local Authorities | 12 | 12 |
| Utility Solutions electricity networks in operation | 127 | 99 |
| Utility Solutions new gas connections | 7,500 | 6,940 |

Owning, operating and investing in Networks

Electricity and gas transmission and distribution companies are natural monopolies, serving defined geographical areas. The performance of SSE's economically-regulated electricity networks businesses is reported within Networks, as is the performance of Scotia Gas Networks (SGN), in which SSE has a 50% stake. In addition, the market-based activities of Lighting Services, Utility Solutions and Telecoms are also network-based and are, therefore, included within SSE's Networks segment as Other Networks.

Economically-regulated network companies with a growing Regulatory Asset Value

SSE has an ownership interest in five economically-regulated energy network companies:

- Scottish Hydro Electric Transmission (100%);
- Scottish Hydro Electric Power Distribution (100%);
- Southern Electric Power Distribution (100%);
- Scotland Gas Networks (50%); and
- Southern Gas Networks (50%).

SSE estimates that the total Regulatory Asset Value (RAV) of its economically-regulated 'natural monopoly' businesses is now £6.1bn, comprising around:

- £930m for electricity transmission;
- £2,890m for electricity distribution; and
- £2,320m for gas distribution (i.e. 50% of the business' total RAV of £4.64bn).

In May 2012 it was confirmed by the European Commission that the arrangements in place in relation to the vertical integration and operation of the transmission system belonging to SHE

Transmission meets the requirements of Article 9(9) of Directive 2009/72/EC and 'clearly guarantee more effective independence of the transmission system operators' than the provisions of Chapter V of the Directive.

SSE is the only energy company in the UK to be involved in electricity transmission, electricity distribution and gas distribution. Through Price Controls, Ofgem sets the index-linked revenue the network companies can earn through charges levied on their users to cover their costs and earn a return on their regulated assets. These lower-risk economically-regulated natural monopoly businesses provide a financial backbone and operational focus for SSE and balance its activities in the competitive Wholesale and Retail markets. They are core to SSE, to its strategy in the short, medium and long term and to its ability to deliver sustained real dividend growth.

Financial performance in Networks

In the six months to 30 September 2012, operating profit* in Networks increased by 19.3%, from £335.0m to £399.5m, contributing 66.8% of SSE's total operating profit*. This comprised (comparisons with the previous year):

- £48.7m in electricity transmission, compared with £37.8m;
- £213.4m in electricity distribution, compared with £163.5m;
- £122.7m representing SSE's share of the operating profit* for SGN, compared with £114.6m; and
- £14.7m in other network businesses, compared with £19.1m.

London 2012

In the summer of 2012, Southern Electric Power Distribution and Southern Gas Networks worked successfully with the London Organising Committee of the Olympic and Paralympic Games to ensure venues and designated road networks in their areas were free from disruption.

Electricity Transmission

Performance in Scottish Hydro Electric Transmission (SHE Transmission)

In SHE Transmission, operating profit* increased by 28.8% from £37.8m to £48.7m. This reflected the continuing increase in its investment in its asset base and associated increase in allowed revenue.

Investing in Scotland's electricity transmission network

SHE Transmission is responsible for maintaining and investing in the transmission network in its area, which comprises almost 5,300km of high voltage overhead lines and underground cables and which serves around 70% of the land mass of Scotland. As the licensed transmission company for the area, SHE Transmission has to ensure there is sufficient network capacity for those within it seeking to generate electricity from renewable and other sources.

During the six months to 30 September 2012, a total of £167.5m was invested by SHE Transmission in its networks, up from £84.9m in the same period in 2011, taking its total Regulated Asset Value from £770m on 31 March 2012 to £930m.

Upgrading Scotland's electricity transmission network

The base of SHE Transmission's plans for 2013 to 2021 is a £1.1bn capital investment programme in 2009/10 prices, or £1.4bn at annual inflation of 3.18%, in line with Ofgem's assumptions. There is flexibility to increase this very significantly, if required, to upgrade the transmission network during 2013-21. To proceed to construction, projects require authorisation by Ofgem and any necessary consents for development from Scottish Ministers. Projects completed or under construction include (investment numbers are on a nominal basis):

- **Knocknagael Substation:** all construction and commissioning works relating to the substation and associated overhead lines and underground cables have been

completed at a cost of £40m, which was just under the Ofgem authorisation. This has increased by 125MW the amount of electricity that can be exported from the north of Scotland, and is the first completed transmission project to undergo SSE's Major Projects Governance Framework.

- **Beaully-Dounreay:** Work on upgrading and reinforcing the transmission network between Beaully and Dounreay is continuing, including the installation of a second set of conductors to create a double circuit line and development of new and upgraded substations. This programme should be completed in 2013 at an estimated cost of £78m, in line with Ofgem's authorised budget.
- **Beaully-Blackhillock-Kintore:** Work on replacing the conductors of the 275kV transmission lines between Beaully and Blackhillock and Blackhillock and Kintore, to allow an increase in the capacity of the network to transmit electricity, is well under way and is expected to be finished in 2015. Ofgem has authorised investment of over £90m for this development.
- **Beaully-Denny:** Full construction work on the replacement of SSE's part of the line, from Beaully to Wharry Burn, for which Ofgem has authorised investment of £600m, is now well under way, with a total of £255m invested so far. The replacement line is 200km in length and requires the development of five substations. Construction should be completed in 2014, with remedial works carrying on in to 2015.
- **Beaully-Mossford:** The first stage of this project, to construct a new substation at Corriemoille, is well under way. This already has Ofgem authorisation for £14m. Consent for a replacement 132kV transmission line between Beaully and Mossford has been received from Scottish Ministers. The estimated cost of both parts of the project is approximately £60m and work should be completed by 2015.

A total of £131m was invested in these five projects in the six months to 30 September 2012 and their development is expected to help take SHE Transmission RAV from £930m as at 30 September 2012 to over £1bn by March 2013 and to around £1.6bn by March 2015. In 2012/13 as a whole, SHE Transmission expects to incur capital expenditure of around £325m.

Achieving a 'fast track' to Price Control agreement

In April 2012, following consultation, Ofgem published Final Proposals for RIIO T1 (Revenue = Incentives + Innovation + Outputs) for SHE Transmission for the eight year transmission Price Control period from April 2013. The Final Proposals contain:

- an allowed cost of equity of 7.0%;
- a new index for determining companies' debt costs weighted by SHE Transmission's debt issuance;
- depreciation based on 20 years for existing assets; and
- depreciation for new assets (except Beaully-Denny) moving to 45 years over the course of two Price Control periods.

The publication of the Final Proposals in April 2012 has allowed SHE Transmission a year to prepare for the implementation of the new Price Control and in September 2012 it published an update document for stakeholders on the progress it is making and to invite views on a number of issues. Meanwhile, Final Proposals for National Grid Electricity Transmission will be published in December 2012.

Keeping the lights on and supporting growth in the long term

SHE Transmission's plans for 2013 to 2021 include approved capital expenditure of £1.4bn. There is flexibility to increase this very significantly, to upgrade the transmission network during 2013-21 in response to the needs of electricity generators. Projects currently being developed, and which could be constructed during the period, include:

- **Kintyre-Hunterston:** SHE Transmission has received consent to build a new 220/132kV substation in Crossaig on the Kintyre peninsula and replace the existing 132kV overhead line between Carradale and Crossaig with a higher capacity double circuit overhead line and install two subsea cable circuits from this new substation round the north coast of Arran to Hunterston. An investment case will be submitted to

Ofgem shortly and it is anticipated that the reinforcement will be completed around 2016.

- **Caithness to Moray:** SHE Transmission is now planning to develop a subsea electricity cable between Caithness, where work is continuing to secure consents for a new substation at Spittal, and Moray, where it is proposed to upgrade the existing substation at Blackhillock, to transmit the large volume of existing and planned electricity from renewable sources in the north of Scotland. The cable will be capable of transmitting around 1,200MW of electricity. This proposal to develop a subsea cable retains the flexibility to accommodate further generation developments in the north of Scotland as and when the need to do so arises. Alongside the development of the project, SHE Transmission is reviewing recent supply chain information and will provide an update on progress by the end of the year.
- **Orkney to Caithness:** SHE Transmission is planning to develop and install a new 132kV subsea cable between Orkney and Dounreay to increase transmission system capacity to support renewable energy projects in and around Orkney. Site investigations, survey and design work are continuing, with a view to submitting the relevant planning applications in 2013.
- **East Coast 400kV:** SHE Transmission is planning to upgrade the existing east coast transmission line which runs from Blackhillock to Blairingone from an operating voltage of 275kV to 400kV, with associated substation developments. This will enable new capacity for generating electricity to link to the main transmission system and centres of demand. The project is a key reinforcement in the Scottish Government's National Planning Framework for Scotland.
- **East Coast HVDC link:** SHE Transmission is proposing to upgrade the existing infrastructure in the Peterhead area to facilitate the proposed development of a 2GW East Coast HVDC subsea link between the north of Scotland and centres of electricity demand. SHE Transmission is working with National Grid Electricity Transmission and SP Transmission on these proposals. A number of technical and environmental assessments and consultations have been carried out and consultation processes relating to the proposed infrastructure are currently under way.
- **Western Isles:** SHE Transmission has undertaken a considerable amount of work in relation to the proposed Western Isles HVDC link and Lewis infrastructure. It has advised stakeholders that the total cost of the link is now estimated to be no less than £700m and will not be completed before 2016, and potentially later. It will provide a further update on the Western Isles projects by the end of the calendar year.
- **Shetland:** SHE Transmission is in the process of securing consents for converter stations and the proposed subsea/onshore underground HVDC transmission link between the Shetland Islands and the Scottish mainland to accommodate renewable energy developments in Shetland. The link would also connect properties in Shetland to the mainland electricity network for the first time and could be installed in the second half of this decade. SHE Transmission is undertaking a review of the basis of the economic appraisal for the investment, in the light of potential cost increases. A further update on progress will be provided by the end of the year.

The key driver for all of these projects is the need to accommodate renewable energy developments in the north of Scotland. SHE Transmission expects to invest an average of around £350m a year in each of the next few years. Throughout that period it will be, in essence, a construction business. In this context, the enforcement of SSE's Major Projects Governance Framework is absolutely critical.

In May 2012, Ofgem set out plans to change the charging arrangements for electricity transmission networks, with greater account being taken of the type of electricity generator seeking to use the networks. This will require the Investment Cost Related Pricing (ICRP) methodology to be improved and a process to achieve this has been initiated. Once this is completed, Ofgem will consider the final form of the ICRP and make a final decision on its modification. The impact of the planned changes will have a bearing on the amount of electricity from renewable sources that is developed in Scotland and, therefore, on the way in which the transmission network is upgraded.

Electricity Transmission Priorities for 2012/13 and Beyond

SHE Transmission is SSE's fastest-growing and fastest-changing business, where the core activity for much of the next decade will be construction. Against this background, its priorities for 2012/13 and beyond are to:

- complete successfully the preparations for the 2013-21 Price Control;
- meet key milestones in projects under construction, in a way that is consistent with all safety and environmental requirements;
- make progress with projects in development, including maintaining and developing effective stakeholder relationships; and
- ensure it has the people, skills, resources and supply chain relationships that will be necessary to support growth on a significant scale.

Electricity Distribution

Performance in Southern Electric Power Distribution and Scottish Hydro Electric Power Distribution

The performance of SSE's two electricity distribution companies during the six months to 30 September 2012 was as follows (comparisons with previous years):

- operating profit* increased by 30.5% to £213.4m;
- electricity distributed rose by 0.1TWh to 18.7TWh;
- the average number of minutes of lost supply per customer was 33 in the north (30) and 33 in the south (30); and
- the number of supply interruptions per 100 customers was 33 in the north (30) and 31 in the south (36).

The increase in operating profit* principally reflects additional allowed revenue under the existing Distribution Price Control, the timing of recovery of allowed income and continued emphasis on the control of costs.

Volume of electricity distributed

The total volume of electricity distributed by the two companies during the six months to 30 September 2012 was 18.7TWh, compared with 18.6TWh in the previous year. Under the electricity Distribution Price Control for 2010-15, the volume of electricity distributed no longer affects companies' overall allowed revenue (although it does have an impact on the timing of revenue).

Investing in electricity networks and securing growth in their RAV

The mid-way point of the electricity Distribution Price Control for 2010-15 was reached on 30 September 2012. The Price Control changed the framework for operating and capital expenditure to remove the perceived bias in favour of the latter and to ensure the delivery of not only the investment itself but of agreed outputs from it.

Capital expenditure in electricity distribution networks was £117.7m in the six months to 30 September 2012, taking the total for the 2010-15 Price Control to £590m so far. At the same time, success in electricity distribution requires companies to be efficient, responsive and innovative so that they maximise the outputs from, and minimise disruption experienced as a result of, agreed expenditure on projects. For example, the use of directional drilling techniques to install new electricity cables between Bracknell and Camberley, part of a £30m network upgrade in the area, has helped to reduce disruption to road users.

Other innovative approaches deployed include the use of trolleys suspended 35 metres above the ground to allow the refurbishment of an overhead line between Mannington and Christchurch and the use of a cable plough to allow the removal of overhead lines and pylons from an ecologically and archaeologically sensitive lowland heath near Wareham.

The deployment of innovations and technologies such as these, plus good performance in response to Ofgem's enhanced incentive mechanisms in areas such as customer service,

should enable SSE to continue to achieve the post-tax real return in excess of 5% which it is targeting in electricity distribution.

Preparing for the impact of winter on the electricity networks

In the winter of 2011/12, SSE's electricity networks were subjected to the effects of severe weather on an unusually large number of occasions. As part of its continuing investment in the electricity networks, SSE is making a number of localised improvements, including a £1m upgrade to the electricity supply around Dunoon, which was particularly badly affected by storms in January 2012, and a £2m upgrade to the electricity supply in The Worthies area of Winchester, where there have also been issues arising as a result of bad weather.

Making electricity networks smart

The next decade promises major technological change for electricity distribution networks as a result of developments such as micro generation, the growth of electricity as a source of heating and electric vehicles. All of this will change the traditional flows of electricity, which means smarter, more dynamic networks will be required. Two major 'smart' projects, with total funding of £64m, are being led by SSE's electricity distribution businesses:

- On Shetland, **Northern Isles New Energy Solutions (NINES)** features the use of heat and electricity storage to manage intelligently the impact of movements in demand on electricity generation, which could allow more renewable energy to be connected to the network. It also features new active network management solutions. This means NINES is not just a 'smart' programme but a comprehensive and sustainable solution to the energy challenges on Shetland.
- In Berkshire, **New Thames Valley Vision (NTVV)**, in and around Bracknell, aims to demonstrate that applying new technologies to Bracknell's network will provide a lower cost alternative to redeveloping the substation to meet increasing electricity demand, with the potential to reduce significantly costs to customers. NTVV involves monitoring and predicting electricity demand and usage patterns and using a range of innovative technologies, including network automation, energy storage and automated demand response, to manage the network flows predicted by modelling.

Working with stakeholders on the new electricity distribution Price Control

RIIO-ED1 will be the first electricity distribution Price Control review to reflect the new regulatory framework first adopted in RIIO-T1. It will run from 2015 to 2023. In line with wider trends in electricity networks, it is likely to put much greater emphasis on incentives to secure innovation. In September 2012 Ofgem published its strategy consultation for RIIO-ED1, and SSE will submit its response in advance of the deadline of later this month.

As with RIIO-T1, distribution companies will be required to develop comprehensive business plans, setting out their planned outputs for the eight-year period and how they propose to deliver them. SSE will work extensively with stakeholders to ensure that such plans meet the requirements of all users of its distribution networks and in September 2012 published *Innovating for a greener, more efficient future* to invite views on the on the key issues that should be addressed in its plans for electricity distribution between 2015 and 2023.

Electricity Distribution priorities in 2012/13 and beyond

During 2012/13 and beyond SSE's priorities in Electricity Distribution are to:

- comply fully with all safety standards and environmental requirements;
- ensure that the networks are managed as efficiently as possible, delivering required outputs while maintaining tight controls over operational expenditure;
- put responsiveness at the heart of day-to-day operations, so that the number and duration of power cuts experienced by customers is kept to a minimum;
- ensure there is adequate capacity to meet changing demands on the electricity system;
- make progress on the deployment of innovative investment in smart grids; and
- engage with stakeholders in preparation for RIIO-ED1.

With such significant changes required over the next few years, not least in adapting the networks to accommodate changes in production and consumption, the scope for additional incremental growth in electricity distribution networks is clear.

Gas Distribution

Performance in SGN

SSE receives 50% of the distributable earnings from Scotia Gas Networks (SGN), in line with its equity holding, and also provides it with some corporate and management services. In SGN in the six months to 30 September 2012:

- SSE's share of operating profit* was £122.7m, compared with £114.6m;
- gas transported rose by 4.8TWh to 49.2TWh; and
- 99.0% of uncontrolled gas escapes were attended within one hour of notification, compared with 99.1%, and exceeding the target of 97%.

The increase in operating profit* for SGN is primarily due to three things:

- the continuing impact of the price changes agreed as part of the five-year Gas Distribution Price Control to March 2013;
- the timing of allowed revenue; and
- underlying operational efficiencies achieved during the year.

Only 3.5% of SGN's transportation income is volume-related; the remaining 96.5% is related to the maximum capacity requirements of its customers. A small part of SGN's operating profit is derived from the non-regulated activities of its contracting, connections and commercial services operations.

Investing in gas networks and securing growth in their RAV

The five-year Gas Distribution Price Control, which began in April 2008, has provided the opportunity for SGN to increase significantly investment in its gas distribution networks, thereby reinforcing their safety and reliability and securing another significant increase in their RAV. By the end of 2012/13, SGN estimates that its total RAV will be around £4.75bn.

During the six months to 30 September 2012, SGN invested £88.8m in capital expenditure and mains and services replacement projects, compared with £103.3m in the same period in 2011:

- The majority of the mains replacement expenditure was incurred under the 30:30 mains replacement programme which was started in 2002. This requires that all iron gas mains within 30 metres of homes and premises must be replaced over a 30-year period. During the six months, SGN replaced 561km of its metallic gas mains with modern polyethylene pipes.
- Capital projects included the development of a new UK-leading biogas plant at Poundbury in Dorset.
- SGN is also committed to making new gas connections to existing homes that are not on mains gas as affordable as possible, and is running an Assisted Connections scheme, under which 7,862 properties were connected to its networks during the six months. A further 2,200 properties are expected to be connected by the end of March 2013.

Investment will continue to be a top priority for SGN and, in line with that, it expects to invest around £400m in capital expenditure and mains and service replacement projects during 2012/13.

Making gas networks more sustainable

Following its participation in the first commercial biomass upgrading system in England, near Poundbury, which has put it in a leading position in the UK's development of biomethane delivery, SGN is now developing this technology so that larger volumes of biomethane at sites

can be commissioned into the network. It is in discussions with potential partners on a further 10 proposals for biomethane network entry points from anaerobic digestion projects to be delivered in the next 18 months in Scotland and southern England.

Preparing for the new Gas Distribution Price Control

As with electricity transmission, a new eight-year Price Control will be introduced for gas distribution from 1 April 2013 – RII0-GD1. No gas distribution companies were ‘fast-tracked’ by Ofgem. Following the submission of SGN’s business plan for 2013-21, Ofgem published its Initial Proposals for the Price Control in July 2012. It sought views on its proposed required outputs, incentive framework and cost and revenue allowances, amongst other things, and intends to publish Final Proposals in December 2012.

SGN is continuing to engage with Ofgem in advance of the Final Proposals being published, with a particular focus on ensuring the level of total capital and operational expenditure (or ‘totex’) is enough to allow SGN to maintain safe and reliable networks and secure a fair return for doing so.

Gas Distribution priorities in 2012/13 and beyond

During 2012/13, SGN’s priorities are to:

- continue to deliver a safe and secure gas supply to customers;
- deliver to time and budget the 2012/13 mains replacement and capital works programmes;
- continue to work with stakeholders to secure an acceptable outcome to the new Gas Distribution Price Control (2013-21); and
- support and invest in sustainable developments in gas distribution.

Other Networks

Performance in Other Networks

SSE’s ‘Other Networks’ businesses – Lighting Services, Utility Solutions and Telecoms – are relatively small when compared with its economically-regulated energy networks, and they operate in tough and competitive markets. Their contribution to SSE’s operating profit* fell, from £19.1m in the six months to 30 September 2011 to £14.7m, in the same period in 2012, reflecting difficult trading conditions.

Maintaining leadership in lighting services provision

SSE remains the UK’s and Ireland’s leading street-lighting contractor. It has:

- 23 contracts with local authorities in England, Wales and Scotland to maintain over 630,000 lighting units;
- 25 contracts with local authorities in the Republic of Ireland to maintain over 240,000 lighting units, through Airtricity Utility Solutions; and
- 11 contracts with 12 local authorities, under the Private Finance Initiative, to replace and maintain 610,000 lighting units.

Lighting Services has a number of strategic projects under way throughout the UK and Ireland which are influencing the market to drive innovation in street lighting. It has met with representatives to help develop UK government thinking in respect of PFI reforms, and has developed future proof ‘fit and forget’ models aimed at reducing unit maintenance regimes, improving both efficiency and cost effectiveness. The team is working with a number of clients installing Mayflower, an SSE owned total Lighting Control Management System, in the UK, whilst continuing to develop the business in Ireland, where Lighting Services operates as the largest street lighting operator in the Republic.

The success of Lighting Services depends in part on effective management of contractual relationships with local authorities at a time of restraint in public expenditure. More generally, Lighting Services fits well within SSE’s business model and, as in electricity distribution, future

success will be based on effective and efficient customer service and successful deployment of new technology.

Providing comprehensive Utility Solutions

SSE provides a comprehensive range of 'utility solutions'. It designs, builds, owns, operates and maintains cable and pipe networks for delivering electricity, gas, water, heat and telecommunications to existing and new commercial and residential developments in England, Wales and Scotland. It is, therefore, able to provide a one-stop solution for multi-utility infrastructure requirements to customers in the development and construction sectors. For example, in June 2012, SSE secured a contract to provide electricity, gas, water and heat services to the Heart of East Greenwich development in South East London.

- **Electricity Networks:** SSE now owns and operates 127 embedded energised electricity networks outside the areas served by its economically-regulated subsidiaries Scottish Hydro Electric Power Distribution and Southern Electric Power Distribution. New sites in operation include the Athletes' Village for the 2014 Commonwealth Games. A further 56 are under construction and contracts have been signed for the development of an additional 6, taking the total to 189 – up from 170 at the end of 2011/12. Several significant electricity contracts have been signed, including the 2,200 plot development at Mill Hill East in London and the 1,200 plot development at Barry Waterfront in Wales, both of which also included gas and water contracts, and the adoption of the 10MVA Lingley Mere Business Park, including the headquarters of United Utilities in Warrington.
- **Gas Pipelines:** SSE is also a licensed gas transporter, installing, owning and operating gas mains and services on new housing and commercial developments throughout the UK. The total number of new premises connected to its gas networks has continued to grow and since the start of the current financial year it has connected a further 7,500 premises, passing 100,000 total connections in October 2012. Contracts have been signed for a further 60,000 connections to be completed. New gas networks within multi-utility contracts (as mentioned above) are complemented by gas-only developments within SSE's electricity distribution areas such as the 740 home Well Road development in Aberdeen.
- **Water:** Through SSE Water (SSEW) SSE is able to install, own, operate and supply water and sewerage services alongside its existing electricity and gas services. An 'inset' appointment is the route by which one company replaces another as the appointed water and/or sewerage company for a specified area. SSEW now has 18 such appointments and provides, or has secured contracts to provide, water and sewerage services to over 27,500 properties in England and Wales, more than any other new appointment company. This number includes almost 2,500 SSEW customers already connected.
- **Heat:** SSE uses a range of sustainable technical solutions, including Combined Heat and Power (CHP) generation, biomass boilers and ground- and air-source heat pumps and combines these with community heating schemes where appropriate. There are now seven heat networks in operation and eight further schemes where SSE is the preferred bidder. The Wyndford scheme, in partnership with the Cube Housing Association in Glasgow, will add 1,500 new customers, taking the total to almost 3,000 connected customers by the end of the year.

Operating a national telecoms network

SSE's Telecoms business operates in two different markets. It owns and operates the UK's fourth largest fibre and microwave network offering carrier standard connectivity to external customers and provides SSE's internal managed voice and data services. The origins of this business lie in the installation, over a decade ago, of fibre on SSE's electricity network, and the telecoms network now comprises 11,825km of fibre optic cabling, leased lit fibre and microwave radio.

In September 2012, SSE Telecom was awarded a 10-year, £30m contract to provide 6,500km of fibre network to over 30 UK sites connected to the 'Janet' network infrastructure used by the UK's research and education community. The contract is SSE Telecom's largest network management partnership and underlines its position as a significant player in this competitive

market. The business itself is now being led by a telecoms specialist who was appointed earlier this year.

To complement its core telecoms network business, SSE's Fareham-based data centre provides capacity for more than 1,200 racks for the co-location of IT services within the 80,000 square feet secure site and 10MW of power in a resilient and energy efficient environment.

Other Networks priorities in 2012/13 and beyond

Lighting Services, Utility Solutions and Telecoms have specific priorities for 2012/13, but across all of them there is a continuing need for:

- efficiency and customer service;
- effective product development; and
- technological change and innovation.

Conclusion

The continuing success of SSE's economically-regulated and market-based Networks will be founded on efficiency, responsiveness and innovation in operations, such as restoring power supplies following interruptions, and investments, such as upgrading the transmission network in the north of Scotland.

RETAIL

| Retail Key Performance Indicators | Sep 12 | Sep 11 |
|--|-------------|-------------|
| ENERGY SUPPLY | | |
| Operating profit/(loss)* - £m | 48.7 | (133.7) |
| Electricity customer accounts (GB domestic) - m | 4.97 | 5.11 |
| Gas customer accounts (GB domestic) - m | 3.43 | 3.53 |
| Energy customers (GB business sites) - m | 0.41 | 0.42 |
| All-Island Energy Market customers (Ire) - m | 0.79 | 0.56 |
| Total energy customer accounts (GB, Ire) - m | 9.60 | 9.62 |
| Electricity supplied household average (GB) - kWh | 1,773 | 1,724 |
| Gas supplied household average (GB) - therms | 142 | 111 |
| Household/small business aged debt (GB, Ire) - £m | 100.6 | 101.4 |
| Customer complaints to third parties (GB)* | 421 | 407 |
| * Energy Ombudsman, Consumer Focus and Consumer Direct | | |
| ENERGY-RELATED SERVICES | | |
| Operating profit* - £m | 27.0 | 32.3 |
| Home Services customer accounts (GB) - m | 0.41 | 0.42 |
| Meters read - m | 7.3 | 7.5 |

Supplying energy and related services across the Great Britain and Ireland markets
SSE's Retail segment comprises two business areas: Energy Supply and Energy-Related Services.

SSE is the second biggest energy retailer in the competitive market in Great Britain and the third largest supplier in the competitive markets in Ireland. At 30 September 2012, it supplied electricity and gas to 9.6 million household and business accounts under brands such as SSE, Scottish Hydro, Southern Electric, SWALEC and Atlantic in the Great Britain market and Airtricity in the markets on the island of Ireland.

SSE also provides other energy-related products and services to customers, covering three principal areas: home services; metering; and mechanical and electrical contracting.

Financial Performance in Retail

Operating profit* in Retail in the six months to 30 September 2012 was £75.7m, compared with an operating loss* of £101.4m in the same period in 2011 and £67.8m in 2010. This amounted to 12.6% of SSE's total operating profit* and this comprised (comparisons with the previous year):

- £48.7m in Energy Supply, compared with an operating loss* of £133.7m; and
- £27.0m in Energy-Related Services, compared with £32.3m.

As stated in its Financial Report on 16 May 2012, SSE expects that its annual profit margin (i.e. adjusted operating profit* as a percentage of revenue) in Energy Supply will average around 5% over the medium term (i.e. three to five years). In the financial year 2011/12, it was 3.5% and in the first six months of 2012/13 it was 1.5%.

Energy Supply

Financial Performance in Energy Supply

SSE's Energy Supply business buys the electricity and gas it needs through SSE's Energy Portfolio Management and Generation divisions. The associated cost to the Energy Supply business comprises:

- the weighted average cost of electricity, made up of fuel used in generation plus associated costs of CO₂ emissions, power purchase agreements and direct bilateral electricity contracts; and
- the weighted average cost of gas, made up of gas purchase contracts and direct bilateral gas contracts and gas storage.

In addition the Energy Supply business has to meet costs associated with the transmission and distribution of energy, customer service and government-sponsored social and environmental obligations.

The return to operating profit* in Energy Supply was mainly the result of an increase in household consumption of energy in response to below average temperatures during the six months to 30 September 2012, compared with the same period in 2011, when the temperatures were above average. Energy Supply comprised 8.1% of SSE's total operating profit* in the six months to 30 September 2012.

In the six months to 30 September 2012, SSE estimates its household customers in Great Britain used, on average:

- 142 therms of gas, compared with 111 therms in the previous year; and
- 1,773kWh of electricity, compared with 1,724kWh in the previous year.

Consumption of electricity by household customers in Ireland during the six month period was broadly similar to the previous year.

There was also a reduction in overheads in Energy Supply associated with the fact that no doorstep sales operations were undertaken in 2012, while they were conducted for over two months during the same period in 2011.

Supplying energy to customers in GB and Ireland

In the six months to 30 September 2012, SSE's energy customer accounts in Great Britain and Ireland rose from 9.55 million to 9.60 million. Customer accounts at 30 September 2012 comprised:

- 5.350 million electricity accounts in GB;
- 3.464 million gas accounts in GB; and
- 786,000 electricity and gas accounts in Northern Ireland and the Republic of Ireland.

Within the overall total, 2.1 million customer accounts in Great Britain are for loyalty products such as M&S Energy, available to customers through Marks & Spencer's stores and website.

The increase in total customer account numbers includes the acquisition in June 2012 of 130,000 gas customer accounts in Northern Ireland from Phoenix Energy Holdings Ltd for £19.1m, excluding working capital-related adjustments. Including these, customer account numbers in Ireland rose by 166,000.

In contrast, there was a reduction of around 115,000 in customer account numbers in Great Britain. This decline in customer account numbers in Great Britain reflects the highly competitive market conditions and was no doubt also influenced in part by SSE's decision to announce an increase in household prices in August 2012. Moreover, SSE's commitment to ensure that all of its customers can access all of its tariffs and that it does not 'under charge' one particular group of customers for short-term sales purposes appears to be in contrast to some other suppliers who have, therefore, been gaining customers through offering hugely discounted prices for certain types of customer.

SSE's position on this issue is shared by many of the new entrants to the market. Until 17 October 2012, the issue had not received enough political and regulatory intervention to enable SSE to maintain its position on it. The Prime Minister's confirmation that the UK government intends to legislate to ensure that energy companies have to give their lowest tariff to their customers means, however, that this issue should finally be addressed.

This, in turn, would be consistent with Ofgem's 19 October 2012 announcement of the latest proposals from its Retail Market Review. This included proposals to limit tariff numbers and simplify their underlying structure, new mechanisms to enable customers to compare tariffs between suppliers and enforceable Standards of Conduct with which to police the market. SSE, having already rapidly simplified its products for new and existing customers, is well placed competitively to comply with these initiatives.

Retail energy bills in Great Britain and in Ireland

SSE increased its prices for household gas and electricity supply in Great Britain by 9% (average) on 15 October 2012. This followed its cut in the unit price of gas of 4.5% in March 2012. It previously increased gas prices in September 2011 and before that in December 2010 and previously increased electricity prices in September 2011 and before that in August 2008.

Three things were putting upward pressure on household energy prices:

- the higher average price in the wholesale energy markets to secure gas for the coming winter (the wholesale cost of energy represents around one half of a typical dual fuel bill);
- the rising cost of using the energy networks to distribute electricity and gas to customers' homes, which are determined by Ofgem and represent around 25% of a typical bill; and
- the rising cost of mandatory environmental and social initiatives that suppliers are required to fund and pass on to customers, like the Carbon Emissions Reduction Target (CERT) and the Warm Homes Discount, which now represent around 10% of a typical bill.

Nevertheless, SSE is capping household energy prices in Great Britain at the 15 October 2012 level until at least the second half of 2013, the only leading supplier to do so.

Looking ahead to 2013/14, government-sponsored schemes will continue to put upward pressure on costs in Energy Supply in Great Britain. The delay in the start date for the Energy Company Obligation means that timescales for it are compressed in comparison with the UK government's original plan. This is expected to inflate the cost of a programme that was already based on a highly optimistic set of cost assumptions. The costs of the Feed-in Tariffs programme for promoting micro-renewables are rising very significantly and are on the point of overtaking the amount spent on the fuel poverty-related Warm Home Discount, which itself is set to increase next year, on its planned upward trajectory. Other non-energy costs are also set to move upwards with indicative notifications of transmission and distribution charges indicating that further substantial increases are in prospect next year. Taken together these point to additional costs of around £60 per dual fuel customer.

SSE also increased household energy prices in the Republic of Ireland on 15 October by 4.7% for electricity and 8.5% for gas, reflecting increased energy and distribution costs. In Northern Ireland, it was able to cut its standard household electricity prices by 14.1% from 1 October 2012. Prices in Northern Ireland are set by the Northern Ireland Utility Regulator in an annual tariff review and the recent price reduction in Northern Ireland brought it into line with Great Britain prices after a four-year period of higher prices.

How people pay their energy bills

A total of 60.4% of SSE's domestic electricity and gas accounts across Great Britain and Ireland are paid by direct debit or standing order. A further 13.5% are paid through pay-as-you-go (or pre-payment) meters in Great Britain and the balance are on credit terms and settled by cheque or other such payment methods.

Keeping customers' energy debt under control

At 30 September 2012, the total aged debt (i.e. debt that is overdue by more than six months) of SSE's domestic and small business electricity and gas customers in Great Britain and Ireland was £100.6m, compared with £101.4m in September 2011. A bad debt-related

charge of £24.8m was recognised in the period. This compares with a charge of £27m in the period to September 2011.

The general economic climate continues to give rise to significant debt management challenges. SSE has office- and field-based employees who work with customers to resolve debt issues. They aim to help customers by identifying as early as is practical when their payments are in arrears and contacting them as soon as possible to discuss the options available to them.

This proactive approach is in the best interests of SSE and the customers concerned and the benefit can be seen in the fact that debt which is less than three months old was 7% lower on 30 September 2012 than the year before and debt overdue by four-to-six months was 1% lower.

Helping vulnerable customers this winter and beyond

Under the existing definition, a household is classed as being in 'fuel poverty' if it would need to spend more than 10% of its income on fuel to keep its home warm enough. In September 2012, the UK government proposed new ways to measure fuel poverty following the independent review of the issue by Professor John Hills published in March 2012. It is proposing a new definition which includes dual indicators of fuel poverty that separate the *extent* of the issue (the number of people affected) from its *depth* (how badly people are affected).

SSE sees merit in this approach, provided it is accompanied by practical improvements. In addition to the successful deployment of measures under energy efficiency schemes like CERT and CESP (see 'Helping customers to use less energy in the future' below) SSE fulfils three other key responsibilities in order to help those of its customers who struggle to pay for their basic energy needs:

- giving financial assistance with energy bills, helping an estimated 218,000 customers, with a total of around £28.3m being provided in 2012/13;
- providing tailor-made payment arrangements, helping customers who may be experiencing hardship and having difficulty in paying their energy bills; and
- contacting potentially vulnerable customers this winter, helping them with practical advice and support.

In addition, SSE will not disconnect the gas or electricity supply of any customer in Great Britain between 1 December 2012 and 28 February 2013; in Ireland, there will also be a no-disconnections policy for part of the winter.

As in Great Britain, greater energy efficiency is seen as the most sustainable solution to issues relating to energy affordability in Ireland.

Customers' use of energy is continuing to decline on an underlying basis

From 15 October, SSE's average annual standard dual fuel bill, for a customer who pays by monthly direct debit in Great Britain, will be £1,274. This is based on the industry average annual household energy consumption adopted by Ofgem in November 2010 - 16,500kWh of gas and 3,300kWh of electricity.

Actual household energy consumption in the six months to 30 September 2012 was higher than in the same six months in 2011 (see 'Financial Performance in Energy Supply' above). On a weather-corrected basis, however, average household consumption of gas and electricity by SSE's customers continued to decline, and on this basis was 3.0% and 0.5% lower respectively in the six month period in 2012 than in the same period in 2011.

The underlying fall in consumption seen since 2005/06 means that the average annual dual fuel bill is approximately £400 lower than it would have been had energy consumption levels been maintained. This illustrates the distinction between the price of a unit of energy and the amount customers pay for heating and powering their homes. Between 2009/10 and 2011/12

the average bill paid by household energy customers of SSE in Great Britain fell in both nominal and real terms.

The decline in energy consumption is expected to continue for the next few years. Falling consumption presents short term issues in relation to the revenue that companies are able to earn from supplying energy and in relation to the operation and development of plant for generating electricity. Nevertheless, as a result of the underlying fall in energy consumption, households are less exposed to the impact of high unit prices than they otherwise would be and the overall sustainability of supplies of gas and electricity is improved. These are very positive developments, which SSE welcomes.

Helping customers use less energy in the future

As a leading energy supplier, SSE has obligations under the Carbon Emissions Reduction Target (CERT) 2008-12. Revised in 2009, 2010 and 2011, CERT requires energy suppliers to deliver energy efficiency measures to households throughout Great Britain that deliver savings in CO₂ emissions.

Of the total obligation, 40% must be met in a Priority Group of households, within which there is also a Super Priority group of households which are low income and qualify for certain benefits. There are also requirements in respect of promoting professionally installed insulation measures (the Insulation Obligation).

Delivery of CERT is affected by the capacity of installers to deliver measures and the extent to which customers wish to take up measures. The process for verifying Super Priority Group (SPG) customers, decided upon by Ofgem, is also onerous. As SSE said in its Financial Report in May 2012, the delivery of CERT and, in particular, the requirement to ensure that a proportion of the CO₂ savings are achieved in the SPG, has proved to be very challenging. This, in turn, has given rise to an increase in the cost of delivering the measures. SSE has presented evidence to Ofgem indicating that the current verification requirements associated with SPG have led to a serious under recording of the true extent of SSE's delivery to date.

Nevertheless, subject to verification by Ofgem, SSE estimates that it has:

- achieved its overall CERT obligations for the period to 31 December 2012;
- achieved its Priority Group and Super Priority Group obligations for the same period; and
- done all the pre-work that is necessary to ensure it achieves its Insulation Obligation by 31 December 2012.

In practice, this meant funding the installation of cavity wall insulation in 54,300 homes and loft insulation in 102,000 homes (excluding DIY insulation) in the six months to 30 September 2012.

SSE's delivery of measures under the separate Community Energy Savings Programme (CESP) is slightly lower than the industry average. The CESP has been marked by a number of difficulties, including securing funds from scheme partners. There has also been a lack of clarity and substantial complexity around the scoring of CESP schemes, with some guidance and methodologies only finalised by Ofgem in 2012.

While delivering CESP is challenging, SSE now has 66 CESP agreements in place for locations throughout England, Scotland and Wales and expects to have contracts in place by 31 December 2012 for full scheme delivery. For example, in May 2012, SSE reached agreement with Preston Council to fit A rated windows, external wall insulation and a communal heating system to 437 properties in the town centre area of Preston.

Preparing for the Green Deal and ECO

CERT and CESP will be superseded by the Green Deal and Energy Company Obligation (ECO) when they are introduced following the passage of the Energy Act 2011:

- the Green Deal is a new financing mechanism for customers seeking to install energy saving measures, featuring a 'Golden Rule' under which the expected financial savings arising from the measures must be greater than the cost of the installation attached to the customer's energy bill; and
- the ECO will replace the obligations arising from CERT and CESP, with suppliers expected to focus assistance on the poorest and most vulnerable households and the hardest-to-treat properties, which may not be able to take advantage of the Green Deal. ECO will also subsidise Green Deal insulation measures such as solid wall insulation on the 'hardest-to-treat' properties that do not meet the 'Golden Rule'

In this new framework, SSE will fulfil four functions:

- delivering the customer facing and IT systems obligations with respect to the Green Deal which it has to fulfil as an energy supplier. These include payment collection and remittance;
- delivering the ECO placed upon it as an energy supplier;
- providing products and services to customers under the Green Deal, with solid wall, cavity and loft insulation expected to be the principal measures; and
- providing measures under the ECO through existing businesses such as Home Services, Utility Solutions and Contracting or through third parties.

Department of Energy and Climate Change-led preparations for the launch of the Green Deal and ECO have posed significant challenges for energy companies, illustrated by the fact that ECO did not launch on 1 October 2012 as planned. Nevertheless, SSE has committed, and is continuing to commit, significant resources to fulfil its Green Deal and ECO obligations and to pursue the business development opportunities that their introduction may provide.

Policymakers are aware of the growing effect of energy efficiency obligations on customer bills. Another issue with obligations such as ECO is that they are generally only placed on companies supplying more than 250,000 domestic customers. As the cost of schemes such as ECO is significant, this represents an additional burden to be borne by larger suppliers when competing with smaller ones that appears discriminatory and SSE is continuing to engage with DECC, Ofgem and other stakeholders to ensure that, as these schemes develop, there is no adverse impact on retail market competition.

Energy efficiency is also a key issue in Ireland and 2013 will see the introduction there of an energy company-administered Pay As You Save programme.

Providing sector-leading service to customers

SSE continues to be independently and consistently recognised as the customer service benchmark for the leading energy suppliers in Great Britain. To provide customers with the best possible value for money, SSE believes that it needs to provide excellent service, simple products and fair prices.

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

- the energy complaints league table, published by Consumer Focus in July 2012, in which SSE achieved a five star rating with the lowest number of customer complaints to Ombudsman Services: Energy, Consumer Direct and contacts with Consumer Focus' Extra Help Unit. SSE is the only company to achieve a five star rating and has topped the league table since it began in April 2010; and
- the UK Customer Satisfaction Index, in which SSE was the highest-ranked energy supplier in Great Britain.

During the six months to 30 September 2012, there were 421 SSE-related complaints to the following third party organisations: the Ombudsman Services: Energy, Consumer Focus and Consumer Direct. This was an increase from the 407 complaints in the same period in 2011 but lower than the 442 complaints in the same period in 2010.

Continuing to build trust in energy supply

Following its October 2011 document, *Building Trust: SSE's proposals to build customers' trust in energy supply* in Great Britain, SSE published a second document, *Still Building Trust*, in April 2012.

It confirmed that measures to restore simplicity through reducing the number of tariffs, enhancing transparency, promoting wholesale electricity market liquidity, and ensuring fairness for all customers by giving them the opportunity to access all tariffs had been completed. It also set out a number of other measures to maintain the momentum, including steps to simplify energy bills, tackle estimated bills and to enable prepayment meter customers get on to the best tariff.

SSE also confirmed that measures to improve customer service, including retrospective introduction of a Sales Guarantee, had made significant progress and SSE is implementing the commitments made in *Still Building Trust*, including its trading commitment for smaller suppliers and publication of its Energy Market Outlook.

In addition, 200 people have been recruited at SSE's Customer Service Centre in Havant, in new roles created to deliver the pledge to offer all customers an Annual Energy Review (AER). The review allows customers to discuss with SSE various aspects of their account, including checking that they are on the right tariff for their needs and lifestyle, are receiving benefits they might be entitled to and that they are using their energy efficiently.

Transparency is central to building trust in energy supply. In line with that, SSE is also implementing its 'open book' approach to customer service data, through the production of an externally-assured online display enabling customers to monitor performance across a wide range of key indicators.

Building on its record as the leading supplier for customer service, SSE will, before the end of this financial year, be publishing a new customer charter in Great Britain.

Developing energy products and services

As part of its *Building Trust* initiative, SSE has introduced a dramatically-simplified range of energy tariffs which meet the needs of the vast majority of customers featuring:

- three core products – one standard, one capped and one fixed;
- five simple questions to enable customers to find the best deal;
- a new price comparison metric to enable customers to see the relative cost of each tariff; and
- the same availability online, face-to-face or over the telephone.

This fulfils two key principles: simplicity for the customer who is mainly motivated by finding the best price; and choice for the customer who is more concerned about features and products.

To achieve this simplification, SSE has removed the 'no standing charge' option from all of its products, with all new customers being placed on a tariff consisting of:

- a standing charge, which covers a proportion of the fixed costs; and
- a single unit price for all units consumed.

SSE believes that its approach to energy products and services is consistent with Ofgem's ongoing review of the retail energy market and with the UK government's commitment to legislate so that energy companies provide the lowest tariff to their customers.

Selling energy in the right way

Customer service starts at the point of sale. In December 2011 SSE decided to implement its Sales Guarantee for household energy customers and to apply the guarantee to any household energy sales made by it since October 2009, when Ofgem placed new obligations on energy suppliers to make sure sales activities are conducted in a fair and professional

manner. Under the guarantee, devised as part of SSE's *Building Trust* initiative, any customer who shows that they switched their energy supply to SSE after being given inaccurate information or being misled will have any resulting financial loss made good. SSE remains the only energy supplier to have offered such a guarantee.

Since it was launched, SSE has contacted customers about the guarantee and so far settled over 1,000 claims. It expects that the retrospective implementation of the guarantee could cost up to £5m. The application of the guarantee is being independently assured, and it is being extended to all energy products.

SSE aims to gain customers through telephone, online, direct mail and venue sales and through customer advice activities; through extending its range of affinity partnerships, of which M&S Energy is one example; and through a series of commercially-focused sponsorships. It is also launching pilot networks of appointment-only and salary-based 'smart energy advisers', starting in Wales and Scotland and trained to an externally-accredited standard. These advisers are community-based and provide energy efficiency advice as well as information about SSE's products.

SSE no longer deploys commission-based door-to-door sales people in Great Britain. The case against SSE relating to the use of direct sales aids in February 2009 was settled in May 2012. SSE was fined £1.25m after being found guilty on two counts (out of seven). Meanwhile, SSE is continuing to co-operate with Ofgem's investigation into whether it complied with the new licence conditions to govern sales processes introduced in 2009.

Making services available digitally

Around one quarter of SSE's transactions with Energy Supply customers now take place using digital channels, making them an increasingly popular means of communication with the company used by customers. In Great Britain and Ireland it now has 2.15 million digitally billed accounts, up from 1.83 million a year ago. Such customers can view their account and payment history, submit meter readings and receive an up-to-date balance on their account, make secure payments on their account and other such services.

The pace of technology adoption is now exceptionally fast and customers expect a simple user experience. Enabling customers to carry out more transactions using digital channels if they so choose is now one of SSE's top customer service priorities. Substantial investment is now being made in this area based on a customer proposition that is simple, value-adding and relevant and a business programme that is practical, disciplined and focused on delivery.

SSE is working to ensure that all of the main customer service requirements are available online, and will broaden its digital touchpoint options so that the majority of customer transactions can take place via digital channels, reflecting customers' preferences for these channels evident in other industries.

In Ireland, SSE is the leading energy provider for making services available digitally to its domestic customers. The popularity of paperless billing is already well-established with two thirds of all domestic SSE customers in Ireland choosing this billing method (excluding its recently acquired natural gas customers in Northern Ireland), while around 75% of customer correspondence in the Republic of Ireland and Northern Ireland is through digital channels.

Recent SSE innovations in digital communications and e-services mean that more and more Irish energy customers are choosing to manage their accounts online. Almost half of customer interactions, such as submitting meter reads, making secure payments, and updating personal account details, are via SSE's online self service channel.

SSE is also the leading innovator of any Irish energy provider in mobile ready communications supported on the widest selection of Smartphone devices. It offers its domestic customers the broadest range of energy account management functionality through this mobile service as well as via its associated mobile App.

Preparing for the roll-out of smart meters

Energy supply in Great Britain is expected to be transformed by the installation of around 53 million smart energy meters in around 30 million homes and businesses. This is due to take place between 2014 and 2019. They will enable the quantity and value of electricity and gas used by the customer to be continuously monitored and allow information about energy use and cost to be available to the customer and exchanged with the supplier, through two-way electronic communications.

SSE sees its role in the smart meter roll-out as a service provider, operating within the framework set by the UK government for issues like technical standards, data access and security. In line with this, and its measured and realistic approach to the roll-out, SSE's priority is to make substantive progress on the necessary IT systems to support the wider roll-out, without making commitments that may prove to be mis-placed as the roll-out plan gets under way.

In line with this, it has created a smart-ready platform to support the start of installation of the next generation of smart meters later this year and a Meter Data Management System will also be deployed before the end of this financial year.

In Ireland, installation of smart meters will be the responsibility of network companies.

Energy Supply priorities in 2012/13 and beyond

During 2012/13, and beyond, SSE's priorities in Energy Supply are to:

- deliver fair prices, simple products and excellent service to customers;
- continue to build customers' trust in energy supply;
- deliver energy efficiency programmes;
- maintain progress in providing additional services through digital channels; and
- make substantive preparations for the roll-out of smart meters and related developments.

Energy-related Services

Providing energy-related products and services

In addition to electricity and gas, SSE also provides energy-related products and services to customers, covering three principal areas:

- retailing of 'home services' including telephone line rental, broadband, gas and electrical wiring maintenance contracts and the installation of new and replacement gas boilers, central heating systems, electrical rewiring, solar PV and other renewable technologies;
- supplying, installing, maintaining and reading meters in the household, commercial, industrial and generation sectors in Great Britain; and
- domestic, commercial and industrial mechanical and electrical contracting and electrical and instrumentation engineering.

Operating profit* from Energy-related Services in the six months to September 2012 was £27.0m, compared with £32.3m in the same six months last year, reflecting difficult market conditions for the business activities involved.

Home Services

SSE provided home services to 412,000 accounts at 30 September 2012. SSE believes that extending the availability of its home services, especially in the context of the launch of the Green Deal, will be necessary to integrate these products and services more closely with its wider proposition for electricity and gas customers and it intends to do this over the next three years. It is also intended to extend SSE's home services offering in Ireland.

Maintaining a national Metering business

SSE's Metering business provides services to most electricity suppliers with customers in central southern England and the north of Scotland. It undertakes meter reading operations

and meter operator work in all other parts of Great Britain. It supplies, installs and maintains domestic meters and carries out metering work in the commercial, industrial and generation sectors. It also offers data collection services to the domestic and SME sectors.

In the six months to 30 September 2012, SSE collected (previous year in brackets):

- 4.4 million electricity readings (4.5 million); and
- 2.9 million gas readings (3.0 million).

Longer-term, SSE's Great Britain-wide metering team will be able to support the transition to smart meters which will take place in the coming decade and will help SSE deploy other energy-related services and products during that time (see 'Preparing for the roll-out of smart meters' above).

With the integration of the Phoenix Supply natural gas business in to SSE, the company has further broadened its activities and for the first time now provides metering services in Ireland. SSE now undertakes meter reading operations and meter operator work for all its 130,000 natural gas customers in Northern Ireland, equivalent to 13% of the total gas and electricity metering services in that market.

A leading mechanical and electrical contracting business

SSE Contracting has two main areas of activity: industrial, commercial and domestic mechanical and electrical contracting; and electrical and instrumentation engineering. It is one of the largest mechanical and electrical contracting businesses in the UK.

SSE Contracting continued to make solid progress during the six months to 30 September 2012. Its order book ended the period significantly higher than a year ago. The order book features a number of important new contracts with customers as diverse as Esso Petroleum, BT plc, Hampshire County Council and the Welsh Rugby Union.

Energy-related Services during 2012/13 and beyond

Home Services, Metering and Contracting have specific priorities for 2012/13 and beyond, but across all of them there is a need to:

- maintain the right portfolio of products and services;
- deliver high standards of customer service;
- anticipate the changing requirements of customers; and
- integrate more effectively the provision of services that customers need.

Conclusion

SSE is mindful of the fact that its core products – electricity and gas – are something which people need to buy rather than choose to buy and that it has a responsibility to help make energy retail markets work effectively for customers. Through its commitment to simplicity, transparency, fairness and service in all of its Retail businesses, it is working to achieve this.

WHOLESALE

| Wholesale Key Performance Indicators | Sept 12 | Sept 11 |
|--|---------------|---------------|
| Energy Portfolio Management (EPM) and Electricity Generation | | |
| EPM and Generation operating profit* - £m | 99.8 | 189.1 |
| EPM and Generation capital expenditure and investment - £m | 311.6 | 532.5 |
| EPM | | |
| Total wholesale electricity auctioned (N2EX) - TWh | 43.55 | 5.12 |
| Total wholesale electricity traded with small suppliers - TWh | 0.032 | - |
| GENERATION | | |
| Gas- and oil-fired generation capacity - MW | 4,470 | 4,470 |
| Coal-fired generation capacity (inc biomass co-firing) - MW | 4,370 | 4,370 |
| Renewable generation capacity (inc pumped storage) - MW | 3,208 | 2,538 |
| Total electricity generation capacity - MW | 12,048 | 11,378 |
| Gas power station availability - % | 98 | 98 |
| Coal power station availability - % | 86 | 88 |
| Hydro storage - % | 40 | 63 |
| Onshore wind farm availability % | 98 | 97 |
| Gas- and oil-fired (inc CHP) output- TWh | 4.0 | 13.9 |
| Coal-fired (inc biomass co-firing) output- TWh | 7.5 | 5.3 |
| Total output from thermal power stations - TWh | 11.5 | 19.2 |
| Conventional hydro output – GWh | 1,042 | 1,602 |
| Wind energy output – GWh | 1,698 | 1,077 |
| Dedicated biomass output – GWh | 65 | 105 |
| Total output of renewable energy – GWh | 2,805 | 2,784 |
| Total output from pumped storage - GWh | 133 | 166 |
| Note 1: Capacity is wholly-owned and share of joint ventures | | |
| Note 2: Output is electricity from power stations in which SSE has an ownership interest (output based on SSE's contractual share) | | |
| Note 3: Capacity and output exclude Irish assets acquired in October 2012 from Endesa Generacion SA | | |
| Note 4: Capacity excludes disputed wind turbines at Greater Gabbard (93MW net) | | |
| GAS PRODUCTION | | |
| Gas production operating profit* - £m | 16.5 | 17.3 |
| Gas production – m therms | 80.5 | 85.7 |
| Gas production capital investment – £m | 2.8 | 0.3 |
| GAS STORAGE | | |
| Gas storage operating profit* - £m | 6.9 | 15.4 |
| Gas storage customer nominations met - % | 100 | 100 |
| Gas storage net capacity - mcm | 468 | 440 |
| Gas storage capital investment - £m | 21.0 | 14.5 |

Sourcing and producing energy

SSE's Wholesale segment comprises three different business areas: Energy Portfolio Management (EPM) and Electricity Generation; Gas Production; and Gas Storage.

EPM is responsible for the scheduling of generation plant through capacity contracts with the asset owners, the procurement of fuel for the plants and the optimisation and trading of electricity, gas and other commodities. Meanwhile, Electricity Generation is responsible for asset management, maintenance and making available plant for use by EPM.

Neither activity is reported as a discrete profit centre or activity but their shared objective is to provide the lowest cost input to the Energy Supply business for the provision of energy to customers, consistent with the EU Regulation on Energy Market Integrity and Transparency (REMIT).

SSE is one of numerous participants in the wholesale gas market and it has seen the Secretary of State for Energy and Climate Change's Parliamentary statement and recent media reports and speculation about possible activity in the market (especially relating to the day ahead price) by one or more of those participants.

SSE is entirely confident that its Energy Portfolio Management team operates in a fair and legitimate way, and SSE maintains a framework and culture of compliance through training, systems, controls and governance. All individuals involved undergo regular training and competence assessments to reinforce this culture and framework, with the objective of ensuring high standards of market conduct and behaviour, and there are no inappropriate personal economic incentives for them.

SSE reviews and monitors continuously its participation in wholesale energy markets, and continues to do so, and will naturally share all required and relevant information with the FSA and Ofgem in a constructive and open way. SSE will support strongly any efforts by the FSA and Ofgem to deal robustly with any activity by any market participant which is proved to be wrong and to have resulted in any detriment, including to customers.

Financial performance in Wholesale

During the six months to 30 September 2012 operating profit* in Wholesale decreased by 44.5%, from £221.8m to £123.2m, contributing 20.6% of SSE's total operating profit*. This comprised (comparisons with the same period previous year):

- £99.8m in EPM and Electricity Generation, compared with £189.1m. Although profitable, the period up to 30 September 2012 was challenging, with continued low spark spreads for gas-fired generation and lower underlying output from renewables sources due to calmer and drier weather when compared with the same period last year. However this has been offset by 670MW of new renewable generation capacity coming on line since September 2011, in particular the commissioning of the Greater Gabbard offshore and Clyde onshore wind farms. This has resulted in actual renewable output increasing despite much lower hydro output;
- £16.5m in Gas Production, compared with £17.3m. Gas production assets continued to perform well during the period, producing 80.5 million therms compared with 85.7 million therms in the same period last year. Profit in the first half of the year was supported by higher gas prices but offset by lower volumes of gas extracted due to scheduled maintenance works at the assets; and
- £6.9m in Gas Storage, compared with £15.4m. Lower market volatility meant a reduction in the spread between summer and winter gas prices, although this was partly offset by additional storage capacity coming on line at Aldbrough.

Energy Portfolio Management and Electricity Generation

Financial performance in Energy Portfolio Management and Electricity Generation

The EPM and Electricity Generation businesses earn revenue through:

- energy contract management;
- sourcing energy through participation in wholesale markets for electricity, gas, coal, oil, biomass and CO₂ emission permits;
- management of existing power generating assets and making available those assets for use;
- producing renewable energy;
- securing Renewable Obligation Certificates (ROCs) and Levy Exemption Certificates (LECs); and

- providing balancing and ancillary services to the electricity market under the Balancing and Settlement Code.

In the period to 30 September 2012 operating profit* in EPM and Electricity Generation decreased by 47.2%, from £189.1m to £99.8m, contributing 16.7% of SSE's total operating profit*.

Working for customers

The wholesale price of energy can fluctuate greatly due to factors including the economy, the weather, customers' demand, infrastructure availability, and world events. EPM and Electricity Generation seek to minimise the impact of these variables by maintaining a diverse and well-balanced portfolio of contracts and assets, both long and short term. In doing so, SSE provides:

- greater ability to manage wholesale energy price volatility, thereby protecting customers from it and ensuring price stability;
- lower risk from wholesale energy through reduced exposure to price volatility in any single commodity; and
- more scope to deliver the investment needed in Generation because the risks associated with large-scale and long-term investments are balanced by the demand from electricity and gas customers.

Increasing wholesale market transparency

In addition to minimising the impact of wholesale price volatility for customers, SSE has responded to stakeholders' desire for greater transparency and increased liquidity in the short-term wholesale market for electricity.

Since October 2011 SSE has steadily phased in the auction of all of its electricity supply, and purchases all of its electricity demand, in the day ahead market.

By 30 September 2012 SSE consistently placed 100% of its electricity generation and demand into Nasdaq OMX Group Inc. and Nord Pool Spot AS's N2EX daily auction and has traded 43.55TWh in the day ahead auction market in this financial year.

This move continues to drive the market forward and increasingly all of the major vertically integrated players in the UK are following in the footsteps of SSE. The auction is now trading approximately 50% of the national demand and is well established as providing the UK market reference price.

In taking this action SSE has delivered a new level of market transparency, significantly improving liquidity, increasing the depth and credibility of the market, and assisting in the creation of a robust and tangible pricing index.

Furthermore, in April 2012, in line with its *Building Trust* agenda, SSE announced an enhanced series of trading commitments for smaller suppliers of electricity to help them secure contracts for wholesale electricity of the right size and shape to enable them to manage their risk profile. In the period to 30 September 2012, SSE concluded 14 contracts as a result of this initiative which resulted in trades of 0.032TWh for smaller suppliers.

Managing an energy portfolio

In recent years, SSE has typically required around 10 million therms of gas per day to supply its customers and to fuel its power stations, and around 150GWh of electricity per day to supply its customers. Energy Portfolio Management has three primary routes to competitively and sustainably acquire the energy it needs to meet demand:

- **assets:** upstream gas exploration and production, coal production, renewables, forests and agriculture;
- **contracts:** gas producer contracts, Liquefied Natural Gas (LNG) capacity, power purchase agreements, solid fuel contracts; and

- **wholesale trading:** where energy contracts are transparently traded on international exchanges.

Managing risk associated with energy procurement across these channels is a key challenge as it is heavily influenced to varying degrees by a multitude of national and international factors including: demand growth/decline, the global economy, fuel supply disruptions, international affairs, nuclear availability, CCGT demand, shale gas, and LNG.

By optimising its diverse portfolio, SSE ensures that its customers are protected from the considerable uncertainty that exists in global markets, while helping to ensure adequate returns to support its commitment to sustained real dividend growth.

Meeting longer-term energy requirements

In order to meet its customers' needs and deliver a stable and predictable supply of energy SSE proactively seeks to maintain a number of longer-term contracts in:

- a diverse range of fuel types;
- storage and supply capacity; and
- power purchase contracts.

Following another strong period of renewables growth SSE now has 3,208MW of renewable energy capacity across the UK and Ireland. In the six months to 30 September 2012, EPM was responsible for the deployment of the resulting 2,805GWh of output from this renewable portfolio; around 180 million therms of gas would be needed to generate a similar amount of electricity. With no fuel purchasing requirement, this generation type is increasingly providing a strong long term hedge against the volatility in fossil fuel markets. This increase in electricity production also ensures SSE continues to meet its customers' demand as other contracts near their end such as its contract with Rocksavage Power Station, due to end in March 2013.

In addition to its renewable portfolio and existing and future investments in exploration and production assets SSE has a number of existing long-term contracts agreed in recent years including:

- a 10-year contract with Statoil for the annual supply of 500mcm (185 Mth) of natural gas which commenced in October 2012; and
- a 10-year gas supply agreement of 790 million cubic metres (mcm) (292 Mth) per annum with Shell Energy Europe ('Shell'), commencing in 2015.

Further to existing arrangements SSE continues to seek proactively new capacity and supply contracts, including LNG, to add to its portfolio. The combination of these long term contracts helps SSE minimise the liquidity and volatility risks of international commodity markets, bring greater price stability for customers than would otherwise be the case and support its commitment to the dividend.

Generating and buying electricity

As at 30 September 2012, SSE's generation capacity, including its share of joint ventures and associates, was around 12GW, comprising:

- 11,547MW in Great Britain;
- 80MW in Northern Ireland; and
- 421MW in the Republic of Ireland.

Following the completed acquisition of the assets of Endesa Ireland in October 2012, SSE now also owns 1,068MW of gas and oil fired plant in the Republic of Ireland, taking its total in Great Britain and Ireland to over 13,100MW.

During the period up to 30 September 2012, in **Great Britain**, SSE (previous year's numbers in brackets):

- generated 11.5TWh, based on contracted output of electricity from all thermal power stations in which it has an ownership interest (19.2TWh); and
- generated 2.2TWh based on contracted output from renewable sources of energy in which it has an ownership interest, including pumped storage (2.3TWh).

During the same period, also in Great Britain, it:

- supplied 9.5TWh of electricity to its industrial and commercial customers; and
- supplied 11.3TWh to its small business and household customers.

This means that, during the first six months, SSE, in Great Britain:

- generated the equivalent of 66% of the electricity needed to supply all of its customers; and
- generated the equivalent of 121% of the electricity needed to supply its household and small business customers.

In **Ireland**, the development of a new combined cycle gas turbine at Great Island, alongside the remaining operational plant means SSE will be positioned to meet around two thirds of its customers' demand there, based on current customer numbers, currently estimated at around 7TWh, with the balance purchased through the Single Electricity Market.

Dealing with the key trends in EPM and Electricity Generation

The energy sector is undergoing a period of profound change. The main public policy driver is European and GB-led decarbonisation policy alongside fuel supply security and competitiveness (including the important dimension of affordability). Delivering these policy objectives is taking place against a back drop of:

- slow economic growth implying lower electricity demand;
- rising energy prices on foot of higher input costs and the cost of achieving mandatory government-sponsored schemes;
- uncertainties surrounding electricity market reform and a regulatory framework trending towards increased central planning;
- increasing system variability due to higher penetrations of variable energy sources;
- market integration between Great Britain and Ireland; and
- forecasts of tightening generation capacity in Great Britain as older plant closes, including coal, nuclear and gas plant.

In addressing these interdependent challenges SSE recognises the need for a diverse, sustainable and complementary generation and fuel portfolio. It is, therefore, focused on maintaining a range of options that will meet policy goals, while being consistent with its financial principles and supportive of its goal of sustained real dividend growth. Retaining options is important but must also be balanced by a focus on areas where SSE holds a competitive advantage.

Sticking to principles for management of SSE's Generation portfolio

SSE has defined its long-term priorities in Generation as being operational flexibility and a 'greening' of production. These priorities are underpinned by six core principles that direct the operation of, and investment in, its Generation portfolio:

- **availability:** to respond to customer demand and market conditions;
- **capacity:** to meet the electricity needs of domestic and small business customers;
- **compliance:** with all safety standards and environmental requirements;
- **diversity:** to avoid over-dependency on particular fuels or technologies;
- **flexibility:** to ensure that changes in demand for electricity can be addressed; and
- **sustainability:** to deliver an overall 50% cut in the CO₂ intensity of electricity produced.

In implementing these principles SSE is focused on doing the right things now, while selecting the right projects for the future. This means capital and management resources are

employed in areas and at stages where SSE best retains competitive advantage, supports business growth, maximises shareholder value and ensures continued dividend growth.

The practical application of its generation principles means SSE's portfolio comprised at 30 September 2012:

- 4,470MW of gas- and oil-fired capacity;
- 4,370MW of coal-fired capacity (with biomass co-firing capability); and
- 3,208MW of renewable (hydro including pumped storage, wind and dedicated biomass) capacity.

With this portfolio SSE has the greatest diversity in fuels for generating electricity among UK generators, which enables it to:

- avoid dependency on a single technology or commodity;
- have a balanced portfolio with significant optionality in the management of its power stations; and
- manage effectively the risks inevitably associated with primary fuel procurement.

Management of primary fuel procurement risks is also assisted by the fact that SSE is the largest generator of electricity from renewable sources across the UK and Ireland.

Maintaining a diverse Generation portfolio

Decarbonisation policy is driving the way energy is converted to electricity; however, there is no 'one size fits all' solution to the achievement of this objective. Rather SSE is maintaining and investing in its diverse and sustainable portfolio of generation plant. Similarly it is developing a portfolio of future options that complements its strengths and capabilities and minimises risk.

In moving to a low carbon generation mix SSE will, by the end of the next decade, evolve its generation portfolio to include a balanced and complementary mix of renewable, gas and solid fuels technologies. This means SSE, across Great Britain and Ireland, will:

- reduce CO₂ per MWh;
- continue to invest in renewables;
- maintain and develop diverse sources of fuel and technologies, that it can operate well;
- ensure it has flexible plant;
- be mindful of affordability issues;
- aim to achieve desired returns; and
- not invest in nuclear generation.

Aligned with this clear strategy, SSE, in the six months to 30 September 2012:

- entered into an agreement with Endesa Generacion SA, to acquire the shares of Endesa Ireland Limited, the assets of which include plant in operation (1,068MW), under construction (460MW) and with consent for development;
- undertook works to upgrade the operating flexibility of its gas-fired plants at Keadby and Medway;
- restored generation at the 100MW Glendoe hydro electric scheme; and
- fully commissioned 188MW (net) of new wind generation capacity, including: 119MW of onshore and 69MW of offshore; in addition 93MW from the turbines at Greater Gabbard that are the subject of dispute are also now operating.

It is by maintaining this breadth of opportunities that SSE can take forward the best investments and achieve the strongest possible returns to support dividend growth.

How SSE's gas-fired power stations performed

The first six months of this financial year has seen a continuance of low spark spreads in the Great Britain market. The spark spread is the difference between the cost of gas and the price

of electricity produced from it. To give one example of this difficult environment, spark spreads, for September 2012, delivered at an all time low of negative £4.95/MWh, which demonstrates the extent to which gas plant has become uneconomic.

In light of current market conditions, SSE is availing of the opportunity to undertake a comprehensive programme of upgrade works at its Keadby and Medway power stations. The works will increase the flexibility of the plants, enabling them to operate on a more flexible 'two shift' basis in support of increasing amounts of variable renewables on the system, particularly wind.

The works, which began in March 2012, at both Keadby and Medway, have proceeded successfully and are expected to be completed before the end of the financial year at which point SSE will determine how to deploy the plants as part of the overall management of its generation portfolio.

Following the completed acquisition of 1,068MW of plant in Ireland in October, SSE now owns 5,538MW of gas- and oil-fired electricity generation capacity, including its share of joint ventures.

In the period to 30 September 2012 SSE's principal wholly-owned and operating gas-fired power station Peterhead achieved 98% of its maximum availability to generate electricity, excluding planned outages, the same availability as in the previous year.

In addition to its wholly owned gas generation, SSE has joint venture interests in:

- Marchwood, the 840MW CCGT owned by Marchwood Power Ltd, a 50:50 joint venture between SSE and ESB International. During the period to 30 September 2012, the plant achieved 89% of its maximum availability to operate during the year, compared with 96% the previous year; and
- Seabank, the 1,140MW CCGT, owned by Seabank Power Limited, a 50:50 joint venture between SSE and Electricity First Limited. During the period to 30 September 2012, the plant achieved 92% of its maximum availability to operate during the year, compared with 74% the previous year.

All of the electricity output at both plants is sold under contract to SSE.

With reduced gas-fired generation capacity in operation and lower running periods due to low spark spreads the amount of electricity generated by SSE at gas-fired power stations in which it has an ownership or contractual interest, including CHP, was 4.0TWh in the six months to 30 September 2012 (including 1.8TWh from wholly-owned stations), compared with 13.9TWh during the same period last year (including 7.8TWh from wholly owned stations).

Making the right investments in gas-fired power stations

Despite currently experiencing short term market challenges gas will play an increasingly important role in electricity generation driven by its:

- relatively low capital costs;
- flexibility to support increasing amounts of generation from on- and offshore wind farms;
- short construction time;
- high thermal efficiency; and
- its status as the cleanest of the fossil fuel technologies.

With its growing importance SSE continues to develop a range of CCGT options for both the medium and long-term.

In June, SSE announced its intent to acquire from Endesa Generacion SA, the shares of Endesa Ireland Limited, the assets of which include plant in operation, under construction and with consent for development. The acquisition was subsequently completed in early October for a total cash consideration of €308m (£246m) plus an estimated €53m (£42m) for working capital. In addition to the transaction amount, SSE expects to invest around €140m (£110m)

to complete the 460MW CCGT currently under construction at Great Island, Co. Wexford in the south east of Ireland.

The acquisition includes 1,068MW of operational assets at four sites. Their principal function is to help maintain security of electricity supply in the all-island Single Electricity Market (SEM) by being available to respond to peaks in demand. They consist of:

- 620MW fuel oil Tarbert Power Station in Co. Kerry;
- 240MW fuel oil Great Island Power Station in Co. Wexford;
- 104MW peaking gasoil Tawnaghmore Power Station in Co. Mayo; and
- 104MW peaking gasoil Rhode Power Station in Co. Offaly.

The electricity generated is traded in the all island Single Electricity Market (SEM), where fixed capital costs and plant availability are remunerated via a capacity payment mechanism, and variable costs, including fuel and carbon, are remunerated through the energy market.

With its long established Dublin- and Belfast-based Irish teams, which include professional expertise in project management, engineering, regulation and policy, SSE can ensure maximum value is secured from this investment through excellence in project delivery and through maintaining a fair level of revenue from the assets in operation.

Constructing a new CCGT at Great Island

In addition to operational assets the acquisition included a 460MW CCGT currently under construction at Great Island. It is expected to be commissioned in 2014, at which time the existing 240MW fuel oil unit will be decommissioned. The CCGT is being supplied by Mitsubishi.

The site is currently mobilised with civil and mechanical works associated with the main power train, boiler and stack foundations well advanced. The first heavy steel work for the heat recovery steam generator has begun to arrive on site in advance of the gas turbine, steam turbine and generator, which are presently in transit and are expected to arrive on the site during Q1 2013.

SSE will incur capital expenditure of around €140m (£110m) over three financial years to complete the construction of the new CCGT. This is included in its plans to incur capital and investment expenditure in the range of £1.5bn to £1.7bn in each of the years to March 2015.

Meeting customers' requirements for electricity in Ireland

Following the completion of this acquisition, and including its existing 500MW of wind farm capacity in operation there, SSE is now the third largest electricity generation capacity owner on the island of Ireland with 1,568MW (around 13% of installed capacity).

Over the medium and long term, the completion of the 460MW CCGT at Great Island and the continuing development of its wind farm projects will give SSE a balanced generation portfolio in Ireland and a significantly increased output of electricity that will have a lower CO₂ intensity than the SEM average. In a typical year, the Great Island CCGT and SSE's existing wind farms is expected to generate the equivalent of around two thirds of the electricity needed to supply SSE's current customers in Ireland.

Along with its power purchase agreements, this means SSE can securely and cost-effectively meet the demand of its rapidly growing Irish supply business, Airtricity, in a way that is sustainable.

Maintaining further options for gas-fired power stations

In addition to the Great Island project, SSE has plans to develop a 470MW CCGT at Abernedd in South Wales. While an invitation to tender was issued in late 2011, and following the completion of the Endesa acquisition in Ireland, an investment decision will not be taken until the first half of 2013 at the earliest and will depend, amongst other things, on the emerging shape of the UK government's proposed electricity market reforms. SSE continues to engage with the UK government to ensure key elements of the reform proposals, including

a well functioning capacity payment mechanism, are appropriate to deliver efficient generation investment in Great Britain. This means that the power station, if built, will not be operational before 2015.

Furthermore, SSE has a number of high potential CCGT development options within Great Britain, located at existing generation sites, including Keadby, Ferrybridge and Fiddler's Ferry, and Seabank, and in Ireland at Tarbert in County Kerry.

These locations offer many attractive characteristics, including established grid, gas connections, availability of cooling water and land area. These and other potential sites across Great Britain and Ireland mean SSE has a wide range of CCGT development options for independent or co-development.

Additional factors when considering the development and operation of CCGTs include fuel procurement, technical requirements for plant flexibility and future carbon abatement. In assessing these options, SSE is continuing its policy of rigorous analysis to ensure the right investment decisions are made and then effectively delivered. It is against this backdrop that:

- Barking Power Ltd, in which SSE has a 30% interest, has mothballed half of the capacity at its 1,000 MW power station; and
- Derwent Cogeneration Limited, in which SSE has a 49.5% share, is planning to cease operation at its CHP plant during 2013. The plant provides heat to the nearby Celanese Acetate's Spondon factory in Derbyshire.

While SSE agrees with the important role of gas-fired generation in both the company's and the overall UK portfolio, it believes the right market signals must be apparent if the necessary investment decisions are to be taken, particularly the introduction of a well functioning capacity mechanism under electricity market reform proposals.

How SSE's coal-fired power stations performed

During the first six months to 30 September 2012, SSE's 4,370MW of coal-fired power stations, located at Fiddler's Ferry, Ferrybridge and Uskmouth, generated 7.5TWh of electricity, compared with 5.3TWh during the same period last year. Of this 0.6% or 42,691MWh was generated through biomass co-firing at Fiddlers Ferry and Ferrybridge.

This increase in output took place against a background of higher gas prices and lower hydro output relative to the same period last year. As highlighted in DECC's quarterly Energy Trends, September 2012, during the second quarter of 2012:

- gas accounted for 29.8% of electricity generated – its second lowest in the last 14 years; while
- coal accounted for 36.1% of electricity generated - its second highest share.

This demonstrates the considerable value of SSE's coal-fired stations as part of a diverse portfolio through:

- reduced exposure to rising wholesale gas prices;
- capacity to utilise other solid fuel sources;
- ability to operate flexibly;
- response to customer demand and electricity market conditions; and
- availability and reliability.

During the period to 30 September 2012, the stations achieved 86% of their maximum availability to generate electricity, excluding planned outages, compared with 88% in the previous year.

Looking to the future of coal-fired power stations

SSE's generation strategy is built upon managing risk through having a diverse range of assets and fuels from which to supply its customers' needs. Solid fuel remains an important part of that strategy.

For consumers, coal-fired power stations continue to have a significant part to play in maintaining secure supplies of electricity and ensuring the most cost-effective portfolio of fuels. Additional value also accrues to SSE's coal-fired power sites as they benefit from key infrastructure including access to water, transport links, and electricity network connections.

In order to deliver the full current and future value potential of its coal fired portfolio SSE's operational and investment priorities at these sites include:

- maintenance and improvements to the day-to-day performance of the stations. For the financial year 2012/13 SSE is investing around £40m in the continued operation, maintenance and efficiency of these units;
- diversifying the solid fuel mix including the completion of the multi-fuel development at Ferrybridge (see below); and
- operating Europe's largest post-combustion CO₂ capture trial at Ferrybridge, in collaboration with Doosan Babcock and Vattenfall and partially funded by Government grant, following its completion during 2011/12.

In addition, SSE is pursuing the development of a range of lower capital cost advanced NOx abatement technology solutions and is currently investing in a £27m trial at its 500MW unit at Fiddler's Ferry. The project includes the combination of Selective Non-Catalytic Reduction equipment, boiler combustion modifications and the installation of an intelligent emissions control system. Preparation work is currently under way at the site with a view to completing installation by next winter. Pending successful testing this option may be expanded to additional units across SSE's coal fired fleet.

At a low capital cost this investment may provide SSE with significant optionality to operate its coal fired plant up to and beyond 2023. In doing so, coal generation can continue to provide SSE with a diverse, flexible and cost effective range of generation options ensuring it can deliver the lowest cost energy to customers while continuing to contribute to SSE's commitment to sustained dividend growth.

Compliance with the Industrial Emission Directive

With regard to the EU Industrial Emissions Directive all of the capacity at Fiddler's Ferry and Uskmouth and half of the capacity at Ferrybridge (over 3,300MW in total) currently complies with the Directive and has the option to operate for 17,500 hours between 2016 and 2023. Adding value to this favourable position SSE is investing in its fleet of coal plants gaining valuable experience and developing a range of options that can maximise the value and longevity of these assets.

Ruling out new biomass co-firing

Over recent years SSE has been assessing the potential investment options for its solid fuel generation plants, including conversion to biomass and co-firing. Factors which have influenced its thinking have included the:

- technical characteristics and efficiency of its existing coal fired stations;
- current lack of breadth and depth in the biomass supply market;
- volumes of fuel required for large scale biomass conversion; and
- requirement for involvement in the upstream fuel supply market.

Also of considerable importance to any investment decision were deliberations on ROC banding levels for biomass and the Renewable Heat Incentive. In July 2012 the UK government announced its decision to reduce ROC banding levels for new biomass co-firing. In light of this decision, and in line with its Interim Management Statement in July 2012, SSE has concluded that the current economic and policy investment framework will not support the further development of new biomass-based operations at its coal fired power stations.

Generating electricity from 'multi-fuel'

The potential of the sites of SSE's coal-fired power stations was demonstrated in April 2012 when SSE and Wheelabrator Technologies Ltd entered into a 50:50 joint venture to develop a

new £300m multi-fuel generation facility at Ferrybridge. The joint venture – Multifuel Energy Ltd (MFE) has appointed the main contractor for the project, Hitachi Zosen Inova, along with its civil engineering supplier Sisk, and pre-construction enabling works for the 68MW facility are well advanced. It is scheduled to be operational in 2015 and the electricity generated by the plant will be sold to SSE.

Making progress on Carbon Capture and Storage (CCS)

Delivering the EU's decarbonisation policy will broadly require a halving of CO₂ emissions in the electricity sector every decade between now and 2050. In the medium term, the use of coal to generate electricity and, subsequently, gas will depend on the extent to which CCS technology can be applied to abate CO₂ emissions. Consequently, the development of viable carbon capture technology is central to the UK's climate change and energy security objectives.

Against this background, SSE has two CCS projects under way:

- **Coal at Ferrybridge:** This project is the UK's largest operating carbon capture project, is the first of its size to be integrated into a working power plant in the UK and is Europe's largest operating post-combustion CO₂ capture trial on a coal station. The project, which became operational in March 2012, has in the six months to 30 September captured, on average, 90 tonnes of CO₂ per day from the equivalent of 5MW of coal-fired power generating capacity; and
- **Gas at Peterhead:** SSE is working with Shell UK to develop a gas CCS project at SSE's gas-fired power station in Peterhead. The project will be capable of capturing up to 3,000 tonnes of CO₂ per day from one 385MW combined cycle gas turbine unit. It is planned that the CO₂ will then be transported to the Shell-operated Goldeneye gas field in the North Sea using, as far as possible, existing infrastructure. In October 2012, DECC announced its shortlist of four projects, including Peterhead, for the next phase of the UK's £1bn Carbon Capture and Storage (CCS) competition. A final decision on project(s) to be supported can then be expected early in 2013. While the announcement signalled the Government's interest in the project, a firm funding assurance is needed as soon as possible and will be necessary in order for the Peterhead project to go ahead.

Transforming waste to energy through anaerobic digestion

In addition to the multifuel project at Ferrybridge, SSE has also officially opened its innovative Anaerobic Digestion (AD) biogas plant at Barkip near Beith in North Ayrshire.

Managed by Zebec Biogas Limited on SSE's behalf, Barkip is the largest combined organic waste treatment and energy generating facility in Scotland. The plant breaks down organic waste to produce a methane rich biogas which is used to generate 2.2MW of renewable electricity, enough to power approximately 5,500 homes. Projects such as this also offer opportunities in renewable heat through connections to the gas distribution network and are therefore of direct interest to both SSE and SGN.

Engineering excellence the SSE Way

In order to deliver the long-term value and reliability of its existing Generation portfolio and to ensure it has the expertise to deliver the scale and diversity of the investments it requires SSE has developed and implemented industry leading frameworks – the SSE Way – that will ensure it is doing the right things and selecting the right projects now, and for the future.

SSE's *Engineering Centre of Excellence* supports the safe operation of power generating plant; helps deliver increased availability and performance of key plant; and mitigates project risk with optimum design solutions and technology choice. With ever-increasing knowledge as to the performance and capability of its portfolio, SSE can ensure the right long-term investment decisions are made to deliver an efficient, flexible, low carbon generation portfolio which plays to the company's strengths and experience. Recent examples demonstrating this value of expertise include:

- Hadyard Hill where SSE achieved a major milestone by completing, in-house, all the

annual servicing of its 52 turbine, 119MW wind farm in South Ayrshire. SSE is understood to be the only UK wind farm operator with the capability to carry out this type of work, which supports the cost effective maintenance and high availability performance of its wind farms.

- Network system services, where SSE, working in partnership with GE, has recently received approval from EirGrid, the Transmission System Operator in Ireland, to demonstrate the value of wind generation services by enhancing grid reliability and operation and in doing so potentially earn ancillary services revenue.

Participating in the EU Emissions Trading Scheme

Phase II of the EU Emissions Trading Scheme (EU ETS) began on 1 January 2008. Across its electricity generation portfolio (taking account of contractual shares), SSE has an allocation of 18.9 million tonnes of CO₂ emissions allowances for the calendar year to 31 December 2012. In the six months to 30 September 2012, the price of allowances, for 2012, ranged from €6.07 to €8.33 per tonne. See also 'Exceptional Items' above.

With high gas prices and low spark spreads for gas generation, SSE used the portfolio diversity provided by its coal plants to ensure lowest possible cost power generation for its customers. While this results in a short term increase in emissions SSE remains on track to halve its carbon intensity by 2020 supported by:

- the commissioning and development of additional capacity for renewable energy;
- lower emissions and more flexible gas-fired generation; and
- reducing output from coal plants as they use up their allocated running hours under the EU's Industrial Emissions Directive.

From 2013, all of the CO₂ emissions permits for electricity producers will be auctioned. Moreover, the UK government's introduction of the carbon price floor provides a clear market signal for investment in low carbon and carbon sequestration investments. Plans for the introduction of a 'floor' for the price of allowances in the electricity sector will result in an effective carbon price of £16/tonne in 2013, rising to around £30/tonne in 2020 (in 2009 prices). This further signals the potential importance of carbon capture and storage for coal and gas generation in ensuring the achievement of long-term carbon abatement targets.

Tackling emissions of CO₂ in thermal generation

SSE's priorities in Generation are to be a greener and more flexible non-nuclear electricity generator. Greener means effectively halving its carbon intensity every decade between now and 2050. As a non-nuclear generator, this goal will be achieved through a stable, managed transition utilising a diverse range of solutions including:

- delivering solid fuel solutions at coal-fired stations;
- demonstrating carbon capture technology for both coal and gas;
- increasing significantly the output of renewable electricity; and
- ensuring industry-leading operational efficiency of its generation portfolio.

More broadly, SSE has formed a coalition with an expanding list of European energy companies to encourage the EU to adopt a greenhouse gas emissions reduction target of 25% (up from 20% at present) as part of a long-term move away from fossil fuel-based electricity generation and full decarbonisation by 2050. Alongside strengthening the EU ETS, it is also seeking a 2030 renewables target which is needed to bridge the policy gap between 2020 and 2050 and to allow the renewables industry to mature and to reach full cost competitiveness.

Fulfilling the potential of renewable sources of energy

Announcing the revised bands for the Renewable Obligation in July 2012 Secretary of State for Energy and Climate Change reiterated the UK government's support for renewable energy stating it '...will create a multi-billion pound boom for the British economy, driving growth and supporting jobs across the country....and shows the key role of renewables for our energy security'. Evidencing this statement, SSE has:

- over 600 people directly employed in renewable activities;
- invested around £3.3bn in renewable technologies since 2007; and
- generated 2,805GWh of electricity from renewable sources in the period to 30 September 2012.

Coupled with mandatory EU renewable energy targets for the UK and Ireland, 15% and 16% respectively, public policy is strongly aligned with investment in renewable sources, providing financial support via the Renewables Obligation in the UK and the Renewable Energy Feed in Tariff in the Republic of Ireland.

Following the UK's announced revision to ROC levels from April 2013, the delivery of an effective carbon floor price and cost reductions in the supply chain for renewable energy are now of critical importance to continued strong growth of the sector. The effect of appropriate policy supports should also not be undervalued, and the viability of the renewables industry remains dependent on their continued existence.

SSE welcomes the continued strong policy support for increased renewable penetration in the portfolio mix in both the UK and Ireland. This is also evident in the closer relationships forming between the two jurisdictions, where both governments are exploring greater cooperation on renewable energy and energy trading which will be facilitated by the forthcoming 500MW East West interconnector, due to be commissioned by the end of this year. This will be the first electricity connection between the Republic of Ireland and Great Britain and provides the opportunity to flow power between the two markets.

While SSE sees significant future renewable development opportunities, it will continue to avoid dependency on a single generation technology or related financial support, through the maintenance of its diverse portfolio of generation technologies.

Increasing capacity for renewable energy

At 30 September 2012, SSE had 3,208MW of renewable energy capacity in the UK and Ireland, including its share of joint ventures, comprising (net):

- 1,150MW conventional hydro;
- 1,422MW onshore wind;
- 256MW offshore wind (excluding 93MW disputed turbines at Greater Gabbard);
- 80MW dedicated biomass; and
- 300MW pumped storage.

Following a very successful period constructing and commissioning renewable energy projects, SSE remains on course to own around 3,500MW of renewable energy capacity that is in operation or under construction in the UK and Ireland by the end of the financial year. To this end, SSE, over the first six months:

- commissioned and exported electricity from all of the 140 turbines at the Greater Gabbard offshore wind farm;
- completed construction of the 70MW Gordonbush wind farm; and
- officially opened the 152 turbines, 350MW Clyde wind farm.

In addition, SSE restarted power generation at the 100MW Glendoe hydro electric scheme near Loch Ness.

All of this means SSE is making solid progress in line with its 'green' priority and is supporting the achievement of CO₂ abatement targets, maximising the potential of indigenous and free renewable resources, and reducing consumer exposure to the price volatility of internationally traded fossil fuels.

Maintaining renewable policy support

Output from over 1,500MW of SSE's renewable portfolio qualifies for ROCs, the main financial support scheme for renewable energy in the UK. While the UK government has announced the outcome of its review of the bands of support provided by the Renewables

Obligation, the review will have no impact on existing assets in operation or under construction which are eligible for the existing 20 year support level.

Producing electricity from renewable sources

Total electricity output from all of SSE's renewable resources, including conventional hydro electric schemes, onshore wind farms, offshore wind farms and dedicated biomass plant was 2,805GWh in the six months to 30 September 2012, compared with 2,784GWh in the same period last year.

The increase in output reflects 670MW of additional generation capacity coming into operation, which was then offset by the relatively drier and calmer weather experienced compared with the record breaking wet and windy weather experienced during the same period last year. In energy terms, it is equivalent to the electricity output from around 180 million therms of gas.

Producing electricity from biomass

SSE's plant at Slough, with a generating capacity of 80MW, remains the UK's largest dedicated biomass energy facility. During the six months to 30 September 2012, it produced 65GWh of electricity from renewable sources, compared with 105GWh during the same period last year. Lower output during the period was the result of scheduled maintenance undertaken during the spring.

Producing electricity from hydro electric schemes

SSE owns and operates 1,150MW of conventional hydro electric capacity across 50 hydro electric power stations in Highland, Perth and Kinross and Argyll and Bute. A further 300MW comes from its pumped storage facility at Foyers, on Loch Ness. During the 6 months to 30 September 2012 (previous year's comparison in brackets):

- total output from all of SSE's conventional hydro electric schemes was 1,042GWh (1,602GWh); and, within this,
- total output from SSE's hydro electric capacity qualifying for ROCs – just over 500MW – was 551GWh (752GWh).

While last year saw a 30-year record output, rainfall during this reporting period returned to more normal ranges resulting in 35% less output than the same period last year.

As at 30 September 2012, the total amount of water held in SSE's reservoirs which could be used to generate electricity was 40% of the maximum, compared with 63% the year before.

Restoring generation at the Glendoe hydro electric scheme

Generation at the 100MW Glendoe hydro electric scheme near Loch Ness, re-started in August, and produced over 30GWh of electricity in the period to 31 October. In a year of average rainfall, its output should be around 180GWh of electricity.

Restoration of generation follows the completion of the work undertaken at Glendoe following its interruption in August 2009 as a result of a rock fall in the tunnel carrying water from the scheme reservoir to the power station. Glendoe's main operational feature is that it is able to start generating electricity at full capacity in just 90 seconds and can therefore help to meet changes in demand and provide flexible balancing power supporting variable wind generation.

SSE is continuing to pursue its legal and insurance options following the loss of electricity generation in August 2009. The net cost to SSE of the restoration work will not be known until the insurance and legal processes are complete. The actual and projected rate of return on the total net investment at Glendoe, including the original construction cost of £160m, will depend on this and on the prices achieved for the electricity produced. These prices should, in turn, reflect the strategic nature of the asset and its ability to respond rapidly to help meet changes in electricity demand.

Developing new hydro electric schemes

With its fast response rate and zero carbon output, hydro-sourced generation continues to

demonstrate its high value by providing firm capacity and flexibility. These are characteristics that the market should value more in the future.

In its Interim Management Statement in July 2012, SSE stated that it no longer expects to develop any new pre-planning conventional hydro electric schemes, and this remains the case. The Scottish Government's subsequent decision to maintain support for output from such schemes at 1.0 ROCs/MWh, however, means that SSE will continue pre-construction work at the 7.5MW hydro electric power station which it has consent to build near Ardross in Ross-shire, in advance of a final investment decision on the project being taken in the course of 2013.

In new pumped storage, SSE had developed three principal options: a 60MW scheme as part of its 152MW Sloy conventional hydro electric power station; a scheme of up to 600MW at Balmacaan, near Loch Ness; and a scheme of up to 600MW at Coire glas, near Loch Lochy.

It has decided not to proceed with the Sloy scheme in case it should jeopardise the operational effectiveness of the existing power station and it has decided that it should seek to build only one of the pumped storage schemes in the Great Glen. In October 2012, Highland Council confirmed it had no objections to the development of the Coire glas scheme, which will now be determined by the Scottish Ministers, and SSE has concluded that Coire glas is its preferred option for pumped storage development.

Coire glas could offer significant benefits to the Great Britain electricity system in terms of capacity and flexibility, but it remains subject to:

- securing consent from the Scottish Government;
- a satisfactory public policy and regulatory framework, including the outcome of the electricity market reform proposals and the transmission charging regime changes envisaged by Ofgem's Project TransmIT; and
- compliance with SSE's financial principles and its Major Projects Governance Framework.

All of this means that a decision on whether to construct Coire glas will not be taken before 2014 at the earliest.

Producing electricity from onshore wind farms

At 30 September 2012, SSE owned 1,422MW of onshore wind farm capacity and output during the six months was as follows (previous year's comparison in brackets):

- 780GWh in the UK (518GWh); and
- 517GWh in the Republic of Ireland (558GWh).

Total electricity output from onshore wind-based generation was 1,297GWh up 34% on the same period last year reflective of the additional capacity coming on line at Griffin, Gordonbush and Clyde wind farms.

By September 2012 all 152 turbines at the Clyde wind farm development had been constructed and commissioned with a total installed capacity of 350MW. Beginning in 2009 and built over three phases, its completion marked SSE's position as the largest generator of electricity from wind across Great Britain and Ireland and is a major milestone for SSE in progressing its investment in renewable generation. At a cost of around £500m the wind farm is capable of producing over 1,000GWh of electricity during a typical year.

Developing new onshore wind farms

At 30 September 2012, SSE's onshore wind farm portfolio comprised around (net):

- 1,422MW in operation;
- 305MW in construction or pre-construction; and
- 550MW with consent for development.

As SSE moves forward the next phase of its development pipeline it is focusing on its alignment in to strategic areas. These areas facilitate the continued efficient allocation of resources and economies of scale. In addition to its own developed sites, SSE will also consider opportunities to acquire projects particularly those complementing the existing portfolio, have consent and are aligned with SSE's financial principles.

The following fully consented projects in the UK and Ireland are components of SSE's portfolio of strategic developments:

- **Calliachar** (32MW) - This fully consented site, adjacent to SSE's Griffin project in Perthshire, was acquired by SSE in 2010. Construction at the site is under way with all turbine bases nearing completion. The project is expected to be completed during the summer of 2013.
- **Keadby** (68MW) – is a fully consented project acquired from RES in May 2011. Adjacent to SSE's Keadby gas-fired power station, enabling works are under way, including the now completed 90 metre bridge to facilitate site access. The project is scheduled for completion in 2014.
- **Glendonway** (45MW) – is part of the Slieve Kirk strategic area located in County Derry, Northern Ireland. It will add a total of 45MW (comprising 27MW acquired from RES in September 2012 and 18MW already under development) to the existing 27MW completed during 2011/12. Civil works are progressing well and the project is expected to be completed during 2014. When commissioned, the Slieve Kirk cluster will total 72MW and be the largest renewable generating site in Northern Ireland.
- **Strathy North** (75MW) – located near Strathy village, Sutherland, this project received consent from Scottish Ministers in November 2011. The wind farm, which is also near Gordonbush, will comprise 33 turbines over an area of around 950 hectares within Strathy North Forest, which is a commercial conifer plantation. The project is anticipated to enter construction mid-2013.

SSE has around 550MW of fully consented projects across Great Britain and Ireland, including its 110MW share of the 170MW Galway Wind Park, and the 103 turbine joint venture between Viking Energy Partnership where detailed ground investigation works will begin next year.

This provides a portfolio of options whereby SSE may select developments that deliver the best value and continue to support dividend growth. With this in mind progress on all of SSE's renewable projects is dependent on a continued favourable planning, policy and regulatory environment.

With Great Britain and Ireland identified as its core markets, a broad portfolio of development options held in both jurisdictions and 1GW of electricity interconnection between the two markets SSE has elected to dispose of its interests in Sweden including a 295MW development pipeline of which 80MW has consent for development. SSE expects to secure agreement on the disposal in the coming months.

Managing constraint on the electricity system

Constraints occur when there are limitations in electricity transmission capacity or for reasons of system frequency voltage control or stability. Transmission systems generally experience periods of constraint, and it is this that provides a market signal for additional investment in the grid infrastructure.

In the six months to 30 September 2012, constraint payments totalling around £70m were paid to generators from all fuels across Great Britain. Of this total, around £2m or less than 3%, was paid to constrain SSE wind generation.

At times of constraint, generators in Great Britain are required to bid in their constrained generation capacity to National Grid. It is SSE's policy to bid fair and reasonable prices at all times for its renewable generation and it believes that this is the equitable approach for all generators and in the best interest of customers.

The issue of constraints will occur more often as the UK and Irish systems see the benefit of higher penetrations of renewable energy on their systems. To minimise the impact of constraints, appropriate investment is needed in transmission infrastructure, an issue which is particularly acute in Ireland. At the same time, market arrangements in both Great Britain and Ireland must provide equitable payment for constrained generation.

Producing electricity from offshore wind farms

At 30 September 2012, SSE's total net capacity for generating electricity at offshore wind farms, including Walney and turbines at Greater Gabbard which are not the subject of dispute, was 256MW. Including the disputed turbines, it was 349MW. SSE's share of total electricity output from all turbines during the period was 283GWh.

Due to the significantly larger scale and cost of both consenting and constructing offshore wind farms compared with onshore, SSE recognises the inherent risks are best managed through partnership arrangements, which it adopts throughout its portfolio of projects. On this basis, SSE has delivered:

- Greater Gabbard (500MW), through the partnership Greater Gabbard Offshore Winds Limited ('GGOWL'), in which SSE has a 50% stake; and
- Walney (367MW), through the partnership Walney (UK) Offshore Windfarms Ltd, in which SSE has a 25.1% stake.

Managing the issues at Greater Gabbard

All of the 140 turbines at Greater Gabbard are commissioned and exporting electricity and GGOWL is responsible for the day-to-day operation of the completed wind farm.

Completion of the commissioning of the turbines is a major milestone for SSE. It is a substantial operating asset contributing a significant amount of electricity to help meet consumer demand and further diversify the UK energy portfolio with a carbon free electricity source in support of low carbon energy objectives. As at 30 September 2012, turbine availability at Greater Gabbard was 87% (undisputed turbines) with overall performance more than 10% ahead of expectations.

GGOWL remains in a contractual dispute with Fluor Limited, the principal contractor for the wind farm, relating to the quality of up to 52 upper foundations (transition pieces) supporting turbines and the quality of up to 35 lower foundations supporting the same turbines. The contractual dispute centres on:

- the claim by Fluor Limited of around £300m relating to time and costs Fluor Limited alleges it incurred in carrying out additional testing and repairs of some of the welds on these foundations; and
- GGOWL's need for assurance as to the structural integrity of these foundations, which resulted in GGOWL initiating its own programme of offshore testing to determine whether they meet the required contractual standards and will provide a full operating life of at least 25 years.

A formal process with regard to the first part of the dispute has now been concluded. The timing of the arbitrators' decision is now a function of the legal process. In relation to the claim by Fluor, GGOWL has submitted what it believes is a very robust defence.

As stated in September 2012, and in line with a prudent approach to safety, GGOWL has established a number of risk control measures, including access restrictions, in relation to the 52 foundations to enable these turbines to be able to generate electricity.

OFTO and the disposal of cable connections

Greater Gabbard and Walney wind farms are connected to the Great Britain mainland via subsea transmission cables. The Great Britain regulatory regime for the construction and operation of offshore transmission assets allows generators have a choice of constructing the transmission assets themselves or to opt for an Offshore Transmission Owner (OFTO) to do so.

As is the case at Greater Gabbard and Walney, generators who construct the assets must transfer the assets to an OFTO post-construction. OFTOs are selected on a competitive basis through a tender process run by Ofgem. OFTOs will then receive a regulated return on the asset. In accordance with this requirement, SSE and its partners are currently in the process of transferring the assets. To date, around half of the proceeds from Walney of £25m (SSE's share) were received in the financial year 2011/12, with a further £26m (also SSE's share) expected by the end of December 2012. Proceeds for Greater Gabbard of around £150m are expected to be agreed with Ofgem and received in the first half of next year.

Developing more new offshore wind farms

Offshore wind continues to play an important role in the delivery of low carbon energy for the UK. Already the Great Britain offshore wind market is the largest in the world, with 1.5GW in operation, 2.6GW under construction and a total of 11-18GWs planned by 2020.

SSE has gained valuable experience of offshore wind farm development and construction through the Greater Gabbard and Walney projects, and it is this experience that enables it to exercise informed and disciplined judgement when prioritising projects in its development pipeline.

The next offshore wind farm project in SSE's development pipeline is the 500MW Galloper, which is located close to the existing Greater Gabbard development and is also a 50:50 partnership with RWE npower renewables. Significant progress has been made in the planning phases of this project and it has received confirmation from the Infrastructure Planning Commission that it has accepted the Development Consent Order application. Full consents for the project are expected during 2013.

Beyond this, SSE has secured from The Crown Estate valuable development rights for potentially up to 4.8GW (net) additional offshore wind farm assets later in the decade. These include:

- the 1,000MW Beatrice, a 75:25 partnership with Repsol Nuevas Energias UK (25%) (formerly SeaEnergy Renewables) located in the Moray Firth; and
- the 1,050MW (Phase 1) SeaGreen, a partnership between SSE Renewables and Fluor Limited, which has recently sought consent for two wind farm areas, with a capacity of 525MW each, which represent the first of three phases in this 3.5GW Firth of Forth offshore wind farm.

However, decisions by SSE regarding the extent of the build out of this pipeline will be reflective of its disciplined approach and focus on taking forward only the best investments and achieving the strongest possible returns to support dividend growth, consistent with its financial principles.

Building a supply chain for offshore wind

A robust, sustainable and ultimately lower cost supply chain offers significant value to renewable energy developers and is essential to delivering the UK's offshore wind potential. As the UK's largest owner, developer and operator of renewable energy sources, SSE has an important role to play and is focused on forming strategic alliances and investments to secure this supply chain.

To this end SSE has a number of initiatives to increase the effectiveness, and decrease the cost, of offshore wind deployment, among them:

- Wind Towers Ltd in which it has recently increased its shareholding to 80.1%. The company produces wind turbine towers for onshore and now offshore wind farms enabling it to participate in the next phase of offshore wind developments;
- the formation of strategic alliances with companies such as Siemens and Mitsubishi to collaborate on offshore wind development; and

- consent from North Ayrshire Council to construct an offshore test facility at Hunterston in North Ayrshire. In partnership with leading turbine suppliers, up to three prototype turbines will be tested at the facility for a period of five years.

In seeking to reduce supply chain cost, SSE is giving practical leadership in the delivery of the UK government's ambitious 2020 target to lower the levelised cost of energy from offshore wind to £100/MWh and believes this target can, and indeed should, be achieved.

Establishing an intermediate holding company for offshore renewable energy

SSE has had a positive response from external stakeholders to its plans to reorganise all of its offshore wind farm equity interests, including assets in operation, under construction or in development, into a newly-incorporated holding company. It will remain wholly-owned by SSE for the foreseeable future, and its establishment will give SSE a company through which to finance offshore renewable energy developments and the flexibility to introduce other sources of funding should this support the development and construction of offshore wind farms.

Developing marine sources of electricity

Alongside offshore wind farms, marine-based wave and tidal technologies are an interesting prospect as the next generation of low carbon generation technologies. As a longer term prospect, ongoing progress in scaling up this technology means the sector may start to make a significant energy contribution around the end of this decade.

SSE approach to marine is two fold:

- **Sites development:** SSE and its JV Partners including Alstom, Openhydro and Aquamarine, have exclusive rights from The Crown Estate to develop 600MW of wave and tidal energy at sites in the Pentland Firth and Orkney Waters. A series of surveys on the sites have been undertaken this year in advance of submitting consent applications.
- **Technology development:** Aquamarine Power, in which SSE has invested £29.7m over the past five years, is currently commissioning its Oyster 800 wave energy device on Orkney which is expected to be exporting electricity to the grid shortly.

EPM and Electricity Generation priorities in 2012/13 and beyond

EPM and Electricity Generation have made significant progress in the year so far, particularly:

- the acquisition of operational assets and development pipeline in Ireland;
- delivering key projects including Greater Gabbard, Glendoe and Clyde;
- good progress made in planned asset maintenance and refurbishment programmes which are on time and on budget; and
- developing a number of new opportunities for the business including contracts and assets.

This progress is consistent with SSE's stated priorities at the start of the financial year including continued focus on value for money and maintaining, for the long term, a diverse, well balanced portfolio that will deliver a decarbonised, secure and affordable energy supply.

During 2012/13, SSE expects to invest around £500m in maintaining and upgrading existing generation assets and in developing new assets. This investment programme is designed to abate the environmental impact of existing assets and extend their working lives, and to deliver new assets, principally in renewable energy but also through trialling other forms of decarbonised generation, including carbon capture and storage.

In Generation, SSE's 2012/13 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; and
- operate power stations efficiently to achieve the optimum conversion of primary fuel

into electricity.

Investment priorities for the rest of the financial year are:

- ensure continued high quality project execution particularly at its newly acquired CCGT construction site, Great Island;
- invest in power stations to increase flexibility;
- meet key milestones in new asset development and construction; and
- make progress in developing the diverse range of investment options it has created for the second half of this decade.

Gas Production

Gas Production profitability

Gas Production delivered an operating profit* of £16.5m during the six months to 30 September 2012 compared with £17.3m in the same period last year. Total output over the time was 80.5 million therms, compared with 85.7 million therms in the previous year, with the effect on revenue and profit offset by slightly higher gas prices. Some of this fall was as forecast and in line with normal production decline rates on the existing wells but lower volumes of gas were extracted during the period due to scheduled maintenance work on the assets.

Gas Production priorities in 2012/13 and beyond

SSE's 2011 acquisition from Hess Limited of North Sea natural gas and infrastructure assets was a measured entry by SSE in to non-operated upstream assets.

With the significant learning and experience gained through this process, SSE is proactively seeking to increase its asset reserve base and is currently in the process of identifying potential upstream opportunities, including production, in gas weighted assets and operatorship.

To this end SSE has announced its intent to increase its equity interest in its existing assets Apollo, Minerva and Mercury, to 50% in all three for a total cash consideration of US\$ 52.75m (£33m). Net to SSE, on a proven and probable (2P) basis, the deal will increase SSE's producing gas reserves by over 200 million therms over the life of the fields. In doing so, SSE aims to diversify further its sources of primary fuel and provide a hedge for its gas-fired generation and gas supply activities.

As well as pursuing such opportunities directly, SSE will work with Faroe Petroleum plc, in which it has a 5% holding. Future investment decisions will, however, continue to be considered in a careful, measured way, consistent with its financial principles and, therefore, only where fair value can be secured.

Gas Storage

Gas Storage profitability

Gas Storage delivered an operating profit* of £6.9m, during the six months to 30 September 2012, compared with £15.4m in the previous year. This reflects a decline in the price achieved for Standard Bundled Units of storage capacity at SSE's storage at Hornsea and Aldbrough, driven by a reduction in the spread between summer and winter wholesale gas prices. This was off-set by increased capacity available for storage as a result of the progress at the Aldbrough development.

Providing capacity to store gas

Gas storage enables customers to manage their gas market risks and respond to gas trading opportunities. SSE has an ownership interest in two major gas storage facilities in East Yorkshire Hornsea and Aldbrough.

Hornsea is the UK's largest onshore gas storage facility in which around 325 million cubic metres (mcm) of gas can be stored in a total of nine caverns. It accounts for around 7% of the

total gas storage capacity in the UK and 15% of deliverability. It can be injected with gas at a rate of 2mcm per day and delivered to the National Transmission System at a rate of 18mcm per day, equivalent to the demand of four million homes.

During the period to 30 September 2012, Hornsea was 100% available to customers, except in instances of planned maintenance.

Aldbrough is one of the UK's newest onshore gas storage facilities, which SSE (66.6% share) is developing with Statoil (UK) Ltd. It will ultimately have the capacity to store around 320mcm of gas in nine underground caverns (of which SSE will own two-thirds). It will have the capacity to deliver gas to the National Transmission System at a rate of up to 40mcm per day, equivalent to the average daily consumption of eight million homes, and the ability to have up to 30mcm of gas per day injected.

All nine caverns at the Aldbrough facility have now been completed with the final cavern becoming operational this month. This is slightly behind schedule due to minor additional works being required on the completed well prior to commercial operation. SSE's forecast total investment for the development remains around £290m.

Meanwhile, the facility continues to operate with high availability to meet commercial requirements and during the period to 30 September 2012 the surface plant delivered 96% availability. In order to maintain the high availability of the surface plant SSE is also conducting a detailed engineering review of some valves on site. This review will be completed in early 2013 and it is currently anticipated that some valves will require replacement in the medium term.

Gas Storage priorities in 2012/13 and beyond

Gas storage priorities for the coming financial year include:

- ensuring safe operation of capacity at Hornsea and Aldbrough; and
- maintaining high availability and operational performance at Hornsea and Aldbrough.

Conclusion

While the first six months of the year presented many challenges, ongoing progress in the delivery of key assets including Glendoe and Greater Gabbard, and strategic investments in Ireland means SSE believes that its activities in Energy Portfolio Management, Electricity Generation, Gas Production and Gas Storage will support the achievement of its first financial goal of sustained real growth in the dividend payable to shareholders.

Consolidated Condensed Income Statement
for the period 1 April 2012 to 30 September 2012

Six months ending 30 September

| | Note | 2012 | | | 2011 | | |
|--|------|--|---|-------------------|--|---|-------------------|
| | | Before exceptional items and certain re-measurements £m | Exceptional items and certain re-measurements (note 7) £m | Total £m | Before exceptional items and certain re-measurements £m | Exceptional items and certain re-measurements (note 7) £m | Total £m |
| Revenue | 5,6 | 11,404.2 | - | 11,404.2 | 11,790.8 | - | 11,790.8 |
| Cost of sales | | <u>(10,441.8)</u> | <u>(367.5)</u> | <u>(10,809.3)</u> | <u>(11,001.2)</u> | <u>(348.3)</u> | <u>(11,349.5)</u> |
| Gross profit / (loss) | | 962.4 | (367.5) | 594.9 | 789.6 | (348.3) | 441.3 |
| Operating costs | | <u>(518.4)</u> | - | <u>(518.4)</u> | <u>(459.7)</u> | <u>(13.1)</u> | <u>(472.8)</u> |
| Operating profit / (loss) before jointly controlled entities and associates | | 444.0 | (367.5) | 76.5 | 329.9 | (361.4) | (31.5) |
| Jointly controlled entities and associates: | | | | | | | |
| Share of operating profit | | 147.1 | - | 147.1 | 122.0 | - | 122.0 |
| Share of interest | | (75.2) | - | (75.2) | (72.9) | - | (72.9) |
| Share of movement on derivatives | | - | 5.2 | 5.2 | - | 9.4 | 9.4 |
| Share of tax | | (23.6) | 18.5 | (5.1) | (17.1) | 15.8 | (1.3) |
| Share of profit on jointly controlled entities and associates | | 48.3 | 23.7 | 72.0 | 32.0 | 25.2 | 57.2 |
| Operating profit / (loss) | 5,6 | 492.3 | (343.8) | 148.5 | 361.9 | (336.2) | 25.7 |
| Finance income | 8 | 121.1 | - | 121.1 | 133.7 | - | 133.7 |
| Finance costs | 8 | <u>(239.5)</u> | <u>(56.9)</u> | <u>(296.4)</u> | <u>(225.3)</u> | <u>(15.4)</u> | <u>(240.7)</u> |
| Profit / (loss) before taxation | | 373.9 | (400.7) | (26.8) | 270.3 | (351.6) | (81.3) |
| Taxation | 9 | <u>(71.0)</u> | <u>124.8</u> | <u>53.8</u> | <u>(60.1)</u> | <u>135.3</u> | <u>75.2</u> |
| Profit / (loss) for the period | | 302.9 | (275.9) | 27.0 | 210.2 | (216.3) | (6.1) |
| Attributable to: | | | | | | | |
| Equity holders of the parent | | <u>302.9</u> | <u>(275.9)</u> | <u>27.0</u> | 210.2 | (216.3) | (6.1) |
| Basic earnings/(loss) per share (pence) | 11 | | | 2.9p | | | (0.7p) |
| Diluted earnings/(loss) per share (pence) | 11 | | | 2.9p | | | (0.7p) |
| Dividends in the period (£m) | 10 | | | 529.3 | | | 492.0 |

The accompanying notes are an integral part of this interim statement.

Consolidated Condensed Income Statement
for the year ended 31 March 2012

| | Note | Before exceptional items and certain re-measure- ments £m | Exceptional items and certain re-measure- ments (note 7) £m | Total £m |
|---|------|---|---|-------------|
| Revenue | 6 | 31,723.9 | - | 31,723.9 |
| Cost of sales | | (29,464.4) | (903.3) | (30,367.7) |
| Gross profit / (loss) | | 2,259.5 | (903.3) | 1,356.2 |
| Operating costs | | (880.0) | (82.0) | (962.0) |
| Operating profit /(loss) before jointly controlled entities and associates | | 1,379.5 | (985.3) | 394.2 |
| Jointly controlled entities and associates: | | | | |
| Share of operating profit | | 278.3 | - | 278.3 |
| Share of interest | | (146.5) | - | (146.5) |
| Share of movement on derivatives | | - | 14.2 | 14.2 |
| Share of tax | | (44.9) | 38.3 | (6.6) |
| Share of profit on jointly controlled entities and associates | | 86.9 | 52.5 | 139.4 |
| Operating profit / (loss) | 6 | 1,466.4 | (932.8) | 533.6 |
| Finance income | 8 | 250.1 | - | 250.1 |
| Finance costs | 8 | (425.7) | (89.5) | (515.2) |
| Profit / (loss) before taxation | | 1,290.8 | (1,022.3) | 268.5 |
| Taxation | 9 | (324.8) | 319.6 | (5.2) |
| Profit / (loss) for the year | | 966.0 | (702.7) | 263.3 |
| Attributable to: | | | | |
| Ordinary shareholders of the parent | | 900.5 | (702.7) | 197.8 |
| Other equity holders | | 65.5 | - | 65.5 |
| Basic earnings per share (pence) | 11 | | | 21.1p |
| Diluted earnings per share (pence) | 11 | | | 21.1p |
| Dividends in the year (£m) | 10 | | | 716.9 |

Consolidated Condensed Statement of Comprehensive Income
for the period 1 April 2012 to 30 September 2012

| Year ended 31 March 2012 £m | | Six months ended 30 September 2012 £m | Six months ended 30 September 2011 £m |
|---|---|--|---|
| 263.3 | Profit / (loss) for the period | 27.0 | (6.1) |
| | Other comprehensive income: | | |
| (15.3) | (Losses) on effective portion of cash flow hedges | (10.4) | (2.7) |
| 0.2 | Transferred to assets and liabilities on cash flow hedges | - | 1.5 |
| 4.0 | Taxation on cashflow hedges | 2.2 | 0.8 |
| (11.1) | | (8.2) | (0.4) |
| (65.3) | Exchange difference on translation of foreign operations | (43.5) | (36.4) |
| 29.8 | Gains on net investment hedge | 22.0 | 14.3 |
| (7.7) | Taxation on net investment hedge | (5.3) | (3.7) |
| (43.2) | | (26.8) | (25.8) |
| (161.1) | Actuarial losses on retirement benefit schemes | (18.2) | (80.9) |
| 30.3 | Taxation on actuarial losses on defined benefit pension schemes | (3.4) | 14.1 |
| (130.8) | | (21.6) | (66.8) |
| | Jointly controlled entities and associates: | | |
| (20.8) | Share of (losses) on effective portion of cash flow hedges | (3.6) | (27.8) |
| 3.7 | Share of taxation on cashflow hedges | 0.5 | 5.3 |
| (17.1) | | (3.1) | (22.5) |
| 5.6 | Share of actuarial (losses)/gains on retirement benefit schemes | (5.0) | (2.2) |
| (3.9) | Share of taxation on actuarial (losses)/gains on retirement benefit schemes | 2.1 | (0.1) |
| 1.7 | | (2.9) | (2.3) |
| (15.4) | Net share from jointly controlled entities and associates | (6.0) | (24.8) |
| (200.5) | Other comprehensive income, net of taxation | (62.6) | (117.8) |
| 62.8 | Total comprehensive income for the period | (35.6) | (123.9) |
| | Attributable to: | | |
| (2.7) | Ordinary shareholders of the parent | (35.6) | (123.9) |
| 65.5 | Other equity holders | - | - |
| 62.8 | | (35.6) | (123.9) |

Consolidated Condensed Balance Sheet
as at 30 September 2012

| At 31 March 2012 | | At 30 September 2012 | At 30 September 2011 |
|------------------------|---|----------------------------|----------------------------|
| £m | Note | £m | £m |
| Assets | | | |
| 9,153.1 | Property, plant and equipment | 9,462.4 | 8,950.3 |
| 3.4 | Biological assets | 3.4 | 4.4 |
| | Intangible assets: | | |
| 627.5 | Goodwill | 629.1 | 679.9 |
| 218.8 | Other intangible assets | 265.7 | 265.0 |
| 911.7 | Equity Investments in associates and jointly controlled entities | 966.7 | 905.8 |
| 1,191.9 | Loans to associates and jointly controlled entities | 1,247.6 | 1,139.0 |
| 36.1 | Other investments | 36.3 | 40.9 |
| 222.1 | Deferred tax assets | 210.6 | 205.8 |
| 348.0 | Derivative financial assets | 757.4 | 626.1 |
| <u>12,712.6</u> | Non-current assets | <u>13,579.2</u> | <u>12,817.2</u> |
| 365.7 | Other intangible assets | 228.8 | 183.0 |
| 323.7 | Inventories | 371.2 | 392.8 |
| 5,174.6 | Trade and other receivables | 3,300.8 | 3,255.6 |
| 189.2 | Cash and cash equivalents | 894.4 | 183.7 |
| 851.2 | Derivative financial assets | 365.3 | 1,374.3 |
| 68.0 | Current assets held for sale | 72.7 | 84.2 |
| <u>6,972.4</u> | Current assets | <u>5,233.2</u> | <u>5,473.6</u> |
| <u>19,685.0</u> | Total assets | <u>18,812.4</u> | <u>18,290.8</u> |
| Liabilities | | | |
| 708.6 | Loans and other borrowings | 832.9 | 401.2 |
| 5,182.7 | Trade and other payables | 3,523.8 | 3,716.8 |
| 231.8 | Current tax liabilities | 254.1 | 199.9 |
| 55.3 | Provisions | 30.7 | 9.5 |
| 817.6 | Derivative financial liabilities | 944.9 | 1,311.3 |
| <u>6,996.0</u> | Current liabilities | <u>5,586.4</u> | <u>5,638.7</u> |
| 5,537.0 | Loans and other borrowings | 5,307.8 | 5,451.4 |
| 921.8 | Deferred tax liabilities | 830.5 | 969.6 |
| 332.7 | Provisions | 190.5 | 174.2 |
| 182.3 | Trade and other payables | 459.1 | 228.6 |
| 731.9 | Retirement benefit obligations | 712.4 | 693.7 |
| 399.2 | Derivative financial liabilities | 505.4 | 533.3 |
| <u>8,104.9</u> | Non-current liabilities | <u>8,005.7</u> | <u>8,050.8</u> |
| <u>15,100.9</u> | Total liabilities | <u>13,592.1</u> | <u>13,689.5</u> |
| <u>4,584.1</u> | Net assets | <u>5,220.3</u> | <u>4,601.3</u> |
| Equity: | | | |
| 472.3 | Share capital | 478.9 | 468.9 |
| 862.0 | Share premium | 855.5 | 859.4 |
| 22.0 | Capital redemption reserve | 22.0 | 22.0 |
| (29.4) | Hedge reserve | (40.7) | (24.1) |
| (5.0) | Translation reserve | (31.8) | 12.4 |
| 2,100.8 | Retained earnings | 1,749.8 | 2,101.3 |
| <u>3,422.7</u> | Equity attributable to ordinary shareholders of the parent | <u>3,033.7</u> | <u>3,439.9</u> |
| 1,161.4 | Hybrid capital | 2,186.6 | 1,161.4 |
| <u>4,584.1</u> | Total equity attributable to equity holders of the parent | <u>5,220.3</u> | <u>4,601.3</u> |

Condensed Statement of Changes in Equity
for the period 1 April 2012 to 30 September 2012

| Reconciliation of movement in reserves | Share capital | Share premium account | Capital redemption reserve | Hedge reserve | Translation reserve | Retained earnings | Hybrid capital | Total |
|---|---------------|-----------------------|----------------------------|---------------|---------------------|-------------------|----------------|----------------|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| At 1 April 2012 | 472.3 | 862.0 | 22.0 | (29.4) | (5.0) | 2,100.8 | 1,161.4 | 4,584.1 |
| Profit for the period | - | - | - | - | - | 27.0 | - | 27.0 |
| Effective portion of changes in fair value of cash flow hedges (net of tax) | - | - | - | (8.2) | - | - | - | (8.2) |
| Effective net investment hedge (net of tax) | - | - | - | - | 16.7 | - | - | 16.7 |
| Exchange differences on translation of foreign operation | - | - | - | - | (43.5) | - | - | (43.5) |
| Actuarial loss on retirement benefit schemes (net of tax) | - | - | - | - | - | (21.6) | - | (21.6) |
| Jointly controlled entities and associates: | | | | | | | | |
| Share of change in fair value of effective cash flow hedges (net of tax) | - | - | - | (3.1) | - | - | - | (3.1) |
| Share of actuarial loss on retirement benefit schemes (net of tax) | - | - | - | - | - | (2.9) | - | (2.9) |
| Total comprehensive income for the period | - | - | - | (11.3) | (26.8) | 2.5 | - | (35.6) |
| Dividends to shareholders | - | - | - | - | - | (529.3) | - | (529.3) |
| Scrip dividend related share issue | 6.6 | (6.6) | - | - | - | 172.7 | - | 172.7 |
| Issue of shares | - | 0.1 | - | - | - | - | - | 0.1 |
| Issue of hybrid capital | - | - | - | - | - | - | 1,025.2 | 1,025.2 |
| Credit in respect of employee share awards | - | - | - | - | - | 7.0 | - | 7.0 |
| Investment in own shares | - | - | - | - | - | (3.9) | - | (3.9) |
| At 30 September 2012 | 478.9 | 855.5 | 22.0 | (40.7) | (31.8) | 1,749.8 | 2,186.6 | 5,220.3 |

| Reconciliation of movement in reserves | Share capital | Share premium account | Capital redemption reserve | Hedge reserve | Translation reserve | Retained earnings | Hybrid capital | Total |
|---|---------------|-----------------------|----------------------------|---------------|---------------------|-------------------|----------------|----------------|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| At 1 April 2011 | 468.4 | 859.8 | 22.0 | (1.2) | 38.2 | 2,652.2 | 1,161.4 | 5,200.8 |
| Loss for the period | - | - | - | - | - | (6.1) | - | (6.1) |
| Effective portion of changes in fair value of cash flow hedges (net of tax) | - | - | - | (1.9) | - | - | - | (1.9) |
| Transferred to balance sheet on cash flow hedges (net of tax) | - | - | - | 1.5 | - | - | - | 1.5 |
| Effective net investment hedge (net of tax) | - | - | - | - | 10.6 | - | - | 10.6 |
| Exchange differences on translation of foreign operation | - | - | - | - | (36.4) | - | - | (36.4) |
| Actuarial loss on retirement benefit schemes (net of tax) | - | - | - | - | - | (66.8) | - | (66.8) |
| Jointly controlled entities and associates: | | | | | | | | |
| Share of change in fair value of effective cash flow hedges (net of tax) | - | - | - | (22.5) | - | - | - | (22.5) |
| Share of actuarial loss on retirement benefit schemes (net of tax) | - | - | - | - | - | (2.3) | - | (2.3) |
| Total comprehensive income for the period | - | - | - | (22.9) | (25.8) | (75.2) | - | (123.9) |
| Dividends to shareholders | - | - | - | - | - | (492.0) | - | (492.0) |
| Scrip dividend related share issue | 0.5 | (0.5) | - | - | - | 11.9 | - | 11.9 |
| Issue of shares | - | 0.1 | - | - | - | - | - | 0.1 |
| Credit in respect of employee share awards | - | - | - | - | - | 6.8 | - | 6.8 |
| Investment in own shares | - | - | - | - | - | (2.4) | - | (2.4) |
| At 30 September 2011 | 468.9 | 859.4 | 22.0 | (24.1) | 12.4 | 2,101.3 | 1,161.4 | 4,601.3 |

Condensed Statement of Changes in Equity (continued)
for the period 1 April 2012 to 30 September 2012

| Reconciliation of movement in reserves | Share capital | Share premium account | Capital redemption reserve | Hedge reserve | Translation reserve | Retained earnings | Hybrid capital | Total |
|---|----------------------|------------------------------|-----------------------------------|----------------------|----------------------------|--------------------------|-----------------------|----------------|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| At 1 April 2011 | 468.4 | 859.8 | 22.0 | (1.2) | 38.2 | 2,652.2 | 1,161.4 | 5,200.8 |
| Profit for the year | - | - | - | - | - | 197.8 | 65.5 | 263.3 |
| Effective portion of changes in fair value of cash flow hedges (net of tax) | - | - | - | (11.3) | - | - | - | (11.3) |
| Transferred to balance sheet on cash flow hedges (net of tax) | - | - | - | 0.2 | - | - | - | 0.2 |
| Effective net investment hedge (net of tax) | - | - | - | - | 22.1 | - | - | 22.1 |
| Exchange differences on translation of foreign operation | - | - | - | - | (65.3) | - | - | (65.3) |
| Actuarial loss on retirement benefit schemes (net of tax) | - | - | - | - | - | (130.8) | - | (130.8) |
| Jointly controlled entities and associates: | | | | | | | | |
| Share of change in fair value of effective cash flow hedges (net of tax) | - | - | - | (17.1) | - | - | - | (17.1) |
| Share of actuarial loss on retirement benefit schemes (net of tax) | - | - | - | - | - | 1.7 | - | 1.7 |
| Total comprehensive income for the period | - | - | - | (28.2) | (43.2) | 68.7 | 65.5 | 62.8 |
| Dividends to shareholders | - | - | - | - | - | (716.9) | - | (716.9) |
| Scrip dividend related share issue | 3.6 | (3.6) | - | - | - | 88.2 | - | 88.2 |
| Distributions to hybrid capital holders | - | - | - | - | - | - | (65.5) | (65.5) |
| Issue of shares | 0.3 | 5.8 | - | - | - | - | - | 6.1 |
| Credit in respect of employee share awards | - | - | - | - | - | 13.5 | - | 13.5 |
| Investment in own shares | - | - | - | - | - | (4.9) | - | (4.9) |
| At 31 March 2012 | 472.3 | 862.0 | 22.0 | (29.4) | (5.0) | 2,100.8 | 1,161.4 | 4,584.1 |

Consolidated Condensed Cash Flow Statement
for the period 1 April 2012 to 30 September 2012

| Year ended 31 March 2012 £m | Six months ended 30 September 2012 £m | Six months ended 30 September 2011 £m |
|---|--|--|
| Cash flows from operating activities | | |
| 263.3 Profit / (loss) for the period (after tax) | 27.0 | (6.1) |
| 5.2 Taxation | (53.8) | (75.2) |
| 523.2 Movement on financing and operating derivatives | 335.7 | 363.7 |
| 425.7 Finance costs | 239.5 | 225.3 |
| (250.1) Finance income | (121.1) | (133.7) |
| (139.4) Share of profit of jointly controlled entities and associates | (72.0) | (57.2) |
| (100.2) Pension service charges less contributions paid | (42.4) | (57.8) |
| 551.6 Exceptional items | 88.7 | 13.1 |
| 561.8 Depreciation of assets | 274.0 | 260.3 |
| 13.5 Amortisation and impairment of intangible assets | 2.3 | 3.0 |
| 1.1 Impairment of inventories | - | - |
| (7.3) Release of provisions | - | (0.4) |
| (14.7) Release of deferred income | (6.9) | (16.2) |
| (107.3) (Increase) in inventories | (47.5) | (175.3) |
| (133.7) Decrease/(Increase) in receivables | 1,842.8 | 1,994.9 |
| 342.9 (Decrease)/increase in payables | (1,464.2) | (1,507.7) |
| 5.9 Increase in provisions | 6.1 | 1.8 |
| 13.5 Charge in respect of employee share awards | 7.0 | 6.8 |
| (4.6) Profit on disposal of property, plant and equipment | (0.2) | (6.3) |
| 2.1 Loss on disposal of fixed asset investment | - | - |
| (5.5) Profit on disposal of business and subsidiaries | - | - |
| 1,947.0 Cash generated from operations | 1,015.0 | 833.0 |
| 111.4 Dividends received from jointly controlled entities | 5.1 | 15.3 |
| 108.3 Finance income received | 53.0 | 61.0 |
| (242.2) Finance costs paid | (148.5) | (121.5) |
| (211.4) Income taxes paid | (10.6) | (121.8) |
| (4.9) Payment for consortium relief | - | (0.1) |
| 1,708.2 Net cash from operating activities | 914.0 | 665.9 |
| Cash flows from investing activities | | |
| (1,501.2) Purchase of property, plant and equipment | (575.6) | (667.7) |
| (400.9) Purchase of other intangible assets | (85.2) | (30.6) |
| 0.5 Deferred income received | - | - |
| 22.2 Proceeds from sale of property, plant and equipment | 0.2 | 21.5 |
| 23.5 Proceeds from sale of fixed asset investment | - | - |
| 185.5 Proceeds from sale of business and subsidiaries | - | 176.4 |
| (138.6) Loans to jointly controlled entities and associates | (65.6) | (59.3) |
| (3.6) Purchase of businesses and subsidiaries | (32.4) | (3.6) |
| - Cash acquired with purchase of subsidiaries | 4.9 | - |
| (3.9) Cash included in assets held for sale | - | - |
| 25.9 Loans and equity repaid by jointly controlled entities | 9.9 | 9.7 |
| (138.8) Investment in associates and jointly controlled entities | (8.1) | (107.2) |
| (2.1) Increase in other investments | (0.2) | (1.6) |
| (1,931.5) Net cash from investing activities | (752.1) | (662.4) |
| Cash flows from financing activities | | |
| 6.1 Proceeds from issue of share capital | 0.1 | 0.1 |
| (628.7) Dividends paid to company's equity holders | (356.6) | (480.1) |
| (65.5) Hybrid capital dividend payment | - | - |
| - Issue of new capital hybrid | 1,025.2 | - |
| (4.9) Employee share awards share purchase | (4.0) | (2.4) |
| 1,024.1 New borrowings | 481.0 | 515.4 |
| (393.0) Repayment of borrowings | (597.7) | (329.5) |
| (61.9) Net cash from financing activities | 548.0 | (296.5) |
| (285.2) Net increase/(decrease) in cash and cash equivalents | 709.9 | (293.0) |
| 471.6 Cash and cash equivalents at the start of period | 185.5 | 471.6 |
| (285.2) Net increase/(decrease) in cash and cash equivalents | 709.9 | (293.0) |
| (0.9) Effect of foreign exchange rate changes | (1.0) | (0.2) |
| 185.5 Cash and cash equivalents at the end of period | 894.4 | 178.4 |

Notes on the Condensed Interim Statements for the period 1 April 2012 to 30 September 2012

1. Condensed Financial Statements

SSE plc (the Company) is a company domiciled in Scotland. The condensed interim statements comprise those of the Company and its subsidiaries (together referred to as the Group).

The financial information set out in these condensed interim statements does not constitute the Group's statutory accounts for the periods ended 30 September 2012, 31 March 2012 or 30 September 2011 within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2012, which were prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS), have been reported on by the Group's auditors and delivered to the Registrar of Companies.

The report of the auditors was (i) unqualified (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under section 498 (2) or (3) of the Companies Act 2006. The interim financial information is unaudited but has been formally reviewed by the auditors and their report to the Company is set out on page 80.

The financial information set out in these interim statements has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and IAS 34 Interim Financial Reporting as adopted by the EU.

These interim statements were authorised by the Board on 13 November 2012.

2. Basis of preparation

These condensed interim statements for the period to 30 September 2012 and the comparative information for the period to 30 September 2011 have been prepared applying the accounting policies and presentation used in the Group's consolidated financial statements for the year ended 31 March 2012. Certain presentational restatements have been included that do not significantly alter the financial information presented.

At the date of authorisation of these condensed interim statements, the following amendments to existing standards and interpretations were effective for the current period but did not have a material impact on the condensed financial statements.

- IFRS 7 (amendment), Disclosures – Transfers of fixed assets; and,
- IFRS 1 (amendment), Severe Hyperinflation and Removal of Fixed dates for First-time Adopters

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management necessarily makes judgments and estimates that have a significant effect on the amounts recognised in the condensed financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the statements. The most critical of these accounting judgment and estimation areas are noted.

(i) Revenue recognition

Revenue on energy sales includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the period end. This will have been estimated by using historical consumption patterns and takes into consideration industry reconciliation processes for total consumption by supplier. At the balance sheet date, the estimated consumption by customers will either have been billed (estimated billed revenue) or accrued (unbilled revenue). Management apply judgment to the measurement of the quantum of the estimated consumption and to the valuation of that consumption. The judgments applied, and the assumptions underpinning these judgments are considered to be appropriate. However, a change in these assumptions would impact upon the amount of revenue recognised.

(ii) Retirement benefits

The assumptions in relation to the cost of providing post-retirement benefits during the period are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the earnings of the Group. The value of scheme assets is impacted by the asset ceiling test which restricts the surplus that can be recognised to assets that can be recovered fully through refunds or reductions in future contributions.

(iii) Impairment testing

The Group annually reviews the carrying amounts of the goodwill carried and also will review the carrying amount of other intangible assets and property, plant and equipment where indications of impairment exist to determine whether there is any indication that the value of those assets is impaired. The assumptions applied in the value-in-use and fair value less costs to sell reviews conducted for the year to 31 March 2012 have been reviewed and updated where required.

(iv) Provisions and contingencies

The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37. The evaluation of the likelihood of contingent events has required best judgement by management regarding the probability of exposure to potential liability. The Group and its related parties are currently subject to certain contractual claims and appropriate provision and disclosure has been made in relation to these disputed claims. Should circumstances change following unforeseeable developments, the Group may require to amend the extent of its provision or disclosures.

Notes on the Condensed Interim Statements for the period 1 April 2012 to 30 September 2012

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

(v) Decommissioning costs

The estimated costs of decommissioning at the end of the useful lives of the assets is reviewed periodically. Decommissioning costs in relation to gas exploration and production assets are based on expected lives of the fields and costs of decommissioning and are currently expected to be incurred predominantly between 2020 and 2030.

(vi) Gas and liquids reserves

The volume of proven and probable gas and liquids reserves is an estimate that affects the unit of production depreciation of producing gas and liquids property, plant and equipment. This is also a significant input estimate to the associated impairment and decommissioning calculations. The impact of a change in estimated proven and probable reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If proven and probable reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

4. Seasonality of operations

Certain activities of the Group are affected by weather and temperature conditions and seasonal market price fluctuations. As a result of this, the amounts reported for the interim period may not be indicative of the amounts that will be reported for the full year due to seasonal fluctuations in customer demand for gas, electricity and services, the impact of weather on demand, renewable generation output and commodity prices, market changes in commodity prices and changes in retail tariffs. In Networks, the volumes of electricity and gas distributed or transmitted across network assets are dependent on levels of customer demand which are generally higher in winter months. In Retail, notable seasonal effects include the impact on customer demand of warmer temperatures in the first half of the financial year. In Wholesale, there is the impact of lower customer demand on commodity prices, the weather impact on renewable generation such as hydro and wind and other seasonal effects. The impact of temperature on customer demand for gas is more volatile than the equivalent demand for electricity. Other businesses are not considered to be seasonal in nature.

5. Change of Reportable Segments

In the financial statements to 31 March 2012, the composition of the Group's Reportable Segments changed. This followed changes to the structure of the Group's internal organisation, and subsequent changes to the way in which financial and management information has been presented to both the Main Board and Management Board. The main changes to the segments were:

Power Systems, previously split on a geographical basis, is now presented as Electricity Distribution and Electricity Transmission. The Electricity Connections activity is now included in Electricity Distribution.

Generation and Supply, previously a single reportable segment, is now reported as two new main segments, (i) Energy Supply and (ii) Electricity Generation and Energy Portfolio Management, reflecting the management structure and the change in basis of management reporting. Other activities previously included in this segment, such as other energy-related services provided to end-user customers, are disclosed in Energy-related Services.

The Other businesses segments, previously disclosed as an aggregation of less significant activities are now disclosed in the segment which corresponds to the Group's new management structure, excepting corporate costs which remain unallocated. These new segments include Other Networks, Gas Storage and Gas Production.

The impact of the change in the segments on the comparative period results to September 2011 can be summarised as follows:

(a) Revenue

The Revenue by segment disclosure note for the period to September 2011 was as follows:

| | External revenue £m | Intra-segment revenue £m | Total revenue £m |
|------------------------------|---------------------------|--------------------------------|------------------------|
| Power Systems | | | |
| Scotland | 136.7 | 47.8 | 184.5 |
| England | 144.5 | 84.9 | 229.4 |
| | 281.2 | 132.7 | 413.9 |
| Generation and Supply | | | |
| Retail | 3,169.0 | 3.8 | 3,172.8 |
| Wholesale and Trading | 7,981.4 | 8.4 | 7,989.8 |
| Other | 87.1 | 1.0 | 88.1 |
| | 11,237.5 | 13.2 | 11,250.7 |
| Other businesses | 272.1 | 260.0 | 532.1 |
| | 11,790.8 | 405.9 | 12,196.7 |

Notes on the Condensed Interim Statements
for the period 1 April 2012 to 30 September 2012

5. Change of Reportable Segments (continued)

(a) Revenue (continued)

Following the change in the composition of segments, this has been restated as follows:

| | External revenue £m | Intra-segment revenue £m | Total revenue £m |
|---|---------------------------|--------------------------------|------------------------|
| Networks | | | |
| Electricity Distribution | 244.3 | 132.8 | 377.1 |
| Electricity Transmission | 57.7 | 0.1 | 57.8 |
| Other Networks | 99.7 | 70.5 | 170.2 |
| | 401.7 | 203.4 | 605.1 |
| Retail | | | |
| Energy Supply | 3,132.9 | 5.6 | 3,138.5 |
| Energy-related Services | 164.8 | 51.8 | 216.6 |
| | 3,297.7 | 57.4 | 3,355.1 |
| Wholesale | | | |
| Energy Portfolio Management and Electricity Generation | 8,050.4 | 1,807.0 | 9,857.4 |
| Gas Storage | 14.9 | 31.3 | 46.2 |
| Gas Production | 1.3 | 46.8 | 48.1 |
| | 8,066.6 | 1,885.1 | 9,951.7 |
| Corporate unallocated | 24.8 | 87.5 | 112.3 |
| Total | 11,790.8 | 2,233.4 | 14,024.2 |

The increase in intra-segment revenue relates to electricity and gas provided to Energy Supply from the Energy Portfolio Management and Electricity Generation segment (£1,827.5m).

(b) Operating profit by segment

The Operating Profit by segment disclosure note for the period to September 2011 was as follows:

| | Adjusted operating profit reported to the Board £m | JCE / Associate share of interest and tax £m | Before exceptional items and certain re-measurements £m | Exceptional items and certain re- measurements £m | Total £m |
|------------------------------|--|---|--|---|--------------|
| Power Systems | | | | | |
| Scotland | 93.6 | - | 93.6 | - | 93.6 |
| England | 112.2 | - | 112.2 | - | 112.2 |
| | 205.8 | - | 205.8 | - | 205.8 |
| Scotia Gas Networks | 114.6 | (82.1) | 32.5 | 25.2 | 57.7 |
| Energy Systems | 320.4 | (82.1) | 238.3 | 25.2 | 263.5 |
| Generation and Supply | 58.8 | (7.8) | 51.0 | (361.4) | (310.4) |
| Other businesses | 77.2 | (0.1) | 77.1 | - | 77.1 |
| | 456.4 | (90.0) | 366.4 | (336.2) | 30.2 |
| Unallocated expenses | (4.5) | - | (4.5) | - | (4.5) |
| | 451.9 | (90.0) | 361.9 | (336.2) | 25.7 |

Notes on the Condensed Interim Statements
for the period 1 April 2012 to 30 September 2012

5. Change of Reportable Segments (continued)

(b) Operating profit by segment

Following the change in the composition of segments, this has been restated as follows:

| | Adjusted operating profit reported to the Board £m | JCE / Associate share of interest and tax £m | Before exceptional items and certain re-measurements £m | Exceptional items and certain re- measurements £m | Total £m |
|---|--|---|--|---|----------------|
| Networks | | | | | |
| Electricity Distribution | 163.5 | - | 163.5 | - | 163.5 |
| Electricity Transmission | 37.8 | - | 37.8 | - | 37.8 |
| Gas Distribution | 114.6 | (82.1) | 32.5 | 25.2 | 57.7 |
| Other Networks | 19.1 | - | 19.1 | - | 19.1 |
| | 335.0 | (82.1) | 252.9 | 25.2 | 278.1 |
| Retail | | | | | |
| Energy Supply | (133.7) | - | (133.7) | - | (133.7) |
| Energy-related Services | 32.3 | (0.1) | 32.2 | - | 32.2 |
| | (101.4) | (0.1) | (101.5) | - | (101.5) |
| Wholesale | | | | | |
| Energy Portfolio Management and Electricity Generation | 189.1 | (7.8) | 181.3 | (361.4) | (180.1) |
| Gas Storage | 15.4 | - | 15.4 | - | 15.4 |
| Gas Production | 17.3 | - | 17.3 | - | 17.3 |
| | 221.8 | (7.8) | 214.0 | (361.4) | (147.4) |
| Corporate unallocated | (3.5) | - | (3.5) | - | (3.5) |
| Total | 451.9 | (90.0) | 361.9 | (336.2) | 25.7 |

6. Segmental information

The Group's operating segments are those used internally by the Board to run the business and make strategic decisions. The Group's main businesses and operating segments are the **Networks** business comprising Electricity Distribution, Electricity Transmission, Gas Distribution and Other Networks; the **Retail** business comprising Energy Supply and Energy-related Services, and; **Wholesale** comprising Energy Portfolio Management and Electricity Generation, Gas Storage and Gas Production.

The types of products and services from which each reportable segment derives its revenues are:

| Segment | Geographical location | Description |
|------------------|--|---|
| Networks | Electricity Distribution | The economically regulated lower voltage distribution of electricity to customer premises in the North of Scotland and the South of England |
| | Electricity Transmission | The economically regulated high voltage transmission of electricity from generating plant to the distribution network in the North of Scotland |
| | Gas Distribution | SSE's share of Scotia Gas Networks, which operates two economically regulated gas distribution networks in Scotland and the South of England |
| | Other Networks | Operation of other networks and services including telecoms capacity and bandwidth, out-of-area local networks in the UK and streetlighting services in the UK and Ireland |
| Retail | Energy Supply | The supply of electricity and gas to residential and business customers in the UK and Ireland |
| | Energy-related Services | The provision of energy-related goods and services to customers in the UK including electrical contracting, meter reading and installation, telecommunication and broadband services, boiler maintenance and installation and the sale of electrical appliances |
| Wholesale | Energy Portfolio Management and Electricity Generation | The generation of power from renewable and thermal plant in the UK, Ireland and Europe and the optimisation of SSE's power and gas contracts and requirements |
| | Gas Storage | The operation of gas storage facilities in the UK |
| | Gas Production | The production and processing of gas and oil from North Sea fields |

The measure of profit used by the Board is adjusted operating profit which is before exceptional items, the impact of financial instruments measured under IAS 39 and after the removal of taxation and interest on profits from jointly controlled entities and associates.

Analysis of revenue, operating profit, assets and other items by segment is provided below. All revenue and profit before taxation arise from operations within the United Kingdom, Ireland and mainland Europe.

Notes on the Condensed Interim Statements
for the period 1 April 2012 to 30 September 2012

6. Segmental information (continued)

a) Revenue by segment

| Year ended 31 March 2012 | | | Six months ended 30 September 2012 | | |
|--------------------------|-----------------------|-----------------|------------------------------------|-----------------------|-----------------|
| External revenue | Intra-segment revenue | Total revenue | External revenue | Intra-segment revenue | Total revenue |
| £m | £m | £m | £m | £m | £m |
| Networks | | | | | |
| 542.1 | 336.9 | 879.0 | 280.8 | 156.3 | 437.1 |
| 117.7 | 0.1 | 117.8 | 68.6 | - | 68.6 |
| 249.0 | 49.4 | 298.4 | 95.0 | 61.2 | 156.2 |
| 908.8 | 386.4 | 1,295.2 | 444.4 | 217.5 | 661.9 |
| Retail | | | | | |
| 7,787.3 | 23.1 | 7,810.4 | 3,325.6 | 10.9 | 3,336.5 |
| 280.4 | 184.8 | 465.2 | 163.7 | 51.6 | 215.3 |
| 8,067.7 | 207.9 | 8,275.6 | 3,489.3 | 62.5 | 3,551.8 |
| Wholesale | | | | | |
| 22,664.2 | 4,447.5 | 27,111.7 | 7,434.3 | 1,575.9 | 9,010.2 |
| 30.3 | 51.9 | 82.2 | 11.8 | 35.6 | 47.4 |
| 3.0 | 99.3 | 102.3 | 1.2 | 44.6 | 45.8 |
| 22,697.5 | 4,598.7 | 27,296.2 | 7,447.3 | 1,656.1 | 9,103.4 |
| 49.9 | 264.3 | 314.2 | 23.2 | 98.6 | 121.8 |
| 31,723.9 | 5,457.3 | 37,181.2 | 11,404.2 | 2,034.7 | 13,438.9 |

Revenue from the Group's investment in Scotia Gas Networks Limited, the Group's share being £230.9m (September 2011 - £222.2m, March 2012 - £454.3m), is not recognised as revenue of the Group under equity accounting.

b) Operating profit by segment

| | Six months ended 30 September 2012 | | | | Total £m |
|--|--|--|---|--|----------------|
| | Adjusted operating profit reported to the Board £m | JCE / Associate share of interest and tax (i) £m | Before exceptional items and certain re-measurements £m | Exceptional items and certain re-measurements £m | |
| Networks | | | | | |
| Electricity Distribution | 213.4 | - | 213.4 | - | 213.4 |
| Electricity Transmission | 48.7 | - | 48.7 | - | 48.7 |
| Gas Distribution | 122.7 | (82.7) | 40.0 | 23.7 | 63.7 |
| Other Networks | 14.7 | - | 14.7 | - | 14.7 |
| | 399.5 | (82.7) | 316.8 | 23.7 | 340.5 |
| Retail | | | | | |
| Energy Supply | 48.7 | - | 48.7 | - | 48.7 |
| Energy-related Services | 27.0 | - | 27.0 | - | 27.0 |
| | 75.7 | - | 75.7 | - | 75.7 |
| Wholesale | | | | | |
| Energy Portfolio Management and Electricity Generation | 99.8 | (16.1) | 83.7 | (367.5) | (283.8) |
| Gas Storage | 6.9 | - | 6.9 | - | 6.9 |
| Gas Production | 16.5 | - | 16.5 | - | 16.5 |
| | 123.2 | (16.1) | 107.1 | (367.5) | (260.4) |
| Corporate unallocated | (7.3) | - | (7.3) | - | (7.3) |
| Total | 591.1 | (98.8) | 492.3 | (343.8) | 148.5 |

Notes on the Condensed Interim Statements
for the period 1 April 2012 to 30 September 2012

6. Segmental information (continued)

b) Operating profit by segment (continued)

| | Year ended 31 March 2012 | | | | | Total £m |
|---|--|---|---|---|----------------|-------------|
| | Adjusted operating profit reported to the Board £m | JCE / Associate share of interest and tax (i) £m | Before exceptional items and certain re- measurements £m | Exceptional items and certain re- measurements £m | | |
| Networks | | | | | | |
| Electricity Distribution | 396.5 | - | 396.5 | - | 396.5 | |
| Electricity Transmission | 73.7 | - | 73.7 | - | 73.7 | |
| Gas Distribution | 234.8 | (164.5) | 70.3 | 48.5 | 118.8 | |
| Other Networks | 32.1 | - | 32.1 | - | 32.1 | |
| | 737.1 | (164.5) | 572.6 | 48.5 | 621.1 | |
| Retail | | | | | | |
| Energy Supply | 271.7 | - | 271.7 | (20.0) | 251.7 | |
| Energy-related Services | 49.9 | (0.2) | 49.7 | (40.0) | 9.7 | |
| | 321.6 | (0.2) | 321.4 | (60.0) | 261.4 | |
| Wholesale | | | | | | |
| Energy Portfolio Management and Electricity Generation | 541.5 | (26.7) | 514.8 | (869.3) | (354.5) | |
| Gas Storage | 23.8 | - | 23.8 | (30.0) | (6.2) | |
| Gas Production | 42.6 | - | 42.6 | (22.0) | 20.6 | |
| | 607.9 | (26.7) | 581.2 | (921.3) | (340.1) | |
| Corporate unallocated | (8.8) | - | (8.8) | - | (8.8) | |
| Total | 1,657.8 | (191.4) | 1,466.4 | (932.8) | 533.6 | |

(i) The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives and tax from jointly controlled entities and associates and after adjusting for exceptional items and certain re-measurements (note 7). The share of Scotia Gas Networks Limited interest includes loan stock interest payable to the consortium shareholders. The Group has accounted for its 50% share of this, £16.7m (2011 - £16.7m, March 2012 - £33.4m), as finance income (note 8).

7. Exceptional items and certain re-measurements

| Year ended 31 March 2012 £m | | Six months ended 30 September 2012 £m | Six months ended 30 September 2011 £m |
|---|--|---|---|
| | Exceptional items (i) | | |
| (478.6) | Impairments and other charges | (111.2) | - |
| (73.0) | Provisions for onerous contracts, restructuring and other liabilities | 22.5 | (13.1) |
| 42.0 | Share of effect of change in UK corporation tax rate on deferred tax liabilities and assets of associate and joint venture investments | 19.8 | 18.3 |
| (509.6) | | (68.9) | 5.2 |
| | Certain re-measurements (ii) | | |
| (433.7) | Movement on operating derivatives (note 16) | (278.8) | (348.3) |
| (89.5) | Movement on financing derivatives (note 16) | (56.9) | (15.4) |
| 10.5 | Share of movements on derivatives in jointly controlled entities (net of tax) | 3.9 | 6.9 |
| (512.7) | | (331.8) | (356.8) |
| (1,022.3) | Impact on (loss)/profit before taxation | (400.7) | (351.6) |
| | Exceptional items (i) | | |
| 45.7 | Effect of change in UK corporation tax rate on deferred tax liabilities and assets | 23.2 | 37.4 |
| 137.4 | Taxation on exceptional items | 30.3 | 3.4 |
| | | 53.5 | 40.8 |
| | Certain re-measurements (ii) | | |
| 136.5 | Taxation on certain re-measurements | 71.3 | 94.5 |
| 319.6 | Taxation | 124.8 | 135.3 |
| (702.7) | Impact on (loss)/profit for the period/year | (275.9) | (216.3) |

Notes on the Condensed Interim Statements for the period 1 April 2012 to 30 September 2012

7. Exceptional items and certain re-measurements (continued)

i) Exceptional items

Impairments and other charges. In the period to September 2012, the Group recognised current asset impairments and other related charges in relation to the settlement of certain claims associated with the outage at Medway power station in 2008/09 (£42.5m). In addition, the group recognised charges in relation to carbon dioxide emissions allowances purchased to cover the emissions liabilities at the group's thermal plants (£68.7m).

Provisions for onerous contracts, restructuring and other liabilities. On review of the Group's provisions at 30 September 2012, certain provisions for onerous contracts were released and other provisions for potential contractual settlement were recognised (net £22.5m credit).

Changes in UK corporation tax rates. The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate would reduce from 28% to 24% over a period of four years starting in 2011. The March 2011 Budget accelerated the reductions and the March 2012 Budget confirmed a further acceleration of the reduction in rate to 24% effective from 1 April 2012. The Finance Act 2012 confirmed the reduction to 23% as being effective from 1 April 2013. This was substantively enacted on 17 July 2012. A revised rate of 22% is expected to be enacted by 2014.

As the rate change to 23% has been substantively enacted it has the effect of reducing the group's net deferred tax liabilities recognised at 30 September 2012 by £23.2m (March 2012 - £45.7m). It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction due to legislation not being enacted, although this will further reduce the Group's future current tax charge and the reduce the Group's deferred tax liabilities/assets accordingly.

In the previous financial year, the following exceptional items were recorded:

Exceptional charges were recognised in relation to the impairment of goodwill (£49.3m), property, plant and equipment (£305.1m), current receivables (£5.0m), held for sale assets (£9.9m) and intangible assets (£109.3m). These were recognised as a result of the long-term view of spark spreads at Medway and Keadby, leading to a change the way in which the plants are operationally configured, and also following the goodwill impairment review of the Gas Storage CGU and updated development expectations associated with legacy Metering assets (£30.0m) and North Sea exploration assets (£22.0m). In addition, further impairment charges in respect of the station running hours at Ferrybridge and in respect of the future prospects for the European wind portfolio were recognised. Carbon dioxide emissions allowances recognised as intangible assets purchased to cover the emissions liabilities at the Group's thermal plants were impaired based on prevailing market prices.

Exceptional charges were also recognised in relation to commodity contracts associated with thermal Generation assets (£37.4m). In addition costs associated with Retail restructuring and the impairment of other financial assets (£35.6m) were recognised as exceptional in the year to 31 March 2012. Of these charges, £13.1m was recognised in the period to 30 September 2011.

ii) Certain re-measurements

Certain re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category includes the movement on derivatives as described in note 16. Only certain of the Group's energy commodity contracts are deemed to constitute financial instruments under IAS 39. As a result, while the Group manages the commodity price risk associated with both financial and non-financial commodity contracts, it is only commodity contracts that are designated as financial instruments under IAS 39 that are accounted for on a fair value basis with changes in fair value reflected in profit (as part of 'certain re-measurements') or equity. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts.

Notes on the Condensed Interim Statements
for the period 1 April 2012 to 30 September 2012

8. Net finance costs

| Year ended 31 March 2012 £m | Six months ended 30 September 2012 £m | Six months ended 30 September 2011 £m |
|--|--|--|
| Finance income: | | |
| 147.4 Return on pension scheme assets | 66.1 | 72.7 |
| 2.0 Interest income from short term deposits | - | 1.4 |
| Other interest receivable: | | |
| 33.4 Scotia Gas Networks loan stock | 16.7 | 16.7 |
| 23.8 Other jointly controlled entities and associates | 12.5 | 12.2 |
| 43.5 Other receivable | 23.8 | 30.7 |
| 100.7 Other interest receivable | 53.0 | 59.6 |
| - Foreign exchange translation of monetary assets and liabilities | 2.0 | - |
| 250.1 Total finance income | 121.1 | 133.7 |
| Finance costs: | | |
| (25.0) Bank loans and overdrafts | (12.8) | (10.6) |
| (280.3) Other loans and charges | (161.1) | (150.0) |
| (149.8) Interest on pension scheme liabilities | (70.8) | (74.6) |
| (7.8) Notional interest arising on provisions | (3.3) | (3.6) |
| (38.4) Finance lease charges | (18.5) | (19.2) |
| (0.3) Foreign exchange translation of monetary assets and liabilities | - | (0.1) |
| 75.9 Less: interest capitalised | 27.0 | 32.8 |
| Finance costs excluding movement on financing derivatives and exceptional items | | |
| (425.7) Movement on financing derivatives and exceptional items | (239.5) | (225.3) |
| (89.5) Movement on financing derivatives and exceptional items | (56.9) | (15.4) |
| (265.1) Net finance costs | (175.3) | (107.0) |

Adjusted net finance costs are arrived at after the following adjustments:

| Year ended 31 March 2012 £m | Six months ended 30 September 2012 £m | Six months ended 30 September 2011 £m |
|---|--|--|
| (265.1) Net finance costs | (175.3) | (107.0) |
| (add)/less: | | |
| Share of interest from jointly controlled entities and associates | | |
| (33.4) Scotia Gas Networks loan stock | (16.7) | (16.7) |
| (113.1) Other jointly controlled entities and associates | (58.5) | (56.2) |
| (146.5) | (75.2) | (72.9) |
| - Exceptional charges | - | - |
| 89.5 Movement on financing derivatives (note 16) | 56.9 | 15.4 |
| (322.1) Adjusted net finance costs | (193.6) | (164.5) |
| (147.4) Return on pension scheme assets | (66.1) | (72.7) |
| 149.8 Interest on pension scheme liabilities | 70.8 | 74.6 |
| 7.8 Notional interest arising on discounted provisions | 3.3 | 3.6 |
| 38.4 Finance lease charges | 18.5 | 19.2 |
| (65.5) Hybrid coupon payment | - | - |
| (339.0) Adjusted net finance costs for interest cover calculations | (167.1) | (139.8) |

Notes on the Condensed Interim Statements
for the period 1 April 2012 to 30 September 2012

9. Taxation

The income tax expense reflects the anticipated effective rate of tax on profits before taxation for the Group for the year ending 31 March 2013, taking account of the movement in the deferred tax provision in the period so far as it relates to items recognised in the income statement. The reported tax rate on the profit before tax before exceptional items and certain re-measurements is 18.9% (2011 – 22.2%, March 2012 – 28.3%). The reported tax rate on the loss before tax after exceptional items, including the effect of the change in tax rate, and certain re-measurements was 200.7% (2011 – 92.5%, March 2012 – 1.9%).

The effect of the substantively enacted change in rate of UK corporation tax effective from 1 April 2013 has been treated as an exceptional item. The total adjusted effective rate of tax on profits before taxation excluding exceptional items, certain re-measurements and adjusted for tax on associates and jointly controlled entities for the period can be represented as follows:

| Year ended 31 March 2012 | | Six months ended 30 September 2012 | Six months ended 30 September 2011 |
|---------------------------------|--------------|--|--|
| Adjusted effective rate: | | | |
| 16.0% | Current tax | 16.1% | 18.1% |
| 9.2% | Deferred tax | 7.7% | 8.8% |
| <u>25.2%</u> | | <u>23.8%</u> | <u>26.9%</u> |

10. Dividends

Ordinary dividends

| Year ended 31 March 2012 | Total £m | Settled via scrip £m | Pence per ordinary share | | Six months ended 30 September 2012 | Settled via scrip £m | Pence per ordinary share | Six months ended 30 September 2011 | Total £m | Settled via scrip £m | Pence per ordinary share |
|--------------------------------|-------------|----------------------------|--------------------------------|------------------------------------|--|----------------------------|--------------------------------|--|-------------|----------------------------|--------------------------------|
| - | - | - | - | Final – year ended 31 March 2012 | 529.3 | 172.7 | 56.1 | - | - | - | - |
| 224.8 | 76.3 | 24.0 | - | Interim – year ended 31 March 2012 | - | - | - | - | - | - | - |
| 492.0 | 11.9 | 52.6 | - | Final – year ended 31 March 2011 | - | - | - | 492.0 | 11.9 | 52.6 | |
| <u>716.9</u> | <u>88.2</u> | | | | <u>529.3</u> | <u>172.7</u> | | <u>492.0</u> | <u>11.9</u> | | |

The final dividend of 56.1p per ordinary share declared in the financial year ended 31 March 2012 (2011 – 52.6p) was approved at the Annual General Meeting on 26 July 2012 and was paid to shareholders on 21 September 2012. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the interim cash dividend under the terms of the Company's scrip dividend scheme.

An interim dividend of 25.2p per ordinary share (2011 – 24.0p) has been proposed and is due to be paid on 22 March 2013 to those shareholders on the SSE plc share register on 23 January 2013. The proposed interim dividend has not been included as a liability in these financial statements. A scrip dividend will be offered as an alternative.

Notes on the Condensed Interim Statements
for the period 1 April 2012 to 30 September 2012

11. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 September 2012 is based on the net profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period ended 30 September 2012. All earnings are from continuing operations.

Adjusted earnings per share

Adjusted earnings per share has been calculated by excluding the charge for deferred tax and the impact of exceptional items and certain re-measurements.

| Year ended 31 March 2012 | | Six months ended 30 September 2012 | | Six months ended 30 September 2011 | |
|-----------------------------|--------------------------------|--|--------------------------------|--|--------------------------------|
| Earnings per share £m | Earnings per share pence | Earnings per share £m | Earnings per share pence | Earnings per share £m | Earnings per share pence |
| 197.8 | 21.1 | 27.0 | 2.9 | (6.1) | (0.7) |
| 702.7 | 74.9 | 275.9 | 29.2 | 216.3 | 23.1 |
| | | | | | |
| 900.5 | 96.0 | 302.9 | 32.1 | 210.2 | 22.4 |
| | | | | | |
| 122.9 | 13.1 | 8.6 | 0.9 | 8.2 | 0.9 |
| | | | | | |
| 33.4 | 3.6 | 22.0 | 2.3 | 17.0 | 1.8 |
| 1,056.8 | 112.7 | 333.5 | 35.3 | 235.4 | 25.1 |
| | | | | | |
| 197.8 | 21.1 | 27.0 | 2.9 | (6.1) | (0.7) |
| - | - | - | - | - | - |
| 197.8 | 21.1 | 27.0 | 2.9 | (6.1) | (0.7) |

The weighted average number of shares used in each calculation is as follows:

| Year ended 31 March 2012 | Number of shares (millions) | Six months ended 30 September 2012 | Number of shares (millions) | Six months ended 30 September 2011 | Number of shares (millions) |
|--------------------------------|---|---|-----------------------------------|---|-----------------------------------|
| 937.8 | For basic and adjusted earnings per share | 945.4 | | 937.0 | |
| 1.5 | Effect of exercise of share options | 1.8 | | 1.7 | |
| 939.3 | | 947.2 | | 938.7 | |

12. Acquisitions, disposals and assets held for sale

i. Acquisitions

During the interim period the Group acquired a number of businesses, the most significant of which was the acquisition of the Phoenix gas supply in Northern Ireland on 22 June 2012. Total cash consideration paid for these businesses was £32.4m and assets acquired included cash balances of £4.9m.

ii. Assets held for sale

The assets relating to certain wind farm and other investments are presented as held for sale. Assets held for sale are made up as follows:

| | £m |
|---|-------------|
| Property, plant and equipment | 16.5 |
| Investment in jointly controlled entities | 57.3 |
| Other assets and liabilities | (1.1) |
| | <u>72.7</u> |

There were no significant cashflows or amounts recognised in the statement of comprehensive income relating to these assets held for sale.

Notes on the Condensed Interim Statements
for the period 1 April 2012 to 30 September 2012

13. Loans and other borrowings

| March 2012 £m | | September 2012 £m | September 2011 £m |
|---------------------|-----------------------------------|-------------------------|-------------------------|
| | Current | | |
| 3.7 | Bank overdraft | - | 5.3 |
| 693.1 | Other short-term loans | 819.3 | 383.5 |
| 11.8 | Obligations under finance leases | 13.6 | 12.4 |
| <u>708.6</u> | | <u>832.9</u> | <u>401.2</u> |
| | Non current | | |
| 5,206.7 | Loans | 4,985.1 | 5,115.2 |
| 330.3 | Obligations under finance leases | 322.7 | 336.2 |
| <u>5,537.0</u> | | <u>5,307.8</u> | <u>5,451.4</u> |
| 6,245.6 | Total loans and borrowings | 6,140.7 | 5,852.6 |
| (189.2) | Cash and cash equivalents | (894.4) | (183.7) |
| <u>6,056.4</u> | Net debt | <u>5,246.3</u> | <u>5,668.9</u> |

The Group has a £900m revolving credit facility and a £100m bilateral facility, both of which mature in August 2015. These facilities continue to act as a liquidity backstop to the Group's Commercial Paper programme. As at 30 September 2012 there were no outstanding drawings on these facilities.

On 14 April 2012 the Group received proceeds of \$700m (£446m) from a US private placement. The senior notes consist of four tranches with a weighted average maturity of 10.3 years and an all in funding cost of around 4.25% once swapped to sterling.

14. Hybrid Capital

| March 2012 £m | | September 2012 £m | September 2010 £m |
|---------------------|--|-------------------------|-------------------------|
| | Perpetual subordinated capital securities | | |
| 744.5 | GBP 750m 5.453% issued 20 September 2010 | 744.5 | 744.5 |
| 416.9 | EUR 500m 5.025% issued 20 September 2010 | 416.9 | 416.9 |
| - | USD 700m 5.625% issued 18 September 2012 | 427.1 | - |
| - | EUR 750m 5.625% issued 18 September 2012 | 598.1 | - |
| <u>1,161.4</u> | | <u>2,186.6</u> | <u>1,161.4</u> |

On 18 September 2012 the Company issued €750m EUR and \$700m USD bonds (hybrid capital). This added to the GBP and EUR hybrid capital bonds that were issued in 20 September 2010. Each bond has no fixed redemption date but the Company may, at its sole discretion, redeem all, but not part, of these capital securities at their principal amount. The date for the discretionary redemption of the capital issued on 20 September 2012 is 1 October 2017 and every five years thereafter. The 20 September 2010 issued capital may be redeemed fully (not in part) at their principal amounts on 1 October 2015 or 1 October 2020 or any subsequent coupon payment date. In addition, under certain circumstances defined in the terms and conditions of the issue, the Company may at its sole discretion redeem all (but not part of) the bonds at their principal amount at any time prior to 1 October 2017 (for the 18 September 2012 securities) or at any time prior to 1 October 2015 (for the 20 September 2010 securities).

The Company has the option to defer coupon payments on the bonds on any relevant payment date, as long as a dividend on the ordinary shares has not been declared. Deferred coupons shall be satisfied only in the following circumstances, all of which occur at the sole option of the Company: (i) redemption of the bond; or, (ii) dividend payment made in respect of ordinary shares. Interest will accrue on any deferred coupon.

For the capital issued on 20 September 2010 and the EUR 750m capital issued on 18 September 2012, coupon payments are expected to be made annually in arrears on 1 October in each year. For the USD 700m capital issued on 18 September 2012, coupon payments are expected to be made bi-annually in arrears on 1 April and 1 October each year. The purpose of both issues was to strengthen SSE's capital base and to fund the Group's ongoing capital investment and acquisitions.

Notes on the Condensed Interim Statements
for the period 1 April 2012 to 30 September 2012

15. Share capital

| | Number (millions) | £m |
|---------------------------------------|----------------------|--------------|
| Equity: Ordinary shares of 50p each: | | |
| Authorised: | | |
| At 30 September 2012 and 1 April 2012 | 1,200.0 | 600.0 |
| | | |
| Allotted, called up and fully paid: | | |
| At 1 April 2012 | 944.7 | 472.3 |
| Issue of shares | 13.2 | 6.6 |
| At 30 September 2012 | 957.9 | 478.9 |

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

Shareholders were able to elect to receive ordinary shares in place of the final dividend of 56.1p per ordinary share under the terms of the Company's scrip dividend scheme. This resulted in the issue of 13,213,634 new fully paid ordinary shares.

The Company issued 14,152 shares (2011 – 13,658, March 2012 – 584,178) during the period under the savings-related share option schemes, and discretionary share option schemes for a consideration of £0.14m (2011 - £0.14m, March 2012 - £6.1m).

During the period, on behalf of the Company, the employee share trust purchased 0.3 million shares (2011 – 0.2 million, March 2012 – 0.4 million) for a consideration of £4.0m (2011 – £2.4m, March 2012 – £4.9m) to be held in trust for the benefit of employee share schemes.

16. Financial Instruments and Risk

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Risk and Trading Committee, a standing committee of the Board comprising three executive directors and senior managers from the Energy Portfolio Management and Finance functions, oversees the control of these activities and reports to the Management Board.

The Group's policies for risk management are established to identify the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies, and the systems used to monitor activities, are reviewed regularly by the Risk and Trading Committee.

The Group is exposed to the following risks from its use of financial instruments: Credit Risk, Liquidity Risk, Commodity Risk, Currency Risk and Interest Rate risk. In the six months to 30 September 2012, the Group continued to be exposed to difficult economic conditions. In reference to credit risk, the impairment provision for credit losses remained at the same level as March 2012. The Group has continued to commit significant internal resource to managing credit risk in the period.

The Group's policy in relation to liquidity risk continues to be to ensure, in so far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. This, combined with liquidity in the commercial paper market and the Group's undrawn bank borrowing facilities, has enabled the directors to conclude that the Group has sufficient headroom to continue as a going concern. Having raised new funds through the issue of a \$700m US private placement in April 2012 and the issue of new hybrid capital in tranches of €750m and US\$700m (combined £1,025.2m) in September 2012, the Group has no requirement to issue new medium to long term debt in the remainder of the current financial year but may choose to do so at its discretion.

Exposure to the commodity, currency and interest rate risks noted arise in the normal course of the Group's business and derivative financial instruments are entered into to hedge exposure to these risks. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year remain as stated in the Group's financial statements at March 2012.

For financial reporting purposes, the Group has classified derivative financial instruments into two categories, operating derivatives and financing derivatives. Operating derivatives relate to qualifying commodity contracts which includes certain contracts for electricity, gas, oil, coal and carbon. Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts. Non-hedge accounted contracts are treated as held for trading.

Notes on the Condensed Interim Statements
for the period 1 April 2012 to 30 September 2012

16. Financial Instruments and Risk (continued)

The net movement reflected in the interim income statement can be summarised thus:

| Year ended 31 March 2012 £m | | Six months ended 30 September 2012 £m | Six months ended 30 September 2011 £m |
|--------------------------------------|---|---|---|
| | Operating derivatives | | |
| 142.0 | Total result on operating derivatives (i) | 226.9 | 246.0 |
| (575.7) | Less: amounts settled (ii) | (505.7) | (594.3) |
| (433.7) | Movement in unrealised derivatives | (278.8) | (348.3) |
| | Financing derivatives (and hedged items) | | |
| (1,288.7) | Total result on financing derivatives (i) | (364.8) | (355.7) |
| 1,199.2 | Less: amounts settled (ii) | 307.9 | 340.3 |
| (89.5) | Movement in unrealised derivatives | (56.9) | (15.4) |
| (523.2) | Total | (335.7) | (363.7) |

(i) Total result on derivatives in the income statement represents the total amounts (charged) or credited to the income statement in respect of operating and financial derivatives.

(ii) Amounts settled in the period represent the result on derivatives transacted which have matured or been delivered and have been included within the total result on derivatives.

The net financial (liabilities) / assets are represented as follows:

| March 2012 £m | | September 2012 £m | September 2011 £m |
|---------------------|--|-------------------------|-------------------------|
| | Financial Assets | | |
| 348.0 | Non-current | 757.4 | 626.1 |
| 851.2 | Current | 365.3 | 1,374.3 |
| 1,199.2 | | 1,122.7 | 2,000.4 |
| | Financial Liabilities | | |
| (399.2) | Non-current | (505.4) | (533.3) |
| (817.6) | Current | (944.9) | (1,311.3) |
| (1,216.8) | | (1,450.3) | (1,844.6) |
| (17.6) | Net financial (liability)/asset | (327.6) | 155.8 |

17. Retirement Benefit Obligations

Defined Benefit Schemes

The Group has two funded final salary pension schemes which provide defined benefits based on final pensionable pay. The schemes are subject to independent valuations at least every three years. The Group also has an Employer Financed Retirement Benefit scheme and a Group Personal Pension Plan, details of which were provided in the Group's Financial Statements to 31 March 2012.

Summary of Defined Benefit Pension Schemes:

| Movement recognised in the SoCI | Pension liability | Movement recognised in respect of the pension liability in the SoCI | | Pension liability | |
|---------------------------------|-------------------|---|----------------------|----------------------|----------------------|
| March 2012 £m | March 2012 £m | September 2012 £m | September 2011 £m | September 2012 £m | September 2011 £m |
| (68.8) | 106.2 | (22.3) | 6.7 | 100.4 | 161.4 |
| (164.1) | (535.7) | (4.4) | (64.7) | (518.9) | (458.0) |
| (232.9) | (429.5) | (26.7) | (58.0) | (418.5) | (296.6) |
| 71.8 | (302.4) | 8.5 | (22.9) | (293.9) | (397.1) |
| (161.1) | (731.9) | (18.2) | (80.9) | (712.4) | (693.7) |

The net pension liability of £712.4m (2011 - £693.7m, March 2012 - £731.9m) reported at 30 September 2012 includes a liability of £293.9m (2011 - £397.1m, March 2012 - £302.4m) calculated under IFRIC 14, which reflects the value of contributions payable under a schedule of contributions agreed by the Group and the scheme Trustees (minimum funding requirement).

Notes on the Condensed Interim Statements
for the period 1 April 2012 to 30 September 2012

17. Retirement Benefit Obligations (continued)

The major assumptions used by the actuaries in both schemes were:

| At 31 March 2012 | | At 30 September 2012 | At 30 September 2011 |
|---------------------|--|-------------------------------------|----------------------------|
| 4.7% | Rate of increase in pensionable salaries | 4.1% | 4.6% |
| 3.2% | Rate of increase in pension payments | 2.6% | 3.1% |
| 4.6% | Discount rate | 4.0% | 5.1% |
| 3.2% | Inflation rate | 2.6% | 3.1% |

18. Capital Commitments

| At 31 March 2012 £m | | At 30 September 2012 £m | At 30 September 2011 £m |
|---------------------------|--|--|----------------------------------|
| 828.0 | Capital Expenditure Contracted for but not provided | 660.5 | 950.6 |

19. Related Party Transactions

The following trading transactions took place during the period between the Group and entities which are related to the Group but which are not members of the Group. The presentation of these transactions is consistent with the financial statements for the year to 31 March 2012 but have been amended from the presentation for the period to September 2011.

| | Sale of goods and services Sep 2012 | Purchase of goods and services Sep 2012 | Amounts owed from Sep 2012 | Amounts owed to Sep 2012 | Sale of goods and services Sep 2011 | Purchase of goods and services Sep 2011 | Amounts owed from Sep 2011 | Amounts owed to Sep 2011 |
|-------------------------------------|--|--|---|---|---|---|-------------------------------------|--------------------------------|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Jointly controlled entities: | | | | | | | | |
| Seabank Power Ltd | - | (34.8) | - | 5.0 | - | (30.0) | 2.8 | 9.7 |
| Marchwood Power Ltd | - | (33.8) | 0.5 | 6.2 | - | (32.6) | 0.8 | 7.5 |
| Greater Gabbard Offshore Winds Ltd | - | (29.2) | - | 18.3 | - | (3.1) | 0.5 | - |
| Scotia Gas Networks Ltd | 16.3 | (78.7) | 0.5 | 10.6 | 29.4 | (79.3) | 12.4 | 0.4 |
| Other Joint Ventures | 9.4 | - | - | 0.1 | 13.5 | - | 0.1 | - |
| Associates | 22.1 | (23.2) | 10.7 | 2.4 | 18.1 | (17.0) | 12.7 | 7.9 |

The transactions with Seabank Power Limited, Marchwood Power Limited and Greater Gabbard Offshore Winds Limited relate to the contracts for the provision of energy or the tolling of energy under power purchase arrangements. The Group's gas supply activity incurs gas distribution charges while the Group also provides services to Scotia Gas Networks in the form of a management service agreement for corporate services and stock procurement services. Other transactions include those with PriDE (SERP) Limited, which operates a long-term contract with Defence Estates for the management of MoD facilities in the South East of England. All operational activities are sub-contracted to the ventures partners including SSE Contracting Limited, a subsidiary of the Group. The amounts outstanding are trading balances, are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

20. Post Balance Sheet Events

On 9 October 2012, the Group completed the acquisition of Endesa Ireland Ltd from Endesa Generacion SA for a total cash consideration of €308m (£246m) plus an estimated €53m (£42m) for working capital. In addition to the transaction amount, SSE expects to incur a further €137m (£110m) to complete a 460MW CCGT (combined cycle gas turbine) currently under construction at Great Island, Co. Wexford.

Statement of directors' responsibilities in respect of the condensed interim financial statements

We confirm that to the best of our knowledge:

- i) the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- ii) the interim management report includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

For and on behalf of the Board

Ian Marchant
Chief Executive

Gregor Alexander
Finance Director

London
13 November 2012

Independent review report to SSE plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2012 which comprises the Consolidated and Condensed Income Statement, the Consolidated and Condensed Statement of Comprehensive Income and Expense, the Consolidated and Condensed Balance Sheet, the Consolidated and Condensed Statement of Changes in Equity, the Consolidated and Condensed Cash Flow Statement, and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

John Luke
for and on behalf of KPMG Audit Plc

Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

13 November 2012