# SSE plc
# Interim results for the six months to 30 September 2014

**12 November 2014**

SSE plc completed the first six months of its financial year on 30 September 2014. Its core purpose is to provide the energy people need in a reliable and sustainable way and this report summarises SSE's performance in that six months and includes updates on operations and investments in its Wholesale, Networks and Retail (including Enterprise) businesses.

**Lord Smith of Kelvin, Chairman of SSE, said:**

"SSE started this financial year expecting to deal with a number of challenging issues, and that has proved to be the case. Electricity market reform, the electricity distribution price control review and the energy market investigation are all taking place at the same time as the run up to the UK general election. SSE is taking a constructive approach to each of these issues, with the objective of meeting the needs of customers while safeguarding the interests of investors.

"The core of SSE's strategy is all about efficient operation of and investment in a balanced range of energy businesses across the UK and Ireland. Good progress is being made in streamlining and simplifying the business and in the programme of investment in the energy assets and services customers depend on.

"Nevertheless, the cumulative impact of a challenging business environment and persistently low production and consumption of energy mean SSE now believes adjusted earnings per share* in 2014/15 will be at the lower end of the range set out in March 2014 and therefore be around the same level achieved in 2013/14. The company remains, however, well-placed to deliver its principal financial goal of annual dividend growth that at least keeps pace with inflation while achieving good standards of performance for energy customers across the UK and Ireland."

**SSE has also announced completion of the sale of its equity interest in a number of street lighting projects in a transaction worth £326.4m, including equity and debt, and announced the appointment of Richard Gillingwater CBE as Deputy Chairman from 1 January 2015 and as Chairman from 1 January 2016.**

**See news.sse.com for the following blog: There are the political foundations to achieve a long term framework for customers and investors.**

## Finance – SSE Group

For the six months to 30 September 2014 (comparisons with the same six months in 2013, unless otherwise stated):

- Adjusted earnings per share* rose by 5.8% to 31.1 pence;
- Adjusted profit before tax* rose by 4.6% to £370.3m;
- Reported profit before tax fell by 6.2% to £316.6m;
- Investment and capital expenditure fell by 15.5% to £679.3m;
- Adjusted net debt and hybrid capital rose by £185.6m to £7,907m; and
- Interim dividend increased by 2.3% to 26.6 pence per share.

*Adjusted profit before tax describes profit before tax before exceptional items and re-measurements arising from IAS 39, excluding interest costs on net pension scheme liabilities and after the removal of taxation on profits from joint ventures and associates

In addition, on 15 October 2014, Standard and Poor's affirmed SSE's 'A-/A-2' ratings and improved the rating outlook from negative to stable.

## Finance – business-by-business operating profit

For the six months to 30 September 2014 (comparisons with the same period in 2013, unless otherwise stated); operating profit is before payment of interest and tax:

**Wholesale – operating profit of £26.7m, down 83.4%**

- **Energy Portfolio Management and Electricity Generation** operating profit fell by 86.3% to £11.8m, reflecting lower output of electricity from renewable and thermal sources;
- **Gas Production** operating profit fell by 80.7% to £13.3m, reflecting lower day ahead prices achieved for gas produced over the summer; and
- **Gas Storage** operating profit fell by 69.2% to £1.6m; this business continues to be affected by smaller seasonal differentials in gas prices.

**Networks – operating profit of £ 458.4m, up 4.7%**

- **Electricity Transmission** operating profit rose by 46.3% to £98.9m, reflecting the continuing major investment in the asset base, resulting in higher income;
- **Electricity Distribution** operating profit fell by 7.0% to £215.7m, reflecting the lower number of electricity units distributed, the adjustment for last year's over-recovery of £25m of revenue and additional costs incurred; and
- **Gas Distribution** - SSE's share of Scotia Gas Networks' operating profit rose by 4.1% to £143.8m, reflecting progress in delivering innovation and efficiencies as well as the timing of revenue collection.

**Retail – operating profit of £37.3m, compared with an operating loss of £71.4m#**

- **Energy Supply** recorded an operating loss of £16.9m, which was smaller than the loss in 2013 due to a number of factors including lower energy purchasing costs, but which were partly offset by the impact of milder weather;
- **Energy-related Services** operating profit fell by 30.2% to £11.3m, reflecting mixed performance within these businesses; and
- **Enterprise** operating profit rose by 54.3% to £42.9m, largely reflecting a £15.3m profit on a disposal in the period.

#Operating profit for same period in 2013 restated in line with establishment of the Enterprise division, and as set out in the Notification of Close Period on 29 September 2014 and at Note 4 of the Condensed Interim Statements.

## Weather - impact on SSE

As SSE has set out previously, the weather in the UK and Ireland has an effect on its business operations including variations in customer demand for energy, changes in the volume of electricity generated and, potentially, disruption to power supplies as a result of weather-related damage to the electricity networks. As SSE has also set out, it is one of the principal issues affecting its results in any financial year.

In the UK, five of the six months to 30 September 2014 were warmer by an average of c.1.3 degrees , relative to the 1981 to 2010 climate average; October 2014 was 1.6 degrees warmer than average and November 2014 is also forecast to be warmer than average. In addition, although the availability of SSE's onshore wind farms was 98% during the six month to 30 September 2014, and its capacity in operation was around 200MW greater than in the same period in the previous year, reduced wind speeds contributed to a 22% decline in the total output of electricity from SSE's onshore windfarms compared with the same six months in 2013.

## Operations – providing the energy people need

In the six months to 30 September 2014 (comparisons in brackets with the same period in the previous year, unless otherwise stated):

- **Safety:** SSE's Total Recordable Injury Rate was 0.12 per 100,000 hours worked (0.12);

- **Wholesale:** total electricity output* from gas- and oil-fired power stations was 5.3TWh (5.6TWh); from coal-fired power stations output was 2.6TWh (6.8TWh);
- **Wholesale:** total electricity output* from renewable sources (conventional and pumped storage hydro electric schemes, onshore and offshore wind farms and dedicated biomass plant) was 2.8TWh (3.1TWh);
- **Networks:** the number of Customer Minutes Lost in the Scottish Hydro Electric Power Distribution area was 29 (33); in the Southern Electric Power Distribution area it was 32 (32);
- **Networks:** the number of Customer Interruptions (power cuts) per 100 customers in the Scottish Hydro Electric Power Distribution area was 31 (37); in the Southern Electric Power Distribution area it was 32 (36);
- **Retail:** SSE's number of electricity and gas customer accounts in markets in Great Britain and Ireland fell from 9.10 on 31 March 2014 to 8.89 million; and
- **Retail:** average consumption of electricity by SSE's household customers in Great Britain was estimated to be 1,623kWh (1,713kWh); average consumption of gas by SSE's household customers in Great Britain was estimated to be 102 therms (133 therms).

* Output from electricity generating plant in which SSE has an ownership interest (output based on SSE's contractual share).

## Investment – maintaining, upgrading and building energy assets customers need

In the six months to 30 September 2014, SSE's capital and investment expenditure totalled £679.3m, compared with £804.3m in the same period in 2013:

- **Wholesale:** Investment in electricity generation totalled £200.8m. Electricity has been generated for the first time as part of the commissioning process at SSE's 460MW CCGT development at Great Island in County Wexford, and the station itself is expected to be in full commercial operation around the end of this financial year;
- **Networks:** Investment in electricity networks totalled £340.4m. SSE's subsidiary Scottish Hydro Electric Transmission made significant progress in its section of the Beauly-Denny replacement line, with all of the foundations laid, 530 of the 539 towers erected and 85% of the route wired.
- **Retail (including Enterprise):** Investment in retail totalled £71.2m, including Enterprise. SSE has continued to make significant investment in new systems to deliver enhanced services to customers and support the installation of smart meters in the years to 2020.

Capital and investment expenditure in the Wholesale segment included expenditure totalling £7.6m in: Gas Production (£6.2m); and Gas Storage (£1.4m). Separately, SSE acquired the Energy Solutions Group, a Manchester-based provider of energy management services, for £66m, with a further £6m payable if business targets are achieved.

SSE's capital investment and expenditure for 2014/15 is now forecast to total just under £1.6bn (gross) for the year and to total around £5.5bn (net of asset and business disposals) in the four years to and including 2017/18.

## Making significant progress in the value programme to ensure SSE is well-positioned for the future

On 26 March 2014, SSE announced a value programme to secure operational efficiencies and complete asset and business disposals, with the overall objective of streamlining and simplifying the business. The programme is well under way, with:

- agreements already being reached to dispose of assets with a total value of over £400m (see below); and
- 85% the £100m targeted annual savings in overheads already being realised.

SSE has today announced the completion of the sale, to Equitix Infrastructure 3 Limited (Equitix), of its 100% equity interest in the special purpose entities (SPEs) established in England under the Private Finance Initiative (PFI), for the delivery of seven street lighting projects. The SPEs are funded through a mix of senior debt and equity, and the removal of this project-related senior debt, along with the cash consideration of £97.5m, will have the immediate effect of reducing SSE's net debt by £326.4m.

SSE also announced in March that it would reorganise its companies so there are separate legal entities for energy supply (Retail) and electricity generation and energy portfolio management (Wholesale). This change is designed to enhance the transparency of the measurement and reporting of the performance of these businesses. At present, energy portfolio management is within SSE Energy Supply Limited. SSE will incorporate a new subsidiary company for energy portfolio management which will sit alongside SSE Energy Supply Limited and SSE Generation Limited and each of these companies will produce separately audited accounts from April 2015 onwards. To achieve this SSE is also making sure that, following business separation, the financial arrangements between its companies continue to be clear and transparent. SSE remains open-minded about further developments and reform that is in the clear interests of customers.

## Financial outlook

SSE uses adjusted earnings per share* to monitor financial performance over the medium term because it defines the amount of profit after tax that has been earned for each Ordinary share. It acknowledged in its Notification of Close Period on 29 September that the business environment is challenging. The business environment remains challenging and, in particular, the mild weather that has contributed to low production and consumption of energy has persisted into early November.

As a result, SSE now believes its adjusted earnings per share* in 2014/15 will be towards the lower end of the range set out in March 2014 and therefore be around the level achieved in 2013/14. In view of the wider energy sector conditions, SSE also continues to recognise that its ability to deliver increases in adjusted earnings per share* is subject to additional risk in 2015/16 and 2016/17. As stated in March 2014, therefore, it recognises that dividend cover could, temporarily, fall below its target range of around 1.5 times and be closer to around 1.2 times in 2016/17.

Shareholders have either invested directly in SSE or, as owners of the company, enabled it to borrow money from debt investors to finance investment totalling over £8.0bn since 1 April 2009 in maintaining, upgrading and building energy assets and services that customers depend on. SSE aims to give them a return on their investment through the payment of dividends. SSE's objective for 2014/15 and subsequent years is to deliver a full-year dividend increase of at least RPI inflation, and it is on course to achieve this.

## Being a fair tax payer

In October 2014, SSE became the first FTSE 100 company to be awarded the Fair Tax Mark. The Fair Tax Mark is the world's first independent accreditation process for identifying companies making a genuine effort to be open and transparent about their tax affairs. In complying with the Fair Tax Mark criteria SSE is providing information that moves its disclosure well beyond the current requirements of UK company law to ensure that it provides all its stakeholders with the information they need to properly appraise its tax affairs. SSE is already an accredited Living Wage employer.

## Appointment of Deputy Chairman

Richard Gillingwater CBE will be appointed Deputy Chairman of SSE plc on 1 January 2015. Subject to being re-elected to the Board at the Annual General Meeting in July 2015, he will be appointed Chairman in succession to Lord Smith of Kelvin, who will step down from the Board of SSE plc on 1 January 2016 after 13 years' service. Richard joined the Board of SSE plc as a non-Executive Director in 2007 and became Senior Independent Director in 2012.

## 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 | 22 January 2015 |
| Record Date | 23 January 2015 |
| Interim Management Statement - tbc | February 2015 |
| Final date for Scrip Elections | 20 February 2015 |
| Payment Date | 20 March 2015 |
| Notification of Close Period | 31 March 2015 |
| Financial results for 2014/15 | 20 May 2015 |
| AGM and Interim Management Statement | 23 July 2015 |

### Enquiries

| | |
|---|---|
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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 or investor pages.

**Conference call**

| | | | |
|---|---|---|---|
| UK free phone | 0800 279 4992 | US free phone | 1877 280 1254 |
| UK local | +44(0)20 3427 1901 | US local | +1646 254 3361 |

When asked please provide confirmation code 9585321.

**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.

# STRATEGY AND FINANCE

## Strategy

#### Maintaining a consistent strategy

SSE's core purpose is to provide the energy people need in a reliable and sustainable way. Its strategy is to deliver the efficient operation of, and investment in, a balanced range of economically-regulated and market-based businesses in energy production, storage, transmission, distribution, supply and related services in the energy markets in Great Britain and Ireland. In practice:

- **Operating and investing efficiently** is how SSE serves its customers and makes investments to meet their long-term energy needs and also to earn the profit that allows it to give a return to investors;
- **Maintaining a balanced range of economically-regulated and market based businesses** means SSE serves customers and operates assets and does not become over-exposed to any one part of the energy sector but can pursue opportunities or contain risk in each of them where appropriate;
- **Production, storage, transmission, distribution, supply and related services** means that there is diversity of business activity in SSE but also depth through the focus on a single sector, energy; and
- **Great Britain and Ireland** give SSE a clear geographical focus, allowing it to maintain and deploy strong experience and understanding of the markets in which it operates and to focus on the needs of the customers which it serves.

The financial objective of this strategy is to increase annually the dividend payable to shareholders by at least RPI inflation. This is because shareholders have either invested directly in SSE or, as owners of the company, have enabled it to borrow money from debt investors to finance the investment, mainly in electricity generation and electricity networks, that will help to meet the energy needs of customers in the UK and Ireland over the long term. In the five and a half years since 1 April 2009, this investment totalled over £8.0bn.

#### Operating within a clearly-defined financial framework

SSE operates within a clearly-defined financial framework, focused on the dividend, dividend cover and the balance sheet:

- **Dividend:** SSE's financial focus is on the dividend because the ultimate objective of investing capital in companies is to secure a return; and receiving and reinvesting dividends is the biggest source of a shareholder's return over the long term. SSE's target of annual increases in the dividend of at least Retail Price Index (RPI) inflation means it is able to look beyond short-term value and profit maximisation in any one year and maintain a disciplined, responsible and long-term approach to the management of, and investment in, business activities.
- **Dividend cover:** Ultimately dividends are paid out of earnings and, over the long term, earnings should increase to support dividend growth. For this reason, SSE believes that the dividend per share should, over time, be covered by its adjusted earnings per share* within a range of around 1.5 times (in 2013/14 it was 1.42 times). The risks to which adjusted earnings per share* are subject, however, mean that dividend cover can fall temporarily below this target range and it could, in some circumstances, be closer to around 1.2 times in 2016/17.
- **Balance sheet:** Focusing on the dividend and dividend cover are appropriate for a business in a long-term sector such as energy and, as a long-term business, SSE believes that it should maintain a strong balance sheet, illustrated by its commitment to the current criteria for a single A credit rating. SSE believes that a strong balance sheet enables it to secure funding from debt investors at competitive and efficient rates and take decisions that are focused on the long term - all of which support the delivery of annual increases in the dividend of at least RPI inflation and the maintenance of an appropriate level of dividend cover.

**Earning profit in a responsible way**

Companies don't just need to earn profits; they should earn profits in a responsible way. It is for this reason that SSE adopted in 2006 the SSE SET of core values: Safety; Service; Efficiency; Sustainability; Excellence; and Teamwork.

The first value is Safety, which is defined as: 'We believe all accidents are preventable, so we do everything safely and responsibly, or not at all'. In the six months to 30 September 2014, SSE's Total Recordable Injury Rate (TRIR) per 100,000 hours worked by employees remained the same for the same period in 2013 at 0.12. As a result, 22 employees were injured in the course of their work during the six months and SSE's long-term goal remains, quite simply, to achieve injury-free working.

In addition to safety at work, SSE believes in fairness at work, and in September 2013 it became the largest (at that time) UK-listed accredited Living Wage employer. As well as fairness at work, SSE believes in fairness in society and in October 2014 became the first FTSE 100 company to be awarded the Fair Tax Mark.

More broadly, SSE's contribution to UK Gross Domestic Product in 2013/14 totalled around £9bn, taking the total for the last three years to £27bn. The company currently employs directly over 19,000 people and supports over 110,000 jobs across the UK and Ireland.

**Managing the issues raised by the energy 'trilemma'**

Energy policy in both the United Kingdom and Ireland continues to be focused on three broad objectives that have commanded general support and which are characterised as the energy 'trilemma'. They are:

- security of supply, so that 'the lights stay on';
- decarbonisation, so that the UK and Ireland can meet their legally-binding targets for greenhouse gas emissions reduction; and
- affordability, so that people, organisations and businesses have the energy they need at the lowest possible price.

The issues in respect of **security of supply** are illustrated by the statement by National Grid in October 2014 in its Winter Outlook 2014/15 that 'This year electricity [capacity] margins have decreased compared to recent years'. This followed its decision in September 2014 to undertake a tender for electricity generation plant that would not otherwise be available in the market to make itself available to be held in reserve outside the market during the 2014/15 winter. The decision to undertake a tender for this so-called Supplemental Balancing Reserve was taken in response to 'an increased level of uncertainty' over the amount of electricity generation capacity that may be available in the market this winter. National Grid confirmed that it was entering into contracts for three power stations, including SSE's Peterhead power station, to provide additional reserve under the SBR.

National Grid's decision is in line with the responsibility it has, along with the UK Department of Energy and Climate Change (DECC) , for determining the volume of generation capacity required to ensure a secure electricity supply and for the timely signalling of this to the electricity market. SSE will play its part by working with National Grid and DECC and by focusing on ensuring that its plant, where practicable, is available to generate at times when demand is highest. Looking further ahead, the Electricity Market Reform Delivery Body confirmed in October 2014 that all 7.2GW of de-rated capacity submitted by SSE has pre-qualified for the capacity market auction scheduled to take place in December 2014 for delivery in 2018.

The issues in respect of **decarbonisation** are illustrated by the development of the 2030 policy framework for climate and energy proposed by the European Commission and agreed by the EU heads of government in October 2014, building on the existing and legally-binding 2020 package. The proposed 2030 framework includes targets to: reduce EU domestic greenhouse gas emissions by 40% below the 1990 level (2020 target – 20%); increase the share of renewable energy to at least 27% (2020 target – 20%); and increase energy efficiency on current levels by 27% (2020 target – 20%). To make the EU ETS more robust and effective in promoting low carbon investment at the lowest cost to customers, the Commission also proposes to establish a market stability reserve.

A priority for SSE is a continuing cost efficient reduction in the amount of $CO_2$ per kilowatt hour of electricity produced by its generation fleet; and it is on track to meet its objective of halving the carbon intensity of the electricity it generates by 2020 (compared with 2006), to around 300g/kWh. Since the start of the 2009/10 financial year, SSE has invested over £3.1bn in developing and constructing renewable sources of energy and is the largest generator of electricity from renewable sources across the UK and Ireland. In October 2014 it was announced that SSE achieved an 'A' rating in the CDP Climate Change Index, one of the most important annual assessments of how large companies are managing their climate change impact.

The issues in respect of **affordability** are illustrated by the findings of research undertaken by SSE and YouGov, published in October 2014, which showed that people are significantly more concerned about energy costs than any other household expenditure, such as food and drink or housing. The same research also found that saving money is seen by customers as the strongest reason to reduce energy consumption, well ahead of protecting the environment or conserving energy resources for future generations.

In March 2014, SSE announced a household energy price freeze in Great Britain until at least January 2016, by which time it won't have increased prices for 26 months. It also continues to advocate measures to reduce or remove altogether from energy bills costs associated with social or environmental policies that could be funded in more progressive ways.

#### Managing energy sector issues which impact on SSE

In line with the focus on generation capacity, the 2030 climate and energy package and household energy prices, the impact of the 'trilemma' is being seen in a number of specific issues which could have an operational and/or financial impact on SSE in the coming years. These include:

- **Wholesale:** the outcome and impact of the auction that is due to take place in December 2014 for provision of electricity generation capacity from 2018;
- **Networks:** the outcome of the RIIO (Revenue=Incentives+Innovation+Outputs) ED1 process for determining electricity distribution companies' Price Controls for 2015-23, expected to be announced by Ofgem in November 2014; and
- **Retail:** the possibility of a freeze on retail energy prices in Great Britain being legislated upon after the UK general election in May 2015.

In addition, the Competition and Markets Authority (CMA) is investigating the supply and acquisition of energy in Great Britain. As part of the process, the CMA has undertaken a series of site visits and visited SSE operations, including Clunie hydro electric power station, on 30 September. In discussion with the CMA, and in line with the key points in its response to the CMA's Statement of Issues published in August 2014, SSE pointed out that the GB energy market is generally well-functioning and benefiting customers, while highlighting a number of areas where there may be potential for reforms that produce additional benefits for customers. The CMA is expected to notify provisional findings and possible remedies (if required) in May or June 2015.

Alongside the CMA investigation, the outcome of the UK general election in May 2015 could have a significant impact on the GB energy market. SSE approaches its engagement with all of the leading political parties in the same spirit as it approaches the CMA investigation: pointing out those features of the GB energy market that are well-functioning and benefiting customers while also proposing sustainable solutions that address policy objectives that are in practice shared by the leading political parties. These are summarised in Proposals to deliver affordable, secure and low carbon energy, published on sse.com.

Against this background, SSE believes its focus on the UK and Ireland and its maintenance of a balanced range of energy businesses enables it to recognise and understand the breadth and depth of the issues that have an impact on customers and investors alike and means it is able to manage effectively the risks associated with any particular issue.

In dealing with each of the issues set out above, SSE argues strongly for policies and decisions that are:

- fair to energy bill payers and to investors; and

- support the delivery of reliable and sustainable supplies of energy over the long term.

While the capacity market auction, eight-year electricity distribution price control, energy market competition investigation and UK general election all present a degree of uncertainty and risk, they also present the opportunity to achieve a stable policy and regulatory framework that gives customers confidence, allows regulators to regulate and encourages investors to invest in the GB energy market.

In the meantime, SSE is focused on doing the right things now so it is well-placed to respond positively to such a framework emerging.

## Dividend Per Share and Adjusted Earnings Per Share*

**Targeting dividend increases of at least RPI inflation in 2014/15 and beyond**

The stated financial goal of SSE's strategy is to deliver annual increases in the dividend and, as set out in its Annual Report 2014, its target for 2014/15 onwards is to deliver annual dividend increases of at least RPI inflation (measured against the average annual rate of RPI inflation across each of the 12 months to March).

**Increasing the interim dividend**

The Board is recommending an interim dividend of 26.6p per share, to which a Scrip alternative is offered, compared with 26.0p in the previous year, an increase of 2.3%. This demonstrates SSE's commitment to fulfilling its first financial responsibility to its shareholders: giving them a return on their investment through the payment of dividends.

**Focusing on Adjusted Earnings Per Share***

To monitor its financial performance over the medium term, SSE focuses consistently on adjusted earnings per share*, which is calculated by excluding the charge for deferred tax, interest costs on net pension liabilities, exceptional items and the impact of re-measurements arising from International Accounting Standard (IAS) 39.

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 provides an important measure of underlying financial performance. In addition to financial performance, however, SSE's adjusted earnings per share* is influenced by two specific factors:

- hybrid capital securities qualify for recognition as equity and so, in SSE's reported results, charges for the coupon associated with them are presented within dividends, but this cost is reflected within adjusted earnings per share*; and
- the Scrip dividend scheme, approved by shareholders in 2010, results in the issue of additional ordinary shares.

In the six months to 30 September 2014, SSE's adjusted earnings per share* were 31.1 pence, based on 975.7 million shares, compared with 29.4p, based on 964.4 million shares, in the same six months in 2013.

SSE acknowledged in its Notification of Close Period on 29 September that the business environment is challenging. The business environment remains challenging and, in particular, the mild weather that has contributed to low production and consumption of energy has persisted into early November.

As a result, SSE now believes its adjusted earnings per share* in 2014/15 will be towards the lower end of the range set out in March 2014 and therefore be around the level achieved in 2013/14. In view of the wider energy sector conditions, SSE also continues to recognise that its ability to deliver increases in adjusted earnings per share* is also subject to additional risk in 2015/16 and 2016/17.

As stated in March 2014, it recognises, therefore, that dividend cover could, temporarily, fall below its target range of around 1.5 times and be closer to around 1.2 times in 2016/17.

## Adjusted Profit Before Tax*

**Measuring Adjusted Profit Before Tax***

These financial results for the six months to 30 September 2014 are reported under IFRS, as adopted by the EU. SSE focuses on profit before tax before exceptional items, re-measurements arising from IAS 39, excluding interest costs on net pension liabilities and after the removal of taxation on profits from joint ventures and associates. These costs are non-cash and SSE believes that in order to focus on underlying performance it is appropriate to exclude them from all adjusted profit measures.

As a result, '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 fair value measurement.

The tables below reconcile SSE's adjusted profit before tax* to its reported profit before tax and also set out the adjusted position after tax and in respect of adjusted earnings per share*. The volatility that arises from IAS 39 and the impact of the adjustment relating to non-cash interest costs on net pension liabilities can also be observed.

Reported profit measures for the comparative periods have been restated following a change in the accounting classification of the Group's joint operation Greater Gabbard Offshore Winds Limited under IFRS 11. No impact on adjusted profit measures has arisen from this change

| | **Sep 14 £m** | **Sep 13 £m** restated | **Sep 12 £m** restated |
|---|---|---|---|
| **Adjusted Profit before Tax*** | **370.3** | **354.0** | **400.8** |
| Movement on derivatives (IAS 39) | (17.3) | (42.1) | (330.5) |
| Exceptional items | - | - | (88.7) |
| Interest on net pension liabilities (IAS19R) | (14.3) | (14.8) | (17.9) |
| Share of JVs and Associates tax | (22.1) | 40.3 | (2.0) |
| Reported Profit before Tax* | 316.6 | 337.4 | (38.3) |
| | | | |
| Adjusted Profit before Tax* | 370.3 | 354.0 | 400.8 |
| Adjusted Current Tax Charge | (55.6) | (58.2) | (64.0) |
| **Adjusted Profit after Tax*** | **314.7** | **295.8** | **336.8** |
| Less: attributable to other equity holders | (11.7) | (12.5) | - |
| Adjusted Profit After Tax attributable to ordinary shareholders | 303.0 | 283.3 | 336.8 |
| Reported Profit after Tax** | 251.3 | 371.9 | 15.9 |
| | | | |
| Number of shares for basic and adjusted EPS (million) | 975.7 | 964.4 | 954.4 |
| | | | |
| **Adjusted EPS* - pence** | **31.1** | **29.4** | **35.6** |
| **Basic EPS – pence** | **25.8** | **38.6** | **1.7** |

**After distributions to hybrid capital holders

**Delivering Adjusted Profit Before Tax***

Adjusted profit before tax* increased by 4.6%, from £354.0m to £370.3m in the six months to September 2014 compared with the same period in 2013. SSE's Wholesale, Networks and Retail segments were all profitable, although within Retail, Energy Supply recorded an operating loss.

The 83.4% decline in operating profit in Wholesale reflects in particular: lower output of electricity from renewable and thermal energy sources; and lower day ahead prices achieved for gas produced. Moreover, very difficult market conditions affecting thermal plant, such as low 'spark' spreads, have persisted for several years and resulted in thermal plant being loss-making in the six months to 30 September 2014. The 4.7% increase in operating profit in Networks reflects in particular investment in the asset base of Electricity Transmission resulting in higher income. The operating profit in Retail was achieved following a reduction in the operating loss in Energy Supply which reflects a number of factors including lower energy purchasing costs, which were partially offset by the impact of mild weather.

The 'Enterprise' division within the SSE Group brings together under new leadership SSE's services in competitive markets for industrial and commercial customers so that the energy and related needs of these customers can be better met through an integrated approach. As a result of this change, activities previously reported under 'Other Networks' have been combined with electrical contracting, previously reported under 'Energy-related Services', to create an 'Enterprise' segment which, as customer-facing businesses in competitive markets, is reported under 'Retail'.

**Impact of the movement on derivatives (IAS 39)**

The adverse movement on derivatives under IAS 39 of £17.3m shown in the table above and on the face of the Income Statement has arisen partly from deterioration in the fair value of forward commodity purchase contracts accounted for under IAS 39. The fair value of such contracts is derived by comparing the contractual delivery price against the prevailing market forward price at the balance sheet date. The position at 30 September 2014 for such contracts, primarily electricity and gas, was a liability of £275.8m compared to a liability on similar contracts at 1 April 2014 of £265.3m – a movement of £10.5m. The actual value of the contracts will be determined as the relevant commodity is delivered to meets customers' energy needs, which will predominately be within the subsequent 12 months. As a result, SSE believes the movement in fair value of the contracts in the current year is not relevant to underlying performance.

In addition to this, a net adverse movement on the fair valuation of interest and currency derivatives of £6.8m arising from the relative strengthening of Sterling and the net position on interest rate swaps was recognised in the six months to 30 September 2014. 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.

**Issues influencing Adjusted Profit Before Tax* in 2014/15**

SSE believes profit is not an end in itself, but a means to an end. In addition to enabling it to provide new services for customers and invest in maintaining, upgrading and building assets and to pay tax, profit also supports the dividend, which is the key means through which SSE gives shareholders a return on their investment. Shareholders require a return on their investment because they have either invested directly in SSE or, as owners of the company, have enabled it to borrow money from debt investors to finance the investment, mainly in electricity generation and electricity networks, that will help to meet customers' energy needs over the long term.

SSE has delivered 15 successive annual increases in adjusted profit before tax* since it was formed during the 1998/99 financial year and is seeking to deliver another increase in 2014/15. Because well-managed economically-regulated networks provide a relatively stable revenue flow, and because SSE has frozen household energy prices in Great Britain until at least January 2016, SSE's adjusted profit before tax* for 2014/15 as a whole is likely to be determined mainly by the following issues in its market-based Retail and Wholesale businesses; many of these are influenced by the weather (see above):

- the impact of wholesale prices for energy;
- electricity market conditions, the ability of its operating thermal power stations to generate electricity efficiently and the price achieved for output;
- the output of renewable energy from its hydro electric stations and wind farms;
- the output from its gas production assets; and
- the actual and underlying level of customers' energy consumption.

In addition to managing these issues, SSE is undertaking a value programme to secure more operational efficiencies. While independent evidence shows that SSE is an efficient company with relatively low operating costs, it has still been able to identify annual savings in overheads that will total in the first instance around £100m annually by the end of 2015/16.

## Investment and Capital Expenditure

| Investment and Capex Summary | Sep 14 Share % | Sep 14 £m | Sep 13 £m |
|---|---|---|---|
| Thermal Generation | 13.7% | 93.4 | 151.9 |
| Renewable Generation | 15.8% | 107.4 | 211.2 |
| Gas Storage | 0.2% | 1.4 | 1.8 |
| Gas Production | 0.9% | 6.2 | 15.7 |
| **Total Wholesale** | **30.7%** | **208.4** | **380.6** |
| Electricity Transmission | 31.3% | 212.8 | 195.0 |
| Electricity Distribution | 18.8% | 127.6 | 128.2 |
| **Total Networks** | **50.1%** | **340.4** | **323.2** |
| Energy Supply and related services | 7.2% | 48.8 | 37.9 |
| Enterprise | 3.3% | 22.4 | 25.1 |
| **Total Retail** | **10.5%** | **71.2** | **63.0** |
| Other | **8.7%** | **59.3** | **37.5** |
| **Total investment and capital expenditure** | **100.0%** | **679.3** | **804.3** |
| 50% of SGN capital/replacement expenditure | | 84.0 | 72.2 |

**Investing in energy assets that the UK and Ireland need**

In March 2014, SSE said that it expected its investment and capital expenditure will total around £5.5bn (net of disposal proceeds received) over the four years to 2017/18. In the six months to 30 September 2014 there was investment of:

- £93.4m in thermal generation, including investment of £19.5m in the construction of the new Combined Cycle Gas Turbine at Great Island and £21.7m in the construction of the multi-fuel generation facility adjacent to Ferrybridge power station;
- £107.4m in renewable generation, a significant part of which was invested in new onshore wind farms such as the 33-turbine Strathy North wind farm in Sutherland;
- £1.4m in gas storage and £6.2m in gas production; and
- £212.8m in electricity transmission, which includes £65.7m of regulated spend on replacing SSE's section of the Beauly-Denny replacement line;
- £127.6m in electricity distribution, the majority of which was spent on system upgrades such as the £19m project to install 15km of new underground cables between Isleworth and Ealing;
- £48.8m in energy supply and related services which includes work associated with preparation with the roll-out of smart meters and improving digital services for customers; and
- £22.4m in Enterprise, mainly on investments in non regulated networks.

**Delivering an expanded asset base to provide the energy people need**

Since 1 April 2009, SSE's investment and capital expenditure has totalled over £8.0bn. This has resulted in a significantly expanded asset base for SSE, including an increase of:

- over 1,200MW in its capacity for generating electricity from wind farms; and
- £1.75bn in the RAV of its electricity networks.

In addition, SSE expects to complete the commissioning of the new Combined Cycle Gas Turbine (CCGT) plant at Great Island, County Wexford, around the end of the financial year.

SSE believes that the long-term nature of the assets which it owns and operates and those it continues to develop, will play their part in providing the energy that people will need for decades to come and that value from these investments will be sustained for many years to come.

**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 investment should be:

- in line with SSE's commitment to strong financial management, including securing returns which are clearly greater than the cost of capital, enhance earnings and support the delivery to shareholders of a return on their investment;
- complementary to SSE's existing portfolio of assets and consistent with the maintenance of a balanced range of assets within SSE's businesses;
- consistent with developments in public policy and regulation; and
- governed, developed, and executed in an efficient and effective manner, consistent with SSE's Major Projects Governance Framework and with the skills and resources available within SSE.

**Allocating capital and investment expenditure in 2014/15 and beyond**

Looking across its Networks, Retail and Wholesale businesses, SSE expects that its capital and investment expenditure will total just under £1.6bn (gross) in 2014/15 and total around £5.5bn (net) over the four years to 31 March 2018. This includes:

- economically-regulated expenditure on electricity transmission networks;
- economically-regulated electricity distribution expenditure plus essential maintenance of other assets; and
- expenditure that is already committed to development and completion of new assets (including around 575MW (construction and pre-construction) of onshore wind farm capacity) and the enhancement and deployment of systems to improve customer service.

SSE's commitment to financial discipline means that it will monetise value from existing investments and assets in order to support future investment in any other new assets to which it decides to commit over the next few years, where that will enhance adjusted earnings per share* over the long term.

SSE believes that a capital and investment programme on this scale, financed in part by recycling of capital through appropriate asset disposals, and a flexible approach to value-creation, should position it well for the future and will deliver:

- well maintained existing and new modern capacity for generating electricity;
- renewable sources of energy, supporting a reduction in the CO2 intensity of electricity generated;
- a hedge against prices for fossil fuels;
- additions to the asset base in key businesses, including economically-regulated electricity networks; and
- additional cashflows and profits to support continuing dividend growth.

**Disposing of assets to support future investment**

SSE's programme of disposal of assets which are not core to its future plans, or which result in a disproportionate burden, or which could release capital for future investment, is well under way. Agreements with a total value of over £400m have already been reached or concluded to dispose of assets such as SSE Pipelines Ltd and PFI street lighting contracts. The disposal of such assets is taken into account in the total expected net capex referred to above of £5.5bn across the four years to March 2018. Proceeds and debt reduction from all of these planned disposals are expected to total around £500m.

In addition, there are other assets such as onshore wind farms which present, through disposal, opportunities to release capital to support future investment. SSE currently envisages securing proceeds of around £500m through disposals of such assets. In total, therefore, the disposal programme is expected to result in a financial benefit of around £1bn including proceeds received and balance sheet debt reduced. The disposal programme is also intended to enable SSE to ensure its resources are fully focused on what is important and relevant to its core purpose of providing the energy people need in a reliable and sustainable way.

#### 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 external 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 2014, a 50% share of SGN's capital and replacement expenditure was £84.0m, compared with £72.2m in the same period in 2013. During the six months, SGN's RAV increased to £4.9bn (SSE share: £2.45bn), up from £2.8bn (SSE share: £1.4bn) when it was acquired in 2005.

## Financial management and balance sheet

| Key Performance Indicators | Sep 14 | Mar14<br>Restated | Sep 13<br>Restated |
|---|---|---|---|
| **Adjusted net debt and hybrid capital (£m)** | **(7,907.1)** | **(7,642.8)** | **(7,721.5)** |
| Average debt maturity (years) | 10.2 | 10.7 | 10.2 |
| Adjusted interest cover[1] (excluding SGN) | 3.5 | 5.1 | 3.5 |
| Shares in issue at 30 September (m) | 986.8 | 974.9 | 965.4 |
| Shares in issue (weighted average) (m) | 975.7 | 965.5 | 964.4 |

[1] Including hybrid coupon

#### Managing net debt and maintaining cash flow

Fundamentally, the increase in SSE's net debt reflects the quantum and phasing of capital and investment projects to maintain, upgrade and build new assets in the UK and Ireland that energy customers depend on and which support annual increases in the dividend payable to shareholders.

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 14<br>£m | Mar14<br>£m | Sep 13<br>£m |
|---|---|---|---|
| **Adjusted Net Debt and hybrid capital** | **(7,907.1)** | **(7,642.8)** | **(7,721.5)** |
| Less: hybrid capital | 2,186.8 | 2,186.8 | 2,186.8 |
| **Adjusted Net Debt** | **(5,720.3)** | **(5,456.0)** | **(5,534.7)** |
| Less: Outstanding Liquid Funds | (56.1) | (51.2) | (40.5) |
| Add: Finance Leases | (319.4) | (328.9) | (322.7) |
| **Unadjusted Net Debt** | **(6,095.8)** | **(5,836.1)** | **(5,897.9)** |

SSE has today announced the completion of the sale, to Equitix Infrastructure 3 Limited (Equitix), of its 100% equity interest in the special purpose entities (SPEs) established in England under the Private Finance Initiative (PFI), for the delivery of seven street lighting projects. The SPEs are funded through a mix of senior debt and equity, and the removal of this project-related senior debt, along with the cash consideration of £97.5m, will have the immediate effect of reducing SSE's net debt by £326.4m.

#### Ensuring a strong debt structure through medium- and long-term borrowings

SSE's objective is to maintain a reasonable range of debt maturities and to remain flexible and opportunistic when issuing new debt. Its average debt maturity, excluding hybrid securities, as at 30 September 2014 was 10.2 years, compared with 10.7 years at 31 March 2014.

SSE's debt structure remains strong, with around £5.1bn of medium/long term borrowings in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans.

The balance of SSE's adjusted net debt is financed with short-term bank debt. SSE's adjusted net debt includes cash and cash equivalents totalling £244.3m. Just over £60m of medium-to-long term borrowings will mature in the period to 31 March 2016.

In addition, an option to extend a £500m term loan has been invoked, pushing the maturity out by one year, from September 2014 to September 2015.

**Keeping SSE well-financed**

SSE believes that maintaining a strong balance sheet, illustrated by its commitment to the current criteria for a single A credit rating, such as a funds from operations/debt ratio of 20%-23% (Standard & Poor's) and a retained cash flow/debt ratio of 13% (Moody's), is a key financial principle. In October 2014, Standard & Poor's revised its outlook on SSE to 'stable' from 'negative ' and affirmed SSE's 'A-/A-2' ratings.

SSE's principal sources of debt funding as at 30 September 2014 were:

- bonds – 42%;
- hybrid capital securities – 27%;
- European Investment Bank loans –7%;
- US private placement – 5%; and
- index-linked debt, long term project finance and other loans – 19%.

The Scrip Dividend Scheme approved by SSE's shareholders in 2010 gives them the option to receive new fully paid Ordinary shares in the company in place of their cash dividend payments. It therefore reduces cash outflow and so supports the balance sheet.

The Scrip dividend take-up in August 2014, relating to the final dividend for the year to 31 March 2014, resulted in a reduction in cash dividend funding of just under £174m, with 11.8 million new ordinary shares, fully paid, being issued. This means that the cumulative cash dividend saving or additional equity capital resulting from the introduction of SSE's Scrip Dividend Scheme now stands at £793.7m and has resulted in the issue of 60.6 million Ordinary shares. It is expected that SSE's current Scrip Dividend Scheme, which expires in 2015, will be extended, subject to shareholder approval.

**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 in the six months to 30 September 2014 were £159.5m, compared with £164.7m in the same period in 2013 reflecting the lower average interest rate in the period.

| | **Sep 14 £m** | **Sep13 £m** Restated | **Sep 12 £m** Restated |
|---|---|---|---|
| **Adjusted net finance costs** | **159.5** | **164.7** | **188.9** |
| add/(less): | | | |
| Movement on derivatives | 9.7 | 31.3 | 56.9 |
| Share of JV/Associate interest | (69.3) | (71.6) | (72.7) |
| Interest on net pension liabilities (IAS 19R) | 14.3 | 14.8 | 17.9 |
| Reported net finance costs | 114.2 | 139.2 | 191.0 |
| | | | |
| Adjusted net finance costs | | | |
| Add/(less): | 159.5 | 164.7 | 188.9 |
| Finance lease interest | (17.1) | (17.9) | (18.5) |
| Notional interest arising on discounted provisions | (5.3) | (3.9) | (3.3) |
| Hybrid coupon payment | 11.7 | 12.5 | 0.0 |
| Adjusted finance costs for interest cover calculation | 148.8 | 155.4 | 167.1 |

Coupon payments relating to hybrid capital are presented as distributions to other equity holders and are reflected within adjusted earnings per share* when paid.

The average interest rate for SSE, excluding JV/Associate interest, during the six months was 4.50%, compared with 5.20% in the same period last year. Based on adjusted interest costs, SSE's adjusted interest cover was (previous year's comparison in brackets):

- 3.5 times, excluding interest related to SGN (3.5 times); and
- 3.6 times, including interest related to SGN (3.3 times).

Excluding shareholder loans, SGN's net debt at 30 September 2014 was £3.43bn, and within the adjusted net finance costs of £159.5m, the element relating to SGN's net finance costs was £46m compared with £48.0m in the previous year), after netting loan stock interest payable to SSE. Its contribution to SSE's adjusted profit before tax* was £97.8m compared with £90.2m for the same period in 2013.

**Contributing to employees' pension schemes**

In line with the IAS 19R treatment of pension scheme assets, liabilities and costs, net pension scheme liabilities of £644.4m have been recognised in the balance sheet at 30 September 2014, before deferred tax. This compares to a liability of £637.7m at 31 March 2014. During the six months to 30 September 2014, employer cash contributions amounted to:

- £31.5m for the Scottish Hydro Electric scheme, including deficit repair contributions of £14.8m; and
- £49.5m for the Southern Electric scheme, including deficit repair contributions of £29.1m.

## Tax

**Being a fair tax payer**

SSE pays taxes in the United Kingdom and the Republic of Ireland, the only states in which it has trading operations. Central to SSE's approach to tax is that it should be regarded as a responsible tax payer. As a consequence, SSE seeks to maintain 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.

In the three years to 31 March 2014, SSE's tax paid to government in the UK, including Corporation Tax, Employers' National Insurance Contributions and Business Rates totalled £1.1bn. SSE pays taxes in the Republic of Ireland, in relation to its operations there, and paid £35.5m during the same three years.

In October 2014, SSE became the first FTSE 100 company to be awarded the Fair Tax Mark. It was launched in February 2014 and is the world's first independent accreditation process for identifying companies making a genuine effort to be open and transparent about their tax affairs. In complying with the Fair Tax Mark criteria SSE is providing information that moves its disclosure well beyond the current requirements of UK company law to ensure that it provides all its stakeholders with the information they need to properly appraise its tax affairs.

**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 14<br>£m | Sep13<br>£m<br>Restated | Sep 12<br>£m<br>Restated |
|---|---|---|---|
| **Adjusted current tax charge** | **55.6** | **58.2** | **64.0** |
| Add/(less) | | | |
| Share of JCE/Associate tax | (22.1) | 40.3 | (2.0) |
| Deferred tax including share of JV and Associates | 24.3 | (27.2) | 8.6 |
| Tax on exceptional items/certain re-measurements | (4.2) | (118.3) | (124.8) |
| Reported tax charge /(credit) | 53.6 | (47.0) | (54.2) |

For reasons already stated above, SSE's focus is on adjusted profit before tax* and in line with that the adjusted current tax charge is the tax measure that best reflects underlying performance. The effective adjusted current tax rate, based on adjusted profit before tax*, is 15.0%, compared with 16.4% in the same period last year, on the same basis.

## Priorities and Outlook for 2014/15 and beyond

**Setting the right long-term priorities to provide the energy people need**

In support of its strategy, SSE has identified three long-term priorities across its balanced range of businesses which reflect, and are consistent with, the key issues and trends in its Wholesale, Networks and Retail segments. The long-term priorities are:

- sustainability and flexibility in Wholesale;
- efficiency  and innovation in Networks; and
- excellence and trust in Retail.

In addition to the safe and efficient management of assets in operation or under maintenance or construction and the safe and efficient delivery of services to Retail and Networks customers, SSE's priorities for 2014/15 are to:

- ensure planned steps to simplify and streamline its business are successfully delivered, with further opportunities identified;
- adapt successfully to the progressive implementation of the UK government's Electricity Market Reform;
- ensure that the development and construction of new electricity generation assets makes good progress;
- secure an outcome from the ED1 electricity distribution Price Control review that is fair to customers and fair to investors and prepare for its delivery;
- deliver in a timely manner the required investment in the transmission system in the north of Scotland;
- make a positive contribution to the CMA investigation of the energy market in Great Britain, with the objective of achieving greater political and regulatory stability for the benefit of customers and investors alike; and
- ensure that the transformation of systems required under smart metering, and to provide digital services of a standard customers will expect, makes good progress.

## Conclusion

SSE's three business segments – Wholesale, Networks and Retail (including Enterprise) – have one core purpose: to provide the energy people need in a reliable and sustainable way.  SSE believes that success in fulfilling this core purpose enables it to earn a profit which it can then put to good use for the benefit of customers, other stakeholders and investors.  This helps to ensure that is in a good position to achieve its first financial objective for shareholders: annual increases in the dividend that at least keep pace with RPI inflation.

## WHOLESALE

**Wholesale Key Performance Indicators**

| | Sep 14 | Sep 13 |
|---|---|---|
| **Energy Portfolio Management (EPM) and Electricity Generation** | | |
| EPM and Generation operating profit* - £m | 11.8 | 86.2 |
| EPM and Generation capital expenditure and investment - £m | 200.8 | 363.1 |
| | | |
| **EPM** | | |
| Total wholesale electricity traded on N2EX Auction - GWh | 41,299 | 47,582 |
| Total wholesale electricity traded with small suppliers - GWh | 336 | 436 |
| | | |
| **GENERATION** | | |
| Gas- and oil-fired generation capacity (GB and Ire) – MW | 5,330 | 5,338 |
| Coal-fired generation capacity (inc biomass co-firing) – MW | 3,009 | 4,215 |
| Renewable generation capacity GB and Ire (inc pump storage) – MW | 3,394 | 3,237 |
| **Total electricity generation capacity (GB and Ire) – MW** | **11,733** | **12,790** |
| | | |
| Gas power station availability - % | 95 | 92 |
| Coal power station availability - % | 81 | 89 |
| Onshore wind farm availability % | 98 | 97 |
| | | |
| Hydro storage at end September - % | 43 | 44 |
| | | |
| Gas- and oil-fired (inc CHP) output (GB and Ire) – GWh | 5,340 | 5,577 |
| Coal-fired (inc biomass co-firing) output- GWh | 2,591 | 6,832 |
| **Total output from thermal power stations (GB and Ire) - GWh** | **7,931** | **12,409** |
| | | |
| Conventional hydro output – GWh | 1,210 | 1,070 |
| Wind energy output (GB and Ire) – GWh | 1,556 | 1,969 |
| Dedicated biomass output – GWh | 30 | 38 |
| **Total output of renewable energy (GB and Ire) – GWh** | **2,796** | **3,077** |
| | | |
| **Total output from pumped storage – GWh** | 53 | 93 |
| | | |
| **Total Generation output all plant - GWh** | **10,780** | **15,579** |

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 includes 735MW of mothballed plant at Keadby and 1,180MW at Peterhead (while TEC for these stations is zero and 400MW respectively from 1st April 14.).

Note 4: Capacity excludes Ferrybridge units 1 and 2 (c. 980MW) and 2 units at Uskmouth (c.230MW) which ceased operations at the end of March 2014.

| | | |
|---|---|---|
| **GAS PRODUCTION** | | |
| Gas production operating profit* - £m | 13.3 | 69.0 |
| Gas production – m therms | 200.8 | 206.8 |
| Gas production capital investment – £m | 6.2 | 15.7 |
| | | |
| **GAS STORAGE** | | |
| Gas storage operating profit* - £m | 1.6 | 5.2 |
| Gas storage customer nominations met - % | 100 | 100 |
| Gas storage capital investment - £m | 1.4 | 1.8 |

#### Sustainably sourcing and producing energy

SSE's long-term priority for the Wholesale segment is sustainability and flexibility in energy production through a diverse portfolio of assets and contracts that helps keep the lights on by being available to produce energy when it is required and is flexible enough to respond to changes in demand when they occur.

SSE's Wholesale segment delivers this through the following business activities:

- **Energy Portfolio Management (EPM)** is responsible for: ensuring SSE has the energy supplies it requires to meet the needs of customers; procuring the fuel required by the generation plants that SSE owns or has a contractual interest in; and selling the power output from this plant in the wholesale market.
- **Electricity Generation** is responsible for the operation and management of SSE's generation assets, their maintenance and ensuring these assets are available for use by EPM.
- **Gas Production** is responsible for the efficient delivery of gas from the physical gas fields that SSE has a shared ownership in.

Separately, **Gas Storage** is responsible for the operation and management of SSE's gas storage facilities, their maintenance and ensuring they are available for use by SSE and third parties.

EPM and Electricity Generation form a single profit centre with a focus on the efficient procurement (and, in the case of renewable sources, capture) of energy and efficient operation of electricity generation plant. In doing so it ensures it is consistent with all regulatory requirements, including the EU Regulation on Energy Market Integrity and Transparency (REMIT).

#### Financial performance in Wholesale

During the six months to 30 September 2014 operating profit* in Wholesale was £26.7m. This comprised (comparisons with the same period last year):

| **Wholesale Operating Profit*** | **Sep 14** | **Sep 13** |
|---|---|---|
| EPM and Electricity Generation* £m | 11.8 | 86.2 |
| Gas Production* £m | 13.3 | 69.0 |
| Gas Storage* £m | 1.6 | 5.2 |
| **Total Wholesale Operating Profit** | **26.7** | **160.4** |

The principal issues relating to operating profit in SSE's Wholesale businesses are as follows:

- **EPM and Electricity Generation** – lower output from renewable energy as well as lower coal-fired power station output and lower 'dark spreads' (the difference between the cost of coal and emissions allowances and the price received for electricity generated) all contributed to the fall in operating profit;
- **Gas Production** – day ahead wholesale gas prices were around one third lower on average than for the same period last year, resulting in the fall in operating profit; and
- **Gas Storage** - continued low gas price volatility has further reduced the spread between summer and winter gas prices resulting in a lower Standard Bundled Unit price being achieved.

#### Protecting customers from wholesale energy price volatility

The wholesale price of energy can fluctuate significantly due to a number of factors including the economy, the weather, customer demand, infrastructure availability, and world events. SSE's Wholesale business seeks 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 has:

- greater ability to manage wholesale energy price volatility, thereby protecting customers from it and ensuring greater retail price stability;
- lower risk from wholesale prices through reduced exposure to volatility in any single commodity; and

- more scope to deliver the investment needed in Generation and Gas Production because the risks associated with large-scale and long-term investments are balanced by the demand from electricity and gas customers.

## Energy Portfolio Management (EPM)

**Managing an energy portfolio**

In recent years, SSE has typically required around eight million therms of gas per day to supply its customers and to fuel its power stations, and around 140GWh of electricity per day to supply all its customers. EPM has three primary routes to procure competitively and sustainably the fuels and energy it needs to meet this demand:

- **assets:** including upstream gas exploration and production and thermal and renewable electricity generation;
- **contracts:** long-term gas producer contracts, power purchase agreements (with SSE-owned plant and third parties) and solid fuel contracts; and
- **trading:** where energy contracts are transparently traded on international exchanges or through 'over the counter' markets, with 100% of SSE's electricity supply and demand traded on the day-ahead auction market.

Managing risks associated with energy procurement across these three routes is a key challenge for EPM, as it is heavily influenced by a multitude of national and international factors. By optimising energy procurement through a diverse portfolio, SSE ensures that its customers are protected to an extent from the unavoidable volatility that exists in global markets.

In early October 2014, in line with this wider strategy, SSE entered into a long-term gas supply contract with Norwegian oil and gas provider Statoil. Starting on 1 October 2015, the six year deal secures the provision of 500,000 therms of gas per day - approximately 6% of SSE's average daily gas demand - at prevailing market prices and conditions. The contract provides SSE with a secure supply of gas, enabled by the physical links between Norwegian gas resources and the UK.

**Managing changes in wholesale gas prices**

Spot and day-ahead gas prices reduced through the end of the winter period and into the summer, with day-ahead prices dropping to below 35p/therm in early July, their lowest level since September 2010. This reduction in prices was driven by mild weather over the winter period and gas storage levels, which were at their highest level in five years going into summer 2014. This was in contrast to the end of the winter period in 2013 when prices increased as a result of cold weather and historically low gas storage levels.

**Increasing wholesale market transparency**

SSE has led the way in responding to stakeholders' desire for greater transparency and increased liquidity in the short-term wholesale market for electricity. For three years it has consistently placed 100% of its electricity generation and demand into NASDAQ OMX Group Inc. and Nord Pool Spot AS's N2EX daily auction. In taking this action SSE has helped to deliver a new level of market transparency. High volumes of electricity are now traded on the N2EX platform, benefiting 'day ahead' and forward markets, and SSE also believes that liquidity is now sufficient for independent retailers and does not represent any kind of barrier to market entry.

**EPM priorities for the remainder of 2014/15 and beyond**

EPM's priorities include:

- securing a stable and predictable supply of energy to meet SSE's customers' needs;
- driving business change to respond effectively to new UK, RoI and EU regulations;
- responding to market evolution and change;
- identifying and agreeing new long term energy supply contracts; and
- continuing to support improved market transparency and liquidity initiatives.

## Generation – Great Britain and Ireland Overview

#### Managing Generation assets according to long-standing principles

SSE's primary objective for its Generation division is to maintain a diverse generation portfolio, including the largest amount of renewable energy capacity in the UK and Ireland, that helps keep the lights on by being available, reliable and flexible. This objective is underpinned by six principles that direct the operation of, and investment in, its Generation portfolio:

- **compliance:** with all safety standards and environmental and regulatory requirements;
- **diversity:** to avoid over-dependency on particular fuels or technologies;
- **capacity:** to meet the electricity needs of domestic and small business customers;
- **availability:** to respond to customer demand and market conditions;
- **flexibility:** to ensure that changes in demand for electricity and the variability of generation from wind farms can be addressed; and
- **sustainability:** to support progressive reduction in the CO2 intensity of electricity generated through the cost efficient decarbonisation of its generation fleet.

SSE's generation assets are underpinned by a strong engineering focus on asset life and ongoing equipment monitoring to maximise efficiency.

#### Maintaining a diverse Generation portfolio

In moving towards a lower carbon generation mix SSE will, by the end of the decade, transition its generation assets from a portfolio weighted towards gas and coal, towards a portfolio more weighted towards gas and renewables. SSE's generation portfolio at 30 September 2014 comprises:

| **Electricity generation capacity** | **Sep 14** | **Sep 13** |
|---|---|---|
| Gas –fired generation capacity (GB) – MW | 4,262 | 4,270 |
| Gas- and oil-fired generation capacity (Ire) – MW | 1,068 | 1,068 |
| Coal-fired generation capacity (GB) (inc biomass co-firing) - MW | 3,009 | 4,215 |
| Renewable generation capacity GB and Ire (inc pump storage) - MW | 3,394 | 3,237 |
| **Total electricity generation capacity (GB and Ire) – MW** | **11,733** | **12,790** |

With this portfolio SSE continues to have the greatest fuel diversity for producing electricity amongst UK generators and retains the most flexible asset fleet. It also makes SSE the largest generator of electricity from renewables across the UK and Ireland.

## Generation – Great Britain (thermal)

| **GB thermal output** | **Sep 14** | **Sep 13** |
|---|---|---|
| Total Gas and oil-fired (inc CHP) output (GB) – GWh | 5,329 | 5,569 |
| Coal-fired (inc biomass co-firing) output- GWh | 2,591 | 6,832 |
| **Total output from thermal power stations (GB) – GWh** | **7,920** | **12,401** |
| Gas and oil-fired (inc CHP) output (GB) from fully owned stations included above - GWh | 1,116 | 2,901 |

#### Managing the impact of marketplace conditions and the public policy framework

Uncertainty around market conditions and the public policy framework affecting electricity generation in Great Britain have continued to create challenging conditions for SSE's thermal and renewables businesses.

The first half of 2014/15 has seen an uplift in 'spark spreads' – the difference between the cost of gas and emissions allowances used by a CCGT and the value of the power produced - compared to the historically low levels of 2013/14 which resulted in greater use of coal fired plant. This uplift in 'spark spreads' resulted in a fuel switch with gas generating more than coal over the summer months. This 'coal-to-gas switch' has been driven by a combination of lower wholesale gas prices and the April 2014 increase in the Carbon Price Support rate (see below), which has increased the cost of coal-fired generation relative to CCGTs. This additional cost, along with the constraints imposed by the Industrial

Emissions Directive and the introduction of full auctioning of EU emissions allowances, has begun to weigh heavily on the longer term viability of coal assets.

There have been a number of public policy interventions in recent years that significantly impact on both the development and operation of thermal plant. These include:

- **Carbon Price Support:** On 1 April 2013 the UK government increased the Carbon Price Support rate in line with the level confirmed in Budget 2013. This added a cost of £9.55/tonne of CO2 emissions in 2014/15 for fossil-fuelled generation in Great Britain, on top of the cost of complying with the EU ETS. The additional cost is set to rise to c.£18/tonne in 2015/16. The 2014 Budget announced that this additional cost would then be frozen until 2018/19, instead of increasing as previously proposed.
- **Capacity Market:** In December 2014 the first Capacity Auction for generation capacity in GB will be held, for delivery in 2018/19. This will competitively determine which plant will take on a capacity obligation and the level of capacity payment (£/kW) it will receive for doing so. In advance of the auction, National Grid held a pre-qualification process in September 2014 to determine which GB plant meet the requirements for participating in the first auction. SSE successfully pre-qualified all 7.2GW of its eligible plant.

**Contributing to security of electricity supply**

Ofgem has consistently maintained that over the coming years electricity generation capacity margins will be lower than they were in recent years due to weak market economics and EU regulations closing down older plant.

The UK Government, together with National Grid (as the System Operator) and Ofgem, has decided to address this issue in two ways:

- in the longer term through the introduction of a Capacity Market, which will begin in 2018/19; and
- in the intervening period, through the Supplemental Balancing Reserve (SBR) which is due to begin this winter (2014/15).

In addition to these mechanisms National Grid already has the ability to manage moments when demand outstrips supply through a range of different balancing and optimisation tools.

SSE has consistently argued that an effective and timely Capacity Market will be an important additional tool in assisting DECC and National Grid discharge their responsibility for ensuring security of supply; and that SBR could be an effective short term solution if it incentivises mothballed plant to come back on the system and does not inadvertently affect business-as-usual market operations.

The design, implementation and operation of these mechanisms is ultimately determined by DECC and National Grid. They will determine how much capacity is required to ensure security of supply under each of these mechanisms. Once this volume has been determined they will signal this to the market, and then procure the necessary capacity through a competitive auction/tender process.

Responsibility for determining the volume of capacity required to ensure a secure electricity supply, and for the timely signalling of this to the market, therefore lies with National Grid and DECC. Both organisations are confident that they will fulfil this responsibility. The Secretary of State for Energy and Climate Change stated in Parliament in November 2014 that ‘in the short term, our plan ensures we will comfortably meet supply security standards in this winter and next. As National Grid confirmed last week, they now have new balancing measures in place that will ensure the risk of supply disruption will remain at very low levels over the next few years and well within reliability standards’.

SSE will play its part by working with DECC and National Grid and by focusing on ensuring that its plant, where practicable, is available to generate at times when demand is highest. It will also continue to assist the UK government and National Grid with their policy development and will engage constructively with all parties on this issue.

**Responding to the Supplemental Balancing Reserve tender**

The Winter 2014/15 Supplementary Balancing Reserve (SBR) tender was originally due to take place in early 2014 but an announcement was delayed until June, at which point National Grid informed the market that it would not be running an SBR tender for the winter of 2014/15, but would run a Demand Side Balancing Reserve (DSBR) tender.

In September 2014, however, National Grid announced that it would now tender for SBR capacity for this winter with contracts to begin 1 November 2014. This short timescale was insufficient to allow mothballed plant, such as SSE's Keadby gas-fired power station, to return to service. However, SSE was able to submit its Peterhead gas-fired power station into the SBR tender. On 28 October 2014, National Grid awarded a 780MW SBR contract to Peterhead.

Certainty about the outcome and impact of the Capacity Market and SBR auction processes is required before investment decisions in new and existing thermal generation plant can be made. In the meantime, SSE will continue to manage its portfolio of electricity generation assets in accordance with the principles set out above (see 'Managing Generation assets according to long-standing principles') and in accordance with disciplined financial management.

**Maintaining options for SSE's coal-fired operations**

SSE has two wholly-owned coal-fired power stations: Ferrybridge (Yorkshire; 1,014MW) and Fiddler's Ferry (Lancashire, 1,995MW):

- all of the above capacity at Fiddler's Ferry and Ferrybridge is compliant with the Large Combustion Plant Directive (LCPD) and able to continue to generate electricity beyond 2015;
- the capacity at Fiddler's Ferry (as well as all of SSE's gas-fired power generating plant) has been opted in to the Transitional National Plan (TNP) for emissions and dust; and
- the above capacity at Ferrybridge has been opted in to the Limited Life Derogation option under the Industrial Emissions Directive (IED).

Selecting some plant for the IED, while maintaining other plant within the TNP, provides a number of alternative options for how these plants will operate in the future. SSE will monitor the development of the TNP over the next two years and, as key elements are finalised, will review whether it is appropriate to also move the plant at Ferrybridge into the TNP. Any decisions will also be informed by market conditions and the effects of the capacity market.

SSE is undertaking a trial investment on one 485MW unit at its Fiddler's Ferry site, which will reduce NOx emissions . The viability of extending this solution to the other three units at the plant is still under consideration.

**Managing the consequences of the fire at Ferrybridge**

On 31 July a serious fire impacted Ferrybridge Units 3 and 4, both of which were on a planned outage and therefore not operational. SSE's practised emergency response procedures were immediately activated, all people on the site were quickly accounted for, and the site was made secure and safe. There were no injuries. West Yorkshire Fire and Rescue Service brought the fire under control that afternoon and left the site the following day.

Since then SSE has been working to determine the cause of the fire, assess the damage, and determine how best to return the Units to service. Investigations have revealed that the fire only impacted on the Flue Gas Desulphurisation (FGD) absorbers attached to the two units, with the units themselves unaffected. The damage caused to the Unit 3 absorber was less severe and the unit (490MW) returned to service on 29th October.

Whilst Unit 4 itself was unaffected, and is now technically able to generate, the damage caused to the unit's absorber was significant, and will require extensive repair work. SSE is exploring a range of options with the relevant authorities that would allow the unit to return to service this winter to support secure electricity supplies. The outcome of these discussions will inform the date at which the plant will return to service.

**Completing the closure of Uskmouth**

In November 2013 SSE confirmed that Uskmouth's remaining Transmission Entry Capacity (TEC) capacity would be released to the National Grid by 31 March 2014 and that the station would cease to operate on that date. On 9 May 2014 SSE announced that, having not been able to find a suitable purchaser, it was closing the station. SSE continues to explore divestment opportunities for the site.

**Maintaining wholly-owned gas-fired power stations**

SSE has three wholly-owned gas-fired power stations: Keadby (Lincolnshire; 735MW); Medway (Kent; 700MW) and Peterhead (Aberdeenshire; 1,180MW):

- **Keadby** is mothballed, meaning it will take up to one year to restore to full operating condition. As a result, the decision to delay the SBR tender process meant Keadby was not able to participate in the SBR for the winter of 2014/15. It has not had TEC since 1 April 2014. Nevertheless, investment in the station in 2012/13 means that if and when it is required to generate electricity in the future, it will be able to operate in a more flexible and efficient way;
- **Medway** is operational, having also benefited from investment in 2012/13 to achieve greater efficiency and flexibility in operations; and
- **Peterhead** only has TEC of 400MW since 1 April 2014. In May 2014 SSE signed a contract with National Grid to provide ancillary support services to the electricity system in the north of Scotland for one year. This contract was terminated on 28 October when SSE signed a contract to provide up to 780MW of capacity to National Grid's Supplemental Balancing Reserve (SBR) service. Under the terms of the SBR contract, Peterhead's capacity will remain unavailable to the market unless called by National Grid. Existing investment plans to improve the station's efficiency and flexibility will continue as planned in 2014/15.

**Retaining potential investment options in thermal generation**

Despite experiencing challenges in recent years, it is still anticipated that gas-fired power stations will eventually play an increasingly important role in electricity generation.

As a result, SSE will continue to pursue development options for CCGT in Great Britain, including Abernedd (South Wales), Keadby 2 (Lincolnshire), and Seabank 3 (Bristol). These locations offer many attractive characteristics, including established grid and gas connections, availability of cooling water and land area. Although projects such as Abernedd and Keadby 2 are at an advanced stage of development, the outcome of the upcoming Capacity Market auctions (for which Abernedd has pre-qualified)will determine whether SSE progresses with any of these projects in the foreseeable future. As such SSE does not expect to take any final investment decisions to construct new plant until at least 2016. This will effectively mean no new capacity will come into operation before 2017/18 at the earliest, given the lead times for constructing new CCGT plant.

**Looking to the future of solid fuel generation**

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

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

The SSE and Wheelabrator Technologies Inc. 50:50 joint venture - Multifuel Energy Ltd (MEL) - is currently constructing a £300m multi-fuel generation facility adjacent to SSE's existing Ferrybridge coal power station. Construction of the facility is progressing well and it is scheduled to be fully operational in 2015. A Development Consent Order (DCO) Application for a second multi-fuel facility at the Ferrybridge site has been submitted to the Planning Inspectorate and is currently in the pre-examination phase. A final decision on the application is expected in 2015.

In addition to the MEL joint venture, SSE is pursuing the development of a new multi-fuel facility of up to 50MW at its Slough site and has submitted a planning application to Slough Borough Council.

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

SSE is continuing to work with Shell UK as a strategic partner in the proposed CCS project at SSE's gas-fired power station in Peterhead. The project aims to create the first commercial-scale application of CCS technology at a gas-fired power station anywhere in the world by capturing up to 1 million tonnes of CO2 annually. Shell is leading the development of the project, and will take responsibility for the construction of the CO2 capture plant and thereafter the operation, transport and storage elements of the project.

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

## Generation – Great Britain (renewable)

**Operating a diverse range of renewable generation**

SSE continues to be the UK's leading generator of electricity from renewable sources and the largest generator of electricity from wind across the UK and Ireland.

| **Renewable generation capacity – (GB)** | **Sep 14** | **Sep 13** |
|---|---|---|
| Conventional hydro – MW | 1,150 | 1,150 |
| Onshore wind  - MW | 1,008 | 937 |
| Offshore  wind –MW | 355 | 349 |
| Dedicated biomass – MW | 38 | 38 |
| **Renewable capacity – MW** | **2,551** | **2,474** |
| | | |
| Renewable capacity qualifying for ROCS – MW | c.1,900 | c.1,800 |
| | | |
| Conventional hydro output – GWh | 1,210 | 1,070 |
| Onshore wind output  - GWh | 715 | 894 |
| Offshore wind output  - GWh | 425 | 510 |
| Biomass output GB – GWh | 30 | 38 |
| **Renewable output  - GWh** | **2,380** | **2,512** |

**Managing the impact of market conditions and the public policy framework**

SSE continues to operate under the policy support regime for renewable generation capacity in GB, currently delivered through the Renewables Obligation (RO) (the RO applies also in Northern Ireland). The new Contracts for Difference (CfD) support mechanism is now accessible for new projects.

Absolute support for low carbon technologies will be limited by the Levy Control Framework budget which has the reasonable objective of controlling costs to customers from government energy policies. This also means that there is competition for support contracts. In addition, the contract terms will impact the way in which renewable projects are developed and constructed. This changes the way that investments in renewables are evaluated by both developers and providers of finance including SSE.

**Optimising the renewable development portfolio**

Since April 2008, SSE has invested more than £3.5bn in renewable generation.  As it moves forward to the next phase of its renewable energy development pipeline, it is focusing on projects that best allow the efficient allocation of resources and economies of scale. While the extent of overall development is likely to be lower than in recent years, the focus is on a consistent pipeline of new developments.

In order to support future investment in onshore wind assets SSE will, as outlined in March 2014, recycle capital by adding to its established programme of selective disposals of operational onshore wind assets and those in development.

**Developing renewable energy schemes onshore**

| **Onshore wind farm development pipeline (GB)** | **Sep 14** | **Sep 13** |
|---|---|---|
| In operation – MW | 1,008 | 937 |
| In construction or pre-construction – MW | 425 | 249 |
| With consent for development – MW | 475 | 284 |
| | | |
| Hydro pumped storage scheme - Coire Glas MW | up to 600 | up to 600 |

In addition to projects in development (see below), the following projects were in construction at 30 September 2014 and are key components of SSE's portfolio of strategic onshore wind projects in GB:

- **Langhope Rig** (16MW) – Construction at this 10-turbine site in the Scottish Borders is advanced; the site will be completed early in 2015.
- **Strathy North** (67MW) – Located in Sutherland, pre-construction work has been completed and main site construction is under way; the site is due for completion in 2015.
- **Dunmaglass** (94MW) – Main construction at this site south of Inverness is progressing well; the site is scheduled for completion in 2016.

SSE has a number of projects at different stages in the development cycle. These include:

- **Clyde Extension (pre-construction)** (up to 162MW) – this project, an extension of SSE's operational Clyde wind farm, was consented by Scottish Ministers in July 2014. SSE will now progress the project towards a final investment decision expected in 2015.
- **Bhlaraidh (with consent)** (up to 108MW) – this project is located in the Great Glen in the Highlands and was consented by Scottish Ministers in January 2014; SSE is progressing towards a final investment decision expected in 2015.
- **Stronelairg (with consent)** (up to 240MW) – located in the Great Glen in the Highlands the project was consented by Scottish Ministers in June 2014. In August the John Muir Trust announced it had lodged a petition to the Court of Session asking for this decision to be judicially reviewed. SSE will participate fully in the legal process.
- **Strathy South (in planning)** (up to 160MW) – in July 2014 the Highland Council's Northern Planning Committee raised an objection to the project, which is located in Sutherland adjacent to SSE's Strathy North site. This objection will now be examined further at a Public Local Inquiry, to be held in 2015. SSE will participate fully in this process.
- **Coire Glas (with consent)** (up to 600MW) – this pumped storage scheme received planning consent from the Scottish Ministers in December 2013. Making a final investment decision to progress the Coire Glas scheme will require overcoming a number of substantial commercial and regulatory challenges and therefore any final investment decision is unlikely to be taken in the foreseeable future.

**Developing renewable energy capacity offshore**

In line with its wider focus on streamlining and simplifying its business, SSE decided in March 2014 to narrow significantly the focus of its near term development plans for its offshore wind development portfolio. In particular, it decided to focus its efforts and resources on progressing the Beatrice project (up to 664MW, at that time a 75%/25% partnership between SSE and Repsol Nuevas Energias UK) planned for the outer Moray Firth.

In April 2014, the UK government announced that Beatrice had been successful in securing an Investment Contract (or early CfD). Securing this contract has enabled SSE and its partners to continue to invest in the engineering and procurement work required to maintain progress towards a final investment decision (FID) in early 2016.

In November 2014, SSE agreed to sell a portion of its shareholding in the Beatrice Offshore Wind Farm (BOWL) to fund management company Copenhagen Infrastructure Partners (CIP). This sale aligns with SSE's strategic review of its offshore wind portfolio in March 2014 and secures an additional strong partner to take the project forward to a Final Investment Decision. After the divestment, SSE owns a 50% share of the BOWL project; CIP will own 25% with Repsol maintaining its ownership of the remaining

25%. This FID will only be made if the project provides the return on capital investment required to be compatible with the risks involved.

In addition to Beatrice, SSE has an interest in three further offshore wind farm developments. In March 2014 it announced that it would not take the consented Galloper project (50:50 partnership between SSE and RWE Innogy) beyond the current phase of development. In September 2014 SSE announced it would exit the project on pre-agreed terms once a RWE Innogy has made a Final Investment Decision. In October 2014 RWE Innogy announced that it was stopping its development activities. SSE will now work with RWE Innogy to explore divestment opportunities for the project.

SSE also stated that it would support the progress of development work on Seagreen (3,500MW), a 50:50 partnership between SSE Renewables and Fluor Limited, and Forewind (7,200MW), a four-way partnership with RWE Innogy, Statoil and Statkraft, with the objective of securing the necessary consents for construction; but that it would not extend beyond that the scope of its commitments to the projects in the near term. Since March, Seagreen has secured consent for the first two projects in the zone (totalling 1,050MW) and the first two Forewind projects (totalling 2,400MW) have completed the examination phase of the consenting process.

Construction continues at the Hunterston offshore wind energy test facility in North Ayrshire, in which SSE is a partner. The Siemens (6MW) turbine is completed and is now fully operational. The Mitsubishi (7MW) turbine is now on site and is being erected by our partner Mitsubishi. SSE is working with Scottish Enterprise to find a manufacturer for the third and final berth at the site.

## Generation – Ireland

| **SSE Irish Generation Capacity and Output** | **Sep 14** | **Sep 13** |
|---|---|---|
| Onshore wind capacity (NI) - MW | 88 | 42 |
| Onshore wind capacity (ROI) - MW | 456 | 421 |
| **All Ireland wind capacity - MW** | **544** | **463** |
| Thermal capacity (ROI) - MW | 1,068 | 1,068 |
| **All Ireland generation capacity – MW** | **1,612** | **1,531** |
| | | |
| Onshore wind output (NI) - GWh | 71 | 63 |
| Onshore wind output (ROI) - GWh | 345 | 502 |
| **All Ireland wind output - GWh** | **416** | **565** |
| Thermal output (ROI) - GWh | 11 | 8 |
| **All Ireland generation output – GWh** | **427** | **573** |

**Maintaining a balanced generation portfolio**

As in GB, SSE in Ireland seeks to maintain a balanced generation portfolio. The fuel mix includes 1,068 MW of oil fired plant, 544MW of wind powered renewable generation and will shortly include the new gas-fired power station at Great Island. This combination of fuel mix and technologies ensures that SSE is well positioned. SSE will own just over 14% of installed capacity on the island of Ireland once Great Island CCGT becomes fully operational, to supply power to the Irish electricity system throughout any given day.

SSE seeks to maintain an effective balance between the electricity required to meet the demands of its customer base in Ireland and the electricity it produces from its own generation assets on the island. Following the expected completion of the new combined cycle gas turbine (CCGT) at Great Island, County Wexford, around the end of this financial year, SSE will generate enough electricity to meet around 60% of its energy customers' requirements. Meanwhile, the investment at Great Island will displace oil with gas, further improving carbon intensity and underpinning SSE Airtricity's heritage as a greener energy provider.

The project at Great Island is well progressed. Its rated capacity is 460MW but in October 2014 its regulated export capacity was set at 431MW. SSE is currently reviewing its options, with the objective of securing additional regulated export capacity. During September construction activities at the site were completed and commissioning is currently under way. The plant is expected to be fully operational by the end of the financial year. It will be the cleanest, most efficient and reliable gas power plant on the Irish national grid, generating enough electricity to power half a million homes. Once completed, SSE will progress with the decommissioning of the 240MW heavy fuel oil plant at Great Island.

**Engaging in the ISEM reform process**

The market across Ireland and Northern Ireland is known as the 'Single Electricity Market' or SEM. Its main components include: centrally dispatched generation; a capacity mechanism that remunerates generators for a proportion of their fixed costs when plant is made available; and no support for offshore wind electricity generation.

Whilst the market has proven very effective at delivering cost competitive energy supply for customers since its introduction in 2007, the requirements of the EU Target Model mean changes need to be made. These changes are expected to take effect around October 2017. During the forthcoming period of change SSE is focused on ensuring that the new Integrated Single Electricity Market or ISEM delivers a reasonable return for its investments in Ireland while ensuring it can deliver competitive prices for consumers.

In September 2014 the Regulatory Authorities, representing both the Commission for Energy Regulation and the Northern Ireland Utilities Regulator published a decision paper on high level design for ISEM. The decision paper delivered was as expected and reflected industry discussions and can be viewed under two headings – those relating to energy arrangements and those relating to capacity.

The project now moves to the detailed design and implementation phase. This is expected to deliver a detailed market structure for both energy and capacity by August 2015. Meanwhile SSE is an active participant both through industry representation and bilaterally with the Regulatory Authorities. Changes to the SEM presents both risk and opportunity and SSE will consider how its assets can best be deployed in the new ISEM, ensuring affordable prices for customers, security of electricity supply and supporting continuing investment in electricity in Ireland.

**Developing new capacity for renewable energy in the all Island market**

While no new SSE generating capacity came into operation since March 2014, Glenconway (46MW) and Athea (34MW) have both come into operation since 30 September 2013.

| Onshore wind farm development pipeline (All Ireland) | Sep 2014 | Sep 2013 |
|---|---|---|
| In operation - MW | 544 | 463 |
| In construction or pre-construction - MW | 152 | 80 |
| With consent for development - MW | 24 | 14 |

During the period, enabling works have continued at the 170MW (SSE share 116.5MW) Galway Wind Park development in County Galway. Subject to a final investment decision, this project is expected to enter construction toward the end of the financial year. Similarly, early site investigation works have commenced at the 32MW Tievenameenta wind farm in Northern Ireland.

**Supporting renewable energy in Ireland**

In the Republic of Ireland renewable generation receives policy support through the Renewable Energy Feed in Tariff (REFIT). Policy support for renewable generation in Northern Ireland is delivered through the Renewables Obligation. It is proposed that the new UK Contract for Difference support scheme will be introduced in Northern Ireland in 2016, and work on its final design is ongoing. Meanwhile, the advent of ISEM removes the reference price previously used for the payment of REFIT. With both NI and ROI falling behind in the achievement of 2020 renewable targets, SSE is currently working with officials in both jurisdictions to find suitable solutions that will provide investment incentives while protecting consumers.

**Generation priorities in 2014/15 and beyond**

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

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

## Gas Production

| GAS PRODUCTION | Sep 2014 | Sep 2013 |
|---|---|---|
| Gas production operating profit* - £m | 13.3 | 69.0 |
| Gas production – m therms | 200.8 | 206.8 |
| Gas production capital investment – £m | 6.2 | 15.7 |

**Producing gas to meet the needs of customers**

SSE's upstream portfolio is 100% gas weighted, and at 30 September 2014, it was estimated to hold in excess of 2.4 billion therms of reserves. The volume and production profile of the assets represents a secure supply of gas that can meet around 30% of the forecast demand from SSE's domestic gas customers over the next three years.

**Securing output from gas production assets**

Total output in the six months to 30 September 2014 was 200.8 million therms, compared with 206.8 million therms in the same period last year. As stated earlier the reduction in operating profit (£13.3m compared to £69.0m) from gas production during the period was a result of lower day ahead wholesale gas prices which were around one third lower than the same period last year.

**Continuing to consider options in Gas Production**

The addition, in the previous year, of the Sean assets scaled-up SSE's Gas Production business considerably. SSE continues to seek new opportunities to increase its reserve base to meet portfolio demand requirements. The UK and north west Europe remains the focus for this activity, as it provides a relatively stable tax and fiscal regime and is near to SSE's domestic energy supply markets. SSE has not set a target scale for its Gas Production business and will continue to evaluate gas weighted opportunities in line with its investment criteria and financial discipline.

**Monitoring developments in shale gas**

SSE currently has no involvement in any shale gas operations. It is, however, continuing to monitor the development of shale gas in the UK and the proposed fiscal and tax regimes surrounding its potential exploitation.

**Gas Production priorities for 2014/15 and beyond**

Gas Production priorities for the 2014/15 financial year include:

- ensuring the safe operation of all the assets in which it has an ownership interest;
- stringent cost control on operator budgets and enhanced monitoring and reporting of operator work programmes; and
- continuing the robust investment appraisal process to identify potentially suitable acquisition targets.

## Gas Storage

| GAS STORAGE | Sep 2014 | Sep 2013 |
|---|---|---|
| Gas storage operating profit* - £m | 1.6 | 5.2 |
| Gas storage customer nominations met - % | 100 | 100 |
| Gas storage capital investment - £m | 1.4 | 1.8 |

**Providing capacity to store gas**

Gas storage provides physical flexibility enabling customers of storage services to manage their market risks and respond to trading opportunities. It also provides an important security of supply function for the UK. SSE, through its wholly-owned subsidiary SSE Hornsea Ltd, has an ownership interest in two major gas storage facilities in East Yorkshire, and has continued to focus during the period on maximising the capacity of the facilities for its customers:

- **Hornsea (Atwick)** provided 257 million cubic metres (mcm) of gas storage capacity to its customers in the six months to 30 September 2014; one of its nine caverns was out of service during this period. This facility accounts for around 5% of the total gas storage capacity in the UK and 10% of deliverability; and
- **Aldbrough**, the UK's largest onshore gas storage facility, is owned by SSE (66.7%) and Statoil (UK) Ltd (33.3%) and operated by SSE. Seven of the facility's nine caverns were in operation during the six months to 30 September 2014, providing a total capacity of up to 200mcm, with work to return the two remaining caverns to service at an advanced stage and which is due for completion by the end of this financial year. It is anticipated that the Aldbrough facility will ultimately be able to store up to a maximum of around 320mcm, and account for around 17% of the UK's storage deliverability.

**Managing operations at Hornsea and Aldbrough**

The further reduction in the profitability of the Gas Storage business reflects the continued low spread between summer and winter wholesale gas prices and the prevailing lower volatility in shorter-term gas prices. Profitability has been further impacted during the period following a revision to rateable values for gas storage assets across the UK. Both sites continued to operate with good availability to meet commercial requirements, with significant ongoing maintenance and upgrade activities also progressed at the Hornsea site. During the six months to 30 September 2014:

- Hornsea again met 100% of customer nominations with the site 88% available except in instances of planned maintenance;
- Aldbrough met 100% of customer nominations and was 89% available overall except in instances of planned maintenance.

**Looking to the future for gas storage**

Current gas storage capacity, both at SSE and within the UK as a whole, plays an important role in the UK's energy infrastructure. The UK already meets the EU Regulation for Security of Supply of Gas and will do so for the foreseeable future. It is also clear that the market returns for gas storage are challenging and currently too low to encourage additional capacity to be deployed. SSE believes this situation is unlikely to change in the short to medium term and so is currently focussed on continuing to provide an efficient, reliable service to its customers where economically beneficial to do so. The consequence of these market conditions is that the valuation of SSE's gas storage assets remains subject to review. SSE and Statoil, despite having full planning permission for the development of a second phase of the gas storage facility at the Aldbrough site, maintain their decision not to proceed with this project until market conditions improve.

**Gas Storage priorities in 2014/15 and beyond**

Gas storage priorities for the financial year and beyond include:

- ensuring on-going high safety standards for operation of the facilities at Hornsea and Aldbrough and the compliant and effective operation of the Gas Storage business; and

- continuing to listen to existing and potential customers, working with them to shape flexible products which add value to their portfolios.

## Wholesale – Conclusion

Producing and securing energy in a sustainable way to meet the needs of customers is at the heart of SSE's Wholesale businesses. Key parts of this segment continue to face public policy uncertainty and challenging market conditions. Nevertheless, continued focus on operating efficiently its portfolio of assets, ongoing progress in the development and delivery of new assets, and strategic investments across its portfolio, mean that SSE's activities in Energy Portfolio Management, Electricity Generation, Gas Production and Gas Storage are able to support its core purpose of providing the energy people need in a reliable and sustainable way. They are able to contribute to the achievement of SSE's first financial goal of annual growth in the dividend payable to shareholders.

# NETWORKS

| Networks Key Performance Indicators | Sep 14 | Sep 13 |
|---|---|---|
| **ELECTRICITY TRANSMISSION** | | |
| Operating profit* - £m | 98.9 | 67.6 |
| Regulated Asset Value (RAV) - £m | 1,515 | 1,200 |
| Capital expenditure - £m | 212.8 | 195.0 |
| Connection offers provided in required period | 41 | 28 |
| **ELECTRICITY DISTRIBUTION** | | |
| Operating profit* - £m | 215.7 | 232.0 |
| Regulated Asset Value (RAV) - £m | 3,112 | 2,985 |
| Capital expenditure - £m | 127.6 | 128.2 |
| Electricity Distributed TWh | 18.3 | 18.8 |
| Customer minutes lost (SHEPD) average per customer | 29 | 33 |
| Customer minutes lost (SEPD) average per customer | 32 | 32 |
| Customer interruptions (SHEPD) per 100 customers | 31 | 37 |
| Customer interruptions (SEPD) per 100 customers | 32 | 36 |
| **SCOTIA GAS NETWORKS** | | |
| Operating profit* (SSE's share) - £m | 143.8 | 138.2 |
| Regulated Asset Value (SSE's share) - £m | 2,450 | 2,405 |
| Capital and replacement expenditure (SSE's share)- £m | 84.0 | 72.2 |
| Uncontrolled gas escapes attended within one hour % | 98.3 | 98.6 |
| SGN gas mains replaced – km | 533 | 468 |

**Owning, operating and investing in Networks**

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.

**Economically-regulated network companies with a growing Regulated 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 Regulated Asset Value (RAV) of its economically-regulated 'natural monopoly' businesses is £7,077m, up £257m from £6,820m at 31 March 2014. As at 30 September 2014, it comprised around:

- £1,515m for electricity transmission;
- £3,112m for electricity distribution; and
- £2,450m for gas distribution (being 50% of SGN's total RAV).

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 users to cover costs and earn a return on regulated assets. Although the process for setting Price Controls is complex and demanding, 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.

**Financial performance in Networks**

During the six months to 30 September 2014 operating profit* in Networks was £458.4m. This comprised (comparisons with the same period last year):

| **Networks Operating Profit** | **Sep 14** | **Sep 13** |
|---|---|---|
| Transmission operating profit* - £m | 98.9 | 67.6 |
| Distribution operating profit* - £m | 215.7 | 232.0 |
| SGN operating profit* (SSE's share) - £m | 143.8 | 138.2 |
| **Total Networks Operating Profit* - £m** | **458.4** | **437.8** |

## Electricity Transmission

| | **Sep 14** | **Sep 13** |
|---|---|---|
| Operating profit* - £m | 98.9 | 67.6 |
| Regulated Asset Value (RAV) - £m | 1,515 | 1,200 |
| Capital expenditure - £m | 212.8 | 195.0 |
| Connection offers provided in required period | 41 | 28 |

**Increasing operating profit* for Scottish Hydro Electric Transmission**

In SHE Transmission, operating profit* increased by 46.3% to £98.9.m. This reflects the major programme of capital investment undertaken in recent years. Since the current RIIO T1 Price Control started in April 2013, SHE Transmission's capital investment has totalled £562m. For 2014/15 as a whole, SHE Transmission expects to invest around £500m, including some expenditure on the Caithness to Moray transmission link.

**Managing SHE Transmission through a period of rapid growth**

SHE Transmission is responsible for maintaining and investing in the transmission network in around 70% of the land mass of Scotland, serving remote and island communities. As the licensed transmission company for an area with a significant amount of generation from renewable sources seeking to connect to the electricity network, SHE Transmission is required to ensure that there is sufficient capacity for projects committed to generating electricity.

As a result of the requirement to connect large volumes of dispersed renewable energy generation, SSE has committed to a major programme of investment in electricity transmission infrastructure in its area to support the transition to lower carbon electricity generation, increase security of supply and promote economic growth.

A significant portfolio of work also continues to develop and construct local connections to the network for new generation sites across SHE Transmission's licence area. In the year to date, 41 new connection offers were provided in the required period.

**Delivering the Beauly-Denny replacement line under the TIRG mechanism**

Transmission Investment for Renewable Generation (TIRG) is a funding mechanism that preceded Strategic Wider Works (see below) to provide a framework for funding for large transmission projects. SHE Transmission has one project in construction under this mechanism – the replacement of the Beauly-Denny line between Beauly and Wharry Burn.

The project has continued to make good progress. The central section which links Fort Augustus and Tummel Bridge substations, and includes the highest transmission tower above sea level in the UK, has now been completed and energised. All SSE tower foundations are complete and the final two towers are programmed to be erected in early 2015. The Amulree, Whitebridge and Muthill network rationalisation schemes that were required as a condition of planning consent have been completed, with two further rationalisation schemes located at Beauly and in The Cairngorms National Park on course to be completed in 2015.

Based on expenditure to date (c£570m) and known issues, including the interface with SP Transmission's section of the line, it is expected the final cost will not exceed £690m. Further discussions continue to take place with SP Transmission and Ofgem on coordination with the network in the south of Scotland; and the timescales and full cost of completion.

**Delivering other transmission upgrades, including Beauly to Blackhillock to Kintore**

Funding for four further projects was separately approved by Ofgem in 2010, of which three have been completed and one is ongoing: Beauly to Blackhillock to Kintore: The replacement of the 275kV conductors to allow an increase in the capacity of the network to transmit electricity is well under way, with over half of the project already complete and anticipated energisation in 2015. Ofgem has given capital funding approval of £94m (2013/14 prices) for this development.

**Delivering under the RIIO-T1 Framework through Strategic Wider Works**

SHE Transmission is now 18 months into the RIIO-T1 Price Control. Under this framework Ofgem recognises the requirement for SHE Transmission to significantly expand its network over the period of the price control to facilitate the growth of renewable generation in the north of Scotland in order to meet national renewable energy targets. The exact timing and scale of growth is dynamic and is largely dependent on the requirements from existing and planned capacity for electricity generation.

To allow these projects to be delivered in this dynamic environment, Ofgem developed the Strategic Wider Works mechanism whereby it considers on a case-by-case basis the evidence presented by SHE Transmission to decide whether a project is needed. It then considers SHE Transmission's proposed solution in detail, scrutinises the costs and approves funding. SHE Transmission has been working with Ofgem on three projects under the Strategic Wider Works mechanism:

- **Beauly to Mossford:** Following the successful completion of Phase 1 with the energisation of Corriemoillie substation in 2013, the rebuild of the 132kV overhead line is progressing well and is on course to be completed in 2015. Ofgem has given capital funding approval of £68m (2013/14 prices) in total for both phases of work.
- **Kintyre to Hunterston:** Following on from the completion of the platform for a new substation and landing point for the subsea cable in Kintyre, the construction of new steel towers for a replacement 132kV overhead line to the existing substation at Carradale has now begun. Onshore cable installation works at the Kintyre landfall have also started, with onshore cable works at Hunterston and marine installation expected to follow next year. The current programme anticipates that the reinforcement will be operational by 2015. Ofgem has given capital funding approval of £205.6m (2013/14 prices).
- **Caithness to Moray:** In July 2014, Ofgem announced its approval of the needs case for a High Voltage Direct Current (HVDC) subsea cable between Caithness and Moray, with associated reinforcements to the onshore network in the north of Scotland. The contract for the HVDC works has been placed and preparations are under way for the initial stage of construction work at substation sites in Caithness and Moray. In October 2014, Ofgem published a consultation on the proposed allowances for the new transmission link. SHE Transmission believes that it has produced a well defined and well scoped project that offers value for money for customers while allowing the realisation of the vast potential of renewable electricity generation in the north of Scotland for the benefit of the whole country. While it is disappointed with the level of the allowances proposed (£1.06bn 2013/14 prices) , the consultation does enable further engagement with Ofgem to take place on important issues, such as the best way for treating contingency- and risk-related costs. SHE Transmission believes the consultation provides the right opportunity for these to be considered and resolved in a way that's fair to customers and investors alike, and will engage constructively in the process. A decision is expected from Ofgem

in December. The project itself is still expected to be completed in 2018, with the first revenues due to be received in 2015/16.

**Working on possible transmission links for the Scottish islands**

Orkney, Shetland and the Western Isles all have the potential to host large scale renewable energy developments which could add significantly to the local economies and also contribute towards Scottish and UK renewable energy targets. Major new transmission infrastructure is, however, required to get the electricity they would produce to market.

SHE Transmission has engaged with all key stakeholders, including the Scottish and UK governments and Ofgem, through the Scottish Islands Renewables Delivery Forum and played a leading role in the recognition that all of those represented on the Forum have a part to play in finding solutions for this exceptionally complex situation. The Forum has been successful in bringing greater clarity and better understanding about what needs to happen before SHE Transmission can produce a robust needs case upon which capital funding approval can be secured from Ofgem. This in turn has facilitated improved relationships with key stakeholders around the Scottish islands issues.

For its part SHE Transmission has made it clear that, in line with its operating licence, it would be prepared to submit a needs case to Ofgem for an appropriate transmission solution at the right time - but making such a case without greater certainty on the scale of development and its timing is not practically possible.

**Responding to proposed regulatory changes for electricity transmission**

In its Draft Conclusions on Integrated Transmission Planning and Regulation (ITPR) published in September 2014, Ofgem set out a number of significant changes to the regulation of electricity transmission:

- an enhanced role for the System Operator in the identification of system needs and development and assessment of options to meet these needs;
- broad framework for regulation of transmission asset delivery but retaining different treatment for different types of transmission activity;
- expanded use of competitive tendering where Ofgem believes it can drive efficiency, with a focus on large assets that can be easily identified and separated from the surrounding network; and
- measures to mitigate conflicts of interest with the System Operator's enhanced role, including transparency, business separation and information ring-fencing.

Ofgem envisages initial implementation via changes to transmission licences in the summer of 2015, with some proposals such as competitive tenders that may need legislative change likely to take longer. It is too early to predict the net impact of this on SHE Transmission's investment programme later this decade; in the meantime, SHE Transmission will submit a response to the consultation on the Draft Conclusions before it closes on 24 November.

**Maintaining a resilient Transmission network**

On 16 April and 18 August there were two significant incidents on the SHE Transmission network that caused interruptions to customer electricity supplies for up to six hours. Investigations have been carried out into these incidents and resulting recommendations have been implemented to resolve a technical issue identified with some supplied components and to minimise potential for operator error through revised working procedures during significant upgrade works. SHE Transmission greatly appreciates the contributions of all those who worked with it to manage these incidents, including the customers who were affected.

**Electricity Transmission priorities for 2014/15 and beyond**

For SHE Transmission, the core activity for much of the next decade will be construction. Against this background, its priorities for the rest of 2014/15 and beyond are to:

- meet key milestones in projects under construction, in a way that is consistent with all safety and environmental requirements;

- provide an excellent service to all generation and demand customers who rely on its network;
- continue to implement the new operational regimes for the 2013-21 Price Control and maintain high levels of system availability;
- work within the changing policy framework and, where appropriate, achieve regulatory approval for new links in an efficient and timely manner;
- make progress with projects in development, including implementing the programme of consulting with, and updating, interested parties;
- maintain and develop effective stakeholder relationships; and
- ensure it has the people, skills, resources and supply chain relationships that will be necessary to support growth.

## Electricity Distribution

**Performance in Scottish and Southern Energy Power Distribution (SSEPD)**

The performance of SSEPD's two electricity distribution companies, Scottish Hydro Electric Power Distribution (SHEPD) and Southern Electric Power Distribution (SEPD), during the six months to 30 September 2014 was as follows (comparisons with the same period in 2013):

| ELECTRICITY DISTRIBUTION | Sep 14 | Sep 13 |
|---|---|---|
| Operating profit* - £m | 215.7 | 232.0 |
| Regulated Asset Value (RAV) - £m | 3,112 | 2,985 |
| Capital expenditure - £m | 127.6 | 128.2 |
| Electricity distributed TWh | 18.3 | 18.8 |
| Customer minutes lost (SHEPD) average per customer | 29 | 33 |
| Customer minutes lost (SEPD) average per customer | 32 | 32 |
| Customer interruptions (SHEPD) per 100 customers | 31 | 37 |
| Customer interruptions (SEPD) per 100 customers | 32 | 36 |

The decrease in operating profit reflects lower units distributed compared to the same period in 2013, the adjustment for last year's over-recovery of £25m and additional costs incurred. Looking to 2015/16, the first year of the RIIO-ED1 Price Control, Ofgem set out in its decision letter in December 13 that base revenues will match those in the Draft Determinations which, for SSEPD, were around 18% below 2014/15 base revenue levels. Any difference between the Draft and Final Determinations will be recovered over the remaining seven years of ED1. From this starting point, it will, therefore, be a demanding Price Control, requiring the achievement of significant cost reductions and service improvements.

**Volume of electricity distributed**

The total volume of electricity distributed by the two companies in the six months to 30 September 2014 was 18.3TWh, compared with 18.8TWh in the same period in 2013. Under the electricity Distribution Price Control for 2010-15, the volume of electricity distributed does not affect companies' overall allowed revenue (although it does have an impact on the timing of revenue collection).

**Investing in distribution network resilience**

Capital expenditure in electricity distribution networks was £127.6m in the six months to 30 September 2014, taking the total for the 2010-15 Price Control so far to £1,197m. The RAV of the electricity distribution networks is estimated to total £3,112m at the end of September 2014 and is expected to reach just under £3.2bn by 31 March 2015.

This investment is good for customers. For example, making the electricity network more resilient and improving supplies to nearly 60,000 homes and businesses was the objective of the £10m project to install 11km of new underground cables between Iver and Slough. Part of the work involved using a horizontal directional drill to install the cables under the M4, avoiding disruption or delays for road users.

Other investment includes the installation of a new subsea cable between Lepe in Hampshire and Thorness Bay on the Isle of Wight, as part of a £13m project. This significant project was completed safely, on time and on budget.

**Responding to feedback from customers**

In the autumn and winter of 2013/14, SSEPD customers were affected by an exceptional series of severe winter storms, which had particular impact on its network in central southern England. Following disruption to power supplies over the Christmas period, SSEPD launched a consultation in January 2014 to identify where customers and stakeholders felt improvements could be made.

In July 2014, SSEPD published Reconnecting with our customers, responding to the feedback received and outlining steps to:

- invest in improved communication with customers during power cuts;
- improve the support offered to customers who may be vulnerable while they are without electricity;
- reduce the number and duration of power cuts, including by increasing the availability of mobile generation; and
- make it easier for customers to send in details of observed damage to the network.

SSEPD also submitted evidence required by Ofgem and DECC for their investigations into performance and processes over the Christmas period. Both reviews recognised, in line with the evidence submitted, that the networks in the south and south east of England were particularly severely affected by the adverse weather. In recognition of the inconvenience and disruption caused to customers, and following discussions with Ofgem, SSEPD committed to donating £1m to the Red Cross, Age UK, MacMillan Cancer Support and National Energy Action. SSEPD has also set up a £1.3m fund to help community groups and organisations that look after the welfare of vulnerable households.

Continuing investment in the distribution networks contributes to the key priority of providing an essential service to customers by delivering a reliable supply of electricity. SSEPD has a strong historic performance on network reliability. Investing in the networks to maintain reliability is therefore critical to sustaining this record; and with new standards on restoring power within 12 hours, SSEPD continues to implement a programme to keep assets in good condition and to further improve reliability without increasing costs. SSEPD is fully committed to working collaboratively with DECC, other DNOs and the Energy Networks Association (ENA) to deliver improvements for customers ahead of winter 2014/15 and beyond.

**Keeping costs down and improving customer service for RIIO ED1**

In July Ofgem published the Draft Determinations for electricity distribution network operators (DNOs) for RIIO-ED1, including SEPD and SHEPD. RIIO-ED1 will be the first electricity distribution Price Control review to reflect the new regulatory framework first adopted in RIIO-T1 and RIIO-GD1. It will run from 1 April 2015 to 31 March 2023. In line with the RIIO principles for energy networks, it puts an emphasis on incentives and innovation as central to achieving a cost effective transition to low carbon technology.

SSEPD has long supported the incentive-based RIIO framework for networks' price controls given the clear benefits to customers of increased transparency and greater focus on outputs and innovation. These benefits are evident from the cost reductions and service improvements already set out in the RIIO-ED1 Business Plan and acknowledged by Ofgem. In particular SSEPD welcomes Ofgem's recognition of the strong package of customer improvement described in its March 2014 Business Plan.

However a number of elements of the Draft Determinations were disappointing including Ofgem's proposals on efficient financing and its assumptions about the scope of further cost reductions. SSEPD has worked with Ofgem during the consultation period to set out its views and provide additional information where required. SSEPD's aim is to secure a final settlement that both provides value for money for customers as well as securing the funding required to operate and develop its distribution networks for customers' benefit.

#### Innovating for the future of electricity networks

Alongside the price control process SSEPD is actively pursuing innovative ways of working that would deliver further improvements to network resilience and customer service within the parameters of the RIIO-ED1 settlement. SSE's electricity distribution businesses are leading the way in keeping costs down for customers and preparing for the future through innovation. It has opened the sector-leading Active Network Management scheme on Orkney and anticipates the roll out to other suitable areas in future. This system uses advanced IT systems to balance energy flows, allowing many small and medium sized generators to connect to the network in areas where there is no permanent spare capacity.

#### Working for a new energy solution for Shetland

In Shetland, SSEPD developed the Northern Isles New Energy Solutions (NINES) project designed to use heat and electricity storage to manage intelligently the impact of movements in demand on electricity generation in the context of the isolated island network. Alongside a proposed replacement power station and renewable generation; this was part of the Shetland Integrated Plan which was submitted to Ofgem in 2013.

Ofgem responded in April 2014, and indicated that it was not able to accept the Integrated Plan, primarily on the grounds of cost. It required SHEPD to conduct an open competitive process, preceded by a public consultation, to identify 'the lowest cost and most efficient solution' for meeting Shetland's future energy needs from the market. The public consultation phase of this process is currently under way. SHEPD is committed to working with Ofgem, communities and interested parties to conduct the required process and to deliver long term arrangements to meet the needs of its Shetland customers as quickly as possible.

#### Electricity Distribution priorities in 2014/15 and beyond

During 2014/15 and beyond SSE's priorities in Electricity Distribution are to:

- comply fully with all safety standards and environmental requirements;
- place customers' needs at the centre of plans for the networks;
- achieve a settlement from Ofgem on RIIO-ED1 that is fair to investors and represents value for customers and supports the investment required on the networks;
- 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;
- deliver improvements for customers during the coming winter, resulting from the measures taken following reviews of storm performance;
- ensure that there is adequate capacity to meet changing demands on the electricity system; and
- make progress on the deployment of innovative investment in smart grids.

## Gas Distribution

| Scotia Gas Networks | Sep 14 | Sep 13 |
|---|---|---|
| Operating profit* (SSE's share) - £m | 143.8 | 138.2 |
| Regulated Asset Value (SSE's share) - £m | 2,450 | 2,405 |
| Capital and replacement expenditure (SSE's share)- £m | 84.0 | 72.2 |
| Uncontrolled gas escapes attended within one hour % | 98.3 | 98.6 |
| SGN gas mains replaced – km | 533 | 468 |

#### Performance in SGN

SSE receives 50% of the distributable earnings from Scotia Gas Networks (SGN), in line with its equity holding, and also provides some, but reducing, level of support through a managed service agreement.

The increase in SGN's operating profit* reflects the timing of allowed revenue recovery, continued good operational performance and efficiencies. In terms of operational performance, 98.3% of uncontrolled gas escapes were attended within one hour of notification, compared with 98.6% in the same six months in 2013, and exceeding the Ofgem standard of 97%.

A small but growing part of SGN's operating profit* is derived from non-GB regulated activities. In the six months to September 2014, SGN was confirmed alongside its partner Mutual Energy as the preferred applicant for the Northern Ireland Gas to the West project. This potential £300m project will involve the construction of 170km of transmission pipeline and 500km of gas mains and services, bringing natural gas for the first time to around 40,000 customers in eight medium-sized towns west of Belfast.

**Implementing the new Gas Distribution Price Control**

SGN is focussed on ensuring its outputs under the new RIIO framework are met, incentives are maximised and innovation is delivered effectively while running an efficient, safe and reliable network.

SGN's investment programme is key to this and within overall cost allowances of over £4.6bn (at 2012/13 prices), Ofgem has allowed around £2.8bn over the eight year price control which runs until 2021 to cover new investment and to manage the risks relating to SGN's existing assets. This investment will allow SGN to:

- deliver a safe and reliable network for its customers;
- minimise the impact on the environment and better communicate its work to customers and communities; and
- deliver new customer-driven initiatives to help reduce fuel poverty and increase awareness of the dangers of carbon monoxide.

**Investing in gas networks and securing growth in its RAV**

At 30 September 14, SGN's total RAV is estimated at £4.9bn (SSE share £2.45bn). In the six months to 30 September 2014, SGN invested £168m (SSE share £84.0m) in capital expenditure and mains and services replacement projects, compared with £144.4m (SSE share £72.2m) in the comparable period in 2013.

The majority of the mains replacement expenditure was incurred under the Iron Mains Risk Reduction Programme (IMRRP) which was started in 2002. This requires that iron gas mains within 30 metres of homes and premises must be replaced over a 30 year period. In the six months to 30 September 2014, SGN replaced 533km of its metallic gas mains with modern polyethylene plastic pipe.

**Innovating to deliver sustainability and efficiency**

In August 2014, SGN opened its first biomethane injection site at Portsdown Hill, Hampshire, where biomethane is delivered from plants across the south of England. In addition, the company has 14 biomethane production sites which they are actively pursuing to ensure the sustainable development of this technology into the future to allow larger volumes of biomethane to come to the network. SGN believes this innovation will help the UK meet its decarbonisation targets, contribute to the UK's energy security and help with energy affordability. SGN aims to supply 250,000 customers with green gas by 2021 and currently supplies around 67,000 homes.

During the first part of the year SGN started using its robotics technology in a new programme of work which initially includes nine projects across Scotland and southern England. SGN is the first UK gas distribution company to start using the innovative technology, developed in the USA, to repair gas mains from inside the pipe, following successful trials last year. The robotics tool CISBOT minimises the number of excavations in the road and works in live gas mains, while also removing the need to disrupt the gas services to customers.

**Gas Distribution priorities**

SGN recently refreshed its company goals with its key priorities now to:

- deliver excellent levels of safety and operational performance;
- create an inclusive and engaged team, proud to work;
- shape the future of a low-carbon environment by leading the way in the development of green gas;

- minimise its effect on the environment and have a positive impact on local communities;
- meet regulatory outputs and maximise incentives, while continuing to deliver value for all stakeholders;
- deliver a strong financial performance and an acceptable shareholder return; and
- grow unregulated income to support the core business and build a diversified portfolio of assets in the UK.

## Networks – Conclusion

The continuing success of SSE's economically-regulated Networks will be founded on efficiency and innovation in operations, such as restoring power supplies following interruptions, and investments, such as upgrading the transmission network in the north of Scotland. This efficiency, innovation and investment, in turn, underpins SSE's ability to target annual dividend increases of at least RPI inflation.

# RETAIL

**Retail Key Performance Indicators**

| | Sep 14 | Sep 13 |
|---|---|---|
| **Energy Supply** | | |
| Operating (loss)* - £m | (16.9) | (115.4) |
| | | |
| Electricity customer accounts (GB domestic) - m | 4.56 | 4.83 |
| Gas customer accounts (GB domestic) – m | 3.12 | 3.33 |
| Energy customers (GB business sites) – m | 0.43 | 0.42 |
| All-Island energy market customers (Ire) – m | 0.78 | 0.83 |
| **Total energy customer accounts (GB, Ire) – m** | **8.89** | **9.41** |
| | | |
| Electricity supplied household average (GB) – kWh | 1,623 | 1,713 |
| Gas supplied household average (GB) – th | 102 | 133 |
| Household/small business aged debt (GB, Ire) - £m | 134.5 | 117.0 |
| Customer complaints to third parties (GB)[2] | 670 | 619 |

[2] Energy Ombudsman, Consumer Focus and Consumer Direct

| | Sep 14 | Sep 13 |
|---|---|---|
| **Energy related services** | | |
| Operating profit*[#] - £m | 11.3 | 16.2 |
| Home Services customer accounts (GB) – m | 0.35 | 0.40 |
| Meters read – m | 6.7 | 7.1 |
| | | |
| **Enterprise** | | |
| Operating profit*[#] - £m | 42.9 | 27.8 |
| SSE Contracting Order Book | 98 | 86 |

[#] Operating profit for the same period in 2013 restated in line with establishment of Enterprise division and as set out in the Notification of Close Period on 29 September 2014

**Supplying energy and related services across the Great Britain and Ireland markets**

SSE's Retail segment comprises three business areas: Energy Supply, Energy Related Services and Enterprise. SSE is the second largest energy supplier in the competitive markets in Great Britain and in Ireland. At 30 September 2014, it supplied electricity and gas to 8.89 million household and business accounts. It also provides, through its Energy Related Services and Enterprise businesses, other energy-related products and services to household and business customers respectively.

The principal purpose of the Retail business is to supply energy and related services to customers in a reliable and sustainable way; in doing so, it is focused on attracting and retaining customers by offering industry-leading customer service, value for money and strong propositions under a recognised and differentiated brand.

**Financial performance in Retail**

During the six months to 30 September 2014 operating profit* in Retail was £37.3m. This comprised (comparisons with the same period last year):

| **Operating Profit/Loss** | **Sep 14** | **Sep 13** Restated |
|---|---|---|
| Energy Supply - £m | (16.9) | (115.4) |
| Energy related services - £m | 11.3 | 16.2 |
| Enterprise - £m | 42.9 | 27.8 |
| **Total Retail Operating Profit/(Loss)*** | **37.3** | **(71.4)** |

Performance in Retail was heavily influenced by the £16.9m loss in Energy Supply, the division which supplies electricity and gas to household and business customers in markets in Great Britain and Ireland. As well as highlighting the extremely competitive conditions in which SSE operates, this loss reflects the unusually warm weather throughout the period. Performance was also impacted by the reduction in customer numbers and lower underlying energy usage (before the impact of weather) .

Operating profit for the new Enterprise division was £15.1m higher than that reported for the same period in 2013, largely attributable to the one-off benefit of the disposal of the gas connections business on 1 September 2014. Operating profit for Energy Related Services was £4.9m lower than the same period last year with lower profits in Metering and Retail Telecoms being offset by slightly higher profits in Home Services.

Financial performance in Retail in six month periods can vary significantly and full-year results therefore represent a more reliable measure of performance. The Energy Supply business incurred an even greater loss in the same six months in 2013, having absorbed during that period the cost increases which regrettably led to a price increase in November 2013.

Having unconditionally frozen standard household energy prices in Great Britain in March 2014, SSE will not be increasing prices this year or into the next and therefore expects financial performance to be less volatile in 2014/15. SSE remains committed to operational and financial discipline and this means that it expects both Energy Supply and Retail more broadly to be profitable in 2014/15 as a whole. Over the last three financial years, SSE's Energy Supply profit margin (operating profit as a percentage of revenue) has averaged 3.5%.

**Equipping SSE's Retail business for the future**

SSE aims to become a market-leading, digital and diversified retailer of energy and essential services. Its strategy for achieving this is to attract and retain customers by offering value for money, excellent customer service, a positive experience of digital services, and a compelling range of energy-related products and services**.**

In order to deliver this strategy, SSE has, since the start of this financial year:

- developed a bolder brand proposition designed to engage customers, differentiate itself from competitors, and demonstrate that SSE is a brand people can trust to supply their home and provide essential services;
- introduced new propositions, partnerships and rewards in order to offer customers a broader range of products and services;
- begun a programme of investments in digital channels including customer-facing websites and apps to improve the customer experience, as well as in its data and insight, to facilitate smarter interactions with and offers to customers; and
- continued its efforts to simplify and remove costs from the Retail business through leaner systems and processes that enable it to deliver excellent service at the lowest possible cost.

SSE will continue to drive forward this strategy and expects to make further progress during the remainder of 2014/15 and beyond.

**Building a brand people trust in GB and Ireland**

SSE is investing in a new brand which is intended to enable it to meet more effectively the challenges the business is facing. As the company seeks to differentiate itself in very competitive markets in both GB and Ireland, the new brand is designed to help raise awareness of the company and its values, and better equip SSE to have stronger relationships with new and existing customers.

Specifically, SSE expects its investment in the brand to:

- improve customer acquisition and retention over the long term;
- create a better platform from which it can sell a broader range of products and services to customers, helping to sustain margins; and
- help it communicate more effectively with customers during a period of unprecedented public, political and regulatory scrutiny.

Early indications are that the launch of the new advertising campaign in October 2014 was well received and research amongst customers suggests it is already beginning to raise awareness of, and positive sentiment towards, the SSE brand.

**Investing in Retail to meet customers' needs**

During the six months to 30 September, SSE has made investments totalling £71.2m in its Retail business, including:

- the ongoing transformation of its digital platforms through a Digital Experience Programme to improve customer experience and reduce operational costs;
- a new customer relationship management (CRM) system (Siebel), enabling it to make better use of data and insight to target communications and propositions in a more sophisticated way, according to customer behaviours and preferences; and
- investment of £22m in Enterprise, consisting of further investment in out-of-area electrical, gas, heat and water networks and expenditure on the Group's UK telecoms network .

**Making Consolidated Segmental Statements clearer**

Since 2010, Ofgem has required the leading energy suppliers in Great Britain to publish a Consolidated Segmental Statement (CSS) setting out the revenues, costs and profits or losses of their electricity generation and energy supply businesses.

Although it was not required to do so until 30 September 2014, SSE published its CSS for 2013/2014 in July. The CSS, which was reviewed by SSE's auditors KPMG under guidelines set by Ofgem and reconciled to SSE's published financial statements, showed that SSE's profit margin in its domestic electricity and gas supply business in Great Britain was 3.9% (before tax) in 2013/14; the average for the five years up to and including March 2014 was 4.9%.

Ofgem confirmed in October 2014 that its latest review of the statements had found that the methods used by obligated companies to produce them are appropriate. SSE supports the proposals made by Ofgem at the same time to make the information in the CSS clearer, more timely and robust, and expects the new rules to come into force next year.

**Working with customers to manage energy-related debt**

At 30 September 2014, 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 £134.5m, compared with £117.8m at 31 March 2014 and £117.0m at 30 September 2013. A bad debt-related charge of £27.5m was recognised in the period (compared to £22.6m in same period last year). This compares with a charge of £67.8m for the full financial year 2013/14.

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

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.

## Energy Supply

**Fulfilling SSE's responsibilities as an energy supplier**

SSE appreciates that its customers rely on its core products of electricity and gas to power and heat their homes in order to live comfortably. It has, therefore, led the energy supply industry on the issue of energy affordability and it remains the only energy supplier in Great Britain with an unconditional commitment not to increase standard household energy prices before 2016 at the earliest. This is the longest price freeze of its nature the GB energy market has ever seen. It gives SSE customers absolute peace of mind over their energy costs and follows a price reduction in March 2014 for all of SSE's household energy customers, regardless of their choice of tariff.

This unprecedented commitment shows that SSE is responding to the concerns of its customers and to the pressures of a competitive market. The price freeze covers a period of at least 20 months; during that period, SSE is aware that the many different costs of supplying energy to households will naturally go up and down. Guaranteeing not to increase prices for such a long period of time requires a long-term view of costs; wholesale energy now accounts for less than 50% as other costs have increased, and SSE therefore believes that this commitment should also be judged over the long term. In the meantime, SSE will continue to make the most competitive offers it can whilst providing absolute peace of mind for those customers who prefer the flexibility of a standard variable tariff.

SSE would like to extend its price freeze beyond 2016, or even cut prices if further costs can be taken out of energy supply, and will work with any political party or stakeholder to find such solutions. It believes further savings for consumers worth around £100 – forecast to rise to around £200 by 2020 – could be made with political action to end the practice of levying policy costs on energy bills. Recouping the cost through energy bills takes no account of an individual's ability to pay and is therefore socially regressive. SSE has therefore continued to call for more of these levies to be moved into general taxation, making bills cheaper and helping those less able to pay.

**Supplying energy to customers across Great Britain and Ireland**

In the six months to 30 September 2014, SSE's energy customer accounts in Great Britain and Ireland fell from 9.10 million to 8.89 million. This comprised:

| **SSE Energy Supply customer account numbers** | **Sep 14** | **Mar 14** |
|---|---|---|
| Electricity customer accounts(GB domestic) - m | 4.56 | 4.66 |
| Gas customer accounts (GB domestic) – m | 3.12 | 3.21 |
| Energy customers (GB business sites) – m | 0.43 | 0.42 |
| All-Island energy market customers (Ire) – m | 0.78 | 0.81 |
| **Total SSE Energy Customers** | **8.89** | **9.10** |

The decline in customer account numbers reflects the challenging and highly competitive market conditions in Great Britain, in which there are 10 suppliers of scale (with over 250,000 customers) aiming to retain and gain customers. This is in addition to a growing number of smaller suppliers, who are exempt from the cost of certain government social and environmental policies and therefore have a competitive advantage. Despite this decline, SSE's price freeze to 2016 is a very positive commitment to household customers in Great Britain, which has contributed to a significant reduction in levels of customer 'churn'.

SSE welcomes competition and will continue in its efforts to attract and retain customers. While sales volumes have been relatively low so far in this financial year, SSE is responding with attractive tariffs and propositions, underpinned by a stronger brand and industry-leading customer service. As well as launching its new brand campaign in October 2014, SSE launched a competitive new tariff, SSE Direct, for both new and existing customers choosing to commit to stay with SSE for a fixed term. With significant investments also being made in improving the customer experience through SSE's digital platforms, SSE is positioned to compete for customers in a healthy and vibrant market.

**Meeting customers' need for energy**

The loss incurred by SSE's Energy Supply business was in part due to a continuation of the particularly mild weather conditions that have characterised the 18 months to 30 September 2014. This is illustrated by the fact that:

- five of the six months to 30 September were warmer than average (relative to the 1981-2010 climatology) for the UK; and
- average temperatures recorded at Heathrow from April to September were provisionally the fourth warmest in a series since 1951.

As a result, SSE estimates its household customers in Great Britain used, on average in the six months to 30 September 2014:

| | Sep 14 | Sep 13 |
|---|---|---|
| Electricity supplied household average (GB) – kWh | 1,623 | 1,713 |
| Gas supplied household average (GB) – th | 102 | 133 |

While annual consumption varies, with weather in particular, customers' use of electricity and gas is now more than 15% lower than it was five years ago (measured on an underlying year-on-year basis).

**Putting customers first**

SSE is committed to working with all stakeholders to minimise energy bills and improve the market for customers. It has consistently stated its appetite for change that is in the genuine interests of customers, and it is in this spirit that it is currently engaging with the Competition and Markets Authority (CMA) investigation into competition in the energy market. Both within and outside of this process, SSE will continue to seek ways in which it can take or propose positive action that makes a difference for customers.

Putting customers first means listening to them and acting on their feedback. SSE has therefore stepped up its engagement with customers through its customer forums, which have helped shape a number of SSE's innovations, including simpler bills and the introduction and implementation of a money-back Customer Service Guarantee.

SSE's focus on putting customers first has been acknowledged by three independent reports in the first six months of 2014/15:

- in June, SSE was named best major energy supplier for customer service for the fourth year in a row in the National Customer Satisfaction Index UK (NCSI-UK);
- the Citizens Advice Energy Supplier Performance report, which measures complaint performance among major suppliers based on customers seeking advice or support from independent organisations, has again awarded SSE the leading complaints score of 33.7 per 100,000 customers for the period from April to June – almost 20 times less than the worst performing supplier; and
- in September 2014, Ofgem published the results of its Complaints to Energy Companies report. In what has undoubtedly been one of the most challenging periods in the history of the privatised energy supply market, SSE was the only major supplier to improve its performance since the last survey two years ago.

**Implementing changes to benefit customers**

In line with its aim of providing excellent customer service at lowest possible cost, SSE has been undertaking a fundamental review to identify the root cause of customer calls and complaints. The objective is to eradicate the causes of - and reduce - customer dissatisfaction, while saving cost through reducing avoidable contact. The initial project has been successful and SSE is currently implementing changes to reduce customer frustration and inconvenience. These include:

- improving automated phone answering systems;
- increasing first call resolution;

- reducing confusion arising from customer communication wherever possible, while observing all regulatory requirements; and
- targeting improvements to billing.

**Helping vulnerable customers**

In addition to campaigning on energy bills and freezing household prices until at least January 2016, SSE helps vulnerable customers manage their energy costs in a number of other ways:

- Its Warm Home Discount (WHD) scheme is open for applications. This scheme enables pensioners and vulnerable customers to receive help with their fuel bills in the form of a £140 rebate.
- As part of the WHD Scheme, SSE's Priority Assistance Fund provides additional support to low income and vulnerable customers, including debt relief, free energy efficient appliances, and help with bespoke payment arrangements.
- SSE also operates a free Careline priority service, dedicated to helping customers who are elderly, disabled or have special medical needs.
- Between the start of December and the end of February (or longer if the weather is unseasonably cold), SSE has a no disconnection policy covering all household customers.

**Giving credit where it's due**

In September, SSE and other major energy suppliers through Energy UK, launched the 'My Energy Credit' campaign to reunite former customers with credit balances which could not previously be returned to them.

In addition, SSE and other suppliers have agreed to introduce 10 common actions to reduce the number of credits which cannot be returned to customers in the future, and to help return more of the money which is currently unclaimed. SSE is on course to implement all ten actions by the end of the year, helping to ensure that far fewer credit balances go unreturned in future.

SSE has also committed to placing any future unreturnable credit balance still unclaimed after two years into a new fund to help provide additional support to fuel poor and vulnerable customers. It will kick-start this fund with payments totalling £8.8m over the next two years.

**Making good progress on ECO**

SSE remains fully supportive of the aims of the Energy Company Obligation (ECO) and in 2013/14 was able to help around 85,000 homes through the scheme.

SSE has made good progress towards delivering its obligation under ECO for the period to March 2015, and, with clarity now provided on the design of the scheme to 2017, it is well positioned to deliver on its subsequent obligations.

Nevertheless, and despite the UK government's welcome decision to reduce ECO delivery costs, which enabled SSE to reduce its prices before the necessary changes to legislation were confirmed in the autumn, SSE remains concerned about the impact of this scheme because:

- it is volatile and, with several years and thousands of installations still ahead, it clearly remains subject to significant political change – particularly in view of a general election in May 2015 – making delivery costs unpredictable;
- it has a negative impact on competition because of the exclusion of smaller suppliers; and
- the cost of this and other government schemes levied on energy bills is not being paid for fairly.

SSE believes there remains significant scope to improve the cost-effectiveness, fairness and transparency of energy efficiency programmes beyond 2017 and has been working with the Centre for Sustainable Energy (CSE) to analyse the underlying issues with ECO as it stands to support the development of future policy in this area. SSE will continue to engage with all political parties and stakeholders to identify more progressive ways to meet the important objective of reducing household energy consumption and carbon emissions.

**Stepping up the smart meter roll-out**

A smart meter will be installed in every home in Great Britain, as part of UK and European law. Around 53 million smart meters are due to be installed in around 30 million homes and businesses by the end of 2020. Of these, SSE is set to install around nine million meters.

Having kept installation volumes low during the foundation phase due to its focus on a cost-effective roll-out and the lack of maturity in the smart meter supply chain, SSE is now preparing for the mass roll-out of smart meters.

As of 30 September, SSE had installed over 11,000 smart meters in customers' homes against its own full-year target of 50,000. Mass deployment will commence in early 2016 following the Initial Live Operations of the Smart Data Communications Company (DCC) anticipated in late 2015, in line with the current DECC plans.

SSE is supportive of the smart meter roll-out as it will bring increased information and control to customers, but believes there are opportunities to improve both the cost-effectiveness and the overall success of the smart roll-out by:

- pursuing a trajectory in line with EU requirements to deliver smart meters to 80%, rather than 100%, of homes by 2020;
- preventing any further delays to the introduction of critical infrastructure, such as the DCC, which would considerably increase the number of SMETS1 meters deployed, increasing costs and potentially inconveniencing customers when equipment develops faults due to lack of interchangeability; and
- allowing customers flexibility about how they choose to access the information from their smart meter, for instance through an app or computer, rather than making the offer of an In-Home Display (IHD) mandatory for every home.

Engaging customers about smart metering will be a challenge. Recent polling for SSE by YouGov found that only half of customers said they would currently be interested in having a smart meter in their home, while findings suggest that 50% of customers may prefer to get information from their smart meter in ways other than an IHD. This further demonstrates that all parties must put customers at the heart of the roll-out and take their concerns and preferences into account in order to drive sufficient engagement with the programme to keep down costs and realise the full benefits.

**Delivering for business customers**

Business Supply continues to be an important area of focus for the Retail business. SSE has a clear strategy for developing Business Supply over the next five years, with a view to becoming a business that offers solutions across the energy value chain to its customers, working with them as their energy partner rather than simply their energy supplier.

In preparation for this, SSE has expanded the management team in Business Supply, introduced three 'centres of excellence' in service and support, and sought to improve its competitiveness by reducing its cost to serve. Together with the newly formed Enterprise division (see below), it is now focused on developing an enhanced product portfolio and opening up new channels of engagement with business customers in order to add value.

SSE has also continued to focus on driving improvements for its small business customers. On 1 April, it ended the practice of automatic contract rollovers for small business customers, as well as extending to these customers its existing commitment not to back-bill micro-business customers for more than 12 months where they have previously been under-billed due to a genuine billing error on SSE's part. Unlike some suppliers, SSE publishes its Variable Business Rates clearly on its website to help smaller businesses benchmark and compare prices simply.

SSE is continuing to engage positively with the government, the Federation of Small Businesses and leading Third Party Intermediaries (TPIs) in order to identify further ways in which it can make improvements for small business customers.

**Supplying energy to customers in Ireland**

SSE is the second largest energy provider across the island of Ireland. It is the only energy supply brand to operate in each of the competitive gas and electricity markets across the island.

Through its retail brand SSE Airtricity the company supplies electricity and gas to782,000 household and business accounts in the Republic of Ireland (ROI) and Northern Ireland (NI), representing a 21% share by customer numbers of the total combined gas and electricity market on the island at 30 September 2014. The recent decline in customer account numbers reflects the highly competitive market conditions in the Republic of Ireland in particular, which has seen the emergence of new domestic market entrants.

**Adding value for customers through sponsorship**

As well as investing in its brand, SSE is differentiating itself from competitors through unique value-adding propositions, underpinned by selected sponsorships in sports and entertainment.

Following the successful launch of SSE Rewards through the opening of The SSE Hydro just over a year ago, SSE has expanded its sponsorships and during the first half of 2014/15, SSE customers have benefited from:

- priority access to tickets and experiences at The SSE Hydro entertainment venue in Glasgow, which has been ranked number three in a Pollstar list of the world's best live music venues based on ticket sales, and the newly named SSE Arena, Wembley; and
- SSE's sponsorship of the Glasgow 2014 Commonwealth Games, through which it highlighted its strong commitment to each of the four home nations as well as offering tickets and experiences to customers to reward their loyalty to SSE.

SSE's strong portfolio of sponsorships in areas that appeal to and engage customers, such as entertainment and sport, is helping to drive awareness of the SSE brand, and is intended to help drive customer retention and acquisition as SSE further differentiates itself from others in the GB energy supply market.

**Energy Supply priorities in 2014/15 and beyond**

For the remainder of 2014/15 and beyond, SSE's key priorities in Energy Supply are to:

- successfully build the new brand and maximise the opportunity this presents to engage with customers, the public and all of SSE's stakeholders and illustrate that SSE is committed to progressive reform in energy;
- acquire and retain customers through competitively priced, compelling propositions, industry-leading customer service, and enhanced Customer Relationship Management (CRM) driven by better use of data and segmentation;
- take the digital opportunity by creating an effortless online customer experience and developing best-in-class applications, products and services;
- take costs out of supplying energy, both internally by driving operational efficiencies and externally by continuing to push for energy policy costs to be as cost-effective as possible and, ultimately, funded more progressively through taxation; and
- continue to grow the Business Supply business.

## Energy-Related Services

**A diverse offering of home and essential services**

In addition to electricity and gas, SSE offers energy-related products and services including boiler, central heating and wiring maintenance and installation as well as supplying and maintaining meters for household and commercial customers. These areas represent a natural fit with the company's existing strengths and propositions and are an important part of SSE's strategy to become a diversified retailer of energy and essential services.

### Building Up SSE's home telephone and broadband business

In line with its plan to scale up its business in Home and Essential Services, SSE sees opportunities for growth in its home telephone and broadband business, particularly as it builds a strong brand that customers trust to provide not just energy but a suite of related essential services in the home. SSE's ongoing investment into CRM to understand and communicate more effectively with its customer base will also enable it to unlock the significant opportunity to sell a broader range of services to its existing customer base.

### Operating a national metering business

The number of SSE electricity and gas supply customers who receive bills based on actual meter readings stands at 96.5%, in line with last year. SSE Metering has also installed just over 23,500 AMR (automatic meter reading) meters which are read remotely. In the six months to 30 September 2014, SSE collected 4.0 million electricity readings and 2.7 million gas readings.

### Energy-Related Services priorities in 2014/15 and beyond

During 2014/15 and beyond SSE's priorities in Energy-Related Services are to:

- scale up Home and Essential Services;
- generate greater awareness of the broader range of products and services SSE provides in the home, capitalising on the new brand launch;
- harness the full potential of CRM to unlock the potential to cross-sell a broader suite of home services to SSE's existing customer base; and
- in its metering business, meet the significant challenge of and execute its responsibilities within the national smart meter roll-out.

## Enterprise

### Building a new division focused on business customers

SSE's Enterprise division brings together SSE's services in competitive markets for industrial and commercial customers so that the energy and related needs of these customers can be met through an effectively integrated approach. These services include:

- **Contracting** – one of the UK's largest mechanical and electrical contractors;
- **Lighting** – maintaining street lights and providing design, installation and electrical connections services;
- **Utilities** – building, owning, operating and maintaining 'out of area' electrical, gas, heat and water networks;
- **Telecoms** – owning and operating a 13,700km network in the UK and 15 other co-location facilities providing leading edge carrier Ethernet, Internet and optical services.

Bringing together these businesses, supported by a dedicated relationship management function, giving business customers one point of contact for multiple contracts, enables SSE's Enterprise division to provide key services for just under 250,000 customers in the private sector, such as property development and construction, and in the public sector, such as local government and social housing.

In addition, the **Energy Solutions Group** (ESG) was acquired in July 2014 for a total cash consideration of £66m, with the potential for a further £6m if agreed targets are achieved. ESG has traded for almost 20 years and employs around 340 people. It works with private and public sector customers to identify improvements in their management of energy and to install, maintain and support building management systems and solutions. ESG can typically save its customers up to around 20% of their energy consumption.

These activities were previously reported under 'Other Networks' and 'Energy-related Services'. In the six months to 30 September 2014, this Enterprise segment, including ESG for two months, delivered operating profit of £42.9m, compared with £27.8m in the same period in 2013. This followed disposal of the gas connections business in September 2014.

**Enabling Enterprise to focus on core opportunities**

In order to enable the Enterprise group of businesses to focus on the opportunities which are core to its future plans, the following businesses have been sold:

- SSE Pipelines Ltd, a gas transportation business, was sold on 1 September 2014, to a new fund, the Environmental Capital Fund (ECF) managed by Scottish Equity Partners LLP, for a total consideration of £52.6m. SSE has invested £13.8m for a significant minority stake in the fund; and
- SSE's Data Centre in Hampshire, which provides a secure and connected service to a range of national and international organisations, was sold to SCC on 1 October 2014, for a total consideration estimated to be £12m, subject to capital adjustment and provision of transition services for a period of three months.
- SSE has today announced the completion of the sale, to Equitix Infrastructure 3 Limited (Equitix), of its 100% equity interest in the special purpose entities (SPEs) established in England under the Private Finance Initiative (PFI), for the delivery of seven street lighting projects. The SPEs are funded through a mix of senior debt and equity, and the removal of this project-related senior debt, along with the cash consideration of £97.5m, will have the immediate effect of reducing SSE's net debt by £326.4m.

**Setting the right priorities for Enterprise**

As a new, single division focused on meeting the needs of industrial and commercial customers, Enterprise has three key priorities over the next 18 months, in addition to the safe delivery of services:

- secure synergies across the Enterprise group of businesses;
- deploy effective dedicated customer account management; and
- focus on developing an integrated range of services that can be tailored to the specific needs of customers.

The potential of the Enterprise division has been significantly enhanced by the acquisition of ESG, which gives SSE a major presence in a new and expanding part of the overall value chain: energy management.

In summary, the immediate focus for Enterprise is on realising the benefits from consolidation of activities and developing effective customer relationship management and thereby laying the foundations for sustainable business growth in the period up to 2020 and beyond.

## Retail – Conclusion

The outlook for the energy industry – and the energy supply market in particular – remains challenging. However, with an unprecedented, unconditional price freeze lasting through this winter and into next, a bold brand strategy to engage customers and stakeholders, and an ongoing commitment to delivering sustained value and industry-leading standards of service, SSE is responding positively to this challenge. In addition, the new Enterprise division has a strong opportunity to achieve significant success in helping business, industrial and commercial customers manage their energy requirements.

# Consolidated Income Statement

**for the period 1 April 2014 to 30 September 2014**

| Six months ending 30 September | | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|---|
| | Note | 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 Restated (note 3) £m | Exceptional items and certain re-measurements (note 7) Restated (note 3) £m | Total Restated (note 3) £m |
| **Revenue** | 6 | **12,413.9** | **-** | **12,413.9** | 13,574.1 | - | 13,574.1 |
| Cost of sales | | **(11,452.1)** | **(10.5)** | **(11,462.6)** | (12,595.2) | (11.8) | (12,607.0) |
| **Gross profit / (loss)** | | **961.8** | **(10.5)** | **951.3** | 978.9 | (11.8) | 967.1 |
| Operating costs | | **(636.0)** | **-** | **(636.0)** | (636.0) | - | (636.0) |
| Other operating income | | **33.2** | **-** | **33.2** | 13.5 | - | 13.5 |
| **Operating profit / (loss) before joint ventures and associates** | | **359.0** | **(10.5)** | **348.5** | 356.4 | (11.8) | 344.6 |
| Joint ventures and associates: | | | | | | | |
| Share of operating profit | | **170.8** | **-** | **170.8** | 162.3 | - | 162.3 |
| Share of interest | | **(69.3)** | **-** | **(69.3)** | (71.6) | - | (71.6) |
| Share of movement on derivatives | | **-** | **2.9** | **2.9** | - | 1.0 | 1.0 |
| Share of tax | | **(21.4)** | **(0.7)** | **(22.1)** | (24.2) | 64.5 | 40.3 |
| **Share of profit on joint ventures and associates** | | **80.1** | **2.2** | **82.3** | 66.5 | 65.5 | 132.0 |
| **Operating profit / (loss)** | 6 | **439.1** | **(8.3)** | **430.8** | 422.9 | 53.7 | 476.6 |
| Finance income | 8 | **49.7** | **-** | **49.7** | 69.1 | - | 69.1 |
| Finance costs | 8 | **(154.2)** | **(9.7)** | **(163.9)** | (177.0) | (31.3) | (208.3) |
| **Profit / (loss) before taxation** | | **334.6** | **(18.0)** | **316.6** | 315.0 | 22.4 | 337.4 |
| Taxation | 9 | **(57.8)** | **4.2** | **(53.6)** | (71.3) | 118.3 | 47.0 |
| **Profit / (loss) for the period** | | **276.8** | **(13.8)** | **263.0** | 243.7 | 140.7 | 384.4 |
| **Attributable to:** | | | | | | | |
| Ordinary shareholders of the parent | | **265.1** | **(13.8)** | **251.3** | 231.2 | 140.7 | 371.9 |
| Other equity holders | | **11.7** | **-** | **11.7** | 12.5 | - | 12.5 |
| Basic earnings per share (pence) | 11 | | | **25.8p** | | | 38.6p |
| Diluted earnings per share (pence) | 11 | | | **25.5p** | | | 38.5p |

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

# Consolidated Income Statement

**for the year ended 31 March 2014**

| | Note | Before exceptional items and certain re-measure-ments Restated (note 3) £m | Exceptional items and certain re-measure-ments (note 7) Restated (note 3) £m | Total Restated (note 3) £m |
|---|---|---|---|---|
| **Revenue** | 6 | 30,585.0 | - | 30,585.0 |
| Cost of sales | | (27,732.3) | (560.2) | (28,292.5) |
| Gross profit / (loss) | | 2,852.7 | (560.2) | 2,292.5 |
| Operating costs | | (1,316.0) | (303.0) | (1,619.0) |
| Other operating income | | 17.3 | - | 17.3 |
| **Operating profit / (loss) before joint ventures and associates** | | 1,554.0 | (863.2) | 690.8 |
| Joint ventures and associates: | | | | |
| Share of operating profit | | 326.1 | (34.9) | 291.2 |
| Share of interest | | (137.5) | - | (137.5) |
| Share of movement on derivatives | | - | 3.1 | 3.1 |
| Share of tax | | (33.8) | 62.6 | 28.8 |
| **Share of profit on joint ventures and associates** | | 154.8 | 30.8 | 185.6 |
| **Operating profit / (loss)** | 6 | 1708.8 | (832.4) | 876.4 |
| Finance income | 8 | 122.7 | - | 122.7 |
| Finance costs | 8 | (342.4) | (64.2) | (406.6) |
| **Profit / (loss) before taxation** | | 1,489.1 | (896.6) | 592.5 |
| Taxation | 9 | (407.3) | 260.8 | (146.5) |
| **Profit / (loss) for the year** | | 1,081.8 | (635.8) | 446.0 |
| | | | | |
| **Attributable to:** | | | | |
| Ordinary shareholders of the parent | | 958.9 | (635.8) | 323.1 |
| Other equity holders | | 122.9 | - | 122.9 |
| | | | | |
| Basic earnings per share (pence) | 11 | | | 33.5p |
| Diluted earnings per share (pence) | 11 | | | 33.3p |

# Consolidated Statement of Comprehensive Income

**for the period 1 April 2014 to 30 September 2014**

| Year ended 31 March 2014 Restated (note 3) £m | | **Six months ended 30 September 2014** **£m** | Six months ended 30 September 2013 Restated (note 3) £m |
|---|---|---|---|
| 446.0 | **Profit for the period** | **263.0** | 384.4 |
| | **Other comprehensive income:** | | |
| | Items that will not be reclassified to profit or loss: | | |
| 19.0 | Actuarial gains/(losses) on retirement benefit schemes | **(32.6)** | 16.7 |
| (23.5) | Taxation on actuarial (losses)/gains on defined benefit pension schemes | **6.8** | (23.6) |
| (4.5) | | **(25.8)** | (6.9) |
| (29.2) | Share of joint ventures actuarial losses on retirement benefit schemes | **(0.4)** | (26.9) |
| 6.2 | Share of joint ventures taxation of actuarial gains on retirement benefit schemes | **0.1** | 2.9 |
| (23.0) | | **(0.3)** | (24.0) |
| | Items that will be reclassified subsequently to profit or loss: | | |
| (54.5) | (Losses) on effective portion of cash flow hedges | **(16.5)** | (46.8) |
| (0.8) | Transferred to assets and liabilities on cash flow hedges | **(2.4)** | 0.7 |
| 12.6 | Taxation on cashflow hedges | **3.5** | 10.8 |
| (42.7) | | **(15.4)** | (35.3) |
| 13.2 | Share of joint ventures / associates gains/(loss) on effective portion of cash flow hedges | **(1.5)** | 7.3 |
| (3.3) | Share of joint ventures / associates taxation on cashflow hedges | **0.3** | (2.9) |
| 9.9 | | **(1.2)** | 4.4 |
| (5.1) | Losses on revaluation of available for sale investments, net of taxation | **-** | - |
| (22.6) | Exchange loss on translation of foreign operations | **(66.1)** | (10.5) |
| 16.2 | Gain on net investment hedge | **34.0** | 8.3 |
| (3.7) | Taxation on net investment hedge | **(5.7)** | (2.0) |
| (10.1) | | **(37.8)** | (4.2) |
| (75.5) | **Other comprehensive loss, net of taxation** | **(80.5)** | (66.0) |
| 370.5 | **Total comprehensive income for the period** | **182.5** | 318.4 |
| | **Attributable to:** | | |
| 247.6 | Ordinary shareholders of the parent | **170.8** | 305.9 |
| 122.9 | Other equity holders | **11.7** | 12.5 |
| 370.5 | | **182.5** | 318.4 |

# Consolidated Balance Sheet

**as at 30 September 2014**

| At 31 March 2014 Restated (note 3) £m | | Note | **At 30 September 2014 £m** | At 30 September 2013 Restated (note 3) £m |
|---|---|---|---|---|
| | **Assets** | | | |
| 11,085.2 | Property, plant and equipment | | **11,335.1** | 11,190.1 |
| - | Biological assets | | **-** | 3.4 |
| | Intangible assets: | | | |
| 585.1 | Goodwill | | **643.8** | 632.6 |
| 304.2 | Other intangible assets | | **333.3** | 370.4 |
| 826.7 | Equity investments in joint ventures and associates | | **910.6** | 906.5 |
| 521.6 | Loans to joint ventures and associates | | **529.4** | 499.0 |
| 42.3 | Other investments | | **29.7** | 46.8 |
| 207.3 | Deferred tax assets | | **256.4** | 219.8 |
| 368.4 | Derivative financial assets | 17 | **302.3** | 321.3 |
| 13,940.8 | **Non-current assets** | | **14,340.6** | 14,189.9 |
| | | | | |
| 433.7 | Other intangible assets | | **224.2** | 216.6 |
| 393.0 | Inventories | | **483.6** | 421.6 |
| 4,262.4 | Trade and other receivables | | **2,944.3** | 3,326.4 |
| 458.9 | Cash and cash equivalents | | **244.4** | 553.9 |
| 1,261.2 | Derivative financial assets | 17 | **1,189.9** | 543.8 |
| 332.5 | Current assets held for sale | 13 | **353.7** | 2.3 |
| 7,141.7 | **Current assets** | | **5,440.1** | 5,064.6 |
| 21,082.5 | **Total assets** | | **19,780.7** | 19,254.5 |
| | | | | |
| | **Liabilities** | | | |
| 618.7 | Loans and other borrowings | 14 | **852.8** | 1,303.8 |
| 4,922.6 | Trade and other payables | | **3,936.0** | 3,979.4 |
| 315.2 | Current tax liabilities | | **301.0** | 265.6 |
| 134.3 | Provisions | | **61.9** | 46.2 |
| 1,470.2 | Derivative financial liabilities | 17 | **1,405.9** | 664.2 |
| 19.2 | Liabilities held for sale | 13 | **33.6** | - |
| 7,480.2 | **Current liabilities** | | **6,591.2** | 6,259.2 |
| | | | | |
| 5,676.3 | Loans and other borrowings | 14 | **5,487.4** | 5,148.0 |
| 757.5 | Deferred tax liabilities | | **801.6** | 715.3 |
| 416.2 | Trade and other payables | | **418.0** | 386.4 |
| 313.4 | Provisions | | **319.9** | 261.8 |
| 637.7 | Retirement benefit obligations | 18 | **644.4** | 666.1 |
| 681.7 | Derivative financial liabilities | 17 | **641.2** | 510.4 |
| 8,482.8 | **Non-current liabilities** | | **8,312.5** | 7,688.0 |
| 15,963.0 | **Total liabilities** | | **14,903.7** | 13,947.2 |
| 5,119.5 | **Net assets** | | **4,877.0** | 5,307.3 |
| | | | | |
| | **Equity:** | | | |
| 487.4 | Share capital | 16 | **493.4** | 482.7 |
| 861.5 | Share premium | | **856.6** | 857.5 |
| 22.0 | Capital redemption reserve | | **22.0** | 22.0 |
| (27.0) | Hedge reserve | | **(43.6)** | (25.1) |
| 1.5 | Translation reserve | | **(36.3)** | 7.4 |
| 1,587.3 | Retained earnings | | **1,398.1** | 1,776.0 |
| 2,932.7 | **Equity attributable to ordinary shareholders of the parent** | | **2,690.2** | 3,120.5 |
| 2,186.8 | Hybrid capital | 15 | **2,186.8** | 2,186.8 |
| 5,119.5 | **Total equity attributable to equity holders of the parent** | | **4,877.0** | 5,307.3 |

# Consolidated Statement of Changes in Equity

**for the period 1 April 2014 to 30 September 2014**

| **Statement of changes in equity** | **Share capital** | **Share premium account** | **Capital redemption reserve** | **Hedge reserve** | **Translation reserve** | **Retained earnings** | **Total attributable to ordinary shareholders** | **Hybrid capital** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | **£m** | £m | **£m** |
| At 1 April 2014 | 487.4 | 861.5 | 22.0 | (27.0) | 1.5 | 1,587.3 | **2,932.7** | 2,186.8 | **5,119.5** |
| Profit for the period | - | - | - | - | - | 251.3 | **251.3** | 11.7 | **263.0** |
| Other comprehensive income/(loss) | - | - | - | (15.4) | (37.8) | (25.8) | **(79.0)** | - | **(79.0)** |
| Share of joint ventures and associates other comprehensive income/(loss) | - | - | - | (1.2) | - | (0.3) | **(1.5)** | - | **(1.5)** |
| **Total comprehensive(loss)/ income for the period** | **-** | **-** | **-** | **(16.6)** | **(37.8)** | **225.2** | **170.8** | **11.7** | **182.5** |
| Dividends to shareholders | - | - | - | - | - | (591.6) | **(591.6)** | - | **(591.6)** |
| Scrip dividend related share issue | 5.9 | (5.9) | - | - | - | 174.0 | **174.0** | - | **174.0** |
| Distributions to hybrid capital holders | - | - | - | - | - | - | **-** | (11.7) | **(11.7)** |
| Issue of shares | 0.1 | 1.0 | - | - | - | - | **1.1** | - | **1.1** |
| Credit in respect of employee share awards | - | - | - | - | - | 7.5 | **7.5** | - | **7.5** |
| Investment in own shares | - | - | - | - | - | (4.3) | **(4.3)** | - | **(4.3)** |
| **At 30 September 2014** | **493.4** | **856.6** | **22.0** | **(43.6)** | **(36.3)** | **1,398.1** | **2,690.2** | **2,186.8** | **4,877.0** |

| Statement of changes in equity | Share capital | Share premium account | Capital redemption reserve | Hedge reserve | Translation reserve | Retained earnings | Total attributable to ordinary shareholders | Hybrid capital | Total |
|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| At 1 April 2013 | 482.1 | 857.9 | 22.0 | 5.8 | 11.6 | 1,982.7 | 3,362.1 | 2,186.8 | 5,548.9 |
| Profit for the period | - | - | - | - | - | 371.9 | 371.9 | 12.5 | 384.4 |
| Other comprehensive income/(loss) | - | - | - | (35.3) | (4.2) | (6.9) | (46.4) | - | (46.4) |
| Share of joint ventures and associates other comprehensive income/(loss) | - | - | - | 4.4 | - | (24.0) | (19.6) | - | (19.6) |
| Total comprehensive loss/(income) for the period | - | - | - | (30.9) | (4.2) | 341.0 | 305.9 | 12.5 | 318.4 |
| Dividends to shareholders | - | - | - | - | - | (568.6) | (568.6) | - | (568.6) |
| Scrip dividend related share issue | 0.6 | (0.6) | - | - | - | 17.8 | 17.8 | - | 17.8 |
| Distributions to hybrid capital holders | - | - | - | - | - | - | - | (12.5) | (12.5) |
| Issue of shares | - | 0.2 | - | - | - | - | 0.2 | - | 0.2 |
| Credit in respect of employee share awards | - | - | - | - | - | 7.3 | 7.3 | - | 7.3 |
| Investment in own shares | | | | | | (4.2) | (4.2) | | (4.2) |
| At 30 September 2013 | 482.7 | 857.5 | 22.0 | (25.1) | 7.4 | 1,776.0 | 3,120.5 | 2,186.8 | 5,307.3 |

# Consolidated Statement of Changes in Equity (continued)

**for the period 1 April 2014 to 30 September 2014**

| Statement of changes in equity | Share capital £m | Share premium account £m | Capital redemption reserve £m | Hedge reserve £m | Translation reserve £m | Retained earnings £m | Total attributable to ordinary shareholders £m | Hybrid capital £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2013 | 482.1 | 857.9 | 22.0 | 5.8 | 11.6 | 1,982.7 | 3,362.1 | 2,186.8 | 5,548.9 |
| Profit for the year | - | - | - | - | - | 323.1 | 323.1 | 122.9 | 446.0 |
| Other comprehensive income/(loss) | - | - | - | (42.7) | (10.1) | (9.6) | (62.4) | - | (62.4) |
| Share of joint ventures and associates other comprehensive income/(loss) | - | - | - | 9.9 | - | (23.0) | (13.1) | - | (13.1) |
| Total comprehensive (loss)/income for the year | - | - | - | (32.8) | (10.1) | 290.5 | 247.6 | 122.9 | 370.5 |
| Dividends to shareholders | - | - | - | - | - | (819.6) | (819.6) | - | (819.6) |
| Scrip dividend related share issue | 4.8 | (4.8) | - | - | - | 130.2 | 130.2 | - | 130.2 |
| Distributions to hybrid capital holders | - | - | - | - | - | - | - | (122.9) | (122.9) |
| Issue of shares | 0.5 | 8.4 | - | - | - | - | 8.9 | - | 8.9 |
| Credit in respect of employee share awards | - | - | - | - | - | 15.5 | 15.5 | - | 15.5 |
| Investment in own shares | - | - | - | - | - | (12.0) | (12.0) | - | (12.0) |
| At 31 March 2014 | 487.4 | 861.5 | 22.0 | (27.0) | 1.5 | 1,587.3 | 2,932.7 | 2,186.8 | 5,119.5 |

# Consolidated Cash Flow Statement

**for the period 1 April 2014 to 30 September 2014**

| Year ended 31 March 2014 Restated (note 3) £m | | Note | **Six months ended 30 September 2014 £m** | Six months ended 30 September 2013 Restated (note 3) £m |
|---|---|---|---|---|
| 2,134.2 | **Cash generated from operations before working capital movements** | 12 | **599.9** | 616.8 |
| (104.1) | (Increase)/decrease in inventories | | **(90.8)** | (132.5) |
| 312.4 | Decrease/(increase) in receivables | | **1,281.0** | 1,595.7 |
| 174.9 | Decrease/(increase) in payables | | **(652.7)** | (830.8) |
| (18.9) | (Decrease)/increase in provisions | | **(67.2)** | 9.4 |
| 2,498.5 | **Cash generated from operations** | | **1,070.2** | 1,258.6 |
| | | | | |
| 104.1 | Dividends received from joint ventures and associates | | **2.2** | 3.0 |
| 113.8 | Interest received | | **49.7** | 56.0 |
| (284.1) | Interest paid | | **(129.5)** | (161.8) |
| (147.1) | Income taxes paid | | **(57.7)** | (37.8) |
| (26.4) | Payment for consortium relief | | **(3.7)** | (18.7) |
| 2,258.8 | **Net cash from operating activities** | | **931.2** | 1,099.3 |
| | | | | |
| | **Cash flows from investing activities** | | | |
| (1,433.8) | Purchase of property, plant and equipment | | **(645.9)** | (689.1) |
| (403.8) | Purchase of other intangible assets | | **(134.6)** | (140.4) |
| 7.2 | Deferred income received | | **3.6** | 6.6 |
| 158.6 | Proceeds from sale of property, plant and equipment | | **14.1** | 0.1 |
| 3.2 | Proceeds from sale of business and subsidiaries | | **52.6** | - |
| - | Proceeds from sale of fixed asset investments | | **12.6** | - |
| (83.9) | Loans to joint ventures and associates | | **(17.1)** | (47.7) |
| (109.6) | Purchase of businesses and subsidiaries | | **(66.0)** | (109.6) |
| 19.4 | Loans and equity repaid by joint ventures | | **9.6** | 11.2 |
| (10.0) | Investment in associates and joint ventures | | **(15.5)** | (4.1) |
| (0.7) | Increase in other investments | | **(0.3)** | - |
| (1,853.4) | **Net cash flows from investing activities** | | **(786.9)** | (973.0) |
| | | | | |
| | **Cash flows from financing activities** | | | |
| 8.9 | Proceeds from issue of share capital | | **1.1** | 0.2 |
| (689.4) | Dividends paid to company's equity holders | | **(417.6)** | (550.8) |
| (122.9) | Hybrid capital dividend payments | | **(11.7)** | (12.5) |
| (12.0) | Employee share awards share purchase | | **(4.3)** | (4.2) |
| 1,815.8 | New borrowings | | **104.1** | 1,186.1 |
| (1,514.8) | Repayment of borrowings | | **(30.2)** | (758.9) |
| (514.4) | **Net cash flows from financing activities** | | **(358.6)** | (140.1) |
| | | | | |
| (109.0) | **Net decrease in cash and cash equivalents** | | **(214.3)** | (13.8) |
| | | | | |
| 567.6 | Cash and cash equivalents at the start of period | | **458.6** | 567.6 |
| (109.0) | Net decrease in cash and cash equivalents | | **(214.3)** | (13.8) |
| - | Effect of foreign exchange rate changes | | **-** | 0.1 |
| 458.6 | **Cash and cash equivalents at the end of period** | | **244.3** | 553.9 |

# Notes on the Condensed Interim Statements

## for the period 1 April 2013 to 30 September 2014

### 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 2014, 31 March 2014 or 30 September 2013 within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2014, 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 financial information set out in these interim statements has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 Interim Financial Reporting as adopted by the EU.

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 81.

These interim statements were authorised by the Board on 11 November 2014.

### 2. Basis of preparation

These condensed interim statements for the period to 30 September 2014 and the comparative information for the period to 30 September 2013 have been prepared applying the accounting policies and presentation used in the Group's consolidated financial statements for the year ended 31 March 2014, with the exception of the newly effective accounting standards, amendments and interpretations described at note 3 and the change in reportable segments described at note 4.

### 3. Standards, amendments and interpretations

#### 3.1 Effective in financial year ended 31 March 2015

**(ii) IFRIC 21**

The Group has adopted IFRIC 21: 'Levies' in the current financial year. The interpretation clarifies that an entity should recognise liabilities for qualifying levies on the occurrence of an activity that triggers an obligation to the relevant authority. Qualifying levies fall within the scope of IAS 37 'Provisions, contingent liabilities and contingent assets' but not within the scope of IAS 12 'Income taxes' or other standards. The adoption of the interpretation has had no effect on the consolidated interim statements for the period ended 30 September 2014 and is not expected to impact the results of the Group for the financial year ending 31 March 2015. The interpretation may have an impact in relation to certain aspects of the Electricity Market Reform (EMR) proposals and the Group will consider its accounting policies in relation to any levy obligations arising from that legislation in future periods.

**(ii) IFRS 10, 11 and 12**

IFRS 10: 'Consolidated financial statements', IFRS 11: 'Joint arrangements', IFRS 12: 'Disclosures of interests in other entities', and revisions to IAS 27: 'Separate financial statements' and IAS 28: 'Investments in associates and joint ventures' have been adopted by the Group in the current financial year. The adoption of these standards will result in additional disclosures in the Group's financial statements for the year to 31 March 2015.

The most significant impact for the Group relates to the adoption of IFRS 11. Under this standard, the Group has assessed its joint arrangements in order to identify those which require to be classified as joint operations rather than joint ventures. Joint operations arise where the venturers are deemed to have joint control and have rights to the assets and obligations for the liabilities of the arrangement as opposed to having rights to the net assets of the arrangement. Accordingly, a joint operator will recognise its share of the operation's assets, liabilities, revenue and expenses in the consolidated financial statements rather than its net share of the result of the venture. The Group has assessed that its investment in Greater Gabbard Offshore Winds Limited falls within this category under the standard but that all other joint arrangements held by the Group are classified as joint ventures, which will continue to be equity accounted.

This has resulted in the restatement of the Group's Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Comprehensive Income and Consolidated Cash Flow Statements for the year to 31 March 2014 and the period to 30 September 2013. These restatements are summarised at Notes 3.2 and 3.3 respectively.

It should be noted that as the Group currently reports its adjusted profit measures including its respective shares of operating profit, interest and tax of the affected investments, no change arises in respect of the measures reported internally and in the Annual Report in respect of underlying performance.

**(iii) Other standards, amendments and interpretations**

Other amendments to effective IFRSs will not have a material impact on the Group's accounts for the financial year ending 31 March 2015.

## Notes on the Condensed Interim Statements

**for the period 1 April 2014 to 30 September 2014**

**3. Standards, amendments and interpretations (continued)**

**3.2 Restatements of 31 March 2014 financial information**

**Extract of the Consolidated Income Statement**

| | Year ended 31 March 2014 | | |
|---|---|---|---|
| | As Reported £m | IFRS 11 £m | **Restated £m** |
| **Operating profit before joint ventures and associates** | 611.0 | 79.8 | **690.8** |
| Joint ventures and associates: | | | |
| Share of operating profit | 371.0 | (79.8) | **291.2** |
| Share of interest | (147.9) | 10.4 | **(137.5)** |
| Share of movement on derivatives | 3.1 | - | **3.1** |
| Share of tax | 11.6 | 17.2 | **28.8** |
| Share of profit/(loss) on joint ventures and associates | 237.8 | (52.2) | **185.6** |
| **Operating profit** | **848.8** | **27.6** | **876.4** |
| Finance income | 133.1 | (10.4) | **122.7** |
| Finance costs | (406.6) | - | **(406.6)** |
| **Profit before taxation** | **575.3** | **17.2** | **592.5** |
| Taxation | (129.3) | (17.2) | **(146.5)** |
| **Profit for the year** | **446.0** | - | **446.0** |

**Extract of the Consolidated Balance Sheet**

| | As at 31 March 2014 | | |
|---|---|---|---|
| | As Reported £m | IFRS 11 £m | **Restated £m** |
| Property, plant and equipment | 10,316.6 | 768.6 | **11,085.2** |
| Equity investments in associates and joint ventures | 1,543.5 | (716.8) | **826.7** |
| Loans to associates and joint ventures | 521.6 | - | **521.6** |
| Cash and cash equivalents (including bank overdraft) | 442.5 | 16.4 | **458.9** |
| Deferred tax liabilities | (709.6) | (47.9) | **(757.5)** |
| Provisions | (395.7) | (52.0) | **(447.7)** |
| Other balance sheet items | (6,599.4) | 31.7 | **(6,567.7)** |
| **Net assets** | **5,119.5** | **-** | **5,119.5** |

**Extract of the Consolidated Cash Flow Statement**

| | Year ended 31 March 2014 | | |
|---|---|---|---|
| | As Reported £m | IFRS 11 £m | **Restated £m** |
| Cash generated from operations | 2,408.1 | 90.4 | **2,498.5** |
| Dividends received from joint ventures and associates | 364.3 | (260.2) | **104.1** |
| Other items | (344.0) | 0.2 | **(343.8)** |
| **Net cash from operating activities** | **2,428.4** | **(169.6)** | **2,258.8** |
| Purchase of property, plant and equipment | (1,432.3) | (1.5) | **(1,433.8)** |
| Proceeds from sale of property, plant and equipment | - | 158.6 | **158.6** |
| Other items | (578.2) | - | **(578.2)** |
| **Net cash flows from investing activities** | **(2,010.5)** | **157.1** | **(1,853.4)** |
| **Net cash flows from financing activities** | **(514.4)** | **-** | **(514.4)** |
| **Net decrease in cash and cash equivalents** | **(96.5)** | **(12.5)** | **(109.0)** |
| Cash and cash equivalents at start of the year | 538.7 | 28.9 | **567.6** |
| Net decrease in cash and cash equivalents | (96.5) | (12.5) | **(109.0)** |
| **Cash and cash equivalents at the end of the year** | **442.2** | **16.4** | **458.6** |

# Notes on the Condensed Interim Statements

**for the period 1 April 2014 to 30 September 2014**

**3. Standards, amendments and interpretations (continued)**

**3.3 Restatements of 30 September 2013 financial information**

**Extract of the Consolidated Income Statement**

| | Period ended 30 September 2013 | | |
|---|---|---|---|
| | As Reported £m | IFRS 11 £m | **Restated £m** |
| **Operating profit before joint ventures and associates** | 311.5 | 33.1 | **344.6** |
| Joint ventures and associates: | | | |
| Share of operating profit | 195.4 | (33.1) | **162.3** |
| Share of interest | (78.3) | 6.7 | **(71.6)** |
| Share of movement on derivatives | 1.0 | - | **1.0** |
| Share of tax | 39.3 | 1.0 | **40.3** |
| Share of profit/(loss) on joint ventures and associates | 157.4 | (25.4) | **132.0** |
| **Operating profit** | **468.9** | **7.7** | **476.6** |
| Finance income | 75.8 | (6.7) | **69.1** |
| Finance costs | (208.3) | - | **(208.3)** |
| **Profit before taxation** | **336.4** | **1.0** | **337.4** |
| Taxation | 48.0 | (1.0) | **47.0** |
| **Profit for the period** | **384.4** | **-** | **384.4** |

**Extract of the Consolidated Balance Sheet**

| | As at 30 September 2013 | | |
|---|---|---|---|
| | As Reported £m | IFRS 11 £m | **Restated £m** |
| Property, plant and equipment | 10,320.1 | 870.0 | **11,190.1** |
| Equity investments in joint ventures and associates | 1,045.8 | (139.3) | **906.5** |
| Loans to joint ventures and associates | 1,280.7 | (781.7) | **499.0** |
| Cash and cash equivalents (including bank overdraft) | 477.9 | 76.0 | **553.9** |
| Deferred tax liabilities | (715.3) | - | **(715.3)** |
| Provisions | (299.0) | (9.0) | **(308.0)** |
| Other balance sheet items | (6,802.9) | (16.0) | **(6,818.9)** |
| **Net assets** | **5,307.3** | **-** | **5,307.3** |

**Extract of the Consolidated Cash Flow Statement**

| | Period ended 30 September 2013 | | |
|---|---|---|---|
| | As Reported £m | IFRS 11 £m | **Restated £m** |
| Cash generated from operations | 1,189.0 | 69.6 | **1,258.6** |
| Dividends received from joint ventures and associates | 3.0 | - | **3.0** |
| Other items | (154.9) | (7.4) | **(162.3)** |
| **Net cash from operating activities** | **1,037.1** | **62.2** | **1,099.3** |
| Purchase of property, plant and equipment | (674.0) | (15.1) | **(689.1)** |
| Proceeds from sale of property, plant and equipment | 0.1 | - | **0.1** |
| Other items | (284.0) | - | **(284.0)** |
| **Net cash flows from investing activities** | **(957.9)** | **(15.1)** | **(973.0)** |
| **Net cash flows from financing activities** | **(140.1)** | **-** | **(140.1)** |
| **Net (decrease)/increase in cash and cash equivalents** | **(60.9)** | **47.1** | **(13.8)** |
| Cash and cash equivalents at start of the year | 538.7 | 28.9 | **567.6** |
| Net (decrease)/increase in cash and cash equivalents | (60.9) | 47.1 | **(13.8)** |
| Effect of foreign exchange rate changes | 0.1 | - | **0.1** |
| **Cash and cash equivalents at the end of the period** | **477.9** | **76.0** | **553.9** |

# Notes on the Condensed Interim Statements

**for the period 1 April 2014 to 30 September 2014**

**3. Standards, amendments and interpretations (continued)**

**3.4 Effective in financial years ended after 31 March 2015**

The Group is continuing to assess the impact that the following issued standards which have not yet been adopted by the Group may have on its future financial statements:

IFRS 15 'Revenue from contracts with customers' is effective on 1 January 2017 subject to European Union (EU) endorsement; the amendments to IFRS 11 'Accounting for acquisitions of interests in joint operations' which are effective on 1 January 2016, subject to EU endorsement, and; IFRS 9: 'Financial instruments' which will be effective on 1 January 2018, subject to EU endorsement.

**4. Change of Reportable Segments**

Following changes to the structure of the Group's internal organisation, and subsequent changes to the way in which financial and management information is presented to both the Board and the Executive Committee, the composition of the Group's Reportable Segments has changed.

The change to the Group's organisation structure has been the establishment of the Enterprise business which brings together a number of activities under new leadership. The objective of the change is to allow the energy and related needs of the Group's industrial and commercial customers in competitive markets to be better met through an integrated approach. The services being provided to these customers include electrical contracting, private energy networks, lighting services and telecoms capacity and bandwidth.

As a result of this change, activities previously reported under Other Networks have been combined with electrical contracting, previously reported under Energy-related Services, to derive the reported revenue and operating profit of the Enterprise segment. As these are customer-facing businesses in competitive markets, these results will be reported as part of the Retail business. In the year to 31 March 2014, this Enterprise segment delivered adjusted operating profit of £56.8m, including £27.8m in the six months to 30 September 2013. The remaining part of the Energy-related Services segment (metering, home services and other products), which will also continue to be reported under Retail, delivered adjusted operating profit of £24.1m in the year to 31 March 2014, including £16.2m in the six months to 30 September 2013.

The changes to reported segments can be summarised as follows:

**(a) Revenue by segment**

The Revenue by segment disclosure note for the year to March 2014 and the period to September 2013 will be amended as follows:

| | **Year ended 31 March 2014** | | | **Six months ended 30 September 2013** | | |
|---|---|---|---|---|---|---|
| Total Revenue | As Reported £m | Adjustment £m | **Restated £m** | As Reported £m | Adjustment £m | **Restated £m** |
| **Networks** | | | | | | |
| Other Networks | 346.1 | (346.1) | **-** | 119.8 | (119.8) | **-** |
| **Retail** | | | | | | |
| Enterprise | - | 594.7 | **594.7** | - | 277.4 | **277.4** |
| Energy-related Services | 467.1 | (248.6) | **218.5** | 264.7 | (157.6) | **107.1** |
| | 467.1 | 346.1 | **813.2** | 264.7 | 119.8 | **384.5** |
| Other segments unchanged | 35,226. 1 | - | **35,226.1** | 15,541.5 | - | **15,541.5** |
| **Total** | **36,039.3** | **-** | **36,039.3** | **15,926.0** | **-** | **15,926.0** |

**(b) Operating profit by segment [1]**

| | **Year ended 31 March 2014** | | | **Six months ended 30 September 2013** | | |
|---|---|---|---|---|---|---|
| | As Reported £m | Adjustment £m | **Restated £m** | As Reported £m | Adjustment £m | **Restated £m** |
| **Networks** | | | | | | |
| Other Networks | 2.1 | (2.1) | - | 18.0 | (18.0) | **-** |
| Retail | | | | | | |
| Enterprise | - | 14.4 | **14.4** | - | 27.7 | **27.7** |
| Energy-related Services | (12.1) | (12.3) | **(24.4)** | 25.9 | (9.7) | **16.2** |
| | (12.1) | 2.1 | **(10.0)** | 25.9 | 18.0 | **43.9** |
| Other segments unchanged | 886.4 | - | **886.4** | 432.7 | - | **432.7** |
| **Total** | **876.4** | **-** | **876.4** | **476.6** | **-** | **476.6** |

[1] Operating profit including exceptional items and certain re-measurements and share of joint venture and associate interest and tax and after restatements in Note 3

## Notes on the Condensed Interim Statements

### for the period 1 April 2014 to 30 September 2014

**5. Critical accounting judgements and key sources of estimation uncertainty**

In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The Group's key accounting judgement and estimation areas are noted with the most Significant Financial Judgement areas as specifically discussed by the Audit Committee being highlighted separately.

**Significant Financial Judgements**

The condensed interim statements have been prepared with consideration given to the following Significant Financial Judgements which include areas of estimation uncertainty and accounting judgement:

**(i) Revenue recognition – Estimation Uncertainty**

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

**(ii) Valuation of trade receivables – Estimation Uncertainty**

The basis of determining the provisions for bad and doubtful debts was explained in Note 33 of the Group's financial statements for the year ended 31 March 2014. While the level of the provisions at 30 September 2014 are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to the income statement.

**(iii) Retirement benefits – Estimation Uncertainty**

The assumptions in relation to the cost of providing post-retirement benefits during the period are based on the Group's best estimates and are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the level of the retirement benefit obligation recorded and the cost to the Group of administering the schemes. The value of scheme assets are impacted by the asset ceiling test which (a) restricts the surplus that can be recognised to assets that can be recovered fully through refunds and (b) may increase the value of scheme liabilities where there are minimum funding liabilities in relation to agreed contributions.

**(iv) Impairment testing and valuation of certain Non-Current Assets – Estimation Uncertainty**

The Group reviews the carrying amounts of its goodwill, other intangible assets and property, plant and equipment to determine whether there is any indication that the value of those assets is impaired. The key assets under assessment are goodwill, thermal power generation assets, wind farm CGUs and specific assets, gas storage assets and exploration and production (E&P) assets. If any indicators are identified an impairment review is conducted. In conducting any impairment reviews, the Group makes judgments and estimates in considering the recoverable amount of the respective assets or cash-generating units (CGUs). Changes to the estimates and assumptions on factors such as power, gas, carbon and other commodity prices, volatility of gas prices, plant running regimes and load factors, expected 2P reserves, discount rates and other inputs could impact the assessed recoverable value of assets and CGUs and consequently impact the Group's income statement and balance sheet.

**(v) Treatment of disputes and claims – Accounting Judgement**

The Group is exposed to the risk of litigation and contractual disputes through the course of its normal operations. The Group considers each instance separately in accordance with legal advice and will provide or disclose information as deemed appropriate. Changes in the assumptions around the likelihood of an outflow of economic resources or the estimation of any obligation would change the values recognised in the condensed interim statements.

**Other key accounting judgments**

Other key accounting judgments and presentation applied in the preparation of these condensed interim statements include the following:

**(i) Exceptional items and certain re-measurements**

As permitted by IAS 1 'Presentation of financial statements', the Group has disclosed additional information in respect of joint ventures and associates, exceptional items and certain re-measurements on the face of the income statement to aid understanding of the Group's financial performance.

An item is treated as exceptional if it is considered unusual by nature and scale and of such significance that separate disclosure is required for the condensed interim statements to be properly understood. These items will be non-recurring and will include items such as asset or CGU impairment charges, restructuring costs or contractual settlements. Certain re-measurements are re-measurements arising on certain commodity, interest rate and currency contracts which are accounted for as held for trading or as fair value hedges in accordance with the Group's policy for such financial instruments. This excludes commodity contracts not treated as financial instruments under IAS 39 where held for the Group's own use requirements.

# Notes on the Condensed Interim Statements

## for the period 1 April 2014 to 30 September 2014

### 5. Critical accounting judgements and key sources of estimation uncertainty

**(ii) Adjusted measures**

The Directors assess the performance of the reportable segments ('Operating profit by segment', Note 6(b)) based on an 'adjusted profit before interest and tax' measure. This is the basis used for internal performance management and is believed to be appropriate for explaining underlying performance. The adjusted profit before interest and tax is reconciled to reported profit before interest and tax by adding back exceptional items, the net interest costs associated with defined benefit schemes, remeasurements arising from IAS 39 and after the removal of taxation on profits from jointly controlled entities and associates. In addition, adjusted profit after tax will be reported on a basis consistent with this change.

The Directors also present details of an 'adjusted earnings per share' measure, which is based on basic earnings per share before exceptional items, the net interest costs associated with defined benefit pension schemes remeasurements arising from IAS 39 and after the removal of deferred taxation. The adjusted measures are considered more reflective of the Group's underlying performance, are consistent with way the Group is managed and avoids volatility arising from IAS 39 fair value measurements.

**(iii) Business Combinations**

Business combinations require a fair value exercise to be undertaken to allocate the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of this purchase price to the identifiable assets and liabilities with any unallocated portion being recorded as goodwill.

**(iv) Energy Company Obligation (ECO) costs**

The Energy Company Obligation ('ECO') legislation, in force since 1 January 2013, requires qualifying energy suppliers to meet defined targets by providing measures to improve the energy efficiency of and level of carbon emissions from UK domestic households. The targets for the Group's Energy Supply business are set based on historic customer information with delivery of the measures being required by 31 March 2017. The Group believes it is not technically obligated to provide those measures until the end of the delivery period, which has been extended by two years by the Government to 31 March 2017. As a consequence and applying applicable accounting standards, the costs of ECO are recorded when measures are delivered or other qualifying expenditure has been incurred.

**Other areas of estimation uncertainty**

**(i) Provisions and contingencies**

The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37. Provisions are calculated based on estimations. The evaluation of the likelihood of the contingent events has required best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseeable developments, this likelihood could alter.

**(ii) 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 2017 and 2030.

**(iii) 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.

# Notes on the Condensed Interim Statements

**for the period 1 April 2014 to 30 September 2014**

**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 compromising Electricity Distribution, Electricity Transmission and Gas Distribution; the **Retail** business compromising Energy Supply, Enterprise 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:

| Business Area | Reported Segments | 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 |
| **Retail** | Energy Supply | The supply of electricity and gas to residential and business customers in the UK and Ireland |
| | Enterprise | The integrated provision of services in competitive markets for industrial and commercial customers including electrical contracting, private energy networks, lighting services and telecoms capacity and bandwidth. |
| | Energy-related Services | The provision of energy-related goods and services to customers in the UK including meter reading and installation, boiler maintenance and installation and domestic telecoms and broadband services. |
| **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 and other commodity 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 |

As noted in Note 5 Critical accounting judgments and key sources of estimation uncertainty, 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, the net interest costs associated with defined benefit pensions schemes and after the removal of taxation and interest on profits from joint ventures 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 and Ireland.

**a) Revenue by segment**

| Six months ended 30 September 2013 Restated (Note 3, 4) | | | | **Six months ended 30 September 2014** | | |
|---|---|---|---|---|---|---|
| External revenue | Intra-segment revenue | **Total revenue** | | **External revenue** | **Intra-segment revenue** | **Total revenue** |
| £m | £m | **£m** | | **£m** | **£m** | **£m** |
| | | | **Networks** | | | |
| 328.8 | 142.1 | **470.9** | Electricity Distribution | 330.6 | 131.8 | **462.4** |
| 91.6 | - | **91.6** | Electricity Transmission | 117.9 | - | **117.9** |
| **420.4** | **142.1** | **562.5** | | **448.5** | **131.8** | **580.3** |
| | | | **Retail** | | | |
| 3,477.3 | 13.2 | **3,490.5** | Energy Supply | 3,167.5 | 9.3 | **3,176.8** |
| 196.4 | 81.0 | **277.4** | Enterprise | 190.0 | 72.5 | **262.5** |
| 57.1 | 50.0 | **107.1** | Energy-related Services | 57.6 | 54.0 | **111.6** |
| **3,730.8** | **144.2** | **3,875.0** | | **3,415.1** | **135.8** | **3,550.9** |
| | | | **Wholesale** | | | |
| 9,398.3 | 1,789.6 | **11,187.9** | Energy Portfolio Management and Electricity Generation | 8,498.0 | 1,526.9 | **10,024.9** |
| 2.2 | 43.0 | **45.2** | Gas Storage | 4.5 | 79.1 | **83.6** |
| 2.6 | 130.7 | **133.3** | Gas Production | 0.6 | 83.8 | **84.4** |
| **9,403.1** | **1,963.3** | **11,366.4** | | **8,503.1** | **1,689.8** | **10,192.9** |
| 19.8 | 102.3 | **122.1** | Corporate unallocated | 47.2 | 85.3 | **132.5** |
| **13,574.1** | **2,351.9** | **15,926.0** | **Total** | **12,413.9** | **2,042.7** | **14,456.6** |

Revenue from the Group's investment in Scotia Gas Networks Limited, the Group's share being £269.4m (September 2013- £265.2m, March 2014 – £535.0m), is not recognised as revenue of the Group under equity accounting.

## Notes on the Condensed Interim Statements

### for the period 1 April 2014 to 30 September 2014

**6. Segmental information (continued)**

**a) Revenue by segment (continued)**

| Restated (Note 3,4) | Year ended 31 March 2014 | | |
|---|---|---|---|
| | External revenue £m | Intra-segment revenue £m | **Total revenue £m** |
| **Networks** | | | |
| Electricity Distribution | 704.1 | 311.7 | **1,015.8** |
| Electricity Transmission | 185.2 | - | **185.2** |
| | **889.3** | **311.7** | **1,201.0** |
| **Retail** | | | |
| Energy Supply | 8,465.0 | 26.7 | **8,491.7** |
| Enterprise | 451.1 | 143.6 | **594.7** |
| Energy-related Services | 106.5 | 112.0 | **218.5** |
| | **9,022.6** | **282.3** | **9,304.9** |
| **Wholesale** | | | |
| Energy Portfolio Management and Electricity Generation | 20,608.5 | 4,246.0 | **24,854.5** |
| Gas Storage | 9.0 | 82.6 | **91.6** |
| Gas Production | 7.8 | 255.7 | **263.5** |
| | **20,625.3** | **4,584.3** | **25,209.6** |
| Corporate unallocated | 47.8 | 276.0 | **323.8** |
| **Total** | **30,585.0** | **5,454.3** | **36,039.3** |

**b) Operating profit by segment**

| | Six months ended 30 September 2014 | | | | |
|---|---|---|---|---|---|
| | **Adjusted operating profit reported to the Board £m** | **Joint Venture/ Associate share of interest and tax (i) £m** | **Before exceptional items and certain re-measurements £m** | **Exceptional items and certain re-measurements £m** | **Total £m** |
| **Networks** | | | | | |
| Electricity Distribution | 215.7 | - | 215.7 | - | **215.7** |
| Electricity Transmission | 98.9 | - | 98.9 | - | **98.9** |
| Gas Distribution | 143.8 | (81.0) | 62.8 | 2.2 | **65.0** |
| | **458.4** | **(81.0)** | **377.4** | **2.2** | **379.6** |
| **Retail** | | | | | |
| Energy Supply | (16.9) | - | (16.9) | - | **(16.9)** |
| Enterprise | 42.9 | - | 42.9 | - | **42.9** |
| Energy-related Services | 11.3 | - | 11.3 | - | **11.3** |
| | **37.3** | **-** | **37.3** | **-** | **37.3** |
| **Wholesale** | | | | | |
| Energy Portfolio Management and Electricity Generation | 11.8 | (9.7) | 2.1 | (10.5) | **(8.4)** |
| Gas Storage | 1.6 | - | 1.6 | - | **1.6** |
| Gas Production | 13.3 | - | 13.3 | - | **13.3** |
| | **26.7** | **(9.7)** | **17.0** | **(10.5)** | **6.5** |
| Corporate unallocated | 7.4 | - | 7.4 | - | **7.4** |
| **Total** | **529.8** | **(90.7)** | **439.1** | **(8.3)** | **430.8** |

## Notes on the Condensed Interim Statements

**for the period 1 April 2013 to 30 September 2014**

**6. Segmental information (continued)**

**b) Operating profit by segment (continued)**

Six months ended 30 September 2013

Restated (Notes 3, 4)

| | Adjusted operating profit reported to the Board | Joint Venture/ Associate share of interest and tax (i) | Before exceptional items and certain re-measurements | Exceptional items and certain re-measurements | **Total** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Networks** | | | | | |
| Electricity Distribution | 232.0 | - | 232.0 | - | **232.0** |
| Electricity Transmission | 67.6 | - | 67.6 | - | **67.6** |
| Gas Distribution | 138.2 | (85.8) | 52.4 | 65.5 | **117.9** |
| | **437.8** | **(85.8)** | **352.0** | **65.5** | **417.5** |
| **Retail** | | | | | |
| Energy Supply | (115.4) | - | (115.4) | - | **(115.4)** |
| Enterprise | 27.8 | (0.1) | 27.7 | - | **27.7** |
| Energy-related Services | 16.2 | - | 16.2 | - | **16.2** |
| | **(71.4)** | **(0.1)** | **(71.5)** | **-** | **(71.5)** |
| **Wholesale** | | | | | |
| Energy Portfolio Management and Electricity Generation | 86.2 | (9.9) | 76.3 | (11.8) | **64.5** |
| Gas Storage | 5.2 | - | 5.2 | - | **5.2** |
| Gas Production | 69.0 | - | 69.0 | | **69.0** |
| | **160.4** | **(9.9)** | **150.5** | **(11.8)** | **138.7** |
| Corporate unallocated | (8.1) | - | (8.1) | - | **(8.1)** |
| **Total** | **518.7** | **(95.8)** | **422.9** | **53.7** | **476.6** |

Year ended 31 March 2014

Restated (Notes 3, 4)

| | Adjusted operating profit reported to the Board | Joint Venture/ Associate share of interest and tax (i) | Before exceptional items and certain re-measurements | Exceptional items and certain re-measurements | **Total** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Networks** | | | | | |
| Electricity Distribution | 507.0 | - | 507.0 | (7.1) | **499.9** |
| Electricity Transmission | 136.7 | - | 136.7 | (1.0) | **135.7** |
| Gas Distribution | 276.6 | (163.1) | 113.5 | 68.9 | **182.4** |
| | **920.3** | **(163.1)** | **757.2** | **60.8** | **818.0** |
| **Retail** | | | | | |
| Energy Supply | 246.2 | - | 246.2 | (43.2) | **203.0** |
| Enterprise | 56.8 | (0.1) | 56.7 | (42.3) | **14.4** |
| Energy-related Services | 24.1 | - | 24.1 | (48.5) | **(24.4)** |
| | **327.1** | **(0.1)** | **327.0** | **(134.0)** | **193.0** |
| **Wholesale** | | | | | |
| Energy Portfolio Management and Electricity Generation | 496.1 | (8.1) | 488.0 | (607.4) | **(119.4)** |
| Gas Storage | 8.3 | - | 8.3 | (137.7) | **(129.4)** |
| Gas Production | 130.2 | - | 130.2 | - | **130.2** |
| | **634.6** | **(8.1)** | **626.5** | **(745.1)** | **(118.6)** |
| Corporate unallocated | (1.9) | - | (1.9) | (14.1) | **(16.0)** |
| **Total** | **1,880.1** | **(171.3)** | **1,708.8** | **(832.4)** | **876.4** |

(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 joint ventures 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 (2013 - £16.7m, March 2014 - £33.3m), as finance income (note 8).

### 7. Exceptional items and certain re-measurements

| Year ended 31 March 2014 £m (Restated Note 3) | | Six months ended 30 September 2014 £m | Six months ended 30 September 2013 £m (Restated Note 3) |
|---|---|---|---|
| | **Exceptional items** | | |
| (574.9) | Asset impairments and related charges (i) | **-** | - |
| (137.4) | Provisions for restructuring and other liabilities (ii) | **-** | - |
| (34.9) | Impairment of investments in associates (share of result, net of tax) | **-** | - |
| 63.3 | Share of effect of change in UK corporation tax rate on net deferred tax liabilities of joint venture and associate investments (iii) | **-** | 64.7 |
| (683.9) | | **-** | 64.7 |
| | **Certain re-measurements (ii)** | | |
| (150.9) | Movement on operating derivatives (note 17) | **(10.5)** | (11.8) |
| (64.2) | Movement on financing derivatives (note 17) | **(9.7)** | (31.3) |
| 2.4 | Share of movements on derivatives in joint ventures (net of tax) | **2.2** | 0.8 |
| (212.7) | | **(18.0)** | (42.3) |
| (896.6) | **Impact on (loss)/profit before taxation** | **(18.0)** | 22.4 |
| | **Exceptional items** | | |
| 59.8 | Effect of change in UK corporation tax rate on deferred tax liabilities and assets (iii) | **-** | 108.4 |
| 137.3 | Taxation on exceptional items | **-** | - |
| 197.1 | | **-** | 108.4 |
| | **Certain re-measurements (ii)** | | |
| 63.7 | Taxation on certain re-measurements | **4.2** | 9.9 |
| 260.8 | **Taxation** | **4.2** | 118.3 |
| (635.8) | **Impact on (loss)/profit for the period/year** | **(13.8)** | 140.7 |

**(i) Exceptional items**

In the previous financial year, the Group recognised exceptional charges arising from and related to asset impairments of £574.9m. This consisted of impairment charges in respect of thermal and renewable generation plant of £363.9m which included the impact of the decision to scale back the Group's involvement in certain offshore wind developments. The total also included impairment charges against gas storage facilities of £137.7m and charges of £73.3m in relation to recognition of losses and costs arising from the decision to exit from certain non-core businesses following the announcement of its restructuring and disposal programme on 26 March 2014. This latter item also includes impairment charges of £36.2m in relation to system and software development across the energy supply and metering businesses.

Other exceptional charges of £137.4m were recognised in the previous financial year. This included charges of £91.0m in relation to the March 2014 restructuring announcement, including a restructuring provision primarily relating to the scheme of employee voluntary early release of £52.9m and provisions associated with business closures and contractual disputes of £38.1m. Also included in this total is a provision of £46.4m for the settlement of a contractual dispute.

**(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 (and hedged items) as described in note 17. 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 the income statement (as part of 'certain re-measurements') or in equity. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts.

**(iii) Change in UK corporation tax rates**

The 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2013 and substantive enactment of the rates of 21% and 20% with effect from 1 April 2014 and 1 April 2015, respectively, took place on 3 July 2013. All substantively enacted changes had been recognised in periods up to 31 March 2015 and no further impact was recognised in the period to 30 September 2014.

# Notes on the Condensed Interim Statements

**for the period 1 April 2014 to 30 September 2014**

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

The changes recognised in previous periods had the effect of reducing the Group's net deferred tax liabilities recognised at 31 March 2014 and 30 September 2014 by £33.6m and £83.4m respectively (with an income statement impact of £59.8m and £108.4m respectively) and the Group's share of associate and jointly controlled investment deferred tax liabilities by £64.7m and £63.3m respectively.

**8. Net finance costs**

| Year ended 31 March 2014 Restated (note 3) | | Six months ended 30 September 2014 | Six months ended 30 September 2013 Restated (note 3) |
|---|---|---|---|
| £m | | **£m** | £m |
| | **Finance income:** | | |
| 1.7 | Interest income from short term deposits | **0.8** | 0.9 |
| 19.3 | Foreign exchange translation of monetary assets and liabilities | **-** | 19.8 |
| | Other interest receivable: | | |
| 33.3 | Scotia Gas Networks loan stock | **16.7** | 16.7 |
| 11.7 | Other joint ventures and associates | **7.0** | 6.5 |
| 56.7 | Other receivable | **25.2** | 25.2 |
| 101.7 | | **48.9** | 48.4 |
| **122.7** | **Total finance income** | **49.7** | 69.1 |
| | **Finance costs:** | | |
| (18.5) | Bank loans and overdrafts | **(10.7)** | (8.0) |
| (310.8) | Other loans and charges | **(138.4)** | (162.4) |
| (26.8) | Interest on net pension scheme liabilities | **(13.0)** | (13.6) |
| (9.5) | Notional interest arising on provisions | **(5.3)** | (3.9) |
| (35.7) | Finance lease charges | **(17.1)** | (17.9) |
| 58.9 | Less: interest capitalised | **30.3** | 28.8 |
| **(342.4)** | **Finance costs excluding movement on financing derivatives and exceptional items** | **(154.2)** | (177.0) |
| (64.2) | Movement on financing derivatives and exceptional items | **(9.7)** | (31.3) |
| **(283.9)** | **Net finance costs** | **(114.2)** | (139.2) |

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

| Year ended 31 March 2014 Restated (note 3) | | Six months ended 30 September 2014 | Six months ended 30 September 2013 Restated (note 3) |
|---|---|---|---|
| £m | | **£m** | £m |
| (283.9) | Net finance costs | **(114.2)** | (139.2) |
| | (add)/less: | | |
| | Share of interest from joint ventures and associates: | | |
| (33.3) | Scotia Gas Networks loan stock | **(16.7)** | (16.7) |
| (104.2) | Other jointly controlled entities and associates | **(52.6)** | (54.9) |
| (137.5) | | **(69.3)** | (71.6) |
| 26.8 | Interest on net pension scheme liabilities | **13.0** | 13.6 |
| 1.4 | Share of interest on net pension liabilities in joint ventures | **1.3** | 1.2 |
| 64.2 | Movement on financing derivatives (note 17) | **9.7** | 31.3 |
| **(329.0)** | **Adjusted net finance costs** | **(159.5)** | (164.7) |
| 9.5 | Notional interest arising on discounted provisions | **5.3** | 3.9 |
| 35.7 | Finance lease charges | **17.1** | 17.9 |
| (122.9) | Hybrid coupon payment | **(11.7)** | (12.5) |
| **(406.7)** | **Adjusted net finance costs for interest cover calculations** | **(148.8)** | (155.4) |

## Notes on the Condensed Interim Statements

### for the period 1 April 2013 to 30 September 2014

**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 2014, 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 17.2% (2013 – 22.6%, March 2014 – 27.4%). The reported tax rate on the profit before tax after exceptional items, including the effect of the change in tax rate, and certain re-measurements was 16.9% (2013 – (13.9)%, March 2013 – 24.7%).

The combined effect of the substantively enacted change in rate of UK corporation tax as explained at Note 7(iii) were treated as exceptional items in the comparative periods. The total adjusted effective rate of tax on profits before taxation excluding exceptional items, certain re-measurements, deferred tax associated with interest on net pension liabilities under IAS 19R and adjusted for tax on associates and jointly controlled entities for the period can be represented as follows:

| Year ended 31 March 2014 | | Six months ended 30 September 2014 | Six months ended 30 September 2013 |
|---|---|---|---|
| | **Adjusted effective rate:** | | |
| 15.3% | Current tax | **15.0%** | 16.4% |
| 17.7% | Deferred tax | **6.4%** | 10.5% |
| 33.0% | | **21.4%** | 26.9% |

**10. Dividends**

**Ordinary dividends**

| Year ended 31 March 2014 Total £m | Settled via scrip £m | Pence per ordinary share | | Six months ended 30 September 2014 Total £m | Settled via scrip £m | Pence per ordinary share | Six months ended 30 September 2013 Total £m | Settled via scrip £m | Pence per ordinary share |
|---|---|---|---|---|---|---|---|---|---|
| - | - | - | Final: year ended 31 March 2014 | **591.6** | **174.0** | **60.7** | - | - | - |
| 251.0 | 112.4 | 26.0 | Interim: year ended 31 March 2014 | **-** | **-** | **-** | - | - | - |
| 568.6 | 17.8 | 59.0 | Final: year ended 31 March 2013 | **-** | **-** | **-** | 568.6 | 17.8 | 59.0 |
| 819.6 | 130.2 | | | **591.6** | **174.0** | | 568.6 | 17.8 | |

The final dividend of 60.7p per ordinary share declared in the financial year ended 31 March 2014 (2013 – 59.0p) was approved at the Annual General Meeting on 25 July 2014 and was paid to shareholders on 19 September 2014. 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 26.6p per ordinary share (2013 – 26.0p) has been proposed and is due to be paid 20 March 2015 to those shareholders on the SSE plc share register on 23 January 2015. 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 2014 to 30 September 2014

### 11. Earnings per share

**Basic earnings per share**

The calculation of basic earnings per share at 30 September 2014 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 2014. All earnings are from continuing operations.

**Adjusted earnings per share**

Adjusted earnings per share has been calculated by excluding the charge for deferred tax, the interest on net pension liabilities under IAS 19R and the impact of exceptional items and certain re-measurements.

| Year ended 31 March 2014 Earnings £m Restated (note 3) | Year ended 31 March 2014 Earnings per share pence Restated (note 3) | | **Six months ended 30 September 2014 Earnings £m** | **Six months ended 30 September 2014 Earnings per share pence** | Six months ended 30 September 2013 Earnings £m Restated (note 3) | Six months ended 30 September 2013 Earnings per share pence Restated (note 3) |
|---|---|---|---|---|---|---|
| **323.1** | **33.5** | **Basic** | **251.3** | **25.8** | **371.9** | **38.6** |
| 635.8 | 65.8 | Exceptional items and certain re-measurements (note 7) | **13.8** | **1.4** | (140.7) | (14.6) |
| 958.9 | 99.3 | Basic excluding exceptional items and certain re-measurements | **265.1** | **27.2** | 231.2 | 24.0 |
| | | Adjusted for: | | | | |
| 26.8 | 2.8 | interest on net pension scheme liabilities (note 8) | **13.0** | **1.3** | 13.6 | 1.4 |
| 1.4 | 0.1 | Share of interest on net pension liabilities in joint venture (note 8) | **1.3** | **0.1** | 1.2 | 0.1 |
| 180.6 | 18.7 | Deferred tax | **13.4** | **1.4** | 17.5 | 1.8 |
| 23.8 | 2.5 | Deferred tax from share of joint ventures | **10.2** | **1.1** | 19.8 | 2.1 |
| **1,191.5** | **123.4** | **Adjusted** | **303.0** | **31.1** | **283.3** | **29.4** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **323.1** | **33.5** | **Basic** | **251.3** | **25.8** | **371.9** | **38.6** |
| - | (0.2) | Dilutive effect of convertible debt and share options | **-** | **(0.3)** | - | (0.1) |
| **323.1** | **33.3** | **Diluted** | **251.3** | **25.5** | **371.9** | **38.5** |

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

| Year ended 31 March 2014 Number of shares (millions) | | **Six months ended 30 September 2014 Number of shares (millions)** | Six months ended 30 September 2013 Number of shares (millions) |
|---|---|---|---|
| 965.5 | For basic and adjusted earnings per share | **975.7** | 964.4 |
| 6.1 | Effect of exercise of share options | **8.2** | 2.5 |
| 971.6 | | **983.9** | 966.9 |

## Notes on the Condensed Interim Statements

**for the period 1 April 2014 to 30 September 2014**

**12. Notes to the Consolidated Cash Flow Statement**

**(a) Reconciliation of group operating profit to cash generated from operations**

| Year ended 31 March 2014 Restated (note 3) £m | | Six months ended 30 September 2014 £m | Six months ended 30 September 2013 Restated (note 3) £m |
|---|---|---|---|
| 446.0 | Profit for the period/year | **263.0** | 384.4 |
| | Add back: | | |
| 146.5 | Taxation | **53.6** | (47.0) |
| 283.9 | Net finance costs | **114.2** | 139.2 |
| 876.4 | **Operating profit** | **430.8** | 476.6 |
| (185.6) | Less: share of profit of ventures and associates | **(82.3)** | (132.0) |
| 690.8 | Operating profit before joint ventures and associates | **348.5** | 344.6 |
| | Add/(less): | | |
| 150.9 | Movement on operating derivatives | **10.5** | 11.8 |
| (75.9) | Pension service charges net of contributions paid | **(38.9)** | (36.6) |
| 712.3 | Exceptional charges | **-** | - |
| 649.4 | Depreciation of assets | **308.2** | 294.1 |
| 18.1 | Amortisation and impairment of intangible assets | **3.4** | 2.0 |
| 2.0 | Impairment of inventories | **-** | 2.6 |
| (0.7) | Release of provisions | **-** | - |
| (16.8) | Release of deferred income | **(8.4)** | (9.0) |
| 15.5 | Charge in respect of employee share awards (before tax) | **7.5** | 7.3 |
| (12.8) | (Profit) on disposal of property, plant and equipment | **(15.8)** | - |
| 1.4 | Loss/(profit) on disposal of business and subsidiaries | **(15.3)** | - |
| - | Loss on sale of fixed asset investments | **0.2** | - |
| 2,134.2 | **Cash generated from operations before working capital movements** | **599.9** | 616.8 |

**(b) Reconciliation of net increase in cash and cash equivalents to movement in adjusted net debt and hybrid capital**

| Year ended 31 March 2014 Restated (note 3) £m | | Six months ended 30 September 2014 £m | Six months ended 30 September 2013 Restated (note 3) £m |
|---|---|---|---|
| (109.0) | (Decrease) in cash and cash equivalents | **(214.3)** | (13.8) |
| | (Add)/less: | | |
| (1,815.8) | New borrowings | **(104.1)** | (1,186.1) |
| 1,514.8 | Repayment of borrowings | **30.2** | 758.9 |
| 89.5 | Non-cash movement on borrowings | **19.0** | 52.8 |
| (3.8) | (Decrease)/increase in cash held as collateral | **4.9** | (14.5) |
| (324.3) | **Movement in adjusted net debt and hybrid capital** | **(264.3)** | (402.7) |

Non-cash movement on borrowings includes revaluation of fair value items, exchange movements and accretion of index-linked bonds. Cash held as collateral refers to amounts deposited on commodity trading exchanges which are reported within trade and other receivables on the face of the balance sheet.

**13. Acquisitions, disposals and held for sale**

On 31 July 2014, the Group through its wholly owned subsidiary, SSE Contracting Group Limited, acquired 100% of the share capital of Energy Solutions Group Limited ('ESG'). The final consideration for the business will total £72m consisting of cash of £66m and deferred consideration of £6m. The acquisition of ESG complements and enhances SSE's services in competitive markets for industrial and commercial customers and the contribution from the business will be reported as part of the new Enterprise reportable segment.

**13. Acquisitions, disposals and held for sale (continued)**

On 26 March 2014, the Group announced its intention to dispose of a number of non-core assets and businesses and to identify further operational efficiencies as part of a value programme. It was noted in the announcement that this programme would include the disposal of the Group's portfolio of PFI street lighting contracts and other assets such as the Telecoms data centre business and the gas connections business. These disposals will form part of Group's capital 'recycling' programme. The Group also announced its decision to scale back its commitment in relation to offshore wind projects including its share of the Galloper, Seagreen and Forewind joint ventures.

On 1 September 2014, the Group disposed of its gas connections business, previously reported in Enterprise, which provides services to 130,000 customers at new residential and commercial developments throughout the UK to Environmental Energies Fund. Cash consideration of £52.6m was received with the disposal resulted in a gain on sale of £15.3m.

A number of assets and liabilities associated with activities are deemed available for immediate sale and have been separately presented on the face of the balance sheet at 30 September 2014. This includes a number of the assets and businesses identified in the 26 March 2014 announcement and referred to above. The assets have been stated at their fair value less costs to sell.

| March 2014 £m | | **Energy portfolio management and electricity generation September 2014 £m** | **Enterprise September 2014 £m** | **Total September 2014 £m** | Total September 2013 £m |
|---|---|---|---|---|---|
| 62.3 | Property plant and equipment | 16.9 | 13.6 | **30.5** | - |
| 3.4 | Biological assets | 3.4 | - | **3.4** | - |
| 5.5 | Other intangible | 9.6 | 0.2 | **9.8** | 2.3 |
| **71.2** | **Non-current assets** | **29.9** | **13.8** | **43.7** | **2.3** |
| 0.8 | Inventories | 0.5 | 0.4 | **0.9** | - |
| 260.5 | Trade and other receivables | 5.8 | 303.3 | **309.1** | - |
| 261.3 | Current assets | **6.3** | **303.7** | **310.0** | - |
| **332.5** | **Total assets** | **36.2** | **317.5** | **353.7** | **2.3** |
| (14.9) | Trade and other payables | (27.7) | (4.0) | **(31.7)** | - |
| (0.7) | Provisions | - | (1.4) | **(1.4)** | - |
| **(15.6)** | **Current liabilities** | **(27.7)** | **(5.4)** | **(33.1)** | **-** |
| (2.7) | Deferred tax liabilities | (0.5) | - | **(0.5)** | - |
| (0.9) | Provisions | - | - | **-** | - |
| **(3.6)** | **Non-current liabilities** | **(0.5)** | **-** | **(0.5)** | **-** |
| **(19.2)** | **Total liabilities** | **(28.2)** | **(5.4)** | **(33.6)** | **-** |
| 313.3 | **Net assets** | **8.0** | **312.1** | **320.1** | 2.3 |

The assets and liabilities identified as held for sale at 30 September 2014 include a number of offshore and onshore developments and certain thermal power generation plants. On 30 September 2014, the Group announced it had agreed to sell the Telecoms data centre business (net asset value of £14.5m), to SCC, which is part of the Rigby Group, with the transaction expected to complete in advance of 31 March 2015.

In addition, on 11 November 2014, the Group announced the completion of the sale of part of its portfolio of Lighting Service PFI business to Equitix Infrastructure 3 Limited. Further details are included at Note 22.

## Notes on the Condensed Interim Statements

**for the period 1 April 2014 to 30 September 2014**

**14. Loans and other borrowings**

| March 2014 Restated (note 3) £m | | **September 2014 £m** | September 2013 Restated (note 3) £m |
|---|---|---|---|
| | **Current** | | |
| 0.3 | Bank Overdraft | **0.1** | - |
| 600.3 | Other short-term loans | **835.2** | 1,288.3 |
| 18.1 | Obligations under finance leases | **17.5** | 15.5 |
| 618.7 | | **852.8** | 1,303.8 |
| | **Non current** | | |
| 5,365.5 | Loans | **5,185.5** | 4,840.8 |
| 310.8 | Obligations under finance leases | **301.9** | 307.2 |
| 5,676.3 | | **5,487.4** | 5,148.0 |
| 6,295.0 | **Total loans and borrowings** | **6,340.2** | 6,451.8 |
| (458.9) | Cash and cash equivalents | **(244.4)** | (553.9) |
| 5,836.1 | Unadjusted net debt | **6,095.8** | 5,897.9 |
| | **Add/(less):** | | |
| 2,186.8 | Hybrid capital (note 15) | **2,186.8** | 2,186.8 |
| (328.9) | Obligations under finance leases | **(319.4)** | (322.7) |
| (51.2) | Cash held as collateral | **(56.1)** | (40.5) |
| 7,642.8 | **Adjusted Net Debt and Hybrid Capital** | **7,907.1** | 7,721.5 |

In August 2014, the Group arranged a new £200m bank facility from which £150m was drawn down in October 2014 as an eight year fixed rate term loan at a rate of 2.871%. The remaining £50m of this bank facility is available to be drawn, until August 2015. An existing £500m floating rate bank term loan which was due to mature in September 2014, was extended by a year and now matures in September 2015.

In the six months to 31 March 2015 the Group has £61.5m of debt reaching maturity, which will be refinanced from existing facilities. Also the £750m and €500m hybrid capital bonds issued on 20 September 2010 reach their first issuer call option on 1 October 2015, which gives the Group the option to redeem the securities at par. This redemption would be funded through the issue of new securities in the capital markets in advance of the first issuer call date. Adjusted net debt and hybrid capital is stated after removing obligations on finance leases and cash held as collateral. Cash held as collateral refers to amounts deposited on commodity trading exchanges which are reported within Trade and other receivables on the face of the balance sheet.

In addition the Group has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into Sterling). The Group has £1.5bn (September 2013 - £1.5bn) of committed credit facilities in place, maturing in April and July 2018 which provide a back up to the commercial paper programme. At 30 September 2014, £60m of these facilities were drawn but have since been repaid.

**15. Hybrid Capital**

| March 2014 £m | **Perpetual subordinated capital securities** | **September 2014 £m** | September 2013 £m |
|---|---|---|---|
| 744.5 | GBP 750m 5.453% perpetual subordinated capital securities | **744.5** | 744.5 |
| 416.9 | EUR 500m 5.025% perpetual subordinated capital securities | **416.9** | 416.9 |
| 427.2 | USD 700m 5.625% perpetual subordinated capital securities | **427.2** | 427.2 |
| 598.2 | EUR 750m 5.625% perpetual subordinated capital securities | **598.2** | 598.2 |
| 2,186.8 | | **2,186.8** | 2,186.8 |

The Company issued £750m and €500m hybrid capital bonds on 20 September 2010 and €750m and $700m hybrid capital bonds on 18 September 2012. 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 18 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).

**15. Hybrid Capital (continued)**

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 €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 US$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 fund the Group's ongoing capital investment and acquisitions.

Coupon payments of £11.7m (2013 – £12.5m) in relation to the USD Capital issued on 18 September 2012 were paid on 2 April 2014. In addition coupon payments of £11.7m were paid in relation to the same hybrid capital bonds on 1 October 2013 and payments of £98.7m were paid in relation to the other hybrid capital bonds on 1 October 2013.

**16. Share capital**

| | **Number (millions)** | **£m** |
|---|---|---|
| Equity: Ordinary shares of 50p each: | | |
| Authorised: | | |
| At 30 September 2014 and 1 April 2014 | 1,200.0 | 600.0 |
| | | |
| Allotted, called up and fully paid: | | |
| At 1 April 2014 | 974.9 | 487.4 |
| Issue of shares | 11.9 | 6.0 |
| **At 30 September 2014** | **986.8** | **493.4** |

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 for the year to 31 March 2014 of 60.7p (59.0p – September 2013 in relation to the final dividend for the year to 31 March 2013, 26.0p – March 2014, in relation to the interim dividend for the year to 31 March 2014) per ordinary share under the terms of the Company's scrip dividend scheme. This resulted in the issue of 11,775,169 (September 2013 – 1,128,181, March 2014 – 8,551,629) new fully paid ordinary shares. The Company issued 112,913 shares (2013 – 18,918, March 2014 – 907,775) during the period under the savings-related share option schemes, and discretionary share option schemes for a consideration of £1.09m (2013 - £0.19m, March 2014 - £8.9m). During the period, on behalf of the Company, the employee share trust purchased 0.3 million shares (2013 – 0.3 million, March 2014 – 0.8 million) for a consideration of £4.3m (2013 – £3.9m, March 2014 – £7.7m) to be held in trust for the benefit of employee share schemes.

**17. Capital and Financial Risk Management**

**Capital management**

The Board's policy is to maintain a strong balance sheet and credit rating so as to support investor, counterparty and market confidence and to underpin future development of the business. The Group's credit ratings are also important in maintaining an efficient cost of capital and in determining collateral requirements throughout the Group. As at 30 September 2014, the Group's long term credit rating was A- negative outlook for Standard & Poor's, and this was subsequently revised to A- with stable outlook on 15 October 2014. As at 30 September 2014, the Group's long term credit rating was A3 negative outlook for Moody's. Further detail of the capital management objectives, policies and procedures are included in the 'Financial management and balance sheet' section of the Strategy and Finance section of this report.

The maintenance of a medium-term corporate model is a key control in monitoring the development of the Group's capital structure, and allows for detailed scenarios and sensitivity testing. Key ratios drawn from this analysis underpin regular updates to the Board and include the ratios used by the rating agencies in assessing the Group's credit ratings.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices and economic conditions. The use of share buy-backs is the Group's benchmark for investment decisions and is utilised at times when management believe the Group's shares are undervalued. No share buy-back was made during the period.

The Group's debt requirements are principally met through issuing bonds denominated in Sterling and Euros as well as private placements and medium term bank loans including those with the European Investment Bank. In addition the Group has issued hybrid capital securities which bring together features of both debt and equity, are perpetual and subordinate to all senior creditors. The Group has £1.5bn of committed bank facilities which relate to the Groups revolving credit and bilateral facilities that can be accessed at short notice for use in managing the Group's short term funding requirements, however, these committed facilities remain undrawn for the majority of the time.

The Group's intent is to balance returns to shareholders between current returns through dividends and long-term capital investment for growth. In doing so, the Group will maintain its capital discipline and will continue to operate within the current economic environment prudently. There were no changes to this capital management approach during the period.

**17. Capital and Financial Risk Management (continued)**

**Financial risk management**

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Risk and Trading Committee, which reports to the Executive Committee, comprises the two Executive Directors and senior managers from the Energy Portfolio Management, Retail, Corporate and Finance functions. Its specific remit is to support the Group's risk management responsibilities by reviewing the strategic, market, credit, operational and liquidity risks and exposures that arise from the Group's energy portfolio management, generation and treasury operations. The specific financial risks which involve the use of financial instruments are the Group's commodity, currency, credit, liquidity and interest rate risks.

Exposure to the commodity, currency and interest rate risks referred to arise in the normal course of the Group's business and the Group enters into derivative financial instruments to manage 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 2014.

In the six months to 30 September 2014, 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 2014. 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. Further detail is noted under 'capital management' above.

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.

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

| Year ended 31 March 2014 £m | | **Six months ended 30 September 2014 £m** | Six months ended 30 September 2013 £m |
|---|---|---|---|
| | **Operating derivatives** | | |
| (785.4) | Total result on operating derivatives (i) | **(683.9)** | (373.8) |
| 634.5 | Less: amounts settled (ii) | **673.4** | 362.0 |
| (150.9) | **Movement in unrealised derivatives** | **(10.5)** | (11.8) |
| | **Financing derivatives (and hedged items)** | | |
| (754.7) | Total result on financing derivatives (i) | **(187.2)** | (579.2) |
| 690.5 | Less: amounts settled (ii) | **177.5** | 547.9 |
| (64.2) | **Movement in unrealised derivatives** | **(9.7)** | (31.3) |
| (215.1) | **Total** | **(20.2)** | (43.1) |

(i) Total result on derivatives (and hedged items) 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.

## Notes on the Condensed Interim Statements

### for the period 1 April 2014 to 30 September 2014

**17. Capital and Financial Risk Management (continued)**

**Financial risk management (continued)**

The fair values of the primary financial assets and liabilities of the Group together with their carrying values are as follows:

| March 2014 Carrying Value £m | March 2014 Fair Value £m | | **September 2014 Carrying Value £m** | **September 2014 Fair Value £m** | September 2013 Carrying Value £m | September 2013 Fair Value £m |
|---|---|---|---|---|---|---|
| | | **Financial Assets** | | | | |
| | | **Current** | | | | |
| 2,759.3 | 2,759.3 | Trade receivables | **2,106.7** | **2,106.7** | 2,048.0 | 2,048.0 |
| 29.0 | 29.0 | Other receivables | **29.2** | **29.2** | 39.6 | 39.6 |
| 51.2 | 51.2 | Cash collateral | **56.1** | **56.1** | 40.5 | 40.5 |
| 458.6 | 458.6 | Cash and cash equivalents | **244.4** | **244.4** | 553.9 | 553.9 |
| 1,261.2 | 1,261.2 | Derivative financial assets | **1,189.9** | **1,189.9** | 543.8 | 543.8 |
| 4,559.3 | 4,559.3 | | **3,626.3** | **3,626.3** | 3,225.8 | 3,225.8 |
| | | **Non-current** | | | | |
| 24.3 | 24.3 | Unquoted equity investments | **14.5** | **14.5** | 28.8 | 28.8 |
| 521.6 | 521.6 | Loans to joint ventures and associates | **529.4** | **529.4** | 1,280.7 | 1,280.7 |
| 368.4 | 368.4 | Derivative financial assets | **302.3** | **302.3** | 321.3 | 321.3 |
| 914.3 | 914.3 | | **846.2** | **846.2** | 1,630.8 | 1,630.8 |
| 5,473.6 | 5,473.6 | | **4,472.5** | **4,472.5** | 4,856.6 | 4,856.6 |
| | | **Financial Liabilities** | | | | |
| | | **Current** | | | | |
| (2,496.2) | (2,496.2) | Trade payables | **(2,789.8)** | **(2,789.8)** | (1,762.1) | (1,762.1) |
| (600.6) | (603.5) | Bank loans and overdrafts | **(835.2)** | **(836.9)** | (1,288.3) | (1,299.8) |
| (18.1) | (18.1) | Finance lease liabilities | **(17.5)** | **(17.5)** | (15.5) | (15.5) |
| (1,470.2) | (1,470.2) | Derivative financial liabilities | **(1,405.9)** | **(1,405.9)** | (664.2) | (664.2) |
| (4,585.1) | (4,588.0) | | **(5,048.4)** | **(5,050.1)** | (3,730.1) | (3,741.6) |
| | | **Non-current** | | | | |
| (5,365.5) | (6,001.3) | Loans and borrowings | **(5,185.5)** | **(5,920.4)** | (4,840.8) | (5,489.1) |
| (310.8) | (310.8) | Finance lease liabilities | **(301.9)** | **(301.9)** | (307.2) | (307.2) |
| (681.7) | (681.7) | Derivative financial liabilities | **(641.2)** | **(641.2)** | (510.4) | (510.4) |
| (6,358.0) | (6,993.8) | | **(6,128.6)** | **(6,863.5)** | (5,658.4) | (6,306.7) |
| (10,943.1) | (11,581.8) | | **(11,177.0)** | **(11,913.6)** | (9,388.5) | (10,048.3) |
| (5,469.5) | (6,108.2) | **Net financial liabilities** | **(6,704.5)** | **(7,441.1)** | (4,531.9) | (5,191.7) |

**Fair Value Hierarchy**

| | **September 2014 Level 1 £'m** | **Level 2 £'m** | **Level 3 £'m** | **Total £'m** | September 2013 Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | | |
| Energy derivatives | **157.0** | **1,271.1** | **-** | **1,428.1** | 62.2 | 713.0 | - | 775.2 |
| Interest rate derivatives | **-** | **60.2** | **-** | **60.2** | - | 65.9 | - | 65.9 |
| Foreign exchange derivatives | **-** | **3.9** | **-** | **3.9** | - | 24.0 | - | 24.0 |
| Equity investments | **-** | **29.7** | **-** | **29.7** | - | 10 | - | 10 |
| Loans and borrowings | **-** | **39.3** | **-** | **39.3** | - | 9.9 | - | 9.9 |
| | **157.0** | **1,404.2** | **-** | **1,561.2** | 62.2 | 822.8 | - | 885.0 |
| **Financial Liabilities** | | | | | | | | |
| Energy derivatives | **(118.2)** | **(1,585.7)** | **-** | **(1,703.9)** | (64.3) | (837.2) | - | (901.5) |
| Interest rate derivatives | **-** | **(312.5)** | **-** | **(312.5)** | - | (253.3) | - | (253.3) |
| Foreign exchange derivatives | **-** | **(30.7)** | **-** | **(30.7)** | - | (19.8) | - | (19.8) |
| | **(118.2)** | **(1,928.9)** | **-** | **(2,047.1)** | (64.3) | (1,110.3) | - | (1,174.6) |

There were no significant transfers out of level 1 into level 2 and out of level 2 into level 1 during the 6 months ended 30 September 2014.

## Notes on the Condensed Interim Statements

**for the period 1 April 2014 to 30 September 2014**

**17. Capital and Financial Risk Management (continued)**

**Financial risk management (continued)**

**Fair Value Hierarchy (continued)**

| | March 2014 | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| **Financial Assets** | | | | |
| Energy derivatives | 107.3 | 1,466.4 | - | 1573.7 |
| Interest rate derivatives | - | 47.9 | - | 47.9 |
| Foreign exchange derivatives | - | 8.0 | - | 8.0 |
| Loans and borrowings | - | 43.4 | - | 43.4 |
| Equity Investments | | 43.0 | | 43 |
| | 107.3 | 1,608.7 | - | 1,716.0 |
| **Financial Liabilities** | | | | |
| Energy derivatives | (113.9) | (1,725.3) | - | (1,839.2) |
| Interest rate derivatives | - | (286.6) | - | (286.6) |
| Foreign exchange derivatives | - | (26.1) | - | (26.1) |
| | (113.9) | (2,038.0) | - | (2,151.9) |

There were no significant transfers out of level 1 into level 2 and out of level 2 into level 1 during the year ended 31 March 2014.

**18. 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 2014.

Summary of Defined Benefit Pension Schemes:

| Movement recognised in the SoCI March 2014 £m | Pension (liability)/ asset March 2014 £m | | **Movement recognised in respect of the pension liability in the SoCI** **September 2014 £m** | September 2013 £m | **Pension (liability)/ asset** **September 2014 £m** | September 2013 £m |
|---|---|---|---|---|---|---|
| (8.8) | 18.4 | Scottish Hydro Electric Pension Scheme | **18.5** | (31.5) | **49.8** | (17.5) |
| 31.8 | (455.0) | Southern Electric Pension Scheme | **(29.6)** | 23.0 | **(467.3)** | (480.6) |
| 23.0 | (436.6) | | **(11.1)** | (8.5) | **(417.5)** | (498.1) |
| (4.0) | (201.1) | IFRIC 14 (i) | **(21.5)** | 25.2 | **(226.9)** | (168.0) |
| 19.0 | (637.7) | Net actuarial (loss)/gain and combined liability | **(32.6)** | 16.7 | **(644.4)** | (666.1) |

(i) The net pension liability of £644.4m (2013 - £666.1m, March 2014 - £637.7m) reported at 30 September 2014 includes a liability of £226.9m (2013 - £168.0m, March 2014 - £201.1m) 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) with a restriction on the surplus that can be recognised.

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

| March 2014 | | **September 2014** | September 2013 |
|---|---|---|---|
| 4.60% | Rate of increase in pensionable salaries | **4.40%** | 4.80% |
| 3.50% | Rate of increase in pension payments | **3.40%** | 3.30% |
| 4.30% | Discount rate | **4.00%** | 4.30% |
| 3.60% | Inflation rate | **3.40%** | 3.30% |

### 19. Capital Commitments

| March 2014 £m | | September 2014 £m | September 2013 £m |
|---|---|---|---|
| | Capital Expenditure | | |
| 625.1 | Contracted for but not provided | **1,109.3** | 850.6 |

### 20. 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. Related parties are defined as those in which the Group has joint control or significant influence over.

| Equity accounted joint ventures: | Sale of goods and services Sep 2014 £m | Purchase of goods and services Sep 2014 £m | Amounts owed from Sep 2014 £m | Amounts owed to Sep 2014 £m | Sale of goods and services Sep 2013 £m | Purchase of goods and services Sep 2013 £m | Amounts owed from Sep 2013 £m | Amounts owed to Sep 2013 £m |
|---|---|---|---|---|---|---|---|---|
| Scotia Gas Networks Ltd | **24.3** | **(84.9)** | **12.1** | **0.3** | 28.2 | (87.7) | 14.5 | 0.4 |
| Seabank Power Ltd | **3.1** | **(60.3)** | **0.5** | **14.9** | - | (46.2) | 0.1 | 7.9 |
| Marchwood Power Ltd | **10.3** | **(57.4)** | **0.6** | **14.3** | - | (36.3) | 0.2 | 10.4 |
| Other Joint Ventures | **12.7** | **-** | **5.7** | **4** | 17.1 | - | 0.6 | 0.6 |
| **Associates** | **0.4** | **(18.7)** | **7.6** | **3.7** | 1.3 | (16.0) | 0.1 | 4.3 |

The Group's gas supply activity incurs gas distribution charges from Scotia Gas Networks 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. The transactions with Seabank Power Limited and Marchwood Power Limited relate to the contracts for the provision of energy or the tolling of energy under power purchase arrangements. 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.

### 21. 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.

### 22. Post Balance Sheet Events

On 11 November 2014, the Group completed the sale, to Equitix Infrastructure 3 Limited (Equitix), of its 100% equity interest in the special purpose entities (SPEs) established in England under the Private Finance Initiative (PFI), for the delivery of seven street lighting projects. The SPEs are funded through a mix of senior debt and equity, and the removal of this project-related senior debt, along with the cash consideration of £97.5m, will have the immediate effect of reducing SSE's net debt by £326.4m. The project SPEs have a 25 year agreement with their respective local authorities, under which they have the responsibility for the replacement, operation and maintenance of the street lighting assets of that local authority. Those operational responsibilities have been, and will continue to be, carried out by the Group's wholly owned subsidiary SSE Contracting Limited under a parallel 25-year sub-contract with the Equitix-owned SPEs.

# 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

**Alistair Phillips-Davies**
**Chief Executive**

**Gregor Alexander**
**Finance Director**

London

11 November 2014

# 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 2014 which comprises the Consolidated and Condensed Income Statement, the Consolidated and Condensed Statement of Comprehensive Income, 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 United Kingdom's Financial Conduct Authority ("the UK FCA"). 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 FCA.

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 2014 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

**William Meredith**
**for and on behalf of KPMG LLP**
Chartered Accountants
191 West George Street
Glasgow
G2 2LJ

11 November 2014