9 November 2011

SSE plc
Financial report for the six months to 30 September 2011

	Sep 2011	Sep 2010	Change
Interim Dividend Per Share	24.0p	22.4p	**+7.1%**
Adjusted Profit Before Tax*	£287.4m	£385.5m	**- 25.4%**
Adjusted Profit After Tax*	£235.4m	£306.6m	**- 23.2%**
Adjusted Earnings Per Share*	25.1p	33.2p	**-24.4%**
Investment and Capital Expenditure	£796.9m	£653.6m	**+21.9%**
Power Station Availability (Gas)	98%	96%	**+2.1%**
Power Station Availability (Coal)	88%	87%	**+1.1%**
Capacity for renewable energy**	2,538MW	2,450MW	**+3.6%**
Retail Customer Accounts (GB and Ire)	10.04m	10.00m	**+40,000**
Customer Minutes Lost (SHEPD)	30	34	**- 4 mins**
Customer Minutes Lost (SEPD)	30	33	**- 3 mins**
Number of Employees	19,266	20,544	**- 1,278**
Total Recordable Injury Rate***	0.11	0.10	**+10%**
Reportable Environmental Incidents	0	0	**-**

** Including pumped storage ***Per 100,000 hours worked

Lord Smith of Kelvin, Chairman of SSE, said:
"There is no doubt that 2011 has been characterised by turmoil in the global energy markets, economic uncertainty across much of the world and widespread concern about the financial outlook for customers, companies and countries. This is not a straightforward time in which to do business.

"SSE's half-year results reflect the impact of a number of these issues, especially the high wholesale cost of gas which eventually necessitated the increase in household prices that unfortunately had to be made in September. We want to avoid the impact on customers that another increase in household prices would have, and that's why we've said they won't go up again, if they have to, before August next year at the earliest.

"It's at times like these that companies need to be clear about what matters for the long term, and doing the right things accordingly. For SSE, that means earning the trust of customers in retail and business markets, investing in assets to support secure and lower carbon supplies of energy in the future, and delivering above-inflation dividend increases every year to provide income that shareholders, such as pension funds, require.

"I expect SSE to make significant progress in each of these areas in the rest of this financial year and beyond. We are expecting to report a moderate increase in adjusted profit before tax in our full-year results next May. In addition, today's 7.1% increase takes our interim dividend to 24.0p per share, which means we are on course to meet our full-year target for 2011/12, with a dividend of around 80p per share, thus maintaining our record of delivering real dividend increases in every year since SSE was formed in 1998."

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

DOING THE RIGHT THINGS FOR THE LONG TERM

Continuing commitment to financial principles

- 13th successive increase in the interim dividend – up 7.1%
- Targeting full-year dividend increase of at least RPI + 2%
- Moderate increase forecast for full-year adjusted PBT*
- Single A credit rating maintained
- Additional long-term funding of £426m secured at good rates
- Ongoing investment in new assets through six-month capital investment of £796.9m
- Forecasting capital/investment expenditure of around £1.7bn for 2011/12

Delivering efficiency and innovation in energy networks

- Energy Networks operating profit up 9.5% to £320.4m
- Focus on staying at efficiency frontier in electricity distribution
- NINES 'smart' programme on Shetland secured Ofgem funding approval
- Ofgem funding approval for Beauly-Denny upgrade (£539m at 2009/10 prices)
- Inclusion of SHETL in Ofgem's new fast-tracking process for post-2013 Price Control
- Continuing progress by SGN regarding in-sourcing services from National Grid
- Biggest award (£1.3m) made to SGN under Ofgem's Discretionary Reward Scheme

Making the right decisions in electricity generation

- Generation and Supply operating profit down 71% to £58.8m[1]
- Decision to exit NuGeneration Ltd and focus on non-nuclear generation
- 'Spark' spreads low but CCGT a key technology and SSE has investment options
- Agreement with Shell UK to accelerate Peterhead CCS FEED study
- Solid fuel investment options at all coal-fired plant following ROC banding review
- 189MW of new renewable energy capacity from investment programme
- Output of renewable energy up 55% year-on-year
- Ongoing contractual issues at Glendoe and Greater Gabbard to be resolved

Building trust in energy supply

- Energy supply loss-making in six months to 30 September[1]
- Total customer numbers (GB, Ireland, Home Services) down 30,000 since March
- Only leading GB supplier to pledge household price freeze until at least August 2012
- One million customers given help with energy bills or energy efficiency
- First leading supplier to stop commission-based doorstep selling
- Implementation of increased day-ahead trading of electricity supply and demand
- Plan for radical overhaul of tariffs to make them simpler and more transparent
- Online/offline differentials ended and call for other suppliers to stop predatory pricing

Achieving progress in other energy and utility services

- Operating profit across whole segment up 16.6% to £77.2m
- First six-month operating profit from Gas Production of £17.3m
- De-watering of final three caverns at new gas storage facility at Aldbrough under way
- Contracting order book up since March, but trading conditions tough
- Continuing growth of assets and installations in Utility Solutions
- Significant new customers for Telecoms and Data Storage

[1] SSE reports Generation and Supply as a single segment

STRATEGY

Strategy designed for dividend growth
SSE believes that a company's strategy should be:

- founded on its core purpose;
- simply stated;
- clear in its objective; and
- consistent in its implementation.

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

- receiving and reinvesting dividends is the biggest source of an investor's return over the long term;
- dividends provide income for those investors who do not wish to reinvest them;
- dividend targets provide a transparent means with which to hold management to account; and
- a long-term commitment to dividend growth demands a disciplined, consistent and long-term approach to operations, investments and acquisitions.

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

SSE is unique among companies listed on the London Stock Exchange in owning and operating a balanced group of economically-regulated energy businesses, such as electricity networks, and market-based energy businesses, such as electricity generation and energy supply. It is thus able to pursue operational and investment opportunities throughout the electricity and gas sector to help achieve the levels of profitability required to support sustained real dividend growth.

Financial discipline underpinning dividend growth
The requirement on SSE to maintain a disciplined, consistent and long-term approach to the management of business activities is underpinned by a series of financial principles:

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

The application of these principles supports the fulfilment of SSE's first financial responsibility to shareholders: the delivery of sustained real dividend **growth**.

Making the right decisions for the long term
The delivery of annual above-inflation increases in the dividend paid to shareholders is a clear, measurable and practical objective which sets the financial context in which SSE seeks to make the right operational and investment decisions. It also means that those decisions have to be taken for the long term.

Fundamentally, decisions are about the allocation and management of financial and other resources. For SSE, this means taking account of four key factors:

- the availability and cost of capital;
- the nature of the particular market and the competitive environment;
- the regulatory and policy framework; and
- the experience, skills and strengths of SSE.

It is these factors, along with the desire to maintain a balanced range of energy businesses, which influence the short- and long-term decisions taken by SSE, such as:

- ceasing commission-based doorstep selling of energy in Great Britain as an important step in earning the trust of retail customers; and
- withdrawing from NuGeneration Ltd in order to focus on the generation of electricity from non-nuclear sources.

The factors relate directly to the application of SSE's strategy and financial principles. Ensuring the availability of capital at the right cost means SSE is committed to the criteria for a single A credit rating. It is also committed to operations and investments that are almost entirely in markets in Great Britain and Ireland. This means it is able to focus closely on the nature, conditions and competitive environment of the markets in which it is operating, at macro and micro levels. As a result, it is able to bring greater experience to, and detailed analysis of, issues and opportunities, thus maximising the likelihood that the right decisions will be made.

SSE employs people and owns and operates assets in England, Wales, Scotland, Northern Ireland and the Republic of Ireland. Different constitutional arrangements apply in each of these jurisdictions. They are, however, all within the EU and there is a common EU energy policy, the central goals of which (security of supply, competitiveness and sustainability) are laid down in the Lisbon Treaty.

This means, for example, that all Member States are required to support the achievement of legally-binding targets for more renewable energy. The EU Renewable Energy Directive aims at 'facilitating cross-border support of energy from renewable sources' and 'introduces optional co-operation mechanisms between Member States which allow them to agree on the extent to which one Member State supports energy production in another and on the extent to which the energy production from renewable sources should count towards the national target of one or the other'.

Whatever the constitutional arrangements adopted within EU Member States, they need to support the achievement of such targets and of sustainable energy supplies generally. SSE strongly believes that constitutional arrangements and questions of nationhood are matters for voters and are not something on which it is appropriate for SSE to comment on.

Managing changes in the regulatory and policy framework

The regulatory and policy framework within which SSE's Generation and Supply and Energy Networks businesses operate is the subject of significant scrutiny and change.

The Electricity and Gas (Internal Market) Regulations will change the licence modification process in Great Britain. Instead of all modications requiring approval by at least 81% of affected licensees before implementation, Ofgem will be able, following consultation, to make licence modifications without such consent. Those modifications will be subject to a right of appeal to the Competition Commission.

In addition, there are four significant developments in public policy and regulation which will affect SSE's operations and investments:

- the UK Government's White Paper, *Planning our electric future,* sets out a series of proposed reforms to the market arrangements for electricity generation in Great Britain;

- the Retail Market Review in Great Britain, being undertaken by Ofgem, is designed to deliver signficiant reforms in the retail markets for electricity and gas;
- Ofgem's new 'RIIO' model for economic regulation of energy networks in Great Britain is now going through the key test of an actual Price Control Review; and
- energy markets on the island of Ireland are undergoing a process of harmonisation to support further the development of competition, for the benefit of customers.

There is a common thread running through these developments: the need for efficient investment and innovation to secure energy supplies and meet targets for reducing emissions of CO_2, while delivering long-term value for customers.

SSE's balanced range of energy businesses means it is in a good position to maximise opportunities and manage risks. The emerging framework is not without risks and it will strongly influence the decisions SSE makes over the next few years. Nevertheless, the opportunities – appropriately remunerated investments and broader, longer-term relationships with customers – are things that should be of lasting benefit to SSE, the markets in which it operates and the customers to which it provides energy.

It is, therefore, adopting a constructive approach to the changing regulatory and political framework through, for example, its commitment to implementing its proposals to build customers' trust in energy supply announced on 12 October 2011.

Working on the priorities for 2011/12 and beyond
The economic outlook for the UK and Ireland in 2011/12 continues to be uncertain, and the global nature of energy markets means that SSE, like every other company in the sector, has to be prepared to manage the consequences of exceptional and unpredictable geopolitical events.

Against this uncertain background, and with its strategic focus on safety and on efficiency in operations and investment, SSE's core operational priorities during 2011/12 are to:

- carry out all work in a safe and responsible manner, with a lower Total Recordable Injury Rate and fewer road traffic accidents;
- maintain strong cost control throughout all business activities;
- distribute electricity and gas (through Scotia Gas Networks) with the fewest possible interruptions to supplies;
- demonstrate innovation in the management of electricity and gas networks;
- optimise the management of its portfolio of energy assets and contracts;
- ensure power stations maintain a high level of availability to generate electricity in the coming winter in response to customers' needs and market conditions;
- improve the standards of service delivered to energy supply customers and build on its sector-leading performance to achieve greater trust in its operations;
- develop and sustain long-term relationships and contracts with key customers of its other energy and utility services; and
- work with the UK government, other administrations, Ofgem and other regulators to secure a stable and competitive framework for electricity generation and energy supply.

SSE's investment priorities are to support sustainable earnings and dividend growth by:

- commissioning new assets in renewable energy, electricity networks and gas storage which contribute to the balanced nature of its business;
- meeting other development and construction milestones in its investment programme;
- taking forward the wide range of additional options that it has identified for investment from the middle of this decade onwards, especially in electricity generation; and
- preparing for the transformation of energy supply, characterised by the forthcoming roll-out of smart meters in Great Britain and the launch of the 'Green Deal' to encourage energy efficiency.

The delivery of a strong operational performance and the achievement of its investment priorities should enable SSE to discharge its first financial responsibility to shareholders: to deliver its targets for annual dividend growth.

FINANCE

Focus on Adjusted Profit Before Tax*
These financial results for the six months to 30 September 2011 are reported under International Financial Reporting Standards, as adopted by the EU. SSE's focus has consistently been, and remains, on profit before tax before exceptional items, remeasurements arising from IAS 39, and after the removal of taxation on profits from jointly controlled entities and associates.

This 'adjusted profit before tax'* was first adopted as a key performance indicator by SSE in 2005/06 and it:

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

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

	Sep 11 £m	Sep 10 £m	Sep 09 £m	Sep 08 £m
Adjusted Profit before Tax*	**287.4**	**385.5**	**410.5**	**302.6**
Movement on derivatives (IAS 39)	(354.3)	629.7	118.0	(123.4)
Exceptional items	(13.1)	(388.8)	-	-
Tax on JCEs and Associates	(1.3)	18.4	(14.1)	(7.3)
Interest on convertible debt	-	-	-	(0.8)
Reported (Loss)/Profit before Tax*	(81.3)	644.8	514.4	171.1

	Sep 11 £m	Sep 10 £m	Sep 09 £m	Sep 08 £m
Adjusted Profit before Tax*	287.4	385.5	410.5	302.6
Adjusted current tax charge	(52.0)	(78.9)	(94.4)	(74.2)
Adjusted Profit after Tax*	**235.4**	**306.6**	**316.1**	**228.4**
Reported (Loss)/Profit after Tax	(6.1)	495.6	378.6	127.5
Number of shares for basic and adjusted EPS (million)	**937.0**	**923.4**	**920.8**	**871.4**
Adjusted EPS*	**25.1**	**33.2**	**34.2**	**26.3**
Basic EPS	**(0.7)**	**53.7**	**41.0**	**14.7**

Factors affecting Adjusted Profit before Tax*
Adjusted profit before tax* fell by 25.4%, from £385.5m to £287.4m in the six months to 30 September 2011. This is mainly attributable to factors in **Generation and Supply**:

- wholesale gas prices – summer prices were almost 40% higher in 2011 than they were in 2010;
- 'spark' spreads (the difference between the cost of gas and the price of the electricity produced from it) which were over 60% lower than they were in the same period in 2010;
- the actual reduction in average consumption of both electricity (4%) and gas (16%) by household customers in the GB market; and

- the decision to shield household customers from rising wholesale energy prices for as long as practical before implementing a price increase on 14 September.

Fundamentally, profit in Generation and Supply is determined by the link between wholesale prices for energy and the retail prices charged to customers. The supply of energy was a loss-making activity for SSE during the six months to 30 September 2011 and would have continued to be so were it not for the increase in prices implemented on 14 September.

The most positive aspect of performance in Generation and Supply was the 55% increase in the output of renewable energy in the six months, compared with the same period in 2010. This reflected more favourable weather conditions; there has also been an increase in the amount of on- and offshore wind generation capacity which SSE has in operation.

While SSE will continue to operate its Generation and Supply business as an integrated value chain, the licence requirement to produce for Ofgem a Consolidated Segmental Statement means that the way in which financial information regarding Generation and Supply is presented is likely to continue to evolve.

While profit was down in Generation and Supply, it went up in Energy Networks, where Scottish Hydro Electric Transmission Ltd (SHETL) delivered strong profit growth, reflecting the increase in its asset base resulting from capital invested. Scotia Gas Networks (SGN) also performed well, benefiting from additional revenue and ongoing cost control. In Other Energy and Utility Services there was a six-month contribution to operating profit for the first time from the Gas Production assets acquired in February 2011.

SSE's focus is on full-year, as opposed to half-year, adjusted profit before tax* because of the impact that shorter-term issues can have on a six-month period. As stated in its Interim Management Statement on 21 July 2011 and in its Notification of Close Period on 30 September 2011, SSE expects that a particularly large proportion of its adjusted profit before tax* will be delivered in the second half of this financial year. It also expects that this should result in it delivering a moderate increase in adjusted profit before tax* for 2011/12 as a whole.

Impact of the movement on derivatives (IAS 39)
At 30 September 2011, there was a net derivative financial asset in SSE's balance sheet arising from IAS 39 of £155.8m, before tax, compared with a net asset of £438.8m, before tax, at 31 March 2011. These balances principally relate to some of the forward commodity purchase contracts for gas, coal, oil, carbon and wholesale electricity that SSE, like all major energy suppliers, has to enter into to ensure that the future requirements of its customers are met. IAS 39 requires SSE to record these contracts at their 'fair value' at each balance sheet date.

This involves comparing their contractual price against the prevailing forward market price at 30 September. On that date this year, the average contractual price was lower than the market price (in other words, 'in the money'). The actual value of the contracts will be determined as the relevant commodity is used to meet customers' energy needs. For around two thirds of the total energy volume, this will be over the next 12 months. As a result, SSE believes the movement in fair value of the contracts is not relevant to the underlying performance in the period to 30 September 2011.

The movement on derivatives under IAS 39 of £354.3m shown in the table above and on the face of the Income Statement is primarily due to the significant change between the 'in the money' position on 31 March 2011 and the 'in the money' position on 30 September 2011, when the average contractual price continued to be lower than the prevailing forward market price, but not as much as previously. SSE sets out these movements in fair value separately, as re-measurements, as the extent of the actual profit or loss arising over the life of the contracts giving rise to this liability will not be determined until they unwind.

Exceptional items
On 8 July 2011, SSE announced its decision to suspend all of its doorstep sales operations in Great Britain, the first of the leading energy suppliers to do so. These operations have since been closed permanently and this has given rise to exceptional costs of £13.1m.

Delivering Adjusted Profit Before Tax* in 2011/12
Adjusted profit before tax* is an important measure of performance in any given year, but it is not an end in itself. SSE does not have the goal of maximising profit in any single year or over any particular period. It takes a longer-term view, believing that profit is a means to an end: sustained real growth in the dividend, the delivery of which is its first financial responsibility to shareholders.

At the same time, SSE has delivered 12 successive increases in adjusted profit before tax* since it first reported full-year results in 1999. As in any other year, SSE's adjusted profit before tax* for 2011/12 as a whole will be determined by issues such as:

- the availability of its gas- and coal-fired power stations to generate electricity;
- the performance of assets in gas production and gas storage;
- the output of renewable energy from its hydro electric stations and wind farms;
- the impact of the weather on energy production and consumption;
- the underlying level of customers' energy consumption;
- the interaction between wholesale prices for energy and fuel and the prices for the electricity and gas charged to customers; and
- the timely commissioning of new assets such as wind farms.

In terms of 2011/12, SSE continues to believe that its balanced range of market-based and economically-regulated energy businesses, and the diversity of opportunities within those businesses, should deliver a level of adjusted profit before tax* capable of supporting the achievement of its principal financial objective, a full-year dividend increase of at least 2% more than RPI inflation, while maintaining dividend cover close to the established range. In practice, this means SSE currently expects to deliver a moderate increase in adjusted profit before tax* for 2011/12 as a whole.

Monitoring Adjusted Earnings Per Share* in 2011/12
To monitor financial performance over the medium term, SSE continues to focus on adjusted earnings per share* because it has the straightforward benefit of defining the amount of profit after tax that has been earned for each Ordinary Share and so reflects a clear view of underlying financial performance.

In the six months to 30 September 2011, SSE's adjusted earnings per share were 25.1p, compared with 33.2p in the previous year; nevertheless, as with adjusted profit before tax*, SSE's focus is on the full-year adjusted earnings per share*.

Dividend

Increasing the Interim Dividend in 2011/12
SSE's first financial responsibility to its shareholders is to remunerate their investment through the delivery of sustained, above-inflation increases in the dividend. The Board is declaring an interim dividend of 24.0p per share, compared with 22.4p in the previous year. This is:

- an increase of 7.1% compared with 2010/11;
- more than three times the first interim dividend declared by SSE, in 1999; and
- more than double the interim dividend declared in 2004, since when there has been compound annual growth of 9.9%.

SSE remains one of just six FTSE 100 companies to have delivered better-than-inflation dividend growth every year since 1999, when it paid its first dividend.

Targeting further dividend increases in 2011/12 and beyond
SSE is aiming to deliver an increase in the full-year dividend for 2011/12 of at least 2% more than RPI inflation (based on the average rate of inflation in the UK between April 2011 and March 2012). Subject to the rate of RPI inflation in the next few months, this should result in a full-year dividend of around 80p per share. The same RPI +2% target is in place for 2012/13, with sustained annual real growth thereafter also being targeted.

Scrip Dividend Scheme option for shareholders
At the Annual General Meeting in July 2010, SSE's shareholders approved for five years the provision of a Scrip Dividend Scheme, to give them the option to receive new fully paid ordinary shares in the company in place of their cash dividend payments.

A total of 30,397 shareholders elected to receive the final dividend of 52.6p per ordinary share in respect of 22.6 million ordinary shares in the form of Scrip dividend. This resulted in the issue of 0.9 million new ordinary shares, fully paid, an increase of 0.1% on the issued share capital at the dividend record date of 29 July 2011. This had the effect of reducing by £11.9m the amount of dividends paid in cash in September 2011. The total number of shares in issue at 30 September 2011 was 937.8 million.

Investment and Capital Expenditure

Investment and Capex Summary	**Sep 11 £m**	**Sep 10 £m**
Thermal Generation	54.7	64.5
Renewable Generation	479.1	377.4
Gas Storage and Gas Production	14.8	25.7
Electricity Networks	179.6	126.6
Other	68.7	59.4
Total investment and capital expenditure	**796.9**	**653.6**
50% of SGN capital/replacement expenditure	103.3	103.5

Investing for sustained dividend growth
In November 2010, SSE said that it expected its investment and capital expenditure would be in the range of £1.5bn to £1.7bn in each of the five years to March 2015. In May 2011 it said that capital and investment expenditure for 2011/12 was expected to be around £1.7bn. This remains the case.

In the six months to 30 September, SSE's capital and investment expenditure totalled £796.9m, compared with £653.6m in the previous year. During the period there was investment of:

- £54.7m in **thermal generation,** the majority of which was for maintenance and early development of future projects;
- £479.1m in **renewable generation**, the larger part of which was invested in the Clyde and Griffin onshore wind farms;
- £14.8m in **gas storage and gas production**, including £10.1m invested in the new facility at Aldbrough, which takes the total invested by SSE in this development to £247.4m; and
- £179.6m in **electricity networks** including £68m on works related to transmission upgrades.

Including investment of £47.2m so far in 2011/12, SSE's cumulative investment in the Greater Gabbard offshore wind farm is now £585.2m, excluding costs associated with the construction of the offshore transmission line.

SSE estimates that, by 30 September 2011, a net total of around £1.3bn had been invested by it in large capital projects to build assets which were still largely under construction at that date but which had yet to contribute significantly to earnings.

SSE is committed to constructing robust assets, from which revenue can be generated on a reliable, long-term basis and which support future dividend growth. This entails rigorous scrutiny and control of the costs of large capital projects but also a clear focus on the return which completed projects will generate.

In line with this, SSE keeps the economic evaluation of its investment programme under close scrutiny to ensure that it continues to make the right investment decisions. It remains confident that significant value is being created from its capital and investment expenditure programme as a whole, based on actual delivery of the projects within it and on the most up-to-date costs and schedules for projects.

Investing in gas distribution through Scotia Gas Networks (SGN)
In addition to its own capital and investment expenditure programme, SSE effectively has a 50% interest in SGN's capital and replacement expenditure, through its 50% equity share in that business. SGN is self-financing and all debt relating to it is separate from SSE's balance sheet. Nevertheless, it is a very substantial business which gives SSE, through its 50% stake, a major interest in gas distribution.

In the six months to 30 September 2011, a 50% share of SGN's capital and replacement expenditure was £103.3m, compared with £103.5m in the previous year. SGN's total capital investment during the period was £74.8m, taking the amount so far for the 2008-13 gas Distribution Price Control period to £742.8m.

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

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

On 31 October 2011, Colin Hood stepped down from the Main Board and Management Board of SSE. Main Board accountability for SSE's large capital projects now lies with the Chief Executive and Management Board accountability for SSE's large capital projects now lies with:

- the Managing Director, Generation, for thermal generation and gas storage projects;
- the Managing Director, Renewables, for on- and offshore wind, hydro and marine projects – this is a new role to which Jim Smith, previously Director of Offshore Renewables, has been appointed;
- the Managing Director, Networks, for transmission projects; and
- the Managing Director, Group Services, for project standards and services, including IT.

SSE's management of large capital projects is, therefore, aligned with the requirements of the relevant business, with oversight provided by the Main Board and the Management Board. Extensive senior management and specialist support from within SSE is provided to projects and accumulated knowledge and experience is retained within the large capital projects teams. This is augmented by the work of KBR, SSE's Project Management Partner, and other external advisers and service providers where appropriate. Delivery of these projects remains a key priority for SSE.

Assessing future investment priorities
As stated above, SSE expects that its investment and capital expenditure will be in the range of £1.5bn to £1.7bn in each of the years to March 2015 and will be around £1.7bn during 2011/12.

There are four main categories in SSE's investment and capital expenditure plans to March 2015:

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

Around one third of the potential total spend in the remaining period to 2015 is in the uncommitted category and the majority of the uncommitted spend will be incurred, if at all, after 2013. Decisions on whether to proceed with individual projects will be made:

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

A disciplined programme with these principles, this shape and on this scale is designed to allow SSE to maintain the development of a balanced and diverse range of assets to support sustained, above-inflation dividend growth while remaining consistent with the criteria for a single A credit rating without the need to issue new shares. It will deliver:

- a significantly-enhanced asset base in key businesses, including economically-regulated electricity networks;
- additional fuel for electricity in the form of renewable sources of energy; and
- additional cash flows and profits to support future dividend growth.

During the same period SGN, in which SSE has a 50% stake, will also be making a significant investment in economically-regulated gas distribution networks.

Financial management and balance sheet

Key Performance Indicators	Sep 11	Mar 11	Sep 10
Adjusted net debt and hybrid capital (£bn)	6.37	5.89	5.36
Average debt maturity (years)	10.2	10.6	12.2
Underlying interest cover (excluding SGN)	3.7	7.3	4.4
Shares in issue at 30 September (m)	937.8	936.9	930.6
Shares in issue (weighted average) (m)	937.0	927.6	923.4

Managing net debt and maintaining cash flow
SSE's adjusted net debt and hybrid capital was £6.37bn at 30 September 2011, compared with £5.89bn at 31 March 2011 and £5.36bn at 30 September 2010. This increase reflects issues such as:

- the lower level of adjusted profit before tax achieved in the six months;
- the lower take-up by shareholders of the Scrip Dividend Scheme in September 2011, resulting in more dividends being paid in cash; and
- the quantum and phasing of capital and investment projects to support sustained dividend growth.

In addition, SSE had expected to complete the sale of its 50% interest (36MW) in the Braes of Doune onshore wind farm for a total cash consideration of £61.3m, but financial market conditions meant that the intended purchaser was not in a position to complete the transaction. Nevertheless, in April 2011, SSE received net proceeds of £176.4m relating to the sale of its equity interest in three other onshore wind farms, with a total net capacity of 96.8MW.

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 11**	**Mar 11**	**Sep 10**
	£m	£m	£m
Adjusted Net Debt and hybrid capital	**(6,371.9)**	**(5,890.6)**	**(5,361.8)**
Less: hybrid capital	1,161.4	1,161.4	1,161.2
Adjusted Net Debt	**(5,210.5)**	**(4,729.2)**	**(4,200.6)**
Less: Outstanding Liquid Funds	(109.8)	(28.1)	(3.5)
Add: Finance Leases	(348.6)	(372.2)	(378.3)
Unadjusted Net Debt	**(5,668.9)**	**(5,129.5)**	**(4,582.4)**

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

SSE's objective is to maintain a balance between continuity of funding and flexibility, with debt maturities set across a broad range of dates. Its average debt maturity as at 30 September 2011 was 10.2 years, compared with 10.6 years at 31 March 2011.

SSE's debt structure remains strong, with around £5.2bn of medium- to long-term borrowings in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans. In addition, in September 2010, SSE issued hybrid capital of £1.16bn (see table above). The balance of SSE's adjusted net debt is financed with short-term commercial paper and bank debt. SSE's adjusted net debt includes cash and cash equivalents totalling £183.7m.

Around £200m of medium-to-long-term borrowings will mature in the period to 31 March 2013.

Ensuring SSE is well-financed

SSE believes that maintaining a strong balance sheet, evidenced by a commitment to the criteria for a single A credit rating, is a key financial principle. Its corporate credit ratings are currently:

- 'A-', with a 'stable' outlook (Standard & Poors); and
- 'A3' with a 'stable' outlook (Moody's).

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

- successfully re-opened the European corporate bond market in September 2011 with the issuance of a £300m bond with a 4.25% coupon and a 10-year maturity. As Lloyds Bank Corporate Markets stated, the strength of the order book was testament to SSE's attractions to investors; and
- secured in October 2011 a JPY15bn (equivalent to £126m) seven-year loan with an effective interest rate of 3.52%.

With regard to shorter-term funding, SSE's core revolving credit facilities of £900m are, and are expected to remain, undrawn. The facilities are the subject of an agreement with banks which runs to 2015.

SSE believes that it has sufficient financial flexibility to pursue the best opportunities to provide the means to increase dividends. At the same time, it also believes that history – including recent shocks and uncertainties in the financial markets – demonstrates how companies with a commitment to the long term must be disciplined when managing their balance sheets and cautious in financing their activities.

Net Finance Costs

The table below reconciles reported net finance costs to adjusted net finance costs, which SSE believes is a more meaningful measure. In line with this, SSE's adjusted net finance costs during the six months to 30 September 2011 were £164.5m, compared with £171.7m in the previous year.

	Sep 11 £m	Sep 10 £m
Adjusted net finance costs	**164.5**	**171.7**
add/(less):		
Movement on derivatives	15.4	12.7
Share of JCE[1]/Associate interest	(72.9)	(69.6)
Reported net finance costs	107.0	114.8
Adjusted net finance costs	164.5	171.7
Return on pension scheme assets	72.7	70.5
Interest on pension scheme liabilities	(74.6)	(75.1)
Finance lease interest	(19.2)	(19.8)
Notional interest arising on discounted provisions	(3.6)	(1.2)
Adjusted interest costs for interest cover calculation	**139.8**	**146.1**

[1]Jointly Controlled Entities

There was no charge for hybrid debt interest during the six months to 30 September 2011 as the first coupon payment was made on 1 October 2011. In future, any charge will be presented within dividends and reflected within adjusted earnings per share*.

The average interest rate for SSE, excluding JCE/Associate interest, during the six months was 5.19%, compared with 4.96% for the previous year. Based on adjusted interest costs, SSE's underlying interest cover was (previous year's comparison in brackets):

- 3.7 times, excluding interest related to SGN (4.4 times); and
- 3.2 times, including interest related to SGN (3.7 times).

Excluding shareholder loans, SGN's net debt at 30 September 2011 was £3.2bn, and within the adjusted net finance costs of £164.5m, the element relating to SGN's net finance costs was £48.4m (compared with £45.0m in the previous year), after netting loan stock interest payable to SSE. Its contribution to SSE's adjusted profit before tax* was £66.2m, compared with £53.7m for the same period in the previous year.

Contributing to employees' pension schemes

In line with the IAS 19 treatment of pension scheme assets, liabilities and costs, pension scheme liabilities of £693.7m are recognised in the balance sheet at 30 September 2011, before deferred tax. This compares to a liability of £668.6m at 31 March 2011.

During the period to September 2011, employer cash contributions amounted to:

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

- £51.6m for the Southern Electric scheme, including deficit repair contributions of £41.8m.

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

Tax

In line with the countries in which it has substantial commercial operations, SSE is liable for taxation in the United Kingdom and Ireland only and does not use so-called 'tax havens' to avoid paying tax.

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

	Sep 11 £m	Sep 10 £m
Adjusted current tax charge	**52.0**	**78.9**
Add/less		
Share of JCE/Associate tax	(1.3)	18.4
Deferred tax	9.4	21.5
Tax on exceptional items/certain remeasurements	(135.3)	30.4
Reported tax (credit)/charge	(75.2)	149.2

The effective adjusted current tax rate, based on adjusted profit before tax*, was 18.1%, compared with 20.5% in the same six months in 2010, on the same basis. The impact of SSE's higher capital expenditure programme and the changes introduced in Budget 2007 have had, and will continue to have, a positive impact on the effective current tax rate.

The Emergency Budget in June 2010 and Budget 2011 announced a series of annual reductions in the UK Corporation Tax rate for future years. The deferred tax balance has been remeasured to reflect the latest of these enacted rate reductions (from 26% to 25%) and the effect of this has been disclosed as an exceptional item. The deferred tax balances for future years will continue to be remeasured as each subsequent rate reduction is enacted.

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.

Provisional Investor Timetable

Ex-dividend date	25 January 2012
Record date	27 January 2012
Final date for Scrip Elections	24 February 2012
Payment date	23 March 2012
Financial results for 2011/12	17 May 2012
AGM (Bournemouth)	26 July 2012

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Analysts' presentation
Start: 0900 (GMT)
Location: The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED

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

Conference call
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When asked please provide conference number 9399324.

Online information
News releases and announcements are made available on SSE's website at **www.sse.com**.
You can also follow the latest news from SSE through Twitter at **www.twitter.com/sse**.

NETWORKS

Operating and investing within the Price Control framework
Energy (electricity and gas) transmission and distribution companies are natural monopolies, serving defined geographical areas. In Great Britain, they are subject to economic regulation through a Price Control set by Ofgem, which determines the RPI-linked revenue they can earn through charges on users of the network (electricity generators, gas shippers, energy suppliers and customers). This Price Control takes account of:

- the cost of operating networks;
- the cost of replacing network assets;
- capital expenditure to upgrade networks to meet the needs of energy customers and producers; and
- an allowed rate of return on capital invested in the networks.

The allowed rate of return is on capital invested, which is measured by the network's RAV (Regulated Asset Value). Ofgem also places financial incentives on companies to be more efficient and innovative and to deliver a good quality of service. In summary, economic regulation is designed to make sure that efficient companies can earn a fair return after capital and operating costs while limiting the amounts that users of the network can be charged.

A balanced range of energy networks businesses with a growing RAV
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 RAV of its economically-regulated 'natural monopoly' businesses is now £5.5bn, comprising:

- £590m for electricity transmission;
- £2.7bn for electricity distribution; and
- £2.2bn for gas distribution (ie 50% of the businesses' total RAV of £4.4bn).

SSE is the only energy company in the UK to be involved in electricity transmission, electricity distribution and gas distribution. These lower-risk economically-regulated natural monopoly businesses, featuring RPI inflation-linked revenue, balance SSE's activities in the competitive markets in which it participates.

Delivering good financial performance in Energy Networks
Operating profit* in Energy Networks increased by 9.5%, from £292.7m to £320.4m, contributing 70.9% of SSE's total operating profit* compared to 52.5% in the same period last year. This comprised:

- £205.8m in electricity networks, compared with £194.0m in the same six months in 201; and
- £114.6m representing SSE's share of the operating profit* for SGN, compared with £98.7m in the same six months in 2012.

Energy Networks Key Performance Indicators	Sep 11	Sep 10
ASSETS		
Electricity distribution network RAV - £bn	2.7	2.6
Electricity transmission network RAV - £bn	0.6	0.5
Gas network RAV (share) - £bn	2.2	2.0
Total RAV of energy network assets - £bn	**5.5**	**5.1**
Electricity network capital expenditure - £m	179.6	126.6
Gas network capital/replacement spend (share) - £m	103.3	103.5
OPERATIONS		
SEPD customer minutes lost	30	33
SEPD customer interruptions	36	35
SHEPD customer minutes lost	30	34
SHEPD customer interruptions	30	39
SEPD/SHEPD performance-based revenue - £m	6.8	8.1
SGN uncontrolled gas escapes attended in one hour - %	99.1	98.8
SGN gas mains replaced - km	521	568
VOLUME (TERAWATT HOURS – TWh)		
SEPD electricity units distributed	15.0	15.2
SHEPD electricity units distributed	3.7	3.7
SGN gas volume transported (Scotland)	16.7	16.5
SGN gas volume transported (Southern)	27.7	31.2

Electricity Distribution and Transmission

Performance in Southern Electric Power Distribution
In Southern Electric Power Distribution (SEPD) in the six months to 30 September 2011:

- operating profit* fell by 6.2% to £112.2m;
- electricity distributed fell by 0.2TWh to 15.0TWh;
- the average number of minutes of lost supply per customer was 30, down from 33; and
- the number of supply interruptions per 100 customers was 36, up from 35.

The decrease in operating profit resulted from over-recovery of revenue from 2010/11 being clawed back, together with a decrease in the number of units distributed in the period. These issues outweighed the positive impacts from the electricity Distribution Price Control for 2010-15 and the effects of the RPI. Performance in respect of both minutes lost and interruptions was ahead of the targets set by Ofgem under its Interruptions Incentive Scheme (IIS), which gives financial benefits to distribution network operators that deliver good performance for customers. Performance-based income covers a number of areas, including the quality of service provided to customers and innovation.

Performance in Scottish Hydro Electric Power Distribution and Scottish Hydro Electric Transmission
In Scottish Hydro Electric Power Distribution (SHEPD) and Scottish Hydro Electric Transmission (SHETL) in the six months to 30 September 2011:

- operating profit* increased by 25.8% to £93.6m;
- electricity distributed was unchanged at 3.7TWh;
- the average number of minutes of lost supply per customer was 30; and
- the number of supply interruptions per 100 customers was 30.

The increase in operating profit stemmed from increased allowed revenue resulting from investment made in upgrading the SHETL network, changes in the price of units distributed under the electricity Distribution Price Control 2010-15, and a continued focus on efficiency and cost control. Performance in respect of customer interruptions was ahead of the IIS

targets set by Ofgem. With SHETL becoming an increasingly significant investor in transmission assets, its significance within SSE's group of network companies will grow.

Volume of electricity distributed
The total volume of electricity distributed by SSE during the six months was 18.7TWh, compared with 18.9TWh in the same period in 2010. Under the electricity Distribution Price Control 2010-15, the volume of electricity distributed will no longer affect companies' overall allowed revenue. This has further reduced the level of risk associated with energy networks businesses.

Investing in electricity networks and securing growth in their RAV
The electricity Distribution Price Control for 2010-15 changed the framework for operating and capital expenditure to remove the perceived bias in favour of the latter and to ensure the delivery of the investment and the agreed outputs from it. The most successful electricity distribution companies, therefore, will be those that apply efficiency and innovation to maximise outputs from agreed expenditure.

In response to this, SSE has identified a number of solutions and interventions for wider deployment during the 2010-15 period to ensure its success throughout the Price Control period by delivering cost savings while still minimising supply interruptions. Initial assessments for 2010/11, the first year of the current price control, indicate that SSE's electricity distribution networks continue to deliver the required outputs and appear to be at the efficiency frontier on cost.

An example of an area where SSE has made cost-effective improvements is high voltage substations, which are being upgraded so they can be controlled remotely. This means that, in the event of a power cut, alternative energy supplies can be routed from another source at the touch of a button, ensuring the power supply remains on; before a substation is upgraded, engineers are required to manually switch supplies.

Techniques such as these will be more widely deployed and developed during the remainder of this Price Control. Their deployment, plus good performance in response to Ofgem's enhanced incentive mechanisms in areas such as customer service, and the headline allowed weighted average cost of capital, should enable SSE to achieve the post-tax real return in excess of 5% which it is targeting in electricity distribution.

Against this background, SSE's capital expenditure in electricity networks was (figures for the same six months in 2010 in brackets):

- £94.7m in distribution (£83.9m); and
- £84.9m in transmission (£42.7m).

SSE's expects that capital expenditure for 2011/12 as a whole will total around £250m for electricity distribution and around £220m for electricity transmission, including around £180m on transmission upgrades.

Making electricity networks smart
The European Technology Platform for the Electricity Networks of the Future defines smart grids as **'**electricity networks that can intelligently integrate the behaviour and actions of all users connected to it - generators, consumers and those that do both – in order to efficiently deliver sustainable, economic and secure electricity supplies'.

SSE, with Smarter Grid Solutions Ltd, an associate company, has already deployed commercial smart grid technology on SSE's power distribution network on Orkney, allowing the connection of 15MW of extra, new renewable energy generation, an increase of one third, in a much cheaper and faster way than traditional means.

SSE has two other principal projects in support of smart grid developments, each working with a wide range of organisations and partners:

- **Northern Isles New Energy Solutions (NINES) in Shetland**: **NINES** is a pilot project representing the first stage of the Integrated Plan for managing electricity supply and demand on Shetland which Scottish Hydro Electric Power Distribution is required by Ofgem to present in 2013. It features the use of heat and electricity storage to manage intelligently the impact of movements in demand on electricity generation in Shetland, which could allow more renewable energy capacity to be connected to the network. It also features new active network management solutions. In September 2011, Ofgem announced that NINES should be funded as part of the Integrated Plan, with 85% of expenditure included in SHEPD's RAV and the remaining 15% included in SHEPD's allowed revenue.
- **New Thames Valley Vision (NTVV) in and around Bracknell:** NTVV aims to demonstrate that applying new technologies to Bracknell's network will provide a lower cost alternative to traditional methods of meeting increasing electricity demand, with the potential to significantly reduce costs to customers. NTVV involves monitoring and predicting electricity demand and usage patterns and using a range of innovative technologies, including network automation, energy storage and automated demand response, to manage the network flows predicted by the modelling. SSE has submitted to Ofgem's Low Carbon Networks Fund a bid for funding and expects to hear the outcome of that bid shortly.

Upgrading Scotland's electricity transmission network
Scottish Hydro Electric Transmission Ltd (SHETL) is responsible for maintaining and investing in the transmission network in its area, which serves around 70% of the land mass of Scotland. As the licensed transmission company for the area, SHETL has to ensure there is sufficient network capacity for those seeking to generate electricity from renewable and other sources within it.

A series of major developments have the potential to transform the scale and scope of SSE's electricity transmission business, they include:

- **Knocknagael Substation, Beauly-Blackhillock-Kintore and Beauly-Dounreay:** Ofgem has authorised pre-construction and construction funding for these three upgrades in the SHETL area, which form part of the first phase of transmission projects to help connect renewable energy to the electricity network. These projects have a total value of almost £200m and should all be completed between now and 2015. Progress has been made on all these projects: in October 2011 Knocknagael Substation achieved first power; and the main construction contract for Beauly-Dounreay has now been placed.
- **Beauly-Denny:** Following consultation, Ofgem approved, in September 2011, an asset value adjusting event submitted by SHETL to recover additional forecast construction costs arising from the replacement of the line between Beauly and Wharry Burn, taking the allowed total to £539m (at 2009/10 prices). Full construction work on the replacement line is now getting under way, and the erection of the first of the new pylons should take place before the end of the year. The replacement line should be completed in 2014.
- **Beauly-Mossford:** SHETL is planning to reinforce the existing 132kV electricity transmission infrastructure, including a new substation and a new line to accommodate a higher capacity. Ofgem has approved funding for the new substation and pre-construction work on it is under way. An application for consent to replace the line should be submitted to Scottish Ministers later this year. Based on initial estimates, the two parts of the project are likely to require total investment of around £45m.
- **Caithness - Moray - Shetland:** SHETL is developing a project that would accommodate substantial planned renewable energy developments in the far north east of Scotland and the Northern Isles. Subsea high voltage direct current (HVDC) links from the Shetland Isles and from Caithness would join at an offshore hub, with the third leg of this innovative 'Y' configuration going into Moray. This project is supported by a capital grant of up to £74m under the European Energy Programme for Recovery, and could be the first step towards an offshore 'super grid'.

- **Western Isles:** SHETL is in the process of preparing a new request to Ofgem for authorisation to invest in the link between the Western Isles and the mainland after its original request was withdrawn in 2010.

Based on current estimates (although these will inevitably be revised) the Caithness-Moray-Shetland and Western Isles links could require investment of around £1.8bn.

The cumulative effect of these projects will be to turn SHETL from a relatively small part of SSE, with a RAV of less than £500m in 2010, to a very significant asset owner with a RAV that is currently forecast to reach around £1.5bn in 2015. In line with that, a Director of Transmission has been appointed in SSE's senior management team, to oversee directly the evolution of this increasingly important area for SSE.

'Keeping the lights on and supporting growth'
'Keeping the lights on and supporting growth' was the name given to the proposed business plan issued by SHETL in July 2011, for the new electricity Transmission Price Control that is due to run for eight years from 1 April 2013. The Price Control will be based on Ofgem's new RIIO (Revenue = Incentives + Innovation + Outputs) model for economic regulation. RIIO is designed to encourage the efficient investment and innovation needed to secure energy supplies and meet environmental targets while delivering long-term value for money for customers.

The SHETL business plan set out plans for capital expenditure during the period (including amounts for those projects listed above) totalling just over £4bn. It notes that there are 'significant uncertainties' associated with much of this expenditure, such as the needs case – the analysis that confirms the technical and economic case for a project. Since large transmission projects are driven by the requirement to connect new generation, the needs case is heavily reliant on the development of capacity for generating electricity from renewable sources.

In September 2011, Ofgem rejected the proposed introduction to the Balancing and Settlement Code of a seasonal zonal transmission losses scheme. More broadly, the charging arrangements for electricity and gas transmission networks are currently the subject of an Ofgem-sponsored independent review named Project TransmiT which was launched in September 2010. It is designed to ensure that the framework for transmission charging promotes security of supply and a low carbon future, while keeping the cost of transmission to customers under control. The outcome of Project TransmiT will have a bearing on the amount of electricity from renewable sources that is developed in Scotland and, therefore, on the way in which the transmission network is upgraded.

In October 2011, Ofgem confirmed that SHETL is one of two networks to be retained in its new fast-tracking process. SSE welcomes this announcement, which could lead to early conclusion of some or all of SHETL's new Price Control from April 2013. The next milestone in the process will be a consultation on fast-track initial proposals in January 2012, with a final decision on which companies will ultimately be fast-tracked expected in April 2012.

Electricity Distribution and Transmission priorities in 2011/12 and beyond
During 2011/12 SSE's priorities in electricity networks are to:

- maintain safe and reliable supplies of power and to restore supplies as quickly as possible in the event of interruptions;
- respond effectively to the arrangements in electricity distribution for allocating costs between support activities (expenses) and networks (capital);
- deliver successfully its investment plans in its electricity distribution networks;
- deploy innovative techniques to maximise the returns from good performance in electricity networks;
- make further progress in upgrading the transmission network in the north of Scotland; and

- continue to work with stakeholders to secure an acceptable outcome to the new electricity Transmission Price Control.

With such significant investment requirements over the next few years, not least in providing the infrastructure to accommodate electricity produced from renewable sources, the scope for substantial incremental growth in electricity networks is clear.

Gas Distribution

Delivering good performance in gas distribution
SSE is entitled to 50% of the distributable earnings from Scotia Gas Networks (SGN), in line with its equity holding, and also provides it with corporate and management services. In SGN, in the six months to 30 September 2011:

- SSE's share of operating profit was £114.6m, up from £98.7m in the previous year;
- gas transported decreased by 3.3TWh to 44.4TWh; and
- 99.1% of uncontrolled gas escapes were attended within one hour of notification, compared with 98.8% in the previous year.

SGN's two networks therefore both achieved the 97% standard for uncontrolled gas escapes.

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

- the impact of the price changes agreed as part of the five-year gas Distribution Price Control to March 2013;
- underlying operational efficiencies achieved during the year; and
- income from 2010/11 not recovered during that financial year but now being received.

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

Operating gas networks efficiently
When SGN acquired its networks in June 2005, National Grid was contracted to provide it with services valued at £30m per annum. In the period since, services have been brought within SGN, and SGN's remaining service contracts with National Grid totalled £7m per annum at the start of this financial year.

These Managed Services Agreement contracts cover transmission services, control and IT services and emergency call handling, and the process of bringing them within SGN is continuing. During June 2011, it stopped using National Grid's Gas Transportation Management System and replaced it with its new Distribution Network Control System and in September 2011 it replaced a National Grid system with a new application called Demand Management System.

Investing in gas networks and securing growth in their RAV
The five-year gas Distribution Price Control, which began in April 2008, provides the opportunity for SGN to increase significantly investment in its gas distribution networks, thereby reinforcing their safety and reliability and securing another increase in their RAV. SGN estimates that its total RAV will be around £4.8bn at the end of March 2013.

During the six months to 30 September 2011, SGN invested £206.5m in capital expenditure and mains and services replacement projects, compared with £206.9m in the previous year:

- The £21m replacement of the under-sea gas main between the south coast of England and the Isle of Wight has been completed. The project involved connecting Lepe and Gurnard through the longest directional drill ever undertaken (3.9km). Two

tunnels were bored, meeting around 40 metres below the seabed, to take the two 12 inch diameter pipes. The project also involved the construction of the new pressure reduction station (PRS) at Gurnard and work on the intermediate pressure pipeline connecting the PRS to the existing network on the Isle of Wight. The entire system was commissioned in mid August.

- The majority of the mains replacement expenditure was incurred under the 30:30 mains replacement programme which was started in 2002. This requires that all iron gas mains within 30 metres of homes and premises must be replaced over a 30-year period. During the six months, SGN replaced 521km of its metallic gas mains with modern polyethylene pipes.
- SGN is also committed to making new gas connections to existing homes that are not on mains gas as affordable as possible, and runs an Assisted Connections scheme, under which 1,550 properties were connected to its networks during the six months.

Investment will continue to be a top priority for SGN and, in line with that, it expects to invest a total of around £400m in capital expenditure and mains and service replacement projects during 2011/12 as a whole.

Earning financial rewards for corporate responsibility
In July 2011, SGN was awarded £1.3m under Ofgem's Discretionary Reward Scheme which rewards companies for developing and adopting best practice in serving the interests of customers, society and the environment. This was the third successive year in which SGN secured the highest award under the scheme, and it recognised SGN's work on its environmental impact, fuel poverty and safety. The scheme, which is judged by a panel of industry experts, was established as part of Ofgem's gas Distribution Price Control 2008-13.

Making gas networks more sustainable
SGN has long recognised that renewable heat is an untapped resource. Working with a water company and a gas supplier, it began the delivery and supply of biomethane to 200 homes in Oxfordshire. Under the scheme, the first of its kind in Britain, sludge is subjected to the process of anaerobic digestion to create biogas which, after the removal of impurities and addition of odorant, is fed into the gas distribution network. It is estimated that biomethane could account for up to 15% of domestic gas needs in the UK in 2020.

SGN is now developing this technology so that larger volumes of biomethane at other sites can be commissioned into the network and is progressing over 80 enquiries for biomethane network entry points from anaerobic digestion and landfill gas projects in Scotland and southern England.

Preparing for the new gas Distribution Price Control
As with electricity transmission, a new eight-year Price Control will be introduced for gas distribution from 1 April 2013 – RIIO-GD1. SGN has undertaken extensive consultations with stakeholders to help determine what should be included in its business plan for the new Price Control.

In October 2011, SGN completed a public consultation on its proposed business plan for RIIO-GD1. The plan sets out four key themes and related measures of progress:

- acting safely, through reducing risk and protecting the public and employees;
- providing excellent service through maintaining gas supplies, providing timely information and listening to customers;
- being good neighbours by reducing environmental impact and removing assets that affect local communities; and
- being a business for the future by helping to mitigate and adapt to climate change and keeping costs down.

The business plan will be submitted to Ofgem later this month.

Gas Distribution priorities in 2011/12 and beyond
During 2011/12, SGN's priorities are to:

- deliver a safe and secure gas supply to customers;
- deliver to time and budget the 2011/12 mains replacement and capital works programmes;
- ensure the new Distribution Network Control System is fully established;
- continue to work with stakeholders to secure an acceptable outcome to the new gas Distribution Price Control; and
- support sustainable developments in gas distribution.

GENERATION AND SUPPLY

A vertically-integrated value chain
SSE operates its business of electricity generation and supply and gas supply in Great Britain and Ireland as a single vertically-integrated value chain. Through its diverse portfolio of power stations, fuel supply contracts, and power purchase agreements with other generators, SSE seeks to securely and cost effectively meet customers' energy requirements. This is a key determinant of SSE's operational and investment decisions in Generation. With vertical integration customers also benefit from lower exposure to wholesale price volatility.

As at 30 September 2011, SSE supplied energy to:

- 9.06 million customer accounts in Great Britain; and
- 560,000 customer accounts in Northern Ireland and the Republic of Ireland.

Its generation capacity, including its share of joint ventures and associates, was around:

- 10,900MW in Great Britain;
- 50MW in Northern Ireland; and
- 420MW in the Republic of Ireland.

Overall, SSE seeks to maintain a well-balanced and diverse portfolio of customers, assets (including stakes in gas production assets) and contracts, including longer-term contracts for purchasing gas and power purchase agreements. In line with this, it purchases most of the gas and some of the electricity it needs to supply customers through trading in wholesale markets and via bilateral contracts of varying lengths. SSE also buys gas, coal, oil and biomass (including refuse derived fuel) to use in the production of electricity from its power stations, as well as CO_2 emissions allowances.

Its Energy Portfolio Management team is responsible for contract management and for SSE's participation in wholesale markets for electricity and gas, as well as the markets for coal, oil and CO_2 allowances. Through analysis of generation plant availability (in SSE's own portfolio and elsewhere in the market), customer demand and its contractual position SSE can assess, and therefore manage, its exposure to market prices.

In response to customers' wish for greater transparency and increased market liquidity SSE introduced in October 2011 a new approach under which it will phase in the auction of all of its electricity supply and purchase all of its electricity demand in the day ahead market. Moving to this approach effectively means that SSE will deliver a new level of transparency, significantly improve liquidity, increase the depth and credibility of the market, and assist in the creation of a robust and tangible pricing index.

By the end of October SSE was trading around one third of its total electricity supply and demand in the day ahead market, significantly ahead of its initial 25% end-November target. It is aiming to increase gradually to 100% (typically around 165GWh) by the end of its current financial year (subject to market conditions and costs). This move is transforming the market, where, with greater participation, overall traded volumes increased four-fold from around 25GWh in September to over 100GWh by the end of October, making prices more transparent and robust and increasing liquidity.

The wholesale price of energy can fluctuate greatly, according to variables such as physical supply, customers' demand, the weather, the availability of delivery infrastructure and geopolitical issues. SSE's approach is designed to hedge its requirements in a way that minimises its costs while ensuring its exposure to market prices is not excessive. Given there are uncertainties around the volume of energy that will be required at any particular point, SSE is unlikely to be fully hedged until close to the delivery of the energy itself.

With its diverse range of assets and contracts to support the supply of energy SSE provides to its customers:

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

Financial performance in Generation and Supply
Operating profit* in Generation and Supply fell by 71%, from £202.8m to £58.8m. It contributed 13% of SSE's total operating profit* in the first half of the year. The reasons behind this performance for the six months to 30 September 2011 are set out under 'Adjusted Profit before Tax*', but over this period SSE sought to insulate customers from rising commodity prices, particularly gas, by delaying any increase in its retail prices.

Total revenue for Generation and Supply for the six months to 30 September 2011 was £11.3bn, which accounted for 92% of SSE's total revenue in the period, of which £3.2bn was in relation to sales of electricity and gas to industrial, commercial and domestic customers.

Generating and supplying electricity in Great Britain
During the first half of the financial year, in Great Britain, SSE (previous year's numbers in brackets):

- generated 19.2TWh, based on contracted output of electricity from all thermal power stations in which it has an ownership interest (19.6TWh); and
- generated 2.3TWh, based on contracted output from renewable sources of energy in which it has an ownership interest, including pumped storage (1.5TWh).

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

- supplied 12.5TWh of electricity to its industrial and commercial customers; and
- supplied 11.6TWh to its small business and household customers.

This means that, during the six months, SSE:

- generated or purchased under long term contracts the equivalent of almost 90% of the electricity needed to supply all of its customers; and
- generated over 180% of the electricity needed to supply its household and small business customers.

Any net balances were traded in the wholesale electricity market, thereby contributing to its liquidity.

Consolidated Segmental Statement
Ofgem has a requirement on electricity generators and suppliers to publish a Consolidated Segmental Statement (CSS) showing revenue, costs and profits from electricity generation and electricity and gas supply activities. SSE published its statement for 2010/11 on 30 September 2011. The CSS required SSE to report financial information in a different way from which the Generation and Supply business is operated.

Reporting requirements may evolve in the coming years as part of Ofgem's proposals to 'improve further the transparency in vertically-integrated utilities'.

Generation

Electricity Generation Key Performance Indicators	Sept 11	Sept 10
ASSETS (MW)*		
Gas- and oil-fired generation capacity	4,467	4,590
Coal-fired generation capacity (inc biomass co-firing)	4,370	4,370
Renewable generation capacity (inc pumped storage)	2,538	2,450
Total electricity generation capacity (MW)	**11,375**	**11,410**
OPERATIONS (%)		
Gas power station availability	98	96
Coal power station availability	88	87
Hydro storage	63	40
Wind farm availability	97	98
OUTPUT (TWh/GWh)**		
Gas- and oil-fired (inc CHP) – TWh	13.9	16.2
Coal-fired (inc biomass co-firing) – TWh	5.3	3.4
Total output from thermal power stations – TWh	**19.2**	**19.6**
Conventional hydro – GWh	1,602	954
Wind energy – GWh	1,077	735
Dedicated biomass – GWh	105	102
Total output of renewable energy – GWh	**2,784**	**1,791**
Total output from pumped storage – GWh	**166**	**175**

***** Wholly-owned and share of joint ventures

** Electricity from power stations in which SSE has an ownership interest (output based on SSE's contractual share).

Principles for management of SSE's Generation portfolio
The operation of, and investment in, SSE's Generation portfolio is founded on a series of principles:

- **compliance**: with all safety standards and environmental requirements;
- **capacity**: to meet the electricity needs of domestic and small business customers;
- **diversity**: to avoid over-dependency on particular fuels or technologies;
- **availability**: to respond to customer demand and market conditions;
- **flexibility**: to ensure that changes in demand for electricity can be addressed; and
- **sustainability**: to deliver a 50% cut in the CO_2 content of electricity produced.

With its diverse generation portfolio, the extensive knowledge and experience of its employees and commitment to rigorous analysis, SSE can ensure its resources are deployed on business activities and technologies where it has the greatest knowledge and experience. This enables SSE to pursue the right decisions for the long-term and take forward the most appropriate of its array of Generation options.

A diverse Generation portfolio
In line with the Generation principles of diversity and sustainability, SSE is maintaining and investing in a balanced portfolio of fossil fuel-fired generation capacity and in energy sourced from renewable sources. The practical application of this balance means that SSE's Generation portfolio comprised, at 30 September 2011:

- 4,467MW of gas- and oil-fired capacity;
- 4,370MW of coal-fired capacity (with biomass co-firing capability); and
- 2,538MW of renewable (hydro, wind and dedicated biomass) capacity.

In the six months to 30 September 2011 SSE:

- completed the construction of Clyde South onshore wind farm with all 56 turbines (130MW) beginning to export power to the national grid; and
- added 46MW to its Generation capacity with the completion of phase 1 of Walney offshore wind farm, adding to the existing 5MW from Beatrice offshore wind farm.

These developments, together with its wider Generation strategy, means SSE has the greatest diversity in fuels for generating electricity among UK generators including options in onshore and offshore wind, pumped storage, solid fuel, and Combined Cycle Gas Turbines (CCGTs). Consequently, it:

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

Its breadth of opportunities allows SSE to take forward only the best investments and achieve the strongest possible returns to support dividend growth.

It is for this reason that SSE has decided to sell its interest in NuGeneration Ltd (NuGen) to its partners GDF Suez and Iberdrola. SSE will instead focus its financial and other resources in the deployment of its wide range of non-nuclear generation options.

A cautious approach to nuclear power development
In November 2010, SSE said in its six-month financial statement, and again in its full-year financial statement in May 2011, that: 'the cost, development issues and timetable and operational efficacy of nuclear power stations all require the greatest possible scrutiny before a commitment to invest in new nuclear power stations can be made'. This was thrown in to further sharp relief by the devastating events at Fukushima.

It is against the background of these considerations that SSE announced in September its intention to sell its 25% stake in NuGen to its joint venture partners. NuGen is the joint venture company established with GDF Suez and Iberdrola to develop proposals for a new nuclear power station. The process is expected to be concluded in the next few months.

Around 2015 NuGen will be required to make a multi-billion pound investment decision and, in preparation for this, significant financial and management resources will be required of the joint venture partners. With its commitment to making the right decisions for the long term, SSE concluded that, for the time being, its financial and other resources are best deployed on business activities and technologies where it has the greatest knowledge, strengths and experience.

While SSE may become involved in nuclear again at a future date, either as an investor or as a purchaser of nuclear-generated electricity, its Generation investment plans for the time being are focused on a wide array of other options including renewable energy, gas-fired generation, plant with carbon capture and storage and developments with solid fuel.

Meeting longer-term energy requirements
SSE's fuel supply contracts provide continuing long-term stability to its energy portfolio. Adding to its long-term gas supplies, SSE has entered into a 10-year contract with Statoil for the annual supply of 500 million cubic metres (mcm) of natural gas to be delivered to SSE's Peterhead power station via the St Fergus gas terminal. Delivery of gas is due to begin in the final quarter of 2012 with the price of the gas supplied linked to prevailing prices in the natural gas market. The contract will also contain provisions to allow the supply of gas to be diverted to help meet SSE's other requirements if Peterhead is undergoing maintenance or repair work.

The SSE/Statoil contract adds to a number of arrangements agreed in recent years including the acquisition of North Sea upstream assets from Hess Limited; the 5% stake in Faroe Petroleum; the 15-year tolling agreement with Marchwood Power Ltd which commenced in

2009 and the 2008 extension of the contract for electricity output from Seabank Power Ltd. Furthermore, SSE's investment in renewable energy sources across the UK and Ireland provides a hedge against the volatility in fossil fuel markets and is an increasingly important source of energy.

Maximising the capability of SSE's Generation portfolio
In order to deliver the long-term value and reliability of its Generation portfolio and to better inform its decision-making process SSE has developed its purpose-built Engineering Centre of Excellence. Its objectives are to:

- support safe operation of power generating plant;
- help deliver increased availability and performance of key plant; and
- mitigate project risk with optimum design solutions and technology choice.

A primary output of the centre, through its Equipment Performance Centre is the bespoke asset management business model which analyses almost 500 million data points every hour, allowing for the early identification and resolution of potential plant safety and availability risks. The EPC has enabled a number of early interventions which previously may have lead to significant forced outages. The first wind farms were connected to the EPC during 2011 and predictive monitoring trials are currently in progress, specifically looking at the operating performance of each SSE wind turbine.

With ever-increasing knowledge as to the performance and capability of its portfolio SSE can ensure the right long-term decisions are made to deliver an efficient, flexible, low carbon generation portfolio which plays to the company's strengths and experience.

How SSE's gas-fired power stations performed
Good performance in Generation and Supply is dependent on power plant being available to generate electricity when required by customer demand and market conditions.

During the six months to 30 September 2011, SSE's principal wholly-owned gas-fired power stations (Keadby, Medway and Peterhead) achieved 98% of their maximum availability to generate electricity, excluding planned outages, compared with 96% availability in the same period in 2010.

From time to time, the stations at Peterhead, Keadby and Medway have been required to operate on a more flexible 'two shift' basis, a requirement which is likely to increase in the medium-term. To increase flexibility SSE's Engineering Centre of Excellence is applying modifications to support more frequent 'two shifting'. Meanwhile, updated long-term gas turbine maintenance contracts have been entered into to support more flexible operations at Keadby and Medway in the future.

The amount of electricity generated by SSE at gas-fired power stations in which it has an ownership or contractual interest, including CHP, was 13.9TWh in the period to 30 September 2011 (including 7.8TWh from wholly-owned stations), compared with16.2TWh in the same period in 2010 (including 6.8TWh from wholly-owned stations).

This reduction in output was driven by very high wholesale gas prices in the first half of the year which had a significant negative impact on spark spreads, which ranged from £0.98 to £3.37 over the period. Spark spread is the difference between the market price of electricity and its cost of production. It was very low over the period and so the stations were operated less frequently. However, a strong performance from SSE's renewable generation portfolio and coal plant mitigated the impact of spark spread by displacing higher-cost CCGTs and showing the benefits to customers of SSE's diverse generation portfolio.

Investment options for gas-fired power stations
Nevertheless, SSE believes that CCGT will continue to be the benchmark technology in generation, making a growing contribution to the UK's electricity requirements as part of a diverse generation portfolio. Many factors support this including its relatively low capital costs, short construction time and high thermal efficiency. Furthermore, CCGTs are the cleanest of

the fossil fuel technologies, with the necessary flexibility to support security of supply as the presence of wind energy on the electricity system increases.

Additional factors when considering the development of CCGTs include fuel procurement and technical requirements for plant flexibility. To manage these factors SSE is continuing its policy of rigorous analysis to ensure the right investment decisions are effectively delivered.

SSEs most advanced CCGT option, Abernedd in South Wales, secured its construction and operation consents in February 2011. SSE is pursuing a single CCGT unit of up to 470MW, which it considers the most economic option in the context of the site and the medium-term outlook for gas-fired generation. While an invitation to tender was issued in October, an investment decision will not be taken until the second half of 2012 at the earliest and will depend, amongst other things, on the emerging shape of the electricity market following the UK government's proposed electricity market reforms. This means that the power station, if built, will not be operational until 2015.

Furthermore, SSE has a number of potential CCGT development options located at existing SSE generation sites including Keadby, Ferrybridge and Fiddlers Ferry. These locations offer many attractive characteristics including grid and gas connections, availability of cooling water and land area. These and other potential sites mean SSE has a wide range of CCGT development options for independent or co-development. Nevertheless, as the UK deliberates the electricity market reform proposals SSE believes the right market signals need to be there if the necessary investment decisions are to be taken.

How SSE's coal-fired power stations performed

During the period to 30 September 2011, SSE's coal fired stations demonstrated their significant value to the electricity system, particularly in light of: rising wholesale gas prices; their capacity to co-fire fuels from other solid fuel sources; and their ability to operate flexibly in response to customer demand and electricity market conditions.

During the six months, SSE's 4,370MW of coal fired generation capacity produced 5.3TWh of electricity at the power stations at Fiddler's Ferry, Ferrybridge and Uskmouth, compared with 3.4TWh in the same period in 2010. The stations achieved 88% of their maximum availability to generate electricity, excluding planned outages, compared with 87% in the previous year. Availability was primarily impacted by a number of emergent issues identified during scheduled outages at Ferrybridge and Fiddlers Ferry but all units are expected to be available during the 2011/12 winter period.

All of the capacity at Fiddler's Ferry and Uskmouth and half of the capacity at Ferrybridge (over 3,300MW in total) complies with the EU Industrial Emissions Directive and so can remain operational beyond 2015 and up to 2023.

Looking to the future of coal-fired power stations

While existing coal-fired power stations have a significant part to play in maintaining secure supplies of electricity it is SSE's belief that no new coal-fired power generation plant should be built in the UK without CO_2 abatement and that no coal-fired plant without such abatement should remain operational beyond 2030. This is consistent with the UK's climate change abatement policies as set out in the White Paper *Planning our electric future.*

In October 2011, the UK government released proposals for the level of banded support under the Renewables Obligation between 2013 and 2017. This included proposals for:

- dedicated biomass (1.5 ROCs);
- biomass conversion (1.0 ROCs);
- co-firing biomass (0.5 ROCs);
- enhanced co-firing, where biomass is used to generate at least 15% of gross output (1.0 ROCs).

The consultation will close in January 2012 and its outcome will have a significant influence on SSE's plans for developments at its coal-fired power stations.

Future operations at SSE's coal-fired power stations and the associated investment decisions will therefore be determined by four main factors:

- the need to maintain and improve the day-to-day performance of the stations while they are operational;
- the prospects for the development of other solid fuels;
- the evolution of the Renewables Obligation; and
- the continuing UK government commitment to the development of Carbon Capture and Storage (CCS) technology.

Against this background, SSE's investment strategy for Fiddler's Ferry, Ferrybridge and Uskmouth is as follows:

- it is continuing to invest in the operation and maintenance of the three stations;
- it is finalising plans to develop a multi-fuel facility at Ferrybridge, using predominantly refuse-derived fuels from which to generate electricity (see section "Looking to the future of alternative energy');
- it is examining options for Fiddler's Ferry and Uskmouth in the light of the review of RO banding;
- it is building Europe's largest post-combustion carbon dioxide capture trial at Ferrybridge, in collaboration with Doosan Babcock and Vattenfall, where construction work is now well under way in advance of the trial beginning later this year (see 'Making progress on Carbon Capture and Storage' below); and
- with consent to operate for 17,500 hours at Fiddlers Ferry under the EU Industrial Emissions Directive (IED), it is retaining the option of installing selective non-Catalytic Reduction technology to extend its lifecycle beyond 2023.

SSE also has consent to operate for 17,500 hours in the period up to 2023 half of the capacity at Ferrybridge.

Making progress on Carbon Capture and Storage (CCS)
With coal and gas continuing to play crucial roles in supply security and fuel diversity for the foreseeable future, their actual role and the achievement of long term CO_2 abatement targets will be dependent on the extent to which CCS technology can be applied to abate CO_2 emissions. Against this background, SSE has two CCS projects under way:

- Coal at Ferrybridge: This project is Europe's largest post-combustion carbon dioxide capture trial. The scale of the project, equivalent to 5MW of coal-fired power generating capacity producing 100 tonnes of carbon dioxide per day, bridges the gap between the various laboratory-scale trials that are under way and the larger-scale projects envisaged by the UK government. The significance of the project therefore lies in its scale and its ability to demonstrate the operational characteristics of capture plant on an actual power station and the performance of the amine solvent on real flue gas. Commissioning of the project will begin towards the end of this year; and
- SSE has entered into a joint development agreement with Shell UK Limited in relation to the proposed CCS project at SSE's gas-fired power station in Peterhead. The agreement will enable the project to accelerate a programme of pre-FEED (Front-End Engineering Design) studies, with the intention that the project will be in a position to begin a full FEED study in the second half of 2012, subject to progress with funding proposals submitted under the EU's NER300 process and the progression of the UK's CCS demonstration programme. The project aims to design and develop a full chain, post-combustion CCS facility which will be capable of capturing CO_2 from one 385MW combined cycle gas turbine unit at Peterhead. It is planned that the CO_2 will be transported to the Shell-operated Goldeneye gas field in the North Sea using as far as possible existing infrastructure. SSE will lead on all aspects of the capture plant at Peterhead, including initial compression and dehydration; with Shell examining all other aspects, including onshore transportation, secondary onshore compression and offshore transportation and storage. In May 2011, the UK government announced that the project is one of seven UK CCS applications to the European Investment Bank for consideration in the EU's NER

(New Entrant Reserve)scheme to support CCS and renewable energy projects across the EU. Up to three such projects may be supported per Member State.

Participating in the EU Emissions Trading Scheme
Phase II of the EU Emissions Trading Scheme (EU ETS) began on 1 January 2008. Across its electricity generation portfolio (taking account of contractual shares), SSE now has an allocation of 18.9 million tonnes of CO_2 emissions allowances per calendar year. In the six months to 30 September 2011, the price of allowances ranged from €11.86 to €16.99 per tonne.

From 2013, all of the CO_2 emissions allowances for electricity producers will be auctioned. Moreover, in Budget 2011, the UK government announced proposals for the introduction of a 'floor' for the price of allowances in the electricity sector, set at around £16/tonne in 2013, rising to around £30/tonne in 2020 (based on 2009 prices).

Tackling emissions of carbon dioxide
SSE's target is to reduce the amount of CO_2 per kilowatt-hour of electricity generated at plant in which it has an ownership or contractual interest by 50%, between 2006, the first full year after it acquired coal-fired power stations, and 2020. SSE expects to achieve its 2020 target by:

- reducing output of electricity produced from coal;
- optimising the efficiency with which primary fuel is converted into electricity at gas-fired power stations; and
- increasing significantly the output of electricity generated from renewable sources.

More broadly, SSE has joined other energy companies in Europe including Dong, Eneco, Public Power Corporation, Statkraft and Sorgennia in calling for the EU to adopt a greenhouse gas emissions reduction target of 25% (up from 20% at present) as part of a long-term move away from fossil fuel-based electricity generation and full decarbonisation by 2050.

Helping to meet legally-binding targets for renewable energy
The EU Renewable Energy Directive means that the UK has a legally-binding target to meet 15% of its energy requirements from renewable sources by 2020; for Ireland, the target is 16%. In practice, this means that 30%-40% of the countries' electricity requirements will have to be met from renewable sources, up from around 7% and 15% respectively at present.

While the UK and Ireland are obligated to achieve targets, renewable energy also presents additional economic and environmental benefit through fuel import and CO_2 emission abatement. Public policy is strongly aligned with the renewable targets, providing financial support via the Renewables Obligation in the UK and the Renewable Energy Feed in Tariff in the Republic of Ireland. Furthermore, the UK government's current work on electricity market reform is explicitly designed to make sure that low carbon technologies such as energy from renewable sources become a more attractive choice for investors.

Increasing capacity for renewable energy
At 30 September 2011, SSE had over 2,500MW of commissioned renewable energy capacity in the UK and Ireland, including its share of joint ventures, comprising:

- 1,150MW conventional hydro;
- 957MW onshore wind;
- 51MW offshore wind;
- 80MW dedicated biomass; and
- 300MW pumped storage.

In the six months to 30 September 2011, SSE has commissioned over 140MW of new onshore wind capacity and 46MW in offshore.

In April 2011 SSE sold its 100% interest in three wind farms in Scotland and Northern Ireland, with a total capacity of 96.8MW, to Infinis.

Of this, output from over 1,100MW qualifies for ROCs, the key financial support scheme for renewable energy in the UK, with:

- 1.0 ROCs/MWh for qualifying hydro and onshore wind;
- 1.5 ROCs/MWh for qualifying dedicated biomass; and
- 2.0 ROCs/MWh for qualifying offshore wind.

The UK government has announced proposals for ROC rebanding, but many of SSE's existing development sites will be accredited before the April 2013 value revision and, as such, will be eligible for existing supports.

Post 2013, SSE believes that the revised ROC levels, with the exception of hydro, are appropriate to changing market conditions once they are complemented by an effective carbon floor price and cost reductions in the supply chain for renewable energy. Given hydro's flexibility, storage capacity and investment economics, a ROC of around 1.0/MWh is required to continue investment in this important renewable energy infrastructure.

All of this means that SSE remains on course to own around 3,500MW of renewable energy capacity that is in operation or under construction in the UK and Ireland by the end of 2012/13. This will mean SSE is:

- making a significant contribution to the achievement of the legally-binding 2020 targets for renewable energy in the UK and Ireland;
- harnessing water and wind, which are free and indigenous sources of primary energy; and
- reducing its exposure to price volatile fossil fuels, which are becoming more difficult to source while also being in much more demand around the world.

Producing electricity from renewable sources
Total output from SSE's conventional hydro electric schemes, wind farms and its dedicated biomass plant was 2,784GWh in the six months to 30 September 2011, compared with 1,791GWh in the same period in 2010. This increase of around 55% is due to wetter and windier weather conditions experienced during the period and additional wind capacity coming online.

Excluding new capacity, that is comparing the same set of wind farms from 30 September 2010 and that in 2011, the increase in output from wind farms was 49%.

Producing electricity from hydro electric schemes
SSE owns and operates just over 1,450MW of capacity in hydro electric schemes, including the 300MW pumped storage facility at Foyers, on Loch Ness.

Total output from SSE's conventional hydro electric schemes was 1,602GWh during the six months to 30 September 2011 compared with 954GWh during the previous year. Within this, total output from SSE's hydro electric capacity qualifying for ROCs – just over 500MW – was 752GWh (484GWh). As at 30 September 2011, the total amount of water held in SSE's reservoirs which could be used to generate electricity was 63% of the maximum, compared with 40% in the previous year, reflecting higher rainfall.

Restoring generation at the Glendoe hydro electric scheme
Work on the restoration of electricity generation at the Glendoe hydro electric scheme is continuing to progress well. The new tunnelling required to by-pass the blockage in the existing tunnel, and thereby allow water to go from the reservoir to the power station, has been completed, and the timely achievement of this major milestone means the key focus is on the repair of defects identified in the rest of the tunnels. There has been an ongoing review and refinement of the design of the tunnel repairs to ensure the specification is optimal. It has now been decided that around half of the entire tunnel (comprising upper

headrace, bypass, lower headrace and tailrace) should be lined. Nevertheless, electricity generation should still resume towards the end of the first half of 2012.

Under the contract to construct Glendoe, Hochtief was responsible for the tunnel design and SSE is pursuing its significant legal and insurance options, including ensuring that there is an appropriate settlement by Hochtief of the costs incurred in respect of the tunnel repair. To this end, all necessary contractual and legal steps are being taken with Hochtief.

The actual and projected rate of return on the total net investment in Glendoe, including the original construction costs of £160m, will depend in part on how SSE's legal and insurance options out-turn. It will also depend on the prices achieved for the electricity Glendoe will produce which, in turn, should reflect the strategic nature of the asset and its ability to respond rapidly to help meet increases in electricity demand.

Options for investment in hydro electric schemes
Hydro electric schemes, which use impounded water to generate electricity, are an excellent means of energy storage. Consequently, they naturally complement the variable output from the growing number of wind farms and play an important part in meeting peak demand. SSE has developed four main options for new hydro electric schemes:

- **Kildermorie**: SSE has consent to develop a new 7.5MW hydro electric power station near Ardross in Ross-shire. It will consist of a new dam and storage reservoir, a buried pipeline and a semi-buried powerhouse with associated tailrace. Subject to the outcome of the ROC banding review, construction is likely to begin in the second half of 2012;
- **Sloy**: SSE has consent to develop a 60MW pumped storage scheme as part of its 152MW Sloy power station, near Loch Lomond. This means that, in addition to electricity produced from water collected and held in the Loch Sloy reservoir, Sloy will be able to generate an additional 100GWh of electricity in a typical year using water pumped from Loch Lomond to the reservoir. SSE now expects that developing a pumped storage facility at Sloy will require investment of around £40m, and is expecting to take a final decision on the investment after it has completed further technical and engineering studies and considered the outcome of the UK government's consultation on electricity market reform;
- **Coire glas**: SSE is proposing to develop a new large scale pumped storage scheme at Loch Lochy with an installed capacity of between 300MW and 600MW and a capability to produce in excess of 1,000GWh of electricity in a typical year. A planning application for the scheme is expected to be submitted in the first half of 2012; and
- **Balmacaan**: SSE is also proposing to develop a 300MW-600MW pumped storage scheme at Loch Ness, with a similar expected electricity output to Coire glas. While this project is entirely independent of Coire glas, it is at a similar stage, a similar timetable for submitting a planning application is envisaged and the two projects are managed by a single development team.

Construction of Coire Glas and/or Balmacaan would not begin before 2014 at the earliest and, subject to planning consent, SSE will have the option to build neither, one or both of the schemes. They would be the first new pumped storage schemes to be developed in Great Britain since work began on the Dinorwig scheme in Wales in 1974.

Final decisions on these and on other renewable energy developments will also depend upon acceptable charging arrangements being in place for the use of the transmission network in Great Britain, an issue which is the subject of the Project TransmiT review launched by Ofgem in September 2010, and on the outcome of the UK government's consultation on its proposals for ROC bands.

Producing electricity from wind farms
At 30 September 2011, SSE owned and operated 1,008MW of wind farm capacity and output during the six months was as follows (previous year's comparison in brackets):

- 518GWh in the UK, (298GWh); and
- 558GWh in the Republic of Ireland (437GWh).

On average, the turbines at SSE's onshore wind farms in the UK and Ireland achieved 97% of their maximum availability to generate electricity, compared with 98% the previous year.

Developing wind farms to produce electricity
Over the period since 2008, SSE has more than doubled its capacity of on and offshore wind farms in operation, construction or with consent for development, to over 2,200MW. At 30 September 2011, this comprised:

- 1,008MW in operation;
- 930MW in construction or pre-construction; and
- 290MW with consent for development.

In addition, SSE has also submitted for approval by the relevant planning authorities in the UK and Ireland proposals for onshore wind farms with a total capacity of 875MW. This includes its share of the capacity contained in the proposal by Viking Energy, the joint venture between Viking Energy Ltd (which is 90% owned by the Shetland Charitable Trust) and SSE to develop on Shetland's Central Mainland a wind farm with a capacity expected to be around 450MW.

SSE has offshore wind farm capacity in operation or under construction totalling almost 350MW, comprising:

- a 50% stake in the 10MW Beatrice offshore wind farm in the Moray Firth;
- a 25.1% share of the 367MW Walney offshore wind farm under construction in the Irish Sea; and
- a 50% share of the 500MW Greater Gabbard development under construction in the outer Thames Estuary.

This means that SSE now has around 3,750MW of renewable energy capacity (onshore wind, offshore wind, hydro and dedicated biomass) in operation, under construction or with consent for development in the UK and the Republic of Ireland. This excludes the possible Arklow wind farm scheme off the east coast of the Republic of Ireland.

Managing constraint on the electricity system
With increasing volumes of wind on the electricity system in both Great Britain and Ireland, instances of constraint are arising from time to time. Constraint occurs when there are limitations in electricity transmission capacity or for reasons of system frequency control.

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

The issue of constraint will occur more often as the UK and Irish systems see the benefit of higher penetrations of renewables on their systems. For wind generation in the Irish market, plant which is not grid code compliant does not receive any compensation for constraint nor does it receive payment of the state support mechanism REFIT. In Great Britain the issue centres on equitable compensation for constrained wind. In the period to 30 September 2011 SSE wind farms in Great Britain were constrained by 13.3GWh, or less than 2.5% of total wind farm output produced by SSE in the period. Much of this was driven by local transmission constraints.

To minimise the impact of constraint, appropriate investment is needed in transmission infrastructure, an issue which is particularly acute in Ireland. At the same time, market arrangements in both the UK and Ireland must provide equitable payment for constrained generation. For SSE, a keen focus is ensuring grid code compliance and compiling accurate information on the levels of constraint experienced.

Building new onshore wind farms
The main projects within SSE's onshore wind farm construction portfolio are those at Clyde (350MW) in South Lanarkshire, Griffin (156MW) in Perthshire and Gordonbush (70MW) in Sutherland:

- **Clyde South**: The construction of Clyde South (130MW) has been completed and all 56 turbines have begun to export electricity to the national grid. This is earlier than forecast at the start of the financial year. Preliminary ROC accreditation has been secured for Clyde South.
- **Clyde Central and North**: Construction work is continuing at Clyde Central and North (220MW in total) and this should be completed in the middle of 2012. First generation was achieved in mid-October. Following consent from North Lanarkshire Council construction of a permanent primary radar facility to provide the necessary level of coverage is complete and is presently being commissioned with NATS. The Clyde wind farms (South and Central and North) are expected to produce over 1,000GWh of electricity in a typical year and their construction cost is expected to out-turn at over £500m.
- **Griffin**: The first export of electricity from Griffin (156MW) to the national grid took place at the start of May and preliminary ROC accreditation has been secured. Of the 68 turbines that will make up the wind farm when it is completed, 47 have already begun generating, and are able to export electricity. The wind farm was scheduled to be completed in the spring of 2012, but is now on course to be completed earlier, before the end of this calendar year. It is expected to produce over 350GWh of electricity in a typical year, and its construction cost is expected to out-turn at over £200m; and
- **Gordonbush**: Turbine delivery and installation has now begun at this 70MW development. First generation of electricity is due to take place before the end of the calendar year. The wind farm should, therefore, be completed around the end of this financial year. It is expected to produce around 180GWh in a typical year and its construction cost is expected to be just over £100m.

At the start of the current financial year, SSE had nine other onshore wind farms with a total capacity of 138MW under construction or in pre-construction. Of these, Rathcahill (12MW) in County Limerick, has been completed while Slieve Kirk (27MW) in Northern Ireland is expected to be completed next, around the turn of the year.

SSE has also completed the acquisition, from RES, of a 34 turbine/68-85MW wind farm project for which consent for construction has been granted at a site close to its Keadby power station in North Lincolnshire. As a result, Keadby has become SSE's first consented wind farm in England. Significant progress has been made on the operational consents for this wind farm, with construction expected to begin in 2012/13. Keadby is expected to be part of SSE's investment programme to 2015.

Building new offshore wind farms in partnership
SSE has a stake in two offshore wind farms currently under construction. It believes that investing with other companies represents the best way of managing the risks associated with offshore wind farms and maximising the development and construction capability. The two offshore wind farms are:

- Greater Gabbard, a 500MW development being built by Greater Gabbard Offshore Winds Limited, in which SSE has a 50% stake; and
- Walney, a 367MW development being built by Walney (UK) Offshore Windfarms Ltd, in which SSE has a 25.1% stake.

Managing the issues at Greater Gabbard
Construction of Greater Gabbard continues to make progress. All 140 monopiles and transition pieces are in place. As planned, turbine installation resumed in September. A total of 122 turbines have now been installed, of which 83 have exported electricity. Both offshore substations were energised earlier this year and two of the three export cables and all the

array cables are now in place. The progress made on construction means that all 140 turbines should have been installed, as planned, before the end of 2012.

GGOWL remains in a contractual dispute with Fluor Limited, the principal contractor for the wind farm. The dispute relates to the quality of lower foundations (monopiles) and upper foundations (transition pieces) used in the early stages of the development and supporting 52 of the 140 turbines. The contractual dispute centres on:

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

In October 2011, on the basis of the available evidence, including from its own programme of testing, and independent advice, GGOWL notified Fluor Limited that all 52 of the relevant foundations are defective and do not meet the standard required by the contract between the two companies.

Of these 52 foundations Fluor Limited previously corrected defects that had been identified in a number of the monopiles before they were installed, and GGOWL believes that these repaired monopiles are sound. The balance of the monopiles and all 52 of the transition pieces are believed to be defective.

GGOWL believes that the onus is currently on Fluor Limited to determine how it proposes to meet its contractual obligation to ensure that the transition pieces and monopiles comply with the contract and that Fluor Limited will be liable for all associated costs. GGOWL hopes that Fluor Limited will comply with its obligations in a satisfactory way but if necessary GGOWL will protect its contractual rights by issuing a formal counter claim.

Making progress at Walney

The first phase of Walney (183.6MW) became operational earlier this year and secured ROC accreditation. This added 46MW to SSE's total electricity generation capacity. Construction of the second and final phase of the wind farm, which also comprises 51 turbines with a total installed capacity of 183.6MW, is now well under way. All turbines have now been installed, and the first generation of electricity took place at the start of November. Phase two of the wind farm will be commissioned in the summer of 2012.

Developing more new offshore wind farms

SSE believes that harnessing the power of offshore wind will enable the UK to generate significant amounts of low-carbon electricity from a renewable source and therefore help meet the country's energy security and climate change objectives. Its priority for the next year is the successful completion and commissioning of Greater Gabbard and Walney from which significant offshore wind farm development and construction experience has been gained.

In keeping with its approach of creating a series of diverse options SSE will maintain an orderly, phased and continuing programme of offshore development, with the next two offshore wind farm projects to be developed taking priority:

- the 500MW Galloper wind farm, close to the existing Greater Gabbard development, a 50:50 partnership with RWE npower renewables; and
- the 1,000MW Beatrice wind farm in the Moray Firth, a 75:25 partnership with Repsol Nuevas Energias UK.

A Development Consent Order application (DCO) for Galloper wind farm is in the process of being submitted to the Infrastructure Planning Commission (IPC). In accordance with the examining authority's procedures, it will then have 28 days in which to decide whether to

accept the application from the point of formal receipt. The planning application for the Beatrice wind farm is expected to be submitted before the end of this financial year.

Beyond this, SSE has secured from The Crown Estate rights for the possible development of additional offshore wind farm assets later in the decade with a total potential capacity of up to 4.8GW (net).

SSE will continue to pursue offshore development options in a disciplined manner, as demonstrated by its decision to halt work on Kintyre offshore wind farm following detailed environmental studies and consultation with local stakeholders.

As highlighted in the 2011 Annual Report, SSE continues to progress the establishment of a single intermediate holding company for all of its offshore renewable energy assets and interests.

Building a supply chain for offshore wind
In a resource- and carbon-constrained world the energy potential of offshore wind is vast. Meeting its potential can be achieved through the development of an improved supply chain - including design, manufacture and installation - that exerts downward pressure on delivery costs.

SSE has recently invested in a range of new initiatives to increase the effectiveness, and decrease the cost, of offshore wind deployment. Initiatives have included:

- strategic alliances with companies such as Siemens and Mitsubishi to collaborate on offshore wind development;
- acquisition of a 15% stake in Burntisland Fabrications (BiFab), the offshore energy structure fabricator, in April 2010; and
- ongoing participation in the Carbon Trust's Offshore Wind Accelerator.

In May 2011, Wind Towers Ltd, a joint venture between SSE and Marsh Wind Technology Ltd completed the purchase of the Skykon wind turbine tower manufacturing and assembly plant at Machrihanish, Campbeltown, from its Administrators. In addition to producing wind turbine towers for onshore wind farms, this site is constructing new facilities to allow the production of turbine towers for offshore wind. This will enable Wind Towers Ltd to participate in the next phase of offshore wind developments while maximising the potential of its modern facilities in the expanding market for offshore wind turbines.

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

Developing marine sources of electricity
With its significant longer-term potential, SSE is involved in the development of marine energy technologies, aiming to fulfil the potential of marine energy resources:

- it has a 44.4% stake in the wave energy developer, Aquamarine Power, following further investment of £3m in September 2011, taking the total over the past three years to £24.7m. Furthermore SSE along with Aquamarine Power's other major shareholders (ABB and Scottish Enterprise) are working together to develop a further funding package of £18m to take the company to commercialisation in 2014. Aquamarine Power is currently developing an innovative wave energy converter, Oyster 2, and has a clear programme for developing it into a commercial product over the next few years. The first Oyster device underwent successful sea trials at the European Marine Energy Centre in Orkney; and
- it currently retains exclusive rights from The Crown Estate to develop 400MW of wave and tidal energy at sites in the Pentland Firth and Orkney Waters and a further 400MW with Aquamarine Power and OpenHydro. SSE has submitted an application to National Grid for an electricity connection relating to three of these sites and is working closely with The Crown Estate and other stakeholders to develop applications to construct the

developments. It is presently establishing a 50:50 joint venture partnership with Alstom, to co-develop the 200MW Costa Head offshore wave project based on the wave device technology of AWS Ocean Energy. Under the agreement SSE is investing £800,000 in this opportunity to March 2016.

Generating electricity from alternative sources like biomass
SSE's plant at Slough has a current generating capacity of 80MW and remains the UK's largest dedicated biomass energy facility. During the six months to 30 September 2011 it produced 105GWh of electricity from renewable sources, compared with 102GWh during the previous period. Qualifying output from dedicated regular biomass plants attracts 1.5 ROCs per MWh.

Looking to the future of alternative energy
In keeping with its policy of fuel and generation diversity and sustainability SSE continues to build knowledge and experience in alternative fuels. The plant at Slough, for example, has given SSE practical experience which it can deploy when considering investment in controllable generation fired by biomass and other alternative fuels.

The UK government has set challenging targets for the reduction of waste being sent to landfill, which presents significant opportunities for electricity plant using waste-derived fuels. In view of this, and in order to be in a position to capture fully the opportunities that waste-to-energy brings, SSE has decided to enter into a fully incorporated joint venture with US-based waste-to-energy specialists Wheelabrator Technologies Inc, a subsidiary of Waste Management Inc.

In October 2011, SSE received consent from the UK Department of Energy and Climate Change to develop an up to 108MW multi-fuel project within its existing Ferrybridge coal power station site. The facility will use a range of sustainable solid fuel sources, including biomass, waste-derived fuels and waste wood, to generate electricity and heat. SSE's joint venture with Shanks Plc (3SE) is intended to provide processed waste-derived fuels for use at the facility from nearby Barnsley, Rotherham and Doncaster councils.

The joint venture company established with Wheelabrator Technologies, Multi Fuel Energy Ltd, will own the new plant at Ferrybridge (and any other such developments). The multi-fuel CHP plant there will be an innovative addition to SSE's generating portfolio and will make an important contribution to ensuring secure energy supplies. Enabling works are due to begin over the next few months, with the main construction period commencing in October 2012 and a planned project completion date of early 2015. The capital cost for Multi Fuel Energy Ltd will be in excess of £300m.

The new plant will allow SSE to expand the amount of carbon neutral generation in its portfolio, enhance its position in the UK waste to energy sector, while increasing the amount of controllable high load factor generation.

In biomass, Forth Energy, the joint venture between SSE and Forth Ports PLC, has now submitted planning applications to develop dedicated biomass power stations, with a total capacity of 500MW, at four sites in Scotland. However, Forth Energy will be reviewing these options in light of recent revisions to ROC banding.

Meanwhile SSE has invested in the construction of Scotland's largest biogas plant at a former landfill site at Barkip in North Ayrshire producing 2.5MW of renewable electricity. Biogas developments such as this not only have the potential to provide an important sustainable energy solution but also offer opportunities in renewable heat through connections to the gas distribution network. Barkip is, therefore, of direct interest to both SSE and SGN.

Investing in new ventures in energy
SSE Ventures (SSEV) was set up in 2007 to develop and grow a portfolio of investments in small and medium-sized enterprises offering renewable, sustainable and energy efficiency-enhancing products and services. Amongst other things, investments were made to help SSE

anticipate, be at the forefront of and adapt to the kind of changes in energy production and consumption that are likely to occur over the next decade.

Since its establishment SSEV has invested or committed to invest a cumulative total of around £100m including equity and loans in a total of 40 companies.

In addition to the SSEV-led initiatives in Aquamarine Power and Wind Towers Limited, other projects have included:

- **InSource Energy Limited,** an anaerobic digestion project developer. It completed its first project, the Rogerstone plant at food manufacturer RF Brookes' facility in Wales, in early 2011. The plant currently processes 16,000 tonnes of food waste annually, generating 350kW on average from biogas over the year. In addition to managing the new project, the company is developing its future pipeline of waste and effluent projects.
- **Green Highland Renewables Limited**, a hydro-electric scheme developer, owner and operator providing consultancy and project management and development services. The company built out its first scheme, Roroyere, in Glen Lyon, Perthshire, in 2010-11 and is now completing its commissioning. Closing this project marks an important milestone in the company's development, demonstrating capability and growing confidence among prospective customers, partners and investors. The company has an extensive portfolio of development options throughout Scotland and is identifying potential schemes on behalf of Forestry Commission Scotland in its northwest Highland estates.

Generation priorities for 2011/12 and beyond
SSE's key priorities in Generation during 2011/12 and beyond are to:

- comply fully with all safety standards and environmental requirements;
- ensure power stations are available to respond to customer demand and market conditions;
- operate power stations efficiently to achieve the optimum conversion of primary fuel into electricity;
- support greater liquidity in the wholesale electricity market;
- complete asset maintenance and refurbishment programmes on time and on budget;
- maximise the potential for existing thermal power stations to operate flexibly;
- meet key milestones in new asset construction and related commercial issues;
- make progress in development of options for new assets;
- create an offshore wind supply chain that allows a lower levelised cost of energy; and
- make progress in developing the diverse range of investment options it has created for the second half of this decade.

Supply

Supply Key Performance Indicators	Sep 11	Mar 11	Sep 10
Electricity customer accounts (GB domestic) - m	5.11	5.16	5.22
Gas customer accounts (GB domestic) - m	3.53	3.57	3.60
Energy customers (GB business sites) - m	0.42	0.43	0.44
Total GB energy customer accounts - m	**9.06**	**9.16**	**9.26**
All-Island Energy Market customers (Ire) - m	0.56	0.49	0.33
Home services customer accounts (GB) - m	0.42	0.42	0.41
Total customer accounts (GB and Ire) – m	**10.04**	**10.07**	**10.00**
Electricity supplied household average (GB) - kWh	1,736	N/A	1,784
Gas supplied household average (GB) – therms	120	N/A	125
Customer complaints to third parties (GB)*	407	N/A	442

* Energy Ombudsman, Consumer Focus and Consumer Direct

SSE's approach to retaining and gaining customers
Long-term success in energy supply depends on the supplier's ability to retain and gain customers. SSE aims to do this by:

- offering consistently competitive prices over the medium term;
- delivering the highest possible quality of service;
- providing other energy-related products and services; and
- building trust in its energy supply activities.

SSE is the second largest supplier in the Great Britain market for supplying electricity and gas, which is one of the most competitive in Europe. According to a report published in 2010, only two countries in the EU-27 have more suppliers with a market share greater than 5%. Around 15% of gas customers and 17% of electricity customers in Great Britain switched supplier in 2010. Between January and June 2011, the UK had the lowest domestic gas prices and the third lowest domestic electricity prices in the EU-15.

Nevertheless, in October 2011, Ofgem said there should be 'radical reform for a simpler, more competitive energy market' and has defined 'four waves of reform', to be the subject of consultation, covering:

- tariffs, bills and annual statements;
- the business sector;
- liquidity in the wholesale electricity market; and
- energy company accounts.

Building trust in energy supply
Ofgem's announcement came after SSE published a document, *Building Trust: SSE's proposals to build customers' trust in energy supply* (see www.sse.com/buildingtrust). Indeed, Ofgem said it 'welcomes recent indications from some suppliers about the importance of restoring consumer confidence'.

The *Building Trust* document was published three months after SSE became the first of the leading energy suppliers to stop commission-based doorstep selling (four other major supplies have since followed). The decision to stop doorstep selling was taken for four main reasons set out in SSE's announcement of 8 July. The key point is, however, that the world had moved on from doorstep selling and that ending it was, therefore, the right thing to do.

At the time of the announcement SSE said that ending commission-based doorstep selling was an important change in its approach to the energy supply market and that it 'may have some short-term impact' on the number of customers it gains in the Great Britain market. It confirmed, however, that the decision was being taken because the short-term impact would be outweighed by the long-term benefit from deploying the right products and services in the right way.

In essence, SSE's *Building Trust* plans, set out in October 2011, are also about deploying the right products and services in the right way. They deal with tariff complexity, cost transparency and customer service. SSE is actively seeking comments on its plans and is aiming to implement them all by the end of 2012.

Providing services to customers in GB and Ireland
SSE supplies electricity and gas in Great Britain and Ireland as:

- SSE and Southern Electric (England);
- Swalec (Wales);
- Scottish Hydro (Scotland);
- Atlantic; and
- Airtricity (Northern Ireland and the Republic of Ireland)

At 30 September 2011, it had 9.62 million energy customer accounts in Great Britain and Ireland, compared with 9.59 million the previous year and 9.65 million at 31 March 2011. SSE believed that a fall in customer numbers could be a short-term consequence of its decision to stop commission-based doorstep selling in Great Britain. This has been borne out, with a fall of 90,000 in the number of domestic energy customer accounts in Great Britain in the six months to 30 September 2011. The decision could have an impact on customer numbers for some time to come.

Nevertheless, the number of SSE customer accounts in Ireland has continued to grow and reached 560,000 on 30 September 2011, an increase of 70,000 in the previous six months and 230,000 in the previous year.

Within the total, around one third customer accounts in Great Britain are for loyalty products such as:

- energyplus Argos, which rewards customers with money-off discount vouchers;
- energyplus Pulse, under which customers are able to support the British Heart Foundation; and
- M&S Energy, available to customers through M&S' stores and website.

SSE is aiming to gain customers through venue, telephone, online and direct mail sales and through customer advice activities; through extending its range of affinity partnerships, of which M&S Energy, is one example; and through a series of commercially-focused sponsorships.

It is also currently developing plans to pilot networks of community energy advisers, drawing on its experience in the Energy Demand Research Project in North Leigh, Oxfordshire, carried out between 2007 and 2010, during which a locally-based energy adviser employed by SSE engaged with local people to secure a 10% reduction in household energy consumption. According to the independent Project Final Analysis, published in June 2011, the adviser was 'able to work very well within the community and was very well received by them'.

In addition to energy customer accounts, SSE provides home services, including:

- boiler, central heating and wiring maintenance;
- gas, electrical and solar installation; and
- telephone line rental, calls and broadband services.

Its number of home services customer accounts was 422,000 on 30 September 2011, compared with 410,000 the year before.

Engaging constructively with Ofgem's sales investigation

In recent years, SSE has gained a significant number of customers through telephone and face-to-face sales. These customers have benefited from SSE's commitment to consistently-competitive prices over the medium term and its sector-leading service.

Ofgem introduced new licence conditions to govern sales processes in 2009 and in September 2010 launched an investigation to 'establish whether' four suppliers, including SSE, were complying with the licence conditions. SSE is co-operating fully with the investigation, which is ongoing.

Separately, in October 2011, SSE was given leave to appeal against the two guilty verdicts that were reached at Guildford Crown Court in May 2011 in the case brought against it by Surrey County Council Trading Standards. The case relates to the use of direct sales aids in 2009 and featured seven counts, of which SSE was found not guilty on five. SSE has identified a number of grounds for appeal, including a failure to examine the direct sales process in its entirety. The appeal is unlikely to take place until the New Year.

Customers' use of energy is continuing to decline
On both an actual and a weather-corrected basis, the average use of energy by SSE's household customers has continued to fall, and in the six months to 30 September 2011 (comparisons with the same period in 2010):

- actual consumption of electricity fell by 4.0% to 1,730kWh;
- weather-corrected consumption of electricity fell by 2.7% to 1,736kWh;
- actual consumption of gas fell by 15.9% to 111 therms; and
- weather-corrected consumption of gas fell by 4% to 120 therms.

This means that a typical SSE customer spent £405.70 on energy in the six months to 30 September 2010 and £396.63 in the six months to 30 September 2011.

Falling consumption presents shorter-term issues in terms of the revenue companies are able to earn from supplying energy and in terms of the operation and development of plant for generating electricity. Nevertheless, as a result of the continuing fall in energy consumption, households are less exposed to the impact of high unit prices than they otherwise would be and the overall sustainability of supplies of gas and electricity is improved. These are very positive trends.

Helping customers use less energy in the future
As an energy supplier, SSE has obligations under the Carbon Emissions Reduction Target (CERT) 2008-12 scheme to deliver energy efficiency measures to households throughout Great Britain and in the six months to 30 September 2011 funded the installation of cavity wall insulation in 64,000 homes and loft insulation in 80,000 homes (excluding DIY insulation).

In August 2011, Ofgem published its Annual Report on suppliers' progress towards CERT targets for 2008-12. It reported that SSE had achieved 64% of its obligation by the end of the third year of CERT; this increases to 71% when the innovation features of CERT are taken into account.

Complementing CERT, the Community Energy Savings Programme (CESP) is an obligation placed on energy suppliers and electricity generators to make savings in customers' homes by helping to install energy efficiency measures. The programme is designed to ensure that suppliers work in lower income areas to incentivise a 'whole house' approach to energy savings. While delivering CESP is challenging, SSE's now has 21 CESP agreements in place for locations throughout England, Scotland and Wales.

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

- The 'Green Deal' is a new financing mechanism for customers seeking to install energy saving measures, featuring a 'Golden Rule' under which the expected financial savings arising from the measures must be equal to or greater than the costs attached to the energy bill; and
- the ECO will replace the obligations arising from CERT and CESP, with suppliers expected to focus assistance on the poorest and most vulnerable households and the hardest-to-treat properties, which may not be able to take advantage of the 'Green Deal'.

Helping vulnerable customers
Professor John Hills is leading an independent review of 'fuel poverty' for the UK government. A household is currently classed as being in 'fuel poverty' if it would need to spend more than 10% of its income on fuel to keep their home warm enough. The review will examine the definition of 'fuel poverty' and the government targets relating to it. It is expected to conclude in 2012.

SSE believes that any type of poverty, including 'fuel poverty', results fundamentally from an individual or household having insufficient income. Nevertheless, SSE is adopting four main approaches to helping customers with their energy bills:

- giving financial help with energy bills through the winter and beyond to over 400,000 customers through the Warm Home Discount, the energyplus care schemes and other initiatives. This help will have a total value of £46m in 2011/12, compared with £28m in the previous year;
- providing payment arrangements that are tailored to the particular circumstances of at least 300,000 customers who may be experiencing hardship and having difficulty in paying their energy bills;
- making proactive calls to vulnerable customers in the final three months of 2011 to ensure they are aware of the support and advice available to them and to avoid situations such as self-disconnection by customers with pre-payment meters; and
- improving energy efficiency through the free or discounted installation of cavity loft insulation in 153,000 homes and of wall insulation in 147,000 homes (excluding DIY insulation) in 2011/12.

Over the financial year as a whole, therefore, there will be one million interventions by SSE to give practical help to vulnerable customers.

In addition, for the winter period (28 November 2011 to 2 March 2012), SSE will not disconnect the gas or electricity supply of any customer, unless there are issues of safety or criminality involved.

More broadly, SSE is committed to working with the governments in Westminster, Edinburgh and Cardiff, and to practical partnerships with consumer bodies such as Citizens Advice and Consumer Focus, to deliver other workable and substantive steps which actually help customers.

As part of its wider initiative to build trust in energy supply, SSE is also piloting an Annual Energy Review to ensure that customers are on the best tariff to suit their needs and to identify the options for other measures such as improved energy efficiency. Starting in 2012, it intends to offer every customer an Annual Energy Review.

Retail energy bills in Great Britain

The current definition means that an increase in energy prices will lead to an increase in the number of households in 'fuel poverty'. This is likely to be an unfortunate consequence of the price increases implemented by UK energy suppliers this year including the 18% increase in gas prices and the 11% (average) increase in electricity prices which SSE implemented on 14 September 2011, and for which SSE has said it is sorry.

Three things put an upward pressure on prices:

- the costs of using energy networks to distribute electricity and gas to customers' homes, determined by Ofgem, were 14% higher at the start of this financial year compared with the start of the previous year, based on the Use of System charges published by network operators;
- the cost of mandatory environmental and social schemes that energy suppliers are required to fund, like CERT and the Warm Home Discount, was 11% higher at the start of this financial year compared with the start of the previous one; and
- the wholesale cost of electricity and gas went up by around 23% and 40% respectively between October 2010 and July 2011 (based on forward annual prices).

A typical SSE dual fuel bill from 14 September 2011 is made up of:

- distribution costs – 19%;
- metering and customer service costs – 12%;
- mandatory environmental and social costs – 8%;
- VAT – 5%; and
- energy costs – 56%

As recently as 2008, energy accounted for 61% of a typical dual fuel bill. The fall to 56% in 2011 shows the increasing impact of distribution, environmental and social costs on household energy bills.

SSE will not implement another increase in the price of household electricity or gas, if it has to, before August 2012 at the earliest – and will take the opportunity to reduce prices if it can. No other leading energy supplier has matched this pledge.

How people pay their energy bills
A total of 59% of SSE's domestic electricity and gas accounts across Great Britain and Ireland are paid by direct debit or standing order. A further 12% are paid through pay-as-you-go (or pre-payment) meters in Great Britain and the balance are on credit terms and settled by cheque or other such payment methods.

Helping customers keep energy debt under control
As at 30 September 2011, the total aged debt (ie 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 £101.4m, compared with £98.3m in September 2010. A bad debt-related charge to profits of £27m has been made. This compares with a charge of £28.4m in September 2010.

The general economic climate means there are significant debt management challenges, with the volume of work in this area for SSE's Customer Service division continuing to increase. SSE has office- and field-based employees who work with customers to resolve debt issues, and their work is particularly important in the winter period. It aims 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 makes the situation easier from both SSE's point of view and that of the customer, and the benefit can be seen in the fact that debt which is less than three months old was 17% lower on 30 September 2011 than the year before and debt overdue by four-to-six months was 19% lower.

Disconnecting supplies of energy is always the very last resort (fewer than 300 were carried out in Great Britain in the first six months of 2011/12) and, as stated above, SSE will not disconnect any customer's energy supply, unless there are safety or criminality issues involved, between 28 November 2011 and 2 March 2012.

Providing sector-leading service to customers
SSE continues to be independently and consistently recognised as the customer service benchmark for the rest of the energy supply industry. To provide customers with the best possible value for money, SSE believes that it needs to provide best-in-sector service and products, as well as competitive prices over the medium term.

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

- the UK Customer Satisfaction Index, published in July 2011, in which SSE achieved the top ranking in the utility sector for the fourth consecutive year; and
- the energy complaints league table, published by Consumer Focus in September 2011, in which SSE again emerged as the best performer and was the only supplier to achieve a five star rating.

During the six months to 30 September 2011, there were 407 SSE-related complaints to the following third party organisations: the Energy Ombudsman, Consumer Focus and Consumer Direct. This compares with 442 in the same six months in 2010. As part of its work on *Building Trust*, SSE has started publishing data about its complaints performance on a quarterly basis.

It also plans to introduce a series of other initiatives to enhance customer service, including:

- offering an Annual Energy Review to all customers to ensure they are on the best tariff to meet their needs and are aware of other services, such as home insulation; and
- establishing formal, independently-chaired forums for customers to provide qualitative feedback on SSE's service and suggestions on ways in which it could be improved.

Making services available online
Web and email are now firmly established as the second most common means of communication with the company used by SSE's customers. Around one third of SSE's transactions with customers now take place online.

Moreover, SSE's customers in the Great Britain and Ireland markets now have 1.3m paperless billing accounts, up from 700,000 year before. Such customers can view their account and payment history, submit meter readings and receive an up-to-date balance on their account, make secure payments on their account and other such services.

This, in turn, indicates that the popularity of e-services such as paperless billing is likely to continue to increase rapidly over the next few years. Enabling customers to carry out more transactions online if they so choose is now one of SSE's top customer service priorities.

At the same time, the charges SSE makes for energy will always be cost-reflective. This means that any differences between prices available online and prices available through other means will reflect the different cost of the transactions. Among leading energy suppliers, SSE has had the lowest differential between its online and standard credit prices.

In line with its *Building Trust* agenda, SSE has gone one step further and in October 2011 removed all differentials between its tariffs online and offline. This means that a customer of SSE will have the same price for their energy, regardless of the sign-up method used. SSE will continue to offer a 1% discount to all customers who choose paperless billing, which reflects the lower costs of providing this option.

SSE believes that its approach helps make tariffs simpler and energy prices across all of its customers fairer. It believes the much larger differentials maintained by other suppliers should be the subject of the most detailed investigation by Ofgem.

Developing new energy products and services
The competitive energy supply market in Great Britain has spurred companies to develop and deploy an ever-increasing range of features and options around the core commodities of electricity and gas. This has led critics to say that customers are 'bamboozled' by the complexities that result from this, and SSE has some sympathy with this view.

As part of its *Building Trust* programme, it has started reducing the number of tariff arrangements it offers and is developing a radically-different model for the long term. In 2012, SSE will introduce a new and radical approach to energy tariffs that fulfils two key principles: simplicity for the customer who is concerned only or mainly about price; and choice for the customer who is more concerned about features and services.

While there is a clear need to reduce complexity, SSE believes it must continue to offer an innovative range of smarter products and services, consistent with the long-term decarbonisation of energy production and consumption.

In November 2010 it launched the 'iplan', a new energy product which delivers smart energy features to customers, allowing them to track their electricity usage by providing the real-time and historic information they need to change the way they use electricity, thus helping to lower their costs. Already, there are 68,000 iplan accounts, and the reduction in electricity consumption achieved by iplan users is currently estimated at 8%.

SSE is more than just a retailer of electricity and gas. Micro renewables is a very small market at the moment, but it is growing fast in response to Feed-in Tariffs, with solar PV being the most popular product. At 30 September 2011, SSE had over 15,000 registered FiT customers, equating to a market share of 19%.

Working with R&A Properties, a Welsh Logistics and Technology company, SSE has delivered the largest roof-mounted solar PV scheme of its kind in the UK. The 387kW system was installed at R&A's factory near Llanelli, and consists of 1,648 solar modules. The success of this project has meant the partnership with R&A and SSE Energy Solutions has grown stronger with projects in place on the site to deliver a further 350kW.

SSE is also seeking to operate at community level and has entered in to an innovative partnership with Bath and West Community Energy, a community-based social enterprise that is seeking to create a community-owned and financially sustainable enterprise that will make a major contribution to local renewable energy targets. It is providing BWCE with a £1m start-up loan to fund 400kW of solar PV installations covering up to 12 projects. The solar PV will be installed by SSE.

SSE is aiming to build on its position as the sector leader in service provision and on the development of transition products such as the iplan by accelerating the long-term transformation of its energy supply products and services that is already under way. This will require sustained, but disciplined and pragmatic, investment in systems and processes over the next few years and SSE's development of options for doing this is at an advanced stage.

Preparing for the roll-out of smart meters

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

SSE supports the two-phase approach to the smart meter roll-out which has been adopted, featuring:

- the foundation stage to enable the energy industry to build and test all the systems needed to start the roll-out, ensure positive customer engagement to deliver energy savings and to enable the government to establish the Data Communications Company to manage smart meter communications; and
- the roll-out stage, between 2014 and 2019, during which the meters themselves will be installed.

SSE sees its role in the smart meter roll-out as that of service provider, undertaking a task mandated by the UK government in a way which carries the least possible cost for customers. In line with this, and its measured and realistic approach to the roll-out, SSE's priority is to make substantive progress on the necessary IT systems to support the wider roll-out, without committing to assets that may become stranded as the detailed implementation of the roll-out plan gets under way.

Supply priorities in 2011/12 and beyond
With smart metering and its commitment to building trust, SSE is moving towards a much more dynamic, two-way relationship with customers. During 2011/12, and beyond, SSE is seeking to build momentum in this direction and:

- make progress in implementing plans to build trust in energy supply;
- ensure fairness in the energy retail market through advocating adherence to the Ofgem principle of cost-reflectivity in pricing;
- provide consistently competitive prices that are also fair and understandable;
- retain and gain customer accounts across the markets in Great Britain and Ireland;
- secure further efficiencies in day-to-day operations, including the ways in which customers are retained and gained and the ways in which they are given the services they need;
- maintain the highest standards of operations, delivering best-in-sector service, including improvements in billing, call handling times and enhancements to online and smart services;
- deliver energy efficiency improvements, principally through the CERT and CESP programmes;
- make substantive preparations for the roll-out of smart meters and related developments; and
- continue to develop the energy-related products and services provided to customers, including micro renewables and insulation.

SSE will seek to achieve all of this while engaging constructively with Ofgem as it takes forward the findings and initial proposals from its Retail Market Review.

In summary, SSE is aiming to build on its position as sector leader for the quality of service provided to electricity and gas customers and develop a broader, deeper energy services offering capable of being geared towards, and targeted at, the needs of individual customers.

OTHER ENERGY AND UTILITY SERVICES

Substantial market-based businesses complementing SSE's core activities
As well as being involved in Energy Networks and Generation and Supply, SSE provides other energy and utility services:

- Gas Production;
- Gas Storage;
- Contracting, Utility Solutions and Metering; and
- Telecoms.

The operating profit of this group of businesses grew from just over £91m to almost £135m in the five years to March 2011. Nevertheless, this has typically represented less than 10% of SSE's operating profit and in SSE's financial statements they are presented as a single operating segment, in line with how they are reviewed by the Board.

Other Energy and Utility Services Key Performance Indicators	Sep 11	Sep 10
Gas production – m therms	85.7	-
Gas storage customer nominations met - %	100	100
Gas storage net capacity - mcm	440	400
SSE Contracting order book - £m	72	80
Out-of-area networks in operation	99	69
New gas connections	6,940	4,750
Meters read - m	8.8	7.1

Gas Production

Securing upstream supplies of gas
SSE needs on average around 12 million therms of gas per day to supply its customers and to fuel its power stations and its goal is to build up a presence in the upstream oil and gas sector in a measured way to provide an additional source of primary fuel and a hedge for its gas-fired generation and gas supply activities.

In February 2011, SSE completed the acquisition from Hess Limited of North Sea natural gas and infrastructure producing assets and non-producing assets for development. In the six months to 30 September 2011, gas delivery to SSE totalled 85.7 million therms which was in line with expectations, and Gas Production delivered an operating profit of £17.3m.

For the rest of this financial year and beyond, SSE's priorities in Gas Production are to secure maximum value from its existing gas production assets and pursue further opportunities to secure upstream gas assets, with the focus being on mature, producing, gas-weighted assets with no operating role.

As well as pursuing such opportunities directly, SSE will work with Faroe Petroleum plc, in which it has a 5% holding.

Gas Storage

Providing capacity to store gas
SSE has an ownership interest in two major gas storage facilities in East Yorkshire:

- the UK's largest onshore gas storage facility, at Hornsea, in which around 325 million cubic metres (mcm) of gas can be stored in a total of nine caverns. Hornsea accounts for around 7% of the total gas storage capacity in the UK and 15% of deliverability; and
- the UK's newest onshore gas storage facility, at Aldbrough, which SSE is developing with Statoil (UK) Ltd. An initial 170mcm of capacity in six caverns is available for

commercial operation. The capacity at the Aldbrough development is divided between SSE and Statoil (UK) Ltd on a two thirds/one third basis.

Gas Storage delivered an operating profit* of £15.5m in the six months to 30 September 2011, compared with £13.9m in the same period in 2010. Profitability has been aided by the slight increase in the price achieved for Standard Bundled Units of capacity and by the increased capacity available for storage as a result of the progress of the Aldbrough development.

When fully commissioned, Aldbrough will ultimately have the capacity to inject gas and store around 330mcm in nine underground caverns, of which SSE will own two thirds. As stated above, six of the nine caverns are already storing gas. Leaching at the remaining three caverns has been completed. Testing has been completed on all of those remaining caverns, with further de-watering through injection of gas under way. All three of the remaining caverns should be ready for operation by the summer of 2012.

In October 2011, the Energy and Climate Change Committee of the House of Commons said 'gas storage capacity needs to be increased in the UK to minimise the potential damage from supply interruptions or price spikes'. SSE and Statoil (UK) have consent to increase the storage capacity at the Aldbrough site to around double that of the existing development. Although the companies believe this would be the most economic undeveloped gas storage project in the UK, they have concluded that market conditions mean they will be unable to commit to the required investment in the near future.

SSE's operational and investment priorities in Gas Storage for the rest of this financial year and beyond are to ensure safe and effective operation of capacity at Hornsea and Aldbrough; and make progress towards completion of construction work at Aldbrough in time for it to be operating in the summer of 2012.

Contracting, Utility Solutions and Metering

Overall performance in Contracting, Utility Solutions and Metering
Operating profit* in Contracting, Utility Solutions and Metering was £35.5m during the six months to 30 September 2011, compared with £38.9m in the same six months in 2010.

SSE Contracting - a leading mechanical and electrical contracting business
SSE Contracting has three main areas of activity:

- industrial, commercial and domestic mechanical and electrical contracting;
- electrical and instrumentation engineering; and
- public and highway lighting services.

It is one of the largest mechanical and electrical contracting businesses in the UK. It operates from regional offices throughout Great Britain.

SSE Contracting has continued to make solid progress in the six months to 30 September 2011, and its order book at 30 September 2011 was £72m, compared with £67m on 31 March 2011 (on the revised basis adopted on 1 April 2011). This is despite economic uncertainty in the UK. Nevertheless, the order book features a number of important new contracts with customers such as Network Rail and Southwest trains.

A key focus for SSE Contracting is on post-sales control, particularly in terms of costs, and maintaining strong customer relationships, with careful analysis of the markets and areas of work it should prioritise. The structure of the business is also being kept under review and some rationalisation of depots has been undertaken.

Maintaining leadership in lighting services provision
SSE Contracting remains the UK's and Ireland's leading street-lighting contractor. It has:

- 24 contracts with local authorities in England, Wales and Scotland to maintain over 600,000 lighting units;
- 30 contracts with local authorities in the Republic of Ireland to maintain over 277,603 lighting units, through Airtricity Utility Solutions; and
- 12 contracts with local authorities, under the Private Finance Initiative, and through the wholly-owned subsidiary Tay Valley Lighting Ltd, to replace and maintain over 600,000 lighting units.

The PFI contracts include the 25-year contract awarded by Knowsley Metropolitan Council for the maintenance of over 24,000 lighting columns, traffic bollards and traffic signs and for the replacement of more than 70% of these during the initial four-year investment period. The contract began on 1 August 2011.

Including PFI and maintenance contracts in Great Britain and the Republic of Ireland, SSE now maintains almost 1.5 million lighting units. A public tender process for street light maintenance in Northern Ireland will begin in 2012.

Providing comprehensive Utility Solutions
SSE provides a comprehensive range of 'utility solutions'. It designs, builds, owns, operates and maintains cable and pipe networks for delivering electricity, gas, water, heat and telecommunications to existing and new commercial and residential developments in England, Wales and Scotland. It is, therefore, able to provide a one-stop solution for multi-utility infrastructure requirements to customers in the development and construction sectors.

- **Electricity Networks**: SSE now owns and operates 99 embedded energised electricity networks outside the areas served by its economically-regulated subsidiaries Scottish Hydro Electric Power Distribution and Southern Electric Power Distribution. A further 45 are under construction and contracts have been signed for the development of an additional five, taking the total to 149 – up from 117 at 31 March 2011. In total, SSE has 786MW of network capacity, including 311MW of existing demand and 475MW of connections to be completed.
- **Gas Pipelines:** SSE is also a licensed gas transporter, installing, owning and operating gas mains and services on new housing and commercial developments throughout the UK. The total number of new premises connected to its gas networks has continued to grow, and during the six months to 30 September 2011, it connected a further 6,940 premises, taking the total number of connections to over 85,000. Contracts have been signed for a further 6,000 connections to be completed.
- **Water:** Through SSE Water (SSEW) is able to install, own, operate and supply water and sewerage services alongside its existing electricity and gas services. An 'inset' appointment is the route by which one company replaces another as the appointed water and/or sewerage company for a specified area. SSEW now has 13 such appointments and provides, or has secured contracts to provide, water and sewerage services to over 16,000 properties in England and Wales.
- **Heat**: SSE uses a range of sustainable technical solutions, including Combined Heat and Power (CHP) generation, biomass boilers and ground- and air-source heat pumps and combines these with community heating schemes where appropriate. There are currently six Heat Networks in operation and four further schemes where SSE is the preferred bidder.

Maintaining a national Metering business
SSE's Metering business provides services to most electricity suppliers with customers in central southern England and the north of Scotland. It undertakes meter reading operations and meter operator work in all other parts of Great Britain. It supplies, installs and maintains domestic electricity meters and carries out metering work in the commercial, industrial and generation sectors. It also offers data collection services to the domestic and SME sectors.

In total, SSE owns four million meters. In the six months to 30 September 2011, it collected (equivalent figures for 2010 in brackets):

- 5.4 million electricity readings (4.4 million); and
- 3.4 million gas readings (2.7 million).

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

SSE's priorities in Contracting, Utility Solutions and Metering for the rest of this financial year and beyond are to:

- deliver a high standard of service to all customers;
- focus on strong cost control and maintain and develop customer contacts;
- increase the number of contracts secured across all activities; and
- help prepare for the roll-out of smart meters.

Telecoms Networks

Operating one of the UK's largest telecoms networks
SSE's Telecoms business operates a 11,200km UK-wide telecoms network which provides capacity and bandwidth services for companies, public sector organisations, internet service providers, application service providers and other licence operators and comprises:

- fibre optic cabling which SSE owns (5,000km);
- leased lit fibre (2,600km); and
- microwave radio (3,600km).

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

SSE's combined Telecoms business achieved an operating profit* of £7.7m during the six months to 30 September 2011, compared with £8.3m in the same six months in 2010. Despite gaining two large, high-profile technology companies as clients, the year was characterised by a challenging environment for sales in respect of the network, which made tight control on operating costs especially important.

SSE's priorities in Telecoms for the rest of 2011/12 and beyond are to:

- retain and gain customers for key services such as capacity and bandwidth; and
- add to the number of customers for its data centre business.

The achievement of these priorities should enable SSE Telecoms to continue to make progress towards becoming the UK's leading alternative telecoms network.

Disclaimer
This preliminary results statement 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.

Consolidated Condensed Income Statement

for the period 1 April 2011 to 30 September 2011

Six months ending 30 September		2011			2010		
	Note	**Before exceptional items and certain re-measure-ments £m**	**Exceptional items and certain re-measure-ments (note 6) £m**	**Total £m**	Before exceptional items and certain re-measure-ments £m	Exceptional items and certain re-measure-ments (note 6) £m	Total £m
Revenue	5	**11,790.8**	**-**	**11,790.8**	10,661.3	-	10,661.3
Cost of sales		**(11,069.0)**	**(348.3)**	**(11,417.3)**	(9,840.9)	635.1	(9,205.8)
Gross profit		**721.8**	**(348.3)**	**373.5**	820.4	635.1	1,455.5
Operating costs		**(391.9)**	**(13.1)**	**(405.0)**	(403.3)	(292.4)	(695.7)
Operating profit / (loss) before jointly controlled entities and associates		**329.9**	**(361.4)**	**(31.5)**	417.1	342.7	759.8
Jointly controlled entities and associates:							
Share of operating profit		**122.0**	**-**	**122.0**	140.1	(96.4)	43.7
Share of interest		**(72.9)**	**-**	**(72.9)**	(69.6)	-	(69.6)
Share of movement on derivatives		**-**	**9.4**	**9.4**	-	7.3	7.3
Share of tax		**(17.1)**	**15.8**	**(1.3)**	(23.7)	42.1	18.4
Share of profit / (loss) on jointly controlled entities and associates		**32.0**	**25.2**	**57.2**	46.8	(47.0)	(0.2)
Operating profit	5	**361.9**	**(336.2)**	**25.7**	463.9	295.7	759.6
Finance income	7	**133.7**	**-**	**133.7**	136.2	-	136.2
Finance costs	7	**(225.3)**	**(15.4)**	**(240.7)**	(238.3)	(12.7)	(251.0)
Profit / (loss) before taxation		**270.3**	**(351.6)**	**(81.3)**	361.8	283.0	644.8
Taxation	8	**(60.1)**	**135.3**	**75.2**	(76.7)	(72.5)	(149.2)
Profit / (loss) for the period		**210.2**	**(216.3)**	**(6.1)**	285.1	210.5	495.6
Attributable to:							
Equity holders of the parent		**210.2**	**(216.3)**	**(6.1)**	285.1	210.5	495.6
Basic earnings per share (pence)	10			**(0.7p)**			53.7p
Diluted earnings per share (pence)	10			**(0.7p)**			53.6p
Dividends in the period (£m)	9			**492.0**			451.5

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

Consolidated Condensed Income Statement

for the year ended 31 March 2011

	Note	Before exceptional items and certain re-measure-ments £m	Exceptional items and certain re-measure-ments (note 6) £m	Total £m
Revenue	5	28,334.2	-	28,334.2
Cost of sales		(26,094.1)	948.8	(25,145.3)
Gross profit		2,240.1	948.8	3,188.9
Operating costs		(886.0)	-	(886.0)
Operating profit before jointly controlled entities and associates		1,354.1	948.8	2,302.9
Jointly controlled entities and associates:				
Share of operating profit		298.8	(103.2)	195.6
Share of interest		(139.9)	-	(139.9)
Share of movement on derivatives		-	5.9	5.9
Share of tax		(58.2)	61.5	3.3
Share of profit on jointly controlled entities and associates		100.7	(35.8)	64.9
Operating profit	5	1,454.8	913.0	2,367.8
Finance income	7	250.2	-	250.2
Finance costs	7	(453.1)	(53.2)	(506.3)
Profit before taxation		1,251.9	859.8	2,111.7
Taxation	8	(354.8)	(252.4)	(607.2)
Profit for the year		897.1	607.4	1,504.5
Attributable to:				
Equity holders of the parent		897.1	607.4	1,504.5
Basic earnings per share (pence)	10			162.2p
Diluted earnings per share (pence)	10			162.0p
Dividends paid in the year (£m)	9			659.8

Consolidated Condensed Statement of Comprehensive Income

for the period 1 April 2011 to 30 September 2011

Year ended 31 March 2011 £m		**Six months ended 30 September 2011 £m**	Six months ended 30 September 2010 £m
1,504.5	**Profit / (loss) for the period**	**(6.1)**	495.6
	Other comprehensive income:		
32.3	(Losses) / gains on effective portion of cash flow hedges	**(2.7)**	(10.2)
(7.0)	Transferred to assets and liabilities on cash flow hedges	**1.5**	(18.4)
(5.9)	Taxation on cashflow hedges	**0.8**	8.0
19.4		**(0.4)**	(20.6)
(78.3)	Exchange difference on translation of foreign operations	**(36.4)**	(107.7)
4.3	Gains on net investment hedge	**14.3**	14.8
(1.2)	Taxation on net investment hedge	**(3.7)**	(4.1)
(75.2)		**(25.8)**	(97.0)
(8.8)	Actuarial losses on retirement benefit schemes	**(80.9)**	(32.3)
(7.9)	Taxation on actuarial losses on defined benefit pension schemes	**14.1**	9.0
(16.7)		**(66.8)**	(23.3)
	Jointly controlled entities and associates:		
(4.1)	Share of gains / (losses) on effective portion of cash flow hedges	**(27.8)**	(17.0)
(0.3)	Share of taxation on cashflow hedges	**5.3**	4.8
(4.4)		**(22.5)**	(12.2)
(11.6)	Share of actuarial losses on retirement benefit schemes	**(2.2)**	(5.4)
1.8	Share of taxation on actuarial losses on retirement benefit schemes	**(0.1)**	1.5
(9.8)		**(2.3)**	(3.9)
(14.2)	Net share from jointly controlled entities and associates	**(24.8)**	(16.1)
(86.7)	**Other comprehensive income, net of taxation**	**(117.8)**	(157.0)
1,417.8	**Total comprehensive income for the period**	**(123.9)**	338.6
	Attributable to:		
1,417.8	Equity holders of the parent	**(123.9)**	338.6

Consolidated Condensed Balance Sheet

as at 30 September 2011

At 31 March 2011		Note	At 30 September 2011	At 30 September 2010
£m			**£m**	£m
	Assets			
8,513.1	Property, plant and equipment		**8,950.3**	7,926.4
4.4	Biological assets		**4.4**	4.4
	Intangible assets:			
685.3	Goodwill		**679.9**	664.7
287.8	Other intang ble assets		**265.0**	240.1
760.8	Equity Investments in associates and jointly controlled entities		**905.8**	643.1
1,124.6	Loans to associates and jointly controlled entities		**1,139.0**	1,126.5
39.6	Other investments		**40.9**	20.9
161.7	Deferred tax assets		**205.8**	166.7
990.1	Derivative financial assets	15	**626.1**	351.0
12,567.4	**Non-current assets**		**12,817.2**	11,143.8
325.6	Other intangible assets		**183.0**	130.9
217.5	Inventories		**392.8**	286.8
5,068.1	Trade and other receivables		**3,255.6**	3,637.9
476.9	Cash and cash equivalents		**183.7**	1,049.5
2,525.5	Derivative financial assets	15	**1,374.3**	1,000.9
269.4	Current assets held for sale	11	**84.2**	234.9
8,883.0	**Current assets**		**5,473.6**	6,340.9
21,450.4	**Total assets**		**18,290.8**	17,484.7
	Liabilities			
446.5	Loans and other borrowings	12	**401.2**	437.8
5,078.0	Trade and other payables		**3,716.8**	3,777.3
268.2	Current tax liabilities		**199.9**	238.8
9.9	Provisions		**9.5**	7.1
2,307.5	Derivative financial liabilities	15	**1,311.3**	1,308.7
8,110.1	**Current liabilities**		**5,638.7**	5,769.7
5,159.9	Loans and other borrowings	12	**5,451.4**	5,194.1
1,068.3	Deferred tax liabilities		**969.6**	665.4
169.2	Provisions		**174.2**	90.5
304.2	Trade and other payables		**228.6**	379.0
668.6	Retirement benefit obligations	16	**693.7**	723.3
769.3	Derivative financial liabilities	15	**533.3**	401.9
8,139.5	**Non-current liabilities**		**8,050.8**	7,454.2
16,249.6	**Total liabilities**		**13,689.5**	13,223.9
5,200.8	**Net assets**		**4,601.3**	4,260.8
	Equity:			
468.4	Share capital	14	**468.9**	465.3
859.8	Share premium		**859.4**	853.7
22.0	Capital redemption reserve		**22.0**	22.0
(1.2)	Hedge reserve		**(24.1)**	(49.0)
38.2	Translation Reserve		**12.4**	16.4
2,652.2	Retained earnings		**2,101.3**	1,791.2
1,161.4	Hybrid capital	13	**1,161.4**	1,161.2
5,200.8	**Total equity attributable to equity holders of the parent**		**4,601.3**	4,260.8

Condensed Statement of Changes in Equity

for the period 1 April 2011 to 30 September 2011

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

Reconciliation of movement in reserves	Share capital	Share premium account	Capital redemption reserve	Hedge reserve	Translation reserve	Retained earnings	Non-controlling interest	Hybrid capital	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2010	461.5	857.5	22.0	(16.2)	113.4	1,686.6	(3.8)	-	**3,121.0**
Profit for the period	-	-	-	-	-	495.6	-	-	**495.6**
Effective portion of changes in fair value of cash flow hedges (net of tax)	-	-	-	(7.3)	-	-	-	-	**(7.3)**
Transferred to balance sheet on cash flow hedges (net of tax)	-	-	-	(13.3)	-	-	-	-	**(13.3)**
Effective net investment hedge (net of tax)	-	-	-	-	10.7	-	-	-	**10.7**
Exchange differences on translation of foreign operation	-	-	-	-	(107.7)	-	-	-	**(107.7)**
Actuarial loss on retirement benefit schemes (net of tax)	-	-	-	-	-	(23.3)	-	-	**(23.3)**
Jointly controlled entities and associates:									
Share of change in fair value of effective cash flow hedges (net of tax)	-	-	-	(12.2)	-	-	-	-	**(12.2)**
Share of actuarial loss on retirement benefit schemes (net of tax)	-	-	-	-	-	(3.9)	-	-	**(3.9)**
Total comprehensive income for the period	-	-	-	(32.8)	(97.0)	468.4	-	-	**338.6**
Dividends to shareholders	-	-	-	-	-	(451.5)	-	-	**(451.5)**
Scrip dividend related share issue	3.8	(3.8)	-	-	-	84.4	-	-	**84.4**
Issue of hybrid capital	-	-	-	-	-	-	-	1,161.2	**1,161.2**
Transactions with shareholders	-	-	-	-	-	-	3.8	-	**3.8**
Credit in respect of employee share awards	-	-	-	-	-	8.1	-	-	**8.1**
Investment in own shares	-	-	-	-	-	(4.8)	-	-	**(4.8)**
At 30 September 2010	**465.3**	**853.7**	**22.0**	**(49.0)**	**16.4**	**1,791.2**	**-**	**1,161.2**	**4,260.8**

Condensed Statement of Changes in Equity (continued)

for the period 1 April 2011 to 30 September 2011

Reconciliation of movement in reserves	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Non-controlling interest £m	Hybrid capital £m	Total £m
At 1 April 2010	461.5	857.5	22.0	(16.2)	113.4	1,686.6	(3.8)	-	**3,121.0**
Profit for the year	-	-	-	-	-	1,504.5	-	-	**1,504.5**
Effective portion of changes in fair value of cash flow hedges (net of tax)	-	-	-	26.4	-	-	-	-	**26.4**
Transferred to balance sheet on cash flow hedges (net of tax)	-	-	-	(7.0)	-	-	-	-	**(7.0)**
Effective net investment hedge (net of tax)	-	-	-	-	3.1	-	-	-	**3.1**
Exchange differences on translation of foreign operation	-	-	-	-	(78.3)	-	-	-	**(78.3)**
Actuarial gains on retirement benefit schemes (net of tax)	-	-	-	-	-	(16.7)	-	-	**(16.7)**
Jointly controlled entities and associates:									
Share of change in fair value of effective cash flow hedges (net of tax)	-	-	-	(4.4)	-	-	-	-	**(4.4)**
Share of actuarial losses on retirement benefit schemes (net of tax)	-	-	-	-	-	(9.8)	-	-	**(9.8)**
Total comprehensive income for the period	-	-	-	15.0	(75.2)	1,478.0	-	-	**1,417.8**
Dividends to shareholders	-	-	-	-	-	(659.8)	-	-	**(659.8)**
Scrip dividend related share issue	6.4	(6.4)	-	-	-	146.1	-	-	**146.1**
Issue of hybrid capital	-	-	-	-	-	-	-	1,161.4	**1,161.4**
Issue of shares	0.5	8.7	-	-	-	-	-	-	**9.2**
Transactions with shareholders	-	-	-	-	-	-	3.8	-	**3.8**
Credit in respect of employee share awards						9.9			**9.9**
Investment in own shares	-	-	-	-	-	(9.2)	-	-	**(9.2)**
Current and deferred tax recognised in equity in respect of employee share awards	-	-	-	-	-	0.6	-	-	**0.6**
At 31 March 2011	**468.4**	**859.8**	**22.0**	**(1.2)**	**38.2**	**2,652.2**	**-**	**1,161.4**	**5,200.8**

Consolidated Condensed Cash Flow Statement

for the period 1 April 2011 to 30 September 2011

Year ended 31 March 2011 £m		**Six months ended 30 September 2011 £m**	Six months ended 30 September 2010 £m
	Cash flows from operating activities		
1,504.5	Profit / (loss) for the period (after tax)	**(6.1)**	495.6
607.2	Taxation	**(75.2)**	149.2
(1,417.4)	Movement on financing and operating derivatives	**363.7**	(622.4)
453.1	Finance costs	**225.3**	238.3
(250.2)	Finance income	**(133.7)**	(131.6)
(64.9)	Share of (profit)/loss jointly controlled entities and associates	**(57.2)**	0.2
(68.9)	Pension service charges less contr butions paid	**(57.8)**	(33.9)
521.8	Exceptional impairment of assets	**-**	291.0
496.7	Depreciation and impairment of assets	**260.3**	186.8
21.5	Amortisation and impairment of intang ble assets	**3.0**	3.6
6.6	Impairment of inventories	**-**	-
(6.0)	Release of provisions	**(0.4)**	(6.2)
(19.6)	Release of deferred income	**(16.2)**	(9.7)
48.4	(Increase)/decrease in inventories	**(175.3)**	(14.3)
(95.4)	Decrease/(increase) in receivables	**1,994.9**	814.1
345.5	(Decrease)/increase in payables	**(1,503.7)**	(170.2)
6.2	Increase in provisions	**1.8**	15.6
9.9	Charge in respect of employee share awards	**6.8**	8.1
(5.8)	(Profit) on disposal of property, plant and equipment	**(6.3)**	(4.4)
-	(Profit) on disposal of fixed asset investment	**-**	(8.3)
(10.2)	Profit on disposal of business and subsidiaries	**-**	-
2,083.0	**Cash generated from operations**	**823.9**	1,201.5
81.7	Dividends received from jointly controlled entities	**15.3**	21.6
109.7	Finance income received	**61.0**	61.1
(316.0)	Finance costs paid	**(121.5)**	(152.6)
(172.6)	Income taxes paid	**(121.8)**	(49.5)
(21.2)	Payment for consortium relief	**(0.1)**	-
1,764.6	**Net cash from operating activities**	**656.8**	1,082.1
	Cash flows from investing activities		
(1,079.0)	Purchase of property, plant and equipment	**(667.7)**	(365.8)
(40.3)	Purchase of other intangible assets	**(30.6)**	(15.5)
28.5	Deferred income received	**9.1**	8.2
7.9	Proceeds from sale of property, plant and equipment	**21.5**	8.2
31.9	Proceeds from sale of business and subsidiaries	**176.4**	28.3
(204.4)	Loans to jointly controlled entities and associates	**(59.3)**	(163.1)
(241.3)	Purchase of businesses and subsidiaries	**(3.6)**	(13.0)
(5.5)	Cash included in disposals	**-**	-
(23.0)	Cash included in assets held for sale	**-**	-
13.3	Loans and equity repaid by jointly controlled entities	**9.7**	7.1
(221.6)	Investment in associates and jointly controlled entities	**(107.2)**	(37.2)
(30.4)	Increase in other investments	**(1.6)**	-
(1,763.9)	**Net cash from investing activities**	**(653.3)**	(542.8)
	Cash flows from financing activities		
9.2	Proceeds from issue of share capital	**0.1**	-
(513.7)	Dividends paid to company's equity holders	**(480.1)**	(367.1)
(9.2)	Employee share awards share purchase	**(2.4)**	(4.8)
1,161.4	Issue of hybrid capital	**-**	1,161.2
765.1	New borrowings	**515.4**	320.4
(1,187.1)	Repayment of borrowings	**(329.5)**	(859.0)
225.7	**Net cash from financing activities**	**(296.5)**	250.7
226.4	**Net (decrease)/increase in cash and cash equivalents**	**(293.0)**	790.0
252.5	Cash and cash equivalents at the start of period	**471.6**	252.5
226.4	Net (decrease)/increase in cash and cash equivalents	**(293.0)**	790.0
(7.3)	Effect of foreign exchange rate changes	**(0.2)**	(0.7)
471.6	**Cash and cash equivalents at the end of period**	**178.4**	1,041.8

Notes on the Condensed Interim Statements
for the period 1 April 2011 to 30 September 2011

1. Condensed Financial Statements

SSE plc (the Company) is a company domiciled in Scotland. The Company changed its name from Scottish and Southern Energy plc to SSE plc on 1 October 2011. 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 2011, 31 March 2011 or 30 September 2010 within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2011, which were prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS), have been reported on by the Group's auditors and delivered to the Registrar of Companies.

The report of the auditors was (i) unqualified (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under section 498 (2) or (3) of the Companies Act 2006. The interim financial information is unaudited but has been formally reviewed by the auditors and their report to the Company is set out on page 75.

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

These interim statements were authorised by the Board on 8 November 2011.

2. Basis of preparation

These condensed interim statements for the period to 30 September 2011 and the comparative information for the period to 30 September 2010 have been prepared applying the accounting policies and presentation used in the Group's consolidated financial statements for the year ended 31 March 2011 and accordingly certain restatements have been included that do not significantly alter the financial information presented.

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

- IAS 24 (revised), 'Related party disclosures'.
- Amendment to IFRIC 14, 'Prepayments of a minimum funding requirement'.
- Improvements to IFRS 2010.
- IAS 39 (Amendment), Financial Instruments: Recognition and Measurement – Eligible Hedged Items,
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments.

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

(iii) Impairment testing
The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that the value of those assets is impaired. In assessing for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit (CGU). The recoverable amount of the assets, or the appropriate CGU, is measured as the higher of their fair value less costs to sell and value in use. Value in use calculations require the estimation of future cash flows to be derived from the respective CGUs for an appropriate discount rate to be selected in order to calculate their present value. The fair values less costs to sell methodology used for the wind farms CGUs also requires the discounting of cash flows from the projects within the respective CGUs. The estimation of the timing and value of underlying projected cash flows and the selection of appropriate discount rates involves management judgment. Subsequent changes to these estimates or judgments may impact the carrying value of the assets within the respective CGUs.

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

(v) Financial Instruments – fair values
The valuation of the financial instruments is based upon published price quotations in active markets and valuation techniques where such information is not available. Energy commodity contracts are classified as either derivative contracts under IAS 39 or as contracts for the Group's own use requirements. Only IAS 39 derivatives are accounted for on a fair value basis.

4. Seasonality of operations

Certain activities of the Group are affected by weather and temperature conditions and seasonal market price fluctuations. As a result of this, the amounts reported for the interim period may not be indicative of the amounts that will be reported for the full year due to seasonal fluctuations in customer demand for gas, electricity and services, the impact of weather on demand and commodity prices, market changes in commodity prices and changes in retail tariffs. In Energy 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 Generation and Supply, notable seasonal effects include the impact on customer demand of warmer temperatures in the first half of the financial year and also the related impact of demand on wholesale commodity prices. The impact of temperature on customer demand for gas is more volatile than the equivalent demand for electricity. Other businesses are not considered to be seasonal in nature.

Notes on the Condensed Interim Statements

for the period 1 April 2011 to 30 September 2011

5. Segmental information

The Group's operating segments are those used internally by the Board to run the business and make strategic decisions. The operating segments are also the Group's reportable segments. The Group's operating segments are the distribution and transmission of electricity in the North of Scotland, the distribution of electricity in the South of England (together referred to as Power Systems), and the generation and supply of electricity and sale of gas in the United Kingdom and in Ireland (Generation and Supply) and other businesses. In addition to this the Group's 50% equity share in Scotia Gas Networks Limited, a business which distributes gas in Scotland and the South of England, is included as a separate segment where appropriate due to its significance.

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

Segment	Geographical location	Description
Power Systems	UK	Transmits and distributes electricity to over 3 million businesses, offices and homes.
Generation and supply	UK, Ireland and Europe	The Group views this as a single value chain within a vertically-integrated business. It generates and supplies electricity to domestic, commercial and industrial customers in the United Kingdom and in reland. In addition, it also supplies gas to customers in the same locations. Generation is provided by a portfolio of thermal power stations and from renewable sources of energy.
Other businesses:		
Contracting, Utility Solutions and Lighting Services	UK and Ireland	Mechanical and electrical contracting services, public and highway lighting and electrical and instrumentation engineering; electricity and gas connections for homes, offices and businesses, out-of-area electricity networks, licenced gas transportation and water and sewerage services.
Metering	UK	Supplies, installs and maintains electricity meters and provides data collection services
Gas Storage	UK	Develops, owns and operates underground onshore gas storage facilities and will own North Sea oil and gas exploration and production assets.
Exploration & Production	UK	Production and processing of North Sea gas and oil and the development of new gas and oil fields
Telecoms	UK	Provides network capacity, data centre and bandwidth services to customers

The measure of profit used by the Board is adjusted operating profit which is before exceptional items, the impact of IAS 32 and 39 and after the removal of taxation and interest on profits from jointly controlled entities and associates.

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

Notes on the Condensed Interim Statements

for the period 1 April 2011 to 30 September 2011

5. Segmental information (continued)

a) Revenue by segment

Year ended 31 March 2011				Six months ended 30 September 2011			Six months ended 30 September 2010		
Total revenue	Intra-segment revenue	External revenue		**Total revenue**	**Intra-segment revenue**	**External revenue**	Total revenue	Intra-segment revenue	External revenue
£m	£m	£m		**£m**	**£m**	**£m**	£m	£m	£m
			Power Systems						
356.7	111.0	245.7	Scotland	**184.5**	**47.8**	**136.7**	166.1	49.8	116.3
517.2	214.1	303.1	England	**229.4**	**84.9**	**144.5**	239.3	96.5	142.8
873.9	325.1	548.8		**413.9**	**132.7**	**281.2**	405.4	146.3	259.1
			Generation and Supply						
8,044.4	-	8,044.4	Retail	**3,172.8**	**3.8**	**3,169.0**	3,176.3	-	3,176.3
18,899.9	17.1	18,882.8	Wholesale and trading	**7,989.8**	**8.4**	**7,981.4**	6,839.0	5.7	6,833.3
222.9	15.8	207.1	Other	**88.1**	**1.0**	**87.1**	114.3	5.1	109.2
27,167.2	32.9	27,134.3		**11,250.7**	**13.2**	**11,237.5**	10,129.6	10.8	10,118.8
1,219.9	568.8	651.1	**Other businesses**	**532.1**	**260.0**	**272.1**	560.5	277.1	283.4
29,261.0	926.8	28,334.2		**12,196.7**	**405.9**	**11,790.8**	11,095.5	434.2	10,661.3

Revenue from the Group's investment in Scotia Gas Networks, the Group's share being £222.2m (September 2010 - £198.6m, March 2011 – £392.5m), is not recognised as revenue of the Group under equity accounting.

b) Operating profit by segment

	Six months ended 30 September 2011				
	Segment Result	**JCE / 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**
Power Systems					
Scotland	**93.6**	**-**	**93.6**	**-**	**93.6**
England	**112.2**	**-**	**112.2**	**-**	**112.2**
	205.8	**-**	**205.8**	**-**	**205.8**
Scotia Gas Networks	**114.6**	**(82.1)**	**32.5**	**25.2**	**57.7**
Energy Networks	**320.4**	**(82.1)**	**238.3**	**25.2**	**263.5**
Generation and Supply	**58.8**	**(7.8)**	**51.0**	**(361.4)**	**(310.4)**
Other businesses	**77.2**	**(0.1)**	**77.1**	**-**	**77.1**
	456.4	**(90.0)**	**366.4**	**(336.2)**	**30.2**
Unallocated expenses (ii)	**(4.5)**	**-**	**(4.5)**	**-**	**(4.5)**
	451.9	**(90.0)**	**361.9**	**(336.2)**	**25.7**

	Six months ended 30 September 2010				
	Segment Result	JCE / 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
Power Systems					
Scotland	74.4	-	74.4	-	74.4
England	119.6	-	119.6	-	119.6
	194.0	-	194.0	-	194.0
Scotia Gas Networks	98.7	(76.8)	21.9	22.5	44.4
Energy Networks	292.7	(76.8)	215.9	22.5	238.4
Generation and Supply	202.8	(16.4)	186.4	273.2	459.6
Other businesses	66.2	(0.1)	66.1	-	66.1
	561.7	(93.3)	468.4	295.7	764.1
Unallocated expenses (ii)	(4.5)	-	(4.5)	-	(4.5)
	557.2	(93.3)	463.9	295.7	759.6

5. Segmental information (continued)

b) Operating profit by segment (continued)

	Year ended 31 March 2011				
	Segment Result £m	JCE / Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Power Systems					
Scotland	168.1	-	168.1	-	168.1
England	287.4	-	287.4	-	287.4
	455.5	-	455.5	-	455.5
Scotia Gas Networks	186.8	(150.7)	36.1	38.4	74.5
Energy Networks	642.3	(150.7)	491.6	38.4	530.0
Generation and Supply	882.8	(47.1)	835.7	874.6	1,710.3
Other businesses	136.8	(0.3)	136.5	-	136.5
	1,661.9	(198.1)	1,463.8	913.0	2,376.8
Unallocated expenses (ii)	(9.0)	-	(9.0)	-	(9.0)
	1,652.9	(198.1)	1,454.8	913.0	2,367.8

(i) The adjusted operating profit of the Group is reported after removal of the Group's share of interest, movements on financing derivatives and tax from jointly controlled entities and associates. The share of Scotia Gas Networks interest includes loan stock interest payable to the consortium shareholders. The Group has accounted for its 50% share of this, £16.7m (2010 - £16.7m, March 2011 - £33.4m), as finance income (note 7).

(ii) Unallocated expenses comprise corporate office costs which are not directly allocable to particular segments.

No segmental analysis of assets requires to be disclosed as this is not presented to the Board.

6. Exceptional items and certain re-measurements

Year ended 31 March 2011 £m		**Six months ended 30 September 2011 £m**	Six months ended 30 September 2010 £m
	Exceptional items (i)		
-	Cessation of doorstep sales activity	**(13.1)**	-
(521.8)	Impairment of Generation assets arising from changing market conditions	**-**	(292.4)
(76.3)	Impairment of Investments in Associates (share of result, net of tax)	**-**	(69.5)
36.3	Share of effect of change in UK corporation tax rate on deferred tax liabilities and assets of associate and joint venture investments	**18.3**	17.2
(561.8)		**5.2**	(344.7)
	Certain re-measurements (ii)		
1,461.8	Movement on operating derivatives (note 15)	**(348.3)**	635.1
(44.4)	Movement on financing derivatives (note 15)	**(15.4)**	(12.7)
4.2	Share of movements on derivatives in jointly controlled entities (net of tax)	**6.9**	5.3
1,421.6		**(356.8)**	627.7
859.8	**Impact on (loss)/profit before taxation**	**(351.6)**	283.0
	Exceptional items (i)		
49.4	Effect of change in UK corporation tax rate on deferred tax liabilities and assets	**37.4**	28.9
(31.7)	Effect of change in UK supplementary corporation tax rate	**-**	-
126.1	Taxation on exceptional items	**3.4**	72.9
143.8		**40.8**	101.8
	Certain re-measurements (ii)		
(396.2)	Taxation on certain re-measurements	**94.5**	(174.3)
(252.4)	**Taxation**	**135.3**	(72.5)
607.4	**Impact on (loss)/profit for the period**	**(216.3)**	210.5

i) Exceptional items

Doorstep sales. On 8 July 2011, the Group announced its decision to permanently cease its doorstep sales operations. Costs of £13.1m, including employee redundancy costs, are expected to be incurred in relation to this closure.

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

i) Exceptional items (continued)

Changes in UK corporation tax rates. The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of four years from 2011. The first change from 28% to 27% was substantially enacted in July 2010 and applied from 1 April 2011. The March 2011 Budget further reduced the tax rate from 1 April 2011 to 26%. This was substantively enacted on 29 March 2011. These changes were reflected in the September 2010 and March 2011 financial information and statements, with decreases in deferred tax liabilities reflected through the income statement of £49.4m and £28.9m, respectively.

The latest change, from 26% to 25%, was substantively enacted on 5 July 2011. As this rate change has been substantively enacted it has the effect of reducing the Group's net deferred tax liabilities recognised at 31 March 2012 by £30.4m, of which £37.4m has been reflected through the income statement. It has not yet been possible to fully quantify the full anticipated effect of the announced further 2% rate reduction (the rate being reduced to 23%) due to legislation not being enacted, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liabilities/assets accordingly.

In addition, the March 2011 Budget increased the rate of supplementary corporation tax (SCT) from 20% to 32% and was substantively enacted on 29 March 2011. This had the effect of increasing the Group's deferred tax liabilities and assets in relation to the Group's Exploration and Production (E&P) business to which this supplementary tax applies. The impact on the Group's net deferred tax liabilities in the year to 31 March 2011 was an increase of £31.7m.

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

Impairment of thermal and renewable generation portfolio assets arising from changing market conditions. Exceptional charges were recognised in relation to the impairment of goodwill, property, plant and equipment, development intangible assets and financial assets. These arose as consequence of changing regulatory and economic conditions, in particular, (i) the impact of the Industrial Emissions Directive on station running hours and useful economic lives at certain plants including the Fiddler's Ferry and Ferrybridge power stations; (ii) the consequential impact on the ash remediation plant at Fiddler's Ferry, (iii) changes in the economic prospects of certain older, less flexible thermal plants, and, (iv) the decision to concentrate continental Europe wind generation activities on the Sweden and Netherlands markets.

Impairment of Investments in Associates. Exceptional impairment charges were recognised in relation to the Group's investments in Barking Power Limited and Derwent Cogeneration Limited following the expiry of long-term power purchase agreements at both stations along with the impairment of certain other investments.

ii) Certain re-measurements

Certain re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category includes the movement on derivatives as descr bed in note 15.

Notes on the Condensed Interim Statements

for the period 1 April 2011 to 30 September 2011

7. Net finance costs

Year ended 31 March 2011 £m		**Six months ended 30 September 2011 £m**	Six months ended 30 September 2010 £m
	Finance income:		
141.9	Return on pension scheme assets	**72.7**	70.5
2.7	Interest income from short term deposits	**1.4**	0.9
	Other interest receivable:		
33.4	Scotia Gas Networks loan stock	**16.7**	16.7
23.1	Other jointly controlled entities and associates	**12.2**	11.6
49.1	Other receivable	**30.7**	36.5
105.6	Other interest receivable	**59.6**	64.8
250.2	**Total finance income**	**133.7**	136.2
	Finance costs:		
(58.1)	Bank loans and overdrafts	**(10.6)**	(10.4)
(247.1)	Other loans and charges	**(150.0)**	(160.5)
(150.2)	Interest on pension scheme liabilities	**(74.6)**	(75.1)
(4.3)	Notional interest arising on provisions	**(3.6)**	(1.2)
(39.7)	Finance lease charges	**(19.2)**	(19.8)
(13.2)	Foreign exchange translation of monetary assets and liabilities	**(0.1)**	-
59.5	Less: interest capitalised	**32.8**	28.7
(453.1)	**Finance costs excluding movement on financing derivatives and exceptional items**	**(225.3)**	(238.3)
(53.2)	Movement on financing derivatives and exceptional items	**(15.4)**	(12.7)
(256.1)	**Net finance costs**	**(107.0)**	(114.8)

Notes on the Condensed Interim Statements

for the period 1 April 2011 to 30 September 2011

7. Net finance costs (continued)

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

Year ended 31 March 2011 £m		**Six months ended 30 September 2011 £m**	Six months ended 30 September 2010 £m
(256.1)	Net finance costs	**(107.0)**	(114.8)
	(add)/less:		
	Share of interest from jointly controlled entities and associates		
(33.4)	Scotia Gas Networks loan stock	**(16.7)**	(16.7)
(106.5)	Other jointly controlled entities and associates	**(56.2)**	(52.9)
(139.9)		**(72.9)**	(69.6)
8.8	Exceptional charges	**-**	-
44.4	Movement on financing derivatives (note 15)	**15.4**	12.7
(342.8)	**Adjusted finance income and costs**	**(164.5)**	(171.7)
(141.9)	Return on pension scheme assets	**(72.7)**	(70.5)
150.2	Interest on pension scheme liabilities	**74.6**	75.1
4.3	Notional interest arising on discounted provisions	**3.6**	1.2
39.7	Finance lease charges	**19.2**	19.8
(290.5)	Adjusted finance income and costs for interest cover calculations	**(139.8)**	(146.1)

8. 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 2012, 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 effective rate on the profit before tax before exceptional items and certain remeasurements is 22.2% (2010 – 21.2%, March 2011 – 28.3%). The reported effective rate on the loss before tax after exceptional items, including the effect of the change in tax rate, and certain remeasurements is 92.5 % (2010 – 23.1%, March 2011 – 28.8%).

The effect of the substantively enacted change in rate of UK corporation tax effective from 1 April 2011 has been treated as an exceptional item. The total adjusted effective rate of tax on profits before taxation excluding exceptional items, IAS 39 and IAS 32, and adjusted for tax on associates and jointly controlled entities for the period can be represented:

Year ended 31 March 2011		**Six months ended 30 September 2011**	Six months ended 30 September 2010
	Adjusted effective rate:		
20.5%	Current tax	**18.1%**	20.5%
11.1%	Deferred tax	**8.8%**	5.6%
31.6%		**26.9%**	26.1%

9. Dividends

Ordinary dividends

Year ended 31 March 2011 Total £m	Settled via scrip £m	Pence per ordinary share		**Six months ended 30 September 2011 Total £m**	**Settled via scrip £m**	**Pence per ordinary share**	Six months ended 30 September 2010 Total £m	Settled via scrip £ m	Pence p ordinar share
-	-	-	Final – year ended 31 March 2011	**492.0**	**11.9**	**52.6**	-	-	-
208.3	61.7	22.4	Interim – year ended 31 March 2011	**-**	**-**	**-**	-	-	-
451.5	84.4	49.0	Final – year ended 31 March 2010	**-**	**-**	**-**	451.5	84.4	49.0
659.8	146.1			**492.0**	**11.9**		451.5	84.4	

The final dividend of 52.6p per ordinary share declared in the financial year ended 31 March 2011 (2010 – 49.0p) was approved at the Annual General Meeting on 21 July 2011 and was paid to shareholders on 23 September 2011.

9. Dividends (continued)

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 24.0p per ordinary share (2010 – 22.4p) has been proposed and is due to be paid on 23 March 2012 to those shareholders on the SSE plc share register on 27 January 2012. 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 2011 to 30 September 2011

10. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 September 2011 is based on the net profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the period ended 30 September 2011. All earnings are from continuing operations.

Adjusted earnings per share

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

Year ended 31 March 2011			**Six months ended 30 September 2011**		Six months ended 30 September 2010	
Earnings £m	Earnings per share pence		**Earnings £m**	**Earnings per share pence**	Earnings £m	Earnings per share pence
1,504.5	162.2	**Basic**	**(6.1)**	**(0.7)**	495.6	53.7
(607.4)	(65.5)	Exceptional items and certain re-measurements (note 6)	**216.3**	**23.1**	(210.5)	(22.8)
897.1	96.7	Basic excluding exceptional items and certain re-measurements	**210.2**	**22.4**	285.1	30.9
		Adjusted for:				
109.6	11.8	Deferred tax	**8.2**	**0.9**	6.3	0.7
35.2	3.8	Deferred tax from share of jointly controlled entities and associates	**17.0**	**1.8**	15.2	1.6
1,041.9	112.3	**Adjusted**	**235.4**	**25.1**	306.6	33.2
1,504.5	162.2	**Basic**	**(6.1)**	**(0.7)**	495.6	53.7
-	(0.2)	Dilutive effect of convertible debt and share options	**-**	**-**	-	(0.1)
1,504.5	162.0	**Diluted**	**(6.1)**	**(0.7)**	495.6	53.6
(607.4)	(65.4)	Exceptional items and certain re-measurements	**216.3**	**23.1**	(210.5)	(22.8)
897.1	96.6	**Diluted excluding exceptional items and certain re-measurements**	**210.2**	**22.4**	285.1	30.8

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

Year ended 31 March 2011 Number of shares (millions)		**Six months ended 30 September 2011 Number of shares (millions)**	Six months ended 30 September 2010 Number of shares (millions)
927.6	For basic and adjusted earnings per share	**937.0**	923.4
1.1	Effect of exercise of share options	**1.7**	1.1
928.7		**938.7**	924.5

11. Acquisitions, disposals and assets held for sale

i. Acquisitions

During the interim period the Group acquired three wind farm development companies. Total consideration paid for these businesses was £3.6m. The acquisitions are immaterial to the Group's condensed interim statements.

ii. Disposals

On 14 April 2011, the Group disposed of three 100% owned wind farms for a final cash consideration of £176.4m. These wind farms were disclosed as held for sale assets at both 30 September 2010 and 31 March 2011. No gain or loss was recognised on the transaction. In addition, the Group disposed of property, plant and equipment in the period for consideration of £21.5m, recognising a gain of £6.3m. These assets had also been categorised as held for sale at 31 March 2011.

11. Acquisitions, disposals and assets held for sale (continued)

iii. Assets held for sale

The assets relating to certain wind farm and other investments (all part of the Generation and Supply segment) are presented as held for sale. The wind farm assets were categorised as held for sale at 31 March 2011. Assets held for sale are made up as follows:

	£m
Intang ble assets – wind farm developments	16.9
Investment in jointly controlled entities	63.0
Other assets and liabilities	4.3
	84.2

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

iv. Transactions in the previous financial year

In the year to 31 March 2011, the Group acquired a number of businesses, the most significant of which was the acquisition of joint operating interests in various North Sea natural gas and infrastructure assets from Hess Limited. The consideration paid for these assets was £197.2m. The other acquisitions and disposals in the year to 31 March 2011 are not significant in relation to the Group's condensed interim financial statements to 30 September 2011.

12. Loans and other borrowings

March 2011 £m		**September 2011 £m**	September 2010 £m
	Current		
5.3	Bank overdraft	**5.3**	7.7
428.4	Other short-term loans	**383.5**	417.4
12.8	Obligations under finance leases	**12.4**	12.7
446.5		**401.2**	437.8

March 2011 £m		**September 2011 £m**	September 2010 £m
	Non current		
4,800.5	Loans including convertible debt	**5,115.2**	4,828.5
359.4	Obligations under finance leases	**336.2**	365.6
5,159.9		**5,451.4**	5,194.1
5,606.4	**Total loans and borrowings**	**5,852.6**	5,631.9
(476.9)	Cash and cash equivalents	**(183.7)**	(1,049.5)
5,129.5	**Net debt**	**5,668.9**	4,582.4

The Group has a £900m revolving credit facility and a £100m bilateral facility, both of which mature in August 2015. These facilities continue to act as a liquidity backstop to the Group's Commercial Paper programme. As at 30 September 2011 there were £50m of short term drawings on the bilateral facility and no outstanding drawings on the revolving credit facility.

On 7 September 2011 the Group issued a £300m 10 year bond with a fixed annual coupon of 4.25%.

13. Hybrid Capital

March 2011 £m		**September 2011 £m**	September 2010 £m
744.5	GBP 750m 5.453% perpetual subordinated capital securities	**744.5**	744.4
416.9	EUR 500m 5.025% perpetual subordinated capital securities	**416.9**	416.8
1,161.4		**1,161.4**	1,161.2

On 20 September 2010 the Company issued €500m EUR and £750m Sterling bonds (hybrid capital). These bonds have no fixed redemption date but the Company may, at its sole discretion, redeem all, but not part, of these bonds at their principal amount on 1 October 2015 or 1 October 2020 or any subsequent coupon payment date after this. 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 2015.

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:

- redemption; or,
- dividend payment on ordinary shares

Interest will accrue on any deferred coupon.

Coupon payments are expected to be made annually in arrears on 1 October in each year from 1 October 2011. The purpose of the issue was to strengthen SSE's capital base and to fund the Group's ongoing capital investment and acquisitions.

14. Share capital

	Number (millions)	**£m**
Equity: Ordinary shares of 50p each:		
Authorised:		
At 30 September 2011 and 1 April 2011	1,200.0	600.0
Allotted, called up and fully paid:		
At 1 April 2011	936.9	468.4
Issue of shares	0.9	0.5
At 30 September 2011	**937.8**	**468.9**

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

Shareholders were able to elect to receive ordinary shares in place of the final dividend of 52.6p per ordinary share under the terms of the Company's scrip dividend scheme. This resulted in the issue of 907,008 new fully paid ordinary shares.

The Company issued 13,658 shares (2010 – 5,730, March 2011 – 1,039,060) during the period under the savings-related share option schemes, and discretionary share option schemes for a consideration of £0.14m (2010 - £0.05m, March 2011 - £9.22m).

During the period, on behalf of the Company, the employee share trust purchased 0.2 million shares (2010 – 0.4 million, March 2011 – 0.8 million) for a consideration of £2.4m (2010 – £4.8m, March 2011 – £9.2m) to be held in trust for the benefit of employee share schemes.

15. Financial Instruments and Risk

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

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

15. Financial Instruments and Risk (continued)

The Group is exposed to the following risks from its use of financial instruments: Credit Risk, Liquidity Risk, Commodity Risk, Currency Risk and Interest Rate risk. In the six months to 30 September 2011, 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 2011. The Group has continued to commit significant internal resource to managing credit risk in the period.

The Group's policy in relation to liquidity risk continues to be to ensure, in so far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. This, combined with liquidity in the commercial paper market and the Group's undrawn bank borrowing facilities, has enabled the directors to conclude that the Group has sufficient headroom to continue as a going concern. Having raised new funds through the issue of the £300m 10 year bond in September 2011 and the securing of a 7 year 15bn JPY (£126.6m) loan in October 2011, the Group has no requirement to issue new medium to long term debt in the remainder of the current financial year but may choose to do so at its discretion.

Exposure to the commodity, currency and interest rate risks noted arise in the normal course of the Group's business and derivative financial instruments are entered into to hedge exposure to these risks. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year remain as stated in the Group's financial statements at March 2011.

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 2011 £m		**Six months ended 30 September 2011 £m**	Six months ended 30 September 2010 £m
	Operating derivatives		
887.9	Total result on operating derivatives (i)	**246.0**	(734.9)
573.9	Less: amounts settled (ii)	**(594.3)**	1,370.0
1,461.8	**Movement in unrealised derivatives**	**(348.3)**	635.1
	Financing derivatives (and hedged items)		
(935.9)	Total result on financing derivatives (i)	**(355.7)**	(561.8)
891.5	Less: amounts settled (ii)	**340.3**	549.1
(44.4)	**Movement in unrealised derivatives**	**(15.4)**	(12.7)
1,417.4	**Total**	**(363.7)**	622.4

(i) Total result on derivatives in the income statement represents the total amounts (charged) or credited to the income statement in respect of operating and financial derivatives.
(ii) Amounts settled in the period represent the result on derivatives transacted which have matured or been delivered and have been included within the total result on derivatives.

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

March 2011 £m		**September 2011 £m**	September 2010 £m
	Financial Assets		
990.1	Non-current	**626.1**	351.0
2,525.5	Current	**1,374.3**	1,000.9
3,515.6		**2,000.4**	1,351.9
	Financial Liabilities		
(769.3)	Non-current	**(533.3)**	(401.9)
(2,307.5)	Current	**(1,311.3)**	(1,308.7)
(3,076.8)		**(1,844.6)**	(1,710.6)
438.8	**Net financial asset / (liability)**	**155.8**	(358.7)

Notes on the Condensed Interim Statements

for the period 1 April 2011 to 30 September 2011

16. 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 2011.

Summary of Defined Benefit Pension Schemes:

Movement recognised in the SoCI March 2011 £m	Pension liability March 2011 £m		Movement recognised in respect of the pension liability in the SoCI		Pension liability	
			September 2011 £m	September 2010 £m	**September 2011 £m**	September 2010 £m
92.3	134.4	Scottish Hydro Electric Pension Scheme	**6.7**	(9.7)	**161.4**	13.3
16.8	(428.8)	Southern Electric Pension Scheme	**(64.7)**	(22.0)	**(458.0)**	(479.7)
109.1	(294.4)		**(58.0)**	(31.7)	**(296.6)**	(466.4)
(117.9)	(374.2)	IFRIC 14 movement / liability	**(22.9)**	(0.6)	**(397.1)**	(256.9)
(8.8)	(668.6)	Net actuarial gain/(loss) and combined liability	**(80.9)**	(32.3)	**(693.7)**	(723.3)

The net pension liability of £693.7m (2010 - £723.3m, March 2011 - £668.6m) reported at 30 September 2011 includes a liability of £397.1m (2010 - £256.9m, March 2011 - £374.2m) calculated under IFRIC 14, which reflects the value of contr butions payable under a schedule of contributions agreed by the Group and the scheme Trustees (minimum funding requirement).

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

At 31 March 2011		**At 30 September 2011**	At 30 September 2010
5.0%	Rate of increase in pensionable salaries	**4.6%**	4.7%
3.5%	Rate of increase in pension payments	**3.1%**	3.2%
5.5%	Discount rate	**5.1%**	4.9%
3.5%	Inflation rate	**3.1%**	3.2%

17. Capital Commitments

At 31 March 2011 £m		**At 30 September 2011 £m**	At 30 September 2010 £m
	Capital Expenditure		
1,146.9	Contracted for but not provided	**950.6**	1,157.4

18. Related Party Transactions

The following trading transactions took place during the period between the Group and entities which are related to the Group but which are not members of the Group. The presentation of these transactions is consistent with the financial statements for the year to 31 March 2011 but have been amended from the presentation for the period to September 2010, when investment-related transactions and balances were disclosed. Related parties are defined as those in which the Group has control, joint control or significant influence over.

	Sale of goods and services Sep 2011 £m	**Purchase of goods and services Sep 2011 £m**	**Other Transactions Sep 2011 £m**	Sale of goods and services Sep 2010 £m	Purchase of goods and services Sep 2010 £m	Other Transactions Sep 2010 £m
Jointly controlled entities:						
Seabank Power Limited	**-**	**(30.0)**	**2.2**	-	(61.1)	2.6
PriDE (South East Regional Prime) Limited	**13.5**	**-**	**-**	18.9	-	-
Scotia Gas Networks Limited	**29.4**	**(79.3)**	**-**	30.7	(73.2)	-
Marchwood Power Limited	**-**	**(32.6)**	**-**	-	(41.6)	4.2
Greater Gabbard Offshore Winds Limited	**-**	**(3.1)**	**-**	2.3	-	4.5
Associates:						
Barking Power Limited	**-**	**-**	**-**	0.5	(45.2)	-
Derwent Co-generation Limited	**18.1**	**(11.4)**	**-**	16.5	(41.3)	-
Walney (UK) Offshore Windfarms Limited	**-**	**(4.3)**	**-**	-	-	-
Onzo Limited	**-**	**(1.3)**	**-**	-	(0.7)	-
Green Highland Renewables Limited	**-**	**-**	**-**	0.1	-	-

The transactions with Seabank Power Limited, Barking Power Limited, Derwent Co-generation Limited, Marchwood Power Limited, Greater Gabbard Offshore Winds Limited and Walney (UK) Offshore Windfarms Limited relate to the contracts for the provision of energy or the tolling of energy under power purchase arrangements. PriDE (South East Regional Prime) Limited operates a long-term contract with Defence Estates for management of MoD facilities in the South East of England. All operational activities are sub-contracted to the ventures partners including Southern Electric Contracting Limited, a subsidiary of the Group. Scotia Gas Networks Limited has operated the gas distribution networks in Scotland and the South of England from 1 June 2005. The Group's gas supply activity incurs gas distribution charges while the Group also provides services to Scotia Gas Networks in the form of a management service agreement for corporate services and stock procurement services. The trading balances outstanding with related parties at 30 September were as follows:

	Amounts owed by related parties			Amounts owed to related parties		
	Sep 2011	March 2011	Sep 2010	**Sep 2011**	March 2011	Sep 2010
	£m	£m	£m	**£m**	£m	£m
Jointly controlled entities:						
Seabank Power Limited	**2.8**	0.3	0.4	**9.7**	25.9	28.5
PriDE (South East Regional Prime) Limited	**0.1**	0.3	0.1	**-**	0.6	-
Greater Gabbard Offshore Winds Limited	**0.5**	-	5.9	**-**	-	-
Scotia Gas Networks Limited	**12.4**	15.7	19.3	**0.4**	12.1	0.4
Marchwood Power Limited	**0.8**	0.1	2.6	**7.5**	7.3	7.7
Associates:						
Barking Power Limited	**-**	-	0.8	**-**	1.0	5.7
Derwent Co-generation Limited	**4.4**	3.1	4.5	**3.0**	1.8	7.3
Onzo Limited	**8.3**	5.2	7.6	**0.6**	0.9	-
Walney (UK) Offshore Windfarms Limited	**-**	-	-	**4.3**	-	-
Rocktron (Widnes) Limited	**-**	-	0.3	**-**	-	-

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.

19. Post Balance Sheet Events

In October 2011, the Group entered into a 7 year 15bn (£126.6m) Japanese Yen loan at a fixed rate of 3.52%.

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 descr bed in the last annual report that could do so.

For and on behalf of the Board

Ian Marchant
Chief Executive

Gregor Alexander
Finance Director

London
8 November 2011

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 2011 which comprises the Consolidated and Condensed Income Statement, the Consolidated and Condensed Statement of Comprehensive Income and Expense, the Consolidated and Condensed Balance Sheet, the Consolidated and Condensed Statement of Changes in Equity, the Consolidated and Condensed Cash Flow Statement, and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

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

As disclosed in note [2], 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 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

John Luke
for and on behalf of KPMG Audit Plc
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8 November 2011