Consolidated Segmental Statement (CSS)

For the year ended 31 March 2015

SSE Consolidated Segmental Statement (CSS)

year ended 31 March 2015	Unit	Generation		Aggregate Generation Business	Electricity Supply		Gas Supply		Aggregate Supply Business
		Conventional	Renewable		Domestic	Non-domestic	Domestic	Non-domestic	
		2015	2015	2015	2015	2015	2015	2015	2015
Total Revenue	**£M**	**1,536.0**	**755.1**	**2,291.1**	**2,552.2**	**2,326.7**	**1,771.3**	**249.0**	**6,899.2**
Revenue from sales of electricity and gas	£M	1,376.8	698.3	**2,075.1**	2,548.0	2,324.2	1,771.3	247.1	**6,890.6**
Other Revenue	£M	159.2	56.8	**216.0**	4.2	2.5	0.0	1.9	**8.6**
Total Operating Costs	**£M**	**1,528.9**	**228.6**	**1,757.5**	**2,393.8**	**2,272.4**	**1,663.9**	**243.2**	**6,573.3**
Direct fuel costs	£M	799.5	0.0	**799.5**	1,142.4	1,255.5	959.3	174.7	**3,531.9**
Transportation Costs	£M	73.5	70.8	**144.3**	656.0	568.8	421.3	40.9	**1,687.0**
Env. & Social Obligation Costs	£M	187.4	0.0	**187.4**	310.4	360.0	62.2	0.0	**732.6**
Other Direct Costs	£M	284.2	25.2	**309.4**	9.4	40.9	6.7	15.0	**72.0**
Indirect Costs	£M	184.3	132.6	**316.9**	275.6	47.2	214.4	12.6	**549.8**
EBITDA	**£M**	**7.1**	**526.5**	**533.6**	**158.4**	**54.3**	**107.4**	**5.8**	**325.9**
DA	£M	58.3	137.3	**195.6**	2.9	0.0	1.9	0.0	**4.8**
EBIT	**£M**	**-51.2**	**389.2**	**338.0**	**155.5**	**54.3**	**105.5**	**5.8**	**321.1**
Volume	TWh, mill therms	18.4	7.3	**25.7**	17.3	22.6	1,276.8	265.2	
WACOF/E/G	£/MWh,p/th	53.54	0.00		66.07	55.65	75.1	65.9	
Customer numbers	000s				4,534	383	3,101	49	**8,066**

Please refer to the notes below to gain a full understanding of how the CSS numbers have been prepared.

Consolidated Segmental Statement audit opinion

Independent auditor's report to the directors of SSE plc

We have audited the accompanying statement (the "Consolidated Segmental Statement" or "CSS") of SSE plc as at 31 March 2015 in accordance with the terms of agreement dated 12 February 2015. The CSS has been prepared by the Directors of SSE plc based on the requirements of Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences (together the "Licences") and the basis of preparation on page 5 to 9.

Directors' responsibility

The Directors are responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 5 to 9 and for maintaining the underlying accounting records and such internal control as the Directors determine is necessary to enable the preparation of the CSS that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the CSS based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the CSS is free from material misstatement. The materiality level that we used in planning and performing our audit is set at £25 million for each of the segments.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the CSS. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the CSS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the CSS in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the CSS.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the attached CSS of SSE plc as at 31 March 2015 is prepared, in all material respects, in accordance with:

(i) the requirements of Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences; and

(ii) the basis of preparation on pages 5 to 9.

Basis of accounting and restriction of distribution

Without modifying our opinion, we draw attention to pages 5 to 9 of the CSS, which describes the basis of preparation. The CSS is prepared in order for SSE plc and its Licensees to meet the Licence requirements rather than in accordance with a generally accepted accounting framework. The CSS should therefore be read in conjunction with both the Licences and the basis of preparation on pages 5 to 9. This basis of preparation is not the same as segmental reporting under IFRS and/or statutory reporting under UK GAAP or IFRS as relevant. As a result, the schedule may not be suitable for another purpose.

This report, including our conclusions, has been prepared solely for the Directors of SSE plc, in accordance with the agreement between us, to assist the Directors in reporting the CSS to the Regulator Ofgem. We permit this report to be disclosed on the Company's website to enable the Directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and SSE plc and its Licensees for our work or this report except where terms are expressly agreed between us in writing.

The maintenance and integrity of the SSE plc website is the responsibility of SSE plc; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that might have occurred to the CSS since it was initially presented on the website.

Other matter

The CSS for the year ended 31 March 2014, forming the comparative figures for the CSS for the year ended 31 March 2015, are unaudited.

KPMG LLP

BASIS OF PREPARATION AND DISCLOSURE NOTES

SSE's financial statements for the year ended 31March 2015 included disclosures for three operating segments:

Operating Segment	Business Division	Business Division Description
Wholesale	Electricity Generation and Energy Portfolio Management	The generation of power from renewable and thermal plant in the UK, Ireland and Europe and the optimisation of SSE's power, gas and other commodity requirements.
	Gas Storage	The operation of gas storage facilities in the UK.
	Exploration and Production	The production and processing of gas and oil from the North Sea fields.
Retail	Energy Supply	The supply of electricity and gas to residential and non domestic (business) customers in the UK and Ireland. The 'domestic' segment covers supply to all premises where energy is consumed predominantly for domestic purposes; the 'non domestic' segment covers supply to all other premises.
	Energy Related Services	The provision of energy related goods and services to customers in the UK including meter reading and installation, boiler maintenance and installation and domestic telecoms and broadband services.
	Enterprise	The integrated provision of services in competitive markets for industrial and commercial customers electrical contracting, private energy networks, lighting services and telecoms capacity and bandwidth.
Networks		The economically regulated transmission and distribution of electricity and gas to customers.

This reporting structure for 'Electricity Generation and Energy Portfolio Management' and 'Energy Supply' substantially aligns the operating segments in the statutory financial statements for the year ended 31 March 2015 with the Consolidated Segmental Statement (CSS) for the same period. However it should be recognised that there are differences between the two disclosures, primarily driven by the Licence requirements - these are described in the notes below and shown in the table reconciling the CSS to the financial statements.

The accounts presented in the CSS are based on a business model of an electricity generation business (Generation), a wholesale energy trading business (referred to in the financial statements and below as 'Energy Portfolio Management' (EPM)) and four energy supply businesses (referred to in the financial statements and below as 'Energy Supply').

Changes from last year

Four important changes have been made compared with the CSS presented for the year ended 31 March 2014, all of which improve transparency – the first reflecting SSE policy and the remainder due to changes to the Licences:

Review of transfer pricing arrangements – SSE announced in March 2014 that it would reorganise its companies so there are separate legal entities for Energy Supply (in the Retail segment), Electricity Generation and EPM (both in the Wholesale segment). This change is designed to enhance the transparency of the measurement and reporting of the performance of these businesses. At present, the results of the group's EPM business are presented within SSE Energy Supply Limited. SSE has incorporated a new subsidiary company for EPM which will sit alongside SSE Energy Supply Limited and SSE Generation Limited and each of these companies will produce separately audited accounts from April 2015 onwards. To achieve this, SSE is also making sure that, in tandem with business separation, the financial arrangements between its companies continues to be clear and transparent**.**

Striving for greater business separation and increased transparency means that SSE will run its businesses in the future in a different way, and as part of this progression, SSE has reviewed and amended its transfer pricing arrangements during the financial year ended 31 March 2015. The transfer pricing arrangements are described in the paragraphs that follow but the main differences are listed below:

- Previously, SSE's thermal generation business sold capacity – this was known as a 'tolling arrangement' and involved selling the capability of generating power. As such SSE's thermal generation business incurred no fuel costs; these were instead contained within EPM. For the financial year ended 31 March 2015, SSE thermal generation report their results on a 'full function generator' model, recognising the revenues from selling power and recognising the costs of buying fuel and carbon allowances to produce that power;
- EPM trades power and gas to Energy Supply based on screen based market priced trades which are procured in accordance with Energy Supply's hedging policy determined at SSE's Risk and Trading Committee;
- The revision to SSE's transfer pricing arrangements has been made possible by its investment in a new Energy Trading Risk Management System which was integrated into existing processes in 2014.

External audit by KPMG LLP - the Directors of SSE have prepared the CSS for the year ended 31 March 2015 in accordance with Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences. The directors have engaged the auditor of SSE Plc, KPMG LLP, to audit the CSS and the auditor's report is as set out on pages 3 and 4 of this report.

Change to reporting categories - the result for the generation segment has been split between conventional generation (gas, coal and oil) and renewable generation (wind, hydroelectric and pump storage), as required by the Licences.

Inclusion of customer numbers - the CSS now includes the average customer numbers for the financial year for each of the four Energy Supply businesses.

How the accounts are presented

The paragraphs that follow describe how SSE's generation, trading and supply business interact with each other, defines the revenues, costs and profits of each business and describe in more detail the transfer pricing arrangements in place for the financial year ended 31 March 2015.

Summary

The Generation business sells power in respect of coal, gas and renewable generation and Renewable Obligation Certificates (ROCs) and Levy Exempt Certificates (LECs) from wind and qualifying hydro to EPM. It also receives external income in respect of ancillary services and balancing market participation. It purchases its requirement for gas, coal, oil and carbon from EPM.

Energy Supply sells electricity and gas to 8.1m domestic and business customers. It procures power, gas, ROCs and LECs from EPM.

EPM acts as a trading intermediary for Generation and Energy Supply. It acts as a route to market for Generation and as counterparty with the external market for the procurement of energy for Energy Supply. *Note - EPM does not form part of the CSS but its turnover and EBIT is included in the table on page 12 which shows the reconciliation to the SSE Financial Statements.*

The forward hedging policies for Generation and Energy Supply are determined by SSE's Risk Committee whose responsibilities and role is described in note 32 of SSE Financial Statements for the year ended March 2015.

Generation

Generation does not engage in the trading of energy; it receives its revenue selling power to EPM. Power is sold at arm's length at wholesale market prices prevailing at the time the generation output is committed in accordance with the Generation hedging policy. Any difference or reconciliations are priced at the spot price on the day. Revenue also includes the benefit of ROCs and LECs. Other revenues include ancillary services, capacity income, balancing market participation and other miscellaneous income. Generation procures fuel and carbon from EPM at wholesale market prices. The cost of fuel also includes the long term external purchase contracts and the impact of financial hedges. Transportation costs include Use of System charges and market participation costs. Environmental and social costs include carbon costs (EUETS and Carbon Price Floor). Other direct costs include PPA costs, site costs and management charges from EPM. Indirect costs include salaries and other people costs, asset maintenance, rates, corporate costs and IT charges. The WACOF (weighted average cost of fuel) calculation includes the costs of carbon emissions (which are reported in the environmental and social obligations cost line in the CSS).

Generation as presented in the CSS includes turnover and operating profit for wholly owned thermal and renewable generation and also a proportion of turnover and operating profit in respect of Joint Ventures, Joint Operations and Associate generation companies[1]. The principal Joint Ventures, Joint Operations and Associates included are Seabank Power Ltd, Marchwood Power Ltd, Walney (UK) Offshore Windfarms Ltd and Greater Gabbard Offshore Winds Ltd. A full list can be found in note 15 of SSE's audited financial statements.

The depreciation shown in the CSS is the underlying amount and excludes exceptional generation asset impairments made at March 2015 (see paragraph at end of the CSS on exceptional items and certain re-measurements). Generation volumes are the volume of power that can actually be sold in the wholesale market.

[1] The contractual arrangement with JV companies Seabank Power Ltd and Marchwood Power Ltd is a tolling arrangement which entitles SSE to 100% of the output of the power stations. As required by Ofgem, SSE has accounted for these arrangements as part of the Generation segment and therefore has included 100% of the stations' output in its volumes, income and costs in the CSS rather than 50%.

The Generation profit and loss account bears the risks and rewards for plant performance, changes in market ‘spark’ and ‘dark’ (the marginal profit for generating electricity by gas and coal), changes in the power price achieved for renewable generation, changes in government and EU policy particularly surrounding emissions and in respect of renewable generation, the impact of weather.

Energy Supply

Revenues are the value of electricity and gas supplied during the year and includes an estimate of the value of units supplied between the date of the last meter reading and the year end. Total sales volumes are based on national external settlements data. Revenue is expressed net of discounts, loyalty products and Warm Home Discount (WHD) and other social tariff costs. Retail volumes are expressed at customer meter point net of transmission, distribution and transportation losses.

The supply business does not engage in the trading of electricity and gas and procures all of its electricity and gas from EPM. The method by which EPM procures energy at an arm’s length arrangement on behalf of Energy Supply is governed by Energy Supply’s forward hedging policy. The forward trades between Energy Supply and EPM are priced at wholesale market prices at the time of execution and any differences in volume and reconciliation at the time of delivery is marked to the spot price on the day. Domestic WACOE (weighted average cost of electricity) also includes compensation payments in respect of legacy external Power Purchase Agreements. Domestic WACOG (weighted average cost of gas) also includes the energy cost of Reconciliation by Difference (RbD). The WACOE and WACOG for non domestic electricity and gas supply also consist of trades marked to wholesale prices when committed at the point of sale for fixed price customer contracts or when a customer instructs SSE to purchase energy in respect of flexi-priced contracts. The transfer pricing methodology reflects how SSE actually acquired its energy and for the domestic WACOE and WACOG reflects the hedging impacts of SSE’s unique energy price freeze, now extended to customers until July 2016.

Network costs include: electricity transmission and distribution use of system costs; gas transportation; the transportation cost element of RbD; and market participation costs. Environmental and social costs include ROCs, LECs, Feed In Tariff, Energy Company Obligation (ECO) and charges in relation to ‘assistance for areas with high electricity distribution costs’ (AAHEDC). The cost of the liabilities for ROCs, Feed in Tariff and AAHEDC are allocated between the domestic and non-domestic electricity segments based on reported volume at customer meter. Other direct costs include settlement costs, management charges from EPM and commissions paid to Third Party Intermediaries in the non-domestic segment.

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

The Energy Supply profit and loss account bears the risk and rewards arising from the volatility in demand for energy, caused by the weather, consumption per customer and customer churn. In addition Energy Supply is exposed to swings in wholesale costs and the uncertainty surrounding government environmental and social schemes.

EPM

As well as acting as an intermediary for Generation and Energy Supply, EPM also conducts some additional activities including commodity wholesaling in GB and Ireland. The EBIT for EPM for the financial year ended March 2015 was £37.4m.

Business Functions

The business functions in SSE have already been described in this document. The column headed 'Not included in the CSS' principally relates to EPM.

Business function	Note	Generation	Supply	Not included in CSS
Operates and maintains generation assets		ü		
Responsible for scheduling decisions	1	**P/L**		**F**
Responsible for interactions with the Balancing Market	2	**P/L**		**F**
Responsible for determining hedging policy	3	ü	ü	
Responsible for implementing hedging policy / makes decisions to buy/sell energy	4	**P/L**	**P/L**	**F**
Interacts with wider market participants to buy/sell energy	5			ü
Holds unhedged positions (either short or long)		ü	ü	
Procures fuel for generation		**P/L**		**F**
Procures allowances for generation		**P/L**		**F**
Holds volume risk on positions sold (either internal or external)		ü	ü	
Matches own generation with own supply	6			ü
Forecasts total system demand	7	**P/L**	**P/L**	**F**
Forecasts wholesale price		**P/L**	**P/L**	**F**
Forecasts customer demand	8		**P/L**	**F**
Determines retail pricing and marketing strategies			ü	
Bears shape risk after initial hedge until market allows full hedge	9	**P/L**	**P/L**	**F**
Bears short term risk for variance between demand and forecast	10		ü	

Key:
P function and P&L impacting that area;
P/L profit/losses of function recorded in that area;
F function performed in that area.

Glossary and notes

1. “Scheduling decisions” means the decision to run individual generation units
2. “Responsible for interactions with the Balancing Market” means interactions with the Balancing Mechanism in electricity.
3. Hedging policy is the responsibility of the Risk and Trading Committee which is a sub committee of the SSE Executive Committee.
4. EPM operates the hedging policy determined by the Risk and Trading Committee on behalf of Generation and Energy Supply.
5. “Interacts with wider market participants to buy/sell energy” means the business unit responsible for interacting with wider market participants to buy/sell energy, not the entity responsible for the buy/sell decision itself, which falls under “Responsible for implementing hedging policy /makes decisions to buy/sell energy”.
6. “Matches own generation with own supply” means where there is some internal matching of generation and supply before either generation or supply interact with the wider market. The total electricity demand for Energy Supply (expressed at NBP) was 42.9TWh and the total Generation output was 25.7TWh (60%).
7. “Forecasts total system demand” means forecasting total system electricity demand or total system gas demand.
8. “Forecasts customer demand” means forecasting the total demand of own supply customers.
9. “Bears shape risk after initial hedge until market allows full hedge” means the business unit which bears financial risk associated with hedges made before the market allows fully shaped hedging.
10. “Bears short term risk for variance between demand and forecast” means the business unit which bears financial risk associated with too little or too much supply for own customer demand.

Reconciliation of CSS to SSE Financial Statements 2014/15

There are some differences between SSE’s financial statements and the CSS. There are items which are in the financial statements and not in the CSS, and also there are items which Ofgem has requested be included in the CSS which are not in the financial statements. The table below shows the differences and reconciles the CSS to the revenue and earnings before interest and tax (EBIT) reported in the Segmental note in SSE’s financial statements for the year ended March 2015 (see note 4 of SSE’s audited financial statements):

Reconciliation of CSS to SSE Financial Statements	**Revenue**	**EBIT**	**Note**
Energy Supply	**£m**	**£m**	
CSS Supply	6,899.2	321.1	
‘Warm Home Discount’ included in turnover	46.4		1
Non GB Supply not in CSS	1,045.9	47.6	2
Total Reported (note 4)	**7,991.5**	**368.7**	

Reconciliation of CSS to SSE Financial Statements	Revenue	EBIT	Note
Energy Portfolio Management and Electricity Generation	**£m**	**£m**	
CSS Generation	2,291.1	338.0	
Non GB Generation not in CSS	126.2	26.5	3
JVs/Associate revenue in CSS but not in financial statements	-125.1		4
Inter segmental revenue in CSS but not in financial statements	-2,412.5		5
EPM not in CSS	26,159.4	37.4	6
Marchwood lease adjustment		31.3	7
Total Reported (note 4)	**26,039.1**	**433.3**	

Notes

1. SSE records in its accounts 'Warm Home Discount' as a cost, whereas the CSS guidance rules require the cost to nett off the revenue;
2. Non GB supply relates to SSE's Energy Supply business, Airtricity, which sells gas and electricity to customers in the Republic of Ireland and Northern Ireland;
3. Non GB generation activities principally in Ireland.
4. SSE equity accounts in its financial statements for JVs and Associates (which means it only includes its share of the profits/losses), in accordance with International Financial Reporting Standards (IFRS). The basis of the preparation of the CSS requires that the share of revenue, costs and profits are shown in the CSS. The revenue shown in the CSS for JVs and Associates is not present in the financial statements and is therefore a reconciling item. The share of profits however are present in both CSS and financial statements, therefore no reconciliation is necessary.
5. The internal PPAs between Generation and EPM are in the same reporting segment in the financial statements and therefore the revenue is eliminated on consolidation, whereas that is not the case in the CSS.
6. This business activity has been described in the paragraphs above.
7. Marchwood finance lease adjustment – this adjustment relates to the accounting treatment of SSE's PPA with Marchwood Power Ltd. The CSS (and SSE's internal management accounts) reflect the PPA capacity charges in cost of sales. The statutory accounting treatment recognises this contract as a finance lease and therefore these payments are effectively charged as depreciation and finance costs. Because the CSS is prepared at EBIT level rather than profit before tax (PBT), the finance charge is excluded from the CSS and it has therefore been shown as a reconciling item.

Exceptional items and certain re-measurement. SSE focuses its internal and external reporting on 'adjusted profit before tax' which excludes exceptional items, re-measurements arising from IAS 39 and removes taxation on profits of joint ventures and associates, because this reflects the underlying profits of SSE, reflects the basis on which it is managed and avoids the volatility that arises out of IAS 39. Therefore exceptional items have been excluded from the CSS.