



# SSE plc

## Financial report for the six months to 30 September 2013

13 November 2013

SSE plc completed the first six months of its financial year on 30 September 2013. Its core purpose is to provide the energy people need in a reliable and sustainable way and this report summarises SSE's performance in that period and includes updates on operations and investments in its Networks, Retail and Wholesale businesses.

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

"As a business, SSE has a key role to play in addressing the energy 'trilemma' of security of supply, decarbonisation and affordability. That is a responsibility and privilege that this company does not take lightly. At times such as this, there is a great need for responsible companies which are committed to this country, committed to their customers and committed to financial discipline. SSE ticks all three boxes. The current debate about how to meet the country's energy needs at the lowest possible cost to consumers, while protecting the environment will hopefully lead to decisions that contribute to the long-term economic, social and environmental well-being of the UK and Ireland.

"Energy market conditions generally have been difficult for some time. SSE's balanced model of market-based and economically-regulated businesses means the company is in a good position to perform well even in testing environments such as this, and at times of greater uncertainty, SSE's commitment to operational and financial discipline is particularly important. In practice, that means helping Retail customers mitigate the impact of the increase in unit electricity and gas prices we unfortunately had to announce last month and also maintaining reliable supplies of electricity for our Networks customers through the winter months. When looking at future investments, it also means taking account of the fact that key questions on energy policy in the UK are not yet resolved.

"For this reason, we will work constructively with politicians of all the major parties, and that is what we are doing. Looking ahead, we believe that operational and financial discipline is the best way to ensure we can continue to fulfil our core purpose of providing the energy people need in a reliable and sustainable way and therefore remunerate shareholders for their investment with sustained real dividend growth."

**See [news.sse.com](http://news.sse.com) for the following blogs: Today is about customers - like every other day; We have an appetite for reform; and Why SSE pays dividends.**

### Finance – SSE group

For the six months to 30 September 2013 (comparisons with the same six months in 2012, unless otherwise stated):

- Adjusted profit before tax\* fell by 11.7% to £354.0m;
- Adjusted earnings per share\* fell by 17.4% to 29.4 pence;
- Interim dividend increased by 3.2% to 26.0 pence per share;
- Investment and capital expenditure increased by 15.0% to £804.3m; and
- Adjusted net debt and hybrid capital rose by £450m to £7.8bn.

For 2013/14 as a whole, and as previously stated, SSE does not expect to provide an outlook for adjusted profit before tax\* before the publication of its third quarter Interim Management Statement; however it remains on course to deliver a full year dividend increase for 2013/14 that is greater than RPI inflation and to deliver above-RPI inflation dividend increases in the years after that.

\*Adjusted profit before tax describes profit before tax before exceptional items, re-measurements arising from IAS 39 and after the removal of taxation on profits from jointly-controlled entities and associates. Following the adoption of IAS 19R, adjusted profit before tax is stated excluding interest costs on net pension scheme liabilities.

## Finance – business-by-business operating profit

For the six months to 30 September 2013 (comparison with the same six months in 2012, unless otherwise stated); operating profit is before payment of interest and tax:

### Networks – operating profit of £455.8m

- Electricity Transmission operating profit rose by 39.4% to £67.6m, reflecting the major increase in investment in the asset base since 2010, resulting in higher income;
- Electricity Distribution operating profit increased by 9.0% to £232.0m, reflecting the level and timing of revenue received and continuing efficiencies;
- SSE's share of Scotia Gas Networks' operating profit rose by 12.6% to £138.2m, reflecting efficiencies achieved and higher revenues arising from the new Price Control that began in April 2013; and
- Other Networks operating profit increased by 22.4% to £18.0m, reflecting in particular higher profits in Lighting Services.

### Retail – operating loss of £89.4m

- Energy Supply recorded an operating loss of £115.4m, compared with an operating profit of £48.3m, reflecting the impact of higher wholesale gas, distribution, environmental and social costs, which themselves were rising, during the spring and summer period of lower energy consumption; and
- Energy-related Services operating profit fell by 3.7% to £26.0m.

### Wholesale – operating profit of £160.4m

- Energy Portfolio Management and Electricity Generation operating profit fell by 13.4% to £86.2m, reflecting the introduction of auctions for all CO<sub>2</sub> emissions permits for generators and continued difficult market conditions for gas-fired generation;
- Gas Production operating profit rose from £16.5m to £69.0m, reflecting output from the increased asset base resulting from acquisitions, in particular the purchase of a 50% interest in the Sean gas production assets in April 2013; and
- Gas Storage operating profit fell by 24.6% to £5.2m; this business continues to be affected by the fact there are smaller seasonal differentials in gas prices.

## Operations – providing the energy people need

In the six months to 30 September 2013 (comparisons with the same six months in 2012, unless otherwise stated):

- **Safety:** SSE's Total Recordable Injury Rate was 0.12 per 100,000 hours worked, compared with 0.14 during 2012/13 as a whole;
- **Networks:** the number of Customer Minutes Lost in the Scottish Hydro Electric Power Distribution area was 33, the same as in 2012; in the Southern Electric Power Distribution area it was 32, compared with 33;
- **Networks:** the number of Customer Interruptions (power cuts) in the Scottish Hydro Electric Power Distribution area was 37, compared with 33; in the Southern Electric Power Distribution area it was 36, compared with 31;
- **Networks:** the amount of replacement and reinforcement gas mains laid by Scotia Gas Networks was 468km, compared with 561km;
- **Retail:** SSE's number of electricity and gas customer accounts in markets in Great Britain and Ireland fell from 9.47 million on 31 March 2013 to 9.41 million;
- **Retail:** SSE continued its award winning performance in customer service, confirmed by its recent ranking as the top supplier for customer service in the uSwitch Customer Satisfaction Report, for the eighth consecutive year;
- **Retail:** average consumption of electricity by SSE's household customers in Great Britain was estimated to be 1,713kWh, compared with 1,773kWh; average consumption of gas by SSE's household customers in Great Britain was estimated to be 133 therms, compared with 142. On a weather-corrected basis however, there was an underlying reduction of 3.0% in average household electricity consumption and 1.7% in average household gas consumption.
- **Wholesale:** total electricity output\* from gas and oil fired power stations was 5.6TWh, compared with 4.0TWh, partly reflecting the return to service of Medway; from coal-fired power stations output was 6.8TWh, compared with 7.5TWh;

- **Wholesale:** total electricity output\* from renewable sources (conventional hydro electric schemes, onshore and offshore wind farms and dedicated biomass plant) was 3.1TWh, compared with 2.8TWh, partly reflecting additional capacity being in operation, including at Greater Gabbard; and
- **Wholesale:** SSE regularly places 100% of its available generation and 100% of its demand requirement into the N2EX day ahead auction to ensure a deep, liquid and transparent market price.

In addition, in September 2013, SSE became the first energy company and the largest UK-listed company by market capitalisation to become an accredited Living Wage employer.

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

### Investment – maintaining and upgrading the energy system

In its Annual Report 2013, SSE set out its investment priorities for 2013/14, including commissioning new assets and meeting other construction and development milestones in its programme of investment in its Networks and Wholesale businesses. It is forecasting total capital and investment expenditure of over £1.5bn for 2013/14 as a whole. In the six months to 30 September 2013, SSE's capital and investment expenditure totalled £804.3m, compared with £699.2m in the previous year:

- **Networks:** Investment in electricity networks totalled £348.3m. SSE's subsidiary Scottish Hydro Electric Transmission has completed work on reinforcing and upgrading the transmission network between Dounreay and Beaully; in addition, the Beaully-Fort Augustus ('North') section of the 400kV Beaully-Denny replacement line has now been energised.
- **Retail:** Investment in retail totalled £37.9m. SSE has continued to make significant investment in new systems to deliver enhanced services to customers and support the installation of smart meters in the years to 2020.
- **Wholesale:** Investment in electricity generation from renewable sources totalled £211.2m. SSE has continued to add to its renewable capacity, including Calliachar wind farm (32MW), which has taken its total capacity for generating electricity from renewable sources to 3,237MW.
- **Wholesale:** Investment in thermal energy generation totalled £151.9m. Work is progressing well at SSE's 460MW CCGT development at Great Island in the South-East of Ireland. The plant is still expected to be commissioned in the second half of 2014.

There was also capital and investment expenditure totalling £17.5m in: Gas Production (£15.7m); and Gas Storage (£1.8m). In addition SSE invested £127.6m (including working capital) to acquire a 50% stake in the Sean gas production assets.

SSE's capital investment and expenditure for 2014/15 is currently forecast to total around £1.5bn. In the years after that, however, there is greater uncertainty about the extent and the shape of the programme, largely because of uncertainties around Electricity Market Reform and the implications of the apparent breakdown in the broad political consensus on energy. Although it is expected to remain at a level that is supportive of annual above-inflation dividend increases it may, in practice, be lower than in recent years.

### Other developments since 30 September 2013

Since the publication of its Notification of Close Period on 30 September 2013, SSE has:

- Announced, unfortunately, an increase of 8.2% (average) in household electricity and gas prices in Great Britain;
- Received confirmation from Moody's that its corporate credit rating remains at A3 with a stable outlook, which followed Standard & Poor's confirmation that its rating for SSE remains at A3 with a negative outlook; and
- Deployed over 1,100 engineers and support staff to repair over 1,000 separate incidents of damage to overhead lines and restore electricity supply to around 110,000 customers in central southern England following the storm of 28 October.

### Financial outlook

In measuring adjusted profit before tax\*, SSE focuses on the full year, as opposed to six months, because half-year results at group level and within reportable segments, especially in Retail and

Wholesale, are more likely to fluctuate. SSE's expectation at the start of each financial year is that it will not provide an outlook for adjusted profit before tax before the publication of its third quarter Interim Management Statement, and that remains the case.

As stated in its Notification of Close Period on 30 September, SSE believes that adjusted profit before tax achieved in the first six months of 2013/14 is likely to account for a lower proportion of that achieved in the financial year as a whole than was the case for 2012/13.

SSE's core financial objective is to deliver annual, above-RPI inflation increases in the dividend payable to shareholders, and it remains on course to deliver a full year dividend increase that is greater than RPI inflation for 2013/14 and continues to target above-RPI inflation dividend increases in the years after that. Its full-year dividend for 2012/13 was 84.2 pence per share.

### **Working to fulfil SSE's core purpose**

As stated in its Annual Report 2013, SSE recognises that there is legitimate regulatory, political and public interest in its activities and that it is SSE's responsibility to provide value for money, fairness and transparency to customers - and other stakeholders. For the remainder of 2013/14 and beyond, SSE will continue to work with customers, politicians, regulators and other stakeholders to help achieve its core purpose of providing the energy people need in a reliable and sustainable way.

### **Further information**

#### **Disclaimer**

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

#### **Investor Timetable**

Ex-dividend date	22 January 2014
Record date	24 January 2014
Interim Management Statement	by 7 February 2014
Final date for Scrip elections	21 February 2014
Payment date	21 March 2014
Financial results for 2013/14	21 May 2014
AGM and Interim Management Statement	17 July 2014

#### **Enquiries**

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#### **Analysts' presentation**

Start: 0900 (GMT)

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

#### *Webcast facility*

You can join the webcast by visiting [www.sse.com](http://www.sse.com) and following the link on the homepage.

*Conference call*

UK 0800 279 4841

US 1877 249 9037

When asked please provide conference number 8532031.

**Online information**

News releases and announcements are made available on SSE's website at [www.sse.com](http://www.sse.com). You can also follow the latest news from SSE through Twitter at [www.twitter.com/sse](https://www.twitter.com/sse).

## STRATEGY AND FINANCE

### Strategy

#### **Fulfilling SSE's core purpose and secure dividend growth**

SSE's core purpose is to provide the energy people need in a reliable and sustainable way. Its strategy is to deliver sustained real growth in the dividend payable to shareholders through the efficient operation of, and investment in, a balanced range of economically-regulated and market-based businesses in energy production, storage, distribution, supply and related services in the UK and Ireland.

This means:

- **operating and investing efficiently** is how SSE serves its customers and makes investments to earn the profit that allows it to pay dividends;
- **maintaining a balanced range of economically-regulated businesses** means SSE does not become over-exposed to any one part of the energy sector but can pursue opportunities in each of them where appropriate;
- **production, storage, distribution, supply and related services** means there is diversity of business activity but also depth through the focus on a single sector, energy;
- **the UK and Ireland** give SSE a clear geographical focus, allowing it to develop, maintain and deploy strong experience, knowledge and understanding of the markets in which it operates; and
- **delivering sustained real growth in the dividend** is the way in which SSE aims to remunerate shareholders for their investment.

#### **Maintaining a balanced range of energy businesses**

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

- Networks – the economically-regulated transmission and distribution of electricity and gas and other related networks;
- Retail – the supply of electricity, gas and other services to household and business customers; and
- Wholesale – the production, storage and generation of energy and energy portfolio management.

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

- SSE's activities reflect the broad structure of the energy sector in Great Britain and Ireland, which means it is better able to recognise and understand the issues that could affect the people and organisations that ultimately pay for the production, distribution and supply of energy - customers;
- It earns revenue from nine different energy-based activities, which gives it strong foundations from which to deliver the levels of profitability and long-term value required to support sustained real dividend growth while reducing the risks to its achievement through the balance between, and within, SSE's businesses, assets and investment options; and
- SSE is able to maintain a broadly-based and experienced management team that is able to apply best practice in critical areas such as safety, customer service, stakeholder engagement and large capital project management across all of its businesses.

#### **Focusing on strong financial management**

SSE focuses on the dividend because the ultimate objective of investing capital in companies is to secure a cash return; and receiving and reinvesting dividends is the biggest source of a shareholder's return over the long term. SSE's target of annual, above-inflation increases in the dividend means it has to look beyond short-term value and profit maximisation in any one year and maintain a disciplined, consistent and long-term approach to the management of and investment in business activities.

Ultimately, however, dividends are paid out of earnings and, over the long term, earnings must increase to support sustained real dividend growth. For this reason, SSE believes that the dividend per share should be covered by its adjusted earnings per share\* within a range of around 1.5 times over the medium term.

In addition, SSE believes that it should maintain a strong balance sheet, evidenced by its commitment to the current criteria for a single A credit rating. As a business focused on the long term, it believes that a strong balance sheet enables it to secure funding from debt investors at competitive and efficient rates, pursue investment or acquisition opportunities if they enhance earnings per share and take decisions that are focused on the long term - all of which support the delivery of annual above-inflation increases in the dividend.

### **Setting the right priorities for the energy 'trilemma'**

Energy policy in both Great Britain and Ireland has three broad objectives that have commanded general support but which are characterised as the energy 'trilemma'. They are:

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

The **security of supply** issue is highlighted by the impact of the reduction in the amount of spare generation capacity on the electricity system in Great Britain that has taken place and is forecast to take place in the next few years. This was illustrated by National Grid's Winter Outlook 2013/14, which confirmed that electricity reserve margins have decreased from historically high levels over the last few years and by Ofgem's second annual Electricity Capacity Statement, published in June 2013, which suggested that 'the risks to electricity security of supply over the next six winters have increased' since October 2012. The risks to security of supply are partly the result of the Large Combustion Plant Directive (LCPD) and now the Industrial Emissions Directive which aim to control emissions such as sulphur dioxide and nitrogen oxides and mean that coal-fired power stations have to comply with emissions limit values or cease operation. The first phase of power plant closures under the LCPD have to take place by the end of 2015 at the latest.

The **decarbonisation** issue is illustrated by the requirement for the UK and Ireland to comply with the EU Climate Change and Renewable Energy Package, enacted in 2009, including a reduction of at least 20% in the levels of greenhouse gas emissions across the EU, compared with 1990 levels, and an increase to at least 20% of all energy consumption being generated from renewable sources. The EU believes that these targets, plus that for a 20% improvement in EU energy efficiency, represent an integrated approach to climate and energy policy that aims to 'combat climate change, increase the EU's energy security and strengthen its competitiveness'. The cost efficient decarbonisation of electricity generation and a reduced dependence on fossil fuels requires an effective and dependable framework to encourage companies which have the expertise and track record of developing renewable energy, like SSE, to continue investing in these technologies up to and beyond 2020.

The **affordability** issue has become more prominent as a result of the cumulative impact on retail energy prices of the costs associated with decarbonisation and government-sponsored social schemes, the need to upgrade electricity and gas networks and the long-term rise in wholesale costs for commodities such as gas. The impact of higher prices has, however, been mitigated by the decline in energy consumption illustrated by Ofgem's reduction in its benchmark average domestic customer usage figures for electricity and gas, in line with data published by the UK Department of Energy and Climate Change (DECC) showing a sustained fall in consumption in recent years. Although government-mandated energy efficiency schemes have played an important part in this, the immediate benefits are felt by a minority of customers while the costs are spread across all bill-payers. Looking ahead, SSE believes that the costs associated with decarbonisation and government-sponsored social schemes should be transferred from the energy bill payer to the tax payer. In the meantime, SSE is focused on implementing effectively its strategy for identifying and supporting vulnerable customers.

In response to the energy 'trilemma', SSE adopted in April 2013 a new definition of its Sustainability core value: 'Our decisions and actions are ethical, responsible and balanced, helping

to achieve environmental, social and economic well-being for current and future generations.' In practice, this means its decision-making – for both operations and investment – will aim to reflect all three parts of the 'trilemma' and in this way be as consistent as possible with the priorities of its customers (Retail and Networks) and with the direction of public policy in the UK and Ireland. This means, for example, that while SSE supports the decarbonisation of energy supplies, it recognises that customers' understanding and acceptance of this is required because it is they who ultimately pay the bills.

SSE has also adopted three long-term priorities across its balanced range of businesses which reflect, and respond to, the issues arising from the energy 'trilemma'. These long-term priorities are:

- **Networks - efficiency and innovation** to help keep the lights on and provide the necessary connections to the electricity system, including for generators from renewable sources;
- **Retail - digital excellence and a brand people trust** so that operating costs are kept to a minimum, opportunities to increase the efficient use of energy are maximised and customers trust SSE to do the right things for them; and
- **Wholesale - sustainability in energy production** through a diverse generation portfolio, including the largest amount of renewable energy in the UK and Ireland, that helps keep the lights on by being available to generate electricity when required and is flexible enough to respond to changes in demand when they occur.

In participating in the continuing development of, and debates on, energy policy at EU level and in the UK and Ireland, SSE's approach will be founded on the definition of its Sustainability core value, focused on the achievement of its long-term priorities and directed towards the achievement of the maximum possible confidence in the energy sector. There is an appetite for reform in SSE and it will look for ways of responding constructively to political and regulatory initiatives.

In focusing on its long-term priorities, SSE will maintain a strong emphasis on all of its six core values, the 'SSE SET' of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. This means that safety comes first. In the six months to 30 September 2013, its Total Recordable Injury Rate per 100,000 hours worked was 0.12, compared with 0.14 in the same six months in 2012.

In summary, SSE believes that these values and long-term priorities, and its balanced approach to business, are the best means of securing sustained real growth in the dividend payable to shareholders. This balanced approach is exemplified by its:

- strategy of operating and investing in a **balanced** range of market-based and economically-regulated businesses across just two interconnected markets;
- the **balanced** range of assets within those businesses; and
- the **balanced** approach to decision-making, embracing security of supply, affordability and decarbonisation.

## Dividend Per Share and Adjusted Earnings Per Share\*

### Increasing the Interim Dividend in 2013/14

SSE's first financial responsibility to its shareholders is to remunerate their investment through the payment of dividends. The Board is recommending an interim dividend of 26.0p per share, compared with 25.2p in the previous year. This is:

- an increase of 3.2% compared with 2012/13, which is just above RPI inflation;
- more than three times the interim dividend paid by SSE in 2000; and
- more than double the interim dividend paid in 2005.

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



### Targeting further dividend increases in 2013/14 and beyond

SSE believes it will achieve its principal financial objective for 2013/14 - an increase in the full-year dividend that is greater than RPI inflation. Its financial objective for 2014/15 and beyond is to deliver annual dividend increases which are greater than RPI inflation; and to achieve dividend cover over the medium term that is within a range around 1.5 times.

### Monitoring Adjusted Earnings Per Share\*

To monitor financial performance over the medium term, SSE continues to focus on adjusted earnings per share\*, which is calculated by excluding the charge for deferred tax, exceptional items and the impact of re-measurements arising from IAS 39 (see also 'Delivering Adjusted Profit Before Tax\*\*' below). Following the adoption of IAS 19R, adjusted earnings per share is stated excluding interest costs on net pension scheme liabilities.

Adjusted earnings per share\* has the straightforward benefit of defining the amount of profit after tax that has been earned for each Ordinary Share and so reflects a clear view of underlying financial performance.

In the six months to 30 September 2013, SSE's adjusted earnings per share\* were 29.4p, based on 964.4 million shares, compared with 35.6p, based on 945.4 million shares, in the same six months in 2012. As with adjusted profit before tax\* (see below), SSE's focus is on the full-year adjusted earnings per share\*.

### Adjusted Profit Before Tax\*

#### Delivering Adjusted Profit Before Tax\*

These financial results for the six months to 30 September 2013 are reported under International Financial Reporting Standards, as adopted by the EU. In line with its policy since 2005/06, SSE focuses on profit before tax before exceptional items, re-measurements arising from IAS 39 and after the removal of taxation on profits from jointly-controlled entities and associates.

Following the adoption of IAS 19R, which impacts the reported profit measures, adjusted profit before tax\* will also be stated excluding interest costs on net pension scheme liabilities. These costs relate to the unwinding of discounting on future pension scheme liabilities, theoretical interest income from scheme assets and interest costs relating to the additional liability arising from projected minimum funding requirement contributions under IFRIC 14. SSE believes that in order to focus on underlying performance it is appropriate to exclude these costs from all adjusted profit measures. A full explanation of the impact of the adoption of IAS 19R, including the restatement of the previous year's reported results, is included in the Notes to the Condensed Interim Statements.

As a result, 'adjusted profit before tax\*'

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

The tables below reconcile SSE's adjusted profit before tax\* to its reported profit before tax and also set out the position after tax and in respect of adjusted earnings per share\*. The volatility that arises from IAS 39 and the impact of the adjustment relating to IAS 19R can also be observed.

	Sep 13	Sep 12	Sep 11
	£m	restated £m	restated £m
<b>Adjusted Profit Before Tax*</b>	<b>354.0</b>	<b>400.8</b>	<b>289.3</b>
Movement on derivatives	(42.1)	(330.5)	(354.3)
Exceptional items	-	(88.7)	(13.1)
Interest on net pension liabilities (IAS 19R)**	(14.8)	(17.9)	(21.8)
Share of JCEs and Associates tax	39.3	(4.6)	(0.4)
Reported Profit Before Tax	336.4	(40.9)	(100.3)

\*\* Includes share of SGN interest on net pension liabilities

	<b>Sep 13</b>	<b>Sep 12</b>	<b>Sep 11</b>
		restated	restated
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Adjusted Profit Before Tax*	354.0	400.8	289.3
Adjusted Current Tax*	(58.2)	(64.0)	(52.0)
<b>Adjusted Profit After Tax*</b>	<b>295.8</b>	<b>336.8</b>	<b>237.3</b>
less: attributable to other equity holders	(12.5)	-	-
Adjusted Profit After Tax* attributable to ordinary shareholders	283.3	336.8	237.3
Reported Profit/(Loss) After Tax	384.4	15.9	(20.8)
Number of shares for basic and adjusted EPS	964.4	945.4	937.0
<b>Adjusted EPS*</b>	<b>29.4</b>	<b>35.6</b>	<b>25.3</b>
Basic EPS	38.6	1.7	(2.2)

#### **Factors affecting Adjusted Profit before Tax\***

Adjusted profit before tax\* fell by 11.7%, from £400.8m to £354.0m in the six months to 30 September 2013 compared with the same period in 2012. As forecast in its Notification of Close Period on 30 September, SSE's Networks and Wholesale segments were profitable while the Retail segment recorded an operating loss\*.

The operating profit\* in **Networks** was achieved as a result of:

- investment in the asset base of Electricity Transmission resulting in higher income;
- the level and timing of revenue received, and efficiencies secured, in Electricity Distribution; and
- increasing operating profit in Scotia Gas Networks (SGN) due to higher revenue from the new Price Control that began on 1 April 2013.

The operating loss\* in **Retail** of £89.4m was mainly attributable to:

- higher wholesale gas costs; and
- the impact of higher environmental, social and distribution costs, which themselves were rising, during the spring and summer period of lower energy consumption.

The operating profit\* in **Wholesale** was achieved as a result of:

- greater output of renewable energy, including from offshore wind farms;
- improved performance from SSE's partly-owned gas-fired power stations at Seabank and Marchwood; and
- an increased contribution from Gas Production, reflecting SSE's recent acquisition of assets in this area, in particular the purchase of a 50% interest in the Sean gas production assets in April 2013.

This was, however, offset by the introduction of auctions for all CO<sub>2</sub> emissions permits for electricity generators.

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. In line with this and as stated in its Notification of Close Period on 30 September 2013, SSE expects that the adjusted profit before tax\* achieved in the first six months of this financial year is likely to account for a lower proportion of that which it achieves in 2013/14 as a whole than was the case for 2012/13, when 28% of the total for the year was delivered in the first six months.

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

The movement on derivatives under IAS 39 of £42.1m shown in the table above and on the face of the Income Statement is primarily due to changes in interest rates and relative strength of sterling since 31 March 2013. 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.

### **Delivering Adjusted Profit Before Tax\* in 2013/14**

SSE's first financial goal is not the maximisation of profit in any one year and profit is not in itself the point of SSE. Profit is an essential means to more important ends:

- it enables investment in energy infrastructure which supports future energy supplies and, in turn, also supports the dividend;
- it allows SSE to maintain and improve customer services;
- it creates and maintains jobs in SSE and in its supply chain; and
- it supports the dividend, which is the key means through which it remunerates shareholders, such as pension funds.

At the same time, SSE has delivered 14 successive increases in adjusted profit before tax\* since it first reported full-year results in 1999. Because well-managed economically-regulated networks provide relatively stable profits, SSE's adjusted profit before tax\* for 2013/14 as a whole will, as in other years, be determined mainly by factors in its market-based Retail and Wholesale businesses, such as:

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

In terms of its market-based Retail and Wholesale businesses, therefore, SSE's ability to sustain annual above-inflation increases in the dividend each year is supported by the fact that:

- while the energy it produces and sells is traded through external exchanges, it is an energy producer and an energy retailer;
- it has assets which use a wide range of sources from which to generate electricity; and
- it maintains a broad portfolio of commodity contracts as the means of securing the energy it and its customers need.

Nevertheless, SSE believes that it should be consistent with its expectation at the start of each financial year, and with the position as set out in its Notification of Close Period on 30 September 2013, which is that it will not provide an outlook for adjusted profit before tax\* before the publication of its third quarter Interim Management Statement, not least because its principal financial goal is dividend growth.

In terms of 2013/14, SSE continues to believe that its balanced range of market-based and economically-regulated energy businesses, and the diversity of opportunities within those businesses, should enable it to deliver a level of adjusted profit before tax\* capable of supporting the achievement of its principal financial target for the year, a full-year dividend increase which is greater than RPI inflation.

## Investment and Capital Expenditure

Investment and Capex Summary	Sep 13 £m	Sep 12 £m	Sep 11 £m
Electricity Transmission	195.0	167.5	84.9
Electricity Distribution	128.2	117.7	94.7
Other Networks	25.1	24.1	17.7
<b>Total Networks</b>	<b>348.3</b>	<b>309.3</b>	<b>197.3</b>
<b>Total Retail</b>	<b>37.9</b>	<b>35.9</b>	<b>11.8</b>
Thermal Generation	151.9	95.5	54.7
Renewable Generation	211.2	216.1	477.8
Gas Storage	1.8	21.0	14.5
Gas Production	15.7	2.8	0.3
<b>Total Wholesale</b>	<b>380.6</b>	<b>335.4</b>	<b>547.3</b>
<b>Other</b>	<b>37.5</b>	<b>18.6</b>	<b>40.5</b>
<b>Total investment and capital expenditure</b>	<b>804.3</b>	<b>699.2</b>	<b>796.9</b>
50% of SGN capital/replacement expenditure	72.2	88.8	103.3

### Investing for sustained real dividend growth

In 2010, SSE said that it expected its investment and capital expenditure would be in the range of £1.5bn to £1.7bn in each of the five years to March 2015. In the six months to 30 September 2013, SSE's capital and investment expenditure to support the maintenance and upgrading of the energy infrastructure of the UK and Ireland totalled £804.3m, compared with £699.2m in the same six months in 2012.

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

- £195.0m in **electricity transmission**, of which £97.3m was spent on the work to replace SSE's section of the Beaulieu-Denny replacement line;
- £128.2m in **electricity distribution**, the majority of which was spent on system upgrades;
- £37.9m in **retail**, the majority of which was spent on work associated with preparations for the roll-out of smart meters;
- £151.9m in **thermal generation**, including investment of £47.5m in the construction of the new Combined Cycle Gas Turbine at Great Island;
- £211.2m in **renewable generation**, a significant part of which was invested in new wind farms such as Keadby which, at 68.0MW, will be the largest in England, together with the purchase of and subsequent investment in the Dunmaglass wind asset (99MW); and
- £1.8m in **gas storage** and £15.7m in **gas production**.

This means economically-regulated electricity networks continue to comprise the largest element of SSE's capital and investment expenditure and this is expected to be the case for the foreseeable future.

### Delivering an expanded asset base

Since SSE's current investment and capital expenditure plans got under way in April 2010, a total of £5.4bn has since been invested. This has resulted in a significantly expanded asset base for SSE, including:

- an increase of £1.1bn in the RAV of its electricity networks;
- an increase of almost 1,000MW in its capacity for generating electricity from wind farms (resulting in SSE's total wind capacity producing 1.97TWh of electricity in the six months to 30 September 2013); and
- the Aldbrough gas storage facility, where the initial capacity is 270 million cubic metres, of which SSE owns a two thirds share.

SSE believes that a greatly expanded asset base and significant value have been and are being created from its capital and investment expenditure programme and that the long-term nature of the assets which it has developed and continues to develop means that value will be sustained in to the 2020s and beyond.

### **Delivering investment efficiently**

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

- in line with SSE's commitment to strong financial management, including securing returns which are greater than the cost of capital (with an appropriate risk premium applied to the expected rate of return from individual projects where appropriate for construction, market, technology, regulatory or legislative reasons), enhance earnings and contribute to dividend growth;
- complementary to SSE's existing portfolio of assets and consistent with the maintenance of a balanced range of assets within SSE's businesses;
- consistent with developments in public policy and regulation; and
- governed, developed, approved and executed in an efficient and effective manner, consistent with SSE's Major Projects Governance Framework, and with the skills and resources available within SSE.

### **Making capital and investment expenditure decisions in 2013/14 and beyond**

For 2013/14 as a whole SSE expects capital and investment expenditure to total over £1.5bn. Its capital and investment expenditure for 2014/15 is currently forecast to total around £1.5bn, but the eventual total will depend on what new investment decisions are taken in the next few months.

At any given time, SSE has four main categories of investment and capital expenditure:

- economically-regulated expenditure on electricity transmission upgrades;
- economically-regulated electricity distribution expenditure plus essential maintenance of other assets;
- expenditure that is already committed to development of new assets (this currently includes the CCGT at Great Island in Ireland and its share of the new multi-fuel plant at Ferrybridge); and
- expenditure that is not yet committed but which could be incurred to support the development of new assets.

The extent to which SSE will be willing to commit to the development of new assets in the next few years will depend on, amongst other things:

- the effect of Electricity Market Reform (EMR) on thermal generation capacity in Great Britain;
- the extent of government ambition for the deployment of technologies like on- and offshore wind in Great Britain and the extent of the support made available for them;
- the impact of the referendum on Scottish independence; and
- the extent to which public policy-makers are willing to enable energy companies to secure a fair return on the capital they have invested, either through energy bills or alternative means, such as taxation.

All of this means that there is greater uncertainty about the shape and extent of SSE's capital and investment programme in the five years from 2015 than there was when it set out its current five-year programme in 2010. Although it is expected to remain at a level that is supportive of annual above-inflation dividend increases it may, in practice, be lower than the £1.5bn to £1.7bn range invested in each of the years since 2010.

In any event, SSE will remain focused on efficient investment decision-making, as set out above, and on remaining consistent with the current criteria, including the key ratios, associated with a single A credit rating.

### **Investing in gas distribution through Scotia Gas Networks (SGN)**

In addition to its own capital and investment expenditure programme, SSE effectively has a 50% interest in SGN's capital and replacement expenditure, through its 50% equity share in that business. SGN is self-financing and all debt relating to it is separate from SSE's balance sheet. Nevertheless, it is a very substantial business which gives SSE, through its 50% stake, a major interest in economically-regulated gas distribution. In the six months to 30 September 2013, a 50% share of SGN's capital and replacement expenditure was £72.2m, compared with £88.8m in the previous year.

## Financial management and balance sheet

Key Performance Indicators	Sep 13	Mar 13	Sep 12
Adjusted net debt and hybrid capital (£bn)	7.80	7.35	7.05
Average debt maturity (years)	10.2	10.6	10.9
Adjusted interest cover <sup>1</sup> (excluding SGN)	3.5	5.4	3.9
Shares in issue at 30 September (m)	965.4	964.3	957.9
Shares in issue (weighted average) (m)	964.4	952.0	945.4

<sup>1</sup> including hybrid coupon

### Managing net debt and maintaining cash flow

SSE's adjusted net debt and hybrid capital was £7.80bn at 30 September 2013, compared with £7.35bn at 31 March 2013 and £7.05bn at 30 September 2012. Fundamentally, this increase reflects the quantum and phasing of capital and investment projects to support sustained real dividend growth.

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

Adjusted Net Debt and Hybrid Capital	Sep 13	Mar 13	Sep 12
	£m	£m	£m
<b>Adjusted Net Debt and hybrid capital</b>	<b>(7,797.5)</b>	<b>(7,347.7)</b>	<b>(7,054.2)</b>
Less: hybrid capital	2,186.8	2,186.8	2,186.6
<b>Adjusted Net Debt</b>	<b>(5,610.7)</b>	<b>(5,160.9)</b>	<b>(4,867.6)</b>
Less: Outstanding Liquid Funds (cash)	(40.5)	(55.0)	(42.4)
Add: Finance Leases	(322.7)	(330.4)	(336.3)
<b>Unadjusted Net Debt</b>	<b>(5,973.9)</b>	<b>(5,546.3)</b>	<b>(5,246.3)</b>

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

SSE's objective is to maintain a balance between continuity of funding and flexibility, with debt maturities set across a broad range of dates. Its average debt maturity, excluding hybrid securities, as at 30 September 2013 was 10.2 years, compared with 10.6 years at 31 March 2013.

SSE's debt structure remains strong, with around £5.3bn of medium/long term borrowings in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans. The table above also includes the issue by SSE of:

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

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

SSE's adjusted net debt includes cash and cash equivalents totalling £477.9m. Around £0.8bn of medium-to-long-term borrowings will mature in the period to 31 March 2015.

### **Ensuring SSE is well-financed**

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

In September 2013, Standard & Poor's Rating Services confirmed SSE's FFO/Debt ratio for the year ended March 2013 as 20.8% (compared with 19.5% in 2011/12). This is above their 20% criterion and their long term rating for SSE remains at 'A-' with a negative outlook. In October 2013, Moody's confirmed that its corporate credit rating of SSE remains A3 with a stable outlook.

SSE's principal sources of debt funding as at 30 September 2013 were:

- Bonds – 47%
- Hybrid capital securities – 27%
- European Investment Bank loans – 8%; and
- US Private Placement – 6%

The remaining 12% included index-linked debt, long term project finance and other loans.

SSE is committed to maintaining financial diversity and diversity of funding sources and will move quickly to select the right financing options, including issuing new bonds and loans. In line with that, in July 2013, it entered into a new £1.3bn Revolving Credit Facility provided by a group of ten banks. This facility - which was a self arranged deal - will run until July 2018 and replaced an existing £900m committed facility that had been due to mature in August 2015. It is in addition to a bilateral facility of £200m which matures in 2018. In June 2013, SSE also successfully issued a new €600m seven year Eurobond with a coupon of 2%.

Furthermore, the Scrip Dividend Scheme introduced by SSE in 2010 reduces cash outflow and therefore supports the balance sheet, although the extent to which it will do so is inevitably difficult to predict. A total of 30,032 shareholders elected to receive the final dividend for the year ended 31 March 2013 of 59.0 pence per ordinary share in respect of 30,184,755 ordinary shares in the form of Scrip dividend. A total of 1,128,181 new ordinary shares, fully paid, were issued on 27 September 2013, representing an increase of 0.12% on the issued share capital on the dividend record date of 2 August 2013. The relevant Scrip Reference Share Price was 1,575 pence per ordinary share. The cumulative reduction in cash dividend funding since the Scrip alternative became available in September 2010 is now £507.3m.

Fundamentally, SSE believes its commitment to the long term means it must be disciplined when managing its balance sheet, prudent in financing its activities and rigorous and selective when making investment and acquisition decisions. At the same time, it believes that it has sufficient financial flexibility to pursue the opportunities which would provide the means with which to increase dividends.

Moreover, SSE is prepared to dispose of assets, in part or in whole, where their retention is not fully consistent with or supportive of its overall strategy, or where the resources required to manage them effectively are disproportionate to the value they are able to create.

## Net Finance Costs

The table below reconciles reported net finance costs to adjusted net finance costs, which SSE believes is a more meaningful measure. In line with this, SSE's adjusted net finance costs during the first six months of 2013/14 were £164.7m, compared with £188.9m in the same period in 2012/13.

	Sep 13	Sep 12	Sep 11
	£m	restated £m	restated £m
<b>Adjusted net finance costs*</b>	<b>164.7</b>	<b>188.9</b>	<b>162.6</b>
add/(less):			
Movement on derivatives	31.3	56.9	15.4
Share of JCEs and Associates interest	(78.3)	(77.1)	(76.3)
Interest on net pension liabilities (IAS 19R)	14.8	17.9	21.8
Reported net finance costs	132.5	186.6	123.5
Adjusted net finance costs*	164.7	188.9	162.6
less:			
Finance lease interest	(17.9)	(18.5)	(19.2)
Notional interest arising on discounted provisions	(3.9)	(3.3)	(3.6)
add:			
Hybrid coupon payment	12.5	0.0	0.0
<b>Adjusted finance costs for interest cover calculation</b>	<b>155.4</b>	<b>167.1</b>	<b>139.8</b>

Note: Restatements relate to adoption of IAS 19R

The first coupon payment relating to the US Dollar hybrid capital issued in September 2012 was made on 1 April 2013. A further payment in respect of it, and of the remaining hybrid capital securities that were issued in September 2010 and September 2012, was made on 1 October 2013. Charges are presented as distributions to other equity holders and are reflected within adjusted earnings per share\* when paid.

The average interest rate for SSE, excluding JCE/Associate interest, during the six months was 5.20%, compared with 5.17% for the previous year. Based on adjusted interest costs, SSE's adjusted interest cover was (previous year's comparison in brackets):

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

Excluding shareholder loans, SGN's net debt at 30 September 2013 was £3.4bn, and within the adjusted net finance costs of £164.7m, the element relating to SGN's net finance costs was £48.0m (compared with £47.4m in the previous year), after netting loan stock interest payable to SSE. Its contribution to SSE's adjusted profit before tax\* was £90.2m, compared with £75.3m for the same period in the previous year.

## Contributing to employees' pension schemes

In line with the IAS 19R treatment of pension scheme assets, liabilities and costs, pension scheme liabilities of £666.1m are recognised in the balance sheet at 30 September 2013, before deferred tax. This compares to a liability of £705.8m at 31 March 2013.

During the six months to 30 September 2013, employer cash contributions amounted to:

- £25.2m for the Scottish Hydro Electric scheme, including deficit repair contributions of £14.8m; and
- £41.4m for the Southern Electric scheme, including deficit repair contributions of £28.3m.



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

## Tax

### Being a responsible tax payer

Central to SSE's approach to tax is that it should be recognised as a responsible tax payer. As a consequence, SSE maintains a good relationship with HM Revenue & Customs, based on trust and cooperation. In the three years to March 2013, SSE's tax paid to government in the UK, including Corporation Tax, Employers' National Insurance Contributions and Business Rates, totalled £1bn; over 10 years, it has totalled £3.4bn.

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

### Setting out SSE's tax position

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

	Sep 13	Sep 12	Sep 11
	£m	restated £m	restated £m
<b>Adjusted current tax charge*</b>	<b>58.2</b>	<b>64.0</b>	<b>52.0</b>
add:			
Share of JCEs and Associates tax	39.3	(4.6)	(1.3)
less:			
Deferred tax including share of JCEs and Associates	(32.2)	8.6	5.1
Tax on exceptional items and certain re-measurements	(113.3)	(124.8)	(135.3)
<b>Reported tax (credit)</b>	<b>(48.0)</b>	<b>(56.8)</b>	<b>(79.5)</b>

Note: Restatements relate to adoption of IAS 19R

The effective adjusted current tax rate, based on adjusted profit before tax\*, is 16.4%, compared with 16.0% in the same period last year, on the same basis. The increased tax charge arising from the acquisition of the Sean Field North Sea assets has been partly compensated for by the impact of the 1% UK Corporation Tax rate reduction announced in the 2012 Budget, and the tax relief due on the increased hybrid debt coupons payable by the Group.

The deferred tax balance has been remeasured to reflect the further reductions in the UK Corporation Tax rate that were announced in the 2013 Budget. This 3% total reduction in rate has a significant positive impact on the total tax charge for the year.

## Priorities and Outlook for 2013/14 and beyond

As previously stated, SSE's expectation at the start of each financial year is that it will not provide an outlook for adjusted profit before tax\* before the publication of its third quarter Interim Management Statement, not least because its principal financial objective is dividend growth, and that remains the case for 2013/14.

### Setting the right operational priorities to provide the energy people need

SSE's first priority for 2013/14 is to make substantive progress towards its core operational objective of injury-free working.

Its **Networks** priorities are:

- distribute electricity and (through Scotia Gas Networks) gas to customers with the minimum possible interruptions to supplies;
- demonstrate efficiency and innovation in the management of and investment in electricity and gas networks; and
- make progress in the RIIO ED-1 electricity distribution Price Control review.

Its **Retail** priorities are:

- improve the standards of service delivered to energy supply customers, reinforce compliance with all licence obligations and renew the focus on building trust;
- improve the breadth, depth and integration of the products and services offered to business customers; and
- continue to adapt to the technological change that will result from the roll-out of smart meters and increased emphasis on digital channels, in line with customers' changing requirements.

Its **Wholesale** priorities are:

- efficiently operate all assets, including those recently-commissioned or adapted, so they can respond flexibly to customers' need for electricity;
- increase its capability in the operation and maintenance of its assets, especially on- and offshore wind; and
- continue the successful development of assets under construction.

In addition, SSE will continue to engage actively and constructively with governments, officials, elected representatives, other policy-makers and regulators in Brussels, Westminster, Edinburgh, Cardiff, Belfast and Dublin to ensure there is a stable and sustainable policy and regulatory framework within which it can fulfil over the long term its responsibilities to customers, other stakeholders and shareholders.

#### **Setting the right investment priorities to maintain and upgrade the energy system**

SSE is undertaking capital and investment expenditure totalling over £1.5bn in 2013/14 to maintain and upgrade the energy infrastructure in the UK and Ireland. Its priorities are:

- **Networks:** continue to make progress in the programme of capital investment in electricity and (through Scotia Gas Networks) gas networks, especially electricity transmission;
- **Retail:** make progress with the systems that will be needed to support the roll-out and operation of smart meters; and
- **Wholesale:** continue its effective and efficient maintenance, construction and development of assets which support the achievement of sustainable electricity generation, especially the new CCGT (Combined Cycle Gas Turbine) at Great Island, Co Wexford.

#### **Forecasting a full-year dividend increase that is greater than RPI inflation**

The delivery of a strong operational performance and the achievement of its investment priorities should enable SSE to discharge its first financial responsibility to shareholders in 2013/14: an increase in the full-year dividend that is greater than RPI inflation. It should also put SSE in a good position to deliver dividend increases from 2014/15 onwards that are also greater than RPI inflation.

#### **Working to fulfil SSE's core purpose**

SSE has always recognised that it requires the support of shareholders to fulfil its core purpose of providing the energy people need in a reliable and sustainable way, including maintaining and upgrading the energy system. Its operational and investment priorities are therefore designed to ensure that it maintains and improves services for customers, invests in energy infrastructure to support future supplies, employs people directly and in its supply chain and delivers to shareholders sustained real dividend growth.

## NETWORKS

<b>Networks Key Performance Indicators</b>	<b>Sep 13</b>	<b>Sep 12</b>
<b>ELECTRICITY TRANSMISSION</b>		
Operating profit* - £m	67.6	48.5
Regulated Asset Value (RAV) - £m	1,200	930
Capital expenditure - £m	195.0	167.5
Connection offers provided in required period	28	59
<b>ELECTRICITY DISTRIBUTION</b>		
Operating profit* - £m	232.0	212.9
Regulated Asset Value (RAV) - £m	2,985	2,890
Capital expenditure - £m	128.2	117.7
Customer minutes lost (SHEPD)	33	33
Customer minutes lost (SEPD)	32	33
Customer interruptions (SHEPD)	37	33
Customer interruptions (SEPD)	36	31
<b>SCOTIA GAS NETWORKS</b>		
Operating profit* (SSE's share) - £m	138.2	122.7
Regulated Asset Value (SSE's share) - £m	2,405	2,320
Capital and replacement expenditure (SSE's share) - £m	72.2	88.8
Uncontrolled gas escapes attended within one hour %	98.6	99.0
SGN gas mains replaced - km	468	561
<b>OTHER NETWORKS</b>		
Operating profit* - £m	18.0	14.7
Capital expenditure - £m	25.1	24.1

### **Owning, operating and investing in Networks**

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

### **Economically-regulated network companies with a growing Regulated Asset Value**

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

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

SSE estimates that the total Regulated Asset Value (RAV) of its economically-regulated 'natural monopoly' businesses is £6,590m, up £450m from £6,140m at 30 September 2012, comprising around:

- £1,200m for electricity transmission;
- £2,985m for electricity distribution; and
- £2,405m for gas distribution (i.e. 50% of SGN's total RAV).

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

## Financial performance in Networks

Operating profit\* in Networks increased by 14.3%, from £398.8m to £455.8m, contributing 86.5% of SSE's total operating profit\*. This comprised:

- £67.6m in electricity transmission, compared with £48.5m;
- £232.0m in electricity distribution, compared with £212.9m;
- £138.2m representing SSE's share of the operating profit\* for SGN, compared with £122.7m; and
- £18.0m in other network businesses, compared with £14.7m.

## Electricity Transmission

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

In SHE Transmission, operating profit\* increased by 39.4% to £67.6m. This reflected the continuing increase in its investment in its asset base and resultant increase in allowed revenue.

### Investing in Scotland's electricity transmission network

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

A total of £195.0m was invested by SHE Transmission in its network in the six months to 30 September 2013, compared with £167.5m in the same period in 2012. In 2013/14 SHE Transmission expects to incur capital expenditure of around £350m and its RAV should reach around £1.6bn by March 2015.

### Upgrading Scotland's electricity transmission network

The base of SHE Transmission's plans for 2013 to 2021, as approved under RIIO T1, is a £1.4bn capital investment programme, in expected out-turn prices based on a future inflation assumption of 3%. There is flexibility to increase this very significantly, if required, to upgrade the transmission network in response to the needs of electricity generators during the period.

Within the £1.4bn base capital investment programme, projects completed or under construction include (investment numbers are on an expected out-turn basis):

- **Beaully-Denny:** Full construction work on the replacement of SHE Transmission's part of the line, from Beaully to Wharry Burn, is well under way, with the north section between Beaully and Fort Augustus completed and successfully energised, marking the first time the higher voltage of 400kV has been operated in the north of Scotland. A total of around £442m has been invested so far. In line with the conditions associated with the planning consent, good progress is being made with the three rationalisation schemes, which will remove over 100km of overhead lines in Highland Scotland, and with the construction of towers over some of the highest and most challenging terrain in Great Britain. Based on expenditure to date and known issues including the interface with SP Transmission's section of the line, it is currently expected the final cost will be over £675m. Further discussions continue to take place with SP Transmission and Ofgem on the coordination with the network in the south of Scotland and the timescales and full cost of completion.
- **Beaully-Mossford:** Consent for a replacement 132kV transmission line between Beaully and Mossford has been received from Scottish Ministers, contracts have been placed for the works and good progress is being made in order to complete the estimated £70m project in 2015.
- **Beaully-Blackhillock-Kintore:** Work on replacing the conductors of the 275kV transmission lines between Beaully and Blackhillock and Blackhillock and Kintore to allow an increase in the capacity of the network to transmit electricity is, subject to the outage programme, well under way. Ofgem has authorised investment of over £90m for this development.

A total of £205m is expected to be invested in these three projects during 2013/14.

## Implementing RIIO T1

SHE Transmission has now entered the price control period, RIIO (Revenue = Incentives + Innovation + Outputs) T1 which runs for eight years from 1 April 2013 until 31 March 2021. It continues to implement a programme to maximise potential revenue from incentives and prepare a number of key projects for submission under the new flexible funding process. This process is designed to allow expenditure when the need from developers is demonstrated whilst protecting consumers from, for example, unnecessary investments. If approved, these projects would be in addition to the £1.4bn capital investment described above.

To proceed to construction, projects require:

- a demonstrable commitment from developers;
- any necessary consents for development; and
- authorisation from Ofgem that SHE Transmission can recover the efficient cost of its investment.

Kintyre-Hunterston is the first project to progress through the RIIO T1 Strategic Wider Works mechanism and Ofgem have agreed there is a need for it by approving the associated Needs Case. SHE Transmission has recently placed contracts worth around £150m for the construction of a subsea link from a new 132kV substation in Crossaig on the Kintyre peninsula around the north coast of Arran to Hunterston. The current programme anticipates that the reinforcement will be operational by 2016.

SHE Transmission has two further major projects under development. These are:

- **Caithness to Moray:** Ofgem is currently assessing SHE Transmission's Needs Case to develop a subsea electricity cable between Caithness and Moray. Ofgem's open letter in August 2013 recognised the potential consumer benefit of the re-inforcement which is required in order to transmit the large volume of existing and planned electricity from renewable sources in the north of Scotland. At the same time both Ofgem and SHE Transmission recognise that for a project of this scale and complexity the risks need to be well understood before an investment decision is made. Meanwhile, good progress is being made, with all substations associated with the project, including Loch Buidhe, Fyrish, Blackhillock and Spittal, receiving consent and work continuing to secure the marine licence and approval for the overhead line elements. The cable will be capable of transmitting around 1,200MW of electricity and has a forecast investment requirement of around £1.2bn (2012/13 prices). This proposal to develop a subsea cable retains the flexibility to accommodate further generation developments in the north of Scotland as and when the need to do so arises.
- **East Coast 400kV:** SHE Transmission is planning to upgrade the existing east coast transmission line in response to generators' requirements, from an operating voltage of 275kV to 400kV, with associated substation developments. The line runs from Blackhillock in Moray to Kincardine in Fife. Planning consent has been received for the substations along the line and work continues to secure approval for the overhead line. The project is a key reinforcement in the Scottish Government's National Planning Framework for Scotland and has a forecast investment requirement of around £400m (2012/13 prices).

The key driver for the above projects, which could represent an investment of around £1.8bn, is the need to accommodate renewable energy developments in the north of Scotland. In line with this, SHE Transmission expects to invest around £350m in 2013/14, possibly rising to around £500m each year over the next few years. Throughout that period it will be, in essence, a construction business. In this context, the enforcement of SSE's Major Projects Governance Framework, including strong control over risk and project management, is absolutely critical.

In addition, SHE Transmission is working with National Grid Electricity Transmission and SP Transmission to facilitate the proposed development of a 2GW East Coast HVDC subsea link between the north of Scotland and centres of electricity demand. This project is subject to some uncertainty in generation scenarios, against which a cost benefit assessment is being carried out in order to ensure that the preferred option for development remains economic and efficient.

### **Working with stakeholders on the Scottish island groups**

As stated above, SHE Transmission's plans for 2013 to 2021 include approved capital expenditure of £1.4bn; there is also flexibility to increase this very significantly, to upgrade the transmission network during 2013-21 in response to the needs of electricity generators. This need is demonstrated by developers meeting commercial obligations under connection agreements, thus enabling SHE Transmission to make the case for funding for transmission investment with Ofgem.

However, developer confidence is currently affected by a period of regulatory and policy change, including the outcome of the UK government's Electricity Market Reform proposals and the transmission charging regime changes envisaged by Ofgem's Project TransmiT.

In recognition of some of the challenges faced by developers of generation on the Scottish Islands, including the Western Isles, Orkney and Shetland, the UK Government has published a consultation on Additional Support for Island Renewables.

Those seeking to develop on the islands have now had a chance to respond to the consultation and SHE Transmission will be engaging with all stakeholders, particularly developers, on the islands to understand their position. Until there is a clear indication that the level of support put forward by UK Government meets renewable developers' requirements, SHE Transmission will not be able to make further progress through the regulatory approval process. In the meantime, it will continue to seek planning consents and engage the supply chain.

### **Working with customers and stakeholders**

The programme to expand the network to facilitate the growth of electricity generation from renewable sources is of interest to a wide range of individuals and organisations including developers, communities, national and local government, the supply chain and trade organisations.

SHE Transmission is committed to being open and transparent about its programme and undertakes a number of initiatives to keep stakeholders up to date, in line with a key commitment in the SHE Transmission Customer Charter to report regularly on performance.

### **Electricity Transmission priorities for 2013/14 and beyond**

For the SHE Transmission business, the core activity for much of the next decade will be construction. Against this background, its priorities for 2013/14 and beyond are to:

- meet key milestones in projects under construction, in a way that is consistent with all safety and environmental requirements;
- implement the new operational regimes for the 2013-21 Price Control and maintain high levels of system availability;
- work within the changing policy framework and, where possible, achieve regulatory approval for new links in an efficient and timely manner;
- make progress with projects in development, including implementing the programme of consulting with, and updating, interested parties;
- maintain and develop effective stakeholder relationships; and
- ensure it has the people, skills, resources and supply chain relationships that will be necessary to support growth.

## **Electricity Distribution**

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

The performance of SSE's two electricity distribution companies during the six months to 30 September 2013 was as follows (comparisons with the same period in 2012):

- operating profit\* increased by 9.0% to £232.0m;
- electricity distributed rose by 0.1TWh to 18.8TWh;
- the average number of minutes of lost supply per customer was 33 in the north (33) and 32 in the south (33); and
- the number of supply interruptions per 100 customers was 37 in the north (33) and 36 in the south (31).

The increase in operating profit\* principally reflected additional allowed revenue under the existing Distribution Price Control and revenue resulting from the increase in the volume of electricity distributed during the first six months of the financial year (see below) in addition to continued emphasis on the control of costs.

### **Volume of electricity distributed**

The total volume of electricity distributed by the two companies in the six months to 30 September 2013 was 18.8TWh, compared with 18.7TWh in the same period in 2012. Under the electricity Distribution Price Control for 2010-15, the volume of electricity distributed does not affect companies' overall allowed revenue (although it does have an impact on the timing of revenue collection).

### **Keeping the lights on and restoring power**

Capital expenditure in electricity distribution networks was £128.2m in the six months to 30 September 2013, taking the total for the 2010-15 Price Control so far to £889.3m. The RAV of the electricity distribution networks totalled almost £3.0bn at the end of September and is expected to reach around £3.1bn by the end of 2013/14.

This investment contributes to the key priority of providing an excellent service to customers by delivering a reliable supply of electricity. Investing in the network to maintain reliability takes a number of forms including:

- keeping assets in good condition through a regular programme of inspection, maintenance, refurbishment and replacement;
- investing in areas to reinforce the existing network or build new lines to provide an alternative supply should the existing line be damaged;
- fast response to faults with up to 1,000 people based in 40 sites in the south of England and north of Scotland supported by Network Management Centres in Perth and Portsmouth; and
- communication with customers during planned and unplanned interruptions through telephone, website, email and social media.

SSE now restores supplies within 12 hours to over 99% of customers who experience an unplanned interruption. To achieve this it uses a combination of fast response teams and innovative technologies to find and repair faults quickly.

This was recently illustrated when over 1,100 engineers and support staff were deployed to repair over 1,000 separate incidents of damage to overhead lines and restore electricity supply to around 110,000 customers in central southern England following the storm of 28 October.

### **Managing an efficient network on behalf of electricity customers**

Each year customer tariffs are set to recover the amount of money agreed with Ofgem during the Price Control review. In turn, electricity supply companies then include these costs in the charges they make to their customers. Ofgem currently estimates that electricity distribution charges make up around 16% of an average GB household electricity bill.

Investment in the electricity distribution network in the coming years will need to take account of the evolving way in which customers use electricity. The drivers for change are numerous and include:

- further growth of large distributed generators, as well as widespread community and micro-generation using solar, hydro and wind;
- increasing electrification of heat and transport; and
- significant energy conservation.

All of this will change the traditional flows of electricity, which means smarter, more dynamic networks will be required.

Therefore, since any investment in the electricity distribution network is ultimately paid for by customers, the approach adopted is to undertake required investment, either through conventional reinforcement, refurbishment, replacement or use of new technologies, and to use innovation to keep costs down. At the same time SSE's distribution companies are required to deliver the outputs agreed with Ofgem as part of the Price Control settlement.

In SSE's distribution areas of the north of Scotland and southern central England, the tariffs in 2013/14 that recover allowed revenue increased by less than 5% and the element of allowed revenue that impacts on domestic tariffs, which is passed through to customers by electricity supply companies, increased by an average of 6%.

### **Innovating for the future of electricity networks**

SSE's electricity distribution businesses are leading the way in keeping costs down for customers and preparing for the future through innovation. On Orkney, for example, an Active Network Management scheme uses advanced IT systems to balance energy flows, thereby allowing many small and medium sized generators to connect to the network in areas where there is no permanent spare capacity. SSE's electricity distribution businesses are moving towards further implementation with the first new area in the north east of Scotland.

In addition, two major 'smart' projects, with total approved funding under the Ofgem Low Carbon Networks (LCN) Fund of £27m are being led by SSE's electricity distribution businesses:

- **Thames Valley Vision (TVV)**, based in and around Bracknell, aims to demonstrate that by applying new technologies to the local network SSE Power Distribution can provide a lower cost alternative to redeveloping the network to meet increasing electricity use; these trials also have potential to significantly reduce costs to customers. By using a range of innovative technologies, including network monitoring and modelling, energy storage and Automated Demand Response ('ADR') to predict and manage electricity usage patterns SSE Power Distribution hopes to better manage network flows. The ADR trials are a UK-network first and local businesses are beginning to see the benefits of reduced loads,
- **My Electric Avenue**, in which SSE, as the host electricity distribution company, is working with EA Technology to undertake a series of trials with electric vehicle drivers to assess their cars' impact on the network. The project requires at least seven 'clusters' of ten customers who are all supplied by the same substation, to drive a Nissan Leaf for 18 months and trial a new device that will monitor and control the electricity used when the car is being charged. To date five clusters have successfully been signed up. With the excellent progress being made, Ofgem has agreed to release funding early to enable the project to provide these clusters with Nissan Leafs, and look to begin the trials.

SHEPD has also submitted the Shetland Integrated Plan to Ofgem to manage future supply and demand. The plan explains how the ongoing **Northern Isles New Energy Solutions (NINES)** project is using heat and electricity storage to manage intelligently the impact of movements in demand on electricity generation. Alongside new active network management solutions, this will allow more renewable energy to be connected in Shetland in the coming years. NINES has also helped to shape the main proposal for a modern replacement for Lerwick Power Station for which there is a commercial tendering process under way. The proposed power station will play an essential role in providing a reliable and secure electricity supply to the islands' homes and businesses. Subject to planning consent and regulatory approval, it is expected to provide the main source of generation on Shetland from 2017.

The deployment of innovations and technologies, as well as good performance in response to Ofgem's enhanced incentive mechanisms in areas such as customer service, should enable SSE to continue to achieve the post-tax real return of at least 5% during the current price control, which it is targeting in electricity distribution.

### **Value for customers in the new electricity distribution Price Control**

RIIO-ED1 will be the first electricity distribution Price Control review to reflect the new regulatory framework first adopted in RIIO-T1 and RIIO-GD1. It will run from 2015 to 2023. In line with wider trends in electricity networks, it puts an emphasis on incentives to secure the innovation required for low carbon transition. As in previous Price Controls, close scrutiny of the costs involved in electricity distribution is expected.

Scottish and Southern Power Distribution (SSEPD) submitted a Business Plan for Southern Electric Power Distribution and Scottish Hydro Electric Power Distribution in June 2013. In line with SSEPD's position at the forefront of efficiency, the plan contained a commitment to a 10% reduction in base demand revenue, which could have a positive impact on customers' bills, in 2015 with only inflationary increases thereafter. This will be achieved by essential and targeted network



investment, ongoing control of operating costs, year-on-year efficiency gains and the introduction of innovative technologies, all of which will enable SSEPD to keep customers bills down.

The Business Plan builds on customers' feedback with a proposal for 12 measurable commitments that SSEPD believes will meet customers' expectations for the RIIO-ED1 period. The commitments cover safety, customer service, reducing power cuts, environmental initiatives and resilience.

The plan also recognises the importance of meeting the requirements specified by Ofgem and describes how SSEPD will achieve the regulatory targets set across the six primary output categories.

A decision will be made by Ofgem on fast-tracking at the end of November and SSEPD believes it has submitted a strong, robust plan, with customers' interests at its heart, for consideration during this process.

### **Electricity Distribution priorities in 2013/14 and beyond**

During 2013/14 and beyond SSE's priorities in Electricity Distribution are to:

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

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

## **Gas Distribution**

### **Performance in SGN**

SSE receives 50% of the distributable earnings from Scotia Gas Networks (SGN), in line with its equity holding, and also provides some, but reducing, levels of support through a managed service agreement. In the six months to 30 September 2013:

- SSE's share of SGN's operating profit\* was £138.2m, compared with £122.7m in the first six months to 30 September 2012;
- gas transported fell by 3% to 47.6TWh; and
- 98.6% of uncontrolled gas escapes were attended within one hour of notification, compared with 99%, and exceeding the Ofgem standard of 97%.

The change in SGN's operating profit\* reflects increased allowed revenue and continued good operational performance.

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 its non-regulated activities.

### **Implementing the new Gas Distribution Price Control**

SGN accepted the Final Proposals from Ofgem for its Price Control for the period 1 April 2013 to 31 March 2021 and is now working under the new RIIO framework ensuring that outputs are met, incentives are maximised and innovation is delivered effectively while running an efficient, safe and reliable network. SGN has been allowed by Ofgem over £4.6bn (at 2012/13 prices) of cost allowances to deliver these outputs efficiently.

SGN's investment programme is key to this delivery and within the overall cost allowances, Ofgem has allowed around £2.8bn over the next eight years to cover new investment and to manage the risks relating to SGN's existing assets.

This investment will allow SGN to:

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

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

By the end of 2013/14, SGN's total RAV is estimated to be £4.9bn. In the six months to 30 September 2013, SGN invested £144.4m in capital expenditure and mains and services replacement projects, compared with £ 177.6 m in the comparable period in 2012:

- The majority of the mains replacement expenditure was incurred under the Iron Mains Risk Reduction Programme (IMRRP) which was started in 2002. This requires that all iron gas mains within 30 metres of homes and premises must be replaced over a 30-year period. In the six months to 30 September 2013, SGN replaced 468km of its metallic gas mains with modern polyethylene plastic pipe.
- SGN is also committed to making new gas connections to existing homes which are not on mains gas as affordable as possible, and is running an Assisted Connections scheme, under which 2,738 properties were connected to its networks during the six months to September 2013.

Investment will continue to be a top priority for SGN and, in line with that, it expects to invest around £300m in capital expenditure and mains and service replacement projects during 2013/14.

### **Making gas networks more sustainable**

Following the delivery of the country's first commercial-scale anaerobic digester and biomethane-to-grid project in Poundbury, Dorset, SGN now has 14 sites under investigation in order to develop this technology so that larger volumes of biomethane can be introduced into the network. SGN believes this innovation will help the UK meet its decarbonisation targets, contribute to the UK's energy security and help with energy affordability.

SGN has received enquiries from over 100 biomethane producers and is in discussions with potential partners for a small number of biomethane projects with potential to be delivered in the next 18 months in Scotland and southern England.

### **Gas Distribution priorities in 2013/14 and beyond**

During 2013/14, SGN refreshed its company goals. SGN's key priorities are now to:

- deliver excellent levels of safety and operational performance;
- create an inclusive and engaged team, proud to work;
- shape the future of a low-carbon environment by leading the way in the development of green gas;
- minimise its effect on the environment and have a positive impact on local communities;
- meet regulatory outputs and maximise incentives, while continuing to deliver value for all stakeholders;
- deliver a strong financial performance and an acceptable shareholder return; and
- grow unregulated income to support the core business and build a diversified portfolio of assets in the UK.

## **Other Networks**

### **Performance in Other Networks**

SSE's 'Other Networks' businesses – Lighting Services, Utility Solutions and Telecoms – are relatively small when compared with its economically-regulated energy networks, and they operate in tough and competitive markets. Their contribution to SSE's operating profit\* increased, from £14.7m in 2012 to £18.0m, despite challenging trading conditions.

### **Maintaining leadership in lighting services provision**

SSE remains the UK's and Ireland's leading street-lighting contractor. At 30 September 2013, it had:

- 22 contracts with local authorities in England, Wales and Scotland to maintain over 630,000 lighting units;
- 16 consolidated contracts with local authorities in the Republic of Ireland to maintain over 245,000 lighting units, through Airtricity Utility Solutions (this was previously 28 individual contracts) ; and
- 11 contracts under the Private Finance Initiative, to replace and maintain nearly 630,000 lighting units.

Lighting Services is making good progress on a number of the PFI contracts with the largest contract, Hampshire, passing the half way point. Work also continues with a number of these local authorities on installation of the 'fit and forget' models aimed at reducing unit maintenance regimes, improving efficiency, cost effectiveness and saving energy.

Success in Lighting Services depends in part on effective long-term management of contractual relationships with local authorities and, as in electricity distribution, on effective and efficient customer service and successful deployment of new technology.

### **Providing comprehensive Utility Solutions**

SSE provides a comprehensive range of 'utility solutions'. It designs, builds, owns, operates and maintains cable and pipe networks for delivering electricity, gas, water and heat 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. Utility Solutions now has:

- 155 energised electricity networks outside the traditional areas served by SSE's electricity distribution businesses;
- 115,000 properties connected to its gas mains and services;
- 22 water 'inset' appointments; and
- 3,000 customers connected to eight District Heating networks.

### **Operating a national telecoms network**

SSE Telecoms provides high-capacity resilient network and data centre services to UK IT service providers, the public sector and corporate customers. Its reputation for project delivery and high availability is based on the effective management of assets including 13,743km of fibre optic and microwave links, an increase of 16% in the last 12 months, and a 10MW, 80,000 square feet data centre built to exceed the Tier 3 standard. In addition, SSE Telecoms manages SSE's internal call centre, telephony and data network infrastructure.

Significant contract wins in the last six months include Thomson Reuters choosing SSE Telecoms as a preferred UK data centre operator as part of its global data centre consolidation. The UK universities' service provider Janet successfully launched Janet6, using 6,500km of SSE Telecoms' network to provide the UK's research and education community virtually limitless scope for collaboration and technical innovation.

The expansion of SSE Telecoms' network has progressed well, reducing its cost to service high-density business areas and metropolitan data centres where it sees the greatest growth in demand.

SSE Telecoms remains committed to its longer-term strategy, focused on four key objectives:

- increasing geographic coverage to offer competitive service to more customers;
- facilitating fast and reliable cloud service delivery;
- developing new high-capacity, high availability network services; and
- becoming ever-easier to work with as a service provider through automation.

### **Other Networks priorities in 2013/14 and beyond**

Lighting Services, Utility Solutions and Telecoms have specific priorities for 2013/14, but across all of them there is a continuing need for:

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

### **Networks – Conclusion**

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

## RETAIL

Retail Key Performance Indicators	Sep 13	Sep 12
<b>ENERGY SUPPLY</b>		
Operating (loss)/profit* - £m	(115.4)	48.3
GB domestic electricity customer accounts – m	4.83	4.97
GB domestic gas customer accounts – m	3.33	3.43
GB business energy customer sites – m	0.42	0.41
All-Island Energy market customers (Ire) – m	0.83	0.79
<b>Total energy customer accounts (GB, Ire) – m</b>	<b>9.41</b>	<b>9.60</b>
Electricity supplied household average (GB) – kWh	1,713	1,773
Gas supplied household average (GB) – therms	133	142
Household/small business aged debt (GB, Ire) - £m	117.0	100.6
Customer complaints to third parties (GB) <sup>1</sup>	619	421
<sup>1</sup> Energy Ombudsman, Consumer Focus and Consumer Direct		
<b>ENERGY-RELATED SERVICES</b>		
Operating profit* - £m	26.0	27.0
Home Services customer accounts (GB) – m	0.40	0.41
Meters read – m	7.1	7.3
SSE Contracting Businesses Order Book - £m	86	102

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

SSE's Retail segment comprises two business areas: Energy Supply and Energy-Related Services.

SSE is the second largest energy supplier in the competitive market in Great Britain and also the second largest supplier in the competitive markets in Ireland. At 30 September 2013, it supplied electricity and gas to 9.41m million household and business accounts under brands such as SSE, Scottish Hydro, Southern Electric, SWALEC and Atlantic in the Great Britain market and Airtricity in the markets on the island of Ireland.

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

### Financial Performance in Retail

The Retail division incurred an operating loss of £89.4m in the first six months of the year. This was due to a loss of £115.4m in Energy Supply, compared with a profit of £48.3m for the same six months in 2012. Energy-Related Services' operating profit fell by 3.7% to £26.0m, reflecting tough market conditions.

As a result of SSE's commitment to operational and financial discipline, however, it is expected that Retail will be profitable in 2013/14 as a whole and, based on adjusted operating profit as a percentage of revenue, it is expected that profit margin in Energy Supply will remain below 5%. In 2012/13, it was 4.2%, up from 3.5% in the previous year.

## Energy Supply

### Financial Performance in Energy Supply

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

- the weighted average cost of electricity, made up of fuel used in generation plus associated costs of CO<sub>2</sub> emissions, power purchase agreements and direct bilateral electricity contracts; and
- the weighted average cost of gas, made up of gas purchase contracts and direct bilateral gas contracts and gas storage.

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

The operating loss in Energy Supply of £115.4m reflected the impact of higher wholesale gas, distribution, environmental and social costs; and the spring and summer period of lower energy consumption. In order to recover this loss, cover rising costs and sustain its commitment to cap prices until at least the Autumn of 2014, SSE announced on 10 October an average increase in household electricity and gas prices in Great Britain of 8.2%.

SSE believes that politicians could help customers by transferring the costs arising from the environmental and social policies pursued by all main parties in government from the energy bill payer to the tax payer. This would take up to £4 billion off energy bills in Great Britain and up to £8 billion a year by 2020 - cutting a typical dual fuel bill by around £110 this year alone and redistributing the costs to those more able to afford it.

### **Supplying energy to customers in Great Britain and Ireland**

In the six months to 30 September 2013, SSE's energy customer account numbers in Great Britain and Ireland fell from 9.47 million to 9.41 million. This comprised:

- 4.83 million domestic electricity accounts in GB;
- 3.33 million domestic gas accounts in GB;
- 0.42 million business electricity and gas accounts in GB; and
- 0.83 million electricity and gas accounts in Northern Ireland and the Republic of Ireland.

Within the overall total, 2.4 million customer accounts in Great Britain are for loyalty and fixed term products, up from 2.1 million at the same point in 2012. These include M&S Energy, available to customers through Marks and Spencer's stores and website.

SSE has continued to increase customer account numbers on the island of Ireland, while there has been a reduction in Great Britain. Energy customer account numbers across Great Britain and Ireland are still less than 3% below SSE's peak in March 2011. SSE does not target a particular number of customer accounts: its objective is to gain and retain customers for the long term by providing the best possible value for money, the highest standards of customer service and associated products and services.

### **Moving on from the past**

SSE accepted immediately the £10.5m fine announced by Ofgem on 3 April 2013 relating to breaches of two Standard Licence Conditions: Notification of Domestic Supply Contract Terms, and Marketing to Gas/Electricity Domestic Customers. In the six months following that, it made 12,100 payments averaging £67 under its Sales Guarantee.

The Guarantee, the only one of its kind in the energy sector in Great Britain and Ireland, means that any customer who shows that they switched energy supplier to SSE after being given inaccurate information or being misled has any resulting loss made good. SSE set aside £5m for the retrospective implementation of its Sales Guarantee and the balance of unspent funds will be given to energy-related charities before the end of the year. Meanwhile, the Sales Guarantee continues to apply to any energy sale made by SSE in the future.

In August 2013 SSE announced that it had ended the practice of unsolicited telephone calls to potential customers in Great Britain – recognising that they are unwelcome and many people find them intrusive. In future the company will only contact customers it already has a relationship with or potential customers who have previously agreed to a call. SSE was the first major energy company to end cold-calling for customers and its lead was swiftly followed by a competitor.

### **Implementing the Retail Market Review**

SSE is in a strong position to complete reforms promoted by Ofgem's Retail Market Review. SSE had already introduced a voluntary package with many of the features of RMR before it was introduced. Nonetheless, the package has taken significant effort to implement and includes interventions to:

- limit tariff numbers;
- simplify tariffs and discount structures;
- prescribe provision of information to customers; and
- impose new Standards of Conduct for licence holders.

In August 2013, SSE launched its own Standards of Conduct, *Treating Customers Fairly*. It sets out what SSE means by treating customers fairly and its Customer Charter gives more information about what customers can expect. SSE also has other documents which give advice on its responsibilities and commitments to customers, such as its Complaints Handling Statement, and the overall aim of all of this is to promote fairness, honest and transparency.

### **Continuing to put customers first**

To provide customers with the best possible value for money SSE believes that it should deliver excellent customer service, simple products and fair prices. In recent years it has consistently led the energy supply industry in customer service and become a benchmark for other energy suppliers.

Nevertheless, during the six months to 30 September 2013, the number of SSE-related complaints to third party organisations (Ombudsman Services: Energy, Consumer Futures' Extra Help Unit and the Citizens Advice Consumer Service) was 619, compared with 421 in the previous year. The increase reflects greater sensitivity on the part of customers to all aspects of their energy supply at a time of higher prices and greater public scrutiny.

Despite this rise in complaints to third parties, SSE was again ranked number one for customer service in the uSwitch Customer Satisfaction Report, with customers putting SSE into the top spot for the eighth year in a row in the most recent survey (October 2013).

SSE's best-in-class service is underpinned by its Customer Service Guarantee (launched February 2013) which promises to meet five key customer service commitments or give customers £20 off their next bill, based on three core objectives:

- finding ways to save customers money;
- making life easier for customers; and
- helping customers when they need it most.

The Customer Service Guarantee illustrates SSE's commitment to holding itself accountable to its own high standards. By the end of September 2013, SSE had made 740 individual payments of £20.

### **Participating in a competitive market**

Great Britain continues to have amongst the cheapest prices in Europe and also has the most energy suppliers with over 5% share (six) of any energy market in the EU 15. By generally-recognised metrics such as switching rates, price or market concentration, the GB market is a very competitive place to do business. While the fundamentals of a competitive market are in place, levels of consumer confidence need to be higher and SSE welcomes any practical proposals for achieving this.

In October 2013, the UK Secretary of State for Energy and Climate Change confirmed that there will be annual reviews of the state of competition in the energy markets in Great Britain. The first of these assessments will be undertaken by Ofgem, working with the Office of Fair Trading and the Competition and Markets Authority. SSE believes that a balanced audit of this kind should be a positive step in reinforcing customers' confidence in energy suppliers.

### **Communicating with customers through digital channels**

Digital channels are now established as an important way of communicating with customers. In Ireland SSE leads the energy supply sector in digital services to domestic customers with around half of customer interactions, such as submitting meter readings, making secure payments and updating personal account details carried out through Airtricity's online self service channel. SSE is also the leading innovator of mobile communications methods in the Irish energy supply sector with technology in place that supports a broad range of customer activity on smart-phone devices.

Across Great Britain and Ireland SSE has over 2 million customers who receive paperless billing. Customers can view their account and payment history, submit meter readings and receive an up-to-date balance on their account and make secure payments on their account. Customers can also undertake online Annual Energy Reviews.

Providing customers with a high-quality user experience when they choose to utilise digital channels is now one of SSE's top customer service priorities. Substantial investment is being made in digital services based on a customer proposition that is simple, value-adding and relevant. SSE is working to ensure that all of the main customer service requirements are available online and plans to broaden the digital touch points on offer, reflecting customers' enthusiasm for these channels evidenced across the energy supply and other sectors.

### **Helping customers save energy**

Weather during April and May 2013 was cooler than normal, similar to 2012 and significantly cooler than previous recent years. The months of June, July and August, however, were warmer than normal. As a result, SSE estimates its household customers in Great Britain used in the six months to 30 September 2013, on average (comparisons with the previous year):

- 133 therms of gas (142); and
- 1,713 kWh of electricity (1,773).

While short term weather has an impact on usage, the longer-term weather-corrected position is as follows:

- Average annual household consumption of electricity by SSE's customers has fallen by over 15% since 2008; and
- Average annual household consumption of gas by SSE's customers has fallen by almost 22% since 2008.

This illustrates the distinction between the price of a unit of energy and the amount customers pay for heating and powering their homes.

The decline in energy consumption is expected to continue for the next few years. SSE has observed greater reductions in gas than in electricity, most likely due to the installation of more efficient boilers and energy efficiency improvements to dwellings lowering gas heating requirements. Electricity demand is also reducing, but efficiencies in appliances are balanced by increasing household technology.

Ofgem recently announced that from January 2014 it will be reducing its benchmark typical domestic consumption values for gas and electricity by 18% and 3% respectively to 13,500kWh of gas and 3,200kWh of electricity. As recently as 2010, the value for gas was 20,500kWh. Based on the new figures, on 15 November 2013 SSE's average annual standard dual fuel energy bill will rise from £1,131 to £1,224.

### **Delivering past energy efficiency obligations**

As a leading energy supplier, SSE had historic obligations under the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Scheme (CESP) to deliver energy efficiency measures to households throughout Great Britain.

SSE has always agreed with the aims of the schemes and has achieved significant energy and financial savings for customers. For example through CERT, SSE insulated nearly 500,000 cavity walls and nearly 700,000 lofts between 2008 and 2012. Following verification work with the Department of Work and Pensions (DWP) SSE was able to show it delivered its obligations.

In relation to CESP, SSE acknowledges that despite best efforts it was not able to physically deliver all of the obligations by December 2012. However, contracts were in place shortly afterwards for the delivery of the obligations in full. In line with some other energy companies, SSE's delivery at the reporting date was under 100% of the target because it did not achieve the scheme's bonus uplifts for multiple measures in a home and density bonuses within an area. Despite this, SSE delivered nearly twice the unadjusted carbon reduction (i.e. the real carbon, before bonuses) and spent £40m more than was suggested in DECC's impact assessment. It has



now delivered all of the measures required and therefore does not believe there has been any significant detriment to customers.

Ofgem announced in May 2013 that it will investigate SSE and five other energy companies' failure to achieve 100% of the CESP obligation by the cut-off date. SSE will co-operate fully with Ofgem as it considers further actions in relation to CESP.

### **Delivering the Energy Company Obligation**

SSE continues to help customers to reduce their consumption through energy advice and also via Government policies such as the Energy Company Obligation, which was introduced at the start of 2013. ECO creates a legal obligation on energy suppliers to improve the energy efficiency of households through the establishment of three distinct targets:

- the Carbon Emissions Reduction Obligation, focusing primarily on hard to treat homes and with solid wall insulation and hard-to-treat cavity wall insulation as primary measures;
- the Carbon Saving Community Obligation, focusing on the provision of insulation measures and connections to district heating systems to domestic energy users that live within an area of low income; and
- the Home Heating Cost Reduction Obligation, requiring energy suppliers to provide measures which improve the ability of low income and vulnerable households (the 'Affordable Warmth Group') to affordably heat their homes.

DECC estimates the cost of ECO at £1.3bn a year; an independent report by economic consultancy NERA for Energy UK found it could be £2.35bn or more. Currently the market is indicating a cost of somewhere in between, with an SSE commissioned report by PA Consulting showing the first few months to have a projected cost of £1.5bn a year, but with significant potential to escalate given historic scheme trends and the fact that at present it is the easier and cheaper measures being installed. Over the scheme, SSE expects to incur ECO-related costs of over £600m, the costs are recorded when measures are delivered or other qualifying expenditure has been incurred.

Whilst supportive of the ambitions behind ECO, given this potentially huge variation in costs, SSE has been engaging with the Government regarding potential solutions so that consumers, who will pay the cost of ECO via their gas and electricity bills, are not unduly penalised should costs escalate. These include:

- removing the cost of the scheme from bill payers and placing it in general taxation;
- capping the costs of the scheme; and
- extending the duration of the scheme beyond March 2015 to smooth costs.

Given the expected cost escalation and that it is ultimately paid for through energy bills and delivered by companies supplying more than 250,000 domestic customers, the ECO highlights a number of issues that are becoming increasingly acute, including equity: a larger proportion of the obligations on energy suppliers fall on electricity-only customers. This means that more than two million households in Great Britain who do not have access to the gas grid have to bear a disproportionate share of the burden of government-sponsored schemes. More broadly, SSE believes that schemes such as this should be funded by the tax-payer, not the bill-payer.

### **Continuing to help vulnerable customers**

Under the existing definition, a household is classed as being in 'fuel poverty' if it needs to spend more than 10% of its income on energy costs. The UK government is proposing new ways to measure fuel poverty. It is proposing a new definition which includes dual indicators of fuel poverty that separate the *extent* of the issues (the number of people affected) from its *depth* (how badly people are affected).

SSE believes that its customers should not have to make the choice between heating and eating and, in addition to the successful deployment of measures under energy efficiency schemes, it fulfils other key responsibilities in order to help those of its customers who struggle to pay for their basis energy needs by:

- **Giving financial assistance with energy bills:** in the first six months of this year a total of £32m has been provided to 233,000 customers in Warm Homes Discount; for 2012/13 SSE gave £50m to 370,000 customers;
- **Providing tailor-made payment arrangements:** helping customers who may be experiencing hardship and having difficulty in paying their energy bills;
- **Undertaking income maximisation checks:** delivered in partnership with Citizens Advice Direct;
- **Maintaining a Careline:** supported by specifically-trained people, extra services for vulnerable customers; and
- **Contacting potentially vulnerable customers each winter:** helping them with practical advice and support.

In addition, SSE will not disconnect the gas or electricity supply of any customer in Great Britain between 1 December 2013 and 28 February 2014, in line with its winter policy in this area.

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

At 30 September 2013, the total aged debt (i.e. debt that is overdue by more than six months) of SSE's domestic and small business electricity and gas customers in Great Britain and Ireland was £117.0m, compared with £90.4m at 31 March and £100.6 million in September 2012. A bad debt-related charge of £22.6m was recognised in the period (compared to £24.8m in same period last year). This compares with a charge of £50.7m for the full financial year 2012/13.

The general cost of living climate continues to give rise to significant debt management challenges. In addition, the introduction of Universal Credit means some customers are adapting to budgeting their income on a monthly basis. Debt less than three months old was 12% higher on 30 September 2013 than the year before and debt overdue by four to six months was 22% higher.

SSE has office- and field-based employees who work with customers to resolve debt issues. They aim to help customers by identifying as early as is practical when their payments are in arrears and contacting them as soon as possible to discuss the options available to them. This proactive approach is in the best interests of SSE and the customers concerned.

#### **Supplying energy to customers in Ireland**

Since 2009 SSE's retail brand in the Republic of Ireland and Northern Ireland, Airtricity, has made very significant strides in both the domestic and commercial gas and electricity supply markets. From a small commercial supply base, SSE's retail brand has grown in the years since so that it is now the second largest energy provider on the island based on total customer numbers and GWh of energy supplied. This means that SSE has increased its combined Republic of Ireland and Northern Ireland market share in just four years from 1% in 2009 to 22% as at 30 September 2013.

Following regulated tariff approvals by the Utility Regulator in Northern Ireland, Airtricity increased its gas prices by 8.7%, with effect from 1 April 2013 and its electricity prices by 17.8% from 1 July 2013. In the Republic, Airtricity increased its gas prices by 2% from 1 October 2013 following an increase in regulated gas prices approved there by the Commission for Energy Regulation. In the Republic's deregulated electricity market Airtricity announced a 3.5% increase in its domestic prices from 1 November 2013 as a result of sustained rises in networks costs and wholesale prices.

Through Airtricity, SSE is focused on doing more for its customers at all times. One example of this is in the Republic of Ireland where Airtricity is leading the promotion of pre-paid keypad meters as an emergent industry solution towards the management of customer debt during the current difficult economic climate and is the cheapest provider of Pay-As-You-Go electricity in the market. Airtricity has installed almost 15,000 Pay-As-You-Go meters for its most-in-need customers, representing around one third of all electricity pre-paid keypad meter installations in the market.

In line with the company's continued commitment to protecting its most-in-need customers, Airtricity ensures that it offers its Pay-As-You-Go customers its Social Need tariff, its cheapest available standard tariff, to assist those customers in better managing their current energy costs as well as any outstanding energy debt. In addition Airtricity Energy Services is partnering with local authorities in the Republic and the Sustainable Energy Authority of Ireland (SEAI) to deliver large-scale energy-efficiency improvements in qualifying households to meet the Government's Affordable Energy Strategy.

### **Supplying businesses to meet their energy needs**

SSE continues to build its business energy supply capability. It now serves 420,000 accounts in Great Britain. As in domestic retail energy, SSE seeks to take a leadership position in many of the developments within this market. SSE was praised by the Prime Minister and Energy Minister when it announced in August 2013 that it will end automatic contract rollovers for small businesses in April 2014. In a major challenge to all other suppliers in the sector, from April 2014 SSE announced it will also extend its existing micro-business back-billing commitment to cover small business customers.

SSE has taken on board feedback from customers, government and stakeholder groups and is now consulting on a new approach to contract renewals and billing that better suits the needs of small business. As part of that process, SSE is engaging in in-depth discussions with the Federation of Small Businesses, Consumer Futures and others in order to ensure that the changes being made will have the maximum possible benefit to customers. The full details will be implemented in April 2014.

### **Energy Supply priorities in 2013/14 and beyond**

During 2013/14 and beyond, SSE's priorities in Energy Supply are to:

- deliver a high and sector-leading standard of customer service, in keeping with the principles behind its Customer Service Guarantee;
- deliver mandatory energy efficiency schemes as cheaply as possible for customers;
- improve customer insight into the energy supply market and ensure that the value of SSE's products and services are better known and understood;
- identify new ways of engaging with energy supply customers, including through digital channels; and
- ensure sales of electricity and gas are conducted in a professional, transparent and compliant way, consistent with the letter and spirit of all the relevant regulations;

### **Energy-related Services**

#### **Offering a broader range of energy-related products and services**

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

- retailing of 'home services' such as gas boiler, central heating and wiring maintenance and installation, telephone line rental, calls and broadband services and microgeneration;
- supplying, installing, maintaining and reading meters in the household, commercial, industrial and generation sector in Great Britain; and
- domestic, commercial and industrial mechanical and electrical contracting and electrical and instrumentation engineering.

The provision of these and other services provides scope to expand the business and provide a quality service to customers. These products and services are clearly linked to the supply of electricity and gas and build on the company's existing strengths rather than depart from them. Progress is being made in broadening the offer to customers and developing the people and processes to capitalise on these opportunities.

#### **Providing services for the home**

SSE's Home Services offering includes gas boiler, central heating and wiring maintenance and installation. These products are marketed to householders who value the security of having their heating, hot water and electrics regularly maintained and a repairs service available when they need it. At September 30 2013 SSE had 205,000 gas/electricity maintenance contract accounts, down 5% since March 2013. It has also completed 3,400 gas central heating installations and electrical heating/wiring installations in the six months to 30 September. SSE offers retail telecoms services including telephone line rental, calls and broadband and currently provides them to 190,000 customer accounts.

#### **Playing a part in the Green Deal**

The Green Deal is a new financing mechanism for customers seeking to install energy saving home improvements. It works on a 'pay as you save' principle under which the expected financial

savings arising from the improvements must be greater than the cost of the installation. Green Deal loan repayments are made through the customer's electricity bill.

SSE has undertaken significant investment in delivering the customer facing and IT systems obligations with respect to the Green Deal which it has to fulfil as an energy supplier. These include payment, collection and remittance. The system delivery was highly challenging but delivered in time for the scheme launch.

SSE has launched its own Green Deal offering to domestic customers in order to further promote home energy efficiency and believes this could be a helpful mechanism for customers to reduce their energy usage. There has already been an encouraging interest in the scheme from their customers with many looking to book a Green Deal Assessment survey which is the first step of the process.

#### **Maintaining a national metering business**

SSE's metering business undertakes meter reading operations and meter operator work in all parts of the UK. It also provides services to most electricity suppliers with customers in central southern England and the north of Scotland. It supplies, installs and maintains domestic meters and carries out metering work in the commercial, industrial and generation sectors. It also offers data collection series to the domestic and SME sectors. The number of SSE electricity and gas supply customers who receive bills based on actual meter readings now stands at 96.7%. SSE Metering has also installed just over 19,000 AMR (automatic meter reading) meters which are remotely read. During the six months to 30 September, SSE collected 4.3 million electricity readings and 2.8 million gas readings.

#### **Preparing for the roll-out of smart meters**

Smart meters which will allow the quantity and value of electricity and gas use to be continuously monitored by the customer and exchanged with the supplier electronically are expected to transform energy supply in Great Britain. Around 53 million smart meters are due to be installed in around 30 million homes and businesses; of these, SSE is due to install around nine million meters.

SSE welcomed the announcement in May 2013 of changes to the delivery timetable for the national rollout of smart meters which mean that the foundation phase will extend to the final quarter of 2015, when the mandated deployment will commence. The target date for completion of the roll-out is now the end of 2020.

SSE has consistently maintained a strategy of developing consumer-friendly, scalable, strategic solutions for smart metering, avoiding interim solutions and asset stranding wherever possible. This means taking a measured, realistic approach to the roll-out of smart meters. SSE has installed a small number of smart meters in customers' homes to date while developing the necessary IT systems to support the wider roll-out. Further installations are planned in the remainder of 2013/14 to continue to develop systems, processes and organisational capability for mass deployment and deliver an excellent customer experience. Investment in systems relating to smart meters made up the majority of capital and investment expenditure in Retail, which totalled £37.9m in the six months to 30 September 2013.

#### **Managing a leading mechanical and electrical contracting business**

SSE Contracting delivers mechanical and electrical services to a wide range of businesses and manufacturers and has two principal areas of activity:

- industrial, commercial and domestic mechanical and electrical contracting; and
- electrical and instrument engineering.

The business continued to make solid progress in the six months to 30 September, with new business such as three-year mechanical and electrical maintenance contract for Network Rail in the East Anglia region and a three-year framework contract for Northern Gas Networks covering 250 sites.

### **Energy-related Services priorities in 2013/14 and beyond**

SSE's priorities in Energy-Related Services in 2013/14 and beyond are to:

- develop and deploy safely the right portfolio of products and services;
- deliver high standards of customer service; and
- anticipate the changing requirements of customers.

### **Retail – Conclusion**

SSE recognises that its Energy Supply business is, and will continue to be, the subject of significant consumer, political and regulatory scrutiny. In this environment, its focus remains on adopting and delivering continually higher standards of operation, including much greater use of digital channels and engaging with customers in ways that are genuinely customer-friendly. It will continue to work with all interested parties to help make energy supply and related services affordable in a way that is truly sustainable.

## WHOLESALE

Wholesale Key Performance Indicators	Sep 13	Sep 12
<b>Energy Portfolio Management (EPM) and Electricity Generation</b>		
EPM and Generation operating profit* - £m	86.2	99.5
EPM and Generation capital expenditure and investment - £m	363.1	311.6
<b>EPM</b>		
Total wholesale electricity traded on N2EX Auction - GWh	47,582	43,551
Total wholesale electricity traded with small suppliers - GWh	436	32
<b>GENERATION</b>		
Gas- and oil-fired generation capacity (GB) – MW	4,270	4,470
Gas- and oil-fired generation capacity (Ire) – MW	1,068	0
Coal-fired generation capacity (inc biomass co-firing) - MW	4,215	4,370
Renewable generation capacity GB and Ire (inc pump storage) - MW	3,237	3,208
<b>Total electricity generation capacity (GB and Ire) – MW</b>	<b>12,790</b>	<b>12,048</b>
Gas power station availability - %	92	98
Coal power station availability - %	89	86
Hydro storage at end September - %	44	40
Onshore wind farm availability %	97	98
Gas- and oil-fired (inc CHP) output (GB and Ire) - GWh	5,577	3,977
Coal-fired (inc biomass co-firing) output- GWh	6,832	7,495
<b>Total output from thermal power stations (GB and Ire) - GWh</b>	<b>12,409</b>	<b>11,472</b>
Conventional hydro output – GWh	1,070	1,042
Wind energy output (GB and Ire) – GWh	1,969	1,698
Dedicated biomass output – GWh	38	65
<b>Total output of renewable energy (GB and Ire) – GWh</b>	<b>3,077</b>	<b>2,805</b>
<b>Total output from pumped storage – GWh</b>	<b>93</b>	<b>133</b>
Note 1: Capacity is wholly-owned and share of joint ventures		
Note 2: Output is electricity from power stations in which SSE has an ownership interest (output based on SSE's contractual share)		
Note 3: Capacity includes 735MW of mothballed plant at Keadby		
<b>GAS PRODUCTION</b>		
Gas production operating profit* - £m	69.0	16.5
Gas production – m therms	206.8	80.5
Gas production capital investment – £m	15.7	2.8
<b>GAS STORAGE</b>		
Gas storage operating profit* - £m	5.2	6.9
Gas storage customer nominations met - %	100	100

### Sustainably sourcing and producing energy

SSE has adopted three long-term priorities across its balanced range of businesses which reflect, and respond to the issues arising from the energy 'trilemma'. For its Wholesale segment this long term priority is sustainability in energy production through a diverse portfolio, that helps keep the lights on by being available to produce energy when it is required and is flexible enough to respond to changes in demand when they occur.

SSE's Wholesale segment delivers this through four different business areas:

- **Energy Portfolio Management (EPM)** is responsible for ensuring SSE has the energy supplies it requires to meet the needs of its customers, for procuring the fuel required by the generation plants that SSE owns or has a contractual interest in and selling the power output from this plant in the wholesale market.

- **Generation** is responsible for the operation and management of SSE's generation assets, their maintenance and ensuring this plant is available for use by EPM.
- **Gas Production** is responsible for the efficient delivery of gas from the physical gas fields that SSE has a shared ownership in.
- **Gas Storage** is responsible for the operation and management of SSE's gas storage facilities, their maintenance and ensuring the plant is available for use by SSE and third parties.

EPM and Generation are not reported as discrete profit centres or activities but their shared objective is to provide the lowest cost input to SSE's Retail business for the provision of energy to customers, consistent with the EU Regulation on Energy Market Integrity and Transparency (REMIT).

### Financial performance in Wholesale

During the six months to 30 September 2013 operating profit\* in Wholesale was £160.4m. This comprised (comparisons with same period in 2012):

- **EPM and Electricity Generation** – £86.2m compared with £99.5m, a reduction of 13.4%. Although profitable, it was a challenging six months, impacted by continued low spark spreads for gas-fired generation as well as the introduction of auctions for all CO<sub>2</sub> emissions permits for electricity generators. There was however an increase in total electricity output in the period of 8.1% to 15.6TWh, reflecting higher renewable and gas fired output;
- **Gas Production** - £69.0m compared with £16.5m. The increase in profits reflects SSE's recent acquisitions in this area. SSE's share of gas production in the six months to September 2013 was 206.8 million therms compared with 80.5 million therms in the previous year;
- **Gas Storage** - £5.2m compared with £6.9m. Continued low gas price volatility has further reduced the spread between summer and winter gas prices resulting in a lower Standard Bundled Unit price being achieved.

### Working for customers

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

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

### Responding to key trends in the energy sector

The energy sector is undergoing a period of profound change and this is creating a range of opportunities and challenges for SSE's Wholesale businesses. The main public policy drivers of this change are those of the energy 'trilemma' - European and UK-led decarbonisation policy, security of fuel supplies and price competitiveness (affordability). These policy objectives are influencing and in turn being impacted by:

- slow economic growth implying lower electricity demand;
- uncertainties surrounding Electricity Market Reform and a regulatory framework trending towards increased central planning;
- the introduction of a UK Carbon Price Floor and the move to auction all carbon allowances under EU ETS for thermal generation plant;
- increasing system variability due to higher penetrations of variable energy sources;
- opportunities for market integration between Great Britain and Ireland; and
- forecasts of tightening generation capacity in Great Britain as older plant (including coal, nuclear and gas) closes as a result of regulatory and economic pressures.

## Assessing GB electricity market reform

The UK government believes that its Electricity Market Reform (EMR), including the current Energy Bill, represents the most significant market intervention since the privatisation of electricity. It features:

- an annual minimum price for a tonne of carbon that applies only in the UK (the Carbon Price Floor);
- long-term contracts that will effectively fix the price received by generators for each unit of low carbon electricity produced (the Contract for Difference Feed-in Tariffs), with final 'strike' prices currently expected in December 2013;
- a mechanism to address the security of supply challenges resulting from plant closures and the changing nature of electricity generation (the Capacity Market), with a first auction currently planned for November 2014; and
- maximum emissions levels for electricity generation technologies (the Emissions Performance Standard).

In July 2013, Ofgem proposed new, additional interim mechanisms - the Supplemental Balancing Reserve and Demand-Side Balancing Reserve - to deal with any shortfalls in generation capacity in advance of the planned introduction of the Capacity Market in 2018. Consultation on these mechanisms is ongoing.

The origins of EMR go back to 2009, yet important detail is still to be determined and the State Aid approval process could prolong the uncertainty. All of this is making investment decisions in new thermal generation plant very difficult. Clarity and stability are, therefore, much-needed features of the UK energy policy landscape and their absence could eventually jeopardise the security of electricity supply.

In the meantime, SSE will continue to manage its portfolio of electricity generation assets in accordance with the principles set out below (see 'Managing Generation assets according to long-standing principles') and in accordance with disciplined financial management.

## Energy Portfolio Management (EPM)

### Managing an energy portfolio

In recent years, SSE has typically required around nine million therms of gas per day to supply all its customers and to fuel its power stations, and around 145GWh of electricity per day to supply all its customers. EPM has three primary routes to procure competitively and sustainably the energy and fuels it needs to meet this demand:

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

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

### Increasing wholesale market transparency

SSE has led the way in responding to stakeholders' desire for greater transparency and increased liquidity in the short-term wholesale market for electricity.

Since 30 September 2012 SSE has consistently placed 100% of its electricity generation and demand into Nasdaq OMX Group Inc. and Nord Pool Spot AS's N2EX daily auction. SSE has also introduced a series of trading commitments to smaller suppliers.



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

### **EPM priorities for the remainder of 2013/14 and beyond**

EPM priorities for the rest of the financial year include:

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

## **Generation – Great Britain and Ireland Overview**

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

SSE's primary objective for its Generation business is to maintain a diverse generation portfolio, including the largest amount of renewable energy capacity in the UK and Ireland, that helps keep the lights on by being available, reliable and flexible.

This objective is underpinned by six core principles that direct the operation of, and investment in, its Generation portfolio:

- **availability:** to respond to customer demand and market conditions;
- **capacity:** to meet the electricity needs of domestic and small business customers;
- **compliance:** with all safety standards and environmental requirements;
- **diversity:** to avoid over-dependency on particular fuels or technologies;
- **flexibility:** to ensure that changes in demand for electricity and the variability of generation from wind farms can be addressed; and
- **sustainability:** to deliver an overall cut in the CO<sub>2</sub> intensity of electricity generated through the cost efficient decarbonisation of its generation fleet

In implementing these principles SSE is focused on doing the right things now, while selecting the best projects for the future. This means capital and management resources are employed in areas and at stages where SSE best retains competitive advantage, supports business growth, makes economic sense, maximises shareholder value and supports continued dividend growth.

### **Maintaining a diverse Generation portfolio**

SSE is maintaining and investing in a diverse and sustainable portfolio of thermal and renewable generation plant. In moving towards a lower carbon generation mix SSE will, by the end of the decade, transition its generation assets from a portfolio weighted towards gas and coal, towards a portfolio more weighted towards gas and renewables.

The practical application of this principle means that SSE currently owns or has an ownership interest in around 12,800MW of capacity, which comprised at 30 September 2013:

- 4,270 MW of gas-and oil-fired capacity (GB);
- 1,068 MW of gas- and oil-fired capacity (Ire);
- 4,215 MW of coal-fired capacity (with biomass co-firing capability); and
- 3,237MW of renewable capacity (including hydro, pumped storage, onshore wind and offshore wind).

With this portfolio SSE has the greatest fuel diversity for producing electricity amongst UK generators and retains the most flexible fleet. It also makes SSE the largest generator of electricity from renewable sources across the UK and Ireland.

### **Reducing the carbon intensity of electricity generated**

A priority for SSE is a continuing cost-efficient reduction in the carbon intensity of the electricity produced by its generation fleet. This goal will be achieved through a diverse range of solutions including:

- the commissioning and development of additional renewable energy capacity;
- lower emissions from more efficient and flexible gas-fired generation;

- delivering innovative solid fuel solutions at coal-fired stations; and
- reduced output from coal-fired stations as they use up their allocated running hours under the EU's Industrial Emissions Directive.

## Generation – Great Britain

The market conditions for electricity generation in Great Britain remain challenging. The extent of this can be seen by the very different issues impacting on SSE's thermal and renewable generation assets and the fact that public policy decisions can have quite different impacts on each portfolio.

### Responding to market and policy impacts on generation

The six months to September 2013 have seen the lowest spark spreads - the difference between the cost of gas and emissions allowances used by a CCGT and the value of the power produced - in the history of the GB power market. Average spark spreads were around £1.50/MWh lower than the comparable period last year. The combination of low coal prices and increased output from renewable sources has meant that the UK gas-fired fleet has continued to operate at lower load factors than in previous years. Older, less efficient plant has continued to struggle to cover the fixed costs of staying open. Forward sparks have also deteriorated further, indicating a market expectation that the environment will remain challenging for CCGTs.

Whilst low coal prices have resulted in favourable operating conditions for coal-fired plant in the short-run, emissions regulations - including the constraints imposed by the Industrial Emissions Directive, the introduction of the Carbon Support Mechanism and the move toward full auctioning of EU carbon allowances - have begun to weigh heavily on the longer term viability of thermal generation plant.

From 1 April 2013 the UK government introduced a new Climate Change Levy tax in the form of the Carbon Price Support Rate. This acts as an additional CO<sub>2</sub> emissions cost of about £5/tonne in 2013 for fossil-fuelled generation in GB, on top of the cost of complying with EU ETS. The additional cost is set to rise to about £18/tonne in 2015/16 (the furthest point for which the rate has been confirmed). This will add further substantial costs to the operation of fossil-fuelled plant, particularly coal. The levy may rise further to give a total effective carbon price of £30 in 2020 (in 2009 prices). However uncertainty about future political intervention in the setting of this price floor limits the impact of the tax as a market signal to further the stated policy objective of providing an incentive to invest in low-carbon power generation.

SSE continues to respond to policy support for increased renewable generation capacity in the portfolio mix in GB, currently delivered through the financial support of the Renewables Obligation (the RO applies also in Northern Ireland). In considering the long term future for investment in renewables, the need for appropriate longer-term policy support delivered beyond Electricity Market Reform should not be underestimated, and the extent of the deployment of renewable energy remains dependent on the extent of the support through the public policy framework. The EMR Delivery Plan published in July 2013 suggests that the UK government's ambitions in this area may be diminishing.

### Focusing on operations in Generation

In the six months to 30 September 2013, SSE's generation plant in GB generated (previous year's numbers in brackets):

- 12.4TWh, based on contracted output of electricity from all thermal power stations in which it has an ownership interest (11.5TWh); and
- 2.6TWh, based on contracted output from renewable sources of energy in which it has an ownership interest, including pumped storage (2.2TWh).

During the same period SSE supplied:

- 9.7TWh of electricity to its industrial and commercial customers (9.5TWh); and
- 10.8TWh to its small business and household customers (11.3TWh).

This means that during the first six months, SSE:

- generated the equivalent of 73 % of the electricity needed to supply all of its customers in GB; and

- generated the equivalent of 139% of the electricity needed to supply its household and small business customers in GB.

Meeting the equivalent of the electricity needs of its electricity customers is at the heart of SSE's EPM and Electricity Generation activities.

## **THERMAL GENERATION**

At 30 September 2013, SSE owned or had an ownership interest in 8,485MW of thermal generation plant in Great Britain, comprising (net):

- 4,270 MW of gas- and oil-fired generation; and
- 4,215 MW of coal-fired generation.

### **Maintaining effective performance in SSE's gas-fired power stations**

The amount of electricity generated by gas-fired power stations in which SSE has an ownership or contractual interest, including CHP, increased to 5.6TWh in the six months to 30 September 2013, (including 2.9TWh from wholly-owned stations) compared to 4.0TWh in the same period in 2012 (including 1.8TWh from wholly-owned stations).

In 2012/13 SSE undertook a comprehensive £100m programme of upgrade works at its Keadby (735MW) and Medway (700MW) gas-fired power stations. The works were designed to increase the flexibility and efficiency of the plants and proceeded as planned. Medway was successfully re-commissioned in May 2013 and has operated with improved efficiency and flexibility during the months since whilst maintaining reliability levels. Given the ongoing challenging market conditions for gas-fired generation SSE decided not to bring Keadby back into service once the upgrade programme was completed and instead the plant has been deep moth-balled (see below).

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

- **Marchwood**, the 840MW CCGT owned by Marchwood Power Ltd, a 50:50 joint venture between SSE and ESB International.
- **Seabank**, the 1,165MW CCGT, owned by Seabank Power Limited, a 50:50 joint venture between SSE and Electricity First Limited.

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

### **Maintaining effective performance in SSE's coal-fired power stations**

During the six months to 30 September 2013, SSE's coal-fired power stations, located at Fiddlers Ferry, Ferrybridge and Uskmouth, generated 6.8TWh of electricity compared to 7.5TWh in the same period in 2012. The stations achieved 89% of their maximum availability to generate electricity, excluding planned outages, compared with 86% in the same period in 2012.

Although output has fallen slightly compared to the same period last year, primarily due to planned outages, this performance demonstrates the considerable value of SSE's coal-fired stations as part of a diverse portfolio that can respond to market signals.

### **Complying with the Industrial Emission Directive**

All of the capacity at Fiddlers Ferry and Uskmouth, and half of the capacity at Ferrybridge, (over 3,200MW in total) is compliant with the Large Combustion Plant Directive (LCPD) and able to run beyond 2015. All this plant has also been opted-in to the Transitional National Plan under the Industrial Emissions Directive (IED) which provides a number of alternative options for how they will operate through to at least the end of June 2020. SSE has not made a decision on how the plant will operate and this will depend on market conditions and the effects of any future capacity mechanism.

### **Changing SSE's thermal operations for the future**

In advance of its new financial year on 1 April 2013, SSE completed a review of its existing thermal generation assets as well as its biomass plant at Slough. The primary focus of this review was to ensure that all generation assets continued to contribute to the company's performance by safely delivering the required levels of availability, efficiency, cost effectiveness and, ultimately, sustainable commercial viability. It concluded that the convergence of challenging market

conditions and prolonged uncertainty surrounding the Government's energy policy required SSE to make a significant adjustment to its generation portfolio.

During the six months to 30 September 2013, the following progress has been made with these changes:

- **Ferrybridge, Yorkshire (coal-fired):** The two 490MW generation units opted out of the Large Combustion Plant Directive (LCPD) are still expected to reach or be close to their 20,000 allowed operating hours limit by end of the 2013/14 financial year.
- **Keadby, Lincolnshire (gas-fired):** The process of 'deep mothballing' the generation plant at Keadby is now complete – effectively meaning the plant at the power station will require up to one year to re-commission. This decision has resulted in the withdrawal of all 735MW of capacity at Keadby.
- **Uskmouth, Gwent (coal-fired)** The closure of one of the three generation units, combined with improvements in market conditions and the productivity of the station, suggest that Uskmouth will operate profitably over this financial year as forecast. A decision on how SSE will operate Uskmouth beyond March 2014 will be taken in early 2014.
- **Peterhead, Aberdeenshire (gas-fired):** Transmission access charges continue to be excessively expensive in the north of Scotland and, given the challenging market conditions for gas-fired generation, SSE decided to reduce Peterhead's TEC to 400MW from 31 March 2014. SSE is currently considering an investment in the plant at Peterhead that will allow it to generate in an efficient way below 400MW and extend the operating life of the power station.

#### **Making the right investment decisions in gas-fired power stations**

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

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

With its growing importance, SSE continues to develop a range of CCGT options in Great Britain, for both the medium and long-term, including sites at Abernedd (South Wales), Keadby (Lincolnshire), and Seabank (Bristol). These locations offer many attractive characteristics, including established grid and gas connections, availability of cooling water and land area.

Although projects such as Abernedd are close to being 'shovel ready' and others such as Keadby 2 are at an advanced stage of development, continuing uncertainty surrounding the operation of a future capacity mechanism and clear market signals suggesting the need for increased gas-fired generation capacity, means that SSE does not expect to take any final investment decisions to construct these projects until at least 2015/16. This will effectively mean no new capacity will come into operation until 2017/18 at the earliest, given the lead times for constructing new CCGT plant.

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

SSE's generation strategy is built upon managing risk through owning a diverse range of assets and fuels from which to meet its customers' needs. Solid fuel remains an important part of that strategy. Over recent years SSE has also been assessing the potential investment options for its coal-fired generation plants, in order to deliver the full potential value from its portfolio.

SSE has completed a significant trial investment on one 485MW unit at its Fiddlers Ferry site, which has reduced the emissions of NOx to a level that would enable increased generation under the IED Transitional National Plan. The viability of extending this solution to the other three units at the plant is now being assessed, and the UK government's response to the House of Lords' vote on the emissions standards will also be a fundamental factor in any decision. Nevertheless, the investment may provide SSE with the ability to operate this coal-fired plant up to and beyond 2020, supporting security of energy supply and SSE's commitment to a diverse, flexible and cost effective generation portfolio.

### **Generating electricity from 'multi-fuel'**

An important pipeline of potential new thermal generation investments for SSE is multi-fuel. These plants use waste derived fuels to generate electricity and therefore benefit from an additional revenue opportunity in the form of a 'gate fee' for taking the waste, which is earned on top of revenue received from any electricity generated by the plant.

Multi-fuel generation fits well with SSE's core generation principles. It offers a sustainable energy solution that has a lower carbon intensity than other solid fuels and which further diversifies the range of fuels that SSE can deploy in its generation fleet. It also has the potential to make an important contribution to the achievement of the UK Government's environmental targets and its move towards a 'zero waste economy' by making positive use of waste that would otherwise be destined for land-fill.

SSE and Wheelabrator Technologies Inc. have entered into a 50:50 joint venture - Multifuel Energy Ltd (MEL) - to develop new multi-fuel facilities throughout the UK.

The first project is a £300m multi-fuel generation facility adjacent to SSE's existing Ferrybridge power station. Construction of the project is progressing well with over 300 people already working on site and over 30 local companies benefitting from contracts awarded by the project. The plant is scheduled to be operational in 2015. All of the electricity generated by the plant will be sold to SSE.

In May 2013, MEL confirmed that it intended to seek planning consent for a second multi-fuel facility at the Ferrybridge site, prompted by a clear indication from potential fuel suppliers that there is demand in the market for further waste derived generation facilities. Early consultation work on this project is under way. MEL is also considering a range of other investment opportunities and expects to create a pipeline of new development options over the next few years.

In addition to the MEL joint venture, SSE is also pursuing the development of a new multi-fuel facility of up to 50MW at its Slough site. The project is currently at the public consultation stage and a full planning application is expected to be submitted to Slough Borough Council in early 2014.

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

Delivering the EU's decarbonisation policy will broadly require a halving of CO<sub>2</sub> emissions in the electricity sector every decade between now and 2050. On this basis, the use of fossil fuels to generate electricity will eventually depend on the extent to which CCS technology can be applied to abate CO<sub>2</sub> emissions. Consequently, the development of viable carbon capture technology is essential to the UK's long term climate change and energy security objectives.

Against this background, SSE is continuing to work with Shell UK as a strategic partner in the proposed gas CCS project at SSE's gas-fired power station in Peterhead. Shell is leading the development of the project, and would take responsibility for the construction of the CO<sub>2</sub> capture plant and thereafter the operation, transport and storage elements of the project.

## **RENEWABLE GENERATION**

### **Operating a diverse range of renewable generation**

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

SSE had 2,774MW of renewable energy capacity in operation in GB (as well as 463MW in Ireland) by the end of September 2013, including its share of joint ventures. The GB portfolio comprised (net):

- 1,150MW conventional hydro;
- 937MW onshore wind;
- 349MW offshore wind
- 300MW pumped storage
- 38MW dedicated biomass.

Output from around 1,800MW of SSE's renewable portfolio in GB qualifies for Renewable Obligation Certificates (ROCs), the main financial support scheme for renewable energy in the UK.

Total electricity output from SSE's renewable resources in GB was 2.6TWh (including pumped storage) in the six months to 30 September 2013.

Reduced wind resource during the period resulted in output that was, overall, slightly below that originally forecast for the period, even allowing for the impact of 41MW of additional wind generation capacity that came into operation in the six months to 30 September 2013

#### **Generating electricity from hydro electric schemes**

SSE owns and operates 1,150MW of conventional hydro electric capacity across 57 hydro electric power stations in the north of Scotland. A further 300MW comes from its pumped storage facility at Foyers, on Loch Ness. During the six months to 30 September 2013:

- total output from all of SSE's conventional hydro electric schemes was 1,070 GWh; and, within this,
- total output from SSE's hydro electric capacity qualifying for ROCs – just over 500MW – was 576GWh.

#### **Producing electricity from onshore wind farms**

At 30 September 2013, SSE owned 937MW of onshore wind farm capacity in GB and output from these assets in the six months was 894 GWh compared with 700GWh in the same period in 2012.

The increase in output over the period largely reflects the commissioning of the 32MW Calliachar wind farm, which began full operation in June 2013. The first turbines at the site generated their first energy during March 2013, meaning the site was eligible to receive support through the Renewable Obligation under the existing full 20 year ROC scheme.

#### **Responding to constraints on the electricity transmission system**

Constraints occur when there are limitations in electricity transmission capacity or for reasons of transmission system stability. Sustained periods of constraint provide a clear market signal for additional investment in the grid infrastructure.

At times of constraint, all generators in Great Britain are obligated to bid in their constrained generation capacity to National Grid. Constraint costs have increased significantly in recent months compared to the same period last year. According to National Grid data, in the five months to 31 August 2013 a total of around £167m has been spent on procuring constraint services from generators of all fuel types across Great Britain during this period.

SSE would always prefer its wind farms to generate clean, renewable electricity whenever they are able to, but recognises that National Grid has a responsibility to balance the grid at all times and that SSE has a role to play in this process. SSE's policy is to always seek to bid-in appropriate prices for constraining its wind generation. This price aims to recover the lost revenues from ROCs, LECs and any above forecast generation, and a margin that reflects the balancing service provided. This approach has seen SSE's wind farms typically receive constraint prices that are below average for the industry. Of the total constraint costs in the five months to 31 August, around £8m or 5%, was paid to constrain SSE's wind generation.

#### **Producing electricity from offshore wind farms**

Due to the significantly larger scale and cost of both consenting and constructing offshore wind farms compared with onshore, SSE believes the inherent risks are best managed through partnership arrangements. On this basis, SSE has ownership interests in the following operating offshore wind farms:

- Greater Gabbard (504MW), through the partnership Greater Gabbard Offshore Winds Limited ('GGOWL'), in which SSE has a 50% stake;
- Walney (367MW), through the partnership Walney (UK) Offshore Windfarms Ltd, in which SSE has a 25.1% stake; and
- Beatrice (10MW), a demonstration project in which SSE has a 50% stake.

At 30 September 2013, SSE's total net capacity for generating electricity at offshore wind farms was 349MW. SSE's share of total electricity output from these sites during the period was 510GWh.

### **Operating Greater Gabbard**

All of the 140 turbines at Greater Gabbard are fully commissioned and SSE is responsible for the day-to-day operation of the completed wind farm through its operational base in Lowestoft. Availability is now regularly exceeding 95% and is expected to improve further during the rest of 2013/14.

On the 7 August 2013, Greater Gabbard was officially opened by the UK Energy Minister, Michael Fallon, who met some of the people employed in the 100 new jobs created at the Lowestoft operations base, 95% of whom are local to the area.

### **Transferring offshore cable connections to OFTOs**

The Great Britain regulatory regime for the construction and operation of offshore transmission assets requires generators who construct these assets to transfer them to an Offshore Transmission Owner (OFTO) post-construction.

In accordance with this requirement, SSE and its partners have already transferred the OFTO assets associated with Walney and are currently in the process of transferring the OFTO assets associated with Greater Gabbard. Proceeds for Greater Gabbard of around £150m (SSE's share) have been agreed with Ofgem and are expected to be received before the end of the 2013/14 financial year.

### **Developing new hydro electric schemes**

SSE's proposed Coire Glas (Loch Lochy) 600MW pumped storage scheme is expected to receive planning consent from the Scottish Ministers shortly. Coire Glas could offer significant benefits to the GB electricity system in terms of capacity, balancing services and flexibility, particularly as the GB energy system moves towards an increasing amount of variable generation capacity.

However, further development of the project remains subject to:

- the availability of a timely grid connection date;
- a satisfactory public policy and regulatory framework, including the final outcome of the Electricity Market Reform proposals and the transmission charging regime changes envisaged by Ofgem's Project TransmiT; and
- compliance with SSE's financial principles and its Major Projects Governance Framework.

There is currently no provision within the Energy Bill or EMR framework to support the development of new pumped storage schemes and SSE would encourage the UK and Scottish governments, as well as other relevant organisations, to try to develop an appropriate solution.

All of this means that a decision on whether to construct Coire Glas is unlikely to be taken before mid 2015 at the earliest.

### **Developing new onshore wind farms**

At 30 September 2013, SSE's onshore wind farm portfolio in Great Britain comprised around (net):

- 937MW in operation;
- 249MW in construction or pre-construction; and
- 284MW with consent for development.

The following projects are currently in construction or pre-construction and are key components of SSE's portfolio of strategic onshore wind projects in GB:

- **Keadby** (68MW) – Adjacent to SSE's Keadby gas-fired power station, Keadby wind farm will be England's largest onshore site once it is completed. Construction is well under way, with the first turbines erected and generating energy. Following a delayed grid connection, the project should qualify for full ROC support having successfully generated its first energy in September 2013. The project is scheduled for full completion in 2014.
- **Strathly North** (67MW) – Located in Sutherland, this project is a significant new development for SSE during 2013/14. Pre-construction works have begun at the site and full construction is anticipated to begin in early 2014.

- **Dunmaglass** – SSE acquired the 99MW consented Dunmaglass scheme south east of Inverness in May 2013. Pre-construction works have begun at the site and full construction is anticipated to begin in spring 2014.

In addition:

- SSE has over 600MW of development projects currently in planning. Three key projects - Stronelairg (225MW), Glencassley (50MW) and Bhlairaidh (100MW) - received no objection from Highland Council during the planning process and are now with Scottish Ministers awaiting a consent determination; and
- Around 300MW of new onshore wind farm projects are currently in pre-planning.

#### **Responding to the Judicial Review of Viking wind farm**

SSE has a 50% share in the 103 turbine Viking wind farm on Shetland through its joint venture with Viking Energy Shetland. Although this project is consented, this determination is currently subject to a Judicial Review. The initial judgement of this review is currently being appealed by the Scottish Government.

The project also faces the same issues as many island wind farms of high transmission entry costs and extended grid connection dates. No investment decision has therefore been taken on Viking and it is currently unlikely to be fully commissioned before the end of the decade.

#### **Developing new offshore wind farms**

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

The next offshore wind farm in SSE's development pipeline is the Galloper project, which is located close to the existing Greater Gabbard development and is also a 50:50 partnership with RWE npower Renewables. Galloper received development consent from the Secretary of State for Energy and Climate Change at the end of May 2013. Since receiving the Development Consent Order the project team have been working to establish the most efficient and viable scale for the project in the current energy market climate and have decided to proceed with a nominal capacity of 340MW. An application has been submitted for an Investment Contract under the UK government's EMR framework and a final investment decision should be made in due course.

Beyond this, the planning proposal for the 1,000MW Beatrice project located in the Moray Firth, a 75:25 partnership with Repsol Nuevas Energias UK, is currently with Marine Scotland with a planning decision expected in late 2013. The onshore grid connection for this project received consent from Moray Council in February 2013. An application has been submitted for an Investment Contract under the UK government's EMR framework.

SSE is also involved in two consortia that provide it with valuable development rights for potentially up to 4.2GW (net) additional offshore wind farm assets beyond 2020:

- **SeaGreen**, a 50:50 partnership between SSE Renewables and Fluor Limited, which has submitted consent applications to Marine Scotland for two wind farm areas with a capacity of 525MW each in the 3.5GW Firth of Forth offshore wind zone. Marine Scotland's current programme indicates a consent decision will be made in early 2014. Development of the next two phases of the zone will not continue without clarity on the long term investment support framework for offshore wind.
- **Forewind**, a four-way partnership with RWE npower Renewables, Statoil and Statkraft, which has submitted a consent application for two wind farm areas, with a total capacity of up to 2.4GW. This represents the first phase of development of the 9GW Dogger Bank offshore wind zone. Two further development phases, of up to 4.8GW in total, are currently in the pre-planning process and are expected to be submitted in the first half of 2014. The development of further phases will not begin without clarity on the long term investment support framework for offshore wind.

Decisions by SSE regarding the extent of the build out of its entire offshore wind pipeline will be based on its disciplined approach, consistent with its financial principles and focused on taking forward only the best investments, achieving the strongest possible returns to support dividend growth, and will be taken in the context of the UK government's ambition in this area.



### **Reducing the cost of offshore wind**

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

SSE has a number of initiatives to increase the effectiveness, and decrease the cost, of offshore wind deployment, including the development of the UK's national offshore wind turbine testing facility at Hunterston in North Ayrshire. In partnership with DECC, Scottish Enterprise and leading turbine suppliers Mitsubishi and Siemens, up to three prototype offshore wind turbines will be tested at the facility for a period of five years. Construction of the facility began in March 2013 and the first turbine (Siemens) was erected in early October 2013. The site is expected to be fully operational by mid 2014.

### **Generation – Ireland**

The Single Electricity Market in Ireland faces similar market drivers to the UK but has a very different regulatory regime, including:

- centrally dispatched generation;
- a capacity mechanism that remunerates generators for a proportion of their fixed costs when plant is made available; and
- no support for offshore wind generation.

In the Republic of Ireland renewable generation receives policy support through the Renewable Energy Feed in Tariff. Policy support for renewable generation in Northern Ireland is delivered through the Renewables Obligation, the same as in GB.

This allows SSE to operate generation plant in a way that is familiar, while taking a different approach to new investment.

In line with its approach in Great Britain, SSE is keen to maintain an effective balance between the electricity required to meet the demands of its growing customer base in Ireland and the electricity it produces from its own generation assets on the island.

The electricity generated by SSE's plant in Ireland is traded in the all island Single Electricity Market (SEM), where a proportion of fixed capital costs are remunerated via a capacity payment mechanism when plant is made available, and variable costs, including fuel and carbon, are remunerated through the energy market.

SSE is now the third largest electricity generation capacity owner in Ireland with around 13% of installed capacity.

### **Maintaining effective operational performance**

At 30 September 2013, SSE owned 463 MW of onshore wind farm capacity in Ireland (including 42MW in Northern Ireland) and 1,068MW of thermal generation capacity. The thermal assets are at four sites and their principal function is to help maintain security of electricity supply by being available to respond to peaks in demand. Output in the six months to 30 September 2013 was:

- 8.0 GWh from thermal generation; and
- 565 GWh from renewable generation

### **Investing in new capacity for generating electricity at Great Island**

Construction at the 460MW CCGT site at Great Island, County Wexford is well advanced and the plant is expected to generate its first energy in early 2014 and be commissioned in the second half of 2014, at which time the existing 240MW fuel oil unit at the site will be decommissioned. Two major milestones reached by 30 September included the completion of the gas transmission connection and the 220kV electricity connection to the site. The Great Island gas connection has also provided a very positive local economic story, since the South-East of Ireland was previously unconnected to the gas network.

SSE has incurred capital expenditure of around €81m since acquiring the Great Island asset and expects to spend around a further €60m to complete the construction of the new CCGT. This is included in its plans to incur capital and investment expenditure in the range of £1.5bn to £1.7bn in each of the years to March 2015.

The Single Electricity Market (SEM) in Ireland has an effective capacity mechanism in place. This mechanism was an important factor in SSE's decision to progress with the Great Island development and means it is able to proceed with investment in new thermal electricity generation plant in the Irish market, which is in contrast to the position in respect of the Great Britain market. The SEM itself is expected to undergo some modifications in order to implement the EU 'target model' in electricity.

#### **Developing new renewable generation in the all Island market**

At 31 March 2013, SSE's onshore wind farm development portfolio in Ireland comprised around:

- 190MW in construction or pre-construction; and
- 17MW with consent for development.

Projects under construction in Ireland are Athea (34MW) in Co. Limerick, and Glenconway (46MW), part of SSE's Slieve Kirk strategic area located in County Derry. Construction at Athea is progressing well. It generated its first energy in October which would qualify it for the ReFIT support mechanism in ROI. Glenconway qualifies for the Northern Ireland ROC support mechanism and is currently in its final commissioning phase.

The largest pre-construction project is the consented 170 MW (SSE share 110 MW) Galway Wind Park development which is currently undergoing preconstruction ground works. It is expected to enter construction towards the later end of 2014. SSE also has around 100MW of other development projects currently in planning across Ireland.

#### **Meeting customers' future requirements for electricity in Ireland**

Over the medium and long term, the completion of the 460MW CCGT at Great Island and the continuing development of its wind farm projects will give SSE a more balanced generation portfolio in Ireland and significantly increased output of electricity with a lower CO<sub>2</sub> intensity than the SEM average. In a typical year, the Great Island CCGT and SSE's wind farms are expected to generate the equivalent of around two thirds of the electricity needed to supply SSE's current customers in Ireland. Along with its power purchase agreements, this means SSE can securely and cost-effectively meet the demand of its Irish supply business, Airtricity, in a way that is sustainable.

### **Generation – Future priorities**

#### **Optimising the onshore and offshore wind portfolio**

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

To optimise its portfolio of onshore wind assets, both in operation and development, SSE continues to have a programme of selective acquisitions and disposals. Any acquisitions would complement SSE's existing generation portfolio and development pipeline, generally have planning consent and be aligned with SSE's financial principles.

#### **Securing new sources of capital for renewable investment**

SSE is committed to maintaining a diverse range of funding sources for its new investments. In line with this it is continuing to develop ways to involve new investors and new sources of capital in its renewable development pipeline:

These include:

- opportunities for involving new partners at the individual project level, particularly for large scale capital intensive projects such as offshore wind; and
- the recycling of capital through the sale of selected operating assets to investment funds whilst retaining the electricity output from these assets.

## **Generation priorities in 2013/14 and beyond**

In Generation, SSE's 2013/14 priorities remain consistent with its established principles to:

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

## **Gas Production**

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

SSE's upstream portfolio is 100% gas weighted, with the primary reason for owning gas assets being to secure long term supply of physical gas at a 'fixed' cost, to enable it to effectively meet the energy needs of its customers and generation portfolio.

On 12 April 2013, SSE completed the acquisition of 50% of the Sean gas field from BP, for a total cash consideration of £127.6m (including working capital). As at 30 September 2013 SSE's upstream portfolio is estimated to hold almost three billion therms of proven and probable (2P) reserves. The volume and production profile of the assets represents a secure and fixed-price supply of gas that can meet around 25% of the forecast demand from SSE's domestic gas customers over the next three years.

### **Securing output from gas production assets**

The Gas Production business continued to perform well in the six months to 30 September 2013 and benefitted strongly from the contribution of the new Sean gas field assets. The increased output from the expanded asset base was partially offset by forecast and normal production decline rates from existing wells. Total output to 30 September 2013 was 206.8 million therms, compared with 80.5 million therms in the same period last year.

### **Continuing to expand the Gas Production business**

The addition of the Sean assets scaled-up SSE's Gas Production business considerably. SSE continues to seek new opportunities to increase its 2P reserve base to meet portfolio demand requirements. The UK and North West Europe remain the focus for this activity, as it provides a relatively stable tax and fiscal regime and is near to SSE's domestic supply market. SSE has not set a target scale for its Gas Production business and will continue to evaluate gas weighted opportunities in line with its investment criteria, financial discipline and the primary reason for it owning gas assets – being one of the ways it can secure a long term supply of physical gas that enables it to meet effectively the energy needs of its customers and generation portfolio.

### **Examining the opportunities in shale gas**

Shale gas has the potential to become a new source of indigenous gas supply for the UK, although SSE does not expect UK output to reach meaningful volumes until the next decade. SSE currently has no involvement in any shale gas operations. It is, however, closely monitoring the development of shale gas in the UK and the proposed fiscal and tax regimes surrounding its potential exploitation.

### **Gas Production priorities for 2013/14 and beyond**

Gas Production priorities for the 2013/14 financial year include:

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

## Gas Storage

### Providing capacity to store gas

Gas storage provides physical flexibility that enables capacity owners to manage their market risks and respond to trading opportunities. It also provides an important security of supply function for the UK.

SSE has an ownership interest in two major gas storage facilities in East Yorkshire - Hornsea (Atwick) and Aldbrough. The primary objective of these facilities is to maximise safely the availability of the plant to import and export gas.

Hornsea provided 267 million cubic metres (mcm) of gas storage capacity to its customers in the six months to 30 September 2013. This accounts for around 5% of the total gas storage capacity in the UK and 12% of deliverability.

Aldbrough is one of the UK's newest and largest onshore gas storage facilities, which SSE (66.7% share) has developed with Statoil (UK) Ltd. All nine caverns were in operation during the period providing a total capacity of up to 270mcm, although available capacity is currently lower due to unplanned outages in two of the nine caverns. It is however anticipated that the Aldbrough facility will ultimately provide the ability to store up to a maximum of around 320mcm, and account for around 20% of the UK's storage deliverability.

### Managing operations at Hornsea and Aldbrough

The continuing decline in the profitability of the Gas Storage business reflects a reduction in the spread between summer and winter wholesale gas prices and less volatile shorter-term gas prices.

Both sites continue to operate with good availability to meet commercial requirements, despite significant ongoing maintenance and upgrade activities. During the six months to 30 September 2013:

- Hornsea again met 100% of customer nominations with the site 85% available during the main injection season except in instances of planned maintenance;
- Aldbrough met 100% of customer nominations and was 91% available overall except in instances of planned maintenance.

### Looking to the future for gas storage

Current gas storage capacity, both at SSE and within the UK as a whole, plays an important role in the UK's energy infrastructure. The UK already meets the EU Regulation for Security of Supply of Gas and will do so for the foreseeable future. It is also clear that the market returns for gas storage are challenging and currently too low to encourage additional capacity to be deployed. SSE believes this situation is unlikely to change in the short to medium term. SSE and Statoil have therefore decided not to progress with the development of a second gas storage facility at the Aldbrough site until market conditions improve.

SSE has urged the UK government to be extremely cautious about designing a mechanism to incentivise investment in new gas storage capacity. It believes there is currently sufficient gas storage capacity and alternative supplies of gas to ensure the UK is able to secure the gas it needs.

In early September, DECC confirmed that it did not intend to intervene in the UK gas storage market or introduce any incentive to encourage investment in new capacity. SSE supports DECC's decision since any intervention must be balanced against the unintended consequences that could impact upon the UK's existing gas storage facilities and the ultimate cost to consumers of supporting this intervention.

### **Gas Storage priorities in 2013/14 and beyond**

Gas storage priorities for the remainder of the financial year and beyond include:

- ensuring on-going high safety standards of operation of the facilities at Hornsea and Aldbrough and the compliant operation of the Gas Storage business;
- continuing to listen to customers, working with them to shape flexible products which cost-effectively support their portfolios;
- maintaining availability and operational performance at Hornsea and Aldbrough; and
- continuing targeted investment as required and justified to prolong operational life of the existing facilities.

### **Wholesale – Conclusion**

Producing and securing energy in a sustainable way to meet the needs of SSE's customers is at the heart of SSE's Wholesale businesses. Key parts of this segment continue to face public policy uncertainty and challenging market conditions, but continued excellence in operating its portfolio of assets, ongoing progress in the development and delivery of new assets and strategic investments across its portfolio, has meant that SSE's activities in Energy Portfolio Management, Electricity Generation, Gas Production and Gas Storage continued to deliver against this primary objective.

It also supported the achievement of SSE's first financial goal of sustained real growth in the dividend payable to shareholders and the fulfilment of SSE's core purpose of providing the energy people need in a reliable and sustainable way.

**Consolidated Income Statement**  
for the period 1 April 2013 to 30 September 2013

Six months ending 30 September

	Note	2013			2012		
		Before exceptional items and certain re- measure- ments	Exceptional items and certain re- measure- ments (note 7)	Total	Before exceptional items and certain re- measure- ments Restated (note 3) £m	Exceptional items and certain re- measure- ments (note 7) £m	Total Restated (note 3) £m
<b>Revenue</b>	6	13,574.1	-	13,574.1	11,404.2	-	11,404.2
Cost of sales		(12,628.3)	(11.8)	(12,640.1)	(10,368.6)	(367.5)	(10,736.1)
<b>Gross profit / (loss)</b>		<b>945.8</b>	<b>(11.8)</b>	<b>934.0</b>	1,035.6	(367.5)	668.1
Operating costs		(622.5)	-	(622.5)	(593.0)	-	(593.0)
<b>Operating profit / (loss) before jointly controlled entities and associates</b>		<b>323.3</b>	<b>(11.8)</b>	<b>311.5</b>	442.6	(367.5)	75.1
Jointly controlled entities and associates:							
Share of operating profit		195.4	-	195.4	147.1	-	147.1
Share of interest		(78.3)	-	(78.3)	(77.1)	-	(77.1)
Share of movement on derivatives		-	1.0	1.0	-	5.2	5.2
Share of tax		(30.2)	69.5	39.3	(23.1)	18.5	(4.6)
<b>Share of profit on jointly controlled entities and associates</b>		<b>86.9</b>	<b>70.5</b>	<b>157.4</b>	46.9	23.7	70.6
<b>Operating profit / (loss)</b>	6	<b>410.2</b>	<b>58.7</b>	<b>468.9</b>	489.5	(343.8)	145.7
Finance income	8	75.8	-	75.8	55.0	-	55.0
Finance costs	8	(177.0)	(31.3)	(208.3)	(184.7)	(56.9)	(241.6)
<b>Profit / (loss) before taxation</b>		<b>309.0</b>	<b>27.4</b>	<b>336.4</b>	359.8	(400.7)	(40.9)
Taxation	9	(65.3)	113.3	48.0	(68.0)	124.8	56.8
<b>Profit / (loss) for the period</b>		<b>243.7</b>	<b>140.7</b>	<b>384.4</b>	291.8	(275.9)	15.9
<b>Attributable to:</b>							
Ordinary shareholders of the parent		231.2	140.7	371.9	291.8	(275.9)	15.9
Other equity holders		12.5	-	12.5	-	-	-
Basic earnings per share (pence)	11			<b>38.6p</b>			1.7p
Diluted earnings per share (pence)	11			<b>38.5p</b>			1.7p

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

**Consolidated Income Statement**  
for the year ended 31 March 2013

	Note	Before exceptional items and certain re-measure- ments Restated (note 3) £m	Exceptional items and certain re-measure- ments (note 6) £m	Total Restated (note 3) £m
<b>Revenue</b>	6	28,304.6	-	28,304.6
Cost of sales		(25,612.5)	(691.3)	(26,303.8)
<b>Gross profit / (loss)</b>		2,692.1	(691.3)	2,000.8
Operating costs		(1,228.7)	(105.6)	(1,334.3)
<b>Operating profit / (loss) before jointly controlled entities and associates</b>		1,463.4	(796.9)	666.5
Jointly controlled entities and associates:				
Share of operating profit		315.6	(16.5)	299.1
Share of interest		(156.1)	-	(156.1)
Share of movement on derivatives		-	8.7	8.7
Share of tax		(50.1)	25.6	(24.5)
<b>Share of profit on jointly controlled entities and associates</b>		109.4	17.8	127.2
<b>Operating profit / (loss)</b>	6	1,572.8	(779.1)	793.7
Finance income	8	101.4	-	101.4
Finance costs	8	(344.1)	20.3	(323.8)
<b>Profit / (loss) before taxation</b>		1,330.1	(758.8)	571.3
Taxation	9	(307.0)	201.8	(105.2)
<b>Profit / (loss) for the year</b>		1,023.1	(557.0)	466.1
<b>Attributable to:</b>				
Ordinary shareholders of the parent		959.7	(557.0)	402.7
Other equity holders		63.4	-	63.4
Basic earnings per share (pence)	11			42.3p
Diluted earnings per share (pence)	11			42.2p

**Consolidated Statement of Comprehensive Income**  
for the period 1 April 2013 to 30 September 2013

Year ended 31 March 2013 Restated (note 3) £m	<b>Six months ended 30 September 2013</b>  £m	Six months ended 30 September 2012 Restated (note 3) £m
466.1 <b>Profit for the period</b>	<b>384.4</b>	15.9
<b>Other comprehensive income:</b>		
<i>Items that will not be reclassified to profit or loss:</i>		
(23.5) Actuarial gains/(losses) on retirement benefit schemes	<b>16.7</b>	(5.5)
(2.0) Taxation on actuarial gains/(losses) on defined benefit pension schemes	<b>(23.6)</b>	(6.4)
(25.5) Share of jointly controlled entities and associates actuarial (losses)/gains on retirement benefit schemes	<b>(6.9)</b>	(11.9)
15.7 Share of jointly controlled entities and associates taxation of actuarial (losses)/gains on retirement benefit schemes	<b>(26.9)</b>	(3.1)
(4.0) Share of jointly controlled entities and associates gains/(loss) on effective portion of cash flow hedges	<b>2.9</b>	1.6
11.7 <i>Items that will be or have been recycled to profit or loss:</i>	<b>(24.0)</b>	(1.5)
46.4 (Losses)/gains on effective portion of cash flow hedges	<b>(46.8)</b>	(10.4)
0.7 Transferred to assets and liabilities on cash flow hedges	<b>0.7</b>	-
(11.4) Taxation on cashflow hedges	<b>10.8</b>	2.2
35.7 Share of jointly controlled entities and associates gains/(loss) on effective portion of cash flow hedges	<b>(35.3)</b>	(8.2)
(0.4) Share of jointly controlled entities and associates taxation on cashflow hedges	<b>7.3</b>	(3.6)
(0.1) Share of jointly controlled entities and associates taxation on cashflow hedges	<b>(2.9)</b>	0.5
(0.5) Exchange (loss)/gain on translation of foreign operations	<b>4.4</b>	(3.1)
22.6 Exchange (loss)/gain on translation of foreign operations	<b>(10.5)</b>	(43.5)
(7.3) Gain/(loss) on net investment hedge	<b>8.3</b>	22.0
1.3 Taxation on net investment hedge	<b>(2.0)</b>	(5.3)
16.6	<b>(4.2)</b>	(26.8)
<b>38.0 Other comprehensive (loss)/income, net of taxation</b>	<b>(66.0)</b>	(51.5)
<b>504.1 Total comprehensive income/(loss) for the period</b>	<b>318.4</b>	(35.6)
<b>Attributable to:</b>		
440.7 Ordinary shareholders of the parent	<b>305.9</b>	(35.6)
63.4 Other equity holders	<b>12.5</b>	-
<b>504.1</b>	<b>318.4</b>	(35.6)



**Consolidated Balance Sheet**  
as at 30 September 2013

At 31 March 2013		At 30 September 2013	At 30 September 2012
£m	Note	£m	£m
<b>Assets</b>			
9,838.3		<b>10,320.1</b>	9,462.4
3.4		<b>3.4</b>	3.4
Intangible assets:			
635.8		<b>632.6</b>	629.1
282.2		<b>370.4</b>	265.7
913.2		<b>1,045.8</b>	966.7
1,244.0		<b>1,280.7</b>	1,247.6
46.7		<b>46.8</b>	36.3
155.4		<b>219.8</b>	210.6
382.4	17	<b>321.3</b>	757.4
<b>13,501.4</b>		<b>14,240.9</b>	13,579.2
<b>Non-current assets</b>			
368.4		<b>216.6</b>	228.8
291.7		<b>421.6</b>	371.2
4,953.0		<b>3,326.4</b>	3,300.8
538.7		<b>477.9</b>	894.4
940.8	17	<b>543.8</b>	365.3
2.3	13	<b>2.3</b>	72.7
<b>7,094.9</b>		<b>4,988.6</b>	5,233.2
<b>20,596.3</b>		<b>19,229.5</b>	18,812.4
<b>Current assets</b>			
<b>Total assets</b>			
<b>Liabilities</b>			
1,544.6	14	<b>1,303.8</b>	832.9
5,047.6		<b>3,963.4</b>	3,523.8
286.8		<b>265.6</b>	254.1
60.1		<b>46.2</b>	30.7
1,011.2	17	<b>664.2</b>	944.9
<b>7,950.3</b>		<b>6,243.2</b>	5,586.4
<b>Current liabilities</b>			
4,540.4	14	<b>5,148.0</b>	5,307.8
806.6		<b>715.3</b>	830.5
341.4		<b>386.4</b>	459.1
229.5		<b>252.8</b>	190.5
705.8	18	<b>666.1</b>	712.4
473.4	17	<b>510.4</b>	505.4
<b>7,097.1</b>		<b>7,679.0</b>	8,005.7
<b>15,047.4</b>		<b>13,922.2</b>	13,592.1
<b>5,548.9</b>		<b>5,307.3</b>	5,220.3
<b>Non-current liabilities</b>			
<b>Total liabilities</b>			
<b>Net assets</b>			
<b>Equity:</b>			
482.1	16	<b>482.7</b>	478.9
857.9		<b>857.5</b>	855.5
22.0		<b>22.0</b>	22.0
5.8		<b>(25.1)</b>	(40.7)
11.6		<b>7.4</b>	(31.8)
<b>1,982.7</b>		<b>1,776.0</b>	1,749.8
<b>3,362.1</b>		<b>3,120.5</b>	3,033.7
<b>2,186.8</b>	15	<b>2,186.8</b>	2,186.6
<b>5,548.9</b>		<b>5,307.3</b>	5,220.3
<b>Equity attributable to ordinary shareholders of the parent</b>			
<b>Hybrid capital</b>			
<b>Total equity attributable to equity holders of the parent</b>			

**Consolidated Statement of Changes in Equity**  
for the period 1 April 2013 to 30 September 2013

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

<b>Statement of changes in equity</b>	<b>Share capital £m</b>	<b>Share premium account £m</b>	<b>Capital redemption reserve £m</b>	<b>Hedge reserve £m</b>	<b>Translation reserve £m</b>	<b>Retained earnings Restated (note 3) £m</b>	<b>Total attributable to ordinary shareholders Restated (note 3) £m</b>	<b>Hybrid capital £m</b>	<b>Total Restated (note 3) £m</b>
At 1 April 2012	472.3	862.0	22.0	(29.4)	(5.0)	2,100.8	3,422.7	1,161.4	4,584.1
Profit for the period	-	-	-	-	-	15.9	15.9	-	15.9
Other comprehensive income/(loss)	-	-	-	(8.2)	(26.8)	(11.9)	(46.9)	-	(46.9)
Share of jointly controlled entities and associates other comprehensive income/(loss)	-	-	-	(3.1)	-	(1.5)	(4.6)	-	(4.6)
<b>Total comprehensive income for the period</b>	-	-	-	(11.3)	(26.8)	2.5	<b>(35.6)</b>	-	<b>(35.6)</b>
Dividends to shareholders	-	-	-	-	-	(529.3)	(529.3)	-	(529.3)
Scrip dividend related share issue	6.6	(6.6)	-	-	-	172.7	172.7	-	172.7
Issue of shares	-	0.1	-	-	-	-	0.1	-	0.1
Issue of hybrid capital	-	-	-	-	-	-	-	1,025.2	1,025.2
Credit in respect of employee share awards	-	-	-	-	-	7.0	7.0	-	7.0
Investment in own shares	-	-	-	-	-	(3.9)	(3.9)	-	(3.9)
<b>At 30 September 2012</b>	<b>478.9</b>	<b>855.5</b>	<b>22.0</b>	<b>(40.7)</b>	<b>(31.8)</b>	<b>1,749.8</b>	<b>3,033.7</b>	<b>2,186.6</b>	<b>5,220.3</b>

**Consolidated Statement of Changes in Equity (continued)**  
for the period 1 April 2013 to 30 September 2013

Statement of changes in equity	Share capital	Share premium account	Capital redemption reserve	Hedge reserve	Translation reserve	Retained earnings Restated (note 3)	Total attributable to ordinary shareholders Restated (note 3)	Hybrid capital	Total Restated (note 3)
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2012	472.3	862.0	22.0	(29.4)	(5.0)	2,100.8	3,422.7	1,161.4	4,584.1
Profit for the year	-	-	-	-	-	402.7	402.7	63.4	466.1
Other comprehensive income/(loss)	-	-	-	35.7	16.6	(25.5)	26.8	-	26.8
Share of jointly controlled entities and associates other comprehensive income	-	-	-	(0.5)	-	11.7	11.2	-	11.2
Total comprehensive income for the year	-	-	-	35.2	16.6	388.9	440.7	63.4	504.1
Dividends to shareholders	-	-	-	-	-	(770.5)	(770.5)	-	(770.5)
Scrip dividend related share issue	9.6	(9.6)	-	-	-	255.2	255.2	-	255.2
Distributions to hybrid capital holders	-	-	-	-	-	-	-	(63.4)	(63.4)
Issue of shares	0.2	5.5	-	-	-	-	5.7	-	5.7
Issue of hybrid capital	-	-	-	-	-	-	-	1,025.4	1,025.4
Credit in respect of employee share awards	-	-	-	-	-	16.0	16.0	-	16.0
Investment in own shares	-	-	-	-	-	(7.7)	(7.7)	-	(7.7)
<b>At 31 March 2013</b>	<b>482.1</b>	<b>857.9</b>	<b>22.0</b>	<b>5.8</b>	<b>11.6</b>	<b>1,982.7</b>	<b>3,362.1</b>	<b>2,186.8</b>	<b>5,548.9</b>

**Consolidated Cash Flow Statement**  
for the period 1 April 2013 to 30 September 2013

Year ended 31 March 2013 Restated (note 4) £m	Note	Six months ended 30 September 2013 £m	Six months ended 30 September 2012 Restated (note 4) £m
<b>1,953.5</b> Cash generated from operations before working capital movements	12	<b>568.6</b>	<b>677.8</b>
47.6 (Increase)/decrease in inventories		(132.5)	(47.5)
250.1 Decrease in receivables		1,595.7	1,842.8
(110.3) (Decrease) in payables		(852.2)	(1,464.2)
22.8 Increase in provisions		9.4	6.1
<b>2,163.7</b> Cash generated from operations		<b>1,189.0</b>	<b>1,015.0</b>
87.0 Dividends received from jointly controlled entities		3.0	5.1
88.5 Finance income received		56.0	53.0
(245.5) Finance costs paid		(154.4)	(148.5)
(114.6) Income taxes paid		(37.8)	(10.6)
(1.9) Payment for consortium relief		(18.7)	-
<b>1,977.2</b> Net cash from operating activities		<b>1,037.1</b>	<b>914.0</b>
<b>Cash flows from investing activities</b>			
(1,303.3) Purchase of property, plant and equipment		(674.0)	(575.6)
(317.1) Purchase of other intangible assets		(140.4)	(85.2)
7.5 Deferred income received		6.6	-
2.0 Proceeds from sale of property, plant and equipment		0.1	0.2
153.8 Proceeds from sale of business and subsidiaries		-	-
(88.6) Loans to jointly controlled entities and associates		(47.7)	(65.6)
(358.4) Purchase of businesses and subsidiaries		(109.6)	(32.4)
5.4 Cash acquired with purchase of subsidiaries		-	4.9
31.6 Loans and equity repaid by jointly controlled entities		11.2	9.9
(13.5) Investment in associates and jointly controlled entities		(4.1)	(8.1)
(10.6) Increase in other investments		-	(0.2)
<b>(1,891.2)</b> Net cash flows from investing activities		<b>(957.9)</b>	<b>(752.1)</b>
<b>Cash flows from financing activities</b>			
5.7 Proceeds from issue of share capital		0.2	0.1
(515.3) Dividends paid to company's equity holders		(550.8)	(356.6)
(63.4) Hybrid capital dividend payments		(12.5)	-
1,025.4 Issue of new hybrid capital		-	1,025.2
(7.7) Employee share awards share purchase		(4.2)	(4.0)
517.1 New borrowings		1,186.1	481.0
(694.7) Repayment of borrowings		(758.9)	(597.7)
<b>267.1</b> Net cash flows from financing activities		<b>(140.1)</b>	<b>548.0</b>
<b>353.1</b> Net (decrease)/increase in cash and cash equivalents		<b>(60.9)</b>	<b>709.9</b>
185.5 Cash and cash equivalents at the start of period		538.7	185.5
353.1 Net (decrease)/increase in cash and cash equivalents		(60.9)	709.9
0.1 Effect of foreign exchange rate changes		0.1	(1.0)
<b>538.7</b> Cash and cash equivalents at the end of period		<b>477.9</b>	<b>894.4</b>

## Notes on the Condensed Interim Statements for the period 1 April 2013 to 30 September 2013

### 1. Condensed Financial Statements

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

The financial information set out in these condensed interim statements does not constitute the Group's statutory accounts for the periods ended 30 September 2013, 31 March 2013 or 30 September 2012 within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2013, which were prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS), have been reported on by the Group's auditors and delivered to the Registrar of Companies. The financial information set out in these interim statements has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 Interim Financial Reporting as adopted by the EU.

The report of the auditors was (i) unqualified (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under section 498 (2) or (3) of the Companies Act 2006. The interim financial information is unaudited but has been formally reviewed by the auditors and their report to the Company is set out on page 79.

These interim statements were authorised by the Board on 12 November 2013.

### 2. Basis of preparation

These condensed interim statements for the period to 30 September 2013 and the comparative information for the period to 30 September 2012 have been prepared applying the accounting policies and presentation used in the Group's consolidated financial statements for the year ended 31 March 2013, with the exception of the newly effective accounting standards, amendments and interpretations described at note 3.

### 3. Standards, amendments and interpretations

#### 3.1 Effective in financial year ended March 2014

##### (i) IAS 19 (revised)

IAS 19 (revised): 'Employee benefits' amends the accounting for employee benefits with the main change being the replacement of the interest cost on defined benefit obligations and the expected return on pension scheme assets with a net interest cost calculated on a net liability basis. This has the impact of increasing net finance costs reported in the income statement. A corresponding change is recognised through Other Comprehensive Income (OCI). In addition, there are a number of smaller changes including the requirement to recognise certain scheme expenses in operating costs as opposed to in OCI. The Group has applied the standard retrospectively in accordance with the transitional provisions and the comparatives have been restated accordingly. The impact on the Group can be summarised as follows:

#### Extract of Consolidated condensed Income statement

Year ended 31 March 2013			6 Months ended 30 September 2012		
Reported	Impact of applying IAS 19R	Restated	Reported	Impact of applying IAS 19R	Restated
£m	£m	£m	£m	£m	£m
<b>670.3</b>	<b>(3.8)</b>	<b>666.5</b>	<b>76.5</b>	<b>(1.4)</b>	<b>75.1</b>
<b>Operating profit/(loss) before jointly controlled entities and associates</b>			<b>Operating profit/(loss) before jointly controlled entities and associates</b>		
Jointly controlled entities and associates:			Jointly controlled entities and associates:		
299.1	-	299.1	147.1	-	147.1
(152.3)	(3.8)	(156.1)	(75.2)	(1.9)	(77.1)
8.7	-	8.7	5.2	-	5.2
(25.4)	0.9	(24.5)	(5.1)	0.5	(4.6)
Share of profit on jointly controlled entities and associates			Share of profit on jointly controlled entities and associates		
130.1	(2.9)	127.2	72.0	(1.4)	70.6
<b>800.4</b>	<b>(6.7)</b>	<b>793.7</b>	<b>148.5</b>	<b>(2.8)</b>	<b>145.7</b>
<b>Operating profit/(loss)</b>			<b>Operating profit/(loss)</b>		
235.5	(134.1)	101.4	121.1	(66.1)	55.0
(435.0)	111.2	(323.8)	(296.4)	54.8	(241.6)
<b>600.9</b>	<b>(29.6)</b>	<b>571.3</b>	<b>(26.8)</b>	<b>(14.1)</b>	<b>(40.9)</b>
<b>(Loss)/profit before taxation</b>			<b>(Loss)/profit before taxation</b>		
(111.6)	6.4	(105.2)	53.8	3.0	56.8
<b>489.3</b>	<b>(23.2)</b>	<b>466.1</b>	<b>27.0</b>	<b>(11.1)</b>	<b>15.9</b>
<b>Profit/(loss) for the period</b>			<b>Profit/(loss) for the period</b>		
<b>Attributable to:</b>					
425.9	(23.2)	402.7	27.0	(11.1)	15.9
63.4	-	63.4	-	-	-
Equity holders of the parent			Equity holders of the parent		
Other equity holders			Other equity holders		
44.7p	(2.4)	42.3p	2.9p	(1.2)	1.7p
44.6p	(2.4)	42.2p	2.9p	(1.2)	1.7p
Basic earnings/(loss) per share (pence)			Basic earnings/(loss) per share (pence)		
Diluted earnings/(loss) per share (pence)			Diluted earnings/(loss) per share (pence)		

**Notes on the Condensed Interim Statements**  
for the period 1 April 2013 to 30 September 2013

**3. Standards, amendments and interpretations effective in 2013 (continued)**

**(i) IAS 19 (revised)**

**Extract of Consolidated Condensed Statement of Comprehensive Income**

Year ended 31 March 2013			6 Months ended 30 September 2012		
Reported	Impact of applying IAS19R	Restated	Reported	Impact of applying IAS19R	Restated
£m	£m	£m	£m	£m	£m
<b>489.3</b>	<b>(23.2)</b>	<b>466.1</b>	<b>27.0</b>	<b>(11.1)</b>	<b>15.9</b>
(50.2)	26.7	(23.5)	(18.2)	12.7	(5.5)
4.4	(6.4)	(2.0)	(3.4)	(3.0)	(6.4)
8.8	2.9	11.7	(2.9)	1.4	(1.5)
51.8	-	51.8	(38.1)	-	(38.1)
<b>14.8</b>	<b>23.2</b>	<b>38.0</b>	<b>(62.6)</b>	<b>11.1</b>	<b>(51.5)</b>
<b>504.1</b>	<b>-</b>	<b>504.1</b>	<b>(35.6)</b>	<b>-</b>	<b>(35.6)</b>

**Extract of Note 12 Reconciliation of group operating profit to cash generated from operations**

Year ended 31 March 2013			6 Months ended 30 September 2012		
Reported	Impact of applying IAS19R	Restated	Reported	Impact of applying IAS19R	Restated
£m	£m	£m	£m	£m	£m
<b>489.3</b>	<b>(23.2)</b>	<b>466.1</b>	<b>27.0</b>	<b>(11.1)</b>	<b>15.9</b>
111.6	(6.4)	105.2	(53.8)	(3.0)	(56.8)
199.5	22.9	222.4	175.3	11.3	186.6
(84.5)	3.8	(80.7)	(42.4)	1.4	(41.0)
(130.1)	2.9	(127.2)	(72.0)	1.4	(70.6)
1,367.7	-	1,367.7	643.7	-	643.7
<b>1,953.5</b>	<b>-</b>	<b>1,953.5</b>	<b>677.8</b>	<b>-</b>	<b>677.8</b>

**(ii) Amendment to IAS 1**

'Amendment to IAS 1: Presentation of financial statements - Presentation of items of other comprehensive income'. The Group has applied this amendment retrospectively and the comparatives have been represented accordingly. Within the Group statement of comprehensive income, items are now separated into 'Items that will be or have been recycled to the Group Income Statement' and 'Items that will not be recycled to the Group Income Statement'.

**(iii) IFRS 13**

IFRS 13: 'Fair value measurement' has measurement and disclosure requirements that the Group is required to be adopted for the March 2014 year-end onwards. The Group has included the IFRS 13 (and IFRS 7) disclosures required by IAS 34 para 16a(j) in note 17.

**3.2 Effective in financial year ended 31 March 2015 and in future**

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

IFRS 10: 'Consolidated financial statements', IFRS 11: 'Joint arrangements', IFRS 12: 'Disclosures of interests in other entities', and subsequent revisions to IAS 27: 'Separate financial statements' and IAS 28: 'Investments in associates and joint ventures' are new and revised standards that SSE will mandatorily be required to adopt in the year to 31 March 2015 due to the Group being a EU endorsed IFRS reporter. The Group has not adopted these standards early in these interim statements and is continuing to assess the impact of the changes. Certain further information in relation to the impact of the prospective changes will be provided in the Group's full year financial statements for the year to 31 March 2014.

There are no other IFRSs or IFRIC interpretations that are effective for the first time for the current financial period that have had a material impact on the Group. The Group has not early adopted any standard, interpretation or amendments that have been issued but are not yet effective.

## Notes on the Condensed Interim Statements

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### 4. Changes to presentation of financial statements

#### Cash flow statement presentation

To provide consistency with the Group's statutory financial statements for the year to 31 March 2013, the presentation of the cash flow statement has been changed to focus on the significant cash movements after cash generated from operations from working capital movement. The reconciliation from profit for the year to cash generated from operations before working capital movements is included at Note 12(a). An additional table explaining the reconciliation of the movement in cash and cash equivalents to the movement in adjusted net debt has also been included at Note 12(b) to aid understanding of the group's financial position.

#### Income statement presentation

The presentation of cost of sales and operating costs was changed in the Group's consolidated financial statements for the year to 31 March 2013. In making the same change to the comparative period to 30 September 2012, the impact on the income statement is to decrease cost of sales by £73.2m (to £10,368.6m) and increase operating costs by £73.2m (to £591.6m). The change was in relation to certain back office activities and was made to reflect the way these costs are reported to management and to improve the relevance of the income statement presentation. Note that reported operating costs are stated as £593.0m in the comparative period due to the impact of adopting IAS 19R as explained at Note 3.1(i).

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

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

#### Accounting judgements

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

As permitted by IAS 1 'Presentation of financial statements', the Group has disclosed additional information in respect of jointly controlled entities and associates, exceptional items and certain re-measurements on the face of the income statement to aid understanding of the Group's financial performance. An item is treated as exceptional if it is considered unusual by nature and scale and of such significance that separate disclosure is required for the financial statements to be properly understood. Certain re-measurements are re-measurements arising on certain commodity, interest rate and currency contracts which are accounted for as held for trading or as fair value hedges in accordance with the Group's policy for such financial instruments. This excludes commodity contracts not treated as financial instruments under IAS 39 where held for the Group's own use requirements.

##### (ii) Adjusted measures

The Directors assess the performance of the reportable segments ('Operating profit by segment', Note 6(b)) based on an 'adjusted profit before interest and tax' measure. This is reconciled to reported profit before interest and tax by adding back exceptional items, remeasurements arising from IAS 39 and after the removal of taxation on profits from jointly controlled entities and associates. Following the adoption of IAS 19 (revised), as detailed at Note 3 (i), 'adjusted profit before tax', which is the key measure of Group financial performance, will now be presented after adding back the net interest costs associated with defined benefit schemes. This represents a change in the current year and all comparative measures have been restated accordingly. In addition, adjusted profit after tax will be reported on a basis consistent with this change.

The Directors also present details of an 'adjusted earnings per share' measure, which is based on basic earnings per share before exceptional items, remeasurements arising from IAS 39, the net interest costs associated with IAS 19 (revised) and after the removal of deferred taxation. The adjusted measures are considered more reflective of the Group's underlying performance, are consistent with way the Group is managed and avoids volatility arising from IAS 39 fair value measurements.

##### (iii) Business Combinations and acquisitions

Business combinations and acquisitions require a fair value exercise to be undertaken to allocate the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of this purchase price to the identifiable assets and liabilities with any unallocated portion being recorded as goodwill. Business combinations are disclosed in note 13.

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

The Energy Company Obligation ('ECO') legislation, in force since 1 January 2013, requires qualifying energy suppliers to meet defined targets by providing measures to improve the energy efficiency of and level of carbon emissions from UK domestic households. The targets for the Group's Energy Supply business are set based on historic customer information with delivery of the measures being required by 31 March 2015. The Group believes it is not technically obligated to provide those measures until 31 March 2015. As a consequence and applying applicable accounting standards, the costs of ECO are recorded when measures are delivered or other qualifying expenditure has been incurred.

## Notes on the Condensed Interim Statements for the period 1 April 2013 to 30 September 2013

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

#### Estimation uncertainty

##### (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 year 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 judgement to the measurement of the quantum of the estimated consumption and to the valuation of that consumption. The judgements applied, and the assumptions underpinning these judgements are considered to be appropriate. However, a change in these assumptions would impact upon the amount of revenue recognised.

##### (ii) 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 will also be impacted by the asset ceiling test which restricts the surplus that can be recognised to assets that can be recovered fully through refunds and where minimum funding liabilities in relation to agreed contributions may increase the value of scheme liabilities, both under IFRIC 14.

##### (iii) Impairment testing

The Group reviews the carrying amounts of its goodwill, other intangible assets and property, plant and equipment to determine whether there is any indication that the value of those assets is impaired.

In assessing for impairment, assets that do not generate independent cash flows such as goodwill 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 (or assets) and the selection of an appropriate discount rate in order to calculate their present value. The fair value 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 judgement. Where assets under review are able to be assessed independently, for example thermal generation plants, the value-in-use method will be applied to ascertain the extent of any potential impairment charge. Subsequent changes to these estimates or judgements may impact the carrying value of the assets within the respective CGUs.

Gas production and development assets are assessed under the fair value less costs method for the respective CGUs. This is deemed more appropriate as it is based on post-tax cash flows arising from each field within the respective CGUs, which is consistent with the approach taken by management in determining the economic value of the underlying assets. This is determined by discounting the post-tax cash flows expected to be generated by the CGU, net of associated selling costs, and takes into account assumptions market participants would use in estimating fair value.

##### (iv) Provisions and contingencies

The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37. The Group has entered into a number of commodity contracts relating to specific assets. Where the unavoidable costs of meeting the obligations under the contracts exceed the expected net revenues from the assets, in the normal course of business, an onerous provision has been recognised. The provisions are calculated based on estimations. The evaluation of the likelihood of the contingent events has required best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseeable developments, this likelihood could alter.

##### (v) Decommissioning costs

The estimated costs of decommissioning at the end of the useful lives of certain assets are reviewed periodically. Decommissioning costs in relation to gas exploration and production assets are based on expected lives of the fields and costs of decommissioning and are currently expected to be incurred predominantly between 2017 and 2030.

##### (vi) Gas and liquids reserves

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



**Notes on the Condensed Interim Statements**  
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**6. Segmental information**

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

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

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

As noted in Note 5 Accounting judgements, the measure of profit used by the Board is adjusted operating profit which is before exceptional items, the impact of financial instruments measured under IAS 39, the net interest costs associated with IAS 19 (revised) 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 and Ireland.

**a) Revenue by segment**

<b>Six months ended 30 September 2012</b>			<b>Six months ended 30 September 2013</b>		
External revenue	Intra-segment revenue	Total revenue	External revenue	Intra-segment revenue	Total revenue
£m	£m	£m	£m	£m	£m
<b>Networks</b>					
280.8	156.3	437.1	328.8	142.1	470.9
68.6	-	68.6	91.6	-	91.6
95.0	24.8	119.8	91.5	28.3	119.8
444.4	181.1	625.5	511.9	170.4	682.3
<b>Retail</b>					
3,325.6	10.9	3,336.5	3,477.3	13.2	3,490.5
163.7	88.0	251.7	162.0	102.7	264.7
3,489.3	98.9	3,588.2	3,639.3	115.9	3,755.2
<b>Wholesale</b>					
7,434.3	1,575.9	9,010.2	9,398.3	1,789.6	11,187.9
11.8	35.6	47.4	2.2	43.0	45.2
1.2	44.6	45.8	2.6	130.7	133.3
7,447.3	1,656.1	9,103.4	9,403.1	1,963.3	11,366.4
23.2	98.6	121.8	19.8	102.3	122.1
11,404.2	2,034.7	13,438.9	13,574.1	2,351.9	15,926.0
			<b>Corporate unallocated</b>		
			<b>Total</b>		

Revenue from the Group's investment in Scotia Gas Networks Limited, the Group's share being £265.2m (September 2012-£230.9m, March 2013 – £458.0m), is not recognised as revenue of the Group under equity accounting.

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**6. Segmental information (continued)**

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

	Year ended 31 March 2013		Total revenue £m
	External revenue £m	Intra-segment revenue £m	
<b>Networks</b>			
Electricity Distribution	647.0	348.8	995.8
Electricity Transmission	139.1	0.1	139.2
Other Networks	246.3	68.5	314.8
	<b>1,032.4</b>	<b>417.4</b>	<b>1,449.8</b>
<b>Retail</b>			
Energy Supply	8,602.1	35.1	8,637.2
Energy-related Services	246.0	203.2	449.2
	<b>8,848.1</b>	<b>238.3</b>	<b>9,086.4</b>
<b>Wholesale</b>			
Energy Portfolio Management and Electricity Generation	18,356.9	4,420.4	22,777.3
Gas Storage	19.4	93.4	112.8
Gas Production	3.7	114.4	118.1
	<b>18,380.0</b>	<b>4,628.2</b>	<b>23,008.2</b>
Corporate unallocated	44.1	247.9	292.0
<b>Total</b>	<b>28,304.6</b>	<b>5,531.8</b>	<b>33,836.4</b>

**b) Operating profit by segment**

	Six months ended 30 September 2013				Total £m
	Adjusted operating profit reported to the Board £m	JCE / Associate share of interest and tax (i) £m	Before exceptional items and certain re- measurements £m	Exceptional items and certain re- measurements £m	
<b>Networks</b>					
Electricity Distribution	232.0	-	232.0	-	232.0
Electricity Transmission	67.6	-	67.6	-	67.6
Gas Distribution	138.2	(85.8)	52.4	65.5	117.9
Other Networks	18.0	-	18.0	-	18.0
	<b>455.8</b>	<b>(85.8)</b>	<b>370.0</b>	<b>65.5</b>	<b>435.5</b>
<b>Retail</b>					
Energy Supply	(115.4)	-	(115.4)	-	(115.4)
Energy-related Services	26.0	(0.1)	25.9	-	25.9
	<b>(89.4)</b>	<b>(0.1)</b>	<b>(89.5)</b>	<b>-</b>	<b>(89.5)</b>
<b>Wholesale</b>					
Energy Portfolio Management and Electricity Generation	86.2	(22.6)	63.6	(6.8)	56.8
Gas Storage	5.2	-	5.2	-	5.2
Gas Production	69.0	-	69.0	-	69.0
	<b>160.4</b>	<b>(22.6)</b>	<b>137.8</b>	<b>(6.8)</b>	<b>131.0</b>
Corporate unallocated	(8.1)	-	(8.1)	-	(8.1)
<b>Total</b>	<b>518.7</b>	<b>(108.5)</b>	<b>410.2</b>	<b>58.7</b>	<b>468.9</b>

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**6. Segmental information (continued)**

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

	<b>Six months ended 30 September 2012</b>				
	<b>Adjusted operating profit reported to the Board</b>	<b>JCE / Associate share of interest and tax (i)</b>	<b>Before exceptional items and certain re-measurements</b>	<b>Exceptional items and certain re-measurements</b>	<b>Total</b>
Restated (note 3)	£m	£m	£m	£m	£m
<b>Networks</b>					
Electricity Distribution	212.9	-	212.9	-	212.9
Electricity Transmission	48.5	-	48.5	-	48.5
Gas Distribution	122.7	(84.1)	38.6	23.7	62.3
Other Networks	14.7	-	14.7	-	14.7
	<b>398.8</b>	<b>(84.1)</b>	<b>314.7</b>	<b>23.7</b>	<b>338.4</b>
<b>Retail</b>					
Energy Supply	48.3	-	48.3	-	48.3
Energy-related Services	27.0	-	27.0	-	27.0
	<b>75.3</b>	<b>-</b>	<b>75.3</b>	<b>-</b>	<b>75.3</b>
<b>Wholesale</b>					
Energy Portfolio Management and Electricity Generation	99.5	(16.1)	83.4	(367.5)	(284.1)
Gas Storage	6.9	-	6.9	-	6.9
Gas Production	16.5	-	16.5	-	16.5
	<b>122.9</b>	<b>(16.1)</b>	<b>106.8</b>	<b>(367.5)</b>	<b>(260.7)</b>
Corporate unallocated	(7.3)	-	(7.3)	-	(7.3)
<b>Total</b>	<b>589.7</b>	<b>(100.2)</b>	<b>489.5</b>	<b>(343.8)</b>	<b>145.7</b>

	<b>Year ended 31 March 2013</b>				
	<b>Adjusted operating profit reported to the Board</b>	<b>JCE / Associate share of interest and tax (i)</b>	<b>Before exceptional items and certain re-measurements</b>	<b>Exceptional items and certain re-measurements</b>	<b>Total</b>
Restated (note 3)	£m	£m	£m	£m	£m
<b>Networks</b>					
Electricity Distribution	511.6	-	511.6	-	511.6
Electricity Transmission	92.6	-	92.6	-	92.6
Gas Distribution	234.1	(163.0)	71.1	27.4	98.5
Other Networks	35.9	-	35.9	-	35.9
	<b>874.2</b>	<b>(163.0)</b>	<b>711.2</b>	<b>27.4</b>	<b>738.6</b>
<b>Retail</b>					
Energy Supply	363.2	-	363.2	(4.3)	358.9
Energy-related Services	45.9	(0.2)	45.7	(31.7)	14.0
	<b>409.1</b>	<b>(0.2)</b>	<b>408.9</b>	<b>(36.0)</b>	<b>372.9</b>
<b>Wholesale</b>					
Energy Portfolio Management and Electricity Generation	450.6	(43.0)	407.6	(767.2)	(359.6)
Gas Storage	18.4	-	18.4	-	18.4
Gas Production	39.6	-	39.6	-	39.6
	<b>508.6</b>	<b>(43.0)</b>	<b>465.6</b>	<b>(767.2)</b>	<b>(301.6)</b>
Corporate unallocated	(12.9)	-	(12.9)	(3.3)	(16.2)
<b>Total</b>	<b>1,779.0</b>	<b>(206.2)</b>	<b>1,572.8</b>	<b>(779.1)</b>	<b>793.7</b>

(i) The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives and tax from jointly controlled entities and associates and after adjusting for exceptional items and certain re-measurements (note 7). The share of Scotia Gas Networks Limited interest includes loan stock interest payable to the consortium shareholders. The Group has accounted for its 50% share of this, £16.7m (2012 - £16.7m, March 2013 - £33.3m), as finance income (note 8).

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

Year ended 31 March 2013 £m		Six months ended 30 September 2013 £m	Six months ended 30 September 2012 £m
	<b>Exceptional items (i)</b>		
(561.3)	Impairments and other charges	-	(111.2)
(6.9)	Provisions for onerous contracts, restructuring and other liabilities	-	22.5
(12.5)	Impairment of Investments in Associates (share of result, net of tax)	-	-
	Share of effect of change in UK corporation tax rate on net deferred tax liabilities of associate and jointly controlled entity investments (iii)		
23.8		69.7	19.8
(556.9)		69.7	(68.9)
	<b>Certain re-measurements (ii)</b>		
(228.7)	Movement on operating derivatives (note 17)	(11.8)	(278.8)
20.3	Movement on financing derivatives (note 17)	(31.3)	(56.9)
6.5	Share of movements on derivatives in jointly controlled entities (net of tax)	0.8	3.9
(201.9)		(42.3)	(331.8)
(758.8)	<b>Impact on profit/(loss before taxation)</b>	<b>27.4</b>	<b>(400.7)</b>
	<b>Exceptional items (i)</b>		
22.0	Effect of change in UK corporation tax rate on deferred tax liabilities and assets (iii)	103.4	23.2
129.6	Taxation on exceptional items	-	30.3
151.6		103.4	53.5
	<b>Certain re-measurements (ii)</b>		
50.2	Taxation on certain re-measurements	9.9	71.3
201.8	<b>Taxation</b>	<b>113.3</b>	<b>124.8</b>
(557.0)	<b>Impact on profit/(loss) for the period/year</b>	<b>140.7</b>	<b>(275.9)</b>

**i) Exceptional items**

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

**Impairments and other charges:** Following a comprehensive review of generation operations, it was announced that around 2,000MW of the Group's thermal generation capacity would close in the current financial year with the main stations affected being Ferrybridge, Keadby, Slough, Uskmouth and Peterhead. Related to this, the Group reassessed the carrying value of its associate investments at Barking Power Limited and Derwent Cogeneration Limited. As a result, combined impairment charges of £306.9m were recognised. In addition, impairment charges of £84.6m were recognised in relation to legacy metering assets, wind development pipeline assets, certain associate investments and other assets. The Group also recognised exceptional charges following the settlement of contractual claims (£43.0m) and in relation to the impairment of carbon dioxide emissions allowances purchased to cover the emissions liabilities at the group's thermal plants (£139.3m).

**Provisions for onerous contracts, restructuring and other liabilities.** On review of the Group's provisions at 31 March 2013, certain provisions for onerous contracts were released (£37.4m) and other provisions were recognised (£44.3m). Of these charges, £88.7m were recognised in the period to 30 September 2012.

**ii) Certain re-measurements**

Certain re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category includes the movement on derivatives (and hedged items) as described in note 17. Only certain of the Group's energy commodity contracts are deemed to constitute financial instruments under IAS 39. As a result, while the Group manages the commodity price risk associated with both financial and non-financial commodity contracts, it is only commodity contracts that are designated as financial instruments under IAS 39 that are accounted for on a fair value basis with changes in fair value reflected in profit (as part of 'certain re-measurements') or equity. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts.

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

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate would reduce from 28% to 24% over a period of four years starting in 2011. Subsequent Budgets have accelerated the reductions and the 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2013 and substantive enactment of the rates of 21% and 20% with effect from 1 April 2014 and 1 April 2015, respectively, took place on 3 July 2013.

As the changes have been substantively enacted, they have had the effect of reducing the group's net deferred tax liabilities recognised at 30 September 2013 by £83.4m (with an income statement impact of £103.4m) and the group's share of associate and jointly controlled investment deferred tax liabilities by £65.2m (with an income statement impact of £69.7m). The income statement impact of the reduction in rate from 24% to 23% effective in the previous year was recorded as £23.8m (£19.8m, September 2012) and £22.0m (£23.2m, September 2012) in relation to the group's share of jointly controlled entity deferred tax.

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**8. Net finance costs**

Year ended 31 March 2013 Restated (note 3) £m	<b>Six months ended 30 September 2013</b> £m	Six months ended 30 September 2012 Restated (note 3) £m
<b>Finance income:</b>		
1.7 Interest income from short term deposits	0.9	-
12.9 Foreign exchange translation of monetary assets and liabilities	19.8	2.0
Other interest receivable:		
33.3 Scotia Gas Networks loan stock	16.7	16.7
25.4 Other jointly controlled entities and associates	13.2	12.5
28.1 Other receivable	25.2	23.8
86.8	55.1	53.0
<b>101.4 Total finance income</b>	<b>75.8</b>	<b>55.0</b>
<b>Finance costs:</b>		
(22.5) Bank loans and overdrafts	(8.0)	(12.8)
(302.7) Other loans and charges	(162.4)	(161.1)
(31.1) Interest on net pension scheme liabilities	(13.6)	(16.0)
(7.7) Notional interest arising on provisions	(3.9)	(3.3)
(37.1) Finance lease charges	(17.9)	(18.5)
57.0 Less: interest capitalised	28.8	27.0
<b>Finance costs excluding movement on financing derivatives and exceptional items</b>		
<b>(344.1) exceptional items</b>	<b>(177.0)</b>	<b>(184.7)</b>
20.3 Movement on financing derivatives and exceptional items	(31.3)	(56.9)
<b>(222.4) Net finance costs</b>	<b>(132.5)</b>	<b>(186.6)</b>

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

Year ended 31 March 2013 Restated (note 3) £m	<b>Six months ended 30 September 2013</b> £m	Six months ended 30 September 2012 Restated (note 3) £m
(222.4) Net finance costs	(132.5)	(186.6)
(add)/less:		
Share of interest from jointly controlled entities and associates:		
(33.3) Scotia Gas Networks loan stock	(16.7)	(16.7)
(122.8) Other jointly controlled entities and associates	(61.6)	(60.4)
(156.1)	(78.3)	(77.1)
31.1 Interest on net pension scheme liabilities	13.6	16.0
3.8 Share of interest on net pension liabilities in jointly controlled entities	1.2	1.9
(20.3) Movement on financing derivatives (note 17)	31.3	56.9
<b>(363.9) Adjusted net finance costs</b>	<b>(164.7)</b>	<b>(188.9)</b>
7.7 Notional interest arising on discounted provisions	3.9	3.3
37.1 Finance lease charges	17.9	18.5
(63.4) Hybrid coupon payment	(12.5)	-
<b>(382.5) Adjusted net finance costs for interest cover calculations</b>	<b>(155.4)</b>	<b>(167.1)</b>

The interest on net pension liabilities for the year ended 31 March 2013 (£31.1m) and the period ended 30 September 2012 (£16.0m) represent the respective charges under IAS 19R. The restatement adjustments in Note 3 (£22.9m – March 2013, £11.3m – September 2013) represent the increase in interest costs associated with the adoption of IAS 19R.

## Notes on the Condensed Interim Statements for the period 1 April 2013 to 30 September 2013

### 9. Taxation

The income tax expense reflects the anticipated effective rate of tax on profits before taxation for the Group for the year ending 31 March 2014, taking account of the movement in the deferred tax provision in the period so far as it relates to items recognised in the income statement. The reported tax rate on the profit before tax before exceptional items and certain re-measurements is 21.1% (2012 – 18.9%, March 2013 – 23.1%). The reported tax rate on the profit before tax after exceptional items, including the effect of the change in tax rate, and certain re-measurements was (14.3)% (2012 – 200.7%, March 2013 – 18.4%).

The combined effect of the substantively enacted change in rate of UK corporation tax effective from 1 April 2013, explained at Note 7(iii), has been treated as an exceptional item. The total adjusted effective rate of tax on profits before taxation excluding exceptional items, certain re-measurements, deferred tax associated with interest on net pension liabilities under IAS 19R and adjusted for tax on associates and jointly controlled entities for the period can be represented as follows:

Year ended 31 March 2013 Restated (note 3)		Six months ended 30 September 2013	Six months ended 30 September 2012 Restated (note 3)
<b>Adjusted effective rate:</b>			
15.8%	Current tax	<b>16.4%</b>	16.0%
9.4%	Deferred tax	<b>10.5%</b>	6.8%
<b>25.2%</b>		<b>26.9%</b>	<b>22.8%</b>

### 10. Dividends

#### Ordinary dividends

Year ended 31 March 2013	Total £m	Settled via scrip £m	Pence per ordinary share		Six months ended 30 September 2013	Total £m	Settled via scrip £m	Pence per ordinary share	Six months ended 30 September 2012	Total £m	Settled via scrip £m	Pence per ordinary share
-	-	-	-	Final – year ended 31 March 2013	<b>568.6</b>	<b>17.8</b>	<b>59.0</b>	-	-	-	-	-
241.2	82.5	25.2	-	Interim – year ended 31 March 2013	-	-	-	-	-	-	-	-
529.3	172.7	56.1	-	Final – year ended 31 March 2012	-	-	-	529.3	172.7	56.1	-	
<b>770.5</b>	<b>255.2</b>				<b>568.6</b>	<b>17.8</b>		<b>529.3</b>	<b>172.7</b>			

The final dividend of 59.0p per ordinary share declared in the financial year ended 31 March 2013 (2012 – 56.1p) was approved at the Annual General Meeting on 25 July 2013 and was paid to shareholders on 27 September 2013. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the interim cash dividend under the terms of the Company's scrip dividend scheme.

An interim dividend of 26.0p per ordinary share (2012 – 25.2p) has been proposed and is due to be paid on 21 March 2014 to those shareholders on the SSE plc share register on 24 January 2014. The proposed interim dividend has not been included as a liability in these financial statements. A scrip dividend will be offered as an alternative.

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**11. Earnings per share**

**Basic earnings per share**

The calculation of basic earnings per share at 30 September 2013 is based on the net profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period ended 30 September 2013. All earnings are from continuing operations.

**Adjusted earnings per share**

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

Year ended 31 March 2013		Six months ended 30 September 2013		Six months ended 30 September 2012	
Earnings per share		Earnings per share		Earnings per share	
£m	pence	£m	pence	£m	pence
Restated (note 3)	Restated (note 3)			Restated (note 3)	Restated (note 3)
<b>402.7</b>	<b>42.3 Basic</b>	<b>371.9</b>	<b>38.6</b>	<b>15.9</b>	<b>1.7</b>
557.0	58.5 Exceptional items and certain re-measurements (note 7)	(140.7)	(14.6)	275.9	29.2
959.7	100.8 Basic excluding exceptional items and certain re-measurements	231.2	24.0	291.8	30.9
	Adjusted for:				
31.1	3.3 Interest on net pension scheme liabilities (note 8)	13.6	1.4	16.0	1.7
3.8	0.4 Share of interest on net pension liabilities in jointly controlled entities (note 8)	1.2	0.1	1.9	0.2
87.0	9.1 Deferred tax	11.5	1.2	5.6	0.5
46.5	4.9 Deferred tax from share of jointly controlled entities and associates	25.8	2.7	21.5	2.3
<b>1,128.1</b>	<b>118.5 Adjusted</b>	<b>283.3</b>	<b>29.4</b>	<b>336.8</b>	<b>35.6</b>
<b>402.7</b>	<b>42.3 Basic</b>	<b>371.9</b>	<b>38.6</b>	<b>15.9</b>	<b>1.7</b>
-	(0.1) Dilutive effect of convertible debt and share options	-	(0.1)	-	-
<b>402.7</b>	<b>42.2 Diluted</b>	<b>371.9</b>	<b>38.5</b>	<b>15.9</b>	<b>1.7</b>

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

Year ended 31 March 2013		Six months ended 30 September 2013	Six months ended 30 September 2012
Number of shares (millions)		Number of shares (millions)	Number of shares (millions)
952.0	For basic and adjusted earnings per share	964.4	945.4
1.9	Effect of exercise of share options	2.5	1.8
<b>953.9</b>		<b>966.9</b>	<b>947.2</b>

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

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

Year ended 31 March 2013 Restated (notes 3, 4) £m	<b>Six months ended 30 September 2013</b> £m	Six months ended 30 September 2012 Restated (notes 3, 4) £m
466.1 Profit for the year	<b>384.4</b>	15.9
Add back:		
105.2 Taxation	<b>(48.0)</b>	(56.8)
222.4 Net finance costs	<b>132.5</b>	186.6
<b>793.7 Operating profit</b>	<b>468.9</b>	<b>145.7</b>
(127.2) Less: share of profit of jointly controlled entities and associates	<b>(157.4)</b>	(70.6)
666.5 Operating profit before jointly controlled entities and associates	<b>311.5</b>	75.1
Add/(less):		
228.7 Movement on operating derivatives	<b>11.8</b>	278.8
(80.7) Pension service charges net of contributions paid	<b>(36.6)</b>	(41.0)
561.3 Exceptional impairment of assets	-	111.2
6.9 Other exceptional items	-	(22.5)
570.8 Depreciation of assets	<b>279.0</b>	274.0
5.9 Amortisation and impairment of intangible assets	<b>2.0</b>	2.3
3.6 Impairment of inventories	<b>2.6</b>	-
(0.6) Release of provisions	-	-
(16.8) Release of deferred income	<b>(9.0)</b>	(6.9)
16.0 Charge in respect of employee share awards (before tax)	<b>7.3</b>	7.0
0.1 Loss/(profit) on disposal of property, plant and equipment	-	(0.2)
(8.2) Profit on disposal of business and subsidiaries	-	-
<b>1,953.5 Cash generated from operations before working capital movements</b>	<b>568.6</b>	<b>677.8</b>

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

Year ended 31 March 2013 £m	<b>Six months ended 30 September 2013</b> £m	Six months ended 30 September 2012 £m
353.1 (Decrease)/Increase in cash and cash equivalents	<b>(60.9)</b>	709.9
(Add)/less:		
(517.1) New borrowings	<b>(1,186.1)</b>	(481.0)
694.7 Repayment of borrowings	<b>758.9</b>	597.7
(1,025.4) Issue of hybrid capital	-	(1,025.2)
(32.3) Non-cash movement on borrowings	<b>52.8</b>	(22.3)
(64.9) (Decrease) in cash held as collateral	<b>(14.5)</b>	(77.5)
<b>(591.9) Movement in adjusted net debt and hybrid capital</b>	<b>(449.8)</b>	<b>(298.4)</b>

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

**13. Acquisitions and disposals**

On 12 April 2013, the Group, through its wholly-owned subsidiary SSE E&P UK Limited, completed the acquisition from BP of a 50% working interest in the Sean gas field in the Southern North Sea. Following completion settlement including working capital items, the final cash consideration paid for the business was £127.6m, which included £18.0m paid on deposit on 28 January 2013. The acquisition enhances the Group's presence in the upstream gas sector and provides an additional source of primary fuel to effectively meet the energy demands of the Group.

There were no material disposals in the period to 30 September and the assets held for sale at the period end of £2.3m were unchanged from those held at 31 March 2013.



**Notes on the Condensed Interim Statements**  
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**14. Loans and other borrowings**

March 2013 £m		September 2013 £m	September 2012 £m
	<b>Current</b>		
1,529.2	Other short-term loans	<b>1,288.3</b>	819.3
15.4	Obligations under finance leases	<b>15.5</b>	13.6
<b>1,544.6</b>		<b>1,303.8</b>	<b>832.9</b>
	<b>Non current</b>		
4,225.4	Loans	<b>4,840.8</b>	4,985.1
315.0	Obligations under finance leases	<b>307.2</b>	322.7
<b>4,540.4</b>		<b>5,148.0</b>	<b>5,307.8</b>
6,085.0	<b>Total loans and borrowings</b>	<b>6,451.8</b>	6,140.7
(538.7)	Cash and cash equivalents	<b>(477.9)</b>	(894.4)
<b>5,546.3</b>	<b>Unadjusted net debt</b>	<b>5,973.9</b>	<b>5,246.3</b>
	<b>Add/(less):</b>		
2,186.8	Hybrid capital (note 15)	<b>2,186.8</b>	2,186.6
(330.4)	Obligations under finance leases	<b>(322.7)</b>	(336.3)
(55.0)	Cash held as collateral	<b>(40.5)</b>	(42.4)
<b>7,347.7</b>	<b>Adjusted Net Debt and Hybrid Capital</b>	<b>7,797.5</b>	<b>7,054.2</b>

In June 2013, the Group issued a €600m 7 year Eurobond with a coupon of 2.0% with the proceeds from this being used to repay the €600m 6.125% Eurobond that matured in July. The Group also drew down £650m of available bank facilities which became floating rate term loans with 8 year (£150m) and 1 year (£500m) maturities. The Group has also increased its committed facilities from £1.0bn to £1.5bn by increasing the Revolving Credit Facility from £0.9bn to £1.3bn and its bilateral facility from £0.1bn to £0.2bn. Both these facilities have been extended to 2018.

In the six months to 31 March 14 the Group has around £750m of debt reaching maturity and it is expected that the capital markets will be accessed to meet the Group's on-going funding requirement. Adjusted net debt and hybrid capital is stated after removing obligations on finance leases and cash held as collateral. Cash held as collateral refers to amounts deposited on commodity trading exchanges which are reported within Trade and other receivables on the face of the balance sheet.

**15. Hybrid Capital**

March 2013 £m		September 2013 £m	September 2012 £m
	<b>Perpetual subordinated capital securities</b>		
744.5	GBP 750m 5.453% issued 20 September 2010	<b>744.5</b>	744.5
416.9	EUR 500m 5.025% issued 20 September 2010	<b>416.9</b>	416.9
427.2	USD 700m 5.625% issued 18 September 2012	<b>427.2</b>	427.1
598.2	EUR 750m 5.625% issued 18 September 2012	<b>598.2</b>	598.1
<b>2,186.8</b>		<b>2,186.8</b>	<b>2,186.6</b>

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

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

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

Coupon payments of £12.5m (US \$21.1m) in relation to the USD capital issued on 18 September 2012 were paid on 2 April 2013. In addition, coupon payments of £63.4m in relation to the capital issued on 20 September 2010 were made in the previous financial year on 1 October 2012.

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### 16. Share capital

	Number (millions)	£m
Equity: Ordinary shares of 50p each: Authorised: At 30 September 2013 and 1 April 2013	1,200.0	600.0
Allotted, called up and fully paid: At 1 April 2013	964.3	482.1
Issue of shares	1.1	0.6
<b>At 30 September 2013</b>	<b>965.4</b>	<b>482.7</b>

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

Shareholders were able to elect to receive ordinary shares in place of the final dividend for the year to 31 March 2013 of 59.0p (56.1p – September 2012 in relation to the final dividend for the year to 31 March 2012, 25.2p – March 2012, in relation to the interim dividend for the year to 31 March 2013) per ordinary share under the terms of the Company's scrip dividend scheme. This resulted in the issue of 1,128,181 (September 2012 – 12,213,624, March 2013 – 5,920,120) new fully paid ordinary shares.

The Company issued 18,918 shares (2012 – 14,152, March 2013 – 496,295) during the period under the savings-related share option schemes, and discretionary share option schemes for a consideration of £0.19m (2012 – £0.14m, March 2013 – £5.72m).

During the period, on behalf of the Company, the employee share trust purchased 0.3 million shares (2012 – 0.3 million, March 2013 – 0.6 million) for a consideration of £4.2m (2012 – £3.9m, March 2013 – £7.7m) to be held in trust for the benefit of employee share schemes.

### 17. Capital and Financial Risk Management

#### Capital management

The Board's policy is to maintain a strong balance sheet and credit rating so as to support investor, counterparty and market confidence and to underpin future development of the business. The Group's credit ratings are also important in maintaining an efficient cost of capital and in determining collateral requirements throughout the Group. As at 30 September 2013, the Group's long term credit rating remained A3 stable outlook for Moody's and A- negative outlook for Standard & Pools. The group's debt requirements are principally met through issuing bonds denominated in Sterling, US Dollars and Euros as well as private placements and medium term bank loans predominately with the European Investment Bank. In addition the Group has issued hybrid capital securities which bring together features of both debt and equity, are perpetual and subordinate to all senior creditors. Given the increase in bank facilities and the debt already issued this year along with the current capital market conditions, the Directors have concluded that the Group has sufficient headroom to continue as a Going Concern. Details of the Group's facilities, borrowings, hybrid capital securities and adjusted net debt are included at Notes 14 and 15.

#### Financial risk management

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

Exposure to the commodity, currency and interest rate risks referred to arise in the normal course of the Group's business and the Group enters into derivative financial instruments to manage exposure to these risks. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year remain as stated in the Group's financial statements at March 2013.

In the six months to 30 September 2013, 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 2013. The Group has continued to commit significant internal resource to managing credit risk in the period.

The Group's policy in relation to liquidity risk continues to be to ensure, in so far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. Further detail is noted under 'capital management' above.

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

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

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

Year ended 31 March 2013 £m		Six months ended 30 September 2013 £m	Six months ended 30 September 2012 £m
	<b>Operating derivatives</b>		
33.7	Total result on operating derivatives (i)	(373.8)	226.9
(262.4)	Less: amounts settled (ii)	362.0	(505.7)
<u>(228.7)</u>	<b>Movement in unrealised derivatives</b>	<u>(11.8)</u>	<u>(278.8)</u>
	<b>Financing derivatives (and hedged items)</b>		
(755.0)	Total result on financing derivatives (i)	(579.2)	(364.8)
775.3	Less: amounts settled (ii)	547.9	307.9
<u>20.3</u>	<b>Movement in unrealised derivatives</b>	<u>(31.3)</u>	<u>(56.9)</u>
<u>(208.4)</u>	<b>Total</b>	<u>(43.1)</u>	<u>(335.7)</u>

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

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

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

March 2013		September 2013		September 2012	
Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
£m	£m	£m	£m	£m	£m
<b>Financial Assets</b>					
<b>Current</b>					
2,815.1	2,815.1	2,048.0	2,048.0	2,044.8	2,044.8
39.9	39.9	39.6	39.6	32.3	32.3
55.0	55.0	40.5	40.5	42.4	42.4
538.7	538.7	447.9	447.9	894.4	894.4
940.8	940.8	543.8	543.8	365.3	365.3
<u>4,389.5</u>	<u>4,389.5</u>	<u>3,119.8</u>	<u>3,119.8</u>	<u>3,379.2</u>	<u>3,379.2</u>
<b>Non-current</b>					
28.7	28.7	28.8	28.8	18.3	18.3
1,244.0	1,244.0	1,280.7	1,280.7	1,247.6	1,247.6
382.4	382.4	321.3	321.3	757.4	757.4
<u>1,655.1</u>	<u>1,655.1</u>	<u>1,630.8</u>	<u>1,630.8</u>	<u>2,023.3</u>	<u>2,023.3</u>
<u>6,044.6</u>	<u>6,044.6</u>	<u>4,750.6</u>	<u>4,750.6</u>	<u>5,402.5</u>	<u>5,402.5</u>
<b>Financial Liabilities</b>					
<b>Current</b>					
(2,531.4)	(2,531.4)	(1,762.1)	(1,762.1)	(1,518.2)	(1,518.2)
(1,529.2)	(1,530.0)	(1,288.3)	(1,299.8)	(819.3)	(835.7)
(15.4)	(15.4)	(15.5)	(15.5)	(13.6)	(13.6)
(1,011.2)	(1,011.2)	(664.2)	(664.2)	(944.9)	(944.9)
<u>(5,087.2)</u>	<u>(5,088.0)</u>	<u>(3,730.1)</u>	<u>(3,741.6)</u>	<u>(3,296.0)</u>	<u>(3,312.4)</u>
<b>Non-current</b>					
(4,225.4)	(5,062.4)	(4,840.8)	(5,489.1)	(4,985.1)	(5,728.5)
(315.0)	(315.0)	(307.2)	(307.2)	(322.7)	(322.7)
(473.4)	(473.4)	(510.4)	(510.4)	(505.4)	(505.4)
<u>(5,013.8)</u>	<u>(5,850.8)</u>	<u>(5,658.4)</u>	<u>(6,306.7)</u>	<u>(5,813.2)</u>	<u>(6,556.6)</u>
<u>(10,101.0)</u>	<u>(10,938.8)</u>	<u>(9,388.5)</u>	<u>(10,048.3)</u>	<u>(9,109.2)</u>	<u>(9,869.0)</u>
<u>(4,056.4)</u>	<u>(4,894.2)</u>	<u>(4,637.9)</u>	<u>(5,297.7)</u>	<u>(3,706.7)</u>	<u>(4,466.5)</u>
<b>Net financial liabilities</b>					

**Fair Value Hierarchy**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from unadjusted quoted market prices for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

**Notes on the Condensed Interim Statements**  
for the period 1 April 2013 to 30 September 2013

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

**Fair Value Hierarchy**

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial Assets</b>				
Energy derivatives	62.2	713.0	-	<b>775.2</b>
Interest rate derivatives	-	65.9	-	<b>65.9</b>
Foreign exchange derivatives	-	24.0	-	<b>24.0</b>
Loans and borrowings	-	9.9	-	<b>9.9</b>
	<b>62.2</b>	<b>812.8</b>	-	<b>875.0</b>
<b>Financial Liabilities</b>				
Energy derivatives	(64.3)	(837.2)	-	<b>(901.5)</b>
Interest rate derivatives	-	(253.3)	-	<b>(253.3)</b>
Foreign exchange derivatives	-	(19.8)	-	<b>(19.8)</b>
	<b>(64.3)</b>	<b>(1,110.3)</b>	-	<b>(1,174.6)</b>

There were no significant transfers out of level 1 into level 2 and out of level 2 into level 1 during the 6 months ended 30 September 2013.

**18. Retirement Benefit Obligations**

**Defined Benefit Schemes**

The Group has two funded final salary pension schemes which provide defined benefits based on final pensionable pay. The schemes are subject to independent valuations at least every three years. The Group also has an Employer Financed Retirement Benefit scheme and a Group Personal Pension Plan, details of which were provided in the Group's Financial Statements to 31 March 2013.

Summary of Defined Benefit Pension Schemes:

Movement recognised in the SoCI Restated (note 3) March 2013 £m	Pension (liability)/ asset March 2013 £m		Movement recognised in respect of the pension liability in the SoCI Restated (note 3)		Pension (liability)/ asset	
			September 2013 £m	September 2012 £m	September 2013 £m	September 2012 £m
(134.6)	3.4	Scottish Hydro Electric Pension Scheme	<b>(31.5)</b>	(21.9)	<b>(17.5)</b>	100.4
(15.9)	(519.9)	Southern Electric Pension Scheme	<b>23.0</b>	0.9	<b>(480.6)</b>	(518.9)
(150.5)	(516.5)		<b>(8.5)</b>	(21.0)	<b>(498.1)</b>	(418.5)
127.0	(189.3)	IFRIC 14 (i)	<b>(25.2)</b>	15.5	<b>(168.0)</b>	(293.9)
(23.5)	(705.8)	Net actuarial (loss) and combined liability	<b>(33.7)</b>	(5.5)	<b>(666.1)</b>	(712.4)

(i) The net pension liability of £666.1m (2012 - £712.4m, March 2013 - £705.8m) reported at 30 September 2013 includes a liability of £168.0m (2012 - £293.9m, March 2013 - £189.3m) calculated under IFRIC 14, which reflects the value of contributions payable under a schedule of contributions agreed by the Group and the scheme Trustees (minimum funding requirement) with a restriction on the surplus that can be recognised.

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

31 March 2013		September 2013	September 2012
4.7%	Rate of increase in pensionable salaries	<b>4.8%</b>	4.1%
3.2%	Rate of increase in pension payments	<b>3.3%</b>	2.6%
4.1%	Discount rate	<b>4.3%</b>	4.0%
3.2%	Inflation rate	<b>3.3%</b>	2.6%

**Notes on the Condensed Interim Statements**  
for the period 1 April 2013 to 30 September 2013

**19. Capital Commitments**

March 2013 £m		<b>September 2013 £m</b>	September 2012 £m
741.0	Capital Expenditure Contracted for but not provided	<b>850.6</b>	660.5

**20. Related Party Transactions**

The following trading transactions took place during the period between the Group and entities which are related to the Group but which are not members of the Group. Related parties are defined as those in which the Group has joint control or significant influence over.

	Sale of goods and services Sep 2013	Purchase of goods and services Sep 2013	Amounts owed from Sep 2013	Amounts owed to Sep 2013	Sale of goods and services Sep 2012	Purchase of goods and services Sep 2012	Amounts owed from Sep 2012	Amounts owed to Sep 2012
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Jointly controlled entities:</b>								
Seabank Power Ltd	-	(46.2)	0.1	7.9	-	(34.8)	-	5.0
Marchwood Power Ltd Greater Gabbard Offshore Winds Ltd	-	(36.3)	0.2	10.4	-	(33.8)	0.5	6.2
Scotia Gas Networks Ltd	3.1	(47.6)	1.0	22.7	-	(29.2)	-	18.3
Other Joint Ventures	28.2	(87.7)	14.5	0.4	16.3	(78.7)	0.5	10.6
	17.1	-	0.6	0.6	9.4	-	-	0.1
<b>Associates</b>	<b>1.3</b>	<b>(16.0)</b>	<b>0.1</b>	<b>4.3</b>	<b>22.1</b>	<b>(23.2)</b>	<b>10.7</b>	<b>2.4</b>

The transactions with Seabank Power Limited, Marchwood Power Limited and Greater Gabbard Offshore Winds Limited relate to the contracts for the provision of energy or the tolling of energy under power purchase arrangements. The Group's gas supply activity incurs gas distribution charges from Scotia Gas Networks while the Group also provides services to Scotia Gas Networks in the form of a management service agreement for corporate services and stock procurement services. The amounts outstanding are trading balances, are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

**21. Seasonality of operations**

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

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

We confirm that to the best of our knowledge:

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

For and on behalf of the Board

Alistair Phillips-Davies  
Chief Executive

Gregor Alexander  
Finance Director

London  
12 November 2013

## **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 2013 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 United Kingdom's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

### **Directors' responsibilities**

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

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

### **Our responsibility**

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

### **Scope of review**

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

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2013 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

**John Luke**

**for and on behalf of KPMG LLP**

*Chartered Accountants*  
191 West George Street  
Glasgow  
G2 2LJ

12 November 2013