

11 November 2009

**Scottish and Southern Energy plc**  
**Financial report for the six months to**  
**30 September 2009**

	Sept 2009	Sept 2008	Change	Sept 2007
Interim Dividend	21.0p	19.8p	<b>+6.1%</b>	18.1p
Adjusted Profit Before Tax*	£410.5m	£302.6m	<b>+35.7%</b>	£664.7m
Adjusted Earnings Per Share*	34.2p	26.3p	<b>+30.0%</b>	57.2p
Investment and Capital Expenditure	£630.8m	£699.2m	<b>- 9.8%</b>	£363.3m
Power Station Availability (Gas)	89%	70%	<b>+27%</b>	96%
Power Station Availability (Coal)	94%	92%	<b>+2%</b>	90%
Energy Supply Customer Numbers	9.15m	8.9m	<b>+250,000</b>	8.1m
Customer Minutes Lost (SHEPD)	32	31	<b>+ 1 min</b>	28
Customer Minutes Lost (SEPD)	30	31	<b>- 1 min</b>	33
Number of Employees	19,317	17,797	<b>+ 1,520</b>	14,455
Total Recordable Injury Rate*	0.15	0.15	<b>-</b>	N/A
Reportable Environmental Incidents	0	1	<b>- 1</b>	0

\* Per 100,000 hours worked

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

“SSE’s focus is always on full-year results, but it is clearly encouraging that financial performance in the first six months is consistent with our goal of a moderate, single digit increase in adjusted profit before tax for the financial year as a whole.

“The unusual and exceptional circumstances that can apply to performance in any six month period are demonstrated by the fact that our half-year adjusted profit before tax shows a marked increase on the exceptionally low level in the same period last year but is still substantially lower than in 2007 and 2006.

“SSE has again delivered sector-leading service to energy supply and electricity distribution customers, added to its operational asset base in electricity generation and gas storage and maintained record levels of investment in the reliability of electricity networks.

“We are now more than 18 months into our five-year, £6.7 billion programme of investment in electricity generation, energy networks and gas storage. While the last six months have again demonstrated the short-term complexities and challenges involved in investment on such a scale, the long-term value of the assets this programme is delivering is not in doubt.

“This investment programme is supported by our carefully-maintained balance sheet, with a successful bond issue in September taking to over £3.3bn the amount of medium- and long-term finance we have secured in the past 18 months.

“Creating value from investment and enhancing value from operations remain central to delivering SSE’s goal of sustained annual above-inflation increases in the dividend. Today’s 6.1% increase takes our interim dividend to 21 pence per share and means we are on course to deliver a full-year dividend of at least 70 pence per share.”

\* Unless otherwise stated, this financial report describes adjusted operating profit before exceptional items, the impact of IAS 32 and IAS 39, and after the removal of taxation and interest on profits from jointly controlled entities and associates. In addition, it describes adjusted profit before tax before exceptional items, the impact of IAS 32 and IAS 39 and after the removal of taxation on profits from jointly-controlled entities and associates. It also describes adjusted earnings and earnings per share before exceptional items, the impact of IAS 32 and IAS 39 and deferred tax.

# SUMMARY OF KEY ISSUES

## Delivering sustained real growth in the dividend

- Interim dividend up 6.1% to 21.0 pence per share
- On course for full-year dividend of at least 70.0 pence per share
- Over £1bn already invested in assets under construction to deliver future profits
- Commitment to set out dividend policy for future years by full-year results in May 2010

## Achieving moderate growth in adjusted profit before tax

- Increase in half-year adjusted PBT consistent with moderate, single digit growth for full year
- Profit increases achieved in Generation and Supply, Energy Networks and other business areas
- 49% operating profit from economically-regulated networks businesses
- 51% operating profit from non-regulated businesses

## Financing for the long term

- Capital and investment expenditure of £630.8m in the six month period
- Nine-year, £500m, 5% coupon sterling bond issued in September 2009
- Strong debt structure - £4.82bn of adjusted net debt of £4.95bn in medium/long term borrowings
- £1bn of committed facilities to 2012 secured

## Expanding Generation portfolio

- Uskmouth acquisition and wind farm completions take capacity past 11,000MW
- Marchwood (SSE share 420MW) in reliability testing before operation; £172m invested
- 30 monopiles and offshore transformer platform installed at Greater Gabbard; £335m invested
- Resumption of power production at 100MW Glendoe hydro before 2011/12 unlikely

## Growing customer base

- 150,000 additional energy customer accounts in six months to 30 September in GB and Ireland
- Sustained falls in gas usage saving customers £120 a year (average)
- £3.5m total credit to gas pre-payment meter customers for five months to 31 March
- New fixed-price product providing discount around 5% on standard prices to August 2011

## Enhancing Regulatory Asset Value for Energy Networks

- Electricity distribution and transmission investment of £157.9m in six months to 30 September
- SSE share of SGN capex/repex £104.7m in six months to 30 September
- Total RAV of energy networks businesses forecast to be almost £5bn at 31 March 2010
- Ofgem proposal to fund almost £200m of upgrades to SSE's transmission network

## Developing Energy-Related Services

- New gas storage capacity (60 million cubic metres) at Aldbrough available since June 2009
- Further 55mcm expected to become available by March 2010; £203m invested
- Contracting Order Book still above £100m
- Utility Solutions continuing to grow, with out-of-area electricity networks up to 50

## STRATEGIC OVERVIEW

### Purpose and Strategy

SSE's core purpose is to provide the energy people need in a reliable and sustainable way. In line with this, its strategy has been and will continue to be the delivery of sustained real growth in the dividend payable to shareholders through the efficient operation of, and investment in, a balanced range of regulated and non-regulated energy-related businesses. Day-to-day implementation of this strategy continues to be governed by the six key financial principles set out most recently in the Annual Report 2009:

- Effective management of core businesses;
- Maintenance of a strong balance sheet;
- Rigorous analysis to ensure investments are well-founded and, where appropriate, innovative;
- Deployment of a selective and disciplined approach to acquisitions;
- Use of purchase in the market of the company's own shares as the benchmark against which financial decisions are taken; and, most fundamentally of all,
- Delivery of sustained real growth in the dividend.

SSE's strategy provides it with three key advantages:

- While energy is at their core, SSE has a diverse range of businesses;
- Within those businesses, SSE has diverse ranges of assets; and
- To add to those assets, SSE has a diverse range of investment options.

All of this means that SSE is not over-exposed to any particular shorter-term trend or fad within its sector or the wider economy and is in a position to pursue operational, investment or acquisition opportunities throughout the electricity and gas sector to achieve sustained increases in profitability and thereby support sustained real dividend growth.

### Future Environment

The UK government published *The UK Low Carbon Transition Plan* and *The UK Renewable Energy Strategy* in July 2009, with the stated aim of delivering by 2020 a cut of 18% in greenhouse gas emissions, compared with 2008. This will require around 30% of the electricity consumed in the UK to come from renewable sources by 2020, compared with just 6% at present. The UK government's plan and strategy followed the EU Climate and Energy package, formally agreed in April 2009, which states that 20% of the EU's all-energy consumption must come from renewable sources by 2020.

An increasingly well-recognised benefit of this focus on renewable energy is that it will make a significant contribution to the security of fuel supplies by reducing dependency on oil and gas, as global demand for these increasingly-scarce commodities accelerates. In his report to the UK Department of Energy and Climate Change in August 2009, *Energy Security: A national challenge in a changing world*, Malcolm Wicks MP said the transition to a low carbon economy 'is a major contributor to our future energy security'.

*The UK Low Carbon Transition Plan* also reaffirmed the UK government's view that nuclear power is low carbon, affordable, dependable, safe and capable of increasing diversity of energy supply and that new nuclear power stations should have a role to play in the country's future energy mix.

The transition to a low carbon economy will bring other key changes: electricity is likely to become a major transport fuel through electric vehicles; and a much greater proportion of demand for heat is likely to be met from electricity generated from renewable sources.

As energy production changes so, too, will energy consumption. The UK government's decision to mandate the installation of smart meters in every home by the end of 2020 is designed to enable people to understand their energy use, maximise opportunities for energy saving and lead to better services from energy suppliers. This, combined with the major ongoing investment in improving the efficiency with which energy is used, will transform the consumption of gas and electricity in future years.

### Implications for SSE

SSE believes that the pace of change in the electricity and gas sectors in the UK, Ireland and elsewhere will increase in the coming years and that the main implications for each of its principal business areas are clear:

- **Generation:** producing electricity in a more sustainable way with new developments in generation that support the transition to a lower carbon economy;
- **Supply:** helping make electricity and gas more affordable by offering ways to enable and encourage customers to take control of, and be more efficient in, their use of energy;
- **Networks:** ensuring the distribution of energy remains reliable, as sources and use of electricity and gas change, through investment in networks; and
- **Services:** providing more energy-related services such as gas storage capacity to help the UK maintain dependable supplies of energy as the peak of easily available oil and gas production approaches.

Fundamentally, as the UK becomes increasingly dependent on imports of energy and as the need for action to de-carbonise the economy intensifies, the importance and value of efficient energy storage, production, distribution and supply will all increase. This is because, as Ofgem put it in its review of the country's energy supplies in October 2009 'Britain faces a tough challenge in maintaining secure supplies whilst at the same time meeting its climate change targets'. SSE, as the UK's broadest-based energy company, and with significant assets and investments in Generation, Supply, Networks and Services, is in a good position to secure continuing, sustained real dividend growth by helping to meet the needs of energy customers.

#### **Priorities for 2009/10**

SSE's priorities for the rest of 2009/10 are straightforward. They are to:

- ensure all work is carried out in a safe and responsible manner, with a lower Total Recordable Injury Rate;
- deliver a high standard of performance throughout its operations, particularly in electricity generation, where the focus is on ensuring power stations are available to generate electricity during the winter; and
- meet key milestones in its investment programme in generation, electricity networks and gas storage, including completion of additional wind farm and gas storage capacity.

An update on SSE's progress will be provided in its next Interim Management Statement, to be published by 17 February 2010.

#### **Priorities for 2010/11 and Beyond**

Longer term, SSE expects to maintain its track record of annual above-inflation increases in the dividend through a combination of value enhancement from operational excellence and value creation from the successful delivery of its key investment opportunities.

Just as SSE's principal goal for shareholders, sustained real dividend growth, is consistent and unchanging, so too are its priorities for 2010/11 and beyond. They are to:

- work in a safe and responsible manner, with increasing periods of completely injury-free working;
- deliver efficiently investment programmes in generation, networks and gas storage;
- achieve excellence in the service provided to all customers;
- increase customer numbers in energy supply and other energy-related services; and
- ensure power stations are available to generate electricity.

## **FINANCIAL OVERVIEW**

#### **Approach to Financial Results**

These financial results for the six months to 30 September 2009 are reported under International Financial Reporting Standards, as adopted by the EU. SSE's focus has consistently been, and remains, on profit before tax before exceptional items, the impact of International Accounting Standards IAS 32 and IAS 39 and after the removal of taxation on profits from jointly controlled entities and associates.

This 'adjusted profit before tax\*' was first adopted by SSE in the six months to 30 September 2005. The adjusted definition of profit before tax reflects the underlying profits of its business, reflects the basis on which the business is managed and avoids the volatility introduced by IAS 39. The table below reconciles SSE's reported profit before tax and its adjusted profit before tax\*.

SSE has previously stated (most recently in its Annual Report 2009) that its focus is on a full-year, as opposed to half-year, performance and that its six-month financial results in any financial year should

always be viewed in light of that. This is for the reason it has set out in the past: six-month results are more likely to fluctuate, with unusual variations or exceptional circumstances.

	Sept 09 £m	Sept 08 £m
Reported Profit before Tax	514.4	171.1
Movement on derivatives (IAS 39)	(118.1)	123.4
Tax on JCEs and Associates	14.2	7.3
Interest on convertible debt	-	0.8
<b>Adjusted Profit before Tax*</b>	<b>410.5</b>	<b>302.6</b>
Adjusted current tax charge	(94.4)	(74.2)
<b>Adjusted Profit after Tax*</b>	<b>316.1</b>	<b>228.4</b>
<b>Reported profit after tax</b>	<b>378.6</b>	<b>127.5</b>
Number of shares for basic and adjusted EPS (million)	920.8	871.4
Adjusted EPS*	34.2	26.3
Basic EPS	41.0	14.7

IAS 39 requires companies to record certain forward commodity contracts that are deemed to be derivative financial instruments at 'fair value'. At 30 September 2009, there was a net derivative financial liability in SSE's balance sheet arising from IAS 39 of £1,239.8m, before tax, compared with a net liability of £1,423.6m, before tax, at 31 March 2009.

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; for around 75% of the total energy volume, this will be over the next 18 months.

The liability principally relates to some of the forward commodity purchase contracts for gas, coal, oil, carbon and wholesale electricity that SSE, like all major energy suppliers, has to enter into to ensure that the future requirements of its customers are met. In recording these contracts at their 'fair value', the prevailing forward market price at 30 September is applied against the actual contract price which, in most cases, was higher than the market price (in other words 'out of the money'). SSE sets out these fair-value movements separately, as re-measurements, as they do not reflect the underlying performance of the business.

Thus, the movement on derivatives under IAS 39 of £118.1m shown in the table above and on the face of the income statement is primarily due to a reduction in the 'out-of-the-money' position on commodity contracts between 31 March 2009 and 30 September 2009.

#### **Adjusted Profit Before Tax\* for Six Months to 30 September 2009**

Adjusted profit before tax\* was £410.5m. This compares with £302.6m in the same six months in 2008. The increase in half-year to half-year profitability followed five key steps forward in SSE's Generation and Supply business in 2009, providing a marked contrast with the same period in 2008:

- The removal, in January and February 2009, of the restrictions on running hours at Fiddler's Ferry and Ferrybridge power stations which applied during 2008, following the installation of flue gas desulphurisation (FGD) equipment;
- The return to service, in June 2009, of Medway power station, following a prolonged unplanned outage which started in March 2008;
- The increase of 31% in the output of renewable energy from SSE's hydro electric schemes, wind farms and dedicated biomass plant;
- The increase in the number of customer accounts to which SSE supplies electricity and gas (600,000 more in April 2009 than in April 2008); and

- The restoration of greater balance between the cost of energy procured and the cost of energy supplied, following the energy supply losses sustained to protect customers from the worst impacts during the period of exceptionally high wholesale prices in the middle of 2008.

Nevertheless SSE's gas supply business, Southern Electric Gas, incurred a loss during the period. Energy supply has also been characterised by falling demand for electricity and gas and by an increase in bad debt in the six months to September 2009.

#### **Adjusted Profit Before Tax\* for 2009/10**

SSE's emphasis is on adjusted profit before tax\* on a full-year, as opposed to half-year, basis and since it was formed in 1998 it has delivered 10 successive annual increases in adjusted profit before tax. SSE is aiming to deliver a moderate, single digit increase in adjusted profit before tax in 2009/10 as a whole.

Adjusted profit before tax will, in practice and as always, be determined by issues such as: the availability of SSE's gas- and coal-fired power stations to generate electricity; the output of renewable energy from SSE's hydro electric stations and wind farms; the impact of the weather on actual level of energy consumption; and the interaction between wholesale prices for energy and the prices for electricity and gas charged to customers.

#### **Adjusted Earnings Per Share\***

To monitor financial performance over the medium term, SSE continues to focus on adjusted earnings per share\* because it has the straightforward benefit of defining the amount of profit after tax that has been earned for each ordinary share and so reflects a clear view of underlying financial performance. In the six months to 30 September 2009, SSE's adjusted earnings per share were 34.2p, compared with 26.3p in the previous year.

## **DIVIDEND**

#### **Interim Dividend**

SSE's first responsibility to shareholders is to deliver sustained real growth in the dividend. The Board is declaring an interim dividend of 21.0 pence per share, compared with 19.8p in the previous year. This is an increase of 6.1% compared with 2008/09 and is more than double the interim dividend paid in 2002, since when there has been compound annual growth in the dividend of 10.1%.

#### **Future Dividend**

According to the Capita Registrars Dividend Monitor, published in August 2009, dividend payments by UK companies fell by 9% in the first six months of 2009, compared with the same period in 2008, and are forecast to be 13% lower for the full year 2009.

Against this background, SSE remains acutely aware of its first responsibility to shareholders: to deliver sustained real growth in the dividend. Its target for 2009/10 as a whole is to grow the dividend by at least 4% more than inflation (based on the average rate of inflation in the UK between April 2009 and March 2010). The 6.1% increase in the interim dividend means the full-year dividend is likely to increase from 66.0 pence per share for 2008/09 to at least 70.0p for 2009/10.

Since 2005, SSE's target for dividends after 2010 has been 'sustained real growth', and that remains the case. It will, however, set out more defined dividend targets for 2010/11 and beyond by its full-year results statement in May 2010. After a period in which dividend payments by UK companies have come under severe pressure, or been abandoned altogether, SSE's priority in setting new dividend targets will be to ensure they are realistic and attainable, thereby giving shareholders the fullest possible confidence in their achievability.

SSE's strategy is explicitly designed to deliver sustained real dividend growth and its operational and investment decisions are all taken to support its achievement. Its long term goal remains the delivery of a full-year dividend double that paid in 2007 which, in turn, was more than double the first full-year dividend paid by SSE, in 1999.

## **INVESTMENT AND CAPITAL EXPENDITURE**

<b>Investment and Capex Key Performance Indicators</b>	<b>Sep 09</b> £m	<b>Sep 08</b> £m
Thermal Generation	73.1	151.3

Renewable Generation	320.8	297.4
Electricity Networks	157.9	157.4
Gas Storage	29.7	22.9
Other	49.3	70.2
<b>Total investment and capital expenditure</b>	<b>630.8</b>	<b>699.2</b>
<b>SSE share of SGN capital/replacement expenditure</b>	<b>104.7</b>	<b>79.9</b>

## Introduction

In March 2008, SSE set out plans to invest around £6.7 billion (excluding its share of Scotia Gas Network's spend) in the five years to March 2013 – one of the biggest capital investment programmes currently being undertaken in the UK by a FTSE 100 company.

The largest element of the investment programme is renewable energy, the requirement for which is underpinned by statute at EU and Member State level. At the same time, significant investment is also taking place in thermal generation, regulated electricity networks and in a number of other areas, such as gas storage.

In addition to the £6.7bn programme, SSE – through its 50% stake in Scotia Gas Networks (SGN) - is also making a significant investment in regulated gas networks. SSE's share of SGN's capital and replacement expenditure is currently forecast to total around £950m for the five years to March 2013.

All of this investment will support the maintenance and development of assets which are of strategic significance in the context of the energy trends identified in the EU Climate and Energy package, the *UK Low Carbon Transition Plan*, the Wicks report on energy security and Ofgem's analysis of the UK's energy supplies published in October 2009. It is, therefore, well-founded, in accordance with SSE's financial principles and it will deliver for SSE a significantly enhanced asset base and additional cash flows, which will support future dividend growth.

## Investment in 2009/10

SSE is now 18 months into its five-year, £6.7bn programme of investment for the period to March 2013. In the six months to 30 September 2009, its capital and investment expenditure (excluding SGN) totalled £630.8m, compared with £699.2m in the previous year.

- The investment of £73.1m in **thermal generation** includes SSE's 50% share of the development of the new power station at Marchwood.
- The investment of £320.8m in **renewable generation** includes SSE's 50% share (£123.4m) of the investment at Greater Gabbard offshore wind farm.
- The investment of £157.9m in **electricity networks** takes the total for the 2005-10 Price Control period to £1.11bn.
- The investment of £29.7m in **gas storage** includes £22.1m invested in the new facility at Aldbrough, which takes the total invested by SSE in this development to just over £200m.

SGN's capital and replacement expenditure totalled £209.4m, compared with £159.8m in the previous year. SGN's capital investment of £90.4m takes the total for the 2008-13 Price Control period to £267.8m.

Over £1bn in total has been invested by SSE in assets which were still largely under construction at 30 September 2009, including its share of the developments at Marchwood (£172m), Greater Gabbard (£335m) and Aldbrough (£203m).

SSE's capital and investment expenditure of £630.8m compares with £288.0m in the same six-month period three years ago, in 2006. During that time, SSE (including Airtricity) has increased its onshore wind farm capacity by 550MW, managed the development at Marchwood of the UK's first new gas-fired power station for five years, completed the installation of flue gas desulphurisation equipment at Fiddler's Ferry and Ferrybridge power stations, developed the UK's first new gas storage capacity for four years and completed several major projects in electricity networks.

Nevertheless, a number of projects have encountered difficulties, such as the Glendoe hydro electric scheme, or have taken longer to complete than originally expected. SSE has examined them in detail in order to help ensure the successful delivery of current and future projects. From that, it is clear that the most successful projects are those which integrate rigorous engineering design, comprehensive risk management processes and a well-executed contracting strategy. The management of 'design and build' contractors is particularly important. SSE keeps the economic evaluation of its investment programme under continuous review and believes that value is being created on the basis of the most up-to-date project costs and schedules.

Major projects is an area in which SSE has now built up significant experience, which it is supplementing with the recruitment of additional expertise. The assets it is developing are intended to operate for decades, so SSE believes it is most important to implement best practice and invest sufficient time and resources during the development of the project, ensuring that robust assets are delivered, capable of generating revenue on a reliable basis over the long term. This approach is at the heart of SSE's management of major projects and will not be sacrificed in the interests of short-term concerns.

#### Future Investment Priorities in 2009/10 and Beyond

SSE now expects its capital and investment expenditure will be around £1.4bn for 2009/10 as a whole. In the two years to 31 March 2010, SSE will have undertaken capital and investment expenditure of around £2.7bn, which is 40% of the £6.7bn envisaged for the five years to March 2013.

The £6.7bn programme is constantly monitored and kept under review, to ensure that SSE is taking advantage of the best opportunities to invest and to make sure that the best projects are prioritised and take place at the optimum time. Increasingly, SSE will look beyond 2013 and a number of the opportunities for future investment in assets which it is currently expecting to develop from the middle of the next decade – such as offshore wind farms and nuclear power stations – will require investment decisions within the next few years.

The technology and construction risks involved in any individual investment decision are also very carefully considered, especially in the light of SSE's growing experience in major projects. All investment decisions are taken in a way which is consistent with SSE's financial principles, including maintenance of a strong balance sheet, and with securing returns which are greater than the cost of capital, enhance earnings and contribute to dividend growth.

## FINANCIAL MANAGEMENT AND BALANCE SHEET

Key Performance Indicators	Sep 09	Sep 08
Adjusted net debt (£bn)	4.95	4.65
Average debt maturity (years)	11.9	9.9
Underlying interest cover (excluding SGN)	3.7	3.6
Shares in issue (m)	922.1	874.3

#### Net Debt and Cash Flow

On an **unadjusted basis**, SSE's net debt was £5.037bn at 30 September 2009 compared with £5.100bn at 31 March 2009 and £4.689bn at September 2008. It expects that its unadjusted net debt at 31 March 2010 will be around £5.6bn.

There were outstanding liquid funds of £86.9m at 30 September 2009 relating to power purchase agreements and wholesale energy transactions. On an **adjusted basis**, therefore, including these liquid funds, SSE's net debt was £4.950bn at 30 September 2009, compared with £4.822bn at 31 March 2009 and £4.646bn at 30 September 2008. Adjusted net debt at 31 March 2010 is expected to be around £5.5bn.

Compared with the period to March 2009, during which there was substantial negative movement in working capital, the debt position at September 2009 has been supported by strong cash flow from operations and the positive unwinding of working capital.

#### Borrowings and Facilities

The objective for SSE is to maintain a balance between continuity of funding and flexibility, with debt maturities staggered across a broad range of dates. Its average debt maturity as at 30 September 2009 was 11.9 years, compared with 9.9 years as at 30 September 2008.

SSE's debt structure remains strong, with around £4.82bn of its adjusted net debt of £4.95bn in medium- to long-term borrowings in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans. Within the £4.82bn total, £115m will mature in the period to 31 March 2011. The balance of SSE's adjusted net debt has been financed with short-term commercial paper and bank debt.

In September 2009, SSE issued a nine-year, £500m sterling bond, with a coupon of 5%. This took to around £2.9bn the total funding which SSE has secured since July 2008, from new bonds and loans with

an average rate of interest of 6.17%; and an average maturity of around 12.3 years. Proceeds of £479m from the placing of 42 million new ordinary shares were also secured during that period, in January 2009.

Since the start of this financial year, SSE has entered into new committed bank facilities totalling £1bn, which mature in June 2012. This represents the refinancing and up-sizing of an existing £650m facility that had been due to mature in November 2009.

All of this demonstrates that SSE will move quickly to take the right financing options, including bonds, loans and, should new investment opportunities arise, equity.

SSE's investment programme is supported by its carefully-maintained balance sheet, which remains one of the strongest in the global utility sector. Its corporate credit ratings are now 'A-' (Standard & Poors) and 'A3' (Moody's). They were both downgraded earlier this year in line with the trend across the energy and utility sectors and with the revisions to their ratings criteria which the agencies chose to make, but they remain consistent with securing funding at a reasonable cost.

### 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 half of 2009/10 were £168.4m, compared with £128.0m in the previous year.

	Sep 09 £m	Sep 08 £m
Reported net finance costs	196.0	13.5
add/(less)		
Share of JCE*/Associate interest	45.8	63.5
Interest on convertible debt	-	(0.8)
Movement on derivatives	(73.4)	51.8
<b>Adjusted net finance costs</b>	<b>168.4</b>	<b>128.0</b>
Return on pension scheme assets	49.7	68.4
Interest on pension scheme liabilities	(63.8)	(65.2)
Notional interest arising on discounted provisions	(1.2)	(0.8)
<b>Adjusted interest costs**</b>	<b>153.1</b>	<b>130.4</b>

\*Jointly Controlled Entities    \*\*Adjusted finance income and costs for interest cover calculation

The average interest rate for SSE, excluding JCE/Associate interest, during the period was 5.52%, compared with 5.51% for the previous year.

Based on adjusted interest costs, SSE's underlying interest cover for 2009/10 as a whole is currently expected to be around six times (excluding interest related to SGN), compared with 6.5 times in 2008/09; including interest related to SGN it is expected to be around 5.4 times. For the first six months (excluding interest related to SGN) it was 3.7 times, compared with 3.6 times in the six months to 30 September 2008.

Excluding shareholder loans, SGN's net debt at 30 September 2009 was £2.9bn, and within the adjusted net finance costs of £168.4m, the element relating to SGN's net finance costs was £24.8m (compared with £42.4m in the previous year), after netting loan stock interest payable to SSE. Its contribution to SSE's profit before tax\* was, therefore, £74.7m, compared with £33.0m in the previous year.

### Pensions

In line with the IAS 19 treatment of pension scheme assets, liabilities and costs, pension scheme liabilities of £579.1m are recognised in the balance sheet at 30 September 2009, gross of deferred tax. While scheme assets increased during the period, liabilities increased even more because of lower discount rates due to the tightening of spreads on corporate bonds. As a result, there was an increase in net liabilities of £305.6m compared with the position at 31 March 2009.

During the first six months of 2009/10, employer cash contributions amounted to:

- £7.4m for the Scottish Hydro Electric scheme; and
- £29.3m for the Southern Electric scheme, including deficit repair contributions of £19.4m.

As part of the Distribution Price Control for 2005-2010, it was agreed that allowances for 76% of deficit repair contributions in respect of the Southern Electric scheme should be included in price controlled revenue. In October 2009, Ofgem published a third consultation document on *Price Control Pension Principles* for the period 2010-15, which reaffirmed its ongoing commitment to full funding of all efficiently-incurred distribution business pension costs.

## TAX

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

	Sep 09 £m	Sep 08 £m
Reported tax charge	135.8	43.6
add back:		
Share of JCE/Associate tax	14.1	8.2
less:		
Deferred tax	(22.4)	(10.6)
Tax on certain remeasurements	(33.1)	33.0
<b>Adjusted current tax charge</b>	<b>94.4</b>	<b>74.2</b>

The effective adjusted current tax rate, based on adjusted profit before tax\*, was 23.0%, compared with 24.5% in the same period last year, on the same basis. The impact of SSE's higher capital expenditure programme and the changes introduced in Budget 2007 have had, and will continue to have, a positive impact on the effective current tax rate. The reduced rate has also been influenced by the accelerated plant and machinery capital allowances introduced in Budget 2009.

## CONVERTIBLE BOND MATURITY AND AUTHORITY TO PURCHASE OWN SHARES

During the six months to 30 September 2009, SSE did not purchase any of its own shares for cancellation. SSE's 3.75% convertible bond, which had an initial nominal value of £300m, matured on 24 October 2009. The total number of shares in issue at 30 September 2009 was 922.1 million. The remaining 85,000 shares relating to the Convertible Bond were issued by 24 October 2009.

## CORPORATE RESPONSIBILITY

### Safety

SSE aims to create value for shareholders by maintaining a strong emphasis on its six core values, which include safety and sustainability. During the first six months of the year, SSE's Total Recordable Incident Rate (TRIR), which includes medical treatment, as well as lost-time and reportable injuries was 0.15 per 100,000 hours worked, the same as in the previous year. The number of lost time and reportable accidents within the company was 0.03 per 100,000 hours worked during the six months, compared with 0.05 in the same period in the previous year.

The number of serious, or potentially serious, blameworthy road traffic accidents involving employees driving company vehicles was 0.14 per 100 vehicles, compared with 0.13 in the previous year.

### Environment

SSE's target for any given year is zero environmental incidents which result in it being served with a formal statutory notice by either the Environment Agency or the Scottish Environment Protection Agency. There were no such incidents during the first six months of 2009/10. SSE has, however, been charged under the Water Environment (Controlled Activities) (Scotland) Regulations 2005 and the Water Services (Scotland) Act 2003 following an escape of diesel from a holding tank at its Loch Carnan Power Station on Uist in November 2008.

### Teamwork

On 30 September 2009, SSE employed 19,317 people, an increase of 522 in the six months since 31 March.

## Risk Management

In its Annual Report 2009, SSE set out its approach to managing risk and six principal risk categories: strategic; market; credit; financial; operational; and regulatory and legislation. These remain the key risk categories for SSE and its approach to managing them remains in line with that set out in the Annual Report.

## Company Name

SSE is currently listed as 'Scottish and Southern Energy plc', reflecting its geographical origins in the north of Scotland and the south of England. In the 11 years since it was formed, SSE's activities have extended throughout Great Britain and it also has significant operations in Northern Ireland and the Republic of Ireland. It is also beginning to develop assets in mainland Europe, and its full name is beginning to prove unwieldy. As a result, it will seek approval from shareholders at its Annual General Meeting in July 2010 to change the name under which it is listed to that by which it is most commonly known, SSE, to become 'SSE plc'.

## 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	17 February 2010
Record date	19 February 2010
Payment date	26 March 2010
Financial results for 2009/10	20 May 2010
AGM (Bournemouth)	22 July 2010

### Enquiries

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<b>Financial Dynamics</b>	
Andrew Dowler	+44 (0)20 7831 3113

### Analysts' presentation

Start: 0900 (GMT)

Location: Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB

### Webcast facility

You can join the webcast by visiting [www.scottish-southern.co.uk](http://www.scottish-southern.co.uk), then clicking on Investor Centre.

### Conference call

UK 0845 113 0049

International +44 (0) 1452 542 303

### Online information

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

# GENERATION AND SUPPLY

## Generation and Supply Overview

SSE owns around 11,100MW (megawatts) of capacity for generating electricity, an increase of almost 400MW since 1 April 2009. Its 420MW share of the capacity of the UK's first new gas-fired power station for five years at Marchwood, near Southampton, which should become operational shortly, will take the total to over 11,500MW.

The large majority (over 10,700MW) of this capacity is in Great Britain, with the remainder (400MW) in Northern Ireland and the Republic of Ireland, where there is an all-island Single Electricity Market which is separate from the market in Great Britain.

SSE's total capacity includes its share of joint ventures and associates and comprises around:

- 4,500MW of gas- and oil-fired capacity;
- 4,360MW of coal-fired capacity (with biomass 'co-firing' capability); and
- 2,250MW of renewable (hydro, wind and dedicated biomass) capacity.

This balance between coal- and gas-fired generation capacity, and the balance between fossil fuel and renewable sources of energy, gives SSE the greatest diversity in fuels for generating electricity among UK generators and avoids dependency on a single technology or commodity. As a result, SSE has significant optionality in the management of its power stations. It is this diversity and the optionality that goes with it which enable SSE to manage the risks inevitably associated with primary fuel procurement.

As at 30 September 2009, SSE supplied energy to 9.15 million customer accounts in Great Britain and 100,000 accounts in Northern Ireland and the Republic of Ireland, making it the second largest supplier within Great Britain's competitive electricity and gas supply market and the fourth largest supplier in the Irish all-island market.

SSE's Trading and Risk Management team is responsible for its participation in wholesale markets for electricity and gas, as well as markets for coal, oil and carbon dioxide emissions allowances. Through analysis of generation plant availability, customer demand and its contractual position SSE can assess, and therefore manage, its exposure to market prices. In terms of the forthcoming winter, SSE believes it has in place appropriate operational and commercial arrangements to manage its energy supply commitments in all likely circumstances.

In summary, SSE manages Generation and Supply as a single value chain within an integrated business. Its power stations and fuel supply contracts are used to support performance in electricity (and, by extension, energy) supply. For this reason, SSE seeks to maintain a well-balanced portfolio of assets, contracts and customers, and over the past seven years its growth in power station capacity has been similar to its growth in customer numbers. This integrated business, featuring a diverse range of assets has, therefore, value that goes beyond the sum of its parts - not least because its exposure to particular commodity price outcomes is reduced.

## Generation and Supply Performance

Operating profit\* in Generation and Supply was £227.4m compared with £107.7m in 2008 and £474.3m in 2007, contributing 39.3% of SSE's total operating profit\* in the first half of the year. The reasons for this are set out under 'Adjusted Profit Before Tax for the Six Months to 30 September 2009', above. (SSE reports the underlying financial performance of Generation and Supply excluding the impact of IAS 39 remeasurements which are unrealised as including them does not represent underlying business performance.)

Total revenue for Generation and Supply for the six months to 30 September 2009 was £7.5bn, which accounted for 89% of SSE's total revenue, of which £3.5bn was in relation to sales of electricity and gas to industrial, commercial and domestic customers.

During the first half of the year (within the Great Britain), SSE generated 17.1TWh of electricity at thermal power stations in which it has an ownership or contractual interest, compared with 16.5TWh in the previous year. It generated 2.0TWh from renewable sources of energy, including pumped storage. It also purchased 2.7TWh of electricity through long-term contracts with other generators. It supplied 28.1TWh of electricity to its industrial, commercial, small business and domestic customers. Any net balances were traded in the wholesale electricity market.

While around 55% of annual electricity consumption and around 75% of annual gas consumption occurs in the six months to 31 March, it already seems likely that customers' demand for electricity – and gas – in the UK will be lower in 2009/10 than it was in the previous year as a result of both the impact of investment in energy efficiency and the downturn in the economy. In this context, SSE's long-standing approach of actively maintaining balance in its portfolio of assets, contracts and customers remains of particular relevance and means it is not over-exposed to variations in demand for energy.

### Consolidated Segmental Statement

Ofgem has introduced a new requirement on electricity generators and suppliers to publish a Consolidated Segmental Statement showing revenue, costs and profits from electricity generation and electricity and gas supply activities. This statement must be published no later than six months after the end of the current financial year (ie by 30 September 2010). The requirement to produce such a statement will not have any significant impact on the presentation of Generation and Supply in SSE's financial statements and will not undermine SSE's long-standing approach of managing its Generation and Supply activities as a single value chain.

## GENERATION

Electricity Generation Key Performance Indicators	Sept 09	Sept 08
<b>ASSETS (MEGAWATTS – MW)*</b>		
Gas- and oil-fired generation capacity	4,500	4,500
Coal-fired generation capacity (inc biomass co-firing)	4,360	4,000
Renewable (inc pumped storage) generation capacity	2,250	2,000
<b>Total electricity generation capacity (MW)</b>	<b>11,110</b>	<b>10,500</b>
<b>OPERATIONS (%)</b>		
Gas power station availability	89	70
Coal power station availability	94	92
Hydro storage	54	33
Wind farm availability	97	97
<b>OUTPUT (TWh/GWh)*</b>		
Gas- and oil-fired - TWh	13.9	14.3
Coal-fired (inc biomass co-firing) - TWh	3.2	2.2
<b>Total output from thermal power stations - TWh</b>	<b>17.1</b>	<b>16.5</b>
- inc Co-firing output qualifying for ROCs - TWh	0.1	0.1
Conventional hydro - GWh	1,380	1,064
- inc ROC-qualifying hydro) - GWh	708	543
Wind energy (UK) - GWh	463	341
Wind energy (RoI) - GWh	393	297
Dedicated biomass - GWh	124	101
<b>Total output of renewable energy - GWh</b>	<b>2,360</b>	<b>1,803</b>
<b>Total output from pumped storage - GWh</b>	<b>175</b>	<b>58</b>

\* Including share of joint ventures and associates

### Context

Over the next decade, around 20GW of the UK's capacity for generating electricity (largely coal, oil and nuclear) is scheduled to close because of its age or its inability to comply with higher environmental standards. In July 2009, the UK government's *UK Low Carbon Transition Plan* included a projection of possible shares of electricity generated from different sources in 2020, based on energy demand estimated at 370TWh:

- Renewables – 31% (up from 6%)
- Gas – 29% (down from 45%)
- Coal – 22% (down from 32%)
- Nuclear – 8% (down from 13%)
- Other sources such as CHP – 10% (up from 3%)

All of this has five major implications for electricity generation:

- the need for the UK to maintain a reasonable margin between electricity generation capacity and electricity demand will reinforce the value of existing and available power-producing plant;
- the UK will have to provide replacement capacity for conventional generation plant which is expected to retire;
- a balance of fuels used within the generation portfolio will remain critical in providing security of supply, through allowing diversity of primary energy sources;
- legally-binding targets for renewable energy support the value of renewables and will require sustained major programmes of investment over the next decade and beyond; and
- the growth in capacity for generating electricity from renewable sources will have an impact on how gas- and coal-fired capacity operates on a day-to-day basis. In any event, the value of established and flexible capacity is likely to be reinforced.

In this context, SSE's key objectives in Generation remain relevant and appropriate. They are to:

- comply fully with all safety standards and environmental requirements;
- maintain a diverse portfolio of power stations, with the flexibility to respond to customer demand and market conditions;
- ensure those power stations are available to generate electricity;
- operate power stations efficiently to achieve the optimum conversion of primary fuel into electricity;
- develop and pursue a range of options for adding to its portfolio of power stations, and thus support security of supply; and
- invest in developments supported by EU Member States' financial frameworks (such as the UK's Renewables Obligation) to help ensure legally-binding targets for renewable energy in 2020 can be met.

In achieving these objectives, SSE's target is to reduce by 50% the carbon dioxide intensity of electricity produced at power stations in which it has an ownership or contractual interest, over the period from 2005/06, the first full year after it acquired coal-fired power stations, to 2020.

#### **Gas-fired Generation – Operations**

Good performance in Generation and Supply is dependent, first and foremost, on plant at power stations being available to generate electricity as and when required. SSE owns 4,500MW of gas- and oil-fired electricity generation capacity, including its share of joint ventures.

During the six months to 30 September 2009, SSE's principal wholly-owned gas-fired power stations (Fife, Keadby, Medway and Peterhead) achieved 89% of their maximum availability to generate electricity, excluding planned outages, compared with 70% availability in the same period in 2008. This reflected the return to service in June of Medway power station, following a 15-month unplanned outage. Excluding Medway, the availability of SSE's wholly-owned gas-fired power stations was 96%.

SSE's Engineering Centre has completed a detailed review of the way that its power-producing assets are managed, supported by external engineering advisers. It has confirmed that the management of SSE's power station plant, and the decision-making that is part of that, is good. At the same time, it has identified potential improvements in the execution of maintenance.

Against this background, SSE has designed an updated model for managing its generation assets with four key stages:

- asset scoping and monitoring;
- asset life assessment;
- engineering strategy development, including risk management; and
- enhanced planning and execution, with detailed works and investment planning taking place prior to the implementation of any programme of planned outages.

The adoption of a consistent approach in the management of its assets, which have different characteristics and which have been developed, acquired or upgraded over a number of years, plus other steps such as the acquisition of strategically-significant spare parts for generating plant to mitigate major failures and the ongoing development of the Engineering Centre itself, including its Equipment Performance Centre, should help SSE ensure its generation assets deliver on a consistent basis good levels of availability to generate electricity.

The forthcoming increase in electricity generation from renewable sources, which means gas-fired and coal-fired power stations will have to be increasingly flexible and run at lower load factors than has

historically been the case, will present additional engineering challenges which, although far from insuperable, will require optimum asset management in the future.

### **Gas-fired Generation - Investment**

Ofgem's *Project Discovery – Energy Market Scenarios*, published in October 2009, highlighted that Britain will face significant levels of gas imports, in particular for gas-fired power plants to replace lost nuclear and coal-fired capacity, and that this will increase the country's exposure to uncertainties in the global gas market. That is why it would not make sense to run the risk of becoming over-dependent on a single fuel. Nevertheless, CCGT continues to be the benchmark technology in generation, making a growing contribution to meeting the UK's electricity requirements, because of its high thermal efficiency, relatively low costs and short construction time.

The 840MW CCGT (combined cycle gas turbine) plant in Southampton being developed by Marchwood Power Ltd, a 50:50 joint venture between SSE and ESB International, is undergoing reliability testing and the plant should be in full commercial operation shortly. With a net thermal efficiency in excess of 58%, it is one of the most efficient gas-fired power stations in the UK. SSE's total investment in Marchwood will be around £200m (comprising equity and debt). All of the station's output is contracted to SSE. The plant was procured before the significant increase in costs experienced in the electricity generation sector in 2007 and 2008, making it a particularly well-timed and well-founded investment.

In May 2009, SSE entered into an agreement to acquire Abernedd Power Company Limited from BP Alternative Energy. Abernedd has applied to the Secretary of State for Energy and Climate Change for consent to construct and operate a new CCGT power station, with a capacity of over 800MW, on a brownfield site in Baglan Bay in south Wales, where there is already in place electricity transmission, gas and water infrastructure for the first phase of the power station. The total cash consideration will be determined by the progress of the development, and SSE hopes that planning consent to build Abernedd will be secured during the course of 2010.

In line with that, and subject to timely planning consent being secured, SSE expects to construct the new power station in two phases to maximise plant flexibility. In the first phase, a unit with capacity of over 400MW will be developed, with a view to becoming operational around 2013 or 2014; a second unit, with a similar capacity, could become operational around 2016 or 2017. The two-unit approach gives SSE greater flexibility in the timing and nature of the development and a final investment decision on the first phase will be taken later next year.

In addition, SSE has identified other options for additional CCGT capacity. These include:

- the potential development of new plant at Keadby power station. SSE has effective consent to develop 710MW of capacity at Keadby and in April 2009 it secured an agreement to connect a new 850MW power plant to the electricity transmission network from 2016; and
- the creation of additional capacity at Barking Power Ltd, in which SSE has a 30.4% stake. Barking has consent to develop a new 470MW CCGT, which – if constructed - would effectively add around 140MW to the portfolio of generation assets owned by SSE.

### **Coal and Biomass Generation – Operations**

During the six months to 30 September 2009, SSE generated 3.2TWh of electricity at its coal-fired power stations at Fiddler's Ferry and Ferrybridge, compared with 2.2TWh in same period in the previous year. The stations achieved 94% of their maximum availability to generate electricity, excluding planned outages, compared with 92% in the previous year.

The increase in output reflects the removal, in the early part of 2009, of the constraints on running hours at the stations imposed by Article 5(1) of the Large Combustion Plant Directive (LCPD), following the hot commissioning of flue gas desulphurisation (FGD) equipment.

The installation of FGD equipment means that the power stations are able to use higher-sulphur coal mined in the UK. As a result, in April 2009, SSE entered into an agreement with UK Coal, under which it will obtain 3.5 million tonnes of deep- and surface-mined coal from Great Britain, including Kellingley Colliery in West Yorkshire, to provide fuel for Ferrybridge power station up to 2015. This should be enough to meet around 15% of the station's requirements during that period. In addition, SSE has advanced a secured loan to UK Coal, on which it will receive interest, to be repaid by 2014.

The stations 'co-fire' fuels from renewable sources (biomass) in order to displace fossil fuels. During the period, their output qualifying for ROCs (Renewable Obligation Certificates – see below) was 0.1TWh, similar to the same period in the previous year (included within the above total for the stations as a whole). From 1 April 2009, electricity output resulting from co-firing receives 0.5 ROCs per MWh

(compared with 1.0 ROC per MWh previously) and electricity suppliers can only meet up to 10% of their Renewables Obligation from this technology.

In August 2009, SSE acquired Uskmouth Power Company Limited, the owner and operator of the 363MW Uskmouth coal-fired power station near Newport, South Wales for a total cash consideration of £27m (including cash and working capital balances).

Uskmouth comprises three independent power generating units, each with 121MW of capacity. The power station dates from the 1960s and was substantially refurbished in 2000, including having FGD equipment fitted. It routinely operates on a two-shift basis to help meet shorter-term power requirements. Following the acquisition, around 100 people employed at the station joined SSE. The integration of Uskmouth into SSE's portfolio of power generating assets has gone well and the station is in a good position to help meet peak demand for electricity during the coming winter.

#### **Coal and Biomass Generation - Investment**

The LCPD also requires reduced emissions of nitrogen oxides, and SSE has already invested £31m to install SOFA (Separated Overfire Air) and BOFA (Boosted Overfire Air) equipment at the stations. From 2016 limits on those emissions from power stations will be tightened significantly. As a result, SSE is undertaking a front-end engineering design (FEED) study, which it expects to complete next year, into options for installing Selective Catalytic Reduction (SCR) technology at Fiddler's Ferry and is also considering the option for Ferrybridge. The alternative to fitting SCR is to operate the station within limits required under a derogation from the LCPD's requirements. SSE's analysis of the issues around installing SCR will also take into consideration the progress of the draft EU Industrial Emissions Directive which the European Commission has proposed in order to overhaul seven existing pieces of legislation on industrial emissions, including the LCPD, into a single directive.

#### **Coal and Biomass Generation – Carbon Capture and Storage**

Although its carbon intensity is a critical factor, coal is a vitally important fuel for the UK, because of its flexibility, its availability and because it reduces the reliance on imported gas highlighted most recently in Ofgem's *Project Discovery* report.

In April 2009, the UK government confirmed all new combustion power stations over 300MW in England and Wales would have to be designed 'carbon capture ready' so that they could fit Carbon Capture and Storage (CCS) technology. It has also completed a consultation on a series of proposals to advance the development of clean coal, including requiring new coal power stations to demonstrate CCS on a defined parts of its capacity and to retrofit CCS to their full capacity within five years of CCS being independently judged technically and commercially proven.

SSE is continuing to examine a range of options for development at Ferrybridge, following the expected closure in 2015 of that plant at the station (1,000MW) which is not opted in to the LCPD. This will leave the station with significant assets in terms of land, a connection to the electricity grid, cooling water and a railhead. (See 'Biomass' section below.)

It has submitted a planning application for consent to trial carbon dioxide capture technology at Ferrybridge power station, in collaboration with Doosan Babcock. The companies are investing a total of £21m, including funding being sought from public agencies. Construction work is expected to start next year, with the trial itself expected to commence in early 2011 and be complete by the end of 2012.

The scale of the project, with the equivalent 5MW of coal-fired power generating capacity producing 100 tonnes of carbon dioxide per day, bridges the gap between the various laboratory-scale trials that are under way and the larger-scale projects envisaged by the UK government. The significance of the project lies in its scale, and its ability to demonstrate the operational characteristics of capture plant on an actual power station and the performance of the amine compound on real flue gas.

Development of viable CCS technology is central to the UK's climate change and energy security objectives and SSE believes demonstration projects such as this and other CCS initiatives in which it is involved will be crucial in establishing when and how the technology can be developed. It is crucial that it should be. SSE believes that, in practice, no new coal-fired power generation plant should be built in the UK without carbon dioxide abatement and that no unabated coal-fired plant should remain operational much beyond 2030.

#### **Coal and Biomass Generation – Sustainability**

The development by Lafarge Plasterboard Ltd of a plasterboard factory at Ferrybridge has been completed. The plant is operational and using the gypsum produced on site as a result of FGD in the production of plasterboard.

The development by RockTron (Widnes) Ltd of an ash separation plant at Fiddler's Ferry is now complete and moving into operation. It removes and processes all fresh ash produced by the power station, and much of that currently stored in lagoons at the site, turning it into constituent parts which become marketable products for use in products such as cement, water filters, car components and ultra-lightweight paint for aircraft.

SSE now has 49.9% of the equity in RockTron (Widnes) Ltd, a subsidiary of RockTron Ltd, enabling it to secure a share of the income from the ash separation plant, in addition to the benefits which will result from avoiding the environmental liabilities associated with ash production and storage.

### **EU Emissions Trading Scheme**

Phase II of the EU Emissions Trading Scheme (EU ETS) began on 1 January 2008. Across its electricity generation portfolio (taking account of contractual shares), SSE now has an allocation of almost 17 million tonnes of carbon dioxide emissions allowances per annum. In addition, Marchwood Power Ltd has an allocation of almost five million tonnes reserved to it from when it is commissioned to the end of Phase II. In the six months to 30 September 2009, the price of allowances ranged from around €12 to €16 per tonne; the market itself is still relatively new and has yet to mature fully. From 2013, all of the carbon dioxide emissions allowances for electricity producers will be auctioned.

### **Renewable Energy – Overview**

Tackling climate change and securing future supplies remain the two goals of energy policy in the UK, Ireland and the EU. Against this background, the EU Renewable Energy Directive imposes legally-binding targets on EU Member States, specifying the proportion of all energy consumption that must be met by renewable energy sources by 2020. The national target for the UK is 15% (compared with under 2% in 2007) and for the Republic of Ireland it is 16%. The UK government envisages that over 30% of the country's electricity requirements will have to be met from renewable sources by 2020, and an even greater proportion is likely to be required in the Republic of Ireland.

The Energy Act 2008 enabled the introduction of 'banding' of the Renewables Obligation (RO) to allow differentiated levels of support for different renewable energy technologies. From 1 April 2009, electricity from qualifying hydro electric schemes and onshore wind farms continues to receive one ROC per MWh; from offshore wind farms it is now 1.5 ROCs per MWh.

In July 2009, the UK government published the *UK Renewable Energy Strategy* and a *Consultation on Renewable Electricity Financial Incentives* 'to provide the right financial framework to harness the ingenuity and the innovation of individuals, communities and companies to drive renewables and make them tomorrow's mainstream energy choices'.

SSE believes proposals to strengthen the Renewables Obligation, by extending its lifetime and 'headroom' (in other words, the gap between the level of the Obligation and the amount of ROCs actually produced, thereby maintaining their value), should be welcomed. The proposal to increase ROCs from 1.5 per MWh to 2.0 for offshore wind projects meeting specified completion criteria if they place new orders in 2009-10, and then 1.75 in 2010-11, is clearly discriminatory and SSE, along with several other major offshore wind farm developers, is continuing to engage with the UK government to find a way to deliver appropriate support levels but in a non-discriminatory manner.

In the Republic of Ireland, the Renewable Energy Feed In Tariff (REFIT) scheme is used to support renewable energy by providing a guaranteed price for output and a 15% rebate (subject to a cap) on suppliers' purchase of REFIT energy.

SSE has 2,250MW of commissioned renewable energy capacity in the UK and Ireland, comprising hydro electric schemes (including pumped storage), wind farms and a dedicated biomass facility at Slough, an increase of 30MW since the start of the financial year. Of this, almost 1,000MW qualifies for ROCs (including dedicated biomass). Total output from all of SSE's conventional hydro electric schemes, wind farms and its dedicated biomass plant was 2,360GWh in the six months to September 2009, compared with 1,803GWh in the same period in 2008 and 1,314GWh in 2007.

Looking ahead, it has set itself the target of owning and operating 4,000MW of renewable energy capacity in the UK and Ireland by the end of 2013. The achievement of this milestone will mean SSE is making a significant contribution to the achievement of the 2020 targets in the UK and Ireland, and it has extensive opportunities to build on its 2008-13 programme of investment in renewable energy in the subsequent years. This investment is being, and will continue to be, supported by firmly-established financial frameworks such as the Renewables Obligation to ensure there is an adequate incentive for energy

companies to make the financial commitment involved in developing renewable energy to help meet EU Member States' legally-binding targets.

Moreover, in addition to the clear environmental benefits associated with harnessing their power, water and wind are key sources of free and indigenous primary energy which reduces SSE's exposure to volatile prices for fossil fuels, sources of which are in decline but which will be in huge demand from growing, populous economies around the world.

In addition to its focus on the UK and Ireland, SSE is undertaking in the same period a programme of development in renewable energy in new markets in continental Europe (principally Portugal, Scandinavia, Italy, Germany and the Netherlands).

### **Hydro Generation – Operations**

SSE owns and operates just over 1,450MW of capacity in conventional hydro electric schemes, including the 300MW pumped storage facility at Foyers.

Total output from the conventional hydro electric schemes was 1,380GWh during the six months to 30 September 2009, compared with 1,064GWh during the previous year. As at 30 September 2009, the amount of water held in SSE's reservoirs which could be used to generate electricity was 54% of the maximum, compared with 33% in the previous year. Output from Foyers was 175GWh, compared with 58GWh in the previous year.

In order to encourage long-term investment to maintain smaller schemes, the output of refurbished hydro electric stations with capacity of up to 20MW qualifies for ROCs. SSE has just over 400MW of capacity in this category (including the new plant commissioned in the last few years at Culleig, Kingairloch and Fasnakyle). In addition, the output from all new hydro electric schemes also qualifies for ROCs. Of SSE's total hydro output, 708GWh qualified for ROCs, compared with 543GWh in the previous year.

In August 2009, SSE identified a blockage caused by a fall of rock near the top of the tunnel carrying water from the reservoir to the power station at the 100MW Glendoe hydro electric scheme. Investigations have confirmed that the amount of debris is very substantial, but confined to a section near the top. SSE is now examining options in order to identify the best way to achieve a resumption of electricity generation at the site, including possible construction of a tunnel to by-pass the blockage, all of which will require a significant programme of work.

SSE now believes that the extent of the repairs required means it is very unlikely that any electricity will be generated at Glendoe until the financial year 2011/12. It also believes that a significant proportion of the financial consequences of the situation at Glendoe will be covered by contractual arrangements and insurance provision.

### **Hydro Generation – Investment**

Since the Renewables Obligation was introduced in April 2002, SSE has invested almost £310m in refurbishing and developing conventional hydro electric schemes in Scotland, including Glendoe. The programme of investment to prolong their working life and improve their operational efficiency totalled £7m in the first half of 2009/10.

Hydro electric schemes which use impounded water to generate electricity have an important part to play in meeting peak demand and also complement the growing, but variable, amount of output from wind farms. Against this background, SSE has submitted to Scottish Ministers an application for consent to develop a 60MW pumped storage scheme as part of its 152MW Sloy power station, near Loch Lomond. This means that in addition to electricity produced from water collected and held in the Loch Sloy reservoir, Sloy would generate electricity using water pumped from Loch Lomond to the reservoir.

In an average year, Sloy produces around 120GWh of electricity and adding to it a pumped storage facility would allow it to produce an additional 100GWh of electricity in a typical year to help meet peak demand. SSE currently expects that developing a pumped storage facility at Sloy will require investment of over £30m.

In addition, SSE is proposing to develop two new large scale pumped storage hydro electric schemes at Coire glas at Loch Lochy and Balmacaan at Loch Ness. In October 2009, it asked the Scottish Government for its formal opinion on the scope of the environmental impact statement that would accompany planning applications for the schemes, currently planned to be submitted during 2011. Construction is unlikely to start before 2013 at the earliest.

They would be the first brand new pumped storage schemes to be developed in Great Britain since work began on the Dinorwig scheme in Wales in 1974. Subject to final agreements and design, it is envisaged that the proposed schemes would have an installed capacity of between 300MW and 600MW each and each would be able to produce in excess of 1,000GWh of electricity in a typical year to help meet peak demand. In both cases, the upper reservoirs would be large, enabling electricity generation to continue for longer periods, without the need to pump water from the loch below, than is the case for other pumped storage schemes in Great Britain.

Both schemes would require the construction of a dam in order to impound water and create the upper reservoirs, but it is currently envisaged that water pumping and electricity generation at both developments will be carried out under ground, thereby avoiding any visual impact in the Great Glen itself.

### **Wind Generation – Operations**

As at 30 September 2009, SSE owns and operates 720MW of onshore wind farm capacity in the UK and Ireland, compared with 690MW at 31 March 2009. Of the 30 September total, 325MW is in the Republic of Ireland. It also has 2MW of onshore wind farm capacity in Portugal.

Total output from SSE's portfolio of wind farms in the UK was 463GWh during the six months, all of which was eligible for ROCs, compared with 341GWh in the previous year; from its wind farms in the Republic of Ireland, the output was 393GWh, compared with 297GWh in the same period in 2008. On average, the turbines at SSE's wind farms in the UK and Ireland achieved 97% of their maximum availability to generate electricity.

### **Wind Generation – Investment Overview**

When SSE entered into the agreement to acquire Airtricity (the renewable energy development division which has since been re-named SSE Renewables), in January 2008, the combined business had just over 870MW of **onshore wind farm capacity** in operation, in construction or with consent for development in the UK and Ireland. This has now doubled and currently totals 1,750MW, comprising (net):

- 720MW in operation;
- 550MW in construction;
- 290MW in pre-construction; and
- 190MW with consent for development.

In addition, SSE has submitted for approval by the relevant planning authorities in the UK and Ireland proposals for onshore wind farms with a total capacity of over 950MW. This includes SSE's share of the capacity contained in the proposal by Viking Energy, a 50:50 joint venture between Viking Energy Ltd (which is 90% owned by Shetland Charitable Trust) and SSE to develop on Shetland's Central Mainland a wind farm with 540MW of capacity. Beyond this, SSE has over 1.5GW of onshore wind farm capacity development opportunities in the pre-planning phase in the UK and Ireland and over 3GW under development in mainland Europe.

SSE also has a 50% share of the 500MW Greater Gabbard wind farm now under construction in the outer Thames Estuary (see below). This means that SSE now has: 3,530MW of renewable energy capacity (onshore wind, offshore wind, hydro and dedicated biomass) in operation, under construction or with consent in the UK and the Republic of Ireland. It also has over 1,900MW of **offshore wind farm capacity** with consent for development in northern Europe, including the Dutch sector of the North Sea.

The principal projects within SSE's five year programme are the Clyde and Griffin onshore wind farms and the Greater Gabbard offshore wind farm.

### **Wind Generation Investment - Clyde**

Clyde has consent for 152 turbines and the total planned capacity at the wind farm is 350MW. In September 2009, a contract was placed with Siemens for the provision of the turbines. Work at the site is now getting under way. Following agreement on a primary radar mitigation scheme in July, discussions are progressing on the secondary radar issues. Clyde is expected to have a load factor of around 35% and produce over 1,000GWh of electricity in a typical year. Its construction cost is expected to be around £500m. First commissioning is scheduled for 2011 and completion of both phases is scheduled for 2012.

### **Wind Generation Investment – Griffin**

Pre-construction work is also under way at the Griffin wind farm in Perthshire, in which SSE acquired its interest in the early part of 2009, in advance of full construction work beginning before the end of this financial year. A tendering process for turbines for the site is under way. The final capacity and output will

depend on the final turbines selected, but the capacity will exceed 120MW. Its construction cost is dependent on the final turbine selection but is expected to be up to £200m and the project should be completed in 2012.

#### **Wind Generation Investment – Greater Gabbard**

Greater Gabbard Offshore Winds Limited (“GGOWL”) is a 50:50 joint venture between SSE and RWE npower renewables, to develop in the outer Thames Estuary what is the world’s largest offshore wind farm under construction.

Offshore construction work is continuing with the installation of the first 30 of the 140 turbine foundation monopiles and the first of two offshore transformer platforms now completed. Prior to installation of the foundations a number of potential quality issues were identified in the welds of the first three of eight production batches, which had some impact on the start of the installation programme. GGOWL’s contractor is satisfied that the issues identified with the foundation monopiles do not affect the dates for the first electricity generation and completion, which remain at 2010 and 2012 respectively.

GGOWL employs Fluor Corporation to complete the procurement, engineering and construction of the development and is confident it will achieve an entirely satisfactory outcome to any claim for additional costs that Fluor may choose to make as a result of the issues arising from the first batches of foundations, and that any claim should be resolved as part of the normal contractual process.

Based on site-specific met mast data collected since 2005, Greater Gabbard is expected to have a load factor of over 40% and produce around 1,900GWh of electricity in a typical year, of which SSE will take 50%. Its operations and maintenance will be carried out by SSE Generation, under a management services agreement with GGOWL. The wind farm is expected to require a total investment by SSE of around £650m, excluding connection to the electricity grid.

With SSE’s contractors remaining confident that there will be sufficient progress during the coming months to ensure the project remains on course to produce electricity for the first time in 2010 and to be completed in 2012, the long-term value of the project is unaffected by the slower-than-expected start to offshore work.

#### **Wind Generation Investment – Other Offshore Wind in the UK**

SSE expects that Greater Gabbard will prove to be the first of a series of major offshore wind farms which it develops over the next decade. Its other potential opportunities include:

- Exclusive rights from the Crown Estate to develop offshore wind farms at four locations in Scottish territorial waters. At two of the four sites, SSE is in partnership with other specialist developers. The proposed wind farms could have a total capacity of up to 2,700MW, of which SSE would own 85%.
- The consortium with RWE npower renewables, Statkraft and Statoil/Hydro to bid to win exclusive rights to develop wind farms under the terms of the Zone Development Agreements as part of The Crown Estates’ third licence round for UK offshore wind farms (Round 3). The four companies are co-operating on a single, joint bid and – should they be successful – will work together on the development, construction and operation of Round 3 wind farms.
- Seagreen Renewables, the consortium with Fluor Limited, the UK operating arm of Fluor Corporation, to bid for the exclusive rights to develop other wind farms under Round 3. (Airtricity and Fluor jointly developed the Greater Gabbard offshore wind farm).

Partnerships with other developers such as this are intended by SSE to minimise risks involved in offshore wind projects and to maximise the development capability.

#### **Wind Generation – Businesses and Communities**

Energy price certainty and environmental targets continue to drive businesses’ demand for wind turbines sited on their premises and there is significant community interest in the potential for wind energy to help meet sustainable energy needs and bring local benefits. SSE’s first consented community wind turbine will be erected in 2010 for the Sanday Development Trust on the Orkney island of Sanday. A further 50MW of projects are nearing readiness for submission to the relevant planning authorities and 450MW of projects are currently in development.

#### **Wind Generation Investment – Onshore in Europe**

In addition to its wind and hydro investments in the UK and Ireland, SSE has options to invest in renewable energy in Europe, principally Portugal, Scandinavia, Italy, Germany and the Netherlands where there are particular opportunities for growth in renewables. Any investment will involve working

with partners and will largely be on an equity basis, with non-recourse or project-specific debt typically expected to account for around 75% of the total cost of the investment.

SSE's principal onshore wind ventures in mainland Europe are now:

- a team in Sweden developing a pipeline of over 200MW, including a joint venture with a Swedish wind farm consortium to develop an 89MW onshore wind farm in Jamtland (Sweden). While project development is at an advanced stage, construction work will not begin until 2011;
- four joint venture partnerships to further its plans for the development of wind farms in Portugal with a total potential capacity of just over 800MW (gross); and
- a joint venture with an Italian wind farm development company, Entropy, which has a wind farm development pipeline in excess of 2,000MW (gross) at various stages in the authorisation process.

The acquisition of Airtricity (since re-named SSE Renewables) extended the scope of SSE's interests to continental Europe, thereby giving it development and operational activity in a new geographical location. SSE continues to believe that the scope for the development of its existing businesses in the UK and Ireland is very substantial, and investments in the UK and Ireland will continue to be prioritised. Any activity in Europe will be limited, disciplined and generally undertaken in conjunction with local joint venture partners.

### **Marine Energy**

SSE now has a 47% stake in Aquamarine Power, which in September 2009 successfully completed the first round of its fundraising to raise £10m from investors in the UK and Ireland. This followed the successful deployment of a full scale demonstrator of Aquamarine's 300KW (kilowatt) Oyster wave energy converter at its testing berth at the European Marine Energy Centre (EMEC) in Orkney. Testing is expected to take up to two years. Aquamarine expects to have a fully commissioned, commercially available wave farm in place by 2014. It also has an agreement with SSE to develop sites in the UK and the Republic of Ireland capable of hosting up to 1,000MW of marine energy capacity by 2020 using Oyster technology. SSE is also working with a number of other technology providers to exploit potential marine energy resources around the UK and Ireland.

### **Biomass and Multi-fuel - Operations**

SSE's plant at Slough has a current generating capacity of 80MW and remains the UK's largest dedicated biomass energy facility. During the six months to 30 September 2009, it produced 124GWh of electricity qualifying for ROCs, up from 101GWh in the same period in the previous year. The output from dedicated regular biomass plants attracts 1.5 Renewables Obligation Certificates (ROCs) per MWh.

### **Biomass and Multi-fuel - Investment**

Experience of managing the plant at Slough gives SSE a platform from which to invest in biomass and waste-to-energy. In line with its approach to developing a number of options for the site, SSE has submitted an application for consent to develop for a multi-fuel combined heat and power (CHP) facility at Ferrybridge. The proposed multi-fuel CHP facility will use a range of fuel sources, which could include biomass, waste-derived fuels and wood products, to generate around 90MW of electricity and to provide heat to the Ferrybridge site. It will be compliant with the Waste Incineration Directive. In addition, the acquisition of Uskmouth power station gives SSE further opportunities to develop new lower carbon generation assets alongside the existing generation assets.

### **Biomass and Multi-fuel - Forth Energy**

Forth Energy, the joint venture between SSE and Forth Ports PLC created in 2008, has prepared proposals for the development of dedicated biomass power stations at four of Forth Ports' sites in Scotland. It will undertake consultations on the proposals and intends to seek consent next year to build the plants. The plants are proposed for Dundee, Leith, Rosyth and Grangemouth. Their total installed capacity would be around 400MW and they could also produce heat to be used at other facilities at the Forth Ports' sites and, potentially, other neighbouring sites.

### **Emerging Technologies – SSE Ventures**

In February 2007, SSE set up SSE Ventures (SSEV) to develop and grow its portfolio of investments in small and medium-sized businesses offering renewable, sustainable and energy efficiency-enhancing products and services. These include Aquamarine Power and RockTron (Widnes) Ltd (see above). In addition to the financial support offered, SSEV works in close partnership with investee companies to help their products or services make progress towards full commercial viability.

Participation in emerging technology developments helps SSE to anticipate, be at the forefront of, and adapt to, the kind of changes in energy production and consumption that are likely to occur over the next

decade. In the six months to 30 September 2009, through equity and loans, SSEV committed to investing just under £10m in a variety of emerging technologies, taking the total to almost £100m. It now holds direct or indirect stakes in a total of 30 companies.

### Nuclear Power

It is expected that the total capacity of the UK's nuclear power stations will fall by over 7,000MW by 2020 (even if advanced gas – cooled reactor (AGR) stations are allowed by the Nuclear Installations Inspectorate to operate for five years beyond their existing planned closure dates). History suggests that the performance and reliability of nuclear power stations with extended lives tends to deteriorate markedly.

These question marks do not apply to modern nuclear power stations, which Malcolm Wicks MP said in his August 2009 report represent a proven, low carbon generation technology which could benefit security of energy supply by increasing the diversity of the fuel mix and reducing reliance on gas imports. He suggested that nuclear power should provide some 35%-40% of the country's electricity after 2030.

A consortium of GDF Suez SA, Iberdrola SA and SSE has been successful in securing an option to purchase land for the development of new nuclear power generating plant adjacent to Sellafield in Cumbria, from the Nuclear Decommissioning Authority for a total cash consideration that could reach £70m.

The consortium now intends to prepare detailed plans for developing new nuclear power generating plant at the site with a total capacity of up to 3.6GW. These plans will be prepared in consultation with the safety authorities and local stakeholders and will be submitted for consideration by the relevant planning authorities, with the aim of being able to begin construction of the first new reactor around 2014.

## ENERGY SUPPLY

Energy Supply Key Performance Indicators	Sept 09	Sept 08
Electricity customer accounts (GB domestic) - m	5.18	5.12
Gas customer accounts (GB domestic) - m	3.54	3.37
Energy customers (GB business sites) - m	0.43	0.41
<b>Total GB energy customer accounts - m</b>	<b>9.15</b>	<b>8.90</b>
All-Island Energy Market customers (Ireland)	100,000	40,000
Home services customer accounts (GB)	372,000	283,000
<b>Total customer accounts (GB and Ireland) - m</b>	<b>9.625</b>	<b>9.220</b>
Electricity supplied - GWh (GB)	28,104	27,517
Gas supplied – m therms (GB)	486.6	560.1
Complaints/referrals to Energy Supply Ombudsman and Consumer Direct(GB)	478	726

### Context

In September 2009, the UK's Department of Energy and Climate Change stated that: 'Estimates suggest that, for the period July to December 2008, prices for medium domestic gas and electricity consumers, including tax, were the lowest and seventh lowest in the EU 15 respectively.'

Nevertheless, energy supply remains a high profile issue and, in August 2009, the Chief Executive of Ofgem wrote to energy suppliers to urge them to 'explain how cost changes, including falling wholesale costs, are likely to bear on future energy bills'. In response, SSE said higher forward annual wholesale prices and higher distribution, environment and social costs all counter falls in wholesale prices.

Before that, in July 2009, the UK government's *UK Low Carbon Transition Plan* set out a series of measures to reduce significantly the amount of energy consumed by customers, including extending the Carbon Emissions Reduction Target (CERT) to 2012, mandating the installation in all homes of smart meters by 2020 and undertaking the 'Great British Refurb' to ensure that all homes undergo a 'whole house' energy efficiency programme by 2030.

In September 2009 uSwitch.com's latest Customer Satisfaction Report stated that only 52% of all customers in the Great Britain market are satisfied with the quality of service provided by their energy supplier (although the Report stated that 73% of SSE's customers are satisfied).

Against this background, SSE's objective is to retain and gain energy supply customers by:

- offering consistently competitive prices over the medium term;
- providing market-leading products and related services to help transform energy consumption; and
- delivering a quality of service that goes beyond best-in-sector.

SSE continues to believe that it should not seek to build its energy supply business by simply selling more of its core products of electricity and gas. Its focus must be on providing the energy and the related products and services that people actually need in a higher-price, lower-carbon environment, and thereby increasing customer numbers in a sustainable way.

### **Energy Supply Operations - Customer Numbers**

SSE supplies electricity and gas in Great Britain as Southern Electric, SWALEC, Scottish Hydro Electric and Atlantic Electric and Gas. During the six months to 30 September 2009, it achieved a net gain of 100,000 energy supply customer accounts, taking the total to 9.15 million. This is the eighth successive year in which SSE has achieved a net gain in energy supply customer numbers and it has more than doubled its total number in that period. The total comprises:

- 5.18 million domestic electricity customer accounts;
- 3.54 million domestic gas customer accounts; and
- 0.43 million business electricity and gas sites.

Within the total, 2.8 million customer accounts are for 'loyalty' products such as energyplus Argos, which rewards customers with money-off discount vouchers, and energyplus Pulse, under which customers are able to support the British Heart Foundation.

In October 2008, SSE and Marks & Spencer (M&S) launched a new dual fuel product under the brand name M&S Energy. The product is available to M&S customers exclusively through M&S' stores and website, and by 30 September 2009 had attracted 123,000 customer accounts. M&S Energy's primary focus is on helping customers to reduce their own energy consumption and it will be developing additional services and energy products to help customers deliver significant and longer-term savings in energy use at home.

### **Energy Supply Operations – Prices in Great Britain**

Over the past few years, SSE has maintained a responsible pricing policy, seeking to delay for as long as possible any increases in prices and seeking to implement as quickly as possible any reductions – all with the objective of providing consistently competitive prices over the medium term, which protect customers from the full impact of volatile wholesale prices.

Since the start of 2004, typical customers of SSE have paid an average of around £500 less for their electricity and gas than have customers of the UK's largest energy supplier, British Gas (based on paying quarterly and averaged across all regions of Great Britain).

SSE reduced its prices for domestic electricity and gas customers on 30 March 2009. In September 2009, Ofgem published its third Quarterly Wholesale/Retail Price Report. Amongst other things, the report concluded that suppliers' gross margin (from which they must meet operating, bad debt and social costs) are projected to increase by around £60 per dual fuel customer over the next year, although it did not take account of extra costs associated with balancing the electricity system and it also under stated the risks associated with buying energy some time in advance of its consumption. At the same time, it did correctly point out that wholesale energy costs are expected to start rising again from the second quarter of 2010. In addition, suppliers face rising network and environmental costs.

In the six months to 30 September 2009, SSE's gas supply business, Southern Electric Gas, traded at a loss. In addition, the higher forward annual wholesale prices and higher distribution and environmental costs all counter the recent falls in wholesale prices for energy. Therefore, while SSE would like to follow the reduction in energy prices it implemented in March with a further reduction if it were possible, it is not able to commit to do so. It remains committed, however, to ensuring its prices and, more importantly, bills, are as low as possible over the medium term. Given the upward pressures on energy prices, avoiding an increase between now and the end of 2010 remains an important goal.

The outlook for energy prices is underlined by the fact that later this month, SSE will launch a new product, which will enable customers to 'fix' the price of their electricity and gas at around 5% below current standard tariff prices until August 2011.

In the meantime, Ofgem's *Review of vulnerable customer disconnections*, published in October 2009, confirmed that energy suppliers' procedures to protect vulnerable customers from being disconnected are

satisfactory and that disconnections themselves remain at historically low levels (affecting around 0.01% of customers).

### **Energy Supply Operations – Bills in Great Britain**

There is, of course, a distinction between the price of a unit of energy and the amount that customers pay for heating and powering their homes. It is clear that the co-operation seen in recent years between government, energy suppliers, Ofgem, consumer organisations and others, and the associated investment, is delivering a sustained reduction in the amount of gas being consumed in Britain's homes.

As a result of this, SSE believes that the fall in domestic customers' demand for gas since 2006 has reduced the average gas bill for an SSE customer by around £120 per annum. Households are, therefore, less exposed to the impact of high prices than they otherwise would be, because they are using less energy, and building on this must be a top priority in the future.

### **Energy Supply Operations – Smart Meters**

'Smart' metering is an emerging system that enables the quantity and value of electricity and gas used by the customer to be continuously monitored and allows information about its use and cost to be available to the customer and exchanged with the supplier, through two-way electronic communications. In its *UK Low Carbon Transition Plan* in July 2009, the UK government said: 'Smart meters are key to revolutionising customer service and maximising energy saving. The government has committed to mandating smart meters and has set out an indicative timetable for getting smart metering to all homes by 2020.'

SSE is a leading participant in the UK government-sponsored Energy Demand Reduction Project (EDRP), in which smart meters are the subject of a trial, and in 2008/09 it installed around 9,000 smart meters in homes in Perthshire, Oxfordshire and in south Wales. Evaluation of the latest set of results from the EDRP is still at an early stage, but SSE believes that they indicate that significant savings in energy usage can be achieved by customers with smart meters, adding to the weight of evidence in support of the scope for smart meters to help transform energy consumption.

### **Energy Supply Operations - Debt**

Around 58% of SSE's domestic electricity and gas accounts are paid by direct debit or standing order. A further 11% are paid through pre-payment meters (PPMs) and the balance are on credit terms and settled by cheque or other such payment methods. According to Ofgem's Energy Supply Probe, published in October 2008, 43% of energy accounts in Great Britain are settled using direct debit and 16% are settled through PPMs, with the balance using standard credit terms.

As at 30 September 2009, the total aged debt (ie debt that is overdue by more than six months) of SSE's domestic and small business electricity and gas customers was £102.7m, compared with £73.2m in September 2008, an increase of 40%. A bad debt-related charge to profits of £42m has been made. This comprises a £17m increase in the energy supply bad debt provision and £25m of debt write-off and compares with a charge of £14m in the same period last year.

At the start of this financial year, leading indicators, such as the number of payment reminders being issued to customers, suggested that 2009/10 would pose significant debt management challenges, and the volume of work in this area for the Customer Service division has increased significantly. This has included intervening earlier, when it becomes apparent that customer payments are in arrears, so that the individual's issues are more manageable from everyone's point of view. Nevertheless, with further increases in unemployment likely, there is a significant risk that aged debt will go up further in the months ahead.

### **Energy Supply Operations - Customer Service**

It is no coincidence that SSE has achieved eight years of growth in energy supply while being independently and consistently recognised as the customer service benchmark for the rest of the industry. SSE believes that its proposition for customers needs to include service and products, as well as price, to ensure it offers the best possible value for money.

In total, SSE's energy supply customers made 10.2 million calls to the company during the six months to 30 September 2009, an increase of 12% on the previous year.

In the latest independent Customer Satisfaction Report from uSwitch.com, published in September 2009, SSE was ranked the best energy supplier for the sixth successive time. uSwitch.com stated: 'SSE remains the customer service benchmark for the rest of the industry.' In JD Power and Associates' recently-published 2009 UK Electricity and Gas Supplier Customer Satisfaction Study, SSE's four supply

brands took four of the top five places in electricity supply and gas supply, with its Atlantic brand ranked first in electricity.

Following the Consumer, Estate Agents and Redress (CEAR) Act 2007, new arrangements have been put in place under which customers who are unable to resolve issues with their supplier can take them up with Consumer Direct. Complaints which are not resolved within eight weeks, or which become 'deadlocked', may be taken to the new Energy Supply Ombudsman. During the six months to 30 September 2009, there were 478 SSE-related complaints and referrals to Consumer Direct and the Ombudsman. This was a fall of around one third and was the lowest number for any supplier.

The changing shape of customer service is also illustrated by the fact that email has overtaken letters to become the second most common means of communication with the company used by SSE's customers, and around 15% of all customer transactions now take place online. This, in turn, indicates that the popularity of e-services such as paperless billing is likely to increase rapidly over the next few years, and providing the infrastructure to allow customers to carry out more transactions online if they choose is now one of SSE's top customer service priorities.

### **Energy Supply Operations – Energy Efficiency**

Using energy more efficiently is the fastest and most cost-effective means of reducing customers' energy costs, sustaining supplies for the long term and securing reductions in emissions of carbon dioxide. SSE has obligations under the Carbon Emissions Reduction Target (CERT) scheme to deliver energy efficiency measures to households throughout Great Britain and in the six months to 30 September 2009 funded the installation of cavity wall insulation in 58,000 homes and loft insulation in 61,000 homes (excluding DIY insulation).

In September 2009, SSE started a project with Camden Council and Avalon Abseiling in which abseilers were used to access and insulate cavity walls for the first time. The method was developed as a cost-effective and easy way to insulate high rise tower blocks. SSE provided more than £100,000 for the cost of insulating the initial 150 homes as part of the CERT scheme. Insulating the homes by abseiling is about 40% cheaper as there will be no need to pay for scaffolding. The cavity wall insulation by abseiling will be implemented for high rise homes across the borough, and could be adopted by social landlords throughout the country.

In its *CERT Annual Report 2009*, a review of CERT in 2008/09, Ofgem stated that SSE had met half of its overall carbon emissions reduction obligation for the three years to 2011. SSE also achieved the highest level of solid wall insulation for hard-to-treat properties among all of the obligated energy suppliers.

To complement its heat and energy efficiency strategy, the UK government is also developing a Community Energy Saving Programme (CESP), which aims to deliver energy efficiency measures on a community basis, and has implemented a 20% increase in suppliers' CERT obligations. The CESP will promote a 'whole house' approach, to be delivered through the development of community-based partnerships involving local authorities and energy suppliers via a house-by-house, street-by-street approach. SSE endorses this approach and is actively preparing for the launch of CESP in 2010.

CESP and CERT are substantial measures, which will require the commitment of significant resources by energy suppliers in the coming years. Nevertheless, SSE supports the goal of securing substantial savings in energy bills and reductions in emissions of carbon dioxide, and achieving greater energy efficiency continue to be the most sustainable way of achieving this.

### **Energy Supply Operations - Vulnerable Customers**

While any type of poverty, including fuel poverty, fundamentally results from an individual or household having insufficient income, SSE recognises that it has a significant role to play in helping customers use energy as efficiently as possible and a role also in helping those of its customers who struggle to pay for their basic energy needs.

In April 2008, SSE published its *Code of Practice for Fuel Poor Customers*, following consultation with consumer and voluntary organisations. At the heart of its approach is the energyplus care tariff, which currently gives eligible dual fuel customers a discount of one fifth compared with SSE's standard tariff, as well as other help including benefit entitlement checks and free energy efficient appliances and home insulation. The number of customer accounts benefiting from energyplus care increased by 23,000 to 126,000 in the six months from April 2009.

SSE will issue credits worth a total of almost £3.5 million to its 290,000 customers who use gas pre-payment meters. The credits are equivalent to suspending the average extra charge its pre-payment tariff contains, compared with SSE's standard credit gas tariff, from 1 November 2009 until 31 March

2010. There is no extra charge on SSE's electricity prepayment tariffs, which were equalised with its standard credit tariffs in 2006.

Under its voluntary agreement with the UK government, SSE expects to operate schemes to help vulnerable customers with a value of around £22m in 2009/10, up from £16m in the previous year. As a result, it is reviewing its approach to enable it to help more customers and is introducing a 'tiered' approach to assistance, allowing a larger number of customers to be helped than would be the case if the 'flat rate' energypus care tariff was maintained.

It is SSE's policy to do all it can to help customers who may be having difficulties in paying for the electricity and gas they use by offering 'tailor-made' payment arrangements that suit their needs and their circumstances. In September 2009, customers with around 250,000 electricity and gas accounts were taking advantage of these arrangements.

### **Product Development**

Energy supply remains intensely competitive and gaining and retaining customers' loyalty is key to long-term success. At a time of higher energy prices, the 'better plan' is at the centre of the portfolio of products and services which SSE currently markets. It offers a variety of incentives to help customers use less energy and earn credits as a result. The credits are then applied as a reduction to the customers' energy bills.

SSE launched the 'better plan' towards the end of 2007 as part of its commitment to work in partnership with its customers to help them reduce their energy use and to create a more sustainable level of energy consumption. During the six months to 30 September 2009, customers with an additional 44,000 energy accounts joined the 'better plan', taking the total to 178,000, making it SSE's most successful new product ever.

During the current financial year, SSE has launched 'Go Direct', an online energy offer which is available directly from SSE and features a discount equivalent to commission that would otherwise be paid to price comparisons websites and a £40 joining bonus towards bills. Later this month, SSE will launch a new product, which will enable customers to 'fix' the price of their electricity and gas at around 5% below current standard tariff prices until August 2011.

### **Ireland**

At its half-year results in 2007, SSE said it had identified Ireland as a market where the skills honed in Great Britain could be successfully deployed, giving it additional headroom for expansion.

In the six months to 30 September 2009, SSE, through Airtricity, increased its customer base in the all-island electricity market in Ireland by 100% to 100,000. This makes SSE the third largest energy supplier in the Republic of Ireland and the fourth largest in the all-island market.

The profile of Airtricity as a supplier of energy in Ireland will be significantly enhanced by SSE's acquisition of the assets of ESB Contracts, the street lighting business of ESB (see 'Street Lighting' below). It currently maintains around 300,000 street lights in the Republic of Ireland.

## **NETWORKS**

### **Networks Overview**

SSE owns Scottish Hydro Electric Transmission, Scottish Hydro Electric Power Distribution and Southern Electric Power Distribution which transmit and distribute electricity to 3.5 million businesses, offices and homes via 127,000km of overhead lines and underground cables. It also has an equity interest of 50% in, and provides corporate and management services to, Scotia Gas Networks, which distributes gas to 5.6 million properties via 74,000km of gas mains.

SSE estimates that the total Regulated Asset Value (RAV) of these economically regulated 'natural monopoly' businesses, including 50% of SGN, is around £4.8bn. On this basis, SSE is the second largest distributor of energy in Great Britain, with around 12% of the total electricity transmission and distribution RAV and around 13.5% of the total gas distribution RAV.

Over the last three financial years, Energy Networks have contributed just under 40% of SSE's operating profit, in line with SSE's goal of maintaining a balanced range of regulated and non-regulated energy-related businesses. With major investment requirements over the next few years, not least in providing the infrastructure to accommodate electricity produced from renewable sources, the scope for additional incremental growth in Energy Networks businesses is clear. Should opportunities arise to supplement

that growth through the acquisition of additional networks, SSE will examine them carefully. It will not, however, depart from its long-stated financial principle of deploying a selective and disciplined approach to acquisitions.

After electricity and gas, telecoms is SSE's third networks business. Unlike the others, it is not the subject of economic regulation. It operates a national telecoms network, offering capacity and bandwidth services for commercial and public sector customers, which extends to around 10,300km throughout Great Britain.

### Energy Networks Performance Overview

Operating profit\* in Energy Networks increased by 8.7%, from £259.3m to £281.9m, contributing 48.7% of SSE's total operating profit\*. This comprised:

- £182.4m in electricity networks, compared with £183.9m in the previous year; and
- £99.5m representing SSE's share of the operating profit\* for SGN, compared with £75.4m in the previous year.

### Energy Volumes

The volume of electricity distributed by SSE during the six months to 30 September 2009 was around 4% lower than in the same period in 2008, and the volume of gas transported by SGN during the year also fell, by around 14%. These movements should be seen in the context of reductions in national demand of around 5% for electricity and 15% for gas.

Energy Networks Key Performance Indicators	Sept 09	Sept 08
<b>ASSETS</b>		
Electricity network Regulated Asset Value (RAV) - £bn	2.9	2.8
Gas network RAV (share) - £bn	1.9	1.8
<b>Total RAV of energy network assets £- bn</b>	<b>4.8</b>	<b>4.6</b>
Electricity network capital expenditure - £m	157.9	157.4
Gas network capital/replacement spend (share) - £m	104.7	79.9
Telecoms network (km)	10,300	8,000
<b>OPERATIONS</b>		
SEPD customer minutes lost	30	31
SEPD customer interruptions	30	33
SHEPD customer minutes lost	32	31
SHEPD customer interruptions	34	38
Uncontrolled gas escapes attended within one hour	99.4%	99.1%
<b>VOLUME (TERA WATT HOURS – TWh)</b>		
SEPD electricity units distributed	15.3	15.8
SHEPD electricity units distributed	3.6	3.7
Gas volume distributed (Scotland)	17.4	19.7
Gas volume distributed (Southern)	30.0	35.6

## Electricity Networks

### Southern Electric Power Distribution

In Southern Electric Power Distribution (SEPD) in the six months to 30 September 2009:

- operating profit\* increased by 1.3% to £111.9m;
- electricity distributed fell by 0.5TWh to 15.3TWh;
- the average number of minutes of lost supply per customer was 30, down from 31; and
- the number of supply interruptions per 100 customers was 30, compared with 33.

The increase in operating profit reflects changes in the price of units distributed, which have mitigated the reduction in volume. Performance in respect of both minutes lost and interruptions was ahead of the targets set by Ofgem under its Quality of Service Incentive Scheme (QSIS), which gives financial benefits to distribution network operators that deliver good performance for customers. Performance-based income covers a number of issues, including the quality of service provided to customers and innovation.

### Scottish Hydro Electric Power Distribution and Scottish Hydro Electric Transmission

In Scottish Hydro Electric Power Distribution (SHEPD) in the six months to 30 September 2009:

- operating profit\* fell by 4% to £70.5m;
- electricity distributed fell by 0.1TWh to 3.6TWh;
- the average number of minutes of lost supply per customer was 32, up from 31; and
- the number of supply interruptions per 100 customers was 34, compared with 38

While there was increased transmission income, this was outweighed by a reduction of income in the distribution business. Performance in respect of both minutes lost and interruptions was ahead of Ofgem's QGIS targets.

### **Operational Cost Efficiency**

Efficiency is one of SSE's core values and amongst Ofgem's explicit purposes in setting Price Controls for regulated network businesses is to keep the costs of providing secure and reliable networks as low as possible. Ofgem's Initial Proposals for the electricity Distribution Price Control Review for 2010-15, published in August 2009, showed SSE consistently at the forefront of efficiency for overall operating costs.

### **Corporate Responsibility**

In August 2009, SSE received an award of £200,000 under Ofgem's Customer Service Reward Scheme 2008/09 'in recognition of the breadth of its corporate responsibility programme which was seen to go beyond core business drivers'.

### **Electricity Network Investment and RAV Growth**

The key responsibility of SSE's electricity networks businesses is to maintain safe and reliable supplies of electricity and to restore supplies as quickly as possible in the event of interruptions. The Distribution Price Control Review for 2005-10 resulted in substantially increased allowances for capital expenditure to maintain and improve the networks' performance. By earning a return from this investment, SSE is able to increase its revenue from the networks and the efficient delivery of this enhanced investment programme has been and remains one of its key priorities.

Capital expenditure in the electricity networks during the six months to 30 September was £157.9m, and a further £165m is expected to be invested by the end of the current financial year. Since the start of the current Distribution Price Control which began in April 2005, SSE has invested £937.9m in its distribution networks (which excludes metering) and a further £175.6m in its transmission network. This represents an 84% increase compared with the same period in the previous Price Control, April 2000 to September 2004.

SSE forecasts that the total growth in the RAV of its electricity distribution and transmission businesses, over the five years to March 2010, should reach around £500m, taking it to almost £3bn in 2010.

### **Distribution Price Control Review 2010-15**

Work on the Distribution Price Control Review for 2010-15 is at an advanced stage, with Ofgem's Initial Proposals in August 2009 being updated in both September and October and with Final Proposals scheduled to be published in December 2009. Ofgem's key priorities are 'to boost customer service and cut carbon from regional electricity networks'.

SSE will assess Ofgem's Final Proposals against three key criteria:

- the allowed return for shareholders as measured by the weighted average cost of capital;
- the scope to secure additional revenue through operational efficiency and excellence; and
- the treatment of ongoing pension costs, including deficit recovery payments.

Work on the Distribution Price Control Review will be largely unaffected by Ofgem's review of the regulatory regime for electricity and gas networks ('RPI-X@20'), which is considering the new challenges faced by energy networks as a result of the need to meet environmental and social goals while ensuring continued reliable supply as the move to a lower carbon economy gathers pace. The outcome of Ofgem's review will be subject to consultation.

### **Electric Vehicles**

Electric vehicles will be an essential part of the move towards a low-carbon transport infrastructure. The next decade is likely to see a significant uptake of electric vehicles, which some reports have suggested could reach around 1.5 million in the UK as early as 2020. They also have the potential to dramatically

influence the demand profile and quantity of electricity required by consumers, and will impact on all aspects of SSE's business, including electricity distribution.

SSE is part of two consortia that will be conducting research and demonstration projects of prototype electric vehicles over the next twelve months. Both projects are supported by the Technology Strategy Board (TSB):

- In a consortium involving BMW UK Ltd, 40 MINI E vehicles will be trialled by selected members of the public and fleet users in southern England. This project was launched in mid October and SSE is providing the private and public charging infrastructure to support the project. Five SSE employees will also be trialling the MINI E as part of this project.
- The second consortium involves a Ford prototype electric vehicle and SSE will again be providing the private and public charging infrastructure. These trials will take place in Hillingdon, West London and will begin in the Spring of 2010

### **Future Transmission Developments**

Scottish Hydro Electric Transmission (SHETL) is responsible for operating, maintaining and investing in the transmission network in its area, which serves around 70% of the land mass of Scotland. As the licensed transmission company for the area, SSE has to ensure there is sufficient network capacity for those seeking to generate electricity from renewable sources. This presents SHETL with major incremental investment opportunities.

In November 2009, Ofgem announced that it is minded to allow funding for three onshore transmission projects in the SHETL area – Knocknagael, Beaully-Blackhillock-Kintore and Beaully-Dounreay – with a total value of almost £200m. These projects are all designed to accommodate output from renewable energy and should all be completed in 2014.

The project to replace the electricity transmission line connecting Beaully in the Highlands and Denny in the Central Belt of Scotland follows on from SSE's licence responsibilities. The Scottish government has said that Ministers expect to take a final decision on the proposal to replace the Beaully-Denny line, of which 200km is in SSE's SHETL area, 'later this year'. In August 2009, the Marine Energy Group of the Forum for Renewable Energy in Scotland said 'it is essential that the Beaully-Denny link must be consented urgently by Scottish Ministers'. Preparatory work to allow a prompt start to the pre-construction phase, should consent be granted, is continuing.

The final cost of replacing the Beaully-Denny line will be established after the conditions associated with consent from Scottish Ministers, should it be forthcoming, have been considered in detail. SSE will then have to demonstrate to Ofgem that the costs are necessary, efficient and economical so that the resulting charges levied on users of the network are acceptable. It currently expects to invest over £300m to complete its part of the upgrade.

SSE's proposal for an electricity transmission connection between the Western Isles and the north west of Scotland features, for the mainland section, an underground cable between the west coast of Sutherland and the Beaully substation near Inverness. SHETL submitted to Scottish Ministers an application for consent to construct the connection in October 2008.

In July 2009, SSE submitted planning applications for converter stations associated with the proposed subsea high voltage direct current (HVDC) transmission link between the Shetland Islands and mainland Scotland to accommodate renewable energy developments in Scotland. It would connect properties in Shetland to the mainland electricity network for the first time.

SSE has applied to the European Economic Plan for Recovery for funding to support the development of an intermediate offshore HVDC 'hub' off Caithness on the route of its proposed HVDC connection between Shetland and Moray on the Scottish mainland. Following a positive evaluation and ranking by the European Commission, SSE has been invited to take part in formal funding negotiations with representatives of the Commission. Subject to that process, and subsequent approval by the Commission and European Parliament, it is hoped that a grant agreement will be concluded by the end of the year for up to €75m towards the cost of the incremental works.

Ofgem and the UK government have created a new regulatory regime for the offshore transmission network needed to connect new offshore wind farms to the mainland electricity network and SSE is considering whether it should participate in the related tender process.

## **Gas Networks**

### **Scotia Gas Networks (SGN) – Financial**

SSE's share of the adjusted operating profit\* of SGN was £99.5m in the six months to 30 September 2009, compared with £75.4m in the previous year. The increase is primarily due to three things: the impact of the price changes agreed as part of the five-year Price Control to March 2013, which accounted for the majority of the year-on-year improvement; additional underlying operational efficiencies achieved during the year; and a reduction in the amount and value of gas lost during the distribution process ('shrinkage'). A small part of SGN's operating profit is derived from the non-regulated activities of its contracting, connections and commercial services operations.

In October 2009, SGN successfully priced two new sterling bonds: a 30year, £125m index-linked bond; and a 9 year, £300m fixed-rate bonds.

### **Scotia Gas Networks - Operational**

One of the conditions in SGN's license to operate is that it should attend at least 97% of uncontrolled gas escapes within one hour of notification. During the six months to 30 September 2009, 99.4% of uncontrolled gas escapes were attended within one hour of notification.

During the six months, SGN's gas transportation volumes were:

- 17.4TWh in Scotland, compared with 19.7TWh in the previous year; and
- 30.0TWh in Southern, compared with 35.6TWh in the previous year.

Only 3.5% of SGN's income is volume-related; the remaining 96.5% is related to the maximum capacity requirements of its customers.

### **Scotia Gas Networks – Investment**

The five-year Gas Distribution Price Control, which began in April 2008, provides the opportunity for SGN to increase significantly investment in its gas distribution networks, thereby reinforcing their safety and reliability and securing another significant increase in their RAV. By 2013, SGN estimates that its total RAV will be around £4.6bn.

In the six months to 30 September, SGN invested £209.4m in capital expenditure and mains and services replacement projects, compared with £159.8m in the previous year. The majority of the mains replacement expenditure was incurred under the 30:30 mains replacement programme which was started in 2002. This requires that all iron gas mains within 30 metres of homes and premises must be replaced over a 30-year period, and during the six months SGN replaced over 500km of its metallic gas mains with modern polyethylene pipes.

Construction of the £50m infrastructure project to build 23km of medium pressure gas main between Farningham and Hadlow is now complete. The pipeline is to maintain gas supplies safely and reliably following recent increases in the demand in the south east of England.

SGN now has approval to commence work on a £20m project to replace the under-sea gas main between the south coast mainland and the Isle of Wight. The project involves the longest directional drill ever undertaken, connecting the 3.8km across the Solent between Lepe and Gurnard. Two tunnels will be bored to take two 12 inch diameter gas pipes, which will be installed some 30m below the seabed.

SGN is committed to making new gas connections to existing homes that are not on mains gas as affordable as possible and is running a new scheme to help fuel poor customers. Already some 2,500 acceptances have been received to provide a mains gas connection to homes under the new Ofgem-approved scheme. One of the first communities to benefit was Rattray in Perthshire where, thanks to an extension to the gas network, some 300 homes will now have access to mains gas, giving residents the choice of gas-fired heating for the first time.

This scheme, along with other initiatives on carbon monoxide safety and reducing environmental impacts, helped SGN secure a £550,000 award from Ofgem under its first ever discretionary rewards scheme for the UK's gas distribution networks. The scheme, which is judged by a panel of industry experts, was established as part of Ofgem's gas distribution price control 2008/13.

Investment will continue to be a top priority and, in line with that, SGN expects to invest a further £195m in capital expenditure and mains and services replacement projects by the end of the financial year.

## **Telecoms Networks**

SSE's combined Telecoms business achieved an operating profit\* of £8.2m during the six months to 30 September, compared with £8.1m in the previous year. This reflected a strong sales performance and greater success in retaining customers. In the six months to 30 September 2009, SSE undertook capital expenditure of £7.3m in respect of its telecoms networks, principally focused on improving network reliability and reach.

SSE completed the acquisition of a Fareham-based data centre business in June 2009. It provides capacity for more than 2,000 racks for the co-location of IT services within the 80,000 square feet secure site and 15MW of power in a resilient and energy efficient environment, which will include one of the UK's largest rooftop solar photovoltaic installations. The data centre uses a modular design which allows customers to select the level of service that they require.

Following the acquisition, a trading division, SSE Data Centres, was created, and in October 2009 it was awarded a new long-term contract to provide Kingfisher plc with its own dedicated data centre pod to support IT infrastructure to be migrated from a number of existing data centres.

## ENERGY-RELATED SERVICES

### Energy-Related Services Overview

As well as being involved in Generation, Supply and Networks, SSE also provides an additional range of energy-related services which complement its other businesses: Contracting, Connections and Metering, including Utility Solutions; Energy and Home Services; and Gas Storage.

Energy-Related Services Key Performance Indicators	Sept 09	Sept 08
SEC order book (£m)	£102m	£105m
New electrical connections	11,000	20,000
New gas connections	3,200	3,800
Out-of-area networks in operation	50	44
Home services customers (inc telecoms)	372,000	283,000
Gas storage net capacity in operation (mcm)	365	325
Gas storage customer nominations met - %	100	100

### Contracting, Connections and Metering

Operating profit\* in Contracting, Connections and Metering rose by 3.9%, from £40.7m to £42.3m, during the first six months of the year.

#### Contracting

SSE's Contracting business, Southern Electric Contracting (SEC), operates throughout Great Britain and is one of the largest mechanical and electrical contracting businesses in the UK. Despite the economic recession it has continued to make solid progress during 2009/10, with its order book at 30 September still strong, at £102m, which is just slightly lower than £105m in the previous year. The order book was supported by significant new contract wins with a number of major organisations in recent months, ranging from Network Rail to Exxon Mobil and the University of Bristol.

SEC has continued to benefit from the fact that a major proportion of its business is from public sector bodies and end-user client organisations with a high degree of 'repeat' business or long-term contracts. This puts it in a relatively good position to withstand the economic downturn. Nevertheless, there is clearly a risk that the business' future order book and profitability will be affected as a result of the recession and its consequences. As a result, cost control and customer relationships are a particularly high priority for SEC during 2009/10.

#### Street Lighting

SEC remains the UK's leading street-lighting contractor, and has 24 maintenance contracts covering over one million lighting columns as at 30 September 2009.

In August 2009, SSE was appointed preferred bidder for the £225m, 25-year South Coast Streetlighting PFI (Private Finance Initiative) contract, through its street lighting business Tay Valley Lighting. Under the contract, SEC will replace and maintain 250,000 streetlights, illuminated signs and bollards on behalf of Hampshire and West Sussex County Councils and Southampton City Council. The contract is expected to be concluded later this year. It will take the number of local authorities with which SSE has

long-term street lighting replacement and maintenance PFI contracts to 10 and the number of lighting units covered by such contracts to over 500,000.

In October 2009, SSE entered into an agreement to acquire the assets of ESB Contracts Ltd (ESBC), the street lighting business of ESB, for a total cash consideration of €6.4m. The acquisition is due to complete on 30 November 2009. ESBC currently maintains around 300,000 street lights in the Republic of Ireland. Street lighting will in due course become the subject of competitive tendering by local authorities. Under SSE's ownership, the business will be known as Airtricity Utility Solutions and will employ over 100 people, including people who currently work with ESBC.

### **Electricity Connections**

During the six months to 30 September 2009, SSE completed 11,000 electrical connections, compared with 20,000 in the previous year. The reduction was expected as a result of the recession, which has led to a severe downturn in house-building and other construction activity.

### **Utility Solutions - Electricity Networks**

SSE has continued to develop its portfolio of electricity networks outside the Southern Electric and Scottish Hydro Electric Power Distribution areas. It now owns and manages 50 energised electricity networks outside these two areas, including newly-energised networks at Wendover, Stockland Hill and Chappel Level, and there is development work ongoing at a number of these. A further 17 are under construction, including residential and commercial developments across England, Scotland and Wales. In total, SSE now has 430MW of energised networks capacity, plus 71MW currently under construction. Nevertheless, a reduction in new development activity in the UK economy is clearly evident and this will have an impact on SSE's shorter-term growth ambitions in this area, although its market share has been increasing and it expects this to continue.

### **Utility Solutions - Gas Pipelines**

SSE is also a licensed gas transporter, installing, owning and operating gas mains and services on new housing and commercial developments throughout the UK. Although at a slower rate than in previous years, the total number of new premises connected to its gas networks has continued to grow, and during the six months to 30 September 2009, it connected a further 3,200 premises, taking the total number of connections to more than 63,500. This is despite an increasing number of building sites being mothballed, and building projects being deferred, which means the number of gas connections completed in 2009/10 as a whole is likely to be lower than in the previous year.

### **Utility Solutions - Water**

SSE Water (SSEW) is the first new company to offer both water and sewerage services since privatisation in England and Wales in 1989, and its establishment will enable SSE to provide, over the long term, a more comprehensive multi-utility solution to customers in the property development and house-building sectors, through being able to install, own, operate and supply water and sewerage services alongside its existing electricity and gas services.

An 'inset' appointment is the route by which one company replaces another as the appointed water and/or sewerage company for a specified area. SSE Water was granted its first inset appointment in October 2007 to become the water and sewerage provider to a housing development near Salisbury. In March 2009, Ofwat varied the inset appointment of SSE Water, allowing it to serve a large development consisting of houses and commercial premises in south Wales, at Llanilid. SSE has also subsequently been granted two further variations at Tottenham and Reading, bringing the total number of licensed sites to four. SSE has also recently applied for inset appointments in the Ashford and Bromley areas.

### **Utility Solutions - Energy Services**

SSE provides site-wide energy infrastructure for industrial, commercial, public sector and domestic customers. Utility Solutions currently operates and maintains commercial and domestic heating along with a 4.5MW Combined Heat and Power (CHP) facility at Woolwich, and it is developing biomass, heat pump and wind energy solutions for communities and commercial enterprises (most of customers' CHP assets are now managed within SSE's Generation and Supply business). The impact of the economic slowdown on the UK's construction sector means that projects to develop new residential CHP schemes are fewer than was the case a year ago and SSE is now seeking to participate in other sectors such as health, education and defence.

### **Metering**

SSE's Metering business provides services to most electricity suppliers with customers in central southern England and the north of Scotland and has undertaken a programme of in-sourcing of meter reading operations and meter operator work in other parts of the UK. It supplies, installs and maintains

domestic meters and carries out metering work in the commercial, industrial and generation sectors. It also offers data collection services to the domestic and SME sectors.

In total, SSE owns 3.79 million meters. During the six months to 30 September, it collected around 3.3 million electricity readings and 1.7 million gas readings, up from 1.4 million and 1.1 million respectively in the same six months in 2008.

This increase partly reflects the fact that, over the past two years, SSE has in-sourced meter reading and meter operations work relating to its own customers in a number of parts of Great Britain. This process has now taken the total number of people employed in the Metering business to over 1,200 as at September 2009 and means SSE is able to read 77% of meters relating to its customers' electricity and gas accounts. This programme of in-sourcing is continuing, so that by the end of 2009/10, SSE expects to be undertaking meter reading and meter operator work in all of the former electricity supply regions in Great Britain.

An accurately-read meter is the cornerstone of good service in energy supply. This programme of in-sourcing delivers significant savings against contractor costs and supports the energy supply brands by delivering improved customer service, partly through the face-to-face contact that takes place between SSE and its customers and partly through the delivery of a more reliable meter reading service. At the same time, it provides a foundation from which SSE will be able to deploy other energy-related services and products as customers increasingly seek help and advice to reduce their consumption of electricity and gas.

## Energy and Home Services

### Introduction to Energy and Home Services

SSE's energy and home services team offers a range of maintenance and protection services for customers' gas and electrical systems and a full range of gas and electrical installation services. It also offers electricity and gas appliances, telecoms products and community-focused renewable energy schemes.

SSE's 'shield' gas boiler, central heating and wiring protection service is now in its fourth year of operation and at 30 September 2009 had 135,000 customers, an increase of 20,000 during the previous six months. The gas service covers 43 postcode areas, enabling around two thirds of SSE's existing energy customers to benefit from it.

The 'talk' telecoms package, under which telephone line rental and calls services are supplied, now has 237,000 customers, an increase of 20,000 during the previous six months. In March 2009, SSE also launched a new broadband service under which customers are offered unlimited high-speed wireless broadband, supported by a three-year partnership agreed with BT Wholesale.

Sales of electrical and gas appliances have struggled in the light of the recession and in line with the downturn in sales experienced across the retail sector, and this prompted a further reorganisation of SSE's activities in this area. This, unfortunately, included the closure of four shops in the north of Scotland.

## Gas Storage

### Gas Storage – Financial

Gas Storage delivered an operating profit\* of £21.7m, during the six months to 30 September 2009, compared with £21.1m in the previous year.

### Gas Storage - Investment

SSE's joint venture with Statoil (UK) Ltd to develop at Aldbrough what will become the UK's largest onshore gas storage facility has made further important progress during the year, with the first commercial operations getting under way. Initially, Aldbrough is providing a total of around 60mcm (million cubic metres) of capacity in two caverns – the first new gas storage capacity to become available in the UK for four years. To form gas storage caverns, salt deposits around 2km under ground are leached by seawater, which, in turn, is replaced (dewatered) by gas under pressure.

The dewatering of another cavern is now complete, and this capacity should become available for storage by the end of this year. The leaching of a fourth cavern is also now complete and dewatering is under way. This cavern should become available for storage in early 2010 and these two caverns will add a further 55mcm of storage capacity. Capacity in a total of six caverns should be available by the end of

2010; in advance of that, storage in some caverns may be unavailable for a short time while their capacity is increased. As stated in its Interim Management Statement in July, SSE expects its total investment on the development at Aldbrough to be around £290m.

When fully commissioned, currently expected to be in 2012, Aldbrough will have the capacity to inject gas and store up to 370mcm (of which SSE will own two thirds) in nine underground caverns and will be the largest onshore gas storage facility in the UK. It will be able to deliver gas to the National Transmission System at a rate of 40mcm per day, equivalent to the average daily consumption of eight million homes, and have up to 30mcm of gas per day injected.

Investment in gas storage in the UK will benefit from the decision by HM Revenue and Customs in April 2009 to recognise the purchase of cushion gas, required to maintain pressure within storage caverns, as part of the capital cost of a development. This means it is eligible for tax relief through plant and machinery capital allowances.

SSE and Statoil (UK) Ltd have consent to increase the storage capacity at the Aldbrough site beyond that currently under development. If developed in full, this would approximately double the amount of gas that can be stored, to well over 700mcm. SSE believes that there is a case for investing in additional gas storage facility and is aiming to take a final decision on whether and how to invest in a second phase of development at Aldbrough during 2010. While the investment decision will be taken on its merits, and in such a way as to ensure there was no detriment to the first phase of the development, an extension at Aldbrough would clearly put SSE at the forefront of new gas storage development in the UK.

**Consolidated Condensed Income Statement**  
for the period 1 April 2009 to 30 September 2009

Six months ending 30 September

	Note	2009			2008		
		Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements (note 5) £m	Total £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements (note 5) £m	Total £m
<b>Revenue</b>	4	<b>8,041.8</b>	-	<b>8,041.8</b>	9,187.4	-	9,187.4
Cost of sales		(7,241.9)	191.5	(7,050.4)	(8,617.3)	(177.4)	(8,794.7)
<b>Gross profit</b>		<b>799.9</b>	<b>191.5</b>	<b>991.4</b>	570.1	(177.4)	392.7
Operating costs		(348.3)	-	(348.3)	(246.0)	-	(246.0)
Other operating income		-	-	-	10.1	-	10.1
<b>Operating profit before jointly controlled entities and associates</b>		<b>451.6</b>	<b>191.5</b>	<b>643.1</b>	334.2	(177.4)	156.8
Jointly controlled entities and associates:							
Share of operating profit		127.3	-	127.3	96.4	-	96.4
Share of interest		(45.8)	-	(45.8)	(63.5)	-	(63.5)
Share of movement on derivatives		-	(0.1)	(0.1)	-	3.1	3.1
Share of tax		(14.2)	0.1	(14.1)	(7.3)	(0.9)	(8.2)
<b>Share of profit / (loss) on jointly controlled entities and associates</b>		<b>67.3</b>	-	<b>67.3</b>	25.6	2.2	27.8
<b>Operating profit</b>	4	<b>518.9</b>	<b>191.5</b>	<b>710.4</b>	359.8	(175.2)	184.6
Finance income	6	80.2	-	80.2	103.8	-	103.8
Finance costs	6	(202.8)	(73.4)	(276.2)	(169.1)	51.8	(117.3)
<b>Profit before taxation</b>		<b>396.3</b>	<b>118.1</b>	<b>514.4</b>	294.5	(123.4)	171.1
Taxation	7	(102.6)	(33.2)	(135.8)	(77.5)	33.9	(43.6)
<b>Profit for the period</b>		<b>293.7</b>	<b>84.9</b>	<b>378.6</b>	217.0	(89.5)	127.5
<b>Attributable to:</b>							
Equity holders of the parent		293.0	84.9	377.9	217.7	(89.5)	128.2
Non-controlling interest		0.7	-	0.7	(0.7)	-	(0.7)
Basic earnings per share (pence)	9			<b>41.0p</b>			14.7p
Diluted earnings per share (pence)	9			<b>40.9p</b>			14.7p
Dividends paid in the period (£m)	8			<b>425.1</b>			371.0

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

**Consolidated Condensed Income Statement**  
for the year ended 31 March 2009

	Note	Before exceptional items and certain re-measure-ments £m	Exceptional items and certain re-measure-ments (note 5) £m	Total £m
<b>Revenue</b>	4	25,424.2	-	25,424.2
Cost of sales		(23,552.7)	(1,291.7)	(24,844.4)
<b>Gross profit</b>		1,871.5	(1,291.7)	579.8
Operating costs		(576.5)	-	(576.5)
Other operating income		-	102.7	102.7
<b>Operating profit before jointly controlled entities and associates</b>		1,295.0	(1,189.0)	106.0
Jointly controlled entities and associates:				
Share of operating profit		246.4	-	246.4
Share of interest		(128.2)	-	(128.2)
Share of movement on derivatives		-	3.8	3.8
Share of tax		(39.3)	(1.1)	(40.4)
<b>Share of profit on jointly controlled entities and associates</b>		78.9	2.7	81.6
<b>Operating profit</b>	4	1,373.9	(1,186.3)	187.6
Finance income	6	209.7	-	209.7
Finance costs	6	(369.8)	25.8	(344.0)
<b>Profit before taxation</b>		1,213.8	(1,160.5)	53.3
Taxation	7	(300.6)	359.6	59.0
<b>Profit for the year</b>		913.2	(800.9)	112.3
<b>Attributable to:</b>				
Equity holders of the parent		913.2	(800.9)	112.3
Non-controlling interest		-	-	-
Basic earnings per share (pence)	9			12.7p
Diluted earnings per share (pence)	9			12.8p
Dividends paid in the year (£m)	8			551.9

**Consolidated Condensed Statement of Comprehensive Income**  
for the period 1 April 2009 to 30 September 2009

Year ended 31 March 2009 £m		Six months ended 30 September 20 09 £m	Six months ended 30 September 2008 £m
22.9	(Losses)/gains on effective portion of cash flow hedges	(21.9)	3.6
(6.4)	Taxation on cashflow hedges	6.1	(1.0)
<u>16.5</u>		<u>(15.8)</u>	<u>2.6</u>
(142.9)	(Losses)/gain on net investment hedge	(17.1)	11.9
40.0	Taxation on net investment hedge	4.8	(3.3)
<u>(102.9)</u>		<u>(12.3)</u>	<u>8.6</u>
(278.9)	Actuarial (losses) on retirement benefit schemes	(317.5)	(191.1)
78.1	Taxation on actuarial losses on defined benefit pension schemes	88.9	53.5
<u>(200.8)</u>		<u>(228.6)</u>	<u>(137.6)</u>
221.7	Exchange difference on translation of foreign operations	(15.2)	(0.9)
<b>Jointly controlled entities and associates:</b>			
4.4	Share of gains/(losses) on effective portion of cash flow hedges	1.9	(2.0)
(1.2)	Share of taxation on cashflow hedges	(0.5)	0.6
<u>3.2</u>		<u>1.4</u>	<u>(1.4)</u>
(53.2)	Share of actuarial (losses) on retirement benefit schemes	(76.4)	(46.7)
14.9	Share of taxation on actuarial losses on retirement benefit schemes	21.4	13.1
<u>(38.3)</u>		<u>(55.0)</u>	<u>(33.6)</u>
<u>(35.1)</u>	<b>Net share from jointly controlled entities and associates</b>	<u>(53.6)</u>	<u>(35.0)</u>
<u>(100.6)</u>	<b>Other comprehensive income</b>	<u>(325.5)</u>	<u>(162.3)</u>
112.3	Profit for the period	378.6	127.5
<u>11.7</u>	<b>Total comprehensive income for the period</b>	<u>53.1</u>	<u>(34.8)</u>
<b>Attributable to:</b>			
11.7	Equity holders of the parent	52.4	(34.1)
-	- Non-controlling interest	0.7	(0.7)
<u>11.7</u>		<u>53.1</u>	<u>(34.8)</u>

**Consolidated Condensed Balance Sheet**  
as at 30 September 2009

At 31 March 2009		At 30 September 2009	At 30 September 2008 restated
£m	Note	£m	£m
<b>Assets</b>			
7,232.2		7,550.6	6,772.2
Property, plant and equipment			
Intangible assets:			
724.0		723.0	664.8
Goodwill			
253.0		307.8	326.6
Other intangible assets			
918.7		956.6	875.1
Investments in associates and jointly controlled entities			
18.3		8.1	6.7
Other investments			
100.1		167.8	58.7
Deferred tax assets			
449.2	13	436.5	363.7
Derivative financial assets			
9,695.5		10,150.4	9,067.8
<b>Non-current assets</b>			
213.9		196.7	101.9
Other intangible assets			
366.7		380.3	335.8
Inventories			
5,659.6		3,442.5	3,298.1
Trade and other receivables			
295.9		711.4	225.8
Cash and cash equivalents			
1,537.7	13	1,666.2	1,887.8
Derivative financial assets			
-		-	197.9
Current assets held for sale			
8,073.8		6,397.1	6,047.3
<b>Current assets</b>			
17,769.3		16,547.5	15,115.1
<b>Total assets</b>			
<b>Liabilities</b>			
1,060.1	11	931.6	1,984.4
Loans and other borrowings			
4,364.9		2,948.0	3,271.1
Trade and other payables			
254.6		191.8	139.8
Current tax liabilities			
-		-	44.3
Current liabilities held for resale			
13.8		18.3	12.3
Provisions			
2,451.0	13	2,550.4	2,078.2
Derivative financial liabilities			
8,144.4		6,640.1	7,530.1
<b>Current liabilities</b>			
4,336.1	11	4,816.7	2,930.7
Loans and other borrowings			
594.7		581.8	900.8
Deferred tax liabilities			
60.2		69.9	50.9
Provisions			
426.0		454.6	441.8
Trade and other payables			
273.5	14	579.1	211.7
Retirement benefit obligations			
959.5	13	792.1	444.1
Derivative financial liabilities			
6,650.0		7,294.2	4,980.0
<b>Non-current liabilities</b>			
14,794.4		13,934.3	12,510.1
<b>Total liabilities</b>			
2,974.9		2,613.2	2,605.0
<b>Net assets</b>			
<b>Equity:</b>			
460.2	12	461.1	437.2
Share capital			
835.3		850.4	352.3
Share premium			
22.0		22.0	22.0
Capital redemption reserve			
0.8		-	2.1
Equity reserve			
19.6		5.2	3.5
Hedge reserve			
146.6		119.1	33.1
Translation Reserve			
1,492.7		1,157.0	1,755.2
Retained earnings			
2,977.2		2,614.8	2,605.4
<b>Total equity attributable to equity holders of the parent</b>			
(2.3)		(1.6)	(0.4)
Non-controlling interest			
2,974.9		2,613.2	2,605.0
<b>Total equity</b>			

**Consolidated Condensed Statement of Changes in Equity**  
for the period 1 April 2009 to 30 September 2009

**Consolidated**

Reconciliation of movement in reserves	Share capital	Share premium account	Capital redemption reserve	Equity reserve	Hedge reserve	Translation reserve	Retained earnings	Non-controlling interest	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2009	460.2	835.3	22.0	0.8	19.6	146.6	1,492.7	(2.3)	2,974.9
Profit for the period	-	-	-	-	-	-	377.9	0.7	378.6
Effective portion of changes in fair value of cash flow hedges (net of tax)	-	-	-	-	(15.8)	-	-	-	(15.8)
Effective net investment hedge (net of tax)	-	-	-	-	-	(12.3)	-	-	(12.3)
Exchange differences on translation of foreign operation	-	-	-	-	-	(15.2)	-	-	(15.2)
Actuarial loss on retirement benefit schemes (net of tax)	-	-	-	-	-	-	(228.6)	-	(228.6)
Jointly controlled entities and associates:									
Share of change in fair value of effective cash flow hedges	-	-	-	-	1.4	-	-	-	1.4
Share of actuarial loss on retirement benefit schemes (net of tax)	-	-	-	-	-	-	(55.0)	-	(55.0)
Total comprehensive income for the period	-	-	-	-	(14.4)	(27.5)	94.3	0.7	53.1
Dividends to shareholders	-	-	-	-	-	-	(425.1)	-	(425.1)
Convertible bond converted to equity	0.9	15.1	-	(0.8)	-	-	-	-	15.2
Credit in respect of employee share awards	-	-	-	-	-	-	9.1	-	9.1
Investment in own shares	-	-	-	-	-	-	(14.2)	-	(14.2)
Current and deferred tax recognised in equity in respect of employee share awards	-	-	-	-	-	-	0.2	-	0.2
<b>At 30 September 2009</b>	<b>461.1</b>	<b>850.4</b>	<b>22.0</b>	<b>-</b>	<b>5.2</b>	<b>119.1</b>	<b>1,157.0</b>	<b>(1.6)</b>	<b>2,613.2</b>

**Consolidated**

Reconciliation of movement in reserves	Share capital	Share premium account	Capital redemption reserve	Equity reserve	Hedge reserve	Translation reserve	Retained earnings	Non-controlling interest	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2008	435.1	315.7	22.0	3.9	2.3	25.4	2,175.6	0.3	2,980.3
Profit for the period	-	-	-	-	-	-	128.2	(0.7)	127.5
Effective portion of changes in fair value of cash flow hedges (net of tax)	-	-	-	-	2.6	-	-	-	2.6
Effective net investment hedge (net of tax)	-	-	-	-	-	8.6	-	-	8.6
Exchange differences on translation of foreign operation	-	-	-	-	-	(0.9)	-	-	(0.9)
Actuarial loss on retirement benefit schemes (net of tax)	-	-	-	-	-	-	(137.6)	-	(137.6)
Jointly controlled entities and associates:									
Share of change in fair value of effective cash flow hedges	-	-	-	-	(1.4)	-	-	-	(1.4)
Share of actuarial loss on retirement benefit schemes (net of tax)	-	-	-	-	-	-	(33.6)	-	(33.6)
Total comprehensive income for the period	-	-	-	-	1.2	7.7	(43.0)	(0.7)	(34.8)
Dividends to shareholders	-	-	-	-	-	-	(371.0)	-	(371.0)
Convertible bond converted to equity	2.1	36.6	-	(1.8)	-	-	(0.6)	-	36.3
Credit in respect of employee share awards	-	-	-	-	-	-	6.3	-	6.3
Investment in own shares	-	-	-	-	-	-	(12.7)	-	(12.7)
Current and deferred tax recognised in equity in respect of employee share awards	-	-	-	-	-	-	0.6	-	0.6
<b>At 30 September 2008</b>	<b>437.2</b>	<b>352.3</b>	<b>22.0</b>	<b>2.1</b>	<b>3.5</b>	<b>33.1</b>	<b>1,755.2</b>	<b>(0.4)</b>	<b>2,605.0</b>

**Consolidated Condensed Statement of Changes in Equity (continued)**  
for the period 1 April 2009 to 30 September 2009

**Consolidated**

<b>Reconciliation of movement in reserves</b>	<b>Share capital</b>	<b>Share premium account</b>	<b>Capital redemption reserve</b>	<b>Equity reserve</b>	<b>Hedge reserve</b>	<b>Translation reserve</b>	<b>Retained earnings</b>	<b>Non-controlling interest</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
At 1 April 2008	435.1	315.7	22.0	3.9	2.3	25.4	2,175.6	0.3	<b>2,980.3</b>
Profit for the year	-	-	-	-	-	-	112.3	-	<b>112.3</b>
Effective portion of changes in fair value of cash flow hedges (net of tax)	-	-	-	-	16.5	-	-	-	<b>16.5</b>
Effective net investment hedge (net of tax)	-	-	-	-	-	(102.9)	-	-	<b>(102.9)</b>
Exchange differences on translation of foreign operation	-	-	-	-	(2.4)	224.1	-	-	<b>221.7</b>
Actuarial gains on retirement benefit schemes (net of tax)	-	-	-	-	-	-	(200.8)	-	<b>(200.8)</b>
Jointly controlled entities and associates:									
Share of change in fair value of effective cash flow hedges	-	-	-	-	3.2	-	-	-	<b>3.2</b>
Share of actuarial losses on retirement benefit schemes (net of tax)	-	-	-	-	-	-	(38.3)	-	<b>(38.3)</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17.3</b>	<b>121.2</b>	<b>(126.8)</b>	<b>-</b>	<b>11.7</b>
Dividends to shareholders	-	-	-	-	-	-	(551.9)	(2.6)	<b>(554.5)</b>
Premium on issue of shares	-	458.0	-	-	-	-	-	-	<b>458.0</b>
Convertible bond converted to equity	3.5	61.6	-	(3.1)	-	-	-	-	<b>62.0</b>
Issue of shares	21.6	-	-	-	-	-	-	-	<b>21.6</b>
Credit in respect of employee share awards	-	-	-	-	-	-	14.3	-	<b>14.3</b>
Investment in own shares	-	-	-	-	-	-	(15.8)	-	<b>(15.8)</b>
Current and deferred tax recognised in equity in respect of employee share awards	-	-	-	-	-	-	(2.7)	-	<b>(2.7)</b>
<b>At 31 March 2009</b>	<b>460.2</b>	<b>835.3</b>	<b>22.0</b>	<b>0.8</b>	<b>19.6</b>	<b>146.6</b>	<b>1,492.7</b>	<b>(2.3)</b>	<b>2,974.9</b>

**Consolidated Condensed Cash Flow Statement**  
for the period 1 April 2009 to 30 September 2009

Year ended	Six months ended 30	Six months ended 30
31 March	September	September
2009	2009	2008
£m	£m	£m
<b>Cash flows from operating activities</b>		
112.3 Profit for the period after tax	378.6	127.5
(59.0) Taxation	135.8	43.6
1,265.9 Movement on financing and operating derivatives	(118.1)	125.6
369.8 Finance costs	202.8	169.1
(209.7) Finance income	(80.2)	(103.8)
(81.6) Share of jointly controlled entities and associates	(67.3)	(27.8)
(49.3) Pension service charges less contributions paid	(26.0)	(25.3)
315.9 Depreciation and impairment of assets	173.8	155.9
14.4 Amortisation and impairment of intangible assets	4.1	6.3
8.2 Impairment of inventories	-	-
(47.5) Release of provisions	-	(47.5)
(16.7) Deferred income released	(10.3)	(7.8)
(127.7) (Increase) in inventories	(8.6)	(84.6)
(2,048.3) Decrease/(increase) in receivables	2,230.1	89.9
958.0 (Decrease)/increase in payables	(1,513.1)	(151.8)
4.7 Increase/(decrease) in provisions	(2.6)	(6.1)
14.3 Charge in respect of employee share awards	9.1	6.3
(2.0) Profit on disposal of property, plant and equipment	(0.3)	(6.1)
(102.7) Profit on disposal of 50% of Greater Gabbard Offshore Winds	-	-
(2.2) Profit on disposal of fixed asset investment	-	-
0.3 Loss on disposal of replaced assets	-	-
<b>317.1 Cash generated from operations</b>	<b>1,307.8</b>	<b>263.4</b>
39.8 Dividends received from jointly controlled entities	7.6	10.6
(2.6) Dividends paid to minority investment holders	(0.4)	-
74.4 Finance income received	30.5	35.4
(219.2) Finance costs paid	(154.0)	(112.8)
(255.5) Income taxes paid	(167.1)	(151.9)
(0.4) Payment for consortium relief	-	-
<b>(46.4) Net cash from operating activities</b>	<b>1,024.4</b>	<b>44.7</b>
<b>Cash flows from investing activities</b>		
(1,172.2) Purchase of property, plant and equipment	(524.1)	(701.4)
(37.5) Purchase of other intangible assets	(4.8)	(0.3)
24.8 Deferred income received	7.8	21.8
3.8 Proceeds from sale of property, plant and equipment	31.3	4.0
308.5 Proceeds from disposal of 50% of Greater Gabbard Offshore Winds	-	-
(40.0) Purchase of 50% of Greater Gabbard Offshore Winds	-	(40.0)
2.4 Proceeds from sale of fixed asset investment	-	-
(262.0) Loans to jointly controlled entities	(3.2)	(15.9)
(2.1) Purchase of Airtricity	-	-
(26.3) Purchase of businesses and subsidiaries	(56.9)	(7.6)
0.1 Cash acquired in purchases	9.7	-
79.7 Loans repaid by jointly controlled entities	7.8	20.4
(44.7) Investment in associates and jointly controlled entities	(12.6)	(19.6)
(19.7) Investment in Marchwood Power	(2.8)	-
(12.5) Increase in other investments	-	(0.7)
<b>(1,197.7) Net cash from investing activities</b>	<b>(547.8)</b>	<b>(739.3)</b>
<b>Cash flows from financing activities</b>		
479.6 Proceeds from issue of share capital	-	0.6
(551.9) Dividends paid to company's equity holders	(425.1)	(371.0)
(15.8) Employee share awards share purchase	(14.2)	(12.7)
3,203.1 New borrowings	1,323.2	2,773.7
(1,835.3) Repayment of borrowings	(950.1)	(1,746.3)
<b>1,279.7 Net cash from financing activities</b>	<b>(66.2)</b>	<b>644.3</b>
<b>35.6 Net increase/(decrease) in cash and cash equivalents</b>	<b>410.4</b>	<b>(50.3)</b>
243.1 Cash and cash equivalents at the start of period	293.6	243.1
35.6 Net increase/(decrease) in cash and cash equivalents	410.4	(50.3)
14.9 Effect of foreign exchange rate changes	(1.2)	19.2
<b>293.6 Cash and cash equivalents at the end of period</b>	<b>702.8</b>	<b>212.0</b>

## Notes on the Condensed Interim Statements for the period 1 April 2009 to 30 September 2009

### 1. Condensed Financial Statements

The financial information set out in these interim statements does not constitute the Company's statutory accounts for the periods ended 30 September 2009, 31 March 2009 or 30 September 2008 within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 March 2009, which were prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS), have been reported on by the Company's auditors and delivered to the Registrar of Companies.

The report of the auditors was (i) unqualified (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under section 237 (2) or (3) of the Companies Act 1985. 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 57.

The financial information set out in these interim statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

These interim statements were authorised by the Board on 10 November 2009.

### 2. Basis of preparation

These condensed interim statements have been prepared applying the accounting policies and presentation used in the Group's consolidated financial statements for the year ended 31 March 2009, except for the impact of the adoption of the Standards and Interpretations described below:

IFRS 8 'Operating Segments', effective for annual periods beginning on or after 1 January 2009, replaces IAS 14, Segment Reporting and requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, which has been identified as the Board. The adoption of IFRS 8 has led to a change in the segmental information disclosed, but has had no impact on the Group's reportable segments or on the reported results or financial position of the group. Further information can be found in note 4.

IAS 1 (Revised) 'Presentation of Financial Statements' is effective for annual periods beginning on or after 1 January 2009. The revised standard prohibits the presentation of income and expense in the statement of changes in equity, requiring non-shareholder changes in equity to be presented separately from shareholder changes in equity. All non-shareholder changes in equity are required to be presented in a performance statement. IAS 1 (Revised) permits a choice as to whether to present a single performance statement (being a Statement of Comprehensive Income) or two statements (being an Income Statement and a Statement of Comprehensive Income). The Group has elected to present two statements. Other changes introduced by the revised standard include a requirement to give the Statement of Changes in Equity equal prominence to the other Primary Statements. These condensed Interim Financial Statements have been prepared under the revised disclosure requirements.

IFRS 2 (Amendment) 'Share-based Payments – Vesting Conditions and Cancellations', this amendment restricts the definition of 'vesting conditions' to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The main impact of this amendment for the Group arises from cancellations by employees of contributions to the Group's Share save schemes; in the event of a cancellation the Group must recognise immediately the amount of the expense that would have otherwise been recognised over the remainder of the vesting period. We have reviewed our Share Based Payments for the amendment and concluded that it has an immaterial impact on previously reported results and balances.

IFRIC 12, 'Service concession arrangements'; this amendment applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services, for example, under private initiative (PFI) contracts. The Group has contracts with various local authorities under PFI arrangements. These contracts qualify for accounting under IFRIC 12. The adoption of IFRIC 12 has resulted in a reclass from turnover into interest receivable of £0.9m.

The following amendments to existing standards and interpretations were also effective for the current period, but the adoption of these amendments to existing standards and interpretations did not have a material impact on the Financial Statements of the Group.

- IAS 23 (Amendment), Borrowing Costs
- IFRS 1 (Amendment), First-time adoption of IFRS, and IAS 27 (Amendment), Presentation of Financial Statements – Puttable financial instruments and obligations arising on liquidation;
- IFRIC 13, Customer Loyalty Programmes
- IFRIC 15, Agreements for the Construction of Real Estate
- IFRIC 16, Hedges of Net Investment in a Foreign Operation

The following amendments to existing standards and interpretations are also effective for the current period but have not yet received EU endorsement. As such, they have not been adopted by the Group within these condensed interim Financial Statements.

- IFRIC 9 (Amendment), Re-assessment of Embedded Derivatives, and IAS 39 (Amendment), Financial Instruments: Recognition and Measurement. The adoption of these amendments is not expected to have a material impact on the Group's Financial Statements;
- IFRS 7 (Amendment), Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments. The impact of adopting this amendment is currently being assessed; and

## Notes on the Condensed Interim Statements for the period 1 April 2009 to 30 September 2009

### 2. Basis of preparation (continued)

- IAS 39 (Amendment), Financial Instruments: Recognition and Measurement – Reclassification of Financial Assets. The adoption of this amendment is not expected to have a material impact on the Group's Financial Statements.

At the date of authorisation of these condensed interim Financial Statements, the following standards, amendments to existing standards and interpretations issued by the IASB and IFRIC, which have not been adopted in these condensed interim Financial Statements, were in issue but not yet effective:

- IFRS 3 (Revised), Business Combinations, effective for annual periods beginning on or after 1 July 2009;
- Improvements to IFRSs (2009), effective for annual periods beginning on or after 1 July 2009 (or later);
- IFRS 2 (Amendment), Share Based Payment – Group Cash-settled Share-based Payment Transactions, effective for annual periods commencing on or after 1 January 2010; and
- IAS 27 (Revised), Consolidated and Separate Financial Statements, effective for annual periods beginning on or after 1 July 2009.

The above have not been early adopted by the Group and the impact of adopting these standards and amendments to existing standards is currently being assessed.

Additionally, the following standards, amendments to existing standards and interpretations, which were also in issue at the date of authorisation of these interim condensed Financial Statements but not yet effective and have not received EU endorsement have not therefore been adopted by the Group in these condensed Financial Statements:

- IFRIC 17, Distributions of Non-cash Assets to Owners, effective for annual periods beginning on or after 1 July 2009;
- IFRIC 18, Transfers of Assets from Customers, applicable prospectively to transfers of assets from customers received on or after 1 July 2009; and
- IAS 39 (Amendment), Financial Instruments: Recognition and Measurement – Eligible Hedged Items, effective for annual periods beginning on or after 1 July 2009.

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 condensed financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the statements. The most critical of these accounting judgement and estimation areas are as follows: revenue recognition (energy customers), retirement benefits (IAS 19 measurement), impairment testing (particularly in relation to goodwill), provisions and contingencies and the fair value of IAS 39 financial instruments.

### 3. Seasonality of operations

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

### 4. Segmental information

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, which has been identified as the Board, in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 'Segment Reporting') required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach. Following the adoption of IFRS 8 the Group's reportable segments have not changed.

The Group's reportable segments are the distribution and transmission of electricity in the North of Scotland, the distribution of electricity in the South of England (together referred to as Power Systems), the generation and supply of electricity and sale of gas in Great Britain and Ireland (Generation and Supply). The Group's 50% equity share in Scotia Gas Networks plc, a business which distributes gas in Scotland and the South of England, is included as a separate segment where appropriate due to its significance.

Analysis of revenue, operating profit, assets by segment is provided below. All revenue and profit before taxation arise from operations within Great Britain, Ireland and mainland Europe.

**Notes on the Condensed Interim Statements**  
for the period 1 April 2009 to 30 September 2009

**4. Segmental information (continued)**

**a) Revenue by segment**

Year ended 31 March 2009			Six months ended 30 September 2009			Six months ended 30 September 2008		
Total revenue £m	Intra-segment revenue £m	External revenue £m	Total revenue £m	Intra-segment revenue £m	External revenue £m	Total revenue £m	Intra-segment revenue £m	External revenue £m
<b>Power Systems</b>								
292.1	104.1	188.0	140.5	43.7	96.8	138.6	48.2	90.4
450.9	204.1	246.8	211.6	96.2	115.4	212.0	93.6	118.4
743.0	308.2	434.8	352.1	139.9	212.2	350.6	141.8	208.8
24,366.6	28.9	24,337.7	7,535.7	9.9	7,525.8	8,684.9	10.9	8,674.0
1,077.2	425.5	651.7	548.0	244.2	303.8	494.8	190.2	304.6
26,186.8	762.6	25,424.2	8,435.8	394.0	8,041.8	9,530.3	342.9	9,187.4

Revenue from the Group's investment in Scotia Gas Networks plc, the Group's share being £200.0m (September 2008 - £172.3m, March 2009 - £365.7m), is not recognised as revenue of the Group under equity accounting.

**b) Operating profit by segment**

Segment	Six months ended 30 September 2009				
	Result £m	JCE / Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
<b>Power Systems</b>					
Scotland	70.5	-	70.5	-	70.5
England	111.9	-	111.9	-	111.9
	182.4	-	182.4	-	182.4
Scotia Gas Networks plc	99.5	(51.4)	48.1	2.1	50.2
<b>Energy Systems</b>	281.9	(51.4)	230.5	2.1	232.6
<b>Generation and Supply</b>	227.4	(8.5)	218.9	189.4	408.3
<b>Other businesses</b>	73.8	(0.1)	73.7	-	73.7
	583.1	(60.0)	523.1	191.5	714.6
Unallocated expenses (ii)	(4.2)	-	(4.2)	-	(4.2)
	578.9	(60.0)	518.9	191.5	710.4
Six months ended 30 September 2008					
Segment	Result £m	JCE / Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
<b>Power Systems</b>					
Scotland	73.4	-	73.4	-	73.4
England	110.5	-	110.5	-	110.5
	183.9	-	183.9	-	183.9
Scotia Gas Networks plc	75.4	(61.6)	13.8	2.2	16.0
<b>Energy Systems</b>	259.3	(61.6)	197.7	2.2	199.9
<b>Generation and Supply</b>	101.7	(9.0)	92.7	(177.4)	(84.7)
<b>Other businesses</b>	73.9	(0.2)	73.7	-	73.7
	434.9	(70.8)	364.1	(175.2)	188.9
Unallocated expenses (ii)	(4.3)	-	(4.3)	-	(4.3)
	430.6	(70.8)	359.8	(175.2)	184.6

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**4. Segmental information (continued)**

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

	Year ended 31 March 2009				Total £m
	Segment Result £m	JCE / Associate share of interest and tax (i) £m	Before exceptional items and certain re- measurements £m	Exceptional items and certain re- measurements £m	
<b>Power Systems</b>					
Scotland	160.4	-	160.4	-	160.4
England	243.3	-	243.3	-	243.3
	<u>403.7</u>	<u>-</u>	<u>403.7</u>	<u>-</u>	<u>403.7</u>
Scotia Gas Networks plc	180.5	(146.3)	34.2	3.9	38.1
<b>Energy Systems</b>	584.2	(146.3)	437.9	3.9	441.8
<b>Generation and Supply</b>	832.0	(20.9)	811.1	(1,190.2)	(379.1)
<b>Other businesses</b>	134.1	(0.3)	133.8	-	133.8
	<u>1,550.3</u>	<u>(167.5)</u>	<u>1,382.8</u>	<u>(1,186.3)</u>	<u>196.5</u>
Unallocated expenses (ii)	(8.9)	-	(8.9)	-	(8.9)
	<u>1,541.4</u>	<u>(167.5)</u>	<u>1,373.9</u>	<u>(1,186.3)</u>	<u>187.6</u>

(i) The adjusted operating profit of the Group is reported after removal of the Group's share of interest, movements on financing derivatives and tax from jointly controlled entities and associates. The share of Scotia Gas Networks plc interest includes loan stock interest payable to the consortium shareholders. The Group has accounted for its 50% share of this, £17.0m (2008 - £17.0m, March 2009 - £33.6m), as finance income (note 6).

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

**c) Assets**

	30 September 2009 £m	Segment Assets (i)	
		31 March 2009 £m	30 September 2008 £m
<b>Power Systems</b>			
Scotland	1,561.7	1,621.7	1,575.1
England	2,383.7	2,479.6	2,194.0
	<u>3,945.4</u>	<u>4,101.3</u>	<u>3,769.1</u>
Scotia Gas Networks (ii)	440.0	424.5	467.0
<b>Energy Systems</b>	4,385.4	4,525.8	4,236.1
<b>Generation and Supply</b>	14,433.2	16,069.8	13,399.8
<b>Other businesses</b>	1,819.6	1,640.8	1,610.3
<b>Corporate and unallocated</b>	10,329.7	12,763.6	9,160.8
	<u>30,967.9</u>	<u>35,000.0</u>	<u>28,407.0</u>
<b>Less: inter-segment</b>	<u>(14,420.4)</u>	<u>(17,230.7)</u>	<u>(13,291.9)</u>
	<u>16,547.5</u>	<u>17,769.3</u>	<u>15,115.1</u>

(i) Segment assets consist of property, plant and equipment, goodwill, other intangible assets, financial assets (operating derivatives) and receivables. Unallocated assets include pension assets, deferred tax assets, financial assets (financing derivatives), investments and cash and cash equivalents.

(ii) The asset balance represents the Group's net investment in Scotia Gas Networks Limited. The Group's share of the capital additions in Scotia Gas Networks Limited is not included within Property, Plant and Equipment.

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

**i) Exceptional items**

There were no exceptional items in the 6 month period to 30 September 2009.

**ii) Certain re-measurements**

Certain re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category includes the movement on derivatives as described in note 13.

These transactions can be summarised thus:

Year ended 31 March 2009 £m		<b>Six months ended 30 September 2009 £m</b>	Six months ended 30 September 2008 £m
	Exceptional items		
102.7	Gain on disposal of share in Greater Gabbard Offshore Winds	-	-
102.7			
	Certain re-measurements		
(1,291.7)	Movement on operating derivatives (note 13)	<b>191.5</b>	(177.4)
25.8	Movement on financing derivatives (note 13)	<b>(73.4)</b>	51.8
2.7	Share of movements on derivatives in jointly controlled entities (net of tax)	-	2.2
(1,263.2)		<b>118.1</b>	(123.4)
<b>(1,160.5)</b>	<b>Profit/(loss) before taxation</b>	<b>118.1</b>	<b>(123.4)</b>
	Exceptional items		
5.7	Taxation on exceptional items	-	-
5.7			
	Certain re-measurements		
353.9	Taxation on certain re-measurements	<b>(33.2)</b>	33.9
<b>359.6</b>	<b>Taxation</b>	<b>(33.2)</b>	<b>33.9</b>
<b>(800.9)</b>	<b>Impact on profit for the period</b>	<b>84.9</b>	<b>(89.5)</b>

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**6. Net finance costs**

Year ended 31 March 2009 £m	<b>Six months ended 30 September 2009 £m</b>	Six months ended 30 September 2008 £m
<b>Finance income:</b>		
135.3 Return on pension scheme assets	49.7	68.4
9.4 Interest income from short term deposits	2.0	4.6
Other interest receivable:		
33.6 Scotia Gas Networks loan stock	17.0	17.0
14.6 Other jointly controlled entities and associates	9.3	6.8
16.8 Other receivable	2.2	7.0
65.0 Other interest receivable	28.5	30.8
<b>209.7 Total finance income</b>	<b>80.2</b>	<b>103.8</b>
<b>Finance costs:</b>		
(149.9) Bank loans and overdrafts	(28.6)	(83.2)
(132.9) Other loans and charges	(121.5)	(42.1)
(130.1) Interest on pension scheme liabilities	(63.8)	(65.2)
(0.6) Accretion of convertible debt component	-	(0.8)
(5.1) Notional interest arising on provisions	(1.2)	(0.8)
(2.4) Foreign exchange translation of monetary assets and liabilities	1.2	(4.5)
51.2 Less: interest capitalised	11.1	27.5
<b>(369.8) Finance costs excluding movement on financing derivatives and exceptional items</b>	<b>(202.8)</b>	<b>(169.1)</b>
25.8 Movement on financing derivatives (note 13)	(73.4)	51.8
<b>(344.0) Total finance costs</b>	<b>(276.2)</b>	<b>(117.3)</b>
<b>(134.3) Net finance costs</b>	<b>(196.0)</b>	<b>(13.5)</b>

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

Year ended 31 March 2009 £m	<b>Six months ended 30 September 2009 £m</b>	Six months ended 30 September 2008 £m
(134.3) Net finance costs	(196.0)	(13.5)
(add)/less:		
Share of interest from jointly controlled entities and associates		
(33.6) Scotia Gas Networks loan stock	(17.0)	(17.0)
(94.6) Other jointly controlled entities and associates	(28.8)	(46.5)
(128.2)	(45.8)	(63.5)
0.6 Accretion of convertible debt component	-	0.8
(25.8) Movement on financing derivatives (note 13)	73.4	(51.8)
<b>(287.7) Adjusted finance income and costs</b>	<b>(168.4)</b>	<b>(128.0)</b>
(135.3) Return on pension scheme assets	(49.7)	(68.4)
130.1 Interest on pension scheme liabilities	63.8	65.2
5.1 Notional interest arising on discounted provisions	1.2	0.8
<b>(287.8) Adjusted finance income and costs for interest cover calculations</b>	<b>(153.1)</b>	<b>(130.4)</b>

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**7. 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 2010, taking account of the movement in the deferred tax provision in the period so far as it relates to items recognised in the income statement. The reported effective rate in the Income Statement is 26.4% (2008 – 25.4%, March 2009 – (110.7)%).

The total effective adjusted rate of tax on profits before taxation excluding exceptional items, IAS 39 and IAS 32; and adjusted for tax on associates and jointly controlled entities and net pension finance income for the period can be represented:

Year ended 31 March 2009		<b>Six months ended 30 September 2009</b>	Six months ended 30 September 2008
	Effective adjusted rate:		
24.0%	Current tax	<b>23.0%</b>	24.5%
<u>3.2%</u>	Deferred tax	<b>5.4%</b>	<u>3.5%</u>
<u>27.2%</u>	<b>Total effective adjusted rate</b>	<b>28.4%</b>	<u>28.0%</u>

**8. Dividends**

The final dividend of 46.2p per ordinary share declared in the financial year ended 31 March 2009 (2008 – 42.4p) was approved at the Annual General Meeting on 23 July 2009 and was paid to shareholders on 25th September 2009.

An interim dividend of 21.0p per ordinary share (2008 – 19.8p) has been proposed and is due to be paid on 26th March 2010 to those shareholders on the Scottish & Southern Energy plc share register on 19th February 2010. The proposed interim has not been included as a liability in these financial statements.

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**9. Earnings per share**

**Basic earnings per share**

The calculation of basic earnings per share at 30 September 2009 is based on the net profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the period ended 30 September 2009. All earnings are from continuing operations.

**Adjusted earnings per share**

Adjusted earnings per share has been calculated by excluding the charge for deferred tax, net finance income relating to pension scheme, items disclosed as exceptional, and the impact of exceptional items and certain re-measurements.

Year ended 31 March 2009		Six months ended 30 September 2009		Six months ended 30 September 2008	
Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
112.3	12.7 <b>Basic</b>	377.9	41.0	128.2	14.7
800.9	90.7 Exceptional items and certain re-measurements (note 5)	(84.9)	(9.2)	89.5	10.3
913.2	103.4 <b>Basic excluding exceptional items and certain re-measurements</b>	293.0	31.8	217.7	25.0
	Adjusted for:				
12.1	1.4 Deferred tax	12.8	1.4	8.5	1.0
27.4	3.1 Deferred tax from share of jointly controlled entities and associates	9.6	1.0	2.2	0.2
0.6	0.1 Accretion of convertible debt component	-	-	0.8	0.1
953.3	108.0 <b>Adjusted</b>	315.4	34.2	229.2	26.3
112.3	12.7 <b>Basic</b>	377.9	41.0	128.2	14.7
1.2	0.1 Convertible debt interest (net of tax)	-	-	0.6	0.1
-	- Dilutive effect of convertible debt	-	(0.1)	-	(0.1)
113.5	12.8 <b>Diluted</b>	377.9	40.9	128.8	14.7
800.9	90.5 Exceptional items and certain re-measurements	(84.9)	(9.2)	89.5	10.2
914.4	103.3 <b>Diluted excluding exceptional items and certain re-measurements</b>	293.0	31.7	218.3	24.9

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

Year ended 31 March 2009	Six months ended 30 September 2009	Six months ended 30 September 2008
Number of shares (millions)	Number of shares (millions)	Number of shares (millions)
883.0 For basic and adjusted earnings per share	920.8	871.4
0.8 Effect of exercise of share options	0.7	1.8
883.8	921.5	873.2
1.7 Effect of dilutive convertible debt	1.4	4.8
885.5 For diluted earnings per share	922.9	878.0

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**10. Acquisitions**

In the period to 30 September 2009, the Group acquired the following businesses:

Entity/business acquired	Country of incorporation	Date of acquisition	Principal activity	Shareholding acquired	Provisional consideration £m
Abernedd Power Company Limited	England and Wales	20 May 2009	CCGT development asset	100%	39.3
Slieve Divena Wind Farm No. 2 Limited	Republic of Ireland	22 May 2009	Wind farm development	100%	7.3
Cantano Data Centre	Unincorporated	12 June 2009	Telecoms data centre	-	5.7
Uskmouth Power Company Limited	England and Wales	13 August 2009	Coal power generation station	100%	27.2
Munkflohogen Airtricity Vind AB	Sweden	17 September 2009	Wind farm development	97%	1.9
Gaxjohojden Airtricity Vind AB	Sweden	17 September 2009	Wind farm development	97%	1.2
					82.6

The provisional book values and fair values of the assets and liabilities acquired were as follows:

	Carrying value of acquired entities £m	Fair value of acquired entities £m
Goodwill	4.1	4.3
Intangible development assets	-	39.7
Property, plant and equipment	85.1	25.9
Cash and cash equivalents	9.7	9.7
Derivative financial assets	-	2.0
Other net current liabilities	2.9	2.9
Provisions	(0.3)	(16.8)
Deferred tax	-	15.0
<b>Net (liabilities)/assets</b>	<b>101.5</b>	<b>82.7</b>
Less: Non controlling interest		<b>(0.1)</b>
Total consideration		<b>82.6</b>

The non-controlling interest values were calculated by taking a proportionate share of the recognised amounts of the acquiring companies identifiable net assets at the respective acquisition dates. The total consideration was represented by £56.9m cash, £1.7m of fees paid on behalf of SSE by the seller and £24.0m deferred consideration. The deferred consideration in relation to the Abernedd Power Company acquisition, £21.0m, is contingent on the grant of certain rights.

No significant profit or loss was recognised from these acquisitions in the period to 30 September 2009.

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**11. Loans and other borrowings**

March 2009 £m		September 2009 £m	September 2008 £m
	<b>Current</b>		
2.3	Bank overdraft	8.6	13.8
1,057.7	Other short-term loans	922.9	1,970.5
0.1	Obligations under finance leases	0.1	0.1
<u>1,060.1</u>		<u>931.6</u>	<u>1,984.4</u>
	<b>Non current</b>		
4,335.7	Loans including convertible debt	4,816.3	2,930.2
0.4	Obligations under finance leases	0.4	0.5
<u>4,336.1</u>		<u>4,816.7</u>	<u>2,930.7</u>
5,396.2	<b>Total loans and borrowings</b>	<b>5,748.3</b>	<b>4,915.1</b>
(295.9)	Cash and cash equivalents	(711.4)	(225.8)
<u>5,100.3</u>	<b>Net debt</b>	<u>5,036.9</u>	<u>4,689.3</u>

**ii. Issuance in period**

In the period from 1 April 2009, the Group has issued the following long-term loans:

	At September 2009 £m
5.00% Eurobond repayable 1 October 2018	<u>495.1</u>

**iii. Convertible bond**

The convertible bond was issued on 26 October 2004 in exchange for £300.0m in cash. The bond entitled holders to convert the bond into ordinary shares at any time up to 24 October 2009 at the applicable conversion share price. With effect from 26 September 2008, the effective conversion price of the bond changed from £9.00 per ordinary share (as at date of issue) to £8.88 per ordinary share. The conversion price was subject to adjustment in certain circumstances set out in the offering circular including payment of dividends greater than amounts set out in the circular, capital restructuring and change of control. Conversion was at the option of the bond holder.

At 30 September 2009, bond holders had converted debt with a nominal value of £257.6m at the £9.00 per share conversion price and £41.7m at the £8.88 per share conversion price. Conversion took place in the following periods:

	Nominal Value of Bond Converted £m	Number of Shares
Period to 31 March 2009	284.1	31,604,981
Six month period to 30 September 2009	15.2	1,706,642
	<u>299.3</u>	<u>33,311,623</u>

The net proceeds received from the issue of the bond had been split between a liability element and an equity component, the liability element representing the initial fair value of the debt excluding the option to convert the liability into equity of the Group.

At 31 March 2009 £m		At 30 September 2009 £m	At 30 September 2008 £m
15.9	Nominal value of convertible bond	0.7	42.4
(0.1)	Costs of issue	-	(0.2)
15.8	Nominal value of convertible bond less costs of issue	0.7	42.2
(0.2)	Less: equity component and accreted debt element	-	(1.0)
<u>15.6</u>	Book value of convertible bond less costs of issue	<u>0.7</u>	<u>41.2</u>

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**11. Loans and other borrowings (continued)**

**iii. Convertible bond (continued)**

In the period, on partial conversion, a debt element of £14.9m was converted from debt to equity. The costs of issue of the bond were amortised over the term of the bond.

For the purpose of diluted Earnings per Share (EPS), convertible bond interest of £nil (2008 - £0.8m, March 2009 - £1.7m) was added back to earnings. The number of potential ordinary shares to be issued includes the following in respect of this bond:

<b>March 2009</b>		<b>September 2009</b>	September 2008
<b>Number of shares</b>		<b>Number of shares</b>	Number of shares
1,728,352	Weighted average number of shares	<b>1,404,098</b>	4,775,697

**12. Share capital**

	<b>Number (millions)</b>	<b>£m</b>
Equity: Ordinary shares of 50p each:		
Authorised:		
At 30 September 2009 and 1 April 2009	1,200.0	600.0
Allotted, called up and fully paid:		
At 1 April 2009	920.4	460.2
Issue of shares (i)	-	-
Conversion of convertible debt to equity (ii)	1.7	0.9
<b>At 30 September 2009</b>	<b>922.1</b>	<b>461.1</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.

(i) The Company issued 5,735 shares (2008 – 0.1 million, March 2009 – 1.2 million) during the period under the savings-related share option schemes, and discretionary share option schemes for a consideration of £0.04m (2008 - £0.6m, March 2009 - £8.1m).

During the period, on behalf of the Company, the employee share trust purchased 1.0 million shares (2008 – 0.8 million, March 2009 – 1.1 million) for a consideration of £14.2m (2008 – £12.7m, March 2009 – £15.8m) to be held in trust for the benefit of employee share schemes.

(ii) In the six months to 30 September 2009, the Company issued 1,706,642 shares under the terms of the convertible bond at a conversion rate of £8.88 per ordinary share.

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**13. Financial Instruments and Risk**

The Group is exposed to the following risks from its use of financial instruments: Credit Risk, Liquidity Risk, Commodity Risk, Currency Risk and Interest rate risk. In the six months to 30 September 2009, the Group continued to be exposed to difficult economic conditions which affected its exposure to these risks. The impact of the recession has been reflected in an increase in provisions for bad debts and credit losses. The Group has addressed this by committing additional resource to managing credit risk. The Group's policy in relation to liquidity risk remains 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. The Group has raised additional debt and sourced new credit facilities in the six months to September 2009 and expects to issue new medium to long term debt in the remaining period of the financial year. This, combined with liquidity in the commercial paper market and the Group's undrawn bank borrowing facilities has enabled the directors to conclude that the Group has sufficient headroom to continue as a going concern. With the exception of the increased focus on credit risk, the Group's policies and management objectives enacted to manage these exposures remain as stated in the Group's Financial Statements to 31 March 2009.

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

The net movement reflected in the Interim Income Statement can be summarised thus:

Year ended 31 March 2009 £m	<b>Six months ended 30 September 2009 £m</b>	Six months ended 30 September 2008 £m
<b>Operating derivatives</b>		
(3,964.8) Total result on operating derivatives (i)	<b>(3,162.8)</b>	(806.4)
2,673.1 Less: amounts settled (ii)	<b>3,354.3</b>	629.0
<u>(1,291.7) Movement in unrealised derivatives</u>	<u><b>191.5</b></u>	<u>(177.4)</u>
<b>Financing derivatives (and hedged items)</b>		
70.5 Total result on financing derivatives (i)	<b>(317.0)</b>	42.6
(44.7) Less: amounts settled (ii)	<b>243.6</b>	9.2
<u>25.8 Movement in unrealised derivatives</u>	<u><b>(73.4)</b></u>	<u>51.8</u>
<u>(1,265.9) Total</u>	<u><b>118.1</b></u>	<u>(125.6)</u>

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

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

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

March 2009 £m	<b>September 2009 £m</b>	September 2008 £m
<b>Financial Assets</b>		
449.2 Non-current	<b>436.5</b>	363.7
<u>1,537.7 Current</u>	<u><b>1,666.2</b></u>	<u>1,887.8</u>
<u>1,986.9</u>	<u><b>2,102.7</b></u>	<u>2,251.5</u>
<b>Financial Liabilities</b>		
(959.5) Non-current	<b>(792.1)</b>	(444.1)
<u>(2,451.0) Current</u>	<u><b>(2,550.4)</b></u>	<u>(2,078.2)</u>
<u>(3,410.5)</u>	<u><b>(3,342.5)</b></u>	<u>(2,522.3)</u>
<u>(1,423.6) Net financial liability</u>	<u><b>(1,239.8)</b></u>	<u>(270.8)</u>

**Notes on the Condensed Interim Statements**  
for the period 1 April 2009 to 30 September 2009

**14. 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 2009.

Summary of Defined Benefit Pension Schemes:

Movement recognised in the SoCIE	Pension liability		Movement recognised in respect of the pension liability in the SoCIE		Pension liability	
			September 2009	September 2008	September 2009	September 2008
£m	£m		£m	£m	£m	£m
(188.4)	-	Scottish Hydro Electric Pension Scheme	(212.5)	(97.0)	(79.0)	-
(170.6)	(273.5)	Southern Electric Pension Scheme	(232.7)	(94.1)	(500.1)	(211.7)
<u>(359.0)</u>	<u>(273.5)</u>		<u>(445.2)</u>	<u>(191.1)</u>	<u>(579.1)</u>	<u>(211.7)</u>

The net pension liability of £579.1m reported at 30 September 2009 does not include a restriction on recoverable amounts. The comparative liabilities at September 2008 and March 2009 included restrictions on recoverable amounts of £287.8m and £130.5m, respectively.

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

At 31 March 2009		At 30 September 2009	At 30 September 2008
4.5%	Rate of increase in pensionable salaries	4.8%	5.1%
3.0%	Rate of increase in pension payments	3.3%	3.6%
6.7%	Discount rate	5.4%	7.3%
<u>3.0%</u>	<u>Inflation rate</u>	<u>3.3%</u>	<u>3.6%</u>

**Notes on the Condensed Interim Statements**  
for the period 1 April 2009 to 30 September 2009

**15. Capital Commitments**

At 31 March 2009	Capital Expenditure Contracted for but not provided	<b>At 30 September 2009</b>	At 30 September 2008 (Restated)
<u>1,451.5</u>		<u><b>1,614.8</b></u>	<u>1,918.3</u>

**16. Related Party Transactions**

The following 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 control, joint control or significant influence over.

	Sale of goods and services Sep 2009 £m	Purchase of goods and services Sep 2009 £m	Other Transactions Sep 2009 £m	Sale of goods and services Sep 2008 £m	Purchase of goods and services Sep 2008 £m	Other Transactions Sep 2008 £m
<b>Jointly controlled entities:</b>						
Seabank Power Limited	0.7	(50.7)	3.1	0.8	(35.2)	3.6
PriDE (South East Regional Prime) Limited	14.8	-	-	22.1	-	-
Scotia Gas Networks Limited	25.9	(78.4)	17.0	30.6	(63.0)	17.0
Marchwood Power Limited	18.1	(19.9)	7.8	-	-	2.6
Greater Gabbard Offshore Winds Ltd	1.8	-	2.2	-	-	4.5
<b>Associates:</b>						
Barking Power Limited	0.8	(44.8)	-	2.0	(83.8)	-
Derwent Co-generation Limited	9.6	(43.4)	-	13.4	(41.5)	-
Logan Energy Ltd	-	(0.8)	-	-	-	-
Green Highland Renewables Ltd	0.2	-	-	-	-	-
Aquamarine Power Limited	-	-	0.1	-	-	-

The transactions with Seabank Power Limited, Barking Power Limited and Derwent Co-generation Limited relate to the contracts for the provision of energy or the tolling of energy under power purchase arrangements. PriDE (South East Regional Prime) Limited operates a long-term contract with Defence Estates for management of MoD facilities in the South East of England. All operational activities are sub-contracted to the ventures partners including Southern Electric Contracting Limited. Scotia Gas Networks Limited has operated the gas distribution networks in Scotland and the South of England from 1 June 2005. The Group's gas supply activity incurs gas distribution charges while the Group also provides services to Scotia Gas Networks in the form of a management service agreement for corporate services and for stock procurement services. Sales of goods to related parties were made at an arms length price. The transactions with Marchwood Power Limited relate to fees and loan interest. The Group has paid £5.2m in advance deposits (March 2009- £2.3m, September 2008 - £0.8m) to Onzo Limited (an associated Company) and has received metering devices to the value of £1.1m in the period.

The balances outstanding with related parties at 30 September were as follows:

	Amounts owed by related parties			Amounts owed to related parties		
	Sep 2009 £m	March 2009 £m	Sep 2008 £m	Sep 2009 £m	March 2009 £m	Sep 2008 £m
<b>Jointly controlled entities:</b>						
Seabank Power Limited	69.8	75.8	76.8	24.7	23.1	25.0
PriDE (South East Regional Prime) Limited	3.2	6.6	4.9	-	-	-
Greater Gabbard Offshore Winds Limited	305.1	183.8	250.6	-	-	-
Scotia Gas Networks Limited	295.9	305.2	291.3	0.2	0.3	0.6
Marchwood Power Limited	171.5	154.2	135.4	4.7	-	-
<b>Associates:</b>						
Barking Power Limited	0.1	0.1	0.5	6.0	17.7	9.7
Derwent Co-generation Limited	0.3	8.3	0.7	10.3	9.5	8.9
Aquamarine Power Limited	-	-	0.8	-	-	-
Onzo Limited	4.1	2.3	0.8	-	-	-
Logan Energy Ltd	-	-	-	0.1	0.1	-

With the exception of equity loans at Seabank, Marchwood and Scotia Gas Networks, the amounts outstanding are commercial 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.

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

We confirm that to the best of our knowledge:

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

For and on behalf of the Board

Ian Marchant  
Chief Executive

Gregor Alexander  
Finance Director

London  
10 November 2009

# Independent review report to Scottish and Southern Energy 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 2009 which comprises the Consolidated and Condensed Income Statement, the Consolidated and Condensed Statement of Comprehensive Income and Expense, the Consolidated and Condensed Balance Sheet, the Consolidated and Condensed Statement of Changes in Equity, the Consolidated and Condensed Cash Flow Statement, and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

## Directors' responsibilities

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

As disclosed in note 2, the annual financial statements of the Company 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 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

John Luke  
For and on behalf of KPMG Audit Plc

Chartered Accountants  
Edinburgh  
10 November 2009