Scottish and Southern Energy

12 November 2008

FINANCIAL REPORT FOR THE SIX MONTHS TO 30 SEPTEMBER 2008

- Half-year to half-year adjusted profit before tax down 54.5% to £302.6m, due to Generation and Supply, but modest growth for the full-year still expected.
- Interim dividend up 9.4% to 19.8p per share and full-year dividend for 2008/09 forecast to reach at least 66.0p.
- Progress made on realising value from acquisition of Airtricity, including post-tax gain of around £100m on disposal of Greater Gabbard equity on 3 November.
- Despite delays with FGD installation and Aldbrough gas storage, major milestones in asset development set for completion in remainder of 2008/09.
- Assistance being provided to 600,000 customers through energy efficiency measures, social tariffs and tailor-made payment arrangements during 2008/09.

	September 2008	September 2007	Change
Interim Dividend	**19.8p**	**18.1p**	+9.4%
Adjusted Profit Before Tax*	**£302.6m**	**£664.7m**	-54.5%
Adjusted Earnings Per Share*	**26.3p**	**57.2p**	-54.0%
Investment and Capital Expenditure	**£699.2m**	**£363.3m**	+92.5%
Power Station Availability (Gas)	**70%**	**96%**	-27%
Power Station Availability (Coal) **	**92%**	**90%**	+2.2%
Energy Supply Customer Numbers	**8.9m**	**8.1m**	+800k
Customer Minutes Lost (SHEPD)	**31**	**28**	+ 3 mins
Customer Minutes Lost (SEPD)	**31**	**33**	- 2 mins
Lost Time and Reportable Injury Rate	**0.05**	**0.04**	+0.01
Reportable Environmental Incidents	**0**	**0**	-

Lord Smith of Kelvin, Chairman of Scottish and Southern Energy, said:

“As expected, these interim results demonstrate the unusual and exceptional circumstances that can apply to performance in a half-year. They are, however, still consistent with delivering a modest increase in adjusted profit before tax for 2008/09, which remains our expectation on the basis of good performance for the rest of the year.

“The availability of some of our thermal power stations during the summer and early autumn has been disappointing and we have had to deal with very high wholesale prices for electricity and gas while trying to shield our customers from the worst of their effects. All of this is reflected in our performance in Generation and Supply, but the outlook for the remainder of this year and beyond is more positive.

“In other areas SSE has continued to perform well. There has been notable progress in renewable energy projects, including the successful planned disposal of equity in the Greater Gabbard offshore wind farm, and in electricity and gas supply, where we now have almost nine million customers. Growth has continued in our networks businesses and in contracting, connections and metering, which demonstrates the value in operating and investing in a balanced range of energy-related businesses.

"Across the world, these are very uncertain financial times, in which few things can be taken for granted. Rapid change is all around us, but at least one thing remains the same: SSE's commitment to maintaining year-on-year sustained real growth in the dividend. For 2008/09 we are on course to deliver a full-year dividend of at least 66.0 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.

****** See section on Coal and Biomass Generation – Operations and Investment

KEY DEVELOPMENTS IN SSE FROM 1 APRIL 2008

GENERATION AND SUPPLY

- Operating profit* down 77.4% to £107.0m

Generation

- Gas-fired power station availability 70%; coal station availability 92%
- After delays, hot commissioning following FGD installation set to begin in December
- Medway return-to-service expected in February
- Good progress on major projects at Glendoe and Marchwood
- £308m secured from disposal of 50% of Greater Gabbard equity and capital reimbursement
- Consent secured for western Europe's largest onshore wind farm at Clyde

Supply

- Net gain of 450,000 electricity and gas customers since 1 April 2008
- Domestic price rises delayed until 25 August
- Best-in-sector service according to uSwitch.com and JD Power Study
- 100,000 '**better plan**' energy efficiency reward programme customer accounts
- Launch of M&S Energy
- 75,000 customers on energyplus care 'social' tariff
- In-house CERT team formed to assist delivery of measures

NETWORKS

- Energy Systems operating profit* up 26.1% to £259.3m

Electricity Networks

- Power Systems operating profit* up 11.8 % to £183.9m
- Investment in electricity networks up 36.2% to £157.4m

Gas Networks

- Share of SGN's adjusted operating profit* up 83.5% to £75.4m
- Capex/repex investment in gas networks up 8.3% to £79.9m (SSE share only)

Telecoms Networks

- Operating profit up 35.0% to £8.1m (excluding sites sold in August 2007)

ENERGY-RELATED SERVICES

Contracting, Connections and Metering

- Operating profit* up 20.8% to £35.4m
- Contracting order book peak of £105.1m
- Number of 'out-of-area' electricity networks up to 44
- 9,000 smart meters installed in Energy Demand Reduction Trial

Energy and Home Services

- 103,000 new telecoms and gas boiler customers, taking total to 283,000

Gas Storage

- Operating profit* down 17.3% to £21.1m
- Technical issues overcome, so commercial operations at Aldbrough set to start in early 2009

BALANCE SHEET AND FINANCIAL MANAGEMENT

- Net debt up £1.023bn to £4.689bn at 30 September 2008
- £1bn of new medium and long-term funding secured July-September 2008
- £500m of new long-term funding secured in November 2008

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 in the Annual Report 2008, and the importance of these principles has again been underlined by events in the financial markets in recent months.

Future Environment
The UK Renewable Energy Strategy consultation published in June 2008 confirmed that there are two key energy policy challenges facing the UK, and these set the context for SSE's future development. The first is the need to tackle climate change by cutting greenhouse gas emissions and the second is the need to ensure there are secure energy supplies as UK reserves of oil and gas decline and competition for energy resources intensifies. These issues are also reflected in energy policy throughout the European Union.

More broadly, the energy price volatility which the world has experienced during 2008 reflects particular short-term concerns but also the fundamental view that the supply of finite resources like oil and gas, already under pressure, will fail to keep pace with the demand. While an economic slowdown may postpone for a time the impact of these fundamental issues being felt in the UK and elsewhere, it will not prevent it.

In this environment, SSE's strategy provides three key advantages. First, the maintenance of a balanced range of regulated and non-regulated energy-related businesses provides a broad platform from which to deliver sustained real dividend growth and reduces the risk associated with any particular business activity. Second, the significant long-term need for additional energy production, distribution and storage assets will clearly reinforce the value of SSE's existing and growing asset base in each of these areas. Third, that need for new assets provides SSE with major investment opportunities in each of its main business areas.

No sector can be entirely immune from the effects of the global financial turmoil experienced in recent months. At the same time, one of SSE's financial principles is the maintenance of a strong balance sheet. In the current difficult financial climate, assessment of investment opportunities and individual investment decisions will, as always, be judged against the key criterion of securing returns which are greater than the cost of capital.

Priorities for 2008/09
SSE's priorities for the rest of 2008/09 are straightforward. They are: to deliver a high standard of performance throughout its operations, particularly in electricity generation, where the focus is on returning Medway power station to full service; and to meet key milestones in its investment programme, such as completing the installation of flue gas desulphurisation equipment at its coal-fired power stations, commissioning the Glendoe hydro electric scheme, maintaining progress at the new Marchwood power station and starting commercial operations at the Aldbrough gas storage development. An update on progress in each of these five areas will be provided in SSE's Interim Management Statement, to be published by 17 February 2009.

In addition, SSE fully understands the many financial pressures which households in the UK are now facing, and will continue to seek to provide its energy supply customers with as much information, advice and help as possible to assist them in coping with the impact of higher energy bills. This includes discharging additional obligations under the initiatives announced by the UK government in April and September 2008, including the agreement on vulnerable customers, the increase in Carbon Emissions Reduction Target investment and the new community energy savings programme. In support of this, SSE is establishing a new energy efficiency installation team.

Priorities for 2009/10 and Beyond
Longer term, SSE expects to maintain its track record of dividend growth through a combination of: value enhancement from operational excellence, including sustainable growth in the number of customers and in the services provided to those customers; and value creation from the successful delivery of its key investment opportunities. SSE is already well-established as the UK's broadest-based energy company and, in each of the next few years, its investment programme will result in the completion of major new developments in electricity generation, energy networks and gas storage.

As always, while focusing principally on the assessment, management and delivery of its own investment programme, SSE actively monitors developments elsewhere in the energy sector and it will maintain an opportunistic approach to the possible acquisition of assets which are clearly capable of creating value in the short, medium and long term.

So, while many things are changing in energy and in the broader financial markets, SSE will retain its unambiguous commitment to, and focus on, sustained real growth in the dividend payable to shareholders. As it enters its second decade, SSE believes it has the scale, the scope, the commitment to operational excellence and the investment opportunities to continue to deliver such growth.

FINANCIAL OVERVIEW

Approach to Financial Results
SSE's focus is 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 (adjusted profit before tax*). 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 2008) that its emphasis is on adjusted profit before tax* on a full-year, as opposed to half-year, basis and that its interim results in any financial year should always be viewed in light of that. This is for the reason SSE has set out in the past: interim results are more likely to fluctuate, with unusual variations or exceptional circumstances.

Interim Financial Results for 2008/09
These interim results for the six months to 30 September 2008 are reported under International Financial Reporting Standards, as adopted by the EU.

	Sept 08 £m	Sept 07 £m
Reported Profit before Tax	**171.1**	**723.6**
Movement on derivatives (IAS 39)	123.4	15.5
Exceptional items	-	(83.0)
Tax on JVs and Associates	7.3	5.1
Interest on convertible debt	0.8	3.5
Adjusted Profit before Tax*	**302.6**	**664.7**
Adjusted current tax charge	(74.2)	(172.1)
Adjusted Profit after Tax*	**228.4**	**492.6**
Reported profit after tax	**127.5**	**586.3**
Number of shares for basic and adjusted EPS (million)	**871.4**	**861.1**

Adjusted EPS*	**26.3**	**57.2**
Basic EPS	**14.7**	**68.1**

Adjusted Profit Before Tax* for Six Months to 30 September 2008
Adjusted profit before tax* fell by 54.5%, from £664.7m to £302.6m. This large decline in half-year to half-year profitability was almost entirely down to issues relating to SSE's Generation and Supply business.

The level of profitability achieved in Generation and Supply in the six months to September 2007, which followed an unusual 18-month sequence of wholesale and retail energy price changes in the UK, was in itself exceptionally high (with operating profit then being almost 60% higher than in the same period in 2006), and SSE expected a return to more normal levels of profitability in Generation and Supply in the first half of 2008/09.

The following issues occurred during the six months to 30 September 2008 and have contributed to the fall in half-year-to-half-year profitability.

In terms of Generation, the several months' delay in completing the installation of flue gas desulphurisation (FGD) equipment at SSE's Fiddler's Ferry and Ferrybridge power stations has lead to limits on their output of electricity being more prolonged than expected. Over the six months as a whole, the two stations produced 1.86TWh less electricity than in the same period in the previous year, at a cost to SSE of around £100m.

There have also been unusually significant unplanned outages at Medway power station, where output fell by 1.7TWh, compared with the previous year, at a cost to SSE of around £65m. In addition, SSE's output of renewable energy was lower than expected, with output from hydro electric schemes 11% lower than in the previous year, at a cost to SSE of around £10m.

As far as Supply is concerned, the introduction of price rises for domestic electricity and gas was delayed until the end of August 2008, in order to minimise their impact on customers and to sustain SSE's reputation for fair pricing. This was, however, during a period in which wholesale energy costs were much greater than in the previous year, with wholesale gas costs typically around 170% higher than in the six months to 30 September 2007. Together, the much higher cost of meeting customers' energy needs and the delay in passing on those costs to customers account for around half of the fall in operating profit in Generation and Supply.

In summary, while some limits on electricity output from Fiddler's Ferry and Ferrybridge and higher wholesale energy costs were always expected to have an impact on SSE's half-year-to-half-year profitability, the impact of these issues has been more acute than expected. Profitability has also been affected by unplanned outages at Medway, lower than expected output from renewable energy schemes and delays in passing on to domestic electricity and gas customers the impact of much higher wholesale energy costs.

In contrast, all of SSE's energy networks businesses, including Scotia Gas Networks (SGN), in which it has a 50% stake, performed well and achieved increases in profitability, as did Contracting, Connections and Metering and Telecoms.

Adjusted Profit Before Tax* for 2008/09
Over 2008/09 as a whole, SSE is currently on course to deliver a modest increase in adjusted profit before tax in the year to 31 March 2009, with these interim results likely to account for just under one quarter of its full-year total. This is obviously dependent on good performance throughout its businesses and SSE will include an assessment of the outlook for profitability in its next Interim Management Statement.

SSE has also secured a post-tax gain in the region of £100m on the sale of 50% of the equity in Greater Gabbard Offshore Wind Ltd (GGOW Ltd), which took place on 3 November and which will be reflected in its full-year results.

Adjusted Earnings Per Share*

To monitor financial performance over the medium-term, SSE continues to focus on adjusted earnings per share*, which were 26.3 pence for the six months to 30 September 2008, compared with 57.2p in the previous year.

Net Debt and Cash Flow

As at 30 September 2008, SSE's net debt was £4.689bn, compared with £3.666bn at 31 March 2008. This is higher than forecast for three main reasons: the provision during the period of 100% (as opposed to 50%) of the capital expenditure for the Greater Gabbard offshore wind farm; the delay to the end of August in introducing price rises for domestic electricity and gas customers; and the lower profitability in the first half of the year.

SSE expects that its net debt at 31 March 2009 will not be significantly greater than that at 30 September. The position will be supported by improved underlying cash generated from operations in the second half of the year and by the £308m received by SSE as a result of the successful sale of 50% of the equity in GGOW Ltd and the recovery of 50% of the capital expenditure so far incurred in respect of the project.

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 age of debt as at 30 September 2008 was 9.9 years, compared with 14.9 years as at 30 September 2007. This year-on-year reduction in term reflects the unusually high amount of short-term debt on the balance sheet at 30 September 2008, arising primarily from the acquisition of Airtricity. It should, however, be noted that this average increased from 8.6 years as at 31 March 2008 as a result of substantial refinancing totalling around £1 billion that was completed between July and September 2008.

SSE's debt structure remains strong, with around £2.8bn of its net debt at 30 September in medium to long term borrowings in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans relating to Airtricity.

In addition, however, just over £1.3bn of the total debt at 30 September relates to borrowings raised to finance the acquisition of, and capital expenditure for, Airtricity, as well as underlying borrowings in that business. They mature in the period up to June 2009. SSE has made major progress with refinancing this, with a £500m, 20-year bond issued on 7 November 2008. The bond itself was over-subscribed, which signals clear long-term confidence in SSE.

In addition, SSE has been in regular dialogue with its relationship banks to ensure maximum flexibility in the maturity of its banking facilities. To this end, it has also reached preliminary agreement with the banks in the Airtricity-related facility to have the option to extend £500m of the facility by one year to 30 June 2010, if this is required.

Liquidity

As at 30 September 2008, SSE had available undrawn committed bank borrowing facilities of almost £500m, which mature in June and November 2009.

Although the commercial paper markets have been sporadic, SSE has been able to issue new commercial paper since mid September, with a total value of almost £1 billion and with a range of maturities of up to six months. In addition, it has entered into a £70m, 18 month bilateral loan with one bank to provide more liquidity, and is in discussions with other banks for facilities of up to a further £100m. All of this suggests that liquidity in financial markets is gradually improving.

Financing Investment

SSE's investment programme is supported by its balance sheet, which remains one of the strongest in the global utility sector. This in turn means it is comparatively well-placed to raise finance, as demonstrated by its success in securing new funding of around £1.5 billion between July and November 2008 in the very difficult market conditions experienced by all borrowers.

Nevertheless, the general availability of finance is clearly limited and competition for it will continue to be intense for the foreseeable future. Significant parts of SSE's investment programme are discretionary in nature and individual decisions within it will, as always, be judged against its financial principles and against the key criterion of securing returns which are greater than the cost of capital. In addition, SSE will retain its opportunistic approach to financing investment, examining all options including the bond market, bank facilities, European Investment Bank loans, raising finance against specific assets and raising equity.

DIVIDEND

Interim Dividend
The Board is declaring an interim dividend of 19.8 pence per share, compared with 18.1p in the previous year, an increase of 9.4%. The interim dividend of 19.8p compares with 9.7p paid in 2002, since when it has increased by 104.1%.

Full-Year and Future Dividend
SSE expects to achieve its target for 2008/09 as a whole, which is to grow the dividend by at least 4% more than inflation (based on the average rate of inflation in the UK between April 2008 and March 2009). In practice, this means the full-year dividend is likely to increase from 60.5 pence per share for 2007/08 to at least 66.0p for 2008/09.

The range of opportunities that SSE has developed in Generation and Supply, Energy Systems and in other businesses such as Gas Storage, mean it also expects to achieve its target of at least 4% annual real growth in the dividend payable to shareholders in 2009/10, with sustained real growth thereafter.

Between 2000 and 2007, SSE doubled the full-year dividend paid to shareholders, to 55 pence per share. It said then its next long-term target was to double the dividend again. In the time since, it has made significant early progress towards that goal, and it aims to maintain that progress in the years ahead.

Investor Timetable

Ex-dividend date	18 February 2009
Record date	20 February 2009
Payment date	27 March 2009
Preliminary results	21 May 2009
AGM (Perth)	23 July 2009

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There will be an analysts' presentation starting at 09:00GMT at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB.

Webcast facility:	This is available by going to:**www.scottish-southern.co.uk** then click on Investor Centre.
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GENERATION AND SUPPLY

Generation and Supply Overview

As at 30 September 2008, SSE owned 10.6GW of electricity generation capacity in the UK and Ireland, including its share of joint ventures and associates, and supplied electricity and gas to 8.9 million customers within Great Britain's competitive energy supply market.

SSE's responsibility to those customers is to procure the electricity and gas they need. It purchases gas and, where appropriate, some electricity via bilateral contracts and through the wholesale markets – the latter complementing the electricity produced from its own generation portfolio.

Its 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 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 period, SSE believes that it has in place appropriate operational and commercial arrangements to manage its energy supply commitments in all likely circumstances.

It has been suggested that one of the effects of the recent turmoil in financial markets could be a loss of liquidity in forward wholesale energy markets as financial institutions reduce their participation in them. The presence of a large number and range of participants in the wholesale energy markets is clearly advantageous, and, so far, SSE has not identified any material differences in its ability to trade in any market as a result of events of the past few months.

Its integrated business model means that SSE maintains a well-balanced portfolio of assets, contracts and customers which functions as an integrated whole, is assessed as a single value chain and which is therefore greater than the sum of its parts.

Generation and Supply Performance

Operating profit* in Generation and Supply fell by 77.4%, from £474.3m to £107.0m, contributing 24.8% 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 2008' above. SSE reports the underlying financial performance of Generation and Supply excluding the impact of IAS 39 revaluations as it continues to believe that this does not represent underlying business performance. As stated under 'Approach to Financial Results' above, SSE's emphasis is on profitability on a full-year, as opposed to half-year, basis.

GENERATION

Key Performance Indicators	**Sept 08**	**Sept 07**
Total electricity generation capacity (GW)	10.6	10.0
Gas power station availability	70%	96%
Total output from gas-fired power stations (TWh)*	14.26	15.38
Coal power station availability	92%	90%
Total output from coal-fired power stations (TWh)*	2.26	4.12
Co-firing biomass output qualifying for ROCs (GWh)	79	154
Total output from hydro-electric schemes (GWh)	1,064	1,192
ROC-qualifying output from hydro schemes (GWh)	543	688
Wind farm availability	97%	97%
Total UK and RoI output from wind farms (GWh)	638	407
UK ROC-qualifying output from wind farms (GWh)	341	198
ROC-qualifying output from dedicated biomass	51	83

*Wholly-owned

In June 2008, the consultation document setting out the UK's renewable energy strategy stated that energy policy in the UK faces two very serious challenges: tackling climate change by reducing emissions and ensuring the country's energy supply remains secure. To address these challenges, the UK government is required to contribute towards the achievement of a binding target that 20% of the EU's all-energy consumption must come from renewable sources by 2020. In practice, this means increasing to over 30% the proportion of electricity to come from such sources in the UK and an increase to 40% is also required in the Republic of Ireland.

The 2020 target is, in fact, only a milestone in a long-term transition from a UK energy supply with fossil fuels at its centre to one based largely on the use of renewable sources of energy and other low carbon technologies. This being so, in parallel with the demand for investment in renewable energy, the UK will need to provide replacement capacity for the conventional generation plant which is expected to retire on a shorter timescale: the next decade. Fundamentally, the need for the UK to maintain a reasonable margin between electricity demand and generation capacity will reinforce the value of existing and available power-producing plant.

A balanced generation portfolio will, therefore, remain critical in providing security of supply, through allowing diversity of primary energy sources, and will play a fundamental role in maximising the potential deployment of renewables through proper integration of both energy and system services provision. All of this is likely to require the largest investment programme in the generation sector since privatisation, with renewable energy at its heart.

In this context, SSE's key objectives in Generation remain unchanged. They are to maintain a diverse portfolio of power stations, available to generate electricity and support security of supply, with the maximum possible efficiency, in response to customer demand and market conditions, while complying fully with all safety standards and environmental requirements. 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 to 2020.

Gas-fired Generation – Operations

In the six months to 30 September 2008, SSE generated 17.3TWh of electricity at gas-fired power stations in which it has an ownership or contractual interest, compared with 20.1TWh in the same period last year.

SSE owns 4,300MW of gas-fired electricity generation capacity, including its share of joint ventures. During the first half of the year, its principal wholly-owned gas-fired power stations (Fife, Keadby, Medway and Peterhead) achieved 70% of their maximum availability to generate electricity, excluding planned outages, compared with the 96% availability in the same period last year.

The principal difficulties have occurred at Medway, where availability has been affected by technical issues leading to unplanned outages and also emergent issues arising during planned inspections, affecting one of the gas turbines and the steam turbine. The most recent problem to arise was a steam turbine failure in mid-September. Resolving these difficulties is a complex and time-consuming task, involving contractors, station employees, insurance providers and SSE's recently-established Engineering Centre. With its asset management capability, and through SSE holding operationally important spare equipment, the Centre is playing a key role in minimising the delay in the station's return to service. Both gas turbines are now available to operate once the steam turbine is returned to service, which is expected to be in February 2009.

The unplanned outages at Medway led to a decline in the amount of electricity generated from SSE's gas-fired power stations during the six months, compared with the previous year, and cost around £65m.

SSE's experience at Medway is not an isolated one: across the electricity generation sector in the UK a number of power stations, including Seabank, in which SSE has a 50% stake, have had unexpected and prolonged outages. While the underlying quality of SSE's power generation assets is not in doubt, its Engineering Centre is reviewing plant design and plant operation within the BETTA (British Electricity Trading and Transmission Arrangements) framework. The outcome of this review will inform SSE's long-term asset management and investment planning policies, as will the impact of increasing electricity generation from renewable sources, which means gas-fired and coal-fired power stations are likely to run at lower load factors than has historically been the case and will have to be increasingly flexible.

Gas-fired Generation - Investment

Work on the construction of Marchwood Power Ltd's new 840MW combined cycle gas turbine (CCGT) plant in Southampton is now entering its final stages. Marchwood Power Ltd is a 50:50 joint venture between SSE and ESB International. The construction of the 22km long pressure gas pipeline from Lockerley to Marchwood is mechanically complete. It was installed and commissioned within 18 months and is now ready for gas. The plant is expected to begin commissioning early in the New Year and is therefore on course to be in commercial operation in time for the winter of 2009/10. With a net thermal efficiency in excess of 58%, it will be one of the most efficient in the UK.

CCGT technology is likely to remain the benchmark technology for some years to come and SSE has identified a series of options for additional CCGT plant, on which it expects investment decisions to be taken by 2010. These include the potential development of new capacity at Keadby power station. Consent was awarded in 1998 to add 710MW of CCGT capacity at the Keadby site, and SSE has been advised that this consent should remain valid. It has therefore made the necessary applications for a connection to the electricity network and for a new gas pipeline connection for plant with capacity up to 840MW. This extra capacity would require SSE to seek an extension to the original consent.

Barking Power Ltd, in which SSE has a 30.4% stake, has secured consent to develop a new 470MW CCGT, which would effectively add around 140MW to the portfolio of generation assets owned by SSE, and a decision on whether to proceed with the investment is likely to be made during 2009.

Coal and Biomass Generation – Operations and Investment

In November 2005, SSE opted in to the Large Combustion Plant Directive (LCPD) all of the capacity at Fiddler's Ferry and half of the capacity at Ferrybridge (3,000MW in total). As a result, the operation of that capacity must comply with the Emission Limit Value (ELV) for sulphur dioxide which came into effect on 1 January 2008. By making them compliant with the ELV, the stations' contribution to the security of the UK's electricity supplies is being extended and SSE will continue to have the country's most diverse electricity generation portfolio.

Opted-in plant can initially comply with the Directive by operating under the requirements of Article 5(1), which limits operation to 2,000 hours per year, in advance of completing the hot commissioning of the flue gas desulphurisation (FGD) equipment. Having been scheduled to finish by the end of July 2008, SSE's derogations under Article 5(1) are currently scheduled to end on 30 November. Plant which is not opted-in, such as the other 1,000MW of capacity at Ferrybridge, operates under different restrictions on its ability to generate electricity and must close in 2015.

In the six months to 30 September 2008, the opted-in capacity at Fiddler's Ferry operated for 810 hours and the opted-in capacity at Ferrybridge operated for 836 hours. This, combined with electricity generated by the opted-out plant at Ferrybridge means a total of 2.26TWh of electricity was generated at the two stations, compared with 4.12TWh in the same period last year. The stations also 'co-fire' fuels from renewable sources (biomass) in order to displace fossil fuels. During the period, their output qualifying for ROCs (Renewable Obligation Certificates) was 79GWh, compared with 154GWh in the same period in the previous year. Although it is a less material issue in the context of FGD installation, the stations achieved 92% of their maximum availability to generate electricity, excluding planned outages, during the period, compared with 90% in the same period last year.

SSE's original decision to opt the plant in to the LCPD was unavoidably late, given it only acquired the power stations in July 2004 and given the uncertainty around details of public policy which then applied, which meant the original timetable for FGD installation was particularly challenging. 'Retro-fitting' FGD equipment to well-established power stations is necessarily complex, with significant technical challenges which don't arise in respect of 'new build' projects, and also challenging in terms of contractor management. As the requirement for Article 5(1) derogations to be extended has shown, completing the installation of FGD at Fiddler's Ferry and Ferrybridge has taken several months longer than expected. Nevertheless, hot commissioning work for the first electricity production at the sites using the desulphurising process is scheduled to begin in early December, led by a team with experience in this specific area. Provided there are no further unexpected developments, SSE expects to begin generating electricity with the desulphurising process shortly and in time to help support security of supply in the course of the winter.

The reduction of 1.86TWh in the amount of electricity produced at the stations compared with the same period in the previous year, led to a cost to SSE of around £100m. SSE's capital investment in FGD equipment is now expected to total more than £250m.

As the UK Secretary of State for Business said in September 2008, coal is a critically important fuel for the UK, because of its flexibility, availability and because it reduces reliance on imported gas. SSE is continuing to examine a range of options for development at Ferrybridge, following the expected closure in 2015 of that plant (1,000MW) which is not opted in to the LCPD. This will leave the station with significant assets in terms of land and a connection to the electricity grid. A number of options to utilise these assets, featuring a range of fuels and technologies, are being assessed.

They include the use of coal-based Integrated Gasification Combined Cycle technology or Advanced Supercritical Boiler technology to replace existing coal-fired capacity and deliver a significant reduction in the carbon dioxide emissions per kilowatt-hour of electricity produced. As well as having a significantly reduced carbon intensity, any replacement plant would be made 'carbon capture ready', enabling it to be fitted with carbon capture and storage (CCS) equipment. A decision on this is unlikely to be taken until 2010 at the earliest.

Against this background, SSE supports the objective of the UK Government for CCS to be developed and demonstrated to be a viable low carbon option for deployment from 2020, and recognises the potential of CCS as a tool in the battle against climate change. SSE is also supportive of the UK Government's desire to ensure CCS considerations are taken into account for new build power plant by developing appropriate 'carbon capture ready' requirements.

Coal and Biomass Generation – Sustainability

The development by Lafarge Plasterboard Ltd of a plasterboard factory at Ferrybridge has now been completed and the plant is operational. In due course, it will use the gypsum produced 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 also now nearing completion. It will remove and process 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 will become marketable products, with the largest volume being used as cement substitutes.

SSE has agreed in principle to acquire 17.5% of the equity in RockTron (Widnes) Ltd, a subsdiary of RockTron Ltd. On completion of the agreement, SSE will be able 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 received an allocation of 16.3 million tonnes of carbon dioxide emissions allowances per annum. Its emissions allowances requirement for the six months to 30 September 2008, beyond those allocated under EU ETS, was 1.6 million tonnes. This compares with 1.8 million tonnes in the same period in 2007.

In addition, the Environment Agency has confirmed that Marchwood Power Ltd has an allocation of five million tonnes reserved to it from when it is commissioned to the end of Phase II.

The EU ETS is still relatively new, and it represents an additional and growing cost for generators, who have had – and will have - to continue to produce electricity, but with increasing constraints on emissions of carbon dioxide. Moreover, after 2012, it is likely that all of the carbon dioxide emissions allowances for electricity producers will be auctioned. On this basis, it is erroneous to characterise allocations of carbon dioxide emissions allowances as a 'windfall'. In fact, they represent a prudent and practical means of ensuring the EU ETS is successfully established for the long term, without posing any risk to electricity production.

Renewable Energy – Overview

The significance of the EU's adoption of a legally-binding target of 20% for the proportion of all energy to be derived from renewable sources by 2020, supported by a Directive, is becoming increasingly clear and was evident in the UK government's June 2008 consultation on its renewable energy strategy. It is expected that the UK's contribution to the EU target should be to increase the share of renewables in its energy mix from around 1.5% in 2006 to 15% by 2020.

In its response to that consultation, SSE said: 'The scale of the challenge and the timetable for delivery demand early and sustained action to address critical areas. This includes resolving rapidly the current barriers, such as planning, grid access and infrastructure provision.'

SSE has just over 2,000MW of operating renewable energy capacity in the UK and Ireland, comprising hydro electric schemes, wind farms and a dedicated biomass facility at Slough. Its objective is to develop an international business in renewable energy and, following its acquisition of Airtricity in February 2008, it set itself the targets of: owning and operating 4,000MW of renewable energy capacity in the UK and Ireland by the end of 2013; and of undertaking in the same period a £500m programme of investment (largely on an equity basis) in renewable energy in new markets (principally Portugal, Scandinavia, Italy, Germany and the Netherlands). In addition to its clear environmental benefits, renewable energy also significantly reduces SSE's exposure to volatile prices for fossil fuels because the fuel used to generate electricity is indigenous and free.

The achievement of these milestones will mean SSE is making a significant contribution to the achievement of the 2020 targets in the UK and Ireland (as well as elsewhere in Europe), and SSE aims to build on its 2008-13 programme of investment in renewable energy in the subsequent years.

As set out below, SSE is well on course to achieving its target of 4,000MW of operating renewable energy capacity in the UK and Ireland by the end of 2013. The achievement of the target remains subject to: projects securing all of the necessary approvals in a timely manner; adequate electricity network capacity; securing the necessary finance at reasonable cost; successful procurement of wind turbines; and the maintenance of a stable public policy framework which encourages investment in renewable energy.

The delivery of the additional 2,000MW of renewable energy capacity in the UK and Ireland needed to meet the 2013 target is likely to require capital investment of over £2.5bn in onshore wind, offshore wind and hydro electric schemes over the next five years.

Hydro Generation – Operations

SSE owns and operates just over 1,350MW of capacity in conventional hydro electric schemes and pumped storage. Total output from these schemes was 1,064GWh during the period, compared with 1,192GWh during the first half of 2007/08, which contributed towards the £10m fall in SSE's adjusted profit before tax arising from lower output of renewable energy. As at 30 September 2008, the amount of water held in SSE's reservoirs which could be used to generate electricity was 33% of the maximum, compared with 55% on the same date last year.

In order to encourage investment to maintain for the long-term 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). Of the total hydro output in the six months to 30 September 2008, 543GWh qualified for Renewable Obligation Certificates (ROCs), compared with 688GWh in the previous year.

Hydro Generation - Investment
The construction of SSE's new 100MW hydro electric station, at Glendoe near Loch Ness, is nearing completion. Impoundment of the water began in early September, and was marked by a visit to the site by Scotland's First Minister. Glendoe is on course to be able to generate electricity in the first part of 2009. The final capital cost is likely to be in excess of £160m, following the activation of index-linked clauses in the contract with the principal contractor. Since the Renewables Obligation was introduced in April 2002, SSE has invested over £330m in refurbishing and developing hydro electric schemes in Scotland, including over £140m so far incurred in respect of Glendoe.

In September 2008, the Scottish Government published a study carried out for the Forum for Renewable Energy Development in Scotland, which argued that there are still over 600MW of 'financially viable' hydro electric schemes to exploit, especially smaller and micro schemes. SSE is continuing to examine the scope for new hydro electric developments and in August 2008 invested £750,000 in Green Highland Renewables, in return for a 33.3% stake in the company, which develops small and medium-sized hydro electric schemes throughout the country.

Wind Generation – Operations
As at 30 September 2008, SSE (including Airtricity) owns and operates just over 600MW of onshore wind farm capacity in the UK and Ireland, of which 300MW is in the Republic of Ireland. Total output from SSE's wind farms in the UK was 341GWh in the first six months of the financial year, all of which was eligible for ROCs, compared with 198GWh in the previous year; from its wind farms in the Republic of Ireland, the output was 297GWh in the same period. 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, now its renewable energy development division, 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 increased by two thirds, to almost 1,500MW, including the Clyde wind farm in southern Scotland which, on completion, will be the largest in western Europe, with a capacity of up to 456MW. This demonstrates that the pipeline of opportunities in renewable energy which the acquisition highlighted are now being realised.

SSE also has 540MW of offshore wind farm capacity in construction, or with consent for development. This comprises: the 288MW Butendiek offshore wind farm planned for a site off the coast of Germany; and its share of the Greater Gabbard wind farm now under development in the outer Thames Estuary (see below).

All of this means that SSE now has almost 3,300MW of renewable energy capacity (onshore wind, offshore wind, hydro and dedicated biomass) in operation, under construction or with consent in the UK and Ireland and, including Butendiek, over 3,500MW.

In addition, SSE has over 1,000MW of onshore wind farms in the UK and Ireland in the pre-planning process. This category includes the proposal by SSE and Viking Energy Ltd to develop on Shetland's Central Mainland a wind farm with up to 600MW of capacity. An application for consent to build the wind farm is now expected to be submitted to Scottish Ministers in the early part of 2009.

The principal investments within SSE's five year programme are the Clyde wind farm and the Greater Gabbard offshore wind farm, summarised below.

Wind Generation - Clyde
Clyde will eventually have up to 152 turbines with a total capacity of up to 456MW, and construction work is expected to begin in 2009. First commissioning is scheduled for 2011 and completion of both phases is scheduled for 2012. Its development is expected to require the investment of around £600m, which is included within SSE's existing investment plans for the next five years. Any proposal to construct, extend or operate an onshore wind farm in Scotland with a generation capacity in excess of 50MW requires the consent of Scottish Ministers under Section 36 of the Electricity Act 1989. Consent is generally granted with conditions and in this case they include completing ongoing work with NATS (National Air Traffic Services Limited) on radar-related issues. Good progress is being made on satisfying these conditions.

Wind Generation – Greater Gabbard
Greater Gabbard Offshore Winds Limited ("GGOW") was originally established as a 50:50 joint venture partnership between Airtricity and Fluor International Limited to develop in the outer Thames Estuary what will become the world's largest offshore wind farm. In May 2008, SSE acquired Fluor's 50% stake for £40m in cash, while stating its intention to dispose of it later in the year. That disposal was completed on 3 November 2008, when RWE Innogy acquired the equity for £143m in cash. RWE Innogy also paid SSE £165m, representing the 50% of the capital costs so far incurred by GGOW.

The development of Greater Gabbard, excluding the connection to the electricity grid, is expected to require total investment of around £1.3bn. In total, SSE invested £282m in Greater Gabbard in the six months to 30 September, of which half has been reimbursed as a result of the agreement with RWE Innogy. Onshore work on the construction of the wind farm is now under way, and offshore work is on track to begin in the middle of 2009. It will be commissioned in two phases, with the entire construction scheduled to be completed in 2011. On completion, the wind farm will have a total capacity of around 500MW, with 140 turbines mounted on steel mono-piles, in water depths between 24 and 34 metres. It is expected to have a load factor of over 40%, based on site-specific met mast data collected since 2005, and SSE will take 50% of the output. Its operations and maintenance will be carried out by SSE, under a management services agreement with GGOW.

In October 2008, SSE was one of five energy companies to sign an agreement in offshore wind with The Carbon Trust. This marked the start of a major new research, development and demonstration initiative called the Offshore Wind Accelerator (OWA). The OWA aims to cut the cost of energy from offshore wind by at least 10% through a combination of reducing costs and increasing revenues for the developers and operators of projects. Following the publication of the UK government's Renewable Energy Strategy consultation in June 2008, SSE is confident there will be a wide range of options for investment in offshore wind farm development over the next decade, and its commitment to Greater Gabbard will put it in a good position to make the most of those options.

Biomass
SSE's plant at Slough has a current generating capacity of 80MW and remains the UK's largest dedicated biomass energy facility. In the six months to 30 September 2008, it produced 51GWh of electricity qualifying for ROCs, compared with 83GWh in the previous year, with output during the period being affected by issues concerning the operation of the steam turbine at the plant.

The acquisition of the plant at Slough has given SSE a platform from which to invest in biomass and waste-to-energy, as part of the continuing expansion of its solid fuel: coal to biomass activities. It is terming these new generation plant 'multi-fuel'. SSE does not seek to use raw waste, or enter into waste collection contracts, but rather use prepared fuels, commonly referred to as RDF (refuse derived fuel) or SRF (sold recovered fuel) along side other biomass, or woody fuels. The stations will all be compliant with the Waste Incineration Directive and there may be a mixture of boiler technologies ranging from grates to fluidised beds.

In the same vein as coal procurement, biomass and now RDF, SSE anticipates establishing long term relationships with a number of waste companies to deliver sufficient fuel for its generation. Its first fuel contract is with Shanks in the Yorkshire area, where SSE hopes to secure a 25 year contract via the PFI mechanism. SSE and Shanks have teamed up to offer a unified solution through waste processing to fuel, and fuel to energy. Over time it anticipates further contracts outside the PFI structure with a variety of players willing to provide sustainable fuels to the growing flexible fleet.

SSE's first new multi-fuel stations are in early development stages and would be on existing SSE land, including expansion at Slough. The stations will be designed to take a wide range of fuels, allowing for flexibility between ROC earning or gate fee earning depending on the portfolio's requirements.

Forth Energy
In June 2008, SSE and Forth Ports plc entered into a strategic venture to develop renewable energy projects around Forth Ports' sites in Scotland and England. The new venture, called Forth Energy, will invest in the generation, distribution and supply of renewable energy for export to the electricity network for commercial sale and for consumption at Forth Ports' sites.

The venture envisages projects across a number of renewable energy technologies, including onshore and offshore wind and biomass, and related networks and infrastructure. Possible projects with a total installed capacity in excess of 150MW have been identified. The first of these – the construction of four 2MW onshore wind turbines at the Port of Tilbury – is getting under way, following the granting of planning consent. This project will require total investment of around £12m, to be provided by a mixture of project debt and equity.

Investment Options in New Markets
In addition to its wind and hydro investments in the UK and Ireland, SSE is identifying options to invest in renewable energy in new markets: waste-to-energy (principally in the UK – see above); onshore and offshore wind farms in Europe (principally Portugal, Scandinavia, Italy, Germany and the Netherlands where there are particular opportunities for growth in renewables); onshore wind farms in China; and emerging technologies. Any investment will largely be on an equity basis, with non-recourse debt typically expected to account for around 75% of the total cost of the investment.

In June 2008, SSE entered into two joint venture partnerships, with Riviera and with Hispano Lusa SL, to further its plans for the development of wind farms in Portugal with a total potential capacity of around 400MW (gross). This was followed by the establishment of a joint venture with an Italian wind farm development company, Entropya, which has a wind farm development pipeline in excess of 1,200MW (gross) at various stages in the authorisation process.

While the acquisition of Airtricity has extended the scope of SSE's interests to continental Europe and China, thereby giving it development and operational activity in a new geographical location, that activity will remain very focused and disciplined, especially in view of recent developments in financial markets. This means investments in the UK and Ireland are likely to be prioritised in the first instance.

Emerging Technologies
In February 2007, SSE set up SSE Ventures (SSEV) to develop and grow SSE's portfolio of investments in small and medium-sized businesses offering renewable, sustainable and energy efficiency-enhancing products and services. 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 changes in energy production and consumption that are likely to occur over the next decade.

During 2008/09 so far, through equity, loans and project finance, SSEV has committed to investing £25.2m in a variety of emerging technologies. The most recent investment, in September 2008, was by SSEV and Scottish Enterprise's Scottish Co-Investment Fund, which invested £300,000 in return for an initial 25% stake each in Smarter Grid Solutions Ltd, an active network management spin-out business from the University of Strathclyde.

Nuclear Power
During 2007/08, around 15% of the electricity supplied by SSE was derived from nuclear power stations, all of which are owned and operated by other generators, and SSE continues to believe that one more tranche of nuclear power stations in the UK may be necessary to ensure that secure supplies of energy are maintained.

Against this background, the short, medium, and long term implications of the proposed acquisition of British Energy must be very carefully assessed to ensure there is a genuinely competitive approach to the development and operation of, and output from, existing and new nuclear power stations in the UK. SSE is urging the UK government and other relevant authorities to ensure that this is the case. Nevertheless, SSE remains willing to work with other parties to help secure the development of new nuclear power stations, through appropriate contractual support or investment.

Competition Act
In April 2008, Ofgem launched an investigation into SSE and Scottish Power Limited, under section 18 of the Competition Act 1998 and Article 82 of the EC Treaty. It said its decision was based on a formal complaint alleging abuse of an alleged dominant position in the electricity generation sector at times of constraint on the Great Britain transmission system, as well as informal enquiries. SSE has co-operated fully with Ofgem and remains confident that its actions in electricity generation have always been consistent with the operation of a competitive market.

ENERGY SUPPLY

Key Performance Indicators	**Sept 08** million	**Sept 07** million
Domestic electricity customer accounts (GB)	5.1	4.7
Domestic gas customer accounts (GB)	3.4	3.0
Business electricity customer sites (GB)	0.4	0.4
Total energy customers (GB)	**8.9**	**8.1**
Telecoms and home services customers (GB)	0.3	0.2
Total customer numbers (GB)	**9.2**	**8.3**
Electricity customer numbers (Ireland)	0.04	-

Energy supply in Great Britain has experienced an exceptional degree of volatility and intense public scrutiny during 2008. Oil prices reached a record level of $147 per barrel in July 2008 and forward annual wholesale prices for gas reached around 100 pence per therm. While there is a connection between oil and gas prices because of their physical association and because of the content of many gas supply contracts, it is not a direct one. Other factors affecting wholesale gas (and thus electricity) prices in the UK include the value of sterling against the dollar and the operational performance of gas supply pipelines.

All of this means wholesale prices for electricity and gas have been persistently high. Like other suppliers, SSE procures energy through a variety of long- and short-term contracts. As a result, there is a time lag between rises and falls in wholesale prices and rises and falls in the prices charged to domestic customers. Looking at energy suppliers as a whole, Ofgem said in October 2008 that it found no evidence that this lag is greater when prices are falling than when they are rising.

That conclusion was part of Ofgem's Initial Findings Report, following its inquiry into energy supply markets, using its powers under the Enterprise Act 2002. It confirmed that the fundamental structures of a competitive market are in place and the transition to effective competitive markets is well advanced and continuing. It was to be expected that Ofgem would identify a number of areas where it believes the market could work better and these may lead to new requirements on energy suppliers. During the current consultation period, SSE is looking constructively at the very important issues Ofgem has identified, with the emphasis on ensuring that any changes are consistent with the principles of a genuinely competitive market and improving customer service.

Much of the commentary on Ofgem's Report focused on suppliers' pricing structures with respect to particular segments of the market. These included: electricity in-area versus out-of-area price differentials, where Ofgem's analysis showed that SSE has the smallest such differential; and pre-payment meters (PPMs), where SSE has already aligned its electricity charges with those for customers paying by standard credit terms. In addition, SSE is implementing from later this month a 3% reduction in the price paid by its gas customers who use PPMs, thus reducing the average differential between them and customers paying by standard credit terms by around £25 per annum.

SSE remains very mindful of the impact that rising fuel bills have on already hard-pressed households and has done as much as possible to minimise their impact, including delaying for as long as possible the introduction of price increases. This has again demonstrated that the best counter to upward pressures on energy prices, and the best safeguard for customers, is Great Britain's highly-scrutinised competitive markets.

Indeed, in September 2008, the UK government published estimated average domestic electricity and gas prices for medium consumers in the EU for the period between January and June 2008. They showed that (including taxes) the UK electricity price was the fifth lowest in the EU 15 and the UK gas price was the lowest in the EU 15.

Pricing Policy for Domestic Electricity and Gas Customers

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. The application of this policy means that over 2008 as a whole, SSE's "dual fuel" customers are on course to pay an average of £100 less for their energy than customers of the largest energy supplier.

Nevertheless, SSE increased its prices for domestic electricity and gas customers on 25 August 2008. Prices for electricity customers rose by 19.2% (average) and prices for gas customers rose by 29.2%. Energy suppliers have to take steps towards covering their costs and delaying the price rises beyond this date was, unfortunately, untenable because SSE could no longer sustain the significant losses in energy supply which have contributed to its financial performance in the first half of 2008/09.

The delay itself was a further demonstration that the competitive market and the comprehensive scrutiny to which energy suppliers are subject is the best counter to upward pressures on bills. More positively, if wholesale prices for electricity and gas maintain a downward trend, SSE is optimistic that it will be able to deliver reduction in prices for domestic customers during the early part of 2009.

Customer Numbers

SSE supplies electricity and gas as Southern Electric, SWALEC, Scottish Hydro Electric and Atlantic Electric & Gas. In the six months to 30 September 2008, it achieved a net gain of over 450,000 energy supply customers, taking the total to 8.9 million. This means SSE has almost doubled its number of energy supply customers in just over six years.

The total comprises 5.5 million electricity customers, including business customers covering 400,000 sites, and 3.4 million gas customers. Within the total, 2.1 million customers have 'loyalty' products such as energyplus Argos, which rewards customers with money-off discount vouchers.

In addition to electricity and gas customers, SSE now has 198,000 talk with telecoms customers and 85,000 shield gas boiler and electrical wiring maintenance customers. This means that its total customer base in Great Britain was almost 9.2 million as at 30 September 2008. SSE also has 41,000 mainly commercial customers in the Irish all-island market.

Customer Service
Central to success in Energy Supply is the maintenance of the highest possible standards of customer service. In previous years, SSE used the number of complaints about it sent to energywatch for resolution as a key performance indicator in this area. Following the Consumer, Estate Agents and Redress (CEAR) Act 2007, energywatch has been replaced by Consumer Focus. Under the new arrangements, energy suppliers have additional responsibilities for resolving customers' complaints and Ofgem will issue assessments of how well companies are handling complaints. Where companies and customers can't reach agreement on complaints, a new independent ombudsman will become involved.

In the latest independent Customer Satisfaction Report from uSwitch.com, published in October 2008, SSE was ranked the best energy supplier, for the fifth successive time. SSE was ranked top in seven of the 11 categories featured in the Report. uSwitch.com stated: 'SSE has become the customer service benchmark for the rest of the industry.' In the JD Power UK Electricity and Gas Customer Satisfaction Study, also published in October 2008, SSE was the top-ranked supplier in both electricity and gas for the second successive year and, once again, was the only supplier with a score significantly above the sector average. In addition, in the Institute of Customer Service study completed in July 2008, SSE was the top-ranked performer amongst UK energy suppliers.

In June 2008, SSE entered into an agreement with Barclaycard to purchase its Goldfish site at Cumbernauld. The facility is SSE's first new customer service centre since it was formed 10 years ago. It provides SSE with the capacity to expand its customer service operations and recruit many new skilled people at a time when the number of customers has continued to grow. It will relieve some of the pressures that would otherwise have been felt at SSE's existing sites and gives it a new geographic area from which to recruit people.

Payment Profiles
Around 57% of SSE's electricity and gas accounts are paid by direct debit, which compares with 55% in September 2007. A further 10% are paid through pay-as-you-go (or prepayment) meters and the balance are on credit terms and settled by cheque or other such payment methods. According to Ofgem's Initial Findings Report, 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 2008, the total aged debt (ie debt that is overdue by more than six months) of SSE's domestic electricity and gas customers was £73.4m, compared with £78.5m in September 2007. While improvements continue to be made in SSE's debtor position, leading indicators, such as the number of payment reminders being issued to customers, suggest that the second half of this financial year will pose significant debt management challenges, with the volume of work in this area for the Customer Service division increasing significantly. SSE has anticipated this aged debt risk and believes it has made adequate provision in relation to it.

Vulnerable Customers
In April 2008, SSE published its Code of Practice for Vulnerable Customers, following consultation with consumer and voluntary organisations. At its core is SSE's belief that any 'social' tariff offered by energy suppliers is only meaningful if it is clearly the lowest-cost tariff that they make available to any type of customer on any sign-up method.

SSE's social tariff, energyplus care, conforms to this principle and currently gives eligible customers a discount of more than one third 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 customers on energyplus care has increased by 49,000 to 75,000 between April and November 2008.

This follows the agreement reached between the UK government and energy suppliers in April 2008, under which suppliers will offer significantly increased assistance to the fuel poor and groups vulnerable to fuel poverty over the period 2008-11. As part of this, SSE is operating schemes with a total value of around £16m in the first phase of the initiative, to March 2009.

In September 2008, the UK government announced its decision to require energy suppliers to increase substantially their spending on the Carbon Emissions Reduction Target (CERT) and to require suppliers and electricity generators to contribute to a new community energy savings programme. During 2008/09 as a whole, energy suppliers were already scheduled to spend around £900m on CERT measures, of which around 16% are expected to be delivered by SSE. The UK government's decision to impose these new requirements is expected to add around £300m a year to the overall total in the current year and in each of the next two years.

Since the announcement in September 2008, SSE has experienced a significant rise in the number of customers making enquiries about home insulation. It has revised upwards the number of homes in which it is planning to fund cavity wall insulation and loft insulation, taking the total for 2008/09 as a whole to over 180,000 homes, compared with 127,000 homes in the previous year. SSE is also planning to redeploy a number of existing employees to help speed up the rate of installations.

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 2008, customers with around 320,000 accounts were taking advantage of these arrangements.

Product Marketing

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** 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. In the six months to 30 September 2008, customers with an additional 63,000 energy accounts joined the **better plan**, taking the total to almost 100,000.

In October 2008, SSE entered into an agreement with Marks & Spencer (M&S) to develop a new energy offer for M&S customers. The two companies have launched a new dual fuel product under the brand name M&S Energy. The product will be available to M&S customers exclusively through M&S' stores and website, and customers will be eligible for a number of incentives for switching to M&S Energy, loyalty and committing to more sustainable energy consumption.

Ireland

Following the acquisitions in 2007/08 of Airtricity and CHP Supply Ltd, SSE now has 41,000 customers in the all-island electricity market in Ireland, including 9,000 in Northern Ireland. While the majority of these customers are commercial, SSE has now begun to supply electricity to domestic customers. It also now supplies gas to industrial and commercial customers in Ireland and expects to supply it to domestic customers next year.

NETWORKS

Networks Overview

SSE owns Southern Electric Power Distribution, Scottish Hydro Electric Power Distribution, Scottish Hydro Electric Transmission and an equity interest of 50% in Scotia Gas Networks (SGN). These are its Energy Systems businesses. SSE estimates that their total RAV (Regulated Asset Value) is around £4.6bn (including 50% of SGN). After electricity and gas, Telecoms is SSE's third networks business.

Operating profit* in Energy Systems, including gas distribution, increased by 26.1%, from £205.6m to £259.3m, contributing 60.2% of SSE's total operating profit* in the first half of the year. In Power Systems, operating profit* of £183.9m was achieved, compared with £164.5m in the previous year; in gas distribution, SSE's share of the operating profit* for Scotia Gas Networks (SGN) was £75.4m, compared with £41.1m in the previous year.

SSE's combined Telecoms business (SSE Telecom and Neos) achieved an operating profit* of £8.1m in the first six months of the year, an increase of 35.0% (excluding the telecoms sites assets disposed of in August 2007).

Key Performance Indicators	**Sept 08**	**Sept 07**
Units of electricity distributed (SEPD) (TWh)	15.8	15.4
Units of electricity distributed (SHEPD) (TWh)	3.7	3.8
Average number of minutes lost per customer (SEPD)	31	33
Average number of minutes lost per customer (SHEPD)	31	28
Number of supply interruptions/100 customers (SEPD)	33	34
Number of supply interruptions/100 customers (SHEPD)	38	31
Volume of gas distributed (Southern) (TWh)	35.6	30.5
Volume of gas distributed (Scotland) (TWh)	19.7	20.2
	£m	**£m**
Total capital expenditure on electricity networks	157.4	115.6
SSE share of total SGN capex/repex	79.9	73.8
Total capital expenditure on telecoms	8.8	8.6

Southern Electric Power Distribution
Southern Electric Power Distribution's (SEPD) operating profit* increased by 13.3% to £110.5m. During the period, SEPD distributed 15.8TWh of electricity, compared with 15.4TWh in the previous year. This increase in units distributed and changes in the prices of units distributed supported the increase in operating profit.

The average number of minutes of lost electricity supply per customer was 31, compared with 33 in the previous year. The number of supply interruptions per 100 customers was 33, compared with 34 in the previous year. 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.

Scottish Hydro Electric Power Distribution and Scottish Hydro Electric Transmission
Operating profit* for Scottish Hydro Electric Power Distribution and Scottish Hydro Electric Transmission increased by 9.6% to £73.4m. In the Scottish Hydro Electric area, 3.7TWh of electricity were distributed during the period, compared with 3.8TWh in the previous year. Changes in the price of units distributed and additional income for SHETL supported the increase in operating profit.

The average number of minutes of lost electricity supply per customer was 31, compared with 28 in the previous year. The number of supply interruptions per 100 customers was 38, compared with 31 in the previous year. Performance in respect of both minutes lost and interruptions was ahead of Ofgem's QSIS targets.

Electricity Network Investment and RAV Growth
The Distribution Price Control Review for 2005-10 resulted in substantially increased allowances for capital expenditure to maintain and improve the electricity networks.

Investment is therefore geared to renewing SSE's networks, which were largely built in the 1950s and 1960s, and thereby reducing the number and duration of power supply interruptions. It is also geared to providing the infrastructure to accommodate customers' demand for power.

Capital expenditure in the electricity networks in the first half of the year was £157.4m and a further £150m is expected to be invested by the end of the current financial year. Since the start of the current Distribution Price Control in April 2005, SSE has invested £678.7m in its distribution networks (which excludes metering) and a further £122.9m in its transmission network.

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

Detailed work has begun on the Distribution Price Control Review for 2010-15, in which Ofgem's key priorities include encouraging electricity distribution companies to be more responsive to the needs of customers and ensuring that companies provide secure and more sustainable networks. SSE therefore expects that annual capital expenditure during that period will be maintained at broadly the current level.

SSE is the only energy company in the UK to be involved in electricity distribution, gas distribution and electricity transmission. It therefore participates in three price control reviews in every five years, which gives it ongoing involvement in price control issues in the UK.

Ofgem is also undertaking a two-year review of the regulatory regime for electricity and gas networks, which is considering whether the current approach will continue to deliver customers reliable, well-run networks with good service at reasonable prices, amid the growing investment challenges faced by the energy networks in the future. It will not report until 2010 and any changes arising from it will be the subject of consultation. Because of this, work on the Distribution Price Control Review for 2010-15 is expected to be largely unaffected.

As Ofgem has stated, the current regime has delivered lower costs, better service and record investment. Nevertheless, SSE understands Ofgem's rationale for undertaking this review, and is fully engaged in it. Looking ahead, for example, the next decade is likely to see a significant uptake of electric vehicles. The implications for electricity networks, with issues such as the infrastructure to support battery management, are now being closely examined by SSE. This is just one of the technological developments which may have implications for electricity networks in the UK and in which SSE is taking an active interest.

Future Transmission Developments

Scottish Hydro Electric Transmission is responsible for operating, maintaining and investing in the transmission network in its area, which serves around 70% of 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. In January 2008, the Scottish Government designated electricity network reinforcement to support renewable energy development as one of nine proposed 'National Developments' in the draft National Planning Framework. Designation as National Developments in the Framework establishes these projects as being in the national interest.

The project to replace the electricity transmission line connecting Beauly in the Highlands and Denny in the Central Belt of Scotland follows on from SSE's licence responsibilities. The Beauly-Denny Public Inquiry, the largest in Scotland since devolution, was completed in February 2008. Scottish Ministers have not yet received the report of the Inquiry, but a determination is still expected in 2009. It is likely that SSE's share of the replacement line (200km of the total distance of 220km) will require investment in excess of £300m.

As the UK Business Council for Sustainable Energy said in its paper on implementing the EU renewable energy target in the UK, the consenting and completion of the Beauly-Denny rebuild is essential to releasing the upgrade potential of the existing Scottish transmission system. By rebuilding the weakest part of a north of Scotland transmission ring, it will allow other elements to that ring to be re-conductored and re-insulated (avoiding any need for new overhead line routes) to increase the capability for renewable energy capacity in the north of Scotland to over 6GW, compared with around 2.2GW currently connected.

In July 2008, SSE published a report on its public consultations on the proposed electricity transmission connection between the Western Isles and the north west of Scotland and set out its indicative proposed routes for the various elements of the connection. For the mainland section, this is an underground cable between the west coast of Sutherland and the Beauly substation near Inverness. SSE subsequently submitted to Scottish Ministers an application for consent to construct the connection in October 2008.

More broadly, SSE is undertaking with the transmission companies of National Grid and Iberdrola a joint Great Britain Transmission Investment Options study to examine, amongst other things, the investment options required to accommodate the level of renewables that would meet the UK's targets for 2020. The study is expected to be completed in early 2009**.**

The European Commission's third package of proposals to further liberalise the EU's energy market includes options for electricity and gas transmission networks: the full ownership unbundling of transmission from production and supply in both electricity and gas; or the designation of an independent system operator (ISO) that would operate, maintain and develop the networks, which would make it possible for existing vertically integrated companies to retain network ownership.

While the European Parliament has given its support to full unbundling, the EU Energy Council remains supportive of allowing a wider range of options, including continued vertical integration as well as the ISO model. Final agreement on the package is expected early in 2009.

Scotia Gas Networks (SGN) – Financial
SSE's share of the adjusted operating profit* of SGN, in which it holds 50% of the equity, was £75.4m, compared with £41.1m in the previous year. The increase is primarily due to the impact of price changes agreed in the one-year Price Control for the year to 31 March 2008. These price changes were fully reflected in tariffs from 1 October 2007 and account for the majority of the year-on-year improvement. At the same time, additional operational efficiencies achieved during the year also contributed to the increase.

Scotia Gas Networks - Operational
In the six months to 30 September, the gas transportation volume for SGN's network in Scotland was 19.7TWh and for its Southern network the volume was 35.6TWh. This compares with 20.2TWh and 30.5TWh respectively in the previous year.

A milestone was reached in the System Control project, with SGN taking over operational control of its gas network areas in Scotland, central southern England and south-east England. The company was the first of the independent gas network companies to take full control of its gas networks from National Grid.

SGN has started up its new apprentice scheme which saw an intake of 59 apprentices across its geographical locations. They have now commenced their training programmes, initially concentrating on health and safety measures. During the year, a project began to automate gas pressure management which, once commissioned, will reduce SGN's methane emissions, one of its key environmental objectives.

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 £4.8bn.

During the six months to 30 September 2008, SGN invested £159.8m in capital expenditure and mains and services replacement projects, compared with £147.5m in the same period last 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 in the first half of the year SGN replaced around 500km of its metallic gas mains with modern polyethylene pipes.

Telecoms Networks
SSE's telecoms business combines SSE Telecom and Neos Networks and operates an 8,000km UK-wide telecoms network, providing services to other telecoms providers, companies and public sector organisations. The Telecoms business achieved an operating profit of £8.1m* in the first six months of 2008/09, compared with £6.0m in the same period last year (excluding the telecoms assets disposed of in August 2007). Good progress has been made on the integration of the fibre optic and telecom duct assets acquired in the second half of 2007.

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; Energy and Home Services; and Gas Storage.

Key Performance Indicators	Sept 08	Sept 07
SEC order book peak (£m)	105.1	105.4
New electrical connections	20,000	21,000
New gas connections	3,800	4,300
Out-of-area networks in operation	44	28
Telecoms customers	198,000	130,000
Home services customers	85,000	50,000
Gas storage customer nominations met	100%	100%

Contracting, Connections and Metering
Operating profit* in Contracting, Connections and Metering rose by 20.8%, from £29.3m to £35.4m, during the first six months of the year.

Contracting
SSE's Contracting business, Southern Electric Contracting (SEC), has continued to make solid progress in this financial year, with its order book reaching a peak of £105.1m during the period. The order book has been supported by significant new contract wins with a number of leading organisations, such as Network Rail, West Sussex County Council and Marks & Spencer. A major proportion of SEC's business is from public sector bodies and utility companies and is repeat, and this puts it in a relatively good position. Nevertheless, there is clearly a risk that the business' order book and profitability will be affected as a result of the economic slowdown being experienced in the UK.

A major priority for SEC has been to complete the integration of businesses it has recently acquired. In line with that, Eastern Contracting has now been re-branded as Southern Electric Contracting. The integration of Hills Electrical and Mechanical plc, which helped SEC expand its presence throughout Great Britain, is well on course for completion, aided by the sale of Hills' London City business. This will help position SEC for long-term growth, as will the recruitment of over 100 apprentices during the first half of the financial year.

Street Lighting
SEC remains the UK's leading street-lighting contractor, and through its partnership with the asset finance division of The Royal Bank of Scotland, and following the acquisition of Seeboard Trading Limited earlier this year, has Private Finance Initiative (PFI) contracts to replace and maintain street lights for seven local authorities in England. These and its other maintenance contracts are performing well.

Connections - Electricity
SSE's Connections business completed almost 20,000 electrical connections during the first half of 2008/09, compared with 21,000 in the first half of the previous year. In addition, it 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 44 energised electricity networks outside these two areas, with development work ongoing at a number of these, and a further eight are under construction, including Sentrum Data Centre in Watford. In total, SSE has 410MW of energised networks capacity, including 30MW currently under construction. Nevertheless, a reduction in new development activity in the UK economy is already evident and this will have an impact on SSE's Connections business, although its market share has been increasing and it expects this to continue.

Connections - Gas
SSE's Connections business is also a licensed gas transporter. Trading as SSE Pipelines, it installs, owns and operates gas mains and services on new housing and commercial developments throughout the UK. The number of new premises connected to its gas networks has continued to grow, and during the first half of the year, it connected a further 3,800 premises, taking the total number of connections to more than 56,000. This is despite an increasing number of building sites being mothballed, and building projects being deferred.

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 SSE's existing electricity and gas services.

Construction work at SSEW's first development, near Salisbury, is making progress, and the first customers are expected to be connected to a water network owned and operated by SSE around the end of this year. SSEW has also submitted to Ofwat an application for the necessary 'inset' appointment, which allows for one supplier of water and sewerage services to be replaced by another for a defined geographical area, in respect of a second development, at Llanilid Park (Valleywood) in Wales, and a public consultation on this proposal is expected soon.

Metering
SSE's Metering business provides services to most electricity suppliers with customers in central southern England and the north of Scotland. It supplies, installs and maintains domestic meters and carries out metering work in the commercial, industrial and generation sector. It also offers data collection services to the domestic and SME sectors.

Over the past 18 months, SSE has in-sourced meter reading and meter operations work relating to its own customers in a number of parts of Great Britain. That process is continuing during the current financial year, and it will take the total number of people employed in the Metering business to over 1,000 by March 2009. This means SSE is on course to be able to read over 70% of meters relating to its customers' electricity and gas accounts.

'Smart' metering is an emerging system that enables the quantity 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. SSE is a leading participant in the UK-government sponsored Energy Demand Reduction Project, in which 'smart' meters are the subject of a trial, and in the first half of 2008/09 installed around 9,000 'smart' meters in homes in Perthshire, Oxfordshire and in south Wales.

Energy and Home Services
SSE's Energy Services division operates and maintains site-wide energy infrastructure for industrial, commercial and public sector and domestic customers. Its business customers have almost 50MW of on-site installed Combined Heat and Power (CHP) generation capacity and it is developing biomass, heat pump and wind energy solutions for communities and commercial enterprises.

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 participating in other markets such as health, education and defence.

Increased energy prices over the past year have had the effect of renewing customers' and communities' interest in the potential for wind to help meet their electricity needs. For example, after a number of public consultations, residents on the Orkney island of Sanday have voted in favour of a joint community wind project with SSE and a planning application for the wind turbine has been submitted.

SSE's 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. Its **shield** gas boiler, central heating and wiring protection service has now attracted 85,000 customers, an increase of 15,000 during the last six months. The **talk with** telecoms service now has 198,000 customers, an increase of 20% in the period.

Gas Storage - Financial
In the six months to 30 September 2008, Gas Storage delivered an operating profit* of £21.1m, a decrease of 17.3% compared with the same period in the previous year. This was the result of lower prices for storage capacity being secured at the start of the year, but profitability is still historically high.

Gas Storage - Investment
In an environment of falling gas production from the UK Continental Shelf, growing demand for gas from new power stations and industry and the increasing need to rely on gas from overseas sources there is a clear need for more gas storage capacity within the UK – especially capacity which allows gas to be speedily withdrawn and replaced.

SSE's joint venture with Statoil (UK) Ltd to develop at Aldbrough what will become the UK's largest onshore gas storage facility is continuing to make progress, but at a slower rate than originally expected. SSE is now investing well over £175m in Aldbrough and the development as a whole is taking longer than was expected when it started in 2004.

While dewatering of the first two caverns started in August 2008, completion of this work will take longer than envisaged, following the emergence of a number of technical issues which have been resolved. The caverns are now not expected to be operational until the early months of 2009.

In addition to dewatering taking place at two caverns, 'leaching' at two further caverns is complete and is under way at the remaining five caverns. The total new capacity at Aldbrough is now expected to be around 370 million cubic metres, of which SSE will have the ownership interest in around 250 million cubic metres, reflecting a reduction in the anticipated capacity as cavern development has progressed. This new capacity will provide valuable gas storage for the UK energy industry.

In May 2007, SSE and Statoil (UK) Ltd secured consent from East Riding of Yorkshire Council 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. A decision on whether to proceed with this investment will be taken during the current financial year.

INVESTMENT AND CAPITAL EXPENDITURE

Key Performance Indicators	**Sept 08**	**Sept 07**
Thermal Generation investment	151.3	149.0
Renewable Generation investment	297.4	46.2
Power Systems investment	157.4	115.6
Gas Storage investment	22.9	21.1
Other	70.2	31.4
Total investment and capital expenditure	**699.2**	363.3
SSE share of SGN capital/replacement expenditure	79.9	73.8

In March 2008, SSE set out plans to invest around £6.7 billion (excluding SGN) in the five years to March 2013. The principal focus of the investment programme is renewable energy, but investment is also planned in gas- and coal-fired generation, electricity networks and in a number of other areas, such as gas storage. The result of this will be a significantly enhanced asset base and additional cash flows, which will support future dividend growth.

The six months to 30 September 2008 represented the initial phase of SSE's five-year programme, and in that period capital and investment expenditure (excluding SGN) totalled £699.2m, compared with £363.3m in the previous year. SGN's capital and replacement expenditure totalled £159.8m, compared with £147.5m in the previous year.

There was investment of £448.7m in Generation in the first half of the year, compared with £195.2m in the previous year, attributable to the Marchwood development, construction work at Glendoe, the installation of FGD equipment at Fiddler's Ferry and Ferrybridge and work at a number of wind farm developments. In addition, SSE invested a total of £282m at Greater Gabbard, of which 50% has been repaid following the disposal in November 2008 of equity to RWE Innogy. SSE has therefore included £141m in respect of the Greater Gabbard project in its overall total for capital expenditure

Capital expenditure in Power Systems was £157.4m, compared with £115.6m in the previous year, in line with the investment focus described under 'Electricity Network Investment'. The largest project currently in the programme remains the installation of the two new 132kV underground cables between Bramley and Basingstoke. A total of £22.9m was invested in the new gas storage facility at Aldbrough during the period.

Capital expenditure will continue to be substantial and for 2008/09 as a whole, it is on course to be around £1.3bn. This is consistent with the delivery of the £6.7 billion programme. All investments are expected to achieve returns which are greater than the cost of capital, enhance earnings and contribute to dividend growth.

FINANCIAL MANAGEMENT

Financing Investment

SSE's investment programme is supported by its carefully-maintained balance sheet, which remains one of the strongest in the global utility sector, with credit ratings of 'A' (Standard & Poors) and 'A2' (Moody's). Events in the financial markets over the past few months have again reinforced the importance of avoiding inappropriately large levels of debt and of maintaining a strong financial profile.

SSE's balance sheet position means it is comparatively well-placed to raise finance and in a position to pay interest at lower rates than would otherwise be the case. This is demonstrated by its success in securing new funding of around £1.5 billion between July and November 2008, in the very difficult market conditions experienced by all borrowers. This comprised: a €600m five-year Euro bond with a coupon of 6.125%; a £350m 30-year sterling bond with a coupon of 6.25%; a £145m five-year Japanese Yen loan; and a £500m 20-year sterling bond with a coupon of 8.375% issued on 7 November 2008.

Net Debt
As at 30 September 2008, SSE's net debt was £4.689bn, compared with £3.666bn at 31 March 2008. This is higher than forecast for the reasons set out in the Financial Overview above, which also sets out the likely position for 2008/09 as a whole.

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 2008/09 were £128.0m, compared with £75.1m in the same period last year.

	Sept 08 £m	Sept 07 £m
Reported net finance costs	13.5	17.0
add/(less)		
Share of JCE*/Associate interest	63.5	63.1
Interest on convertible debt	(0.8)	(3.5)
Movement on derivatives	51.8	(1.5)
Adjusted net finance costs	**128.0**	**75.1**
Return on pension scheme assets	68.4	70.2
Interest on pension scheme liabilities	(65.2)	(58.5)
Notional interest arising on discounted provisions	(0.8)	(1.5)
Adjusted interest costs**	130.4	85.3

*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 5.51%, compared with 5.34% for the six months to 30 September 2007. Based on adjusted interest costs, underlying interest cover for 2008/09 as a whole is currently expected to be around five times (including interest related to SGN), compared with 7.9 times in 2007/08; excluding interest related to SGN it is expected to be around 6.5 times.

For the first six months it was 3.0 times, compared with 8.6 times in the six months to 30 September 2007, and excluding interest related to SGN it was 3.6 times (15.5 times in the six months to 30 September 2007).

Within the adjusted net finance costs of £128.0m, the element relating to SGN's net finance costs was £42.4m (compared with £40.5m in the previous year), after netting loan stock interest payable to SSE. Its contribution to SSE's profit before tax* was, therefore, £33.0m, compared with £0.6m in the previous year.

Pensions
In line with the IAS 19 treatment of pension scheme assets, liabilities and costs, pension scheme liabilities of £211.7m are recognised in the balance sheet at 30 September 2008, gross of deferred tax. This represents an increase in net liabilities of £162.6m compared with the position at March 2008.

During the first six months of 2008/09, employer cash contributions to the Scottish Hydro Electric scheme amounted to £7.3m. Contributions to the Southern Electric scheme, including deficit repair contributions of £18.5m, amounted to £28.7m. As part of the Distribution Price Control for 2005-2010, it was agreed that allowances for 76% of deficit repair contributions should be included in price controlled revenue.

At 30 September 2008, there was a net liability arising from IAS 39 of £270.8m, before tax, compared with a net liability of £117.3m, before tax, at 31 March 2008.

TAX

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

	Sept 08 £m	Sept 07 £m
Reported tax charge	43.6	137.3
add back:		
Share of JCE/Associate tax	7.3	5.1
less:		
Deferred tax	(10.6)	(17.1)
Tax on exceptional items and certain remeasurements	33.9	46.8
Adjusted current tax charge	**74.2**	**172.1**

The effective adjusted current tax rate, based on adjusted profit before tax*, was 24.5%, compared with 25.9% 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 a positive impact on the effective current tax rate. The reported tax charge was 25.4%, compared with 19% in the previous year. The previous year included the release of deferred tax provisions following the Corporation Tax rate change introduced in Budget 2007.

PURCHASE OF OWN SHARES AND CONVERTIBLE BOND MATURITY

During the six months to 30 September 2008, SSE did not purchase any of its own shares for cancellation. SSE has an outstanding 3.75% convertible bond which matures on 29 October 2009, which had an initial nominal value of £300m. To date, holders have excercised their option to exchange their bonds for Ordinary Shares in the Company at £9 per share, in respect of bonds totalling £257.6m nominal value. New shares issued as a consequence of these conversions total 28.6 million. A nominal value of £42.4m or 14.1% of the original bond issue, remains outstanding. The total number of shares in issue at 30 September 2008 was 874.3 million.

CORPORATE RESPONSIBILITY

Risk Management

SSE actively monitors the risk factors that may affect it. The principal risks and uncertainties, and SSE's approach to addressing them, were set out in the Annual Report 2008. In summary, they relate to: operations; capital investment; financial exposures; public policy and regulatory developments; resource availability; the weather; and the economic situation in the UK. These remain the principal risks and uncertainties for the second half of this financial year and beyond, and they are regularly considered by the Board.

Since the Annual Report 2008 was published, the economic situation in the UK has deteriorated and financial risks have increased as problems have mounted in the financial markets. This, in turn, could potentially have implications for the scale of SSE's capital investment plans in future years. SSE believes that, where possible, these risks are contained by its balanced strategy, its adherence to the core financial principles set out in the Annual Report 2008 and its commitment to ensuring that all investments achieve returns which are greater than the cost of capital. The possible impact of a deteriorating economic situation in the UK has been addressed throughout this statement.

In its Annual Report 2008, SSE acknowledged perceptions of risk associated with public policy or regulatory developments, and commentary on the energy sector in recent months has been highly politicised. Despite this, SSE remains of the view that the policy and regulatory framework in the UK is fundamentally supportive of SSE's core purpose of providing the energy people need in a reliable and sustainable way. Indeed, the creation in October 2008 of a new UK government department – Energy and Climate Change – to tackle the twin challenges of energy security and climate change is a positive step forward and is something SSE for which has argued over a number of years.

In terms of transactions with related parties, there has been no change to the nature of these which has materially affected the financial position or performance of SSE during the period.

Safety

SSE aims to create value for shareholders by running the business with a strong emphasis on its six core values, which include safety and sustainability.

During the first six months of the year, the number of lost time and reportable accidents within the company was 0.05 per 100,000 hours worked, compared with 0.04 in the same period in the previous year. The number of serious, or potentially serious, road traffic accidents involving employees driving company vehicles was 0.13 per 100 vehicles, compared with 0.04 in the previous year.

On 22 September, an employee of Hochtief AG, the principal contractor, lost his life at the site of the new Glendoe hydro electric scheme. The circumstances surrounding the incident have been the subject of detailed investigation. Everyone associated with the project, and SSE more widely, was greatly saddened by the death.

Environment

SSE's target for any given year is zero reportable environmental incidents. There were no such incidents during the first six months of 2008/09.

Disclaimer

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

Consolidated Condensed Income Statement
for the period 1 April 2008 to 30 September 2008

Six months ending 30 September	Note	**2008** Before exceptional items and certain re-measure-ments £m	**2008** Exceptional items and certain re-measure-ments (note 5) £m	**2008** Total £m	2007 Before exceptional items and certain re-measure-ments £m	2007 Exceptional items and certain re-measure-ments (note 5) £m	2007 Total £m
Revenue	4	**9,187.4**	**-**	**9,187.4**	5,646.9	-	5,646.9
Cost of sales		**(8,617.3)**	**(177.4)**	**(8,794.7)**	(4,699.0)	(16.3)	(4,715.3)
Gross profit		**570.1**	**(177.4)**	**392.7**	947.9	(16.3)	931.6
Operating costs		**(246.0)**	**-**	**(246.0)**	(279.5)	-	(279.5)
Other operating income		**10.1**	**-**	**10.1**	-	55.0	55.0
Operating profit before jointly controlled entities and associates		**334.2**	**(177.4)**	**156.8**	668.4	38.7	707.1
Jointly controlled entities and associates:							
Share of operating profit		**96.4**	**-**	**96.4**	71.4	-	71.4
Share of interest		**(63.5)**	**-**	**(63.5)**	(63.1)	-	(63.1)
Share of movement on derivatives		**-**	**3.1**	**3.1**	-	2.3	2.3
Share of tax		**(7.3)**	**(0.9)**	**(8.2)**	(5.1)	28.0	22.9
Share of profit / (loss) on jointly controlled entities and associates		**25.6**	**2.2**	**27.8**	3.2	30.3	33.5
Operating profit	4	**359.8**	**(175.2)**	**184.6**	671.6	69.0	740.6
Finance income	6	**103.8**	**-**	**103.8**	101.4	-	101.4
Finance costs	6	**(169.1)**	**51.8**	**(117.3)**	(116.9)	(1.5)	(118.4)
Profit before taxation		**294.5**	**(123.4)**	**171.1**	656.1	67.5	723.6
Taxation	7	**(77.5)**	**33.9**	**(43.6)**	(184.1)	46.8	(137.3)
Profit for the period		**217.0**	**(89.5)**	**127.5**	472.0	114.3	586.3
Attributable to:							
Equity holders of the parent		**217.7**	**(89.5)**	**128.2**	472.0	114.3	586.3
Minority Interest		**(0.7)**	**-**	**(0.7)**	-	-	-
Basic earnings per share (pence)	9			**14.7p**			68.1p
Diluted earnings per share (pence)	9			**14.7p**			66.8p
Dividends paid in the period (£m)	8			**371.0**			345.5

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

Consolidated Condensed Income Statement
for the year ended 31 March 2008

	Note	Before exceptional items and certain re-measure-ments £m	Exceptional items and certain re-measure-ments (note 5) £m	Total £m
Revenue	4	15,256.3	-	15,256.3
Cost of sales		(13,509.8)	(187.8)	(13,697.6)
Gross profit		1,746.5	(187.8)	1,558.7
Operating costs		(605.7)	-	(605.7)
Other operating income		0.1	55.0	55.1
Operating profit before jointly controlled entities and associates		1,140.9	(132.8)	1,008.1
Jointly controlled entities and associates:				
Share of operating profit		242.6	-	242.6
Share of interest		(127.6)	-	(127.6)
Share of movement on derivatives		-	4.2	4.2
Share of tax		(41.9)	31.2	(10.7)
Share of profit on jointly controlled entities and associates		73.1	35.4	108.5
Operating profit	4	1,214.0	(97.4)	1,116.6
Finance income	6	202.6	-	202.6
Finance costs	6	(233.9)	(1.5)	(235.4)
Profit before taxation		1,182.7	(98.9)	1,083.8
Taxation	7	(306.8)	96.2	(210.6)
Profit for the year		875.9	(2.7)	873.2
Attributable to:				
Equity holders of the parent		875.6	(2.7)	872.9
Minority Interest		0.3	-	0.3
Basic earnings per share (pence)	9			101.1p
Diluted earnings per share (pence)	9			101.0p
Dividends paid in the year (£m)	8			502.8

Consolidated Condensed Balance Sheet
as at 30 September 2008

At 31 March 2008 £m		Note	**At 30 September 2008 £m**	At 30 September 2007 £m
	Assets			
6,334.3	Property, plant and equipment		**6,772.2**	5,230.1
	Intangible assets:			
659.0	Goodwill		**664.8**	293.2
256.9	Other intangible assets		**326.6**	11.1
917.8	Investments in associates and jointly controlled entities		**875.1**	719.2
6.0	Other investments		**6.7**	5.6
85.8	Retirement benefit assets	14	**-**	177.1
43.1	Deferred tax assets		**58.7**	54.6
318.9	Derivative financial assets	12	**363.7**	51.4
8,621.8	**Non-current assets**		**9,067.8**	6,542.3
340.9	Other intangible assets		**303.9**	117.2
251.2	Inventories		**335.8**	258.2
3,400.3	Trade and other receivables		**3,298.1**	1,685.3
255.3	Cash and cash equivalents		**225.8**	27.2
1,106.5	Derivative financial assets	12	**1,887.8**	124.4
-	Current assets held for sale	13	**197.9**	-
5,354.2	**Current assets**		**6,249.3**	2,212.3
13,976.0	**Total assets**		**15,317.1**	8,754.6
	Liabilities			
1,847.6	Loans and other borrowings	10	**1,984.4**	386.7
3,601.9	Trade and other payables		**3,473.1**	1,971.8
220.8	Current tax liabilities		**139.8**	225.3
-	Current liabilities held for resale	13	**44.3**	-
9.5	Provisions		**12.3**	7.9
1,229.4	Derivative financial liabilities	12	**2,078.2**	46.0
6,909.2	**Current liabilities**		**7,732.1**	2,637.7
2,073.6	Loans and other borrowings	10	**2,930.7**	1,692.3
967.3	Deferred tax liabilities		**900.8**	897.4
107.3	Provisions		**50.9**	106.3
490.1	Trade and other payables		**441.8**	372.7
134.9	Retirement benefit obligations	14	**211.7**	195.1
313.3	Derivative financial liabilities	12	**444.1**	80.8
4,086.5	**Non-current liabilities**		**4,980.0**	3,344.6
10,995.7	**Total liabilities**		**12,712.1**	5,982.3
2,980.3	**Net assets**		**2,605.0**	2,772.3
	Equity:			
435.1	Share capital	11	**437.2**	430.4
315.7	Share premium		**352.3**	231.9
22.0	Capital redemption reserve		**22.0**	21.7
3.9	Equity reserve		**2.1**	8.1
2.3	Hedge reserve		**3.5**	1.3
25.4	Translation Reserve		**33.1**	-
2,175.6	Retained earnings		**1,755.2**	2,078.9
2,980.0	**Total equity attributable to equity holders of the parent**	15	**2,605.4**	2,772.3
0.3	Minority Interest		**(0.4)**	-
2980.3	**Total equity**		**2,605.0**	2,772.3

Consolidated Condensed Statement of Recognised Income and Expense

for the period 1 April 2008 to 30 September 2008

Year ended 31 March 2008 £m		**Six months ended 30 September 2008 £m**	Six months ended 30 September 2007 £m
11.6	Gains on effective portion of cash flow hedges (net of tax)	**2.6**	11.4
8.0	Transferred to income statement on cash flow hedges (net of tax)	**-**	-
(21.1)	Gains / (losses) on net investment hedge (net of tax)	**8.6**	-
(17.4)	Actuarial (losses) / gains on retirement benefit schemes (net of tax)	**(137.6)**	29.8
46.5	Exchange difference on translation of foreign operations	**(0.8)**	-
	Jointly controlled entities and associates		
(6.8)	Share of (losses) on effective portion of cash flow hedges (net of tax)	**(1.5)**	-
16.4	Share of actuarial (losses) / gains on retirement benefit schemes (net of tax)	**(33.6)**	0.3
37.2	**Net (expense) / income recognised directly in equity**	**(162.3)**	41.5
873.2	Profit for the period	**127.5**	586.3
910.4	**Total recognised income and expense for the period**	**(34.8)**	627.8
	Attributable to:		
910.1	Equity holders of the parent	**(34.1)**	627.8
0.3	Minority interest	**(0.7)**	-
910.4		**(34.8)**	627.8

Consolidated Condensed Cash Flow Statement
for the period 1 April 2008 to 30 September 2008

Year ended 31 March 2008 £m		**Six months ended 30 September 2008 £m**	Six months ended 30 September 2007 £m
	Cash flows from operating activities		
873.2	Profit for the period after tax	**127.5**	586.3
210.6	Taxation	**43.6**	137.3
167.1	Movement on financing and operating derivatives	**125.6**	17.8
22.2	Exchange loss in relation to foreign investment	**-**	-
233.9	Finance costs	**169.1**	116.9
(202.6)	Finance income	**(103.8)**	(101.4)
(108.5)	Share of jointly controlled entities and associates	**(27.8)**	(33.5)
(44.4)	Pension service charges less contributions paid	**(25.3)**	(18.3)
267.8	Depreciation and impairment of assets	**155.9**	138.9
32.5	Amortisation and impairment of intangible assets	**6.3**	22.5
(15.1)	Deferred income released	**(7.8)**	(7.7)
(25.9)	(Increase) in inventories	**(84.6)**	(44.1)
(616.0)	Decrease/(increase) in receivables	**89.9**	688.9
725.5	(Decrease)/increase in payables	**(151.8)**	(308.0)
(6.4)	(Decrease)/increase in provisions	**(53.6)**	0.3
10.8	Charge in respect of employee share awards	**6.3**	4.5
(65.3)	(Profit) on disposal of property, plant and equipment	**(6.1)**	(56.8)
0.4	Loss on disposal of replaced assets	**-**	-
1,459.8	**Cash generated from operations**	**263.4**	1,143.6
35.1	Dividends received from jointly controlled entities	**10.6**	19.9
61.2	Finance income received	**35.4**	26.3
(108.6)	Finance costs paid	**(112.8)**	(66.2)
(283.6)	Income taxes paid	**(151.9)**	(143.9)
(7.6)	Payment for consortium relief	**-**	-
1,156.3	**Net cash from operating activities**	**44.7**	979.7
	Cash flows from investing activities		
(798.8)	Purchase of property, plant and equipment	**(701.4)**	(416.3)
(16.9)	Purchase of software	**(0.3)**	(1.2)
8.9	Deferred income received	**21.8**	4.6
100.6	Proceeds from sale of property, plant and equipment	**4.0**	78.3
(5.6)	Loans to jointly controlled entities	**(15.9)**	(2.5)
(1,302.2)	Purchase of Airtricity	**-**	-
-	Purchase of shareholding in Greater Gabbard Offshore Winds	**(40.0)**	-
(49.5)	Purchase of Slough Heat and Power	**-**	-
(16.2)	Purchase of businesses and subsidiaries	**(7.6)**	-
597.3	Cash acquired in purchases	**-**	-
10.8	Loans repaid by jointly controlled entities	**20.4**	5.4
-	Investment in associates and jointly controlled entities	**(19.6)**	(4.4)
(14.5)	Increase in other investments	**(0.7)**	(1.5)
(1,486.1)	**Net cash from investing activities**	**(739.3)**	(337.6)
	Cash flows from financing activities		
2.2	Proceeds from issue of share capital	**0.6**	0.2
(237.0)	Repurchase of ordinary share capital for cancellation	**-**	(230.5)
(502.8)	Dividends paid to company's equity holders	**(371.0)**	(345.5)
(12.4)	Employee share awards share purchase	**(12.7)**	(10.6)
2,275.1	New borrowings	**2,773.7**	365.7
(543.0)	Borrowings acquired in purchases	**-**	-
(466.6)	Repayment of borrowings	**(1,746.3)**	(450.9)
515.5	**Net cash from financing activities**	**644.3**	(671.6)
185.7	**Net (decrease)/increase in cash and cash equivalents**	**(50.3)**	(29.5)
48.4	Cash and cash equivalents at the start of period	**243.1**	48.4
185.7	Net (decrease)/increase in cash and cash equivalents	**(50.3)**	(29.5)
9.0	Effect of foreign exchange rate changes	**19.2**	-
243.1	**Cash and cash equivalents at the end of period**	**212.0**	18.9

Notes on the Condensed Interim Statements
for the period 1 April 2008 to 30 September 2008

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 2008, 31 March 2008 or 30 September 2007 within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 March 2008, 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 38.

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 11 November 2008.

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 2008.

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. This is particularly evident where there has been exceptionally high commodity prices, such as those experienced in the six months to September 2008. 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. Other businesses are not considered to be seasonal in nature.

4. Segmental information

Primary reporting format – business segments

The primary segments, as defined by IAS 14, are as reported for management purposes and reflect the day-to-day management of the business. The Group's primary 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 and operating profit by segment is provided below. All revenue and profit before taxation arise from operations within Great Britain and Ireland.

Notes on the Condensed Interim Statements

for the period 1 April 2008 to 30 September 2008

4. Segmental information (continued)

a) Revenue by segment

Year ended 31 March 2008 Total revenue £m	Intra-segment revenue £m	External revenue £m		Six months ended 30 September 2008 Total revenue £m	Intra-segment revenue £m	External revenue £m	Six months ended 30 September 2007 Total revenue £m	Intra-segment revenue £m	External revenue £m
			Power Systems						
283.6	108.4	175.2	Scotland	**138.6**	**48.2**	**90.4**	129.8	46.4	83.4
434.0	194.6	239.4	England	**212.0**	**93.6**	**118.4**	194.9	90.3	104.6
717.6	303.0	414.6		**350.6**	**141.8**	**208.8**	324.7	136.7	188.0
14,263.0	13.1	14,249.9	**Generation and Supply**	**8,684.9**	**10.9**	**8,674.0**	5,186.7	6.8	5,179.9
1,017.8	426.0	591.8	**Other businesses**	**494.8**	**190.2**	**304.6**	460.4	181.4	279.0
15,998.4	742.1	15,256.3		**9,530.3**	**342.9**	**9,187.4**	5,971.8	324.9	5,646.9

Revenue from the Group's investment in Scotia Gas Networks plc, the Group's share being £172.3m (September 2007 - £135.6m, March 2008 – £361.2m), is not recognised as revenue of the Group under equity accounting.

b) Operating profit by segment

	Six months ended 30 September 2008 Adjusted £m	JCE / Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Power Systems					
Scotland	**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**
Energy Systems	**259.3**	**(61.6)**	**197.7**	**2.2**	**199.9**
Generation and Supply	**107.0**	**(9.0)**	**98.0**	**(177.4)**	**(79.4)**
Other businesses	**68.6**	**(0.2)**	**68.4**	**-**	**68.4**
	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**

	Six months ended 30 September 2007 Adjusted £m	JCE / Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Power Systems					
Scotland	67.0	-	67.0	-	67.0
England	97.5	-	97.5	-	97.5
	164.5	-	164.5	-	164.5
Scotia Gas Networks plc	41.1	(55.7)	(14.6)	25.3	10.7
Energy Systems	205.6	(55.7)	149.9	25.3	175.2
Generation and Supply	474.3	(12.4)	461.9	(11.3)	450.6
Other businesses	63.8	(0.1)	63.7	55.0	118.7
	743.7	(68.2)	675.5	69.0	744.5
Unallocated expenses (ii)	(3.9)	-	(3.9)	-	(3.9)
	739.8	(68.2)	671.6	69.0	740.6

Notes on the Condensed Interim Statements

for the period 1 April 2008 to 30 September 2008

4. Segmental information (continued)

b) Operating profit by segment (continued)

	Year ended 31 March 2008				
	Adjusted £m	JCE / Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Power Systems					
Scotland	150.2	-	150.2	-	150.2
England	232.7	-	232.7	-	232.7
	382.9	-	382.9	-	382.9
Scotia Gas Networks plc	161.5	(139.3)	22.2	30.3	52.5
Energy Systems	544.4	(139.3)	405.1	30.3	435.4
Generation and Supply	724.2	(29.9)	694.3	(182.7)	511.6
Other businesses	124.7	(0.3)	124.4	55.0	179.4
	1,393.3	(169.5)	1,223.8	(97.4)	1,126.4
Unallocated expenses (ii)	(9.8)	-	(9.8)	-	(9.8)
	1,383.5	(169.5)	1,214.0	(97.4)	1,116.6

(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 (2007 - £17.6m, March 2008 - £35.4m), as finance income (note 6).
(ii) Unallocated expenses comprise corporate office costs which are not directly allocable to particular segments.

Notes on the Condensed Interim Statements

for the period 1 April 2008 to 30 September 2008

5. Exceptional items and certain re-measurements

i) Exceptional items

There were no exceptional items in the 6 month period to 30 September 2008. During the previous year, the Group recognised a gain on disposal relating to the sale of telecoms sites assets to the Wireless Infrastructure Company Limited of £55.0m. In the previous year, the Group also separately disclosed the effect of the change in the base corporation tax rate of 30% to 28%, which was effective from 1 April 2008.

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 12.

These transactions can be summarised thus:

Year ended 31 March 2008 £m		**Six months ended 30 September 2008 £m**	Six months ended 30 September 2007 £m
	Exceptional items		
55.0	Disposal of Telecoms Masts Assets	**-**	55.0
32.4	Share of change in corporation tax in jointly controlled entities and associates	**-**	28.7
(22.2)	Exceptional loss on translation	**-**	-
65.2		**-**	83.7
	Certain re-measurements		
(187.8)	Movement on operating derivatives (note 12)	**(177.4)**	(16.3)
20.7	Movement on financing derivatives (note 12)	**51.8**	(1.5)
3.0	Share of movements on derivatives in jointly controlled entities (net of tax)	**2.2**	1.6
(164.1)		**(123.4)**	(16.2)
(98.9)	**(Loss)/Profit before taxation**	**(123.4)**	67.5
	Exceptional items		
55.4	Effect of change in corporation tax on deferred tax liabilities and assets	**-**	58.7
(9.9)	Taxation on other exceptional items	**-**	(16.8)
45.5		**-**	41.9
	Certain re-measurements		
50.7	Taxation on certain re-measurements	**33.9**	4.9
96.2	**Taxation**	**33.9**	46.8
(2.7)	**Impact on profit for the period**	**(89.5)**	114.3

Notes on the Condensed Interim Statements

for the period 1 April 2008 to 30 September 2008

6. Net finance costs

Year ended 31 March 2008 £m		**Six months ended 30 September 2008 £m**	Six months ended 30 September 2007 £m
	Finance income:		
141.4	Return on pension scheme assets	**68.4**	70.2
4.9	Interest income from short term deposits	**4.6**	2.0
	Other interest receivable:		
35.4	Scotia Gas Networks loan stock	**17.0**	17.6
10.8	Other jointly controlled entities and associates	**6.8**	5.2
10.1	Other receivable	**7.0**	6.4
56.3	Other interest receivable	**30.8**	29.2
202.6	**Total finance income**	**103.8**	101.4
	Finance costs:		
(52.5)	Bank loans and overdrafts	**(83.2)**	(21.0)
(81.2)	Other loans and charges	**(42.1)**	(42.4)
(117.4)	Interest on pension scheme liabilities	**(65.2)**	(58.5)
(4.6)	Accretion of convertible debt component	**(0.8)**	(3.5)
2.1	Foreign exchange translation of monetary assets and liabilities	**(4.5)**	-
23.3	Less: interest capitalised	**27.5**	10.0
(3.6)	Notional interest arising on discounted items	**(0.8)**	(1.5)
(233.9)	**Finance costs excluding movement on financing derivatives and exceptional items**	**(169.1)**	(116.9)
20.7	Movement on financing derivatives (note 12)	**51.8**	(1.5)
(22.2)	Exceptional loss on translation (note 5)	**-**	-
(235.4)	**Total finance costs**	**(117.3)**	(118.4)
(32.8)	**Net finance costs**	**(13.5)**	(17.0)

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

Year ended 31 March 2008 £m		**Six months ended 30 September 2008 £m**	Six months ended 30 September 2007 £m
(32.8)	Net finance costs	**(13.5)**	(17.0)
	(add)/less:		
	Share of interest from jointly controlled entities and associates		
(35.4)	Scotia Gas Networks loan stock	**(17.0)**	(17.6)
(92.2)	Other jointly controlled entities and associates	**(46.5)**	(45.5)
(127.6)		**(63.5)**	(63.1)
4.6	Accretion of convertible debt component	**0.8**	3.5
22.2	Exceptional foreign exchange translation loss	**-**	-
(20.7)	Movement on financing derivatives (note 12)	**(51.8)**	1.5
(154.3)	**Adjusted finance income and costs**	**(128.0)**	(75.1)
(141.4)	Return on pension scheme assets	**(68.4)**	(70.2)
117.4	Interest on pension scheme liabilities	**65.2**	58.5
3.6	Notional interest arising on discounted items	**0.8**	1.5
(174.7)	Adjusted finance income and costs for interest cover calculations	**(130.4)**	(85.3)

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 2009, 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 25.4% (2007 – 19.0%, March 2008 – 19.4%). The income tax expense in the previous year reflected, as an exceptional item, the impact of the change in UK corporation tax from 30% to 28% which was effective from 5 April 2008.

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 2008		**Six months ended 30 September 2008**	Six months ended 30 September 2007
	Effective adjusted rate:		
25.8%	Current tax	**24.5%**	25.9%
2.6%	Deferred tax	**3.5%**	2.7%
28.4%	**Total effective adjusted rate**	**28.0%**	28.6%

8. Dividends

The final dividend of 42.4p per ordinary share declared in the financial year ended 31 March 2008 (2007 – 39.9p) was approved at the Annual General Meeting on 24 July 2008 and was paid to shareholders on 26 September 2008.

An interim dividend of 19.8p per ordinary share (2007 – 18.1p) has been proposed and is due to be paid on 27 March 2009 to those shareholders on the Scottish & Southern Energy plc share register on 20 February 2009. The proposed interim has not been included as a liability in these financial statements.

9. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 September 2008 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 2008. 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 IAS 39.

Year ended 31 March 2008 Earnings £m	Year ended 31 March 2008 Earnings per share pence		**Six months ended 30 September 2008 Earnings £m**	**Six months ended 30 September 2008 Earnings per share pence**	Six months ended 30 September 2007 Earnings £m	Six months ended 30 September 2007 Earnings per share pence
872.9	101.1	**Basic**	**128.2**	**14.7**	586.3	68.1
2.7	0.3	Exceptional items and certain re-measurements (note 5)	**89.5**	**10.3**	(114.3)	(13.3)
875.6	101.4	Basic excluding exceptional items and certain re-measurements	**217.7**	**25.0**	472.0	54.8
		Adjusted for:				
10.4	1.2	Deferred tax	**8.5**	**1.0**	19.5	2.3
21.1	2.5	Deferred tax from share of jointly controlled entities and associates	**2.2**	**0.2**	(2.4)	(0.3)
4.6	0.5	Accretion of convertible debt component	**0.8**	**0.1**	3.5	0.4
911.7	105.6	**Adjusted**	**229.2**	**26.3**	492.6	57.2
872.9	101.1	**Basic**	**128.2**	**14.7**	586.3	68.1
9.8	1.1	Convertible debt interest (net of tax)	**0.6**	**0.1**	2.5	0.3
-	(1.2)	Dilutive effect of convertible debt	**-**	**(0.1)**	-	(1.6)
882.7	101.0	**Diluted**	**128.8**	**14.7**	588.8	66.8
2.7	0.3	Exceptional items and certain re-measurements	**89.5**	**10.2**	(114.3)	(13.0)
885.4	101.3	**Diluted excluding exceptional items and certain re-measurements**	**218.3**	**24.9**	474.5	53.8

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

Year ended 31 March 2008 Number of shares (millions)		**Six months ended 30 September 2008 Number of shares (millions)**	Six months ended 30 September 2007 Number of shares (millions)
863.2	For basic and adjusted earnings per share	**871.4**	861.1
2.0	Effect of exercise of share options	**1.8**	2.0
865.2		**873.2**	863.1
8.8	Effect of dilutive convertible debt	**4.8**	18.5
874.0	For diluted earnings per share	**878.0**	881.6

Notes on the Condensed Interim Statements

for the period 1 April 2008 to 30 September 2008

10. Loans and other borrowings

March 2008 £m		**September 2008 £m**	September 2007 £m
	Current		
12.2	Bank overdraft	**13.8**	8.3
1,835.3	Other short-term loans	**1,970.5**	378.0
0.1	Obligations under finance leases	**0.1**	0.4
1,847.6		**1,984.4**	386.7

March 2008 £m		**September 2008 £m**	September 2007 £m
	Non current		
2,073.1	Loans including convertible debt	**2,930.2**	1,691.8
0.5	Obligations under finance leases	**0.5**	0.5
2,073.6		**2,930.7**	1,692.3
3,921.2	**Total loans and borrowings**	**4,915.1**	2,079.0
(255.3)	Cash and cash equivalents	**(225.8)**	(27.2)
3,665.9	**Net debt**	**4,689.3**	2,051.8

i. Movement in net debt

	At 1 April 2008 £m	Decrease in cash and cash equivalents £m	(Increase)/ decrease in debt £m	**At 30 September 2008 £m**
Cash and cash equivalents	255.3	(29.5)	-	**225.8**
Bank overdraft	(12.2)	(1.6)	-	**(13.8)**
	243.1	(31.1)	-	**212.0**
Loans and borrowings	(3,920.6)	-	(993.9)	**(4,914.5)**
Finance lease creditors	(0.6)	-	-	**(0.6)**
Bank overdraft	12.2	-	1.6	**13.8**
	(3,909.0)	-	(992.3)	**(4,901.3)**
Net debt	(3,665.9)	(31.1)	(992.3)	**(4,689.3)**

Bank overdrafts are reported on the balance sheet as part of current loans and borrowings. For cash flow purposes, these have been included as cash and cash equivalents. Included in the increase in debt is a decrease of £35.1m relating to the movement in the convertible bond including the effect of partial redemption.

ii. Issuance in period

In the period from 1 April 2008, the Group has issued the following long-term loans:

	At September 2008 £m
6.125% Eurobond €600m bond issued 29 July 2008 repayable 29 July 2013	**474.0**
6.25% Eurobond £350m bond issued 27 August 2008 repayable 27 August 2038	**350.0**
5.975% Samurai ¥28,000m bond issued 26 September 2008 repayable 26 September 2013	**145.0**

10. Loans and other borrowings (continued)

iii. Convertible bond

The convertible bond was issued on 26 October 2004 in exchange for £300.0m in cash. The bond entitles 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 is 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 is at the option of the bond holder.

At 30 September 2008, bond holders had converted debt with a nominal value of £257.6m at the £9.00 per share conversion price. Conversion took place in the following periods:

	Nominal Value of Bond Converted £m	Number of Shares
Period to 31 March 2008	220.7	24,523,648
Six month period to 30 September 2008	36.9	4,097,664
	257.6	28,621,312

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 2008 £m		**At 30 September 2008 £m**	At 30 September 2007 £m
79.3	Nominal value of convertible bond	**42.4**	166.4
(0.3)	Costs of issue	**(0.2)**	(1.1)
79.0	Nominal value of convertible bond less costs of issue	**42.2**	165.3
(2.7)	Less: equity component and accreted debt element	**(1.0)**	(5.8)
76.3	Book value of convertible bond less costs of issue	**41.2**	159.5

On partial conversion, a debt element of £34.8m was converted from debt to equity. The costs of issue of the bond are amortised over the term of the bond.

For the purpose of diluted Earnings per Share (EPS), convertible bond interest of £0.8m (2007 - £3.5m, March 2008 - £14.0m) is added back to earnings. The number of potential ordinary shares to be issued includes the following in respect of this bond:

March 2008 Number of shares		**September 2008 Number of shares**	September 2007 Number of shares
8,809,685	Weighted average number of shares	**4,775,697**	**18,489,678**

11. Share capital

	Number (millions)	£m
Equity: Ordinary shares of 50p each:		
Authorised:		
At 30 September 2008 and 1 April 2008	1,200.0	600.0
Allotted, called up and fully paid:		
At 1 April 2008	870.1	435.1
Issue of shares (i)	0.1	0.1
Conversion of convertible debt to equity (ii)	4.1	2.0
Repurchase of shares (iii)	-	-
At 30 September 2008	**874.3**	**437.2**

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 104,753 (2007 – 37,367, March 2008 – 351,443) shares during the period under the savings-related share option schemes, and discretionary share option schemes for a consideration of £0.6m (2007 - £0.2m, March 2008 - £2.2m).

During the period, the Company purchased 839,802 shares (2007 – 737,031, March 2008 – 833,332) for a consideration of £12.7m (2007 – £10.6m, March 2008 - £12.4m) to be held in trust for the benefit of employee share schemes.

(ii) In the six months to 30 September 2008, the company issued 4,097,664 shares under the terms of the convertible bond at a conversion rate of £9 per ordinary share.

(iii) The Company did not re-purchase any shares in the period to 30 September 2008 (2007 – 16,010,000, March 2008 16,700,000), and therefore no consideration was paid (2007 – £230.5m, March 2008 – £239.8m).

12. 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. The interim period to 30 September 2008 has seen significant volatility in commodity prices and concerns over credit and liquidity availability. As a result of these external market factors, the Group is encountering an increase in commodity price risk, credit risk and liquidity risk compared with that experienced in the year to 31 March 2008. The Group's policies and management objectives enacted to manage these exposures remain as stated in the Group's Financial Statements to 31 March 2008.

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 2008 £m		**Six months ended 30 September 2008 £m**	Six months ended 30 September 2007 £m
	Operating derivatives		
135.7	Total result on operating derivatives (i)	**(806.4)**	177.8
(323.5)	Less: amounts settled (ii)	**629.0**	(194.1)
(187.8)	**Movement in unrealised derivatives**	**(177.4)**	(16.3)
	Financing derivatives (and hedged items)		
(116.8)	Total result on financing derivatives (i)	**42.6**	(79.8)
137.5	Less: amounts settled (ii)	**9.2**	78.3
20.7	**Movement in unrealised derivatives**	**51.8**	(1.5)
(167.1)	**Total**	**(125.6)**	(17.8)

(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 year 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 2008 £m		**September 2008 £m**	September 2007 £m
	Financial Assets		
318.9	Non-current	**363.7**	51.4
1,106.5	Current	**1,887.8**	124.4
1,425.4		**2,251.5**	175.8
	Liabilities		
(313.3)	Non-current	**(444.1)**	(80.8)
(1,229.4)	Current	**(2,078.2)**	(46.0)
(1,542.7)		**(2,522.3)**	(126.8)
-	Loans (note 10)	**-**	-
(117.3)		**(270.8)**	49.0

13. Assets and liabilities of operations classified as held for sale

The assets and liabilities of operations classified as held for sale as at 30 September 2008 relate to 50% of the Greater Gabbard Offshore Winds Limited subsidiary, and were as follows:

	As at 30 September 2008 £m
Property, plant and equipment	**189.4**
Trade and other receivables	**8.5**
Current assets held for sale	**197.9**
Trade and other payables	**(44.3)**
Current liabilities held for sale	**(44.3)**
Net assets held for sale	**153.6**

As at 30 September 2008, the Group had initiated an active programme to locate a buyer for 50% of its investment in Greater Gabbard Offshore Winds Limited. The disposal was considered to be highly probable at that date. The Group had initially acquired 50% of this subsidiary as part of the acquisition of Airtricity Holdings Limited on 15 February and subsequently acquired the remaining 50% holding from the joint venture partner, Fluor Inc, on 15 April 2008. The Group has entered into contracts for the required wind turbines and the design, supply, installation and commissioning of the balance of the plant. The Group intends to continue the development, construction and eventual operation of the wind farm in partnership with a joint venture partner. The relevant assets and liabilities of Greater Gabbard Offshore Winds Limited have been classified as held for sale, at their carrying values, in the consolidated balance sheet as at 30 September 2008. The disposal transaction took place on 3 November 2008 (note 18).

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 2008.

Summary of Defined Benefit Pension Schemes:

Movement recognised in the SoRIE March 2008 £m	Pension (liability) / asset March 2008 £m		Movement recognised in respect of the pension (liability) / asset in the SoRIE **September 2008 £m**	September 2007 £m	Pension (liability) / asset **September 2008 £m**	September 2007 £m
(64.3)	85.8	Scottish Hydro Electric Pension Scheme	**(97.0)**	37.8	**-**	177.1
40.2	(134.9)	Southern Electric Pension Scheme	**(94.1)**	6.1	**(211.7)**	(195.1)
(24.1)	(49.1)		**(191.1)**	43.9	**(211.7)**	(18.0)

The net pension liability of £211.7m reported at 30 September 2008 includes a restriction on recoverable amounts of £287.8m (2007 – nil, March 2008 - £210.6m).

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

At 31 March 2008		**At 30 September 2008**	At 30 September 2007
5.0%	Rate of increase in pensionable salaries	**5.1%**	4.9%
3.5%	Rate of increase in pension payments	**3.6%**	3.4%
6.9%	Discount rate	**7.3%**	5.9%
3.5%	Inflation rate	**3.6%**	3.4%

Notes on the Condensed Interim Statements
for the period 1 April 2008 to 30 September 2008

15. Reconciliation of movements in shareholders' funds

Year ended 31 March 2008 £m		**Six months ended 30 September 2008 £m**	Six months ended 30 September 2007 £m
872.9	Profit for the period	**128.2**	586.3
(502.8)	Dividends	**(371.0)**	(345.5)
370.1		**(242.8)**	240.8
37.2	Net income / (expense) recognised directly in equity	**(162.3)**	41.5
2.2	Share capital issued	**0.6**	0.2
(0.1)	Current and deferred tax recognised in equity in respect of employee share awards	**-**	-
216.1	Convertible bond converted to equity	**36.3**	130.5
(239.8)	Purchase and cancellation of own shares	**-**	(230.5)
(12.4)	Investment in own shares for employee share awards	**(12.7)**	(10.6)
10.8	Credit in respect of employee share awards	**6.3**	4.5
384.1	Net addition/(reduction) in shareholders' funds	**(374.6)**	176.4
2,595.9	Opening shareholders' funds	**2,980.0**	2,595.9
2,980.0	**Closing shareholders' funds**	**2,605.4**	2,772.3

16. Capital Commitments

At 31 March 2008		**At 30 September 2008**	At 30 September 2007
	Capital Expenditure		
447.3	Contracted for but not provided	**1,968.7**	579.6

Included within contracted but not provided capital expenditure at 30 September 2008 are amounts in relation to 100% of the capital commitments of Greater Gabbard Offshore Winds Limited.

17. Related Party Transactions

The transactions which took place in the six months to 30 September 2008 with related parties were consistent with those reported in the Company's consolidated financial statements for the year ended 31 March 2008.

18. Post Balance Sheet Events

On 3 November 2008, agreed to sell 50% of the equity in Greater Gabbard Offshore Winds Limited to npower renewables, the UK fully owned subsidiary of RWE Innogy. RWE Innogy will also reimburse SSE for 50% of the capital costs incurred in developing the project. The total cash consideration of the transaction is £308 million. The Group expects to recognise a gain on disposal in the region of £100m.

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
11 November 2008

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 2008 which comprises the Consolidated and Condensed Income Statement, the Consolidated and Condensed Balance Sheet, the Consolidated and Condensed Statement of Recognised Income and Expense, 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 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

KPMG Audit Plc
Chartered Accountants
Edinburgh
11 November 2008