

Financial Results to 30 September 2011



Delivering...
Dividend Growth for the
Long Term
Lord Smith of Kelvin

The SSE Team



Lord Smith of Kelvin
Chairman



Lady Rice
Senior Independent Director



Ian Marchant
Chief Executive Officer



Gregor Alexander
Finance Director



Alistair Phillips-Davies
Generation and Supply
Director



David Franklin
MD Energy Portfolio
Management

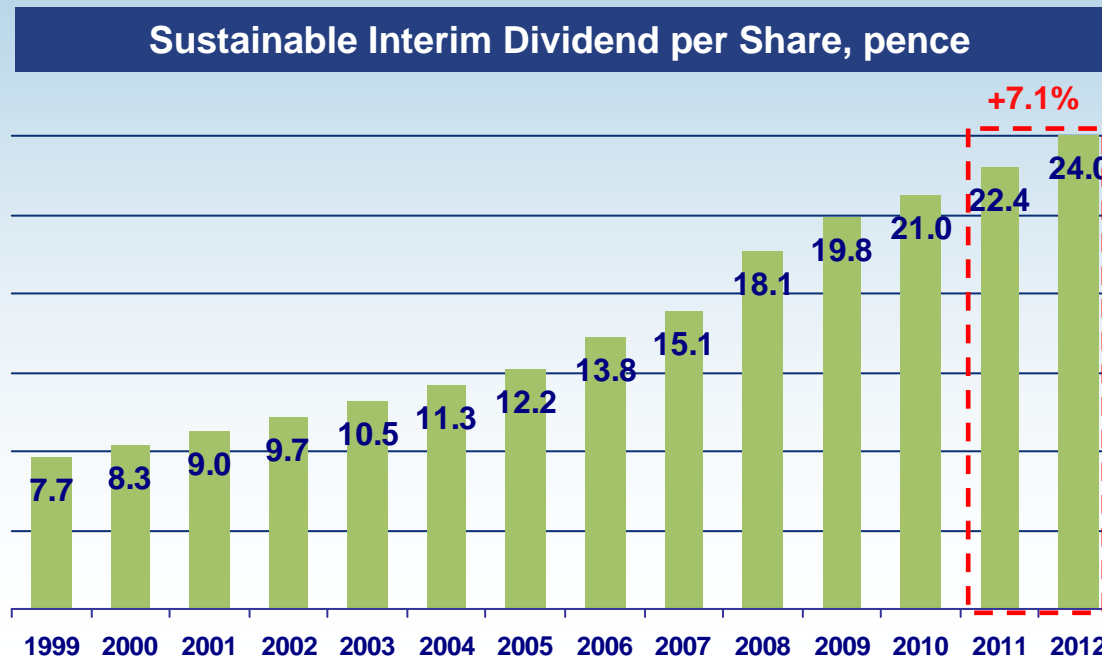


Paul Smith
MD Generation



Alan Young
MD Corporate Affairs

Delivering Another Dividend Increase



- ✓ We are on course to meet our 2011/12 target increase of at least 2% more than inflation, with a full-year dividend of around 80 pence per share

Delivering For the Long Term

Business conditions are not straightforward

- ✗ Economic uncertainty
- ✗ Global energy market turmoil
- ✗ High wholesale gas prices

Long-term focus is key

- ✓ A sustained dividend growth commitment demands a disciplined approach to operations and investments;
- ✓ SSE is well-financed, with robust and realistic plans for the future

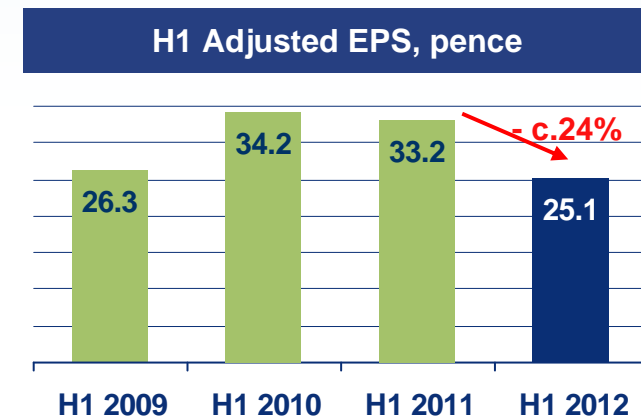
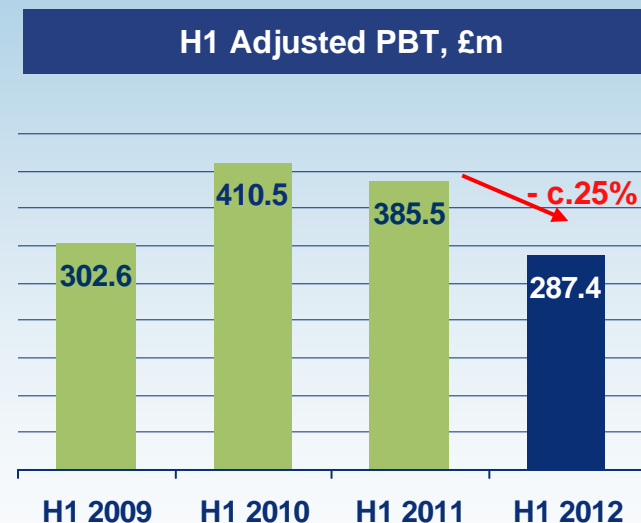
- ✓ SSE expects to be reporting moderate growth in adjusted PBT for 2011/12*

- ✓ SSE is well-placed to deliver the real dividend growth in the years ahead

*Subject to usual caveats (page 9 of the Half-Year Results statement)

Summarising Half-Year Performance

6 months to 30 September	2011 £m	2010 £m	
Adjusted Profit Before Tax	287.4	385.5	-25%
Fair value re-measurements (IAS 39)	(354.3)	629.7	
Exceptional Items	(13.1)	(388.8)	
Tax on JCEs and Associates	(1.3)	18.4	
Reported Profit Before Tax	(81.3)	644.8	
Adjusted Effective Tax Rate	18.1%	20.5%	



- ✓ Dividend *growth* is our key financial objective
- ✓ Interim dividend is up 7.1%

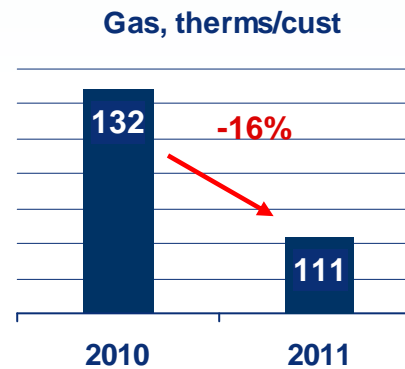
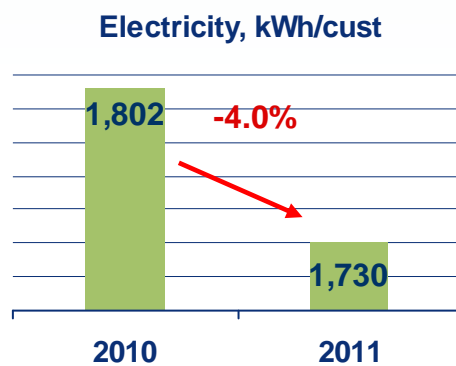
Managing the Issues Influencing Operating Profit

6 months to September	2011 £m	2010 £m	
Generation and Supply	58.8	202.8	(71.0)%
Energy Networks	320.4	292.7	9.5%
Other Businesses & Utility Services	77.2	66.2	16.6%
Unallocated costs	(4.5)	(4.5)	-
Total	451.9	557.2	(18.9)%

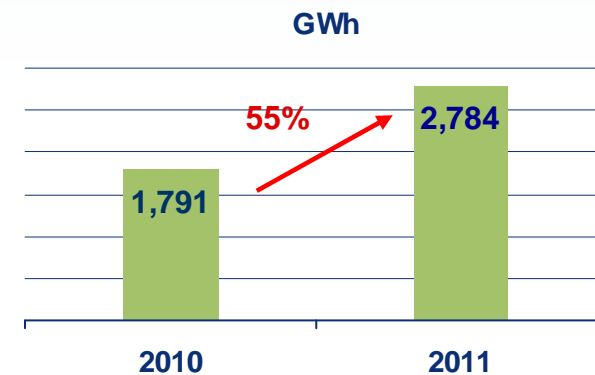
G&S Operating Profit Impacted by:

- ↓ Higher wholesale gas prices
- ↓ Low 'spark' spreads
- ↓ Reduction in household consumption of electricity and gas
- ↓ Delay of retail price increases until mid September
- ↑ Increase in renewable output

Reduction in Domestic Energy Consumption



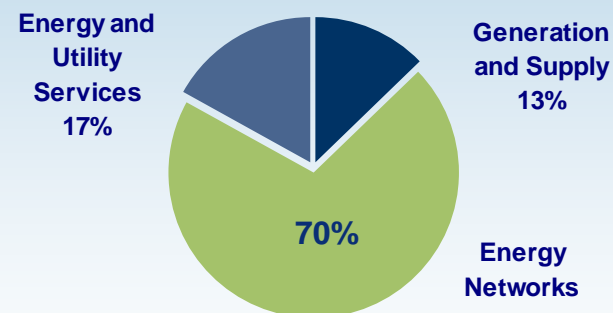
Increase in Renewable Output



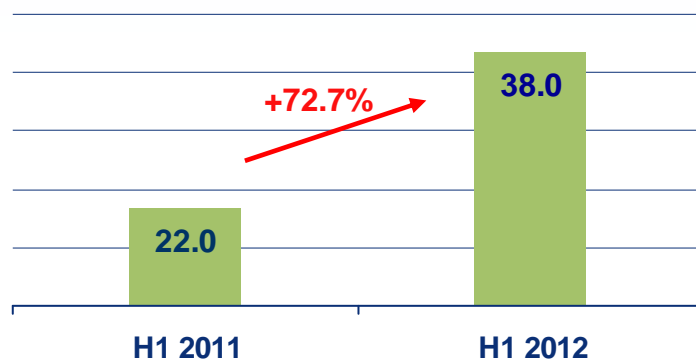
Achieving Operating Profit Growth in Energy Networks

6 months to September	2011 £m	2010 £m	
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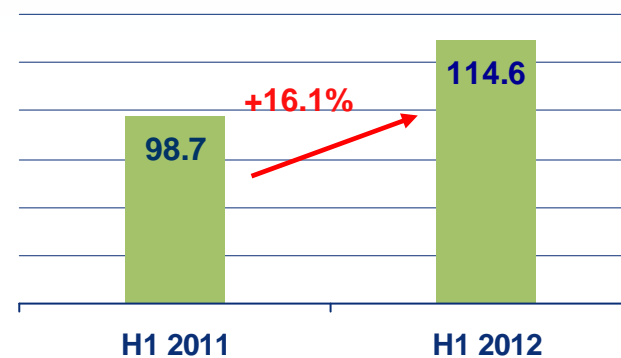
Operating Profit Split



Transmission Operating Profit, £m



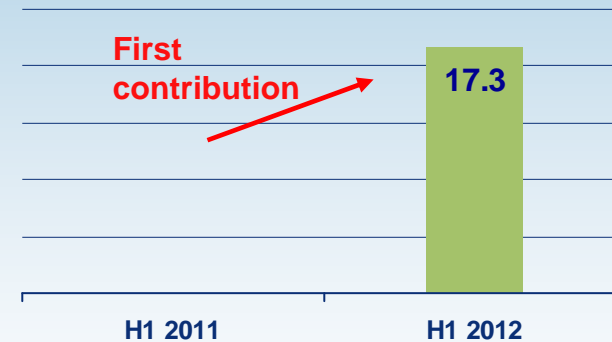
SGN Operating Profit, £m



Achieving Operating Profit Growth Across Other Energy and Utility Services

6 months to September	2011	2010	
	£m	£m	
Generation and Supply	58.8	202.8	(71.0)%
Energy Networks	320.4	292.7	9.5%
Other Businesses & Utility Services	77.2	66.2	16.6%
Unallocated costs	(4.5)	(4.5)	
Total	451.9	557.2	(18.9)%

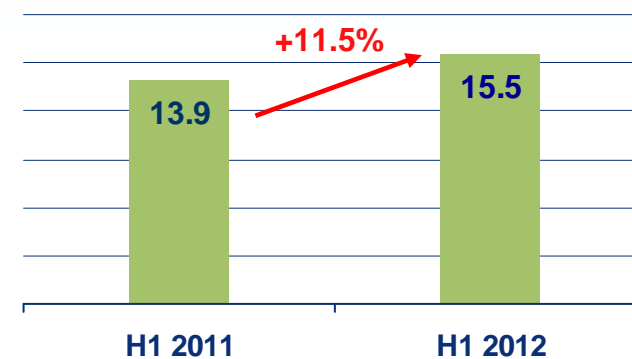
Gas Production Operating Profit, £m



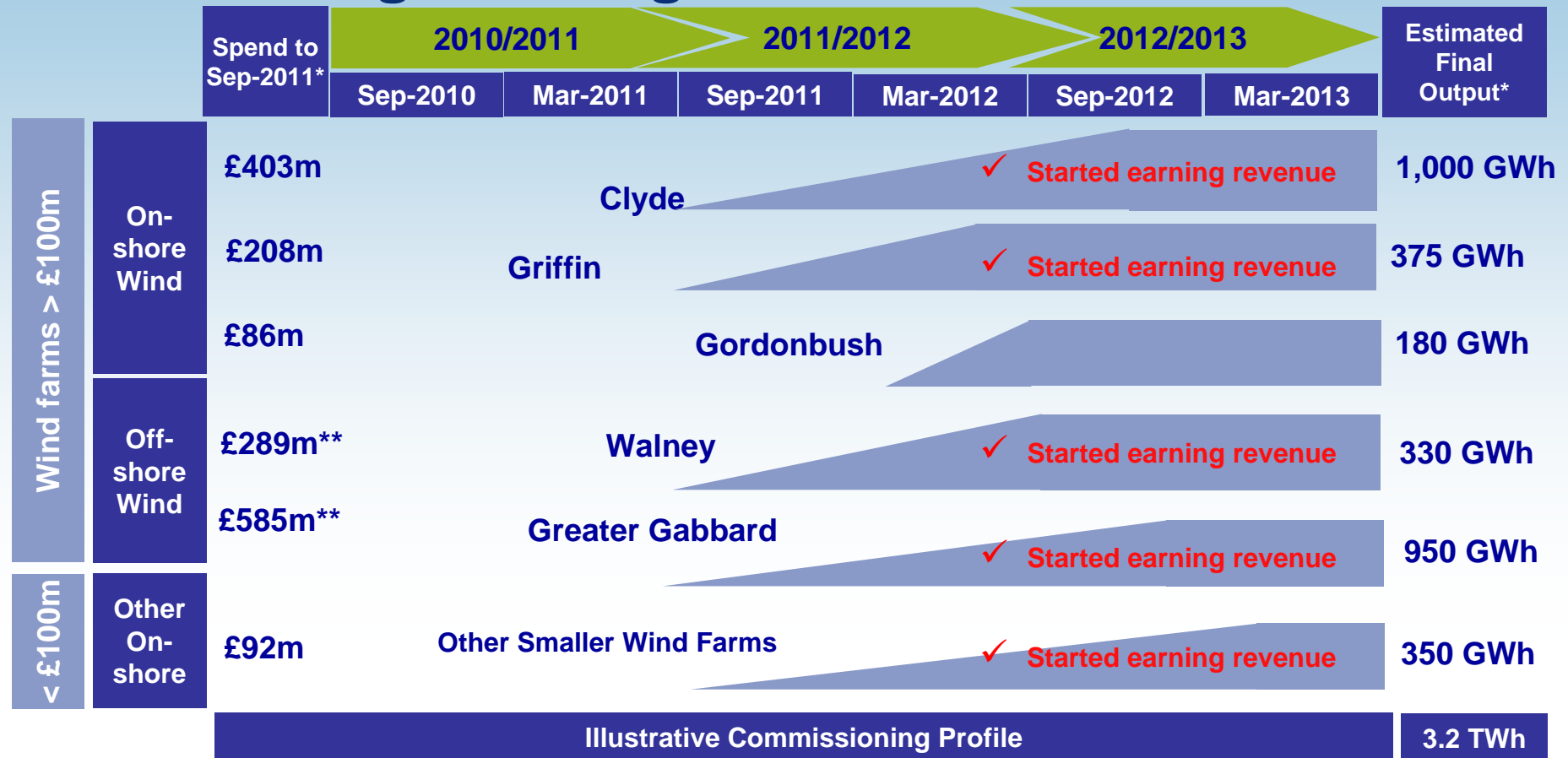
Performance was driven by....

- ↓ Reduction in operating profit for Telecoms, Contracting, Utility Solutions and Metering due to tough trading conditions;
- ↑ First half year contribution to operating profit from Gas Production;
- ↑ Increase in Gas Storage operating profit

Gas Storage Operating Profit, £m



Investing for Long-Term Dividend Growth

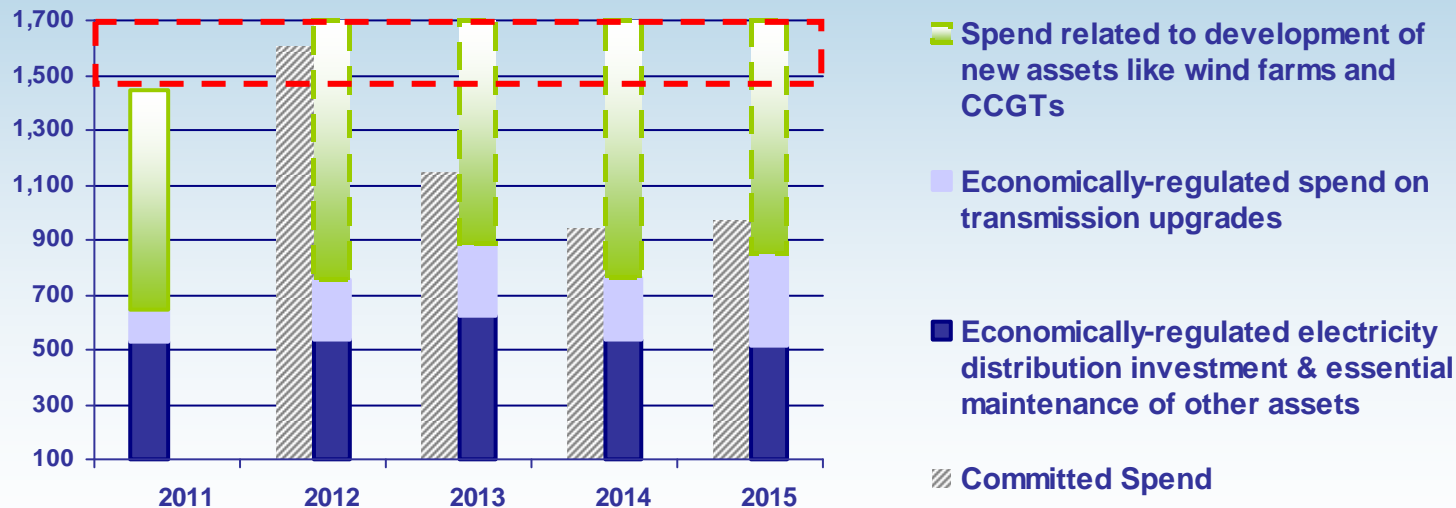


- ✓ Total spend on these projects is over £1.6bn as at 30 September 2011
- ✓ Economic evaluation of investment programme kept under close scrutiny
- ✓ Focused on the right allocation of resources (i.e. exited NuGen)

*SSE share ** Excl. Offshore Transmission Owner (OFTO) spend

Making the Right Investment Decisions

Expected investment and capital expenditure in the range of £1.5-1.7bn:



A disciplined investment programme is designed to:

- ✓ Maintain the development of a balanced range of assets to support sustained real dividend growth;
- ✓ Be consistent with the criteria for a single A credit rating without the need to issue new equity; and
- ✓ Play to SSE's strengths, experience and available resources

Delivering...Good Financial Management (1)

Investment decisions are based on core financial principles, meaning SSE:

- ✓ Uses discipline when managing the balance sheet;
- ✓ Is cautious about financing its activities – caution which the events of this year have again vindicated; and
- ✓ Believes we've got enough financial flexibility to pursue the best opportunities

A lot of investment opportunities to choose from



- Knocknagael Substation, Beaully-Denny, Western Isles...
- Making electricity networks smart



- CCGT at Abernedd, Keadby and other sites
- CCS at Peterhead



- Solid fuel at Ferrybridge
- Biomass options at coal stations



- Hydro power station Kildermorie
- Pumped storage: Sloy, Coire glas, Balmacaan



- Developing the pipeline of new wind farms
- Building a supply chain for offshore wind

Delivering...Good Financial Management (2)

		Sep 11	Mar 11
Adjusted Net Debt & hybrid capital	£bn	6.37	5.89
Average Debt Maturity	years	10.2	10.6
Underlying Interest Cover	times	3.7	7.3
Shares in Issue	m	937.8	936.9
Shares in Issue (weighted average)	m	937.0	927.6

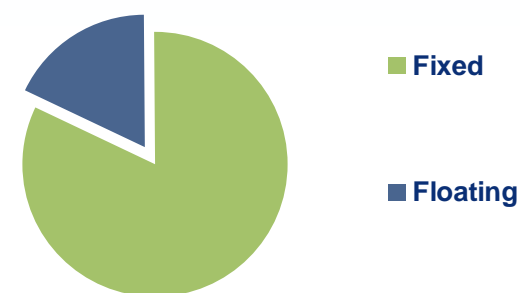
Net Debt Strong Structure

- £5.2bn in medium-to-long term borrowings, excluding hybrid capital;
- Just over £200m matures in the period to March 2013

Net Debt increase due to:

- Particularly low PBT for six months;
- Quantum and phasing of capex;
- Lower take-up of the Scrip dividend

Debt Mix



Delivering...Good Financial Management (3)

We continue to focus on financial management:

Financial Management

- Issued a £300m Sterling 10-year bond at 4.25% in September 2011;
- Secured a £126m Japanese Yen 7-year loan at 3.52% in October 2011

Strong Liquidity

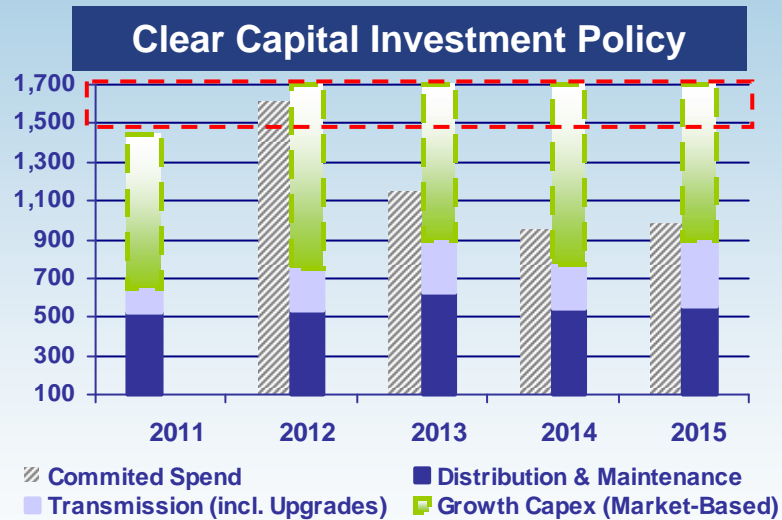
- Core revolving credit facilities of £900m are expected to remain undrawn
- Over £150m in cash at 30 September 2011

Credit Ratings

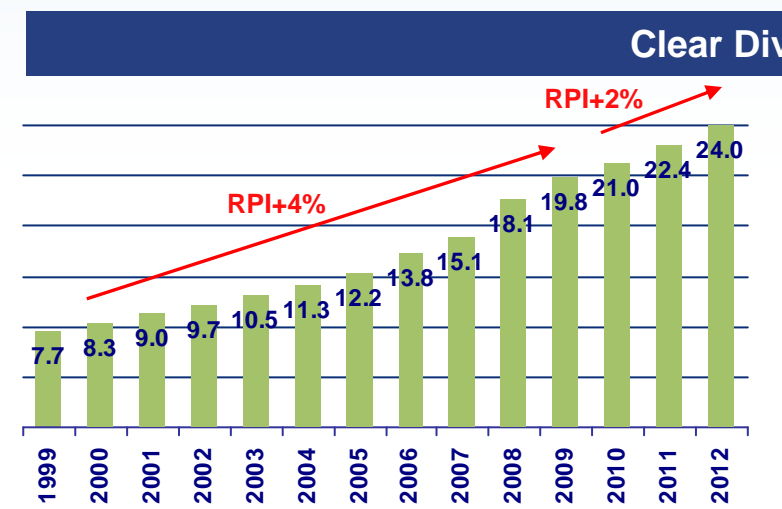
- Maintained A3/Stable and A-/Stable from Moody's and S&P, respectively

✓ A strong position to sustain the disciplined investment programme set out to 2015

A Clear Approach for The Long Term



- ### Clear Credit Policy
- ✓ Commitment to the criteria for a single A credit rating;
 - ✓ Moody's A3/Stable, S&P A-/Stable;
 - ✓ Strong liquidity



- ✓ “....a target to increase a full-year dividend per share by at least 2% more than Retail Price Index (RPI) inflation in each of the two financial years to March 2013, with annual above-inflation increases also being targeted for the subsequent years.”

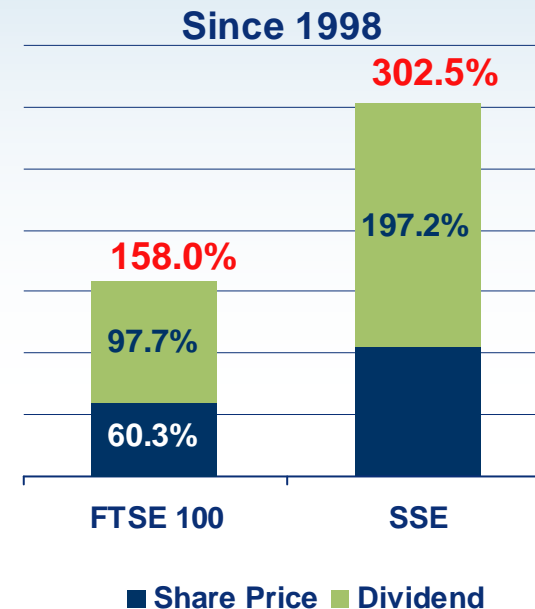
Doing the Right Things for Dividend Growth

Strategic Priority: Dividend

- ✓ SSE has just one strategic priority: sustained real dividend growth
 - ✓ Since 1998 SSE ranks 9th for Total Shareholder Return among the 48 companies in the FTSE 100 over that time
- 
- ✓ Receiving and reinvesting dividends is by far the biggest source of an investor return over the long term
 - ✓ Clear dividend targets provide a simplicity and transparency and make management genuinely accountable

Total Shareholder Return

- ✓ Our dividend obsession, and the long-term outlook it requires, has delivered for shareholders



Opportunities in a Changing Energy Sector

A Fast-Changing Energy Sector

- RIIO
- Electricity Market Reform
- Retail Market Review
- Irish market harmonisation



Opportunities

- ✓ Appropriately-remunerated investments; and
- ✓ Broader, long-term relationships with customers

SSE's Advantages

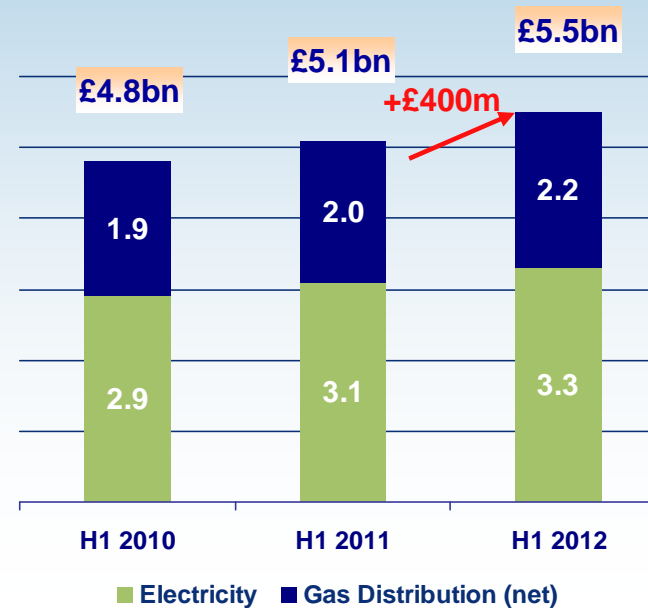
- ✓ A balanced range of economically-regulated and market-based businesses, we see the whole picture
- ✓ With operations and investments almost entirely in GB and Ireland we work at the macro and the micro level

Significant Opportunities in Energy Networks

Energy Networks Really Matter...

- ✓ They give a financial backbone and operational focus;
- ✓ They are central to SSE's commitment to sustained real annual dividend growth;
- ✓ They provide SSE with significant investment opportunities

Energy Networks RAV, £bn



✓ Opportunities to build on this are significant

Delivering in Distribution

Returns

- ✓ Able to deliver a post-tax return in excess of 5% between now and 2015;
- ✓ Latest indications show we remain at efficiency frontier;

Smart Grids

- ✓ Significant progress on smart grids, Shetland project funding agreed with 85% going on the RAV;
- ✓ The project features energy storage to manage intelligently the demands on electricity generation in Shetland;

Scotia Gas Networks

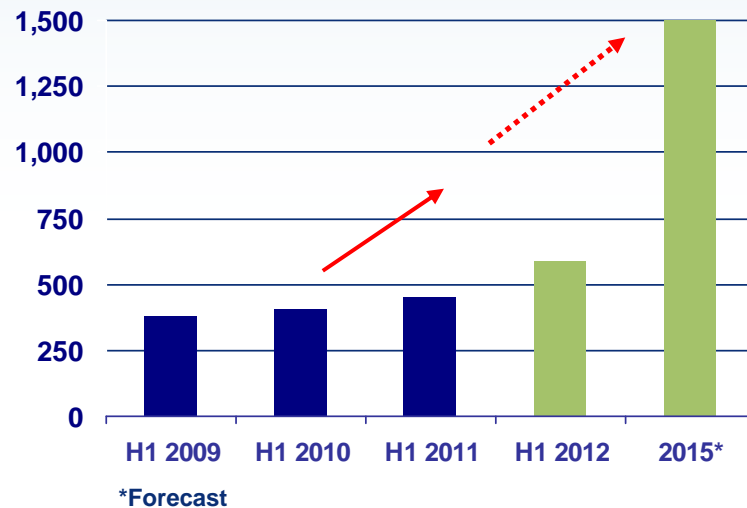
- ✓ SGN is continuing to perform well with increased efficiency and value and reduced risk profile;
- ✓ SGN has embraced the RIIO process and is doing a lot of work internally and externally to prepare for it

Delivering in Transmission

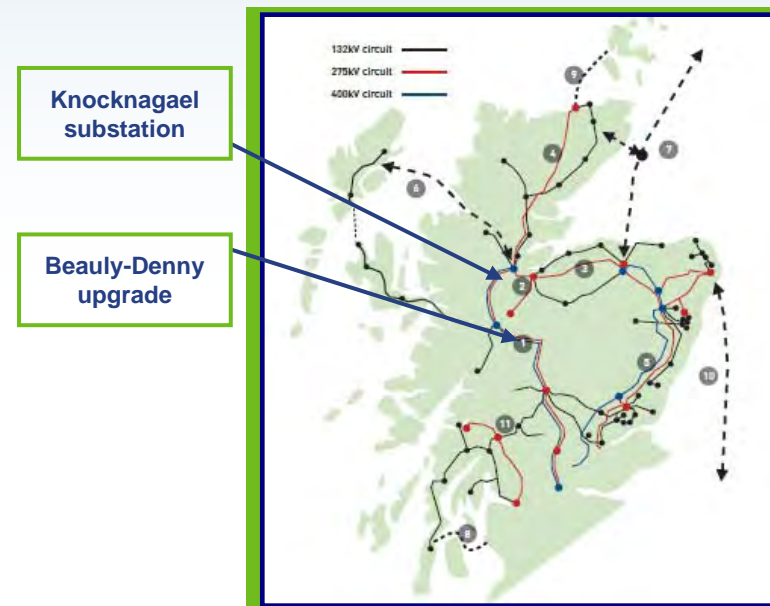
Progress Gathering Pace

- ✓ SSE has been retained in the fast-track process established under RIIO and has an opportunity to secure, in a timely way, a fair outcome to the transmission price control;
- ✓ Transmission is now our fastest-growing business

Transmission RAV



Transmission Upgrades



Doing the Right Things in Energy Supply (1)

SSE has made important decisions in the GB market:

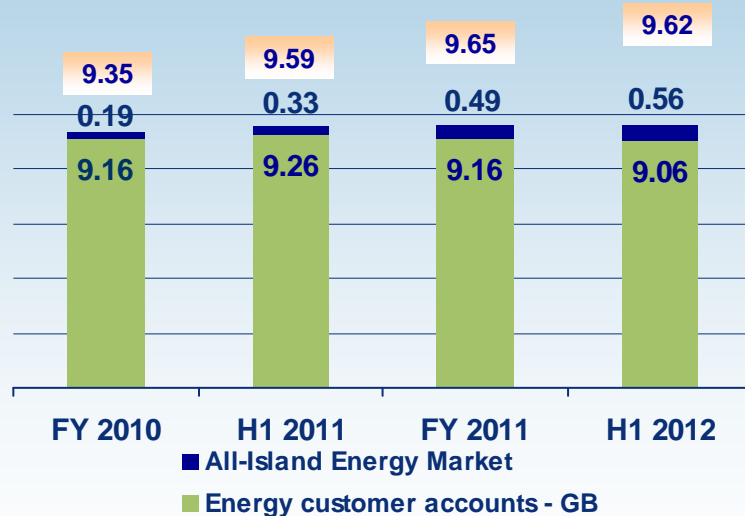
- ✓ Stopped commission-based doorstep sales;
- ✓ Frozen retail prices until August next year at the earliest;
- ✓ Helped transform volumes in the day-ahead electricity market;
- ✓ Removed online/offline differentials and called for an end to predatory pricing;
- ✓ Set out initial plans to tackle tariff complexity; improve cost transparency; and promote a better relationship with our customers.

Building trust...

- ✓ Reduced political and regulatory risk
- ✓ New and distinctive position in energy supply
- ✓ A fair deal for customers that is sustainable over the long term

Doing the Right Things in Energy Supply (2)

Energy customer numbers, million



- Doorstep closures, tariff increases and predatory pricing by other companies

Moving forward in energy supply

- ✓ A wider range of smarter products and services;
- ✓ Smart meter roll-out;
- ✓ Green Deal providing business opportunities;
- ✓ Markets in Ireland also evolving, with market harmonisation

✓ Undoubted Sector Leader in Service

Utility	Jul-10	Sep-10	Sep-10	Oct-10	Oct-10	Jan-11	Jun-11
	UKCSI	Uswitch	Consumer Focus	JD Power Electricity	JD Power Gas	UKCSI	Consumer Focus
SSE	1st	1st	1st	1st	3rd	1st	1st
Centrica	5th	5th	2nd	5th	4th	4th	Joint 2nd

Securing Energy for the Long Term

Renewables-Fossils Hedge

- Investment in renewables is a hedge volatile fossil fuel markets;
- Renewable output for H1 2012 was equal to 95m therms of gas

Gas Production

- ✓ Hess assets were a good, disciplined deal
- ✓ Operating Profit of £17.3m
- ✓ Delivery of 85.7m therms



CNS Ev/Lom Area



ECA Area

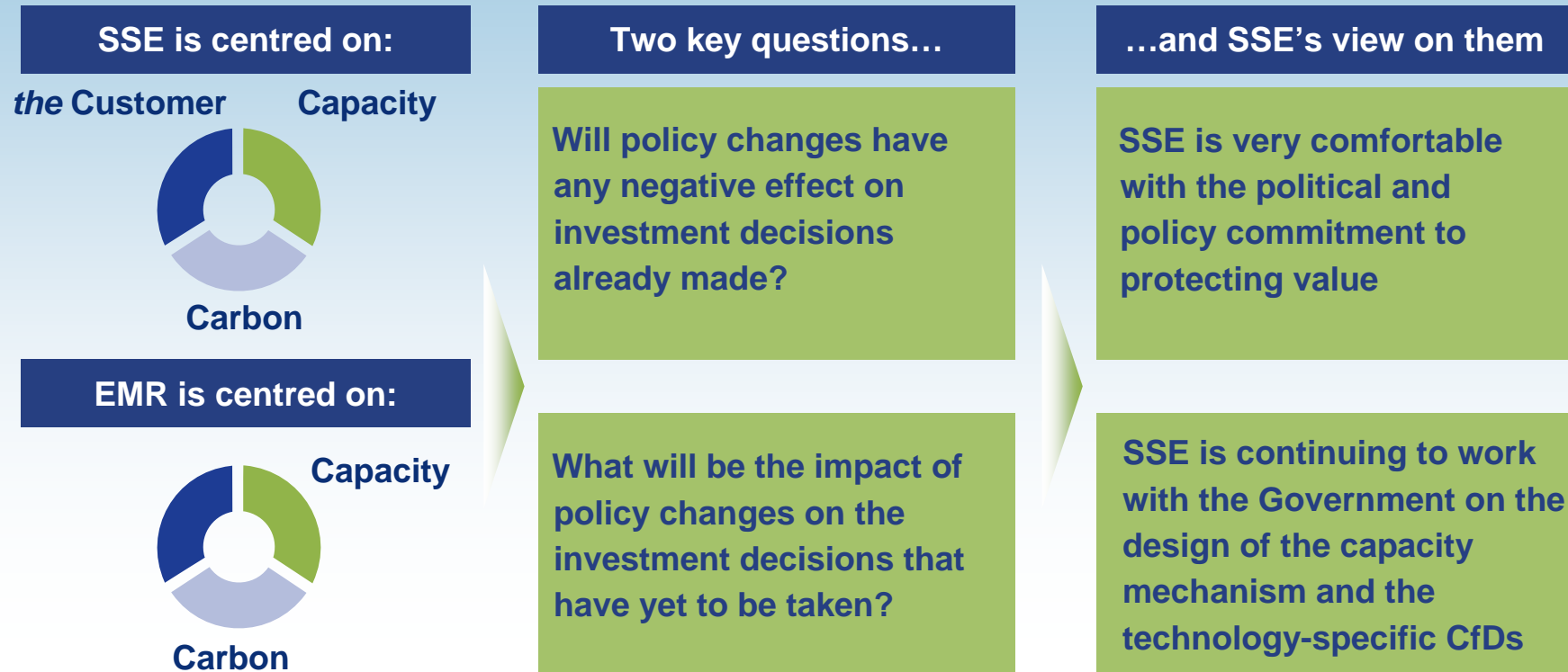


Bacton Area

Other Strategic Contracts and Assets

- ✓ Ten-year contract with Statoil for the annual supply of 500mcm;
 - ✓ Investment in the gas storage facility at Aldbrough is nearing completion; no plans to invest in extension
-
- SSE fuel position is evolving and we are optimistic that other opportunities will emerge to continue to add to our mix of natural gas assets and contracts

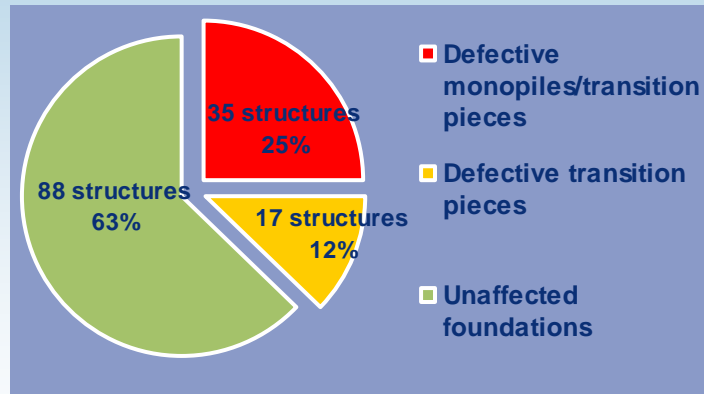
Securing A Workable Package from EMR



- ✓ The policy framework will continue to evolve until there is legislation on the statute book
- ✓ We won't be taking any punts on policy when making investment decisions

Managing Issues at Greater Gabbard and Glendoe

Greater Gabbard*



- ✓ Construction work continues to make a good progress
- ✗ Some of the foundations do not meet the standard required from Fluor
- ✓ In the meantime, the construction is focused on installing and commissioning the remainder of the turbines at Greater Gabbard

*SSE's stake – 50%

Glendoe



- ✓ The repair work is currently going well
- ✗ The work is extensive
- ✓ Electricity generation is on course to resume towards the end of June 2012
- ✓ SSE has significant insurance and legal options available but it is likely to take some time

Investing in New Wind Farms



✓ 130MW South section was finished earlier than expected and the rest is on course to be finished next year.



✓ Turbine installation is nearly finished and the whole farm should be operating earlier than planned, by Christmas 2011.



✓ Turbine installation is now well under way and first electricity generation should take place shortly.



✓ Phase one has operated successfully since summer and we've had first electricity from phase two, which should be commissioned in the first half of next year.

Photo courtesy of Steven Seymour/REpower

Doing the Right Things in Generation

Our ambitions now are as a non-nuclear generator:

- ✓ Decision to exit nuclear JV
- ✓ Extensive options for new CCGT, starting with Abernedd
- ✓ Significant solid fuel opportunities, starting with Ferrybridge
- ✓ Ambition to build a full chain post-combustion CCS scheme at Peterhead



- Compliance
- Capacity
- Diversity
- Availability
- Flexibility
- Sustainability

- ✓ Through our Generation principles, experience and knowledge we are able to make the right decisions about operations and investment in Generation



Delivering....Dividend Growth for the Long Term (1)

Treating the dividend as fundamental is the reason why SSE is:

- ✓ One of just six FTSE 100 companies to have delivered a real dividend increase every year since 1999; and
- ✓ Ranked 9th among continuing FTSE 100 companies for Total Shareholder Return over that period.

Decisions we make are for the long-term:



- Decided transmission is a core asset and its RAV will grow dramatically;



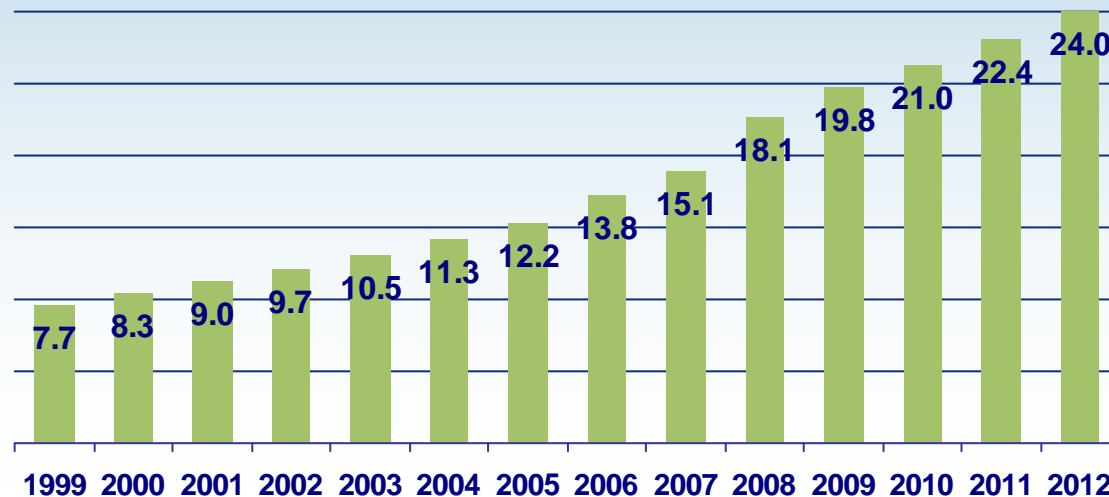
- Decided to change the way we retain and gain customers and show leadership in building trust;



- Decided to be non-nuclear, focusing on fuels and technologies where we have the skills and experience.

Delivering....Dividend Growth for the Long Term (2)

Sustainable Interim Dividend per Share, pence



“....a target to increase a full-year dividend per share by at least 2% more than Retail Price Index (RPI) inflation in each of the two financial years to March 2013, with annual above-inflation increases also being targeted for the subsequent years.”