Financial Results to 31 March 2012

SSE

DELIVERING THE DIVIDEND
Lord Smith of Kelvin, Chairman

The SSE Team

Lord Smith of Kelvin
Chairman

Gregor Alexander
Finance Director

Alistair Phillips-Davies
Generation and Supply Director

Ian Marchant
Chief Executive Officer

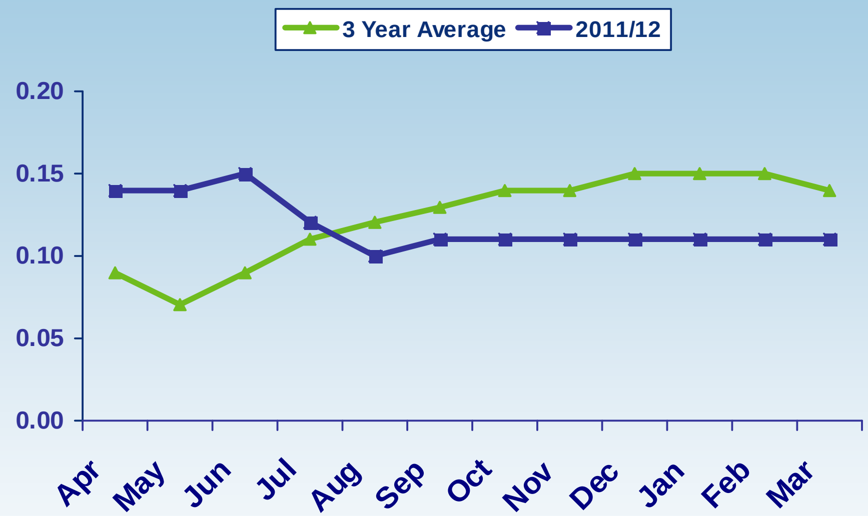
Mark Mathieson
MD Networks

Alan Young
MD Corporate Affairs

John Morea
SGN CEO

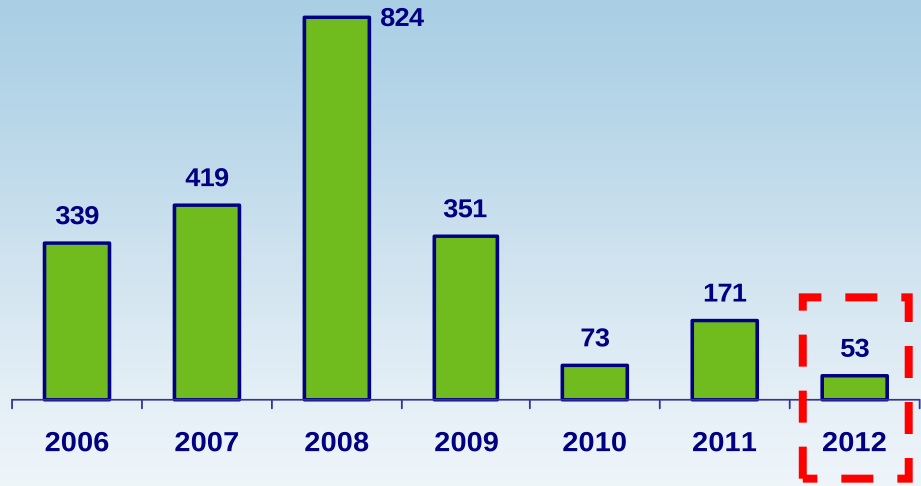
Safety comes first

Total Recordable Injury Rate*

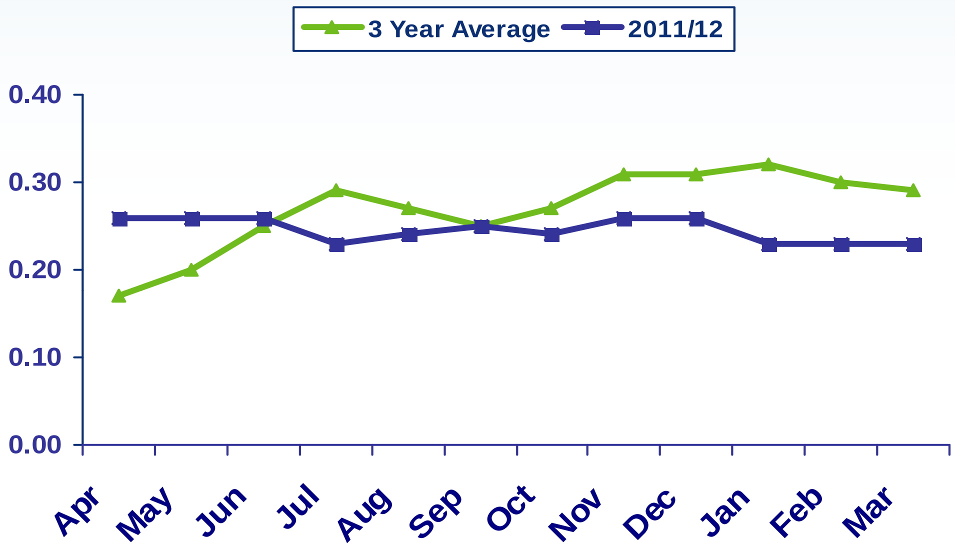


*TRIR – per 100,000 hours worked

Working Days Lost

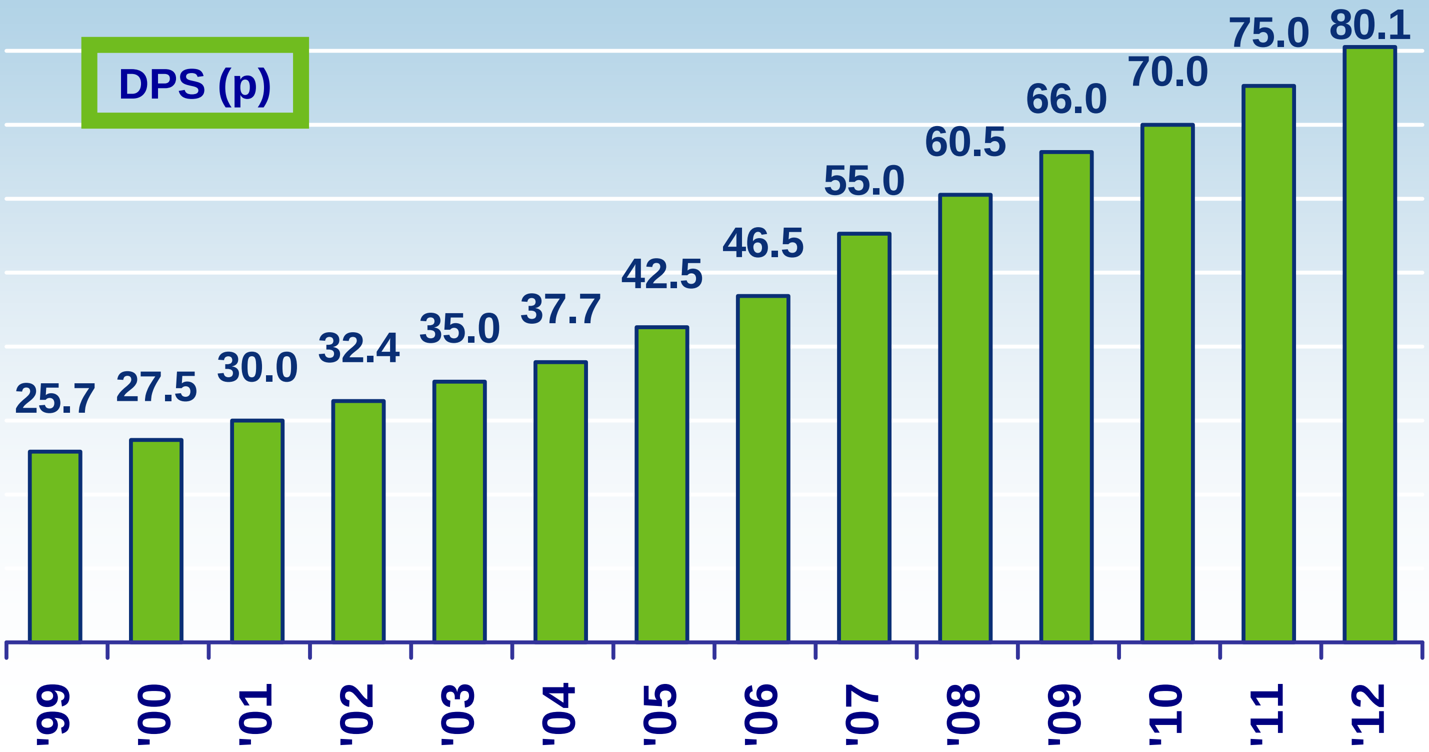


Road Traffic Collisions**



** RTCs – class 1 blameworthy incidents per 100 vehicles

Delivering a thirteenth successive real dividend increase



- ✓ A target to increase the full-year dividend per share by at least 2% more than Retail Price Index (RPI) inflation in 2012/13
- ✓ Annual above-RPI inflation increases also being targeted for 2013/14 onwards

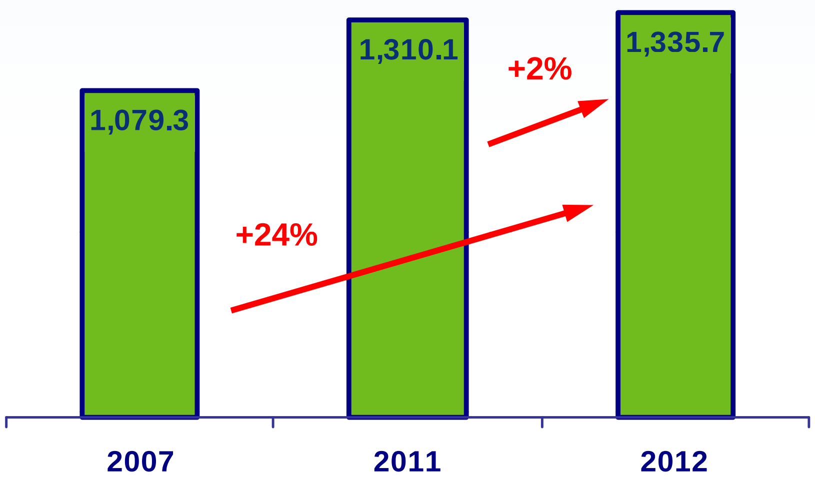
Delivering a thirteenth successive PBT increase

Dividend Cover

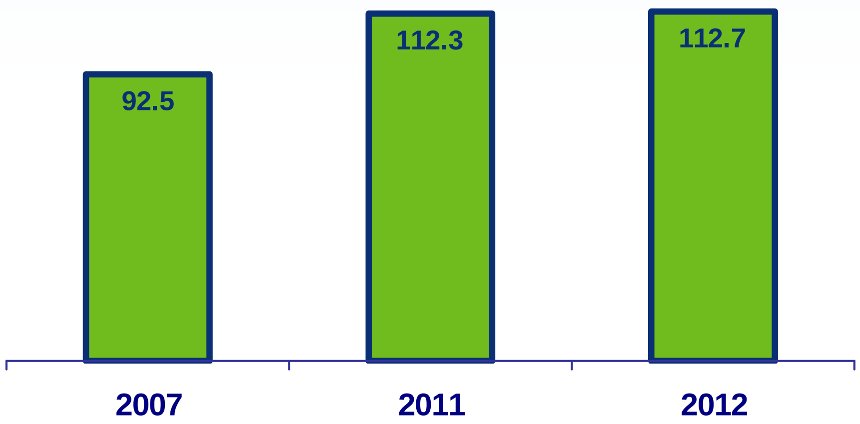
Despite Tough Operating Environment

- Higher wholesale gas prices
- Low ‘spark’ spreads
- Falling energy consumption

Adjusted PBT, £m



Adjusted EPS, pence



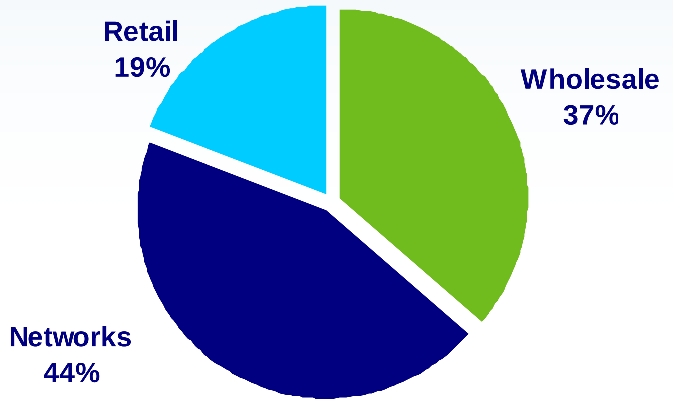
Maintaining a balanced range of businesses

12 months to March	2012 £m	2011 £m
Adjusted Profit Before Tax	**1,335.7**	**1,310.1**
Fair value re-measurements (IAS 39)	(509.0)	1,423.3
Exceptional Items	(551.6)	(625.0)
Tax on JCEs and Associates	(6.6)	3.3
Reported Profit Before Tax	**268.5**	**2,111.7**
Adjusted Effective Tax Rate	**16.0%**	**20.5%**
Adjusted Earnings Per Share	**112.7p**	**112.3p**

Increase in Adjusted PBT

- ✓ **Acquisition of gas production assets**
- ✓ **Major increases in Transmission RAV**
- ✓ **Major increases in both renewable capacity and output**

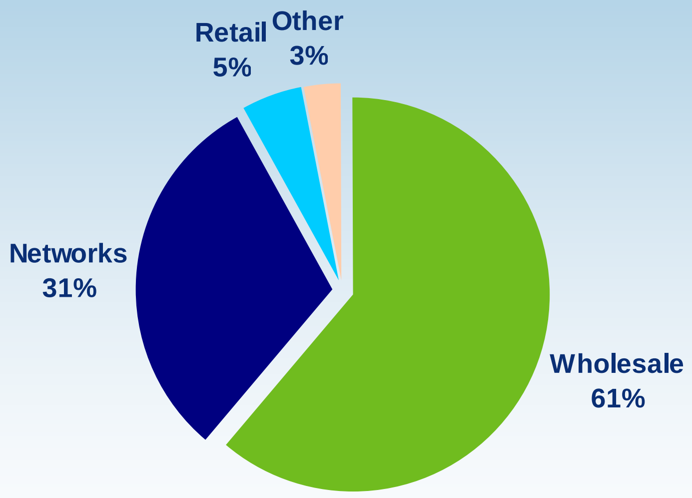
Operating Profit by Segment



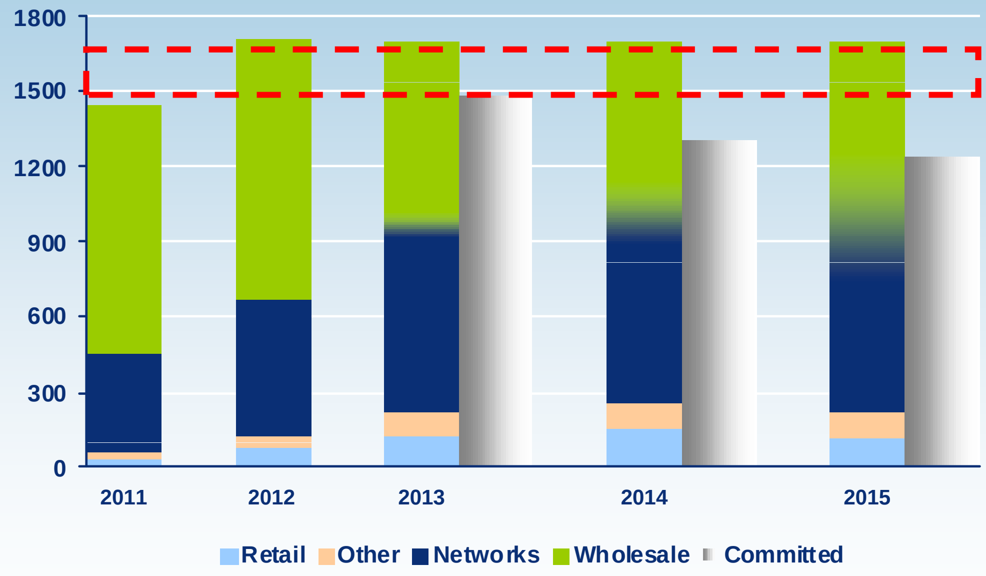
Value in maintaining a balanced range of economically-regulated and market-based businesses

Investing in new assets to sustain dividend growth

2011/12 Capex totalled £1.7bn



Capex Programme to March 2015, £m



- Commissioned almost 700MW* of renewable capacity
- Added £360m to electricity RAVs

- Electricity networks and renewables continue to be the main components
- Expect capex spend to remain in £1.5bn - £1.7bn range for next few years
- Designed to be consistent with criteria for single ‘A’ credit rating without need to issue new equity

* MW gross of assets sold

Making sure SSE is well-financed

- ✓ Adjusted net debt and hybrid capital increased to £6.76bn
- ✓ Size and phasing of capex programme
- ✓ Revenue from last September's retail price increase still being collected

12 months to March	2012 £m	2011 £m
Cash from operating activities	**1,947.0**	**2,368.5**
Movement in outstanding liquid funds	91.8	(80.6)
Capital expenditure and investments	(1,788.2)	(1,805.2)
Dividends paid to shareholders	(628.7)	(513.7)
Tax, interest and hybrid coupon	(304.3)	(318.4)
Other	(182.8)	(248.9)
Increase in adjusted net debt	**(865.2)**	**(598.3)**
Adjusted net debt and hybrid capital*	**(6,755.8)**	**(5,890.6)**

Interest Cover* and Debt Maturity (years)

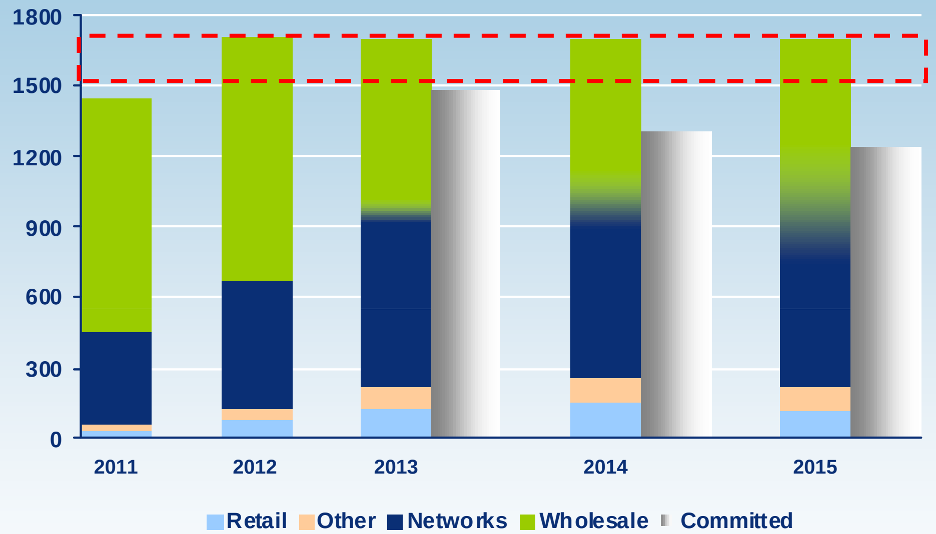
*Exc SGN

Robust debt structure with c£5.1bn of medium to long-term borrowings (excluding hybrid capital)

SSE

Maintaining a clear way forward for SSE

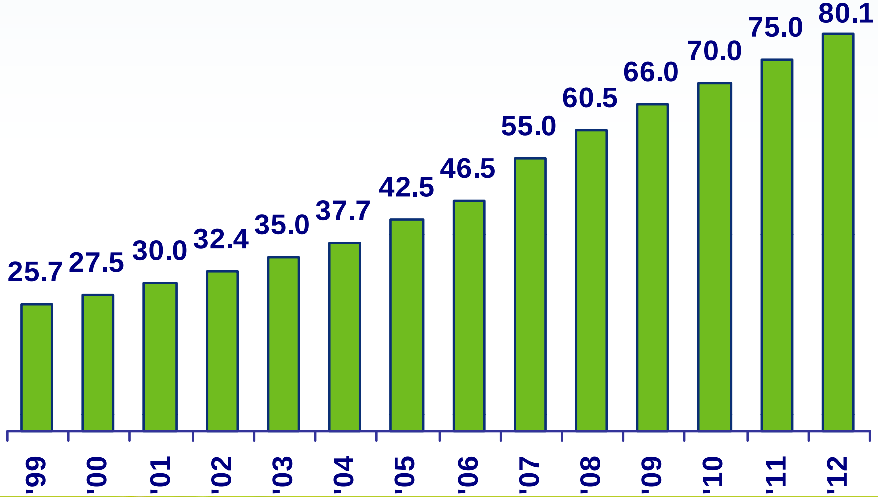
Clear Capital Investment Policy



Clear Credit Policy

- ✓ Commitment to the criteria for a single 'A' credit rating;
- ✓ Moody's A3/Stable, S&P A-/Stable;
- ✓ Strong liquidity
- ✓ Quality of investment decisions designed to support earnings and dividend growth

Clear Dividend Policy

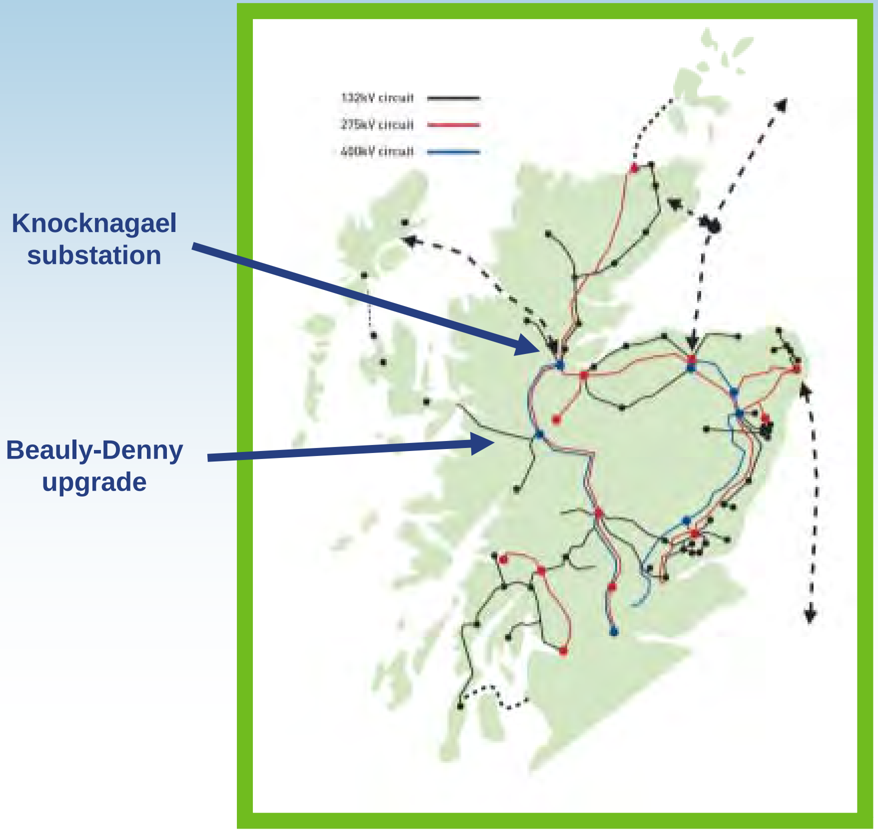


- ✓ A target to increase the full-year dividend per share by at least 2% more than Retail Price Index (RPI) inflation in the year to March 2012/13
- ✓ Annual above RPI inflation increases also being targeted for 2013/14 onwards

NETWORKS
Gregor Alexander, Finance Director

Managing Networks in a fast-moving environment

- ✓ New RIIO model for economic regulation being tested for the first time in Transmission and Gas Distribution
- ✓ Transmission upgrades to accommodate renewable energy
- ✓ Leading the way on the move to intelligent or smart networks
  - ✓ Orkney
  - ✓ Shetland
  - ✓ Thames Valley



Efficiency | **Responsiveness** | **Innovation**

SSE

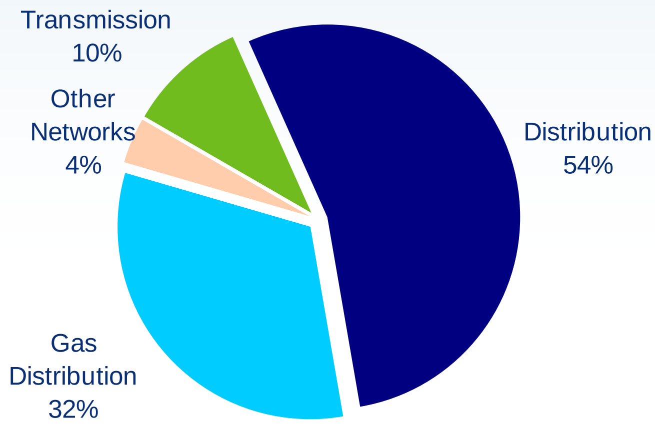
Increasing Networks' operating profit

12 months to March	2012 £m	2011 £m	Change %
Transmission	73.7	47.7	54.5%
Distrbution	396.5	418.9	-5.3%
Gas Distribution	234.8	186.8	25.7%
Other Networks	32.1	37.1	-13.5%
Networks Segment Operating Profit	**737.1**	**690.5**	**6.7%**

Movements in Network's Operating Profit

- ✓ **Increase in Transmission asset base**
- × **Electricity Distribution operating profit down due to timing of revenue recovery**
- ✓ **Greater allowed revenue in Gas Distribution**
- × **Other Networks' profit fell – tough economic environment**

Network's Operating Profit Split



Efficiency **Responsiveness** **Innovation**

Making investments in Networks

Growth in Regulated Asset Networks, £bn

2012/13 Capex

- ✓ Transmission capex forecast to be over £350m
- ✓ Electricity Distribution capex forecast to be c£275m
- ✓ SGN capex and repex forecast to total c£400m
- ✓ Total RAV should reach over £7bn by March 2015

Knocknagael

- ✓ Substation, overhead lines and underground cables built
- ✓ Successful completion of £43m project
- ✓ Additional 125MW of electricity can now be exported from the North of Scotland

Efficiency **Responsiveness** **Innovation**

Putting Transmission on the fast-track

RAV in Transmission Should Reach £1bn in the Next Year

Returns

- ✓ SHETL earned a 9% RORE in 2010/11 per Ofgem's report issued March 2012

RIIO Fast track

- ✓ SHETL fast-tracked under the RIIO-T1 process for the Transmission Price Control period April 2013 – March 2021

Investment

- ✓ £1.1bn capex in the base business plan to March 2021 – £4bn of "uncertainty capex" if required in the same period
- ✓ First Beauly-Denny tower constructed – replacement line should be completed in 2014

Keeping Electricity Distribution at the efficiency frontier

Efficiency

- ✓ 2010/11 Ofgem information published in March 2012 indicates that we remain at efficiency frontier
- ✓ RORE of over 13% earned in 2010/11

Responsiveness

- ✓ Equivalent of 3 months repair work carried out in just *4 days* following the January storms
- ✓ Equivalent of 3 months of calls (almost 25,000 calls) fielded in just *1 day* by the SSE team

Innovation

- ✓ Shetland project funding agreed (85% going on RAV)
- ✓ New Thames Valley Vision project approved in November – innovative technologies enable use of low cost alternatives to re-developing the network

Delivering efficiency and value in Gas Distribution

Innovation

- ✓ Biomethane project in Oxfordshire, distributing biogas to 200 homes
- ✓ Next project at Poundbury to supply biogas to almost 4,000 homes

Efficiency

- ✓ SGN external net debt at £3.27bn
- ✓ SGN RAV at £4.54bn

Responsiveness

- ✓ SGN submitted a revised business plan in April
- ✓ SGN continues to respond to Ofgem’s and other stakeholder’s comments as part of the new RIIO process
- ✓ Ofgem to publish their initial proposals for RIIO-GD1 in July 2012

Offering an efficient, responsive and innovative multi-utility solution

Business Customers

Electricity
44 out-of-area electricity networks – total now stands at 118

Gas
14,000 new gas connections – total now stands at 92,000

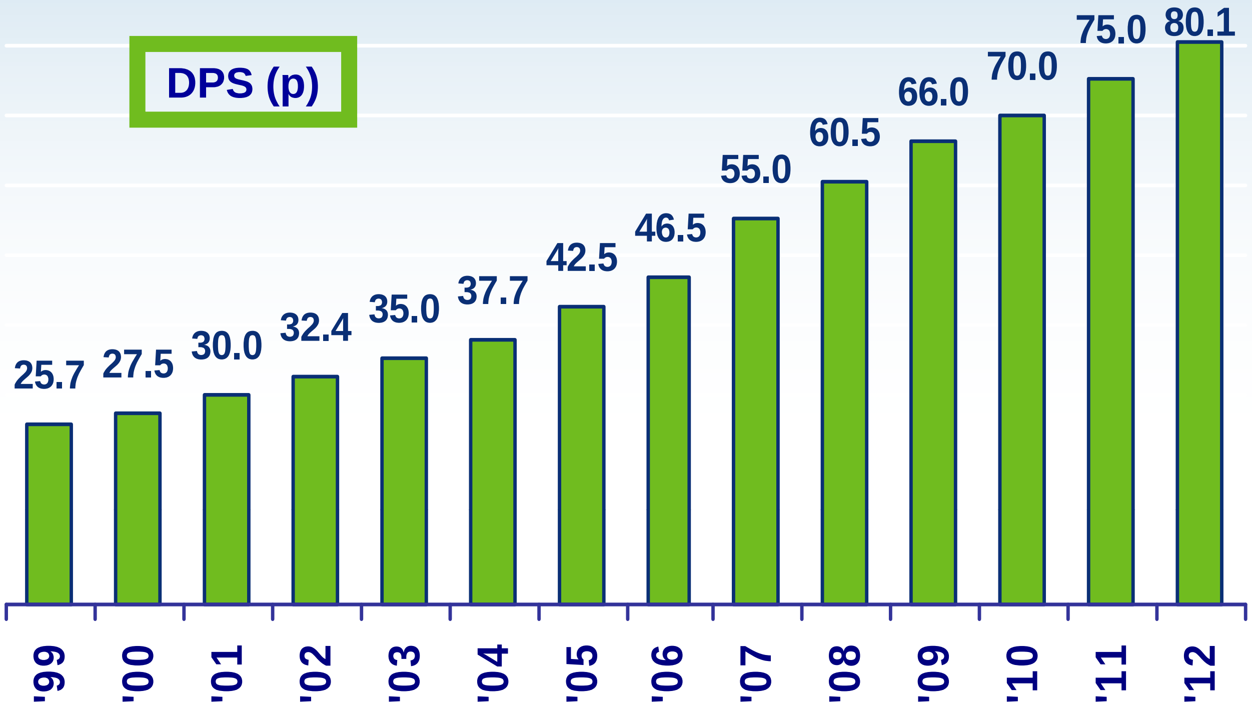
Water
6 new water inset appointments – total now stands at 15

Heat
4 new heat networks – total now stands at 7

Maintaining commitment to the dividend

Economically-Regulated Networks Really Matter

- ✓ Give an operational focus
- ✓ Provide significant investment opportunities
- ✓ With index-linked revenue, they underpin our financial principles and our commitment to the dividend



- ✓ Values
- ✓ Investment
- ✓ Revenue

RETAIL
Alistair Phillips-Davies, Generation and Supply Director

Managing Retail in a political environment

Contemporary Issues in Energy Supply

- ✓ **Price** – the need for transparency
- ✓ **Tariffs** – too much complexity
- ✓ **Fairness** – lack of it between customer groups
- ✓ **Service** – inadequate standards

ofgem

**Asked the right question…
But its answer (RMR) has been
over-taken by events**

RMR Heavy	RMR Light	RMR Irrelevant

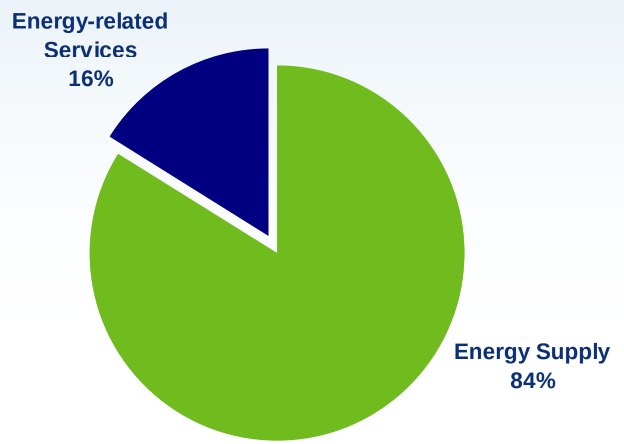
Earning a sustainable profit in Retail

12 months to March	2012 £m	2011 £m	Change %
Energy Supply	271.7	347.7	-21.9%
Energy-related Services	49.9	52.8	-5.5%
Retail Segment Operating Profit	**321.6**	**400.5**	**-19.7%**

Movements in Retail's Operating Profit

- **Higher wholesale gas costs and difficult conditions in the Industrial and Commercial Markets**
- **Improved position on aged-debt**
- **Ireland – profitable in 2011/12**
- **Expect profit margin in Energy Supply to average around 5% over the medium term – in 2011/12 it was 3.5%**

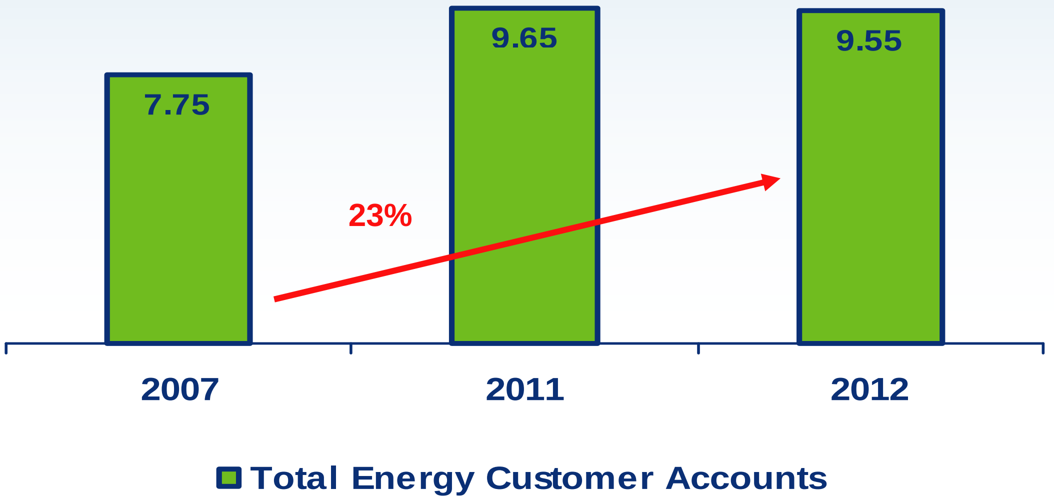
Retail's Operating Profit Split



Fair Prices **Simple Products** **Excellent Service**

Managing the impact on energy customer accounts

- Main loss in GB accounts occurred between July and December 2011
- Led the industry on trust – first to stop doorstep sales
- Rate of losses in GB in 2012 under half of that sustained in H2 2011
- Agreed to acquire 130,000 gas customers in NI
- Insufficient regulatory action on unfair differential pricing
- Customers – always reward the best companies in the end



Fair Prices | Simple Products | Excellent Service

Building trust in Energy Supply

- ✓ Our sector leading customer service
  - ✓ Winner of the uSwitch customer satisfaction awards for the 8th time running
  - ✓ Only supplier to achieve a 5 star rating in Consumer Focus league table
  - ✓ Top rankings in both JD Power and ICS customer satisfaction surveys
  - ✓ Ranked top in Morgan Stanley survey for the first time

SSE Leads on Customer Service

	Jan-11	Jun-11	Nov-11	Nov-11	Nov-11	Jan-12
Utility	UKICS	Consumer Focus	Uswitch	JD Power Electricity	JD Power Gas	Morgan Stanley
SSE	1st	1st	1st	1st	1st	1st
EDF	2nd	4th	5th	Joint 2nd	Joint 2nd	5th
E.ON	3rd	Joint 2nd	2nd	Joint 2nd	Joint 2nd	3rd
Scottish Power	5th	Joint 3rd	4th	6th	6th	4th
British Gas	4th	Joint 2nd	3rd	Joint 2nd	Joint 2nd	2nd
Npower	6th	Joint 3rd	6th	Joint 2nd	Joint 2nd	6th

Fair Prices **Simple Products** **Excellent Service**

Building trust in Energy Supply

SSE looks to customer service

'It's the first big chink in the Big Six. They've really set the cat among the pigeons."

The Telegraph

- ✓ **Price pledge** – despite rising wholesale costs we will not increase our domestic prices until at least October
- ✓ **Market transparency** – helped transform volumes in the day-ahead electricity market
- ✓ **Tariff overhaul** – from over 60 down to just 4 core products
- ✓ **Removed online/offline tariff differentials** – all products available to all customers
- ✓ **Annual Energy Reviews –** successful pilot and will now be made available to every customer

"SSE breaks ranks with other Big Six"

The Guardian

Consumer Focus
Hats off to **SSE** bit.ly/IR2LcP Earning consumer **trust** must be more than a slogan - hope all energy suppliers get the message

Fair Prices	Simple Products	Excellent Service

Preparing for the Green Deal and Smart Meters

Green Deal

The Challenge
- ✓ Obligations we must meet as an energy supplier to collect Green Deal payments through electricity bills
- ✓ Have to make complex system changes, but our commitment is very strong

The Opportunity
- ✓ SSE – one of 22 organisation to sign agreement to become one of the first Green Deal Providers

Smart Meters

- ✓ Roll-out not a profit driver
- ✓ Our Smart Meter installation programme has extended to 2,500 homes
- ✓ This compares with c200,000 installed by one other supplier – most of which do not conform to the technical spec issued by the government in March
- ✓ Roll-out should start well and be completed successfully

Maintaining our commitment to the dividend

Transparency Simplicity Fairness Service

Meet the needs of customers

Support a reasonable profit margin

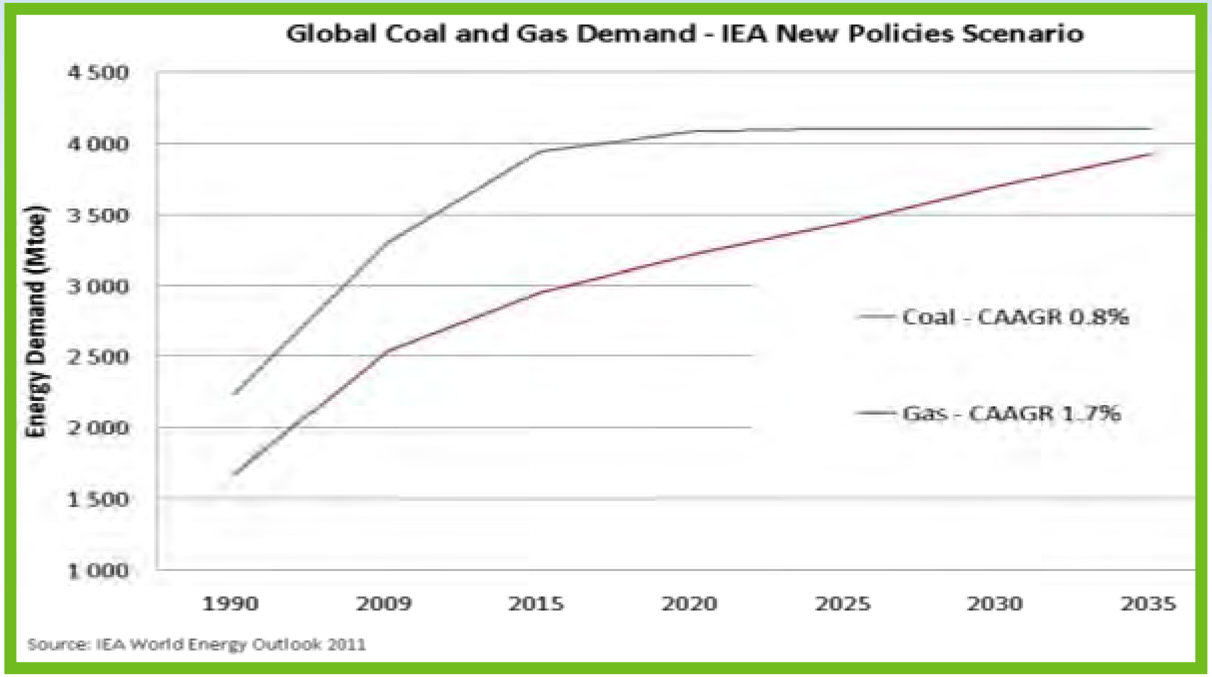
Support sustained real dividend growth

WHOLESALE
Ian Marchant, CEO

Managing Wholesale businesses in a complex environment

Purpose: to source and produce energy for our customers

- UK gross imports of natural gas now exceed gross production for first time since 1960s
- Greater integration of UK and global energy prices – macroeconomic and geopolitical factors increasingly important



- 25% rise in coal demand
- 65% rise in gas demand

- Renewable energy and climate change legislation
- Expectations of capacity margin tightening

Increasing Wholesale's operating profit

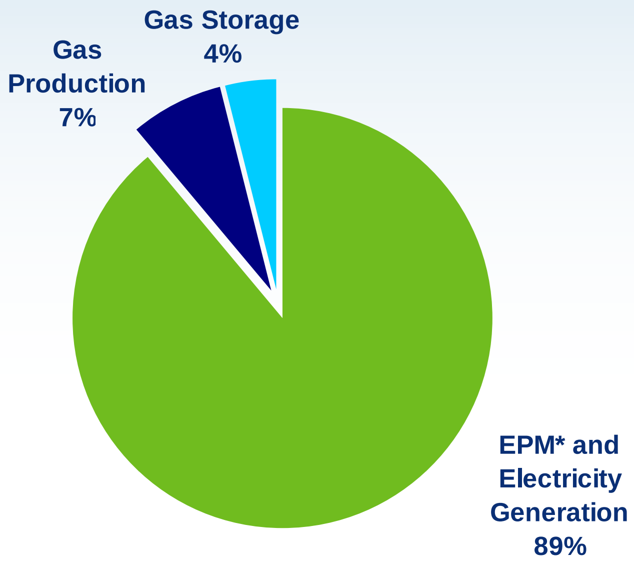
[redacted]

EPM = Energy Portfolio Management

[redacted]

[redacted]

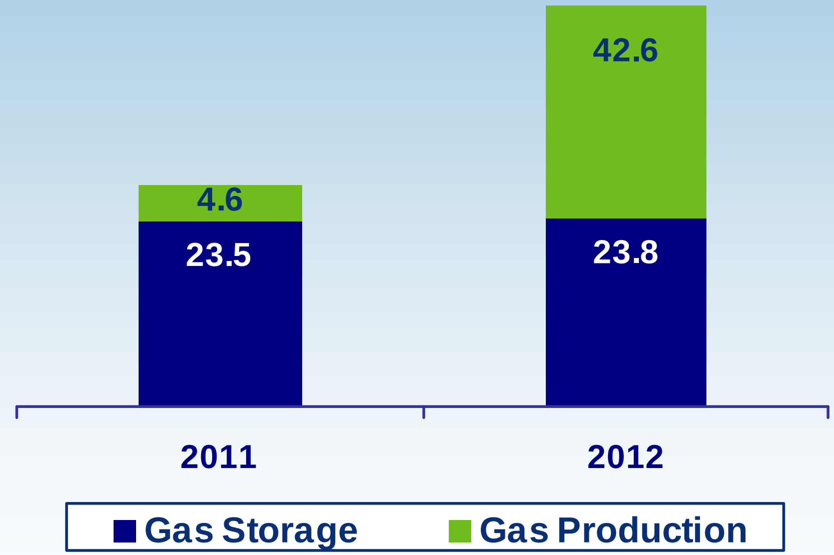
- First full-year contribution from Gas Production
- Renewable output up over 70% - with record hydro output
- Renewables portfolio demonstrates importance of diversity
- £491m exceptionals stem from changing market conditions
- Impairment and other changes made against the value of some generation plant, CO_2 emissions permits and gas and oil production prospects



Purpose: to source and produce energy for our customers

Building up a good position in gas

Gas Storage and Production Operating Profit, £m



Gas production output was 177m therms

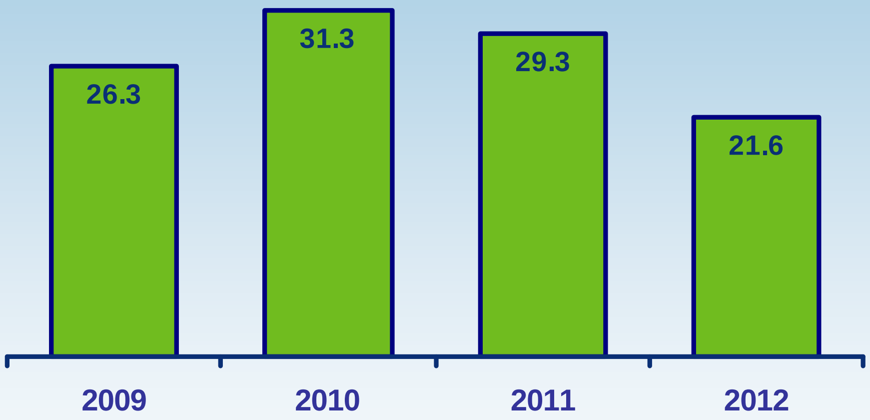
- ✓ Provided a new source of primary fuel and a hedge for our gas generation and supply activities
- ✓ We have opportunities to build on our asset base – will do so provided value can be secured

Long-term fuel supply contracts

- ✓ 10-year contract with Statoil – due to begin later this year
- ✓ 10-year contract with Shell – due to begin in 2015

Preparing gas-fired power stations for change

Gas-Fired Output, TWh

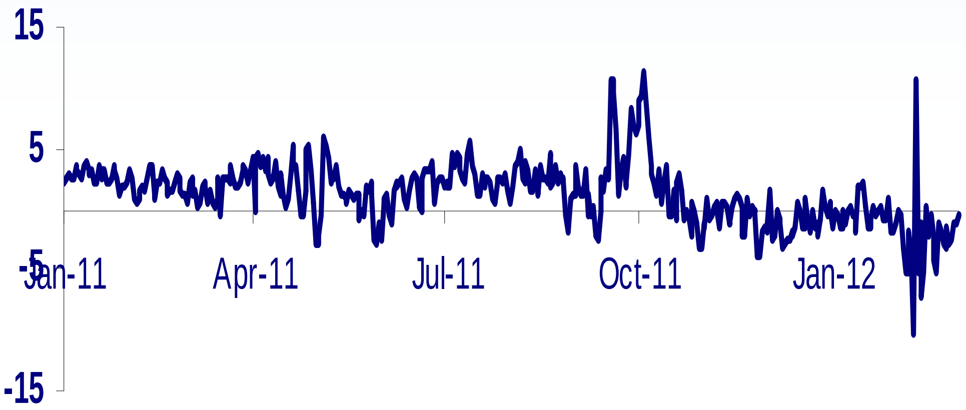


- ✓ Gas-fired power stations likely to be critical during de-carbonisation
- ✓ Role of gas-fired generation will change – focussing on system flexibility and stability

Keadby and Medway

- ✓ Constitute over one half of Wholesale exceptional items
- ✓ Taken off the system for one year
- ✓ Investment programme of c£50m to support greater two-shifting

Market Spark Spreads, £/MWh



Looking Further Ahead

- ✓ Consent to build 470MW at Abernedd
- ✓ Options for new CCGT
- ✓ Peterhead – UK's best option for fitting CCS to a gas-fired power station – expect the FEED study to validate this

Preparing coal-fired power stations for change

Coal-Fired Output, TWh

Coal-Fired Power Station Virtues

- ✓ Available and flexible
- ✓ Reduce reliance on costly gas
- ✓ Produced an additional 3.2TWh of electricity during 2011/12

Tackling Coal-Fired Power Station Vices

CO_2

- ✓ Fully commissioned post combustion carbon capture trial at Ferrybridge

NO_X

- ✓ Completed FEED study into installation of abatement equipment on one 500MW unit at Fiddler's Ferry
- ✓ Investment to take emissions down to a level that would make continued operation of the unit after 2023 an option

Looking Further Ahead

- ✓ ROC banding review – opened the door to enhanced co-firing at both Ferrybridge and Fiddler's Ferry
- ✓ Solid fuel to remain an important part of our generation mix for some time – demonstrated by our new JV with Wheelabrator

Delivering new assets for renewable energy

Hydro Output, GWh

Wind Farm Output, GWh

- Output from our hydro schemes and wind farms gave us the equivalent of 260mtherms of gas
- Over the year we have invested £852m in renewables
- Completed around 500MW of new onshore wind farm capacity – all of which has produced electricity
- Commissioned over 180MW net of offshore wind farm capacity

Renewable Generation Capacity, MW

Priorities for 2012/13

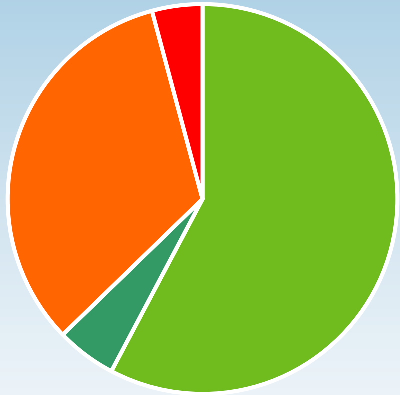
- Complete over 150MW of onshore wind capacity
- Finish construction at Greater Gabbard and Walney
- Restore power production at Glendoe

Managing Issues at Glendoe and Greater Gabbard

Glendoe

- ✓ Refilling should begin shortly
- ✓ Electricity generation on course to resume in the summer
- × Insurance and legal issues will be ongoing for some time
- ✓ Strategic value of the asset will become very clear in the next few years

Greater Gabbard



- ✓ Gabbard JV has issued a claim against Fluor, covering up to 52 of 140 turbine supports
- ✓ All 140 turbines are up
- ✓ Over 80* of the turbines are commissioned – and are not subject of any claim
- ✓ Over 40* of the disputed turbines have also exported power
- ✓ The remaining turbines should be producing power over the next few months

*As at 16 May

Dealing with Electricity Market Reform (EMR)

Capacity Mechanism	Emissions Performance Standard	Contracts for Difference

EMR remains a 'work in progress' – the questions for SSE remain the same…

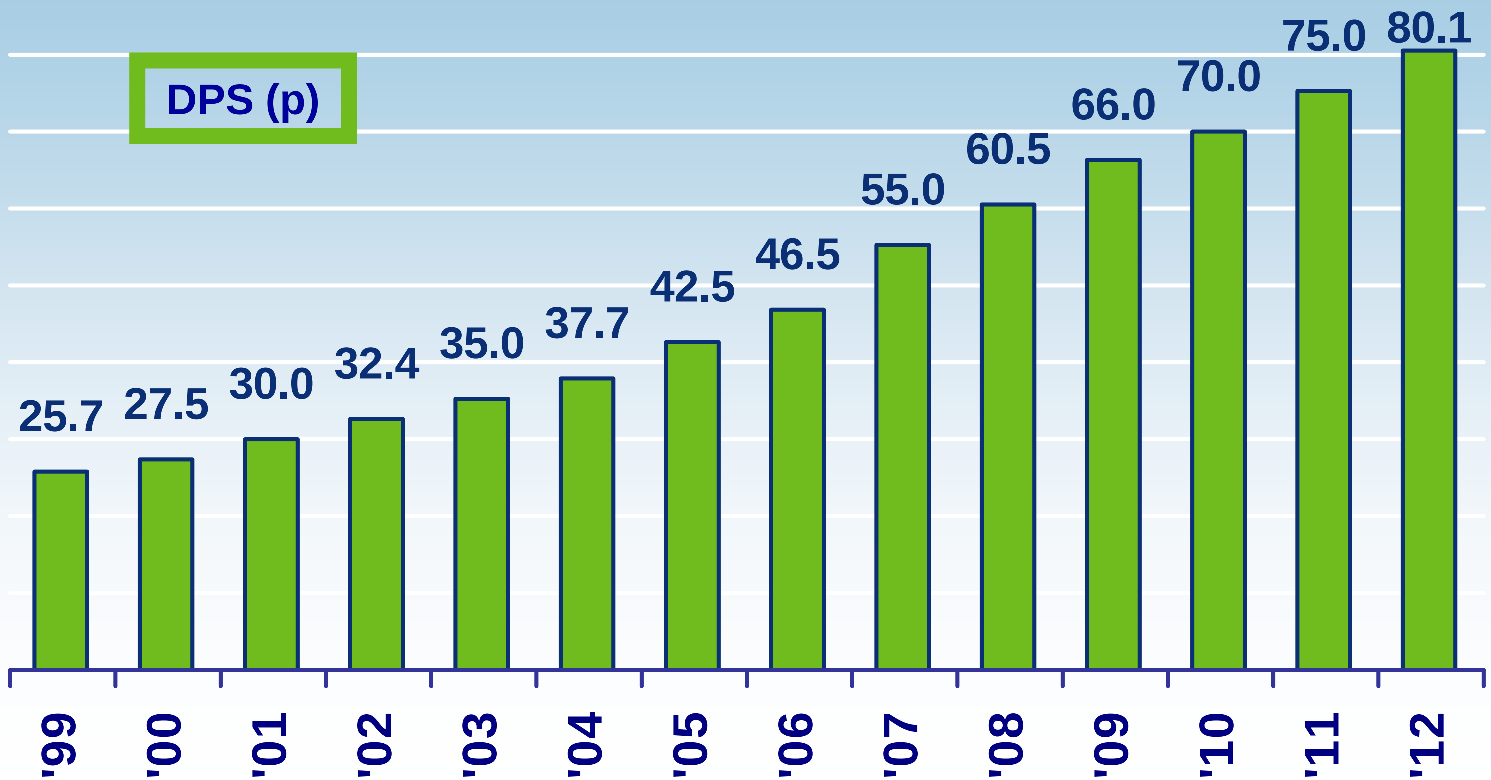
1. Will policy changes have any negative effect on investment decisions already made?
2. What will be the impact of policy changes on the investment decisions that have yet to be taken?

… and SSE's view on them

1. SSE is still very comfortable with the political and policy commitment to protecting value.
2. SSE is continuing to work with the government and other contributors to the policy-making process.

- ✓ It is too early to be definitive about the impact of EMR on future investment decisions
- ✓ We won't be taking any definitive decisions either unless the shape of EMR is clear

Maintaining commitment to the dividend



- ✓ Rigour – particularly important in Generation and Gas Production, where investment decisions can be more complex than Networks
- ✓ Progress made in asset operations, maintenance, investment and acquisitions within our Wholesale business will support sustained real dividend growth for years to come

Working to maintain profits and dividend growth

Networks and Wholesale

During the past five-years our asset base has expanded significantly, with the net addition of:

165mcm of gas storage capacity at Aldborough

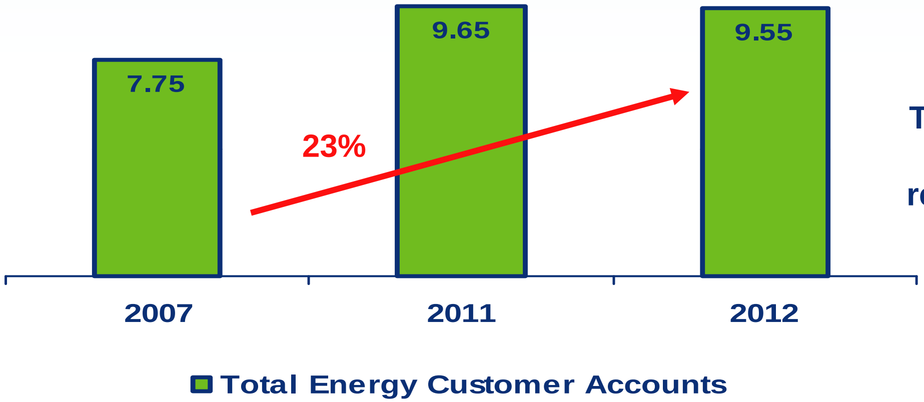
420MW of new CCGT capacity at Marchwood

c1,500MW of new capacity for generating electricity from renewables

£1.7bn added to the RAV of our economically-regulated Networks

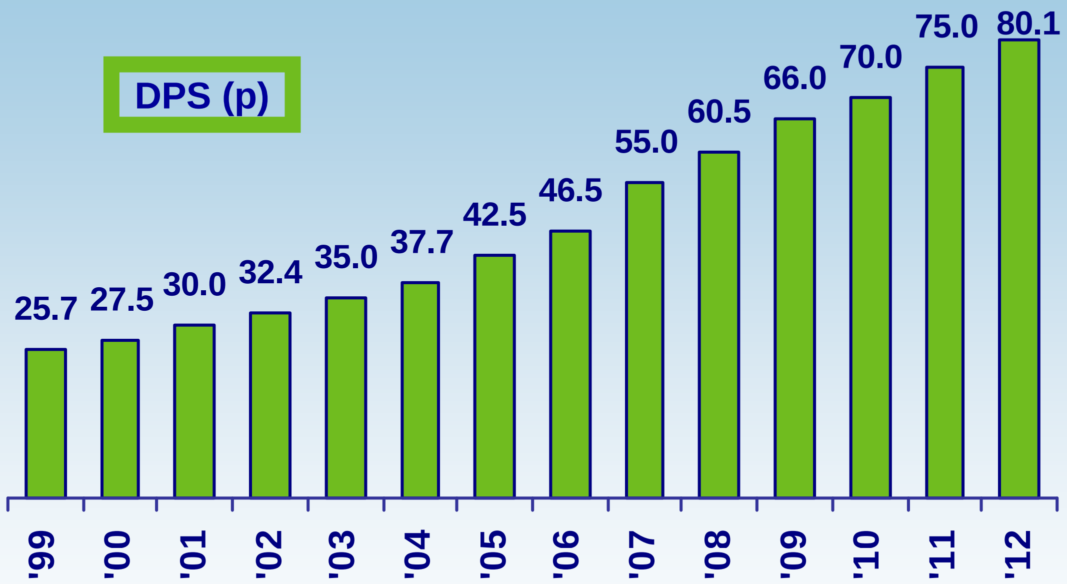
Retail

Customer account numbers are 23% higher than they were five years ago



Through the leadership we have given the sector, we have retained the right to earn a profit

Maintaining commitment to the dividend



- ✓ Earnings growth over a year is far less important than dividend growth over a decade
- ✓ Having the right financial principles and sticking to them
- ✓ A straightforward strategy that is fit for all seasons

Trebled the dividend in just 13 years

SSE

Ranked 10th among continuing FTSE 100 companies for Total Shareholder Return since 1999

One of five companies still in the FTSE 100 to have delivered a real dividend increase every year since 1999