Interim management statement

SSE (Scottish and Southern Energy plc) remains on course to deliver the financial and operational goals for the period to 31 March 2011 set out in its six-month financial report in November 2010. This Interim Management Statement includes updates on operations, major projects, issues such as household customers' energy consumption, other developments and the financial outlook.

Operational update

In the nine months to 31 December 2010 (comparisons with the same nine months in 2009, unless otherwise stated):

- SSE's Total Recordable Injury Rate was 0.12 per 100,000 hours worked, compared with 0.16 during the whole of 2009/10;
- its number of retail customer accounts in markets in Great Britain and Ireland, including home services, increased by 300,000 to 10.05 million;
- SSE funded the installation of cavity wall insulation in 82,700 homes and loft insulation in 78,000 homes (excluding DIY insulation), compared with 77,800 and 76,000 respectively;
- wholly-owned gas-fired power stations achieved 93% of their maximum availability to generate electricity, excluding planned outages, the same as in 2009; coal-fired stations achieved 83%, compared with 93%; wind farms achieved 97%, the same as in 2009;
- total electricity output* from gas- and coal-fired power stations was 31TWh, up from 28TWh;
- total electricity output from hydro generation was 1,760GWh, a reduction of 30%; total output* of wind energy was 1,314GWh, an increase of 13.5%; however, excluding new wind farms, output of wind energy was down by almost 20% on a like-for-like basis;
- the number of units of electricity distributed was 30.6TWh, compared with 30.1TWh;
- the number of Customer Minutes Lost in the Scottish Hydro Electric Power Distribution area was 55, compared with 53; in the Southern Electric Power Distribution area it was 49, the same as in 2009;
- the amount of gas transported by Scotia Gas Networks, in which SSE has a 50% stake, was 106TWh, compared with 97TWh; and
- the amount of replacement and reinforcement gas mains laid by SGN was 860km, compared with 917km.

  *Output from power stations and wind farms in which SSE has an ownership interest (the figure quoted is based on SSE's contractual share).

Major Projects update

In its six-month financial report in November 2010 SSE stated that its priorities for the rest of the financial year 2010/11 include meeting key milestones in its investment programme in generation, electricity networks and gas storage. Since then, progress has been made in the following key areas:

- **Clyde onshore wind farm** (350MW development): Construction work is continuing at the site. The public consultation on the proposal to establish a Transponder Mandatory Zone over the wind farm, in advance of the development of a new primary radar facility which will provide the necessary level of coverage for the site, was completed in December. The proposal will now be considered by the Civil Aviation Authority. Subject to that, the most advanced of the wind farm's three sections, South (130MW), should be completed by the end of 2011, with the wind farm as a whole on course for completion in 2012. The wind farm is expected to produce over 1,000GWh of electricity in a typical year and its total construction cost is expected to be around £500m.Griffin onshore wind farm (156MW development): Construction work is well under way at the site, and turbines are due to be delivered in the next few weeks, with installation beginning thereafter. The wind farm should be completed in 2012. The electricity output is expected to be between 350GWh and 400GWh in a typical year and the construction cost is expected to be over £200m.

- **Greater Gabbard offshore wind farm** (500MW development; SSE stake 50%): All 140 monopile foundations are in place at the wind farm and 76 turbines have now been installed. The first turbines have now been energised. The wind farm as a whole remains on schedule for completion in 2012. The total annual electricity output is expected to be around 1,900GWh in a typical year and SSE's share of the construction cost is expected to be around £650m (excluding connection to the electricity grid).
- **Walney offshore wind farm** (367MW development; SSE stake 25.1%): All 51 turbines for the first phase of the wind farm have been installed. The first turbines have now been energised and the whole of phase one of the wind farm (183.6MW) is expected to be completed in 2011. Construction of the second phase of the wind farm is expected to begin in the next few months, with the wind farm as a whole on schedule for full commercial operation by 2012.
- **Beauly-Denny replacement electricity transmission line** (SSE section Beauly to Wharry Burn): Construction works in line with the £58.8m of initial funding authorised by Ofgem in September are well under way. Good progress is being made in satisfying conditions associated with Scottish Ministers' consent to replace the line which apply to the SSE section and proposals were submitted to Ofgem in December for the remainder of SSE's share of the project expenditure (around £500m). Subject to continued progress, full construction work on the replacement line should begin in the new financial year, with completion in 2014.
- **Aldbrough gas storage capacity** (around 350mcm development; SSE stake 66.6%): SSE and Statoil (UK) Ltd are continuing to make progress at Aldbrough. Further capacity should become available in the next few weeks, taking the total to around 175mcm (million cubic metres), which will be around half of the ultimate working capacity for the development as a whole. Construction work should be completed in 2012 and SSE's forecast total investment for the development remains around £290m.

Glendoe update The first of the two new tunnels required to by-pass the blockage in the existing tunnel carrying water from the reservoir to the power station at the Glendoe hydro electric scheme has been completed. Electricity generation should resume in the first half of 2012.

Household customers' energy consumption

The latest analysis of consumption of energy by SSE's household customers in the 10 months to 31 January 2011 shows that:

- consumption of gas per customer was 7% higher than in the 10 months to 31 January 2010, but 4% lower than in the 10 months to 31 January 2009; and
- consumption of electricity per customer was the same as in the 10 months to 31 January 2010 but 7% lower than in the 10 months to 31 January 2009.

Other developments

Since the publication of its six-month financial report in November, SSE has also:

- entered into an agreement with Faroe Petroleum plc, the independent oil and gas company, to work together to identify, assess and, where good value can be obtained, acquire producing oil and gas assets in the North Sea and subscribed in a placing for just over 5% of the enlarged share capital of Faroe Petroleum plc at a cost of around £18m;
- agreed to invest a further £2.7m in the wave energy developer Aquamarine Power, taking its total investment in the company over the last three years to £19.8m and giving it a 45% stake, at the same time ABB Technology Ventures, decided to invest in Aquamarine Power;
- entered into an agreement with a number of companies to form an alliance to collaborate on its offshore wind programme, with the aim of securing substantial reductions in the cost of delivered power from offshore wind farms; and
- continued to make progress towards completing the acquisition of North Sea natural gas assets from Hess Limited.

Financial outlook

SSE remains on course to deliver an adjusted profit before tax for 2010/11 in line with the consensus of analysts' forecasts described in its six-month financial report in November**. In the Generation and Supply division, however, operating profit for 2010/11 is currently forecast to be slightly lower than that achieved in the last financial year, 2009/10.

SSE also remains on course to deliver a full-year dividend of at least 74.5 pence per share and to deliver increases of at least 2% more than RPI inflation in respect of 2010/11, 2011/12 and 2012/13, with sustained real growth thereafter.

** Based on the consensus for adjusted profit before tax of £1,301m calculated as the average of 14 analysts' forecasts at 8 November 2010. SSE delivered adjusted profit before tax of £1,290m in the previous financial year, 2009/10.

Ian Marchant, Chief Executive of SSE, said:
"I am pleased with the progress we have made so far in the second half of the year and we look set to achieve our main financial and operational goals. Our priorities now are to bring this financial year to a successful close and make a good start to 2011/12."