



Company Background



History

Scottish and Southern Energy (“SSE”) was formed following the merger of Scottish Hydro Electric and Southern Electric in December 1998.

Businesses

Generation

SSE is the UK’s second largest generation business, with an ownership interest in over 100 thermal and renewable power stations, with a total capacity of 10,700MW.

SSE is also the UK’s leading generator of renewable energy, owning and operating almost half of the UK’s total renewable generation capacity, including the UK’s largest wind farm.



Energy Supply

SSE supplies electricity and gas to some 9 million homes and businesses throughout Britain, making it the UK’s second largest supplier after having overtook E.ON, and provides customer service through UK-based customer centres. It has achieved large growth in customers from its pricing policy - passing on price cuts quickly to customers and responsibly deferring price increase until after winter periods, thus carving out a competitive advantage. This has the further advantage of deterring politicians and regulators from seeking to capitalise on any perception that energy suppliers are securing excess profits from higher power prices and imposing windfall taxes.

Energy Distribution



SSE distributes electricity to 3.5 million homes and businesses across one third of the UK’s total land area through a network of 127,000 kilometres of underground cables and overhead lines.

SSE aims to ensure communities have a safe and reliable supply of electricity, and that everything is done to restore supplies as quickly as possible following interruptions.

SSE Power Distribution comprises three businesses;

- *Scottish Hydro Electric Transmission Limited* which owns and maintains the electricity transmission network in the north of Scotland, in some of the UK’s most challenging terrain.
- *Scottish Hydro Electric Power Distribution PLC* which operates the electricity network that distributes electricity to around 700,000 customers in northern mainland Scotland and the Scottish Islands.
- *Southern Electric Power Distribution PLC* which operates the electricity network that distributes electricity to some 2.9 million customers across central southern England.

Gas Networks

Scotia Gas Networks (SGN) is owned by a consortium made up of SSE (50%), Borealis Infrastructure Management Inc (25%) and Ontario Teachers’ Pension Plan Board (25%). It is the UK’s second largest gas distribution company, second only to National Grid.

Before gas reaches a home, business or office, it has to travel through part of the national pipeline network of 275,000 kilometres. SGN operates two of the eight regional pipeline networks to convey gas through Britain. It delivers gas to 5.7 million domestic, commercial and industrial customers via approximately 74,000 kilometres of gas mains to regions mostly in Scotland and the South of England.

Telecoms

In 2003 Scottish and Southern Energy acquired Neos, the UK's first and only National Ethernet Service Provider with an extensive portfolio of Layer 2 connectivity, Neos also provide wide-area storage connectivity and Voice Over IP with their partners.

Utility Solutions

SSE's Utility Solutions business builds, owns and operates pipe and cable networks delivering, electricity, gas, water and telecommunications to new and existing residential and commercial developments throughout the UK.

Contracting

Southern Electric Contracting is one of the country's leading mechanical and electrical contractors. It operates from 55 regional offices and employs 3,500 experienced engineers and electricians nationwide.

Energy Services

SSE's Energy Services provides a comprehensive range of products to public sector, industrial, commercial organisations and the domestic consumer market throughout the UK and in Ireland.

Products and services offered include the installation and maintenance of gas storage and metering systems, boilers, intelligent energy and security systems, ground and air source heat pumps, solar PV and hot water systems, wind turbines, gas heating and electrical wiring and providing Gogreen Energy efficiency advice.



Retail

SSE's online shop Scottish Hydro Electric Shop sells hundreds of leading brand products up to 20% off High Street prices in areas such as computers, cooking, home laundry, refrigeration, dishwashers, home entertainment, floorcare, eco products & heating.

Gas Storage

SSE owns and operates the UK's largest onshore gas storage facility at Hornsea in East Yorkshire. Nine man-made salt cavities have been leached into a salt layer 1.8km below the surface creating 325 million cubic metres of gas storage space.

Gas can be withdrawn at a rate of 18 million cubic metres per day, equivalent to the requirements of around 4 million homes.

Partnerships

The SSE Ventures team was established in February 2007 with the remit to develop and grow SSE's portfolio of investments in small and medium-sized businesses offering renewable, sustainable and energy efficiency products and services, which support current activities within the SSE Group or which are expected to play key roles in the future.

SSE Ventures investment strategy

SSE Ventures' aim is to deliver tangible value through commercial collaboration with investee companies and also potentially through hold and divestment strategies. The team invests in early-stage, near-to-market and established businesses, and to date has made investments of between £250k and £15m.

SSE Ventures may invest exclusively, or may co-invest with key partners. In addition to its Perth-based team, SSE Ventures has a small team in Beijing, providing a gateway for the SSE Group to Chinese and other Asian markets. SSE Ventures welcomes investment proposals from the UK, Ireland, Europe, the US and Asia.



Strategy

SSE's core purpose is to provide the energy people need in a reliable and sustainable way.

Within this strategic framework, SSE focuses on enhancing and creating value for shareholders from its energy and infrastructure-related activities in the UK and Ireland and from the development of an international renewable energy business.

The days of meeting an unchecked demand for energy through monolithic carbon-intensive power stations are coming to an end. Increasingly, the emphasis will be on energy efficiency, renewables, cleaned-up fossil fuel plant and micro generation. SSE is active in all of these areas and preparing for this profound change.

This strategy and these principles have been shown to be robust in a wide variety of financial and operational conditions and have led to SSE becoming the UK's broadest-based energy company.

In uncertain financial times, there is one question being posed by many investors: which companies provide an unambiguous commitment to, and focus on, sustained real dividend growth, backed up by a track record of having delivered it in the past and the means to deliver it in the future?

SSE believes that is the right question, and that, with its commitment to sustained real dividend growth, it is one of those companies. In line with that, its priority for is to deliver its target of at least 4% real growth in the dividend payable to shareholders.



Debt

The company carries a lot of debt, but that is traditional amongst most utility companies where leveraging their reliable long-term income streams brings benefits to their shareholders. The company is highly regarded by the market, as evidenced by their A rating from Fitch.

Summary

SSE is criticised for being slow and steady. However, their resilience should be considered their best attribute. Their ability to deliver in a challenging commodity price environment highlights the flexibility of the group's asset portfolio. Even in recessionary environments, where wholesale electricity prices become depressed following falling demand, the company can still eke out rises in profits through its growth strategy. The green edge afforded by renewable energy exposure is an added bonus and should put the company in good stead against a background of increasingly draconian environmental legislation for energy companies. Its commitment to renewables could also make it a future takeover target for one of the European utility giants. The company generally aims to deliver dividend growth of 4% making it a classic yield play for income growth.

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