SSE plc

INTERIM MANAGEMENT STATEMENT

SSE plc will today (17 July) hold its Annual General Meeting in Perth, where it will update investors on operations and investments in its Networks, Retail and Wholesale businesses. It will confirm that its financial outlook for 2014/15 is unchanged from that set out in its financial results statement on 21 May 2014.

Alistair Phillips-Davies, Chief Executive of SSE, said:

"SSE's three businesses have one core purpose, which is to provide the energy people need in a reliable and sustainable way. Our customers are benefiting from the longest-ever household energy price freeze in the Great Britain market and good progress is being made in our programme of investment to build, upgrade and maintain the electricity assets customers rely on. Although energy market conditions are challenging, we are on course to give shareholders a return on their investment through a dividend increase that at least keeps pace with inflation."

Operations

In the three months to 30 June 2014 (comparisons with the same three months in 2013, unless otherwise stated):

- **Safety**: SSE's Total Recordable Injury Rate was 0.12 per 100,000 hours worked, the same as during 2013/14 as a whole;
- **Networks**: excluding exceptional events, the average number of minutes that customers were without supply in the Scottish Hydro Electric Power Distribution area was 13, compared with 14; in the Southern Electric Power Distribution area it was 16, the same as in the previous year;
- **Retail**: in very competitive market conditions, SSE's number of electricity and gas customer accounts in Great Britain and Ireland fell from 9.10 million to 8.99 million;
- **Retail**: average consumption of electricity by SSE's household customers in Great Britain was estimated to be 853kWh, compared with 920kWh; average consumption of gas by SSE's household customers in Great Britain was estimated to be 68 therms, compared with 96 therms.

- **Wholesale**: total electricity output* from gas -fired power stations was 2,192GWh, compared with 2,219GWh; from coal-fired power stations output was 1,792GWh, compared with 3,569GWh; and
- **Wholesale**: total electricity output* from renewable sources (conventional hydro electric schemes, onshore and offshore wind farms and dedicated biomass plant) was 1,580GWh, compared with 1,756GWh.
- **Wholesale**: total output from gas production assets was 112 million therms, the same as in the previous year.

* Output from electricity generating plant in which SSE has an ownership interest (output based on SSE's contractual share).

Value

In its Notification of Close Period on 26 March, SSE announced the start of a value programme to secure operational efficiencies and complete assets and business disposals, with the overall objective of streamlining and simplifying the business. The programme is well under way and on course, with operational efficiencies being secured and planned asset and business disposals making progress. In particular, SSE remains confident that disposals of assets such as PFI streetlighting contracts and non-regulated gas pipelines will be completed in the autumn.

Reform

In its Notification of Close Period on 26 March, SSE announced that it would reorganise its companies so there are separate legal entities for energy supply (Retail) and electricity generation and energy portfolio management (Wholesale). This change is designed to enhance the transparency of the measurement and reporting of the performance of these businesses. At present, energy portfolio management is within SSE Energy Supply Limited. SSE will incorporate a new subsidiary company for energy portfolio management which will sit alongside SSE Energy Supply Limited and SSE Generation Limited and each of these three companies will produce separately audited accounts from March 2015 onwards. SSE remains open-minded about further developments and reform that is in the clear interests of customers.

Investment

Also in its Notification of Close Period on 26 March, SSE set out plans for investment of around £5.5bn in the four years to March 2018, net of disposal proceeds received. It is forecasting total capital and investment expenditure of around £1.6bn in 2014/15, with economically-regulated electricity networks accounting for around 55% of the total and electricity generation for around 30%. In the three months since 1 April 2014:

- **Networks**: SSE's subsidiary, Scottish Hydro Electric Transmission Ltd, has maintained good progress with the replacement of its part of the Beauly-Denny line. All of the foundations have been laid, more than 85% of the 539 towers have been erected and almost three quarters of the 200km route has been wired.
- **Wholesale**: SSE has continued to add to its capacity for generating electricity from renewable sources with the completion of the £130m Keadby wind farm which, at 68MW, is England's largest. In addition, construction works at the new 460MW gas-fired power station at Great Island, Co. Wexford, are largely complete. Many of the systems are already tested in advance of first-firing of the gas turbine, which is due shortly. The plant is expected to be fully operational in the latter part of 2014. Construction of the new 68MW Ferrybridge multi-fuel facility, in which SSE has a 50% stake, is ongoing and is still expected to be operational in 2015.
- **Retail**: SSE continues to invest in improving services for customers while preparing for the Great Britain-wide roll-out of smart meters.

Other developments

Since the publication of SSE's financial results on 21 May 2014:

- **Wholesale:** Scottish Ministers have granted consent, with associated planning conditions, for SSE's Stronelairg wind farm development, situated south east of Fort Augustus in the Great Glen. The wind farm will have 67 turbines with a maximum capacity of up to 200MW and is located close to SSE's existing Glendoe hydro scheme, using existing access roads which run right through the wind farm site. Meanwhile, the Highland Council's north planning committee has rejected SSE's application to erect 47 wind turbines at a site just south of Strathy. SSE is now working to address the issues that led to the committee's decision in advance of the next stage of the planning process.
- **Wholesale:** National Grid, working with DECC and Ofgem, has announced that it will pilot a 'small volume' of the new Demand Side Balancing Reserve (DSBR) during the forthcoming winter and a more material requirement for the subsequent winter will be tendered through the DSBR and the Supplemental Balancing Reserve (SBR) later this

year and early next year. It said that these services will ‘act as a safety net to safeguard consumers’ interests’, only to be deployed in the ‘very unlikely event’ that there is not sufficient generating capacity available in the market. Ofgem's latest assessment of electricity capacity (June 2014) shows that while electricity margins are tightening over the next two winters to within broadly similar ranges to those set out in last year's report, the probability of disconnections has reduced due to the fact National Grid can use new tools to balance the grid. Ofgem is confident that National Grid has the right levers to keep the lights on for households this winter. Meanwhile, under the design of the new Capacity Market, all licensed generators must go through a pre-qualification process next month whereby they indicate in advance what, if any, plant they intend to bid into the auction for capacity provision from 2018, which is scheduled to take place on 9 December 2014. The cost to electricity customers for capacity is intended to be minimised by the competitive and commercially-confidential nature of the bidding process which will set the level of capacity payments

- **Networks**: Ofgem has approved the need for SHE Transmission’s plan for a new £1.2bn transmission link between Caithness and Moray, including a subsea electricity cable in the Moray Firth, to connect around 1.2GW of new renewable energy capacity. Ofgem will consult on the detail of the funding of the project in the autumn, but the decision means that SHE Transmission can move forward with work on the upgrade, which is expected to be completed in 2018. It is already included in SSE’s plans to invest around £5.5bn (net) in the four years to March 2018.
- **Retail:** In its financial results statement in May, SSE said it expected to publish by 31 July its Consolidated Segmental Statement (CSS); that the CSS would be externally reviewed before publication; and that it was expected to show that SSE's profit margin in its domestic electricity and gas supply in Great Britain in 2013/14 was 3.9% (before tax), compared with 6.4% (before tax) in the previous year. This has been confirmed and the CSS has been published on sse.com.
- **Enterprise:** As set out in its financial results statement in May, a number of businesses have been brought together under new leadership as part of an 'Enterprise' division within the SSE group. The objective of this division is to bring together SSE's services in competitive markets for industrial and commercial customers so that the energy and related needs of these customers can be better met through an integrated approach. These services include electrical contracting, private energy networks, lighting services and telecoms capacity and bandwidth.

Competition and Markets Authority

On 26 June Ofgem referred the energy market in Great Britain to the Competition and Markets Authority (CMA) for a full investigation. Amongst other things, Ofgem expects the CMA to look at the relationship between the supply businesses and generation arms of the six largest suppliers, which includes SSE. Ofgem believes that an investigation should ensure ‘once and for all’ that competition works effectively for consumers and help provide the confidence that is needed for investment in the energy sector. The CMA is expected to publish its provisional findings and possible remedies (if required) in May or June 2015.

SSE believes this reference will be an important opportunity to demonstrate the competitiveness of the energy market in Great Britain, address any issues of public concern and deliver good outcomes for consumers and a stable framework for investors. Throughout the reference SSE will continue to demonstrate its appetite for reform that is in the interests of customers and competition. See “Asking the right questions” at sse.com/newsandviews.

Financial outlook

SSE will publish its Notification of Close Period on 30 September 2014 and its results for the six months to that date on 12 November 2014. It remains on course to achieve its first financial objective of a full-year dividend increase that at least keeps pace with RPI inflation.

To monitor financial performance over the medium term, SSE focuses on adjusted earnings per share, which has the clear benefit of defining the amount of profit after tax that has been earned for each ordinary share and so provides an important measure of underlying financial performance. In a challenging business environment, SSE continues to expect that its adjusted earnings per share for 2014/15 will be around or slightly greater than that achieved in 2013/14 (123.4p).

As SSE acknowledged in its Notification of Close Period on 26 March, however, energy sector conditions mean that increases in its adjusted earnings per share are subject to greater risk in 2015/16 and 2016/17.

Enquiries

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