

SSE PLC GREEN BOND

DNV GL ELIGIBILITY ASSESSMENT

Scope and Objectives

SSE Plc (henceforth referred to as "SSE") is a UK-listed energy company focused on the energy markets in the UK and Ireland. Its core purpose is to provide the energy people need in a reliable and sustainable way. To deliver this, SSE is involved in the generation, transmission, distribution and supply of electricity; in the production, storage, distribution and supply of gas; and in other energy related services.

SSE intends to utilise the proceeds of this inaugural Green Bond for re-financing Renewable Energy Production: Onshore Windfarms, see Schedule 1.

DNV GL Business Assurance Services Limited (henceforth referred to as "DNV GL") has been commissioned by SSE to provide a Green Bond eligibility assessment on the Bond. Our methodology to achieve this is described under 'Work Undertaken' below. We were not commissioned to provide independent assurance or other audit activities.

No assurance is provided regarding the financial performance of the Bond, the value of any investments in the Bond, or the long term environmental benefits of the transaction. Our objective has been to provide an assessment that the Bond has met the criteria established on the basis set out below.

Responsibilities of the Management of SSE and DNV GL

The management of SSE has provided the information and data used by DNV GL during the delivery of this review. Our statement represents an independent opinion and is intended to inform SSE management and other interested stakeholders in the Bond as to whether the established criteria have been met, based on the information provided to us. In our work, we have relied on the information and the facts presented to us by SSE. DNV GL is not responsible for any aspect of the projects or assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV GL shall not be held liable if any of the information or data provided by SSE management and used as a basis for this assessment were not correct or complete.

Basis of DNV GL's opinion

We have adapted our green bond eligibility assessment methodology to create SSE specific Green Bond Eligibility Assessment Protocol (henceforth referred to as "Protocol") - see Schedule 2. Our Protocol includes a set of suitable criteria that can be used to underpin DNV GL's opinion. The overarching principle behind the criteria is that a green bond should "enable capital-raising and investment for new and existing projects with environmental benefits".

As per our Protocol, the criteria against which the Bond has been reviewed are grouped under the four Principles:

- **Principle One: Use of Proceeds.** The Use of Proceeds criteria are guided by the requirement that an issuer of a green bond must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental benefits.
- **Principle Two: Process for Project Evaluation and Selection.** The Project Evaluation and Selection criteria are guided by the requirements that an issuer of a green bond should outline the process it follows when determining eligibility of an investment using Green Bond proceeds, and outline any impact objectives it will consider.
- **Principle Three: Management of Proceeds.** The Management of Proceeds criteria are guided by the requirements that a green bond should be tracked within the issuing organization, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.
- **Principle Four: Reporting.** The Reporting criteria are guided by the recommendation that at least annual reporting to the bond investors should be made of the use of bond proceeds and that quantitative and/or qualitative performance indicators should be used, where feasible.

Work undertaken

Our work constituted a high-level review of the available information, based on the understanding that this information was provided to us by SSE in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation of an SSE specific Protocol, adapted to the purpose of the Bond, as described above and in Schedule 2 to this Assessment.
- Assessment of documentary evidence provided by SSE on the Bond and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology.
- Discussions with SSE management, and review of relevant documentation and evidence related to the criteria of the Protocol.
- Documentation of findings against each element of the criteria.

Our opinion as detailed below is a summary of these findings.

Findings and DNV GL's opinion

DNV GL's findings are listed below:

1. Principle One: Use of Proceeds.

SSE intends to use the proceeds from the issuance of the Bonds to finance or refinance Eligible Green Projects. The SSE Green Bond Framework defines Eligible Green Projects as projects that fall into the following categories:

- Renewable Energy Production: Windfarms
 - Onshore Windfarms
 - Offshore Equity Investments

- Renewable Energy Transmission: Onshore Transmission Network Infrastructure

For this Bond issuance, the Use of Proceeds will be aimed towards the Onshore Windfarms category and will be directed to the refinancing part of SSE's £1.1bn of Eligible Green Projects presented in Schedule 1.

DNV GL concludes that the above categories fall within the defined category of Renewable Energy (including production, transmission, appliances and products) of the Green Bond Principles 2017. DNV GL also reviewed the Eligible Green Projects proposed for this bond and conclude they meet the definition within SSE's Green Bond Framework.

2. Principle Two: Process for Project Evaluation and Selection.

DNV GL can confirm the project evaluation and selection will be carried out by the Tax and Treasury Committee led by the Finance Director of SSE. The Committee has ultimate responsibility for reviewing all of SSE existing projects which have been completed or will be completed in the next 24 months and determining their suitability to be an Eligible Green Project. The main selection criteria for a project to be eligible is that the project must contribute to a positive environmental impact, supports SSE's commitment to the ongoing reduction of the carbon intensity of its electricity generation and support Sustainable Development Goal 13 Climate Action, by generating electricity from low and renewable carbon sources.

DNV GL has reviewed the evidence and can confirm that the Eligible Green Projects and the governance framework for project selection meets the eligibility criteria defined by SSE in the Bond documentation, including the SSE Green Bond Framework. SSE has defined the process by which Eligible Green Projects are selected and described the key metrics used as well as defining the team responsible for selecting projects.

3. Principle Three: Management of Proceeds.

DNV GL has reviewed evidence showing that the proceeds of the bond issuance will be directed to the refinancing part of SSE's £1.1bn of Eligible Projects of onshore windfarms in the UK. DNV GL can confirm the proceeds from the bond issuance will be directly allocated to the refinancing of the projects at settlement. In the event this is not possible, SSE confirmed it will temporarily hold and/or invest, at

its own discretion, in its liquidity portfolio, the balance of net proceeds not yet allocated to eligible projects. DNV GL can also confirm SSE has committed to maintaining a healthy buffer of Eligible Green Projects available for investment.

4. Principle Four: Reporting.

DNV GL can confirm SSE has committed to Allocation Reporting within one year from the date of the Green Bond issuance. There will also be one reporting period after issuance, as the proceeds will be refinancing of projects, thus the whole amount raised will be employed at settlement. Where SSE refinances its equity share within a joint venture it will be reported on an equity stake basis. DNV GL can also confirm SSE has committed to providing investors with information on its website regarding the environmental impact of the category of projects, this information is expected to be: expected annual carbon saved on renewable energy projects; expected renewable electricity capacity and output and electricity flows from transmission investments.

On the basis of the information provided by SSE and the work undertaken, it is DNV GL's opinion that the Bond meets the criteria established in the Protocol and that it is aligned with the stated definition of green bonds within the Green Bond Principles 2017.

for DNV GL Business Assurance Services UK Limited

London, 22nd August 2017



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About DNV GL

Driven by our purpose of safeguarding life, property and the environment, DNV GL enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight.

With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 16,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

1 SCHEDULE 1: DESCRIPTION OF ASSETS TO BE FINANCED THROUGH THE BOND

The proceeds of this green bond are to be directed to the refinancing of part of SSE's £1.1bn of Eligible Projects of onshore windfarms in the UK, including the below portfolios:

Criteria	Eligible Projects & MW
Portfolio of projects that have been completed in the last 24 months	Strathy North (67MW)
	Tievenameenta (35MW)
	Slieve Divena 2 (19MW)
	Galway (64MW)
	Dunmaglass (94MW)
Portfolio of projects under construction (to be finalised in the next 24 months)	Bhlaraidh (108MW)
	Leanamore (18MW)
	Clyde Extension (173MW)
	Stronelairg (225MW)

Further detail of SSE 1.1GW onshore windfarm portfolio and examples of the windfarm projects, as well as future development opportunities, are included in SSE's webpage: <http://sse.com/whatwedo/ourprojectsandassets/>

SCHEDULE 2: SSE SPECIFIC GREEN BOND ELIGIBILITY ASSESSMENT PROTOCOL

1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
1a	Type of bond	<p>The bond must fall in one of the following categories, as defined by the Green Bond Principles:</p> <ul style="list-style-type: none"> • Green Use of Proceeds Bond • Green Use of Proceeds Revenue Bond • Green Project Bond • Green Securitized Bond 	<p>In addition to reviewing the evidence below, we had several detailed discussions with SSE.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> • SSE Green Bond Term Sheet, August 2017 • SSE Green Bond Framework August 2017 	<p>The SSE Green Bond falls within the category of a Green Use of Proceeds Bond.</p>
1b	Green Project Categories	<p>The cornerstone of a Green Bond is the utilization of the proceeds of the bond which should be appropriately described in the legal documentation for the security.</p>	<p>In addition to reviewing the evidence below, we had several detailed discussions with SSE.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> • SSE Green Bond Term Sheet, August 2017 • SSE Green Bond Framework, August 2017 • SSE Green Bond Update Tax and Treasury Steering Committee July 17 (Presentation) 	<p>We conclude that the legal documentation confirms the utilization of proceeds is appropriately described.</p>
1c	Environmental benefits	<p>All designated Green Project categories should provide clear environmentally sustainable benefits, which, where feasible,</p>	<p>In addition to reviewing the evidence below, we had several detailed discussions with SSE on the Criteria required.</p>	<p>The evidence reviewed gives us the opinion that the designated Green Project categories do provide clear environmentally sustainable benefits.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
		will be quantified or assessed by the issuer.	Evidence reviewed: <ul style="list-style-type: none"> SSE Green Bond Term Sheet, August 2017 SSE Green Bond Framework, August 2017 	

2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
2a	Issuer's environmental and social and governance framework	In addition to information disclosed by an issuer on its Green Bond process, criteria and assurances, Green Bond investors may also take into consideration the quality of the issuer's overall framework and performance regarding environmental sustainability.	In addition to reviewing the evidence below, we had several detailed discussions with SSE on the Criteria required. Evidence reviewed: <ul style="list-style-type: none"> SSE Environment and Climate Change Policy Doing the right thing: A guide to ethical business conduct for SSE employees SSE's Responsible House Providing more than energy, SSE plc Sustainability Report 2017 	We conclude that, from the information provided, SSE's approach to managing environmental sustainability is in line with the objective of the Green Bond, SSE's documentation reflects this.

3. Management of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
3a	Tracking procedure	The net proceeds of Green Bonds should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process that will be linked to the issuer’s lending and investment operations for Green Projects.	In addition to reviewing the evidence below, we had several detailed discussions with SSE on the Criteria required. Evidence reviewed: <ul style="list-style-type: none"> • SSE Green Bond Term Sheet, August 2017 • SSE Green Bond Framework, August 2017 	We found that the SSE Green Bond will be tracked in an appropriate manner and attested to by a formal internal process.
3b	Tracking procedure	So long as the Green Bonds are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible green investments or loan disbursements made during that period.	In addition to reviewing the evidence below, we had several detailed discussions with SSE on the Criteria required. Evidence reviewed: <ul style="list-style-type: none"> • SSE Green Bond Term Sheet, August 2017 • SSE Green Bond Framework, August 2017 	We conclude that there is a clear process in place for the tracking of the balance taking into account disbursements.
3c	Temporary holdings	Pending such investments or disbursements to eligible Green Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.	In addition to reviewing the evidence below, we had several detailed discussions with SSE on the Criteria required. Evidence reviewed: <ul style="list-style-type: none"> • SSE Green Bond Term Sheet, August 2017 • SSE Green Bond Framework, August 2017 	We conclude that SSE has made clear how it will manage any unallocated proceeds in its liquidity portfolio.

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
3d	Over-collateralisation	n/a	<p>In addition to reviewing the evidence below, we had several detailed discussions with SSE on the Criteria required.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> SSE Green Bond Term Sheet, August 2017 SSE Green Bond Framework, August 2017 	<p>We conclude the SSE Green Bond has sufficient collateralisation and will seek to maintain a ratio of 1:2:1 of over collateralised eligible green bond assets.</p>

4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
4a	Periodical reporting	<p>In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which Green Bond proceeds have been allocated including - when possible with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmentally sustainable impact.</p>	<p>In addition to reviewing the evidence below, we had several detailed discussions with SSE on the Criteria required.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> SSE Green Bond Term Sheet, August 2017 SSE Green Bond Framework, August 2017 	<p>We can confirm SSE commits to annual reporting on their website. Section 4 Reporting of the SSE Green Bond Framework sets out what will be reported and where including relevant environment metrics related to the Eligible Green Projects, and is expected to include:</p> <ul style="list-style-type: none"> Carbon Saved on renewable energy projects Expected renewable electricity capacity and output; and Electricity flows from transmission investments