

**SSE plc**  
**TRADING STATEMENT**

SSE plc completed the first quarter of its financial year on 30 June 2015 and its Annual General Meeting is taking place today (23 July) in Perth. This trading statement:

- summarises operational performance in SSE's Wholesale, Networks and Retail (including Enterprise) businesses;
- sets out progress made in SSE's plans to invest around £1.75bn (gross) in the UK and Ireland in 2015/16;
- details developments since SSE announced its results for 2014/15 on 20 May 2015 while confirming its financial outlook;
- confirms that SSE is continuing to target adjusted earnings per share of at least 115 pence for 2015/16; and
- confirms that SSE is continuing to target an increase in the full-year dividend for 2015/16 of at least RPI inflation, with annual increases thereafter of at least RPI inflation also being targeted.

Subject to being re-elected to the Board at today's AGM, Richard Gillingwater, Deputy Chairman, will succeed Lord Smith of Kelvin as Chairman of the Board of SSE plc at the end of the Meeting, in line with the announcement made in November 2014.

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

'The early months of this new financial year have again demonstrated the breadth and depth of the issues that need to be managed by SSE as we aim to fulfil our core purpose of providing the energy people need in a reliable and sustainable way. While there have been significant developments affecting all parts of the business, there has also been important progress in operational performance, which is essential for meeting the expectations of customers now and in the future. We remain focused on maintaining and developing a balanced range of energy businesses; and our capital investment programme has reached a series of important milestones in recent months. All of this means that our financial outlook remains as set out in May and that we are in a good position to respond constructively to the key issues likely to emerge in the rest of this financial year and beyond.'

## Operations in the three months to 30 June 2015

In the three months to 30 June 2015 (comparisons with the same three months in 2014, unless otherwise stated):

- **Safety:** SSE's Total Recordable Injury Rate was 0.07 per 100,000 hours worked, compared with 0.12 during 2014/15 as a whole;
- **Wholesale:** total electricity output<sup>1</sup> from gas- and oil-fired power stations was 2.42TWh (including 0.43TWh from the new Great Island power station), compared with 2.19TWh; from coal-fired power stations output was 0.41TWh, compared with 1.79TWh reflecting poor market conditions for coal-fired generation;
- **Wholesale:** total electricity output<sup>1</sup> from renewable sources (conventional and pumped storage hydro electric schemes, onshore and offshore wind farms and dedicated biomass plant) was 2.20TWh, compared with 1.62TWh;
- **Wholesale:** total output from gas production assets was 115 million therms, compared with 112 million therms;
- **Networks:** the number of Customer Minutes Lost<sup>2</sup> in the Scottish Hydro Electric Power Distribution area was 13, the same as the previous year; in the Southern Electric Power Distribution area it was 10, compared with 16;
- **Networks:** the number of Customer interruptions (power cuts) per 100 customers in the Scottish Hydro Electric Power Distribution area was 18, compared with 15; in the Southern Electric Power Distribution area, it was 11, compared with 16;
- **Retail:** SSE's number of electricity and gas customer accounts in markets in Great Britain and Ireland fell from 8.58 million on 31 March 2015 to 8.49 million; and
- **Retail:** average consumption of electricity by SSE's household customers in Great Britain was estimated to be 822kWh, compared with 853kWh; average consumption of gas by SSE's household customers in Great Britain was estimated to be 75 therms, compared with 68 therms.

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<sup>1</sup> Output from electricity generating plant in which SSE has an ownership interest (output based on SSE's contractual share).

<sup>2</sup> Excludes exceptional events.

## Capital and investment expenditure

SSE continues to expect that its capital and investment expenditure will total around £1.75bn (gross) in 2015/16. Since 1 April 2015:

- **Wholesale:** Multifuel Energy Ltd, the 50:50 joint venture between SSE and Wheelabrator Technologies Inc, has continued to make good progress in constructing the £300m, 69MW multi-fuel generation facility adjacent to SSE's Ferrybridge power station - 'first fire' took place in June and full commissioning is expected to be completed shortly;
- **Wholesale:** SSE has undertaken pre-construction or construction work at eight onshore wind farm sites in the UK and Ireland with a total capacity of around 800MW, including Bhlaraidh in Scotland and Tievenameenta in Northern Ireland, on which the final investment decisions were taken in June;
- **Networks:** SSE's subsidiary Scottish Hydro Electric Transmission has completed the construction of its section of the replacement Beauly-Denny transmission line and the entire line from Beauly to Braco (190km) was energised for the first time last week ; and work is now well under way on the new connection between Caithness and Moray, for which capital funding approval of £1,118m(2013/14 prices) was secured in December 2014.
- **Retail:** SSE has continued to make investments relating to the roll-out of smart meters and in improving the quality and accessibility of the service it provides to customers, including the ongoing upgrading of its websites and digital channels, a new system to improve call waiting times and a new facility to enable live sign language conversations with customers via video link.

SSE continues to expect that its capital and investment expenditure will total around £5.5bn (net of disposals – see below) over the four years to March 2018 although, as previously stated, the phasing of capital expenditure and the value of disposals may vary.

SSE's programme to dispose of assets to release capital totalling around £1bn for future investment is continuing. Since April 2014, agreements with a total value of over £550m (including debt reduction) have been reached or concluded to dispose of assets. The programme is ongoing, and SSE continues to envisage securing proceeds from the sale of further onshore wind farm capacity and non-core assets to support a range of future investments.

## **Developments since 20 May 2015**

Since SSE announced its full-year results on 20 May 2015, it has:

- completed the sale to Blue Energy of three onshore wind farm developments in Scotland with a total capacity of up to 98.7MW once constructed;
- agreed a significant expansion of its long-term gas supply contract with Norwegian gas producer Statoil under which gas supplied from the six-year deal will increase from 0.5 million therms of gas per day to 2.5 million therms per day – the additional volume represents around 3% of Great Britain’s gas demand and around 25% of SSE’s;
- secured a one-year contract from National Grid to provide electricity reserve capacity totalling 750MW from its Peterhead power station under the 2015/16 Supplemental Balancing Reserve tender process;
- welcomed An Taoiseach to open officially its new 464 MW CCGT at Great Island in County Wexford;
- announced the appointment of Crawford Gillies as Senior Independent Director from 1 August 2015; and
- published its Consolidated Segmental Statement for 2014/15 on sse.com, the content of which is in line with its full-year results statement.

## **Electricity generation capacity**

The Secretary of State for Energy and Climate Change confirmed in June that a capacity auction for delivery in 2019/20 will be held later this year, with a target volume set at 45.4GW. In line with its statement on 20 May 2015, and in addition to other qualifying capacity, SSE intends to enter into the auction the capacity at its coal-fired power station at Fiddler’s Ferry, subject to meeting the appropriate pre-qualification criteria, but it is continuing to proceed towards the closure of the remaining coal-fired capacity at its Ferrybridge power station by 31 March 2016. The gas-fired power station at Keadby is continuing to be brought out of deep mothball and is on course to be made available to return to service for the winter of 2015/16; a final decision on the return date will be taken later this year.

In terms of the security of electricity supply in the coming winter, the UK government said in July 2015, following the publication of National Grid’s Winter Outlook, that ‘the lights will stay on’ and, in publishing its Electricity Security of Supply report, Ofgem subsequently confirmed that ‘National Grid has tools to keep the lights on this winter’.

## **Wind farms**

The Secretary of State for Energy and Climate Change announced in June the UK government's intention to introduce primary legislation to end 'new public subsidies' for onshore wind farms in Great Britain by closing the Renewables Obligation to new onshore wind generating stations from 1 April 2016.

Based on the options set out by the UK government, but subject to the legislation that is placed on the statute book, SSE believes that around 475MW of capacity at the following wholly-owned wind farms now under construction should qualify for Renewables Obligation Certificates:

- Strathy North (68MW)
- Dunmaglass (94MW)
- Clyde Extension (172MW)
- Bhlairidh (108MW)
- Tievenameenta (32MW)

In addition, SSE has consent to construct a wind farm at Stronelaig (c.210MW), but notice was served for Judicial Review of Scottish Ministers' decision and the result of this is expected in the second half of this year. Subject to this, SSE expects capacity at the wind farm to qualify for Renewable Obligation Certificates.

More generally, SSE will continue to engage with the UK government and the devolved administrations to maximise deployment of onshore wind farms under the Renewables Obligation.

In Ireland, construction of the Galway Wind Park, of which SSE's ownership share is 120MW, is also now well under way.

In addition, SSE owns 50% of Beatrice Offshore Wind Farm Limited, which has an Investment Contract (or early Contract for Difference) for the construction and operation of up to 664MW of offshore wind farm capacity in the Moray Firth. Engineering, procurement and environmental work is continuing with the aim of allowing a final investment decision to be taken in early 2016.

### **Competition and Markets Authority investigation**

The Competition and Markets Authority is now consulting on the provisional findings and remedies arising from its GB energy market investigation that it published on 7 July. SSE will continue to engage fully with the CMA and submit comprehensive responses to its publications, along with the analysis that underpins them, shortly.

Since a market investigation was first proposed in March 2014, SSE has argued that energy markets in Great Britain are generally well-functioning and competitive, while recognising the benefits of reform that are in the interests of customers, and its responses to the Provisional Findings and Remedies will be consistent with this view.

The CMA is expected to publish its Final Report by the end of this year.

### **Financial outlook**

SSE plans to publish its Notification of Close Period on 30 September 2015 and interim results for the financial year to 31 March 2016 on 11 November 2015. As SSE has previously stated, the nature of energy provision means that its financial results in any single year are always subject to uncertainties. Nevertheless, SSE is continuing to target:

- adjusted earnings per share<sup>3</sup> for 2015/16 of at least 115 pence ; and
- an increase in the full-year dividend that will be at least equal to RPI inflation<sup>3</sup>.

SSE continues to expect that it will earn an increase in operating profit in its Energy Portfolio Management and Electricity Generation business in 2015/16, but that there will be a decline in operating profit in Energy Supply, compared with the preceding year.

Shareholders have either invested directly in SSE or, as owners of the company, enabled it to borrow money from debt investors to finance investment totalling over £8bn since April 2010 in maintaining, upgrading and building energy assets that customers depend on. SSE aims to give them a return on their investment through the payment of dividends and SSE's objective for the years beyond 2015/16 is to deliver annual full-year dividend increases of at least RPI inflation.

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<sup>3</sup> As defined in SSE's full-year results statement in May 2015.

SSE continues to recognise that its dividend cover, based on dividend increases that at least keep pace with RPI inflation, could range from around 1.2 times to around 1.4 times over the three years to 2017/18. It continues to believe that a long-term target for dividend cover of a range around 1.5 times, also based on dividend increases which at least keep pace with inflation, is the right one to aim for.

### **Fulfilling SSE's core purpose**

SSE's ability to achieve its first financial objective of annual dividend growth that at least keeps pace with RPI inflation is ultimately dependent on fulfilling successfully its core purpose of providing the energy people need in a reliable and sustainable way, and it is the fulfilment of that core purpose which will continue to be the focus of its long term strategic, investment and operational decisions in 2015/16 and beyond.

### **Enquiries**

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