Regulatory Story

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SSE HOUSEHOLD ENERGY SUPPLY AND SERVICES IN GB

The Board of SSE plc ('SSE') today announces that it has entered into an agreement with innogy SE ("Innogy") in respect of a proposed demerger of SSE's household energy and services business in Great Britain ('SSE Retail') and combination with innogy's subsidiary npower Group plc ('npower') to form a new independent UK incorporated company to be held by SSE shareholders (following the demerger) and with minority participation by innogy ('Combined Retail Company').

This transaction will create an efficient new independent energy supply and services business in Great Britain and help create a new market model by combining the resources and experience of two established players with the focus and agility of an independent supplier.

The shares of the Combined Retail Company will be admitted to the premium listing segment of the Official List and to trading on the main market of the London Stock Exchange on completion of the combination (the demerger, combination and listing together - the 'Transaction'). Completion of the Transaction is subject to necessary shareholder and regulatory approvals and other conditions described below. It is expected that the Transaction will be completed by the last quarter of 2018 or the first quarter of 2019.

Alistair Phillips-Davies, Chief Executive of SSE, said:
"We are very proud of what we've delivered as a Group over many years; but we have been and remain committed to taking the right decisions in each of our businesses to secure the right outcomes for energy customers and other stakeholders.

"The scale of change in the energy market means we believe a separation of our household energy and services business and the proposed merger with npower will enable both entities to focus more acutely on pursuing their own dedicated strategies, and will ultimately better serve customers, employees and other stakeholders.

"SSE will remain a balanced group of related businesses, specialising in the energy, infrastructure and services needed to support the transition to a lower carbon future, but continuing to serve business and Irish customers; whilst the demerged retail business will build on a history of operational excellence and first-class customer service to pursue its own dynamic strategy for GB customers.

"This process is likely to take some time and in the interim we remain absolutely focused on the critical job of delivering for customers."

Decision to demerge SSE's household energy and services business in GB
The Board of SSE (the 'Board') has been undertaking a strategic review of SSE Retail in line with SSE's stated commitment to embrace change in each of its businesses, adapting them to the economic, social and technological requirements of customers and of society as a whole. The Board has reached the conclusion that a separation of SSE Retail has strong strategic logic and the potential to drive significant benefits for the business and its customers.

A standalone retail business will be able to benefit from its own dedicated board of directors and specialist management team, supported by skilled employees and focused entirely on strategic and operational developments in the GB retail sector, including the competitive and regulatory environment. It will also have the ability to access and allocate its own capital, allowing day-to-day decision-making to be more closely aligned with strategy and thereby facilitating the delivery of greater benefits to all stakeholders going forward, including customers and employees.

Combination with npower's household and business energy supply business in GB
SSE has been in discussions with innogy to determine the potential for a combination of both companies' retail and related services businesses in the GB market. In a Contribution Agreement entered into today, innogy and SSE have agreed to

contribute the following businesses to a new company (which is currently referred to as Combined Retail Company):

- **SSE's** household energy supply and services business in Great Britain ('SSE Retail'); and
- the **npower** household and business energy supply and services business in Great Britain.

At 30 September 2017, the two businesses described above provided energy and related services to around 11.5 million customer accounts throughout Great Britain.

The Transaction will be implemented by SSE demerging SSE Retail by declaring a dividend in specie to SSE shareholders or by a repayment of capital. In each case, this would be satisfied by the transfer of SSE Retail to the Combined Retail Company and the issue of shares in the Combined Retail Company to SSE shareholders on a pro-rata basis. Following this demerger, Innogy will contribute npower to the Combined Retail Company in consideration for the issue of shares in the Combined Retail Company to innogy. Upon completion of the Transaction, the Combined Retail Company will have an appropriate level of debt, commensurate with an investment grade credit rating.

The proportion of the Combined Retail Company to be held by existing shareholders of SSE on completion of the Transaction will be 65.6% and the proportion to be held by innogy will be 34.4%. The Combined Retail Company will apply for a premium listing on the main market of the London Stock Exchange, such listing to become effective on completion of the combination. innogy intends to retain all of its 34.4% holding in the Combined Retail Company for a period of at least six months from admission.

It is intended that the composition of the Board of the Combined Retail Company will comply with the provisions of the UK Corporate Governance Code. innogy will have the right to nominate two representative directors to the board of the Combined Retail Company if it holds 20% or more of the shares in the Combined Retail Company and one representative director if it holds from 10 to 20% of the shares in the Combined Retail Company. The Chairman designate, Chief Executive Officer designate and Chief Financial Officer designate will be appointed jointly by SSE and innogy.

The estimated size of the two businesses to be combined is:

- **npower:** at 31 December 2016, value of segment gross assets of £2,128m (net of goodwill of £1,773m) and operating loss attributable to the business of £89.5m*; and
- **SSE Retail:** at 31 March 2017, estimated value of gross assets of £819m (excludes cash) and estimated profit before tax attributable to the business of £267m (excludes historical inter-company debt interest).

*As contained within innogy's audited consolidated group accounts.

Benefits of forging a new independent retail business
Over and above the strategic rationale for a standalone demerger of SSE Retail, a combination with npower is expected to deliver enhanced value by creating an efficient new independent energy supply business in Great Britain and a new market model combining the resources and experience of two established players with the focus and agility of an independent supplier.

Although no decisions have been made at this stage, significant synergies are also anticipated, largely derived from operational cost efficiencies and capital expenditure savings from a combined IT platform. These savings are expected to ultimately enable the company to be an efficient competitor in its markets, competing more effectively and contributing to lower costs for customers. To the extent that any anticipated synergies result in implications for employees, no final decisions will be taken before any required consultation with employee representative bodies has taken place.

At the same time, with its own dedicated board and specialist management team, supported by skilled employees, the new business will be able to pursue its own strategy with greater agility, underpinned by access to its own capital, which will enable it to respond more effectively to the rapidly evolving competitive landscape as well as meeting the changing expectations of customers, regulators and other stakeholders. This includes a clear focus on responding to the needs of vulnerable customers and on making progress with the roll-out of smart meters.

Benefits and outlook for SSE
Following the separation of the retail business, SSE will maintain a balanced and diverse range of related businesses, creating value through specialising in efficiently building, operating and investing in energy and infrastructure assets, and focusing on activities which support the transition to a lower carbon future. It will continue to supply energy and provide energy and infrastructure services to business customers throughout the UK and Ireland and to household customers in Northern Ireland and Ireland.

Following completion of the proposed Transaction, the reshaped SSE will benefit from:

- a greater focus on assets and infrastructure, which is more aligned to SSE's core competences;
- the ability to be more agile and responsive, with more focused corporate overheads and the possibility to export its competences to relevant adjacent markets; and
- a clearer investment proposition, with greater visibility of assets and earnings, the majority of which will come from

regulated and quasi regulated sources and are linked to RPI.

SSE will continue to use its balanced and diverse business model, its efficient and disciplined approach, its excellence in asset building, owning and operating, and its visibility and understanding of the whole energy value chain, to deliver for customers, investors and communities during the transition to a lower carbon future.

SSE's commitment to remunerating shareholders
The Board of SSE is and will remain committed to remunerating shareholders' investment through the payment of dividends. It is continuing to target an increase in the full-year dividend for 2017/18 of at least RPI inflation, with an annual increase of at least RPI inflation also being targeted for 2018/19.

Thereafter, SSE's dividend and dividend policy will reflect the quality and nature of its assets and operations, the earnings derived from them and the longer-term financial outlook. Excluding household energy supply and services in GB, and based on its financial results for the three years to March 2017, around 80% of SSE's operating profit related to economically-regulated networks and government-mandated renewable sources of energy; and much of that is also index-linked. Following the demerger, therefore, SSE expects that its target for annual increases in the dividend per share will be at least RPI inflation.

More detail on this will be set out by the time the shareholder circular in respect of the Transaction is published. The Transaction will have no material impact on SSE's ability to meet its debt service obligations.

The Combined Retail Company is expected to benefit from the combination of resources and being a stronger retail competitor with the opportunity to secure efficiencies. In line with its independent status, the dividend policy of the Combined Retail Company will be determined by its board.

Tony Keeling, Chief Operating Officer, SSE Retail, said:
"We're proud of our track record in customer service and have plenty to build on, but there is a huge amount of competition and we need to do more than ever to compete by providing value for money and excellent experiences for customers.

"We have an exciting opportunity to create a major new independent supplier with a single-minded focus on customers, combining the benefits of scale and experience with the ability to be more agile in our decision-making and to invest in meeting customers' long-term needs. This is a new and different model which should leave us well placed to challenge the market, respond to the challenges and capitalise on the opportunities that lie ahead."

Completion of the Transaction and next steps
As stated above, it is currently expected that the Transaction will be completed by the last quarter of 2018 or the first quarter of 2019. Under the Contribution Agreement between SSE plc and innogy, completion of the Transaction is conditional on:

- relevant competition and regulatory approvals;
- approvals by SSE's shareholders and innogy's supervisory board; and
- admission of shares in the Combined Retail Company to the Official List of the UK Listing Authority with a premium listing and to trading on the main market of the London Stock Exchange.

innogy has committed to seek the approval of innogy's supervisory board by 31 December 2017 and SSE has committed to seek the approval of its shareholders by 31 July 2018. Should SSE not obtain the approval of its shareholders in respect of the Transaction, a break fee of £60m could be payable by SSE to innogy.

Separation of the SSE Retail business will be completed during the period before completion of the Transaction and will include appropriate employee information and consultation processes.

The Contribution Agreement contains certain undertakings in respect of the business conduct of the two respective businesses during the period prior to completion of the Transaction. These are aimed to ensure that the respective businesses are managed in a responsible manner and in the ordinary course of business.

SSE plc will publish a detailed shareholder circular in respect of the Transaction in due course. A Prospectus in relation to the shares of the Combined Retail Company will be published prior to its listing.

Inside Information

This announcement is being disclosed in accordance with the Market Abuse Regulation (EU596/2014) and has been determined to contain inside information in line with the definition therein.

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