SSE plc
Q3 TRADING STATEMENT

SSE plc completed the third quarter of its financial year on 31 December 2018. This Trading Statement:

- reiterates SSE's intention to recommend a full-year dividend for 2018/19 of 97.5 pence per share and to deliver the five-year dividend plan set out in May 2018;
- sets out SSE's current assessment that the Capacity Market 'standstill period' means it is unlikely to receive, or be able to recognise, contracted income from the Capacity Market until after this financial year, resulting in an estimated 6p reduction in current year adjusted earnings per share (EPS)* which takes the forecast for adjusted EPS in 2018/19 to be in the range of 64p to 69p;
- confirms the options that SSE is assessing for the future of SSE Energy Services, which remains held for disposal; and
- summarises the positive progress SSE has made with its capital investment programme for 2018/19. This is still expected to total around £1.7bn, including around £1.1bn in regulated electricity networks and renewable energy.

*Adjusted EPS excludes SSE Energy Services ('held for disposal').

Alistair Phillips-Davies, Chief Executive of SSE, said:
"We continue to make good progress in our core businesses of regulated energy networks and renewable energy, complemented by flexible thermal generation and business energy sales. We have also demonstrated our ability to create value for shareholders through the recent sales of stakes in our telecoms business and selected onshore wind farms with expected proceeds of over £1bn. We are also making progress in assessing the options for the future of the Energy Services business.

"SSE has a clear strategy and good long-term prospects for its high-quality core businesses and assets that contribute to the transition to a low carbon economy and will support the creation of value and delivery of our dividend plan in the years to come."

FINANCIAL OUTLOOK
In its Interim Results on 14 November 2018 SSE said it expected adjusted EPS for 2018/19 to be in the range of 70p to 75p (excluding SSE Energy Services, which remains held for disposal). The 15 November 2018 judgement of the Court of Justice of the European Union had the effect of removing the European Commission's State Aid approval of the GB Capacity Market scheme and introducing a 'standstill period' until the scheme can be approved again.

The UK government continues to believe that the Capacity Market is the right mechanism for delivering security of supply at the lowest cost to consumers and stated in February 2019 that it intends to 'ensure that suspended payments are made to holders of capacity market agreements for 2018/19.' This should make this income recognition issue a matter of timing only.

Nevertheless, SSE's working assumption is that it will not be able to recognise the remaining £60m income derived from the Capacity Market for 2018/19 in the current financial year. If this assumption is correct, it will reduce SSE's expected adjusted EPS for 2018/19 by around 6p, with total adjusted EPS for this year therefore now expected to be in the range of 64p to 69p.

Actual adjusted EPS for the year will continue to be influenced by the range of factors set out by SSE at the start of the financial year. As set out in its Interim Results statement on 14 November 2018, SSE's adjusted current tax rate for 2018/19, is forecast to be less than 1%, mainly due to the reduction in adjusted profit before tax as a result of the EPM losses.

In 2018/19, SSE has agreed transactions that will result in total expected cash proceeds of over £1bn. The value creation underpinning these transactions will be illustrated in substantial exceptional gains on sale in the year to 31 March 2019. These transactions comprise the disposal of stakes in the: Clyde (£202m), Dunmaglass and Stronelairg onshore windfarms (£635m); a stake in SSE Telecoms Ltd (£215m)* and the full disposal of Indigo Pipelines (£70m).

*With additional, contingent proceeds of up to £165m.

SSE intends to use up to £200m of the proceeds from the recent Dunmaglass and Stronelairg disposals to fund a discretionary share buyback in accordance with the authority granted by shareholders at SSE's Annual General Meeting on 19 July 2018 and Chapter 12 of the Listing Rules. The buyback is expected to commence before the wind transaction completes, which is due by the end of March. The remaining proceeds will be used to reduce net debt.

Taking these disposals into account, SSE currently expects its adjusted Net Debt and Hybrid Capital to be around £9.8bn as at 31 March 2019.

FUTURE OPTIONS FOR SSE ENERGY SERVICES

SSE Energy Services is expected to be profitable and cash flow positive (excluding working capital movements) in 2018/19 and 2019/20 and continues to deliver strong performance for customers, across a wide range of measures. These include ranking second of 34 suppliers in the recent Citizens Advice energy supplier performance rankings, industry-leading performance on Guaranteed Standards and ranking best for complaint handling in Ofgem's 2018 customer satisfaction survey.

SSE believes that SSE Energy Services will be best positioned to build on this strong performance in a future outside of the SSE group. With that in mind, SSE is continuing to build on the significant work done to date to separate SSE Energy Services as an independent, self-sufficient entity within the group, in preparation for its future outside it.

Future options are now being assessed for SSE Energy Services. These include: a standalone demerger and listing on either the premium or the standard listing segment of the Official List; a sale; or an alternative transaction. If none of the other options is viable SSE may retain Energy Services as a separate, ring-fenced business within the SSE group that would be expected to be cash flow positive. These options are being assessed, taking into consideration the best interests of customers, employees and shareholders, and with the support of external advisers. SSE will provide a further update on the progress of its assessment of the options by the end of March 2019.

VALUE CREATION FROM INVESTMENT

SSE's investment and capital expenditure is still expected to be around £6bn over the five-year period to March 2023. Economically-regulated electricity networks and renewable sources of energy are expected to account for around 70% of this.

For 2018/19, SSE still expects that its capital and investment expenditure will total around £1.7bn, including SSE Energy Services. In the nine months since 1 April 2018 it has totalled £1.2bn and included:

- Around £500m in **electricity networks.** Scottish and Southern Electricity Networks continues to upgrade the electricity transmission network and to invest to improve service quality for electricity distribution customers. The recent completion of the Caithness-Moray transmission link and investment in other projects is expected to take the total net Regulated Asset Value of all of SSE's economically-regulated networks businesses, including its share of SGN, to around £9bn by 2020 and £10bn by 2023.
- Around £400m in **renewable energy.** SSE has completed the 228MW Stronelairg onshore wind farm and the Beatrice offshore wind farm (SSE share: 235MW) remains on course for completion in the Spring. Following the sale of stakes in Stronelairg and Dunmaglass onshore wind farms and completion of Beatrice, SSE's total capacity for renewable energy will be 4,030MW. SSE is progressing its plans to consolidate the development, operation and ownership of its renewable energy assets under a single entity to be known as SSE Renewables.

OPERATIONAL PERFORMANCE

Safety: SSE's Total Recordable Injury Rate for employees and employees of other companies working on SSE sites was 0.17 per 100,000 hours worked in the 12-month period ending 31 December 2018, compared with 0.20 in the same period in 2017.

Wholesale businesses GB, Ire	**9 months to 31-Dec-2018**	**9 months to 31-Dec-2017**	**9 months to 31-Dec-2016**
Wind generation output – TWh	4.1	4.0	3.0
Wind constrained off generation equivalent excluded- TWh	*0.4*	*0.3*	*0.2*
Hydro generation output (incl. pumped storage) – TWh	2.4	2.5	2.1
Biomass generation output – TWh	0.1	0.0	0.1
Total Renewable generation output - TWh	**6.6**	**6.5**	**5.2**
Total Renewable capacity – GW as at 31 Dec	**3.9**	**3.8**	**3.3**
Gas- and oil-fired (incl. CHP) generation output – TWh	14.9	16.7	12.8
Coal-fired generation output – TWh	0.5	0.9	0.1
Multifuel generation - TWh	0.2	0.1	n/a
Total Thermal generation output - TWh	**15.6**	**17.7**	**12.9**
Total Thermal capacity – GW as at 31 Dec	**7.3**	**7.3**	**7.3**
Gas production – Mtherms	377	404	466
Gas production – Mboe	6.7	6.7	7.6
Liquids production – Mboe	0.5	0.6	0.7

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

Including constrained off output, SSE's renewable generation output in the nine months to 31 December was around 10% lower than forecast mainly as a result of the dry, still weather experienced in the early months of the financial year. Subsequently, prevailing dry, still weather conditions in January 2019 led to renewable energy output being around 25% lower than forecast in that month.

Networks businesses	9 months to 31-Dec-2018	9 months to 31-Dec-2017	9 months to 31-Dec-2016
Customer minutes lost (SHEPD) - average per customer	45	38	41
Customer minutes lost (SEPD) - average per customer	38	33	33
Customer interruptions (SHEPD) - per 100 customers	52	40	49
Customer interruptions (SEPD) - per 100 customers	40	40	37

Excludes exceptional events. Price Control performance incentives are reflected in earnings for financial year +2

Performance was impacted by the sustained heatwave in June and July 2018 which caused a number of challenges affecting SSEN's lower voltage networks.

Business Energy and SSE Airtricity	9 months to 31-Dec-2018	9 months to 31-Dec-2017	9 months to 31-Dec-2016
Business Energy customer accounts – m*	0.55	0.47	0.45
Airtricity customers – m	0.74	0.75	0.79

*Business Energy inc. 55k accounts re-assigned from GB domestic in 2018

SSE Energy Services (held for disposal)	9 months to 31-Dec-2018	9 months to 31-Dec-2017	9 months to 31-Dec-2016
Electricity supplied household average – kWh	2,508	2,616	2,664
Gas supplied household average – th	236	256	262
GB domestic energy customer accounts – m	5.88	6.45	6.84

GB domestic energy customer accounts at 30 September 2018 - 6.04m

The lower energy consumption in the nine months to December 2018 is, in part, due to the average temperature in the UK being slightly warmer than the same period in 2017.

Total Smart meters on supply	over 1,150,000	over 725,000	over 400,000
Home Services customer accounts (GB) – m	0.46	0.45	0.46

OTHER KEY DEVELOPMENTS SINCE INTERIM RESULTS PUBLISHED 14 NOVEMBER 2018

Since the publication of its interim results on 14 November 2018, there have been other developments affecting SSE:

- In December 2018 Moody's and Standard and Poor's downgraded SSE's credit rating one notch (to 'Baa1 stable outlook' and 'BBB+ stable outlook respectively) and issued updated guideline credit metrics. These ratings are amongst the strongest held by private sector utilities across Europe and the downgrade should not have a significant impact on SSE's ability to secure funding at competitive rates;
- In December 2018, Ofgem published a consultation on the methodology it will apply for setting the RIIO 2 price controls for the gas distribution and gas and electricity transmission networks and the electricity system operator. These price controls will run from 2021 to 2026. SSE believes a key test of any sustainable regulatory framework is whether it strikes the right balance between the risks involved in operating and investing in energy networks and the rewards for doing so. With the extent of risk proposed, SSE does not believe the current proposals strike the correct balance and it continues to be disappointed with the proposed 'cost

of equity' range. The consultation runs until March 2019 and SSE is engaging with Ofgem and other stakeholders in support of an outcome that meets the needs of energy networks' customers and investors;

- In December 2018, SSE entered into an agreement to sell a 50% share of its SSE Enterprise Telecoms business to Infracapital, for an initial consideration of £215m and contingent proceeds of a further £165m;
- On 1 February 2019 SSE entered into an agreement with Greencoat UK Wind Plc to sell 49.9% stakes in the Stronelairg and Dunmaglass onshore wind farms totalling 160.6MW for a total consideration of £635m. In line with its strategy to create value from development and operation, as well as ownership, of assets, SSE will continue to operate both wind farms; and
- In light of the fact that the UK and EU have not yet entered into a Withdrawal Agreement, SSE has been making and continues to make necessary preparations to minimise any potential disruption to its operations on and around 29 March resulting from a 'no deal' UK exit from the EU on 29 March. SSE will continue to monitor closely all Brexit-related developments, including any emerging operational, market, political or regulatory issues or developments that could have a direct or indirect impact on its businesses.

NOTIFICATION OF CLOSED PERIOD

SSE will issue a Notification of Close Period Statement on Thursday 28 March 2019 and its Full Year 2018/19 Preliminary Results on Wednesday 22 May 2019.

ENQUIRIES

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Adjusted earnings per share: the definitions SSE uses for adjusted measures are consistently applied and are explained most recently in the Alternative Performance Measure section of SSE's Interim results statement published on 14 November 2018.

ENDS