

Chair's introduction

# Fulfilling SSE's potential



2021/22 was marked by extreme weather events, the ongoing impacts of the pandemic, and most recently the invasion of Ukraine. These combined to create extraordinary energy market volatility, security of supply concerns, affordability challenges, operational complexities and financial distress in the value chain. Through it all SSE delivered on its purpose and demonstrated resilience and growth potential – continuing to establish the Group as a clean energy champion in the UK and Ireland.

Within this report, we aim for high standards of disclosure to help our stakeholders understand how we create value and fulfil our social contract. As part of that, we set out how my fellow Directors and I have exercised our duties under Section 172 of the Companies Act to promote the long-term success of the Company with consideration to the views of all stakeholders.

For SSE, that means being a purpose-led company that seeks profitable solutions to the problems faced by people and our planet – and we were tested on both fronts during 2021/22.

### Resilience through turbulence

It was a year which highlighted the distinct but interrelated challenges facing the energy sector. First, the climate crisis was strongly in focus as the UK hosted COP26 where SSE was a proud Principal Partner. Soon afterwards, concerns over affordability and the cost of living intensified with Ofgem announcing a significant increase to the

level of the energy price cap in Great Britain, and prices also increasing in Ireland, reflecting soaring wholesale gas prices. And, latterly, energy security has been in sharp focus as the world responds to Russia's deeply concerning aggression in Ukraine.

Operationally there have also been challenges, with an ever-changing outlook on the coronavirus pandemic, market volatility and extreme weather events. Throughout all this the Company has shown resilience, responsiveness, and continued strong performance that is described in the following pages.

On behalf of the Board, I would like to thank all of SSE's c.11,000 employees, whether working in the field, in offices or, indeed, at home, for their efforts over this challenging year in ensuring SSE fulfilled its purpose of providing energy needed today while building a better world of energy for tomorrow.

# £7m

The approximate amount being invested daily by SSE as part of the Net Zero Acceleration Programme

### Strategic evolution

The transition to net zero will require accelerating investments in the kind of low-carbon assets and infrastructure which already form the core of our business. The operating context is moving quickly as the requirements of net zero come into focus, and competitors and governments move fast to position themselves for success. A desire to strengthen energy security in many countries of the world in light of recent events accelerates this further and creates even greater potential for investment and growth in electrification and renewable energy. Against such a challenging and fast-moving backdrop, having a clear

**“In the context of the climate emergency, it is vital that we align our activities with a pathway consistent with limiting global warming to 1.5°C, and to recognised global frameworks. For that reason, we are proud to have enhanced our 2030 goals this year, which are aligned with the UN’s Sustainable Development Goals.”**

purpose is vital in guiding decision-making and this was central for the Board as we carried out the strategic review that culminated in SSE’s Net Zero Acceleration Programme, published in November.

Over a period of several months, we undertook a comprehensive process to identify the strategic response to this changing environment that would enable SSE to fulfil its potential and optimise value for shareholders and society. Recent events in Ukraine have served to strengthen and reinforce the conclusions.

We have continued to reshape the Group, divesting our investments in gas production and gas distribution, while focusing and accelerating investments into renewables, including international opportunities. We see substantial investments required to build networks for net zero, flexible generation and storage technologies including pumped hydro storage, solar and batteries. And we see increased opportunities for lower-carbon thermal generation as part of the energy mix. SSE has options in every part of the net zero electricity infrastructure value chain.

These are all growth businesses and the potential in new geographies is significant as we have seen through our recent expansion into the Japanese offshore and Southern European onshore wind markets. There is more to come as we continue to evolve, but our Net Zero Acceleration Programme means we have a clear, fully-funded plan that will create real value over the next five years and set us up for further growth later in the decade.

The landscape will continue to change at pace and we therefore view the Net Zero Acceleration Programme as the beginning, not the end, of our strategic evolution.

**Holding ourselves accountable**

In the context of the climate emergency, it is vital that we align our activities with a pathway consistent with limiting global warming to 1.5°C, and to recognised global frameworks. For that reason, we are proud to have enhanced our 2030 Goals this year, which are aligned with the UN’s Sustainable Development Goals.


But it is also paramount that our shareholders’ views are heard on our progress towards net zero. We published our Net Zero Transition Plan in March and now we have to progress it. We recognise that there is a long way to go and we don’t yet have all the answers; but the plan gives our best current view and, critically, is open about the challenges to enable constructive debate. We look forward to receiving shareholder feedback ahead of the AGM in July.

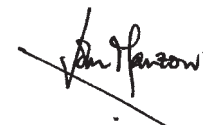
A big part of holding ourselves accountable is taking a leadership position on disclosure. We adopted TCFD reporting ahead of time on a voluntary basis back in 2018 and will continue to be proactive in our reporting. This Strategic Report builds on the work done in recent years to maximise the transparency of our stakeholder interactions and delivery of our social contract.

A critical stakeholder group is SSE’s employees, and the Board continued to engage regularly with them through the year. I’ve been struck by the strength of SSE’s culture, and it is clearly an important factor in the Company’s resilience to the challenges that have been posed in the recent past. We remain determined to become an even more diverse and inclusive company and more details on our efforts in that respect are set out later in this report.

**Looking ahead**

It is clear that global ambition for a clean energy transition that can deliver net zero while bolstering energy security and maintaining affordable prices will only intensify. SSE sits at the heart of that set of challenges, and our portfolio is fully aligned with the opportunities which will emerge. We will remain agile and focused on value creation within that context, and we will meet our purpose of providing energy needed today while building a better world of energy for tomorrow.

To close, I can confirm that this Strategic Report and the associated Section 172 Statement on [page 110](#)  have been approved by the Board in line with the Companies Act 2006.



**Sir John Manzoni**  
Chair, SSE plc  
24 May 2022

*SSE’s culture, and the people who underpin it such as these apprentices at Peterhead power station, are the key to the Group’s ongoing success.*



Chief Executive’s review



# Leading the way to net zero

Having led the refocusing of SSE’s strategy and from his leadership position in its execution, SSE’s Chief Executive, Alistair Phillips-Davies, looks back on an exceptional year of delivery and ahead to a decade of growth to come.

The pages of this report tell a story of operational delivery and financial performance that reflects the strides we are making in execution of our strategy and the value we are creating for shareholders and society. We are putting the investment plans within our Net Zero Acceleration Programme to work, pursuing growth options and spending nearly £7m a day on the clean electricity infrastructure that is so important to tackling climate change.

Progress made in 2021/22 gives us confidence in our strategic direction and optimism about meeting the ambitious new 2030 Goals set out on [pages 18 and 19](#). But the year had challenges too: it presented us with uncertainty and day-to-day restrictions brought by the coronavirus outbreak, a post-pandemic energy crisis exacerbated by war in Europe and exceptional weather events that tested the resilience of our electricity distribution networks.

**The right people**

Through it all SSE’s direct employees and contractors have stuck to the task of providing energy needed today while

building a better world of energy for tomorrow. With the rest of the executive team, I’m immensely proud of the way our colleagues have responded and very grateful for what they have achieved.

Keeping those people out of harm’s way remains our number one priority and we go into 2022/23 with a renewed focus on safety and wellbeing after a year of increased operational activity unfortunately saw 14 more injuries than in 2020/21.

Our skilled and increasingly diverse c.11,000-strong workforce is central to our success and as we grow we need even more people. We will be creating 1,000 new jobs a year on average over the course of our five-year capex plan. These are critical, high-quality jobs in regional areas, in many cases transitioning skilled people from high-carbon to low-carbon roles.

We have the right management too, with business leaders who are the best in their fields, including new, highly-experienced managing directors bringing renewed delivery impetus to SSE Renewables and SSE Thermal.

**The right business mix**

Once again a resilient mix of market-based and economically-regulated businesses shielded the Group against the worst of the shocks reverberating through the economy.

SSE’s business model is based around the assets and capabilities required for the global transition to an electrified, net zero system. This is the result of the highly successful disposals programme and targeted investments which have created a group with the capabilities and projects to create value right across the clean electricity value chain. SSE is an ESG-aligned growth investment opportunity; with an attractive blend of regulated and market-based income streams across a very deliberately chosen, integrated mix of businesses

Through these businesses, we continued to work on long-term solutions to problems faced by the sector that have been brought into stark relief by geopolitical events. As policymakers are seeking to break the link between global energy markets and the cost of living, our investment in indigenous, lower-carbon power sources and greater flexibility is decarbonising the energy system, reducing dependence on imported gas and supporting a just transition to net zero.

In a year of strategic delivery high points, it was perhaps fitting that it closed with the completion of our SGN stake sale, marking

the end of a disposals programme that helped us refocus the Group to better deliver on our purpose.

It was against this backdrop that we were able to engage actively from our leadership position as a national clean energy champion at the COP26 summit in Glasgow. We came away from the event with the firm conviction that our strategy is the right one for meeting the challenges of holding global warming to a 1.5°C pathway and creating opportunities for sustainable growth.

### Realising Renewables' ambition

Some of those opportunities are in markets abroad and, as described on [page 25](#), SSE Renewables' ambitions are taking shape in Japan, the US, and most recently in Southern Europe where we are securing a foothold with the acquisition of Siemens Gamesa Renewable Energy's development platform which includes 3.9GW of onshore wind and 1GW of solar and batteries.

Closer to home, our joint ScotWind seabed auction bid with partners Marubeni and CIP succeeded in winning our preferred site and took SSE's secured pipeline to 11GW. And in projects under construction, progress is being made on Dogger Bank, Seagreen and Viking wind farms.

This progress supports our plans for a doubling of net renewables installed capacity to 8GW up to 2026. And this is the platform for targets including a fivefold increase in renewables output to 50TWh, and maintaining a sustained renewables pipeline in excess of 15GW by 2031.

### Networks fit for net zero

Connecting ScotWind will sharpen an already steep growth trajectory for SSEN Transmission. Based on the System Operator's forecasts, which are likely to

be revised upwards, connected generation in SSEN Transmission's licence area could increase from 8GW today to 25GW by 2030, and we forecast gross RAV to reach around £12bn over a similar timeframe. Unlocking the renewables upon which government net zero targets in the UK depend is at the heart of a RIIO-T2 business plan that SSEN Transmission is already delivering on.

In our electricity distribution business, strategic planning around network resilience was drawn on heavily in the year in the response to six exceptional weather events in 12 weeks. The scale of the storm damage inspired heroic efforts from SSEN Distribution's employees. In response to the storms around 2,500 people across operational and welfare teams worked tirelessly to safely reconnect 435,000 affected households and businesses and provide support to affected communities.

Our economically-regulated electricity networks have evolved into powerful vehicles for growth. The RIIO-T2 and RIIO-ED2 business plans have huge capex requirements and our plans for bringing in financial partners will enable us to maximise growth not only in the distribution and transmission businesses, but across the wider Group.

### Flexibility for the future

The transition to a decarbonised energy system, with renewables at its core, connected to consumers via technologically advanced networks, will also require flexible plant, lower-carbon thermal generation and energy storage.

SSE's development pipeline includes critical flexibility offered by Coire Glas, the UK's largest pumped hydro storage project. Keadby 2 CCGT will displace less efficient plant and has potential for hydrogen blending. Further growth will come for SSE Thermal with planned CCS plants at Keadby and Peterhead which, together, could capture up to 3m tonnes of CO<sub>2</sub> a year – 10% of the UK Government's 2030 target – and play an important balancing role. Plans are also progressing for a Keadby hydrogen plant and a potential large-scale hydrogen storage facility at Aldbrough.

SSE's Net Zero Acceleration Programme is the framework behind the strategic progress described above and it forms the foundations of a decade of unprecedented growth. Assuming a continued supportive policy environment, our net investment into vital UK and Ireland infrastructure could exceed £25bn over the next 10 years, creating jobs and addressing the energy crisis. Our immediate task is to fully optimise the opportunities that arise from net zero, using our world-class capabilities, assets and businesses to fulfil the responsibility we have for creating shareholder and societal value over the long term.



Alistair Phillips-Davies  
Chief Executive  
24 May 2022

**"Our net investment into vital UK and Ireland infrastructure could exceed £25bn over the next 10 years, creating jobs and addressing the energy crisis."**



# 15GW

SSE's target for a sustained renewables development pipeline by 2031

Alistair meets the project team at Keadby 2, Europe's most efficient CCGT, which will displace older, more carbon intensive power plant off the UK energy system.