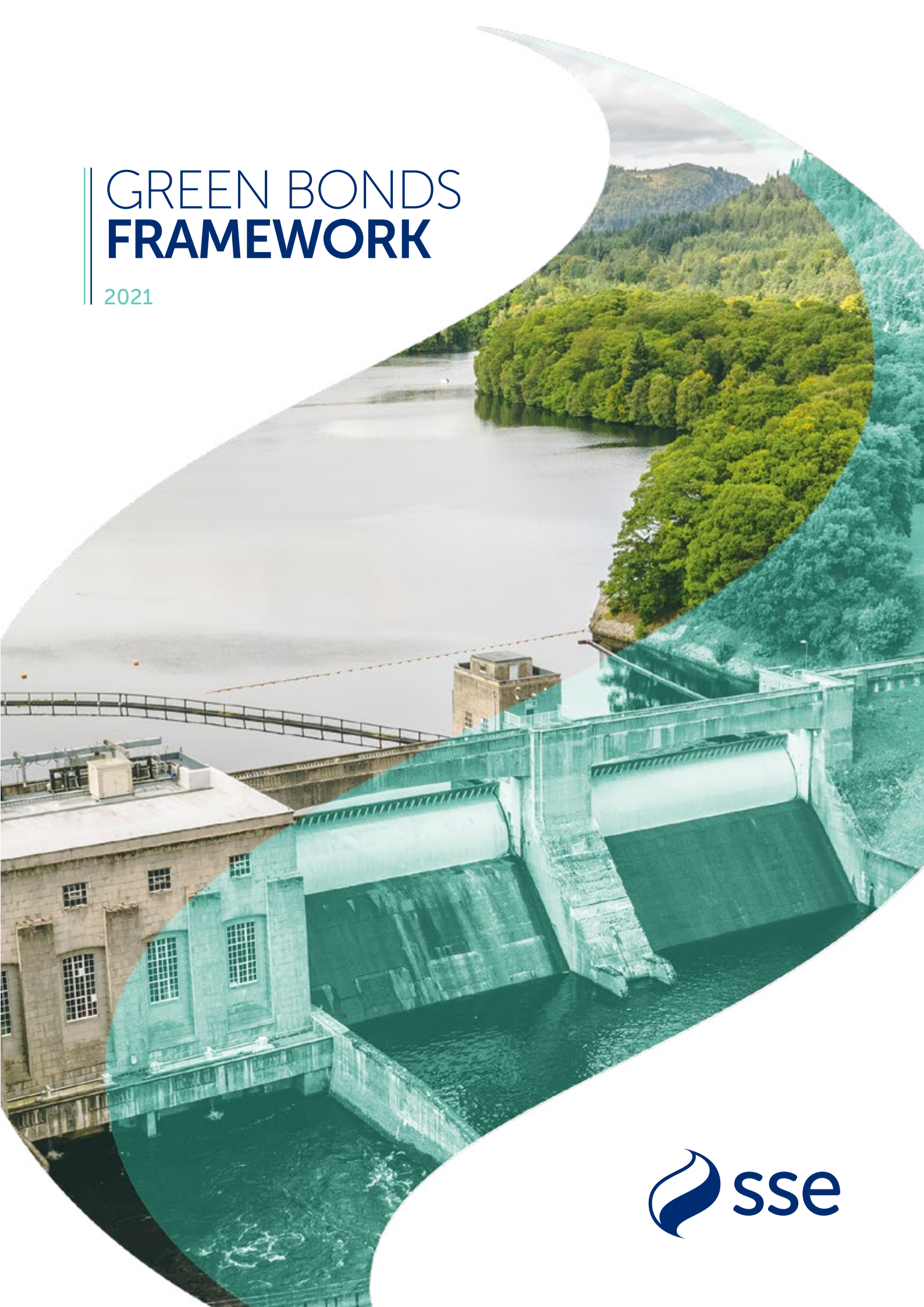


GREEN BONDS FRAMEWORK

2021



BUILDING A BETTER WORLD OF ENERGY

SSE plc is a FTSE 100 UK-listed energy company with operations and investments across the UK and Ireland. It is involved in the generation, transmission, distribution and also in the supply of electricity, gas and related services to customers.

SSE's purpose is to provide energy needed today while building a better world of energy for tomorrow and its vision is to be a leading energy company in a net-zero world. Its strategy is to create value for shareholders and society through successful development, efficient operation and responsible ownership of energy infrastructure and energy-related businesses.

Sustainability strategy: aligning business and social objectives

SSE recognises that a sustainable company is purpose-led; and that a purpose-led company is one that offers profitable solutions to the world's problems.

The UN Sustainable Development Goals (SDGs) are the blueprint for addressing global challenges, including climate change, and provide the framework from which therefore SSE's strategic goals for 2030 are aligned to the UN's SDGs.

SSE's strategy has addressing the challenge of climate change at its heart and its focus on core businesses of economically-regulated electricity networks and renewable electricity generation, complemented by provision of electricity from thermal sources, allows it to realise the opportunities presented by the transition to net zero. The generation of electricity from thermal power stations complements this strategy, with a medium-term strategy to repurpose carbonemitting generation for the net-zero world.

In March 2019, SSE set four fundamental business goals for 2030, aligned to the SDGs most material to its business. Over 2019/20, SSE worked to embed these 2030 Goals throughout the organisation and ensure meaningful progress is being made against them and this work is continuing in 2020/21.

- Climate Action (SDG 13): Reduce the carbon intensity of electricity generated by 60% by 2030, compared to 2018 levels, to around 120gCO₂e/kWh.
- Affordable and Clean Energy (SDG 7): Develop and build by 2030 enough renewable energy to contribute renewable output of 30TWh a year.
- Industry, Innovation and Infrastructure (SDG 9): Build electricity network flexibility and infrastructure that helps accommodate 10 millions electric vehicles in the UK by 2030.
- Decent Work and Economic Growth (SDG 8): Be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.

These four Business Goals for 2030 are included within executive management goals and linked to remuneration.

SSE's capital investment plan between 2020 and 2025 in support of its Business Goals amounts to £7.5bn with around 90% of the investment plan focussed on low carbon infrastructure, primarily the development of renewable energy and electricity network infrastructure.

SSE is conscious that the scale of the economic transformation required to deliver a net zero economy will have consequences for communities, consumers and working people. The notion of a 'Just Transition' is something that SSE is keen to support, with fairness to workers, consumers and communities through the transition being key to delivering public consent for the investments that are required to deliver Net Zero. It published a strategy for Just Transition in November 2020.

TRANSITION TO NET ZERO

At the heart of SSE's Strategy is a commitment to contributing substantively to the transition to a low carbon electricity system.

SSE believes that it is in everyone's interests that the transition to net zero should be just, and believes a just transition is one in which the necessary investment in decarbonisation is secured and current and future employees in energy are regarded with respect and given decent work; communities in which energy assets are located or planned are regarded as key stakeholders with comprehensive engagement on all key issues; and energy consumers are provided with affordable energy and accessible energy services.

SSE continues to be actively involved in the Just Transition Commission in Scotland's work and is contributing directly to the considerations. With COP26 now planned for November 2021 and just transition issues becoming a more significant aspect of climate change debates, SSE seeks to develop its own, more detailed analysis of the way it can contribute to a just transition.

In terms of electricity generation this has meant, and continues to mean, undertaking a strategic shift away from carbon intensive fossil fuel generation and towards electricity generation from renewable sources.

In terms of electricity transmission and distribution it has meant, and continues to mean, enabling the connection of renewable sources of electricity to the network and optimising the networks as they adapt to a lower carbon future.



Renewables

In 2020 SSE Renewables progressed its flagship development projects which will play a key role in delivering the renewable electricity needed to meet net-zero targets in the UK and Ireland. Early construction work is under way and key contracts awarded for both the first two phases of Dogger Bank Wind Farm (SSE Renewables share 40%) and the Seagreen 1 (SSE Renewables share 49%) offshore wind farms. Construction also began of the onshore Viking wind farm in Shetland. Together, these projects will generate over 22TWh annually, or over 7% of the UK's current energy demand.

In Ireland, SSE Renewables commenced public consultation on its plans for the next phase of Arklow Bank (520MW) and the Lenalea onshore wind farm (30MW, SSE Renewables share 50%) was successful in the first Renewable Electricity Support Scheme auction.

SSE Renewables' pipeline of offshore projects will support the recently announced UK Government target for 40GW of new offshore wind by 2030, and the Irish Government's commitment for 5GW of offshore wind by 2030. SSE's current development pipeline would see, on average, over 500MW of renewables capacity added each year to 2030. SSE Renewables is leading the construction of over 5,000MW across four wind farms (SSE Renewables share c. 2,800MW). SSE Renewables' growth to 2025 will be driven by its flagship offshore projects, Seagreen 1 and Dogger Bank. Seagreen 1 (1,075MW, SSE Renewables share 49%), located in Scottish waters, is a joint venture with Total and reached a final investment decision in June 2020. When complete, it will be Scotland's largest wind farm and the world's deepest. Construction of the onshore substation and installation of the onshore cable is under way. Offshore construction is due to begin in Autumn 2021 with the installation of turbine foundations. The first two phases of the world's largest offshore wind farm at Dogger Bank, Dogger Bank A and B (each 1,200MW, SSE Renewables share 40%), reached financial close in November 2020 and construction is underway, along with Dogger Bank C. All 3 phases are expected to be complete in March 2026.

Near-term onshore growth will be delivered through Gordonbush Extension in Scotland (38MW), which will be completed in Spring 2021, and Viking wind farm (443MW) in Shetland, which will achieve first power in Spring 2024. In Ireland, Lenalea wind farm (30MW, SSE Renewables share 50%) was successful in the first RESS auction, which cleared at a weighted average price of €74/MWh, and it is expected to enter construction in mid-2021.

While the activity already in development that is described above will double SSE's renewables output by 2025, a pipeline of longer-term projects needed to meet binding government targets has the potential to quadruple the Group's wind output by 2030.

Further growth opportunities are likely to come from SSE Renewables' consented offshore sites: Seagreen 1A (360MW, SSE Renewables share 49%), which is an extension to the Seagreen 1 site, and Arklow Bank Wind Park (520MW) in Ireland. These projects are expected to have an opportunity to secure government-backed contracts in the UK's CfD Allocation Round 4 and the Irish RESS-2 auction, respectively, both expected to take place by the end of 2021. If successful, both projects could be operational by 2025/26.

SSE Renewables is also focused on achieving consents for its planned projects at Berwick Bank and Marr Bank offshore wind farms (up to 4,150MW), formerly Seagreen 2 and 3, located off the Firth of Forth. Environmental Impact Assessment scoping reports have been submitted for both projects and planning applications are expected to be submitted by the end of 2021. SSE Renewables is also progressing its North Falls offshore wind farm (up to 504MW, SSE Renewables share 50%), which is an extension to the Greater Gabbard wind farm off the east coast of England. North Falls signed an Agreement for Lease with the Crown Estate in September 2020 as part of the process launched in February 2017 by the Crown Estate for wind farm operators to apply for extensions to their existing projects.

In Ireland, SSE Renewables has submitted foreshore licence applications for site investigations at two further Irish projects in the early stages of development: the 800MW Braymore Point project off the North-East Coast and the 800MW Celtic Sea array off the South-East Coast.

Future onshore growth can be delivered through SSE Renewables' consented sites at Tangy repower (57MW) in Scotland and Yellow River (105MW) in Ireland. There is a further 700MW of onshore wind in development that, if consented, could be operational by 2030 and further onshore developments are under consideration.

In October 2020, SSE Renewables received consent from the Scottish Government to increase the capacity of its planned pumped storage project, Coire Glas, from 600MW to 1,500MW. With increasing volumes of variable generation expected on the GB electricity system in the 2030s and beyond, SSE Renewables continues to see a critical role for Coire Glas in the efficient transition to a net zero economy. Coire Glas is one of the only large-scale bulk electricity storage solutions available in the next decade and is unique in its scale and potential to deliver vital flexibility and balancing services to the GB energy system.

Electricity Transition

SSEN Transmission, operating under licence as Scottish Hydro Electric Transmission plc, owns, operates and develops the high voltage electricity transmission system in the north of Scotland and remote islands.

Since the start of the eight-year RIIO-T1 Price Control in 2013, capital investment in SSEN Transmission has totalled over £3.2 billion, with this investment playing a pivotal role in providing the critical national infrastructure required to facilitate the transition to net zero and to maintain network reliability for the communities SSEN Transmission serves.

SSEN Transmission has an ongoing programme of inspections, maintenance, refurbishment and asset replacement to ensure its critical national infrastructure continues to deliver for electricity customers, generators and wider society. This includes the replacement of the existing transmission line from Inveraray to Crossaig, with these major works being essential to maintaining security of supply in Argyll and Kintyre. Construction of the first phase of this project, from Inveraray to Port Ann, is under way and remains on track for completion in 2021 with the second phase, from Port Ann to Crossaig, to be delivered in RIIO-T2.

SSEN Transmission's north of Scotland operating area is home to some of the UK's greatest resources of renewable electricity. During 2019/2020 it connected around 135MW of new renewable electricity generation, contributing to an overall increase in the total renewable electricity capacity connected to SSEN Transmission's network from 3.3GW at the start of RIIO-T1 to over 6.3GW by June 2020.

While there has been a slowdown in new onshore wind connections in the final years of RIIO-T1, SSEN Transmission continues to see strong demand for future grid connections and notes proposed changes to the UK Government's policy to reintroduce support for onshore wind in future Contracts for Difference ("CfD") auctions. Additionally, the next Scotwind leasing round for future offshore wind farm sites in waters off the coast of Scotland may result in further growth of renewables connecting to SSEN Transmission's network.

Based on the 'Certain View' of generation growth forecast over the RIIO-T2 period, SSEN Transmission expects the installed renewable capacity connected to its network in the north of Scotland will increase to at least 10GW, the equivalent of powering 10 million homes, and therefore playing a pivotal role in the UK's net zero targets as well as supporting future earnings and RAV growth. In addition, following the introduction of net zero emissions legislation, based on SSEN Transmission's 'Likely View' this could increase to around 12GW, putting the north of Scotland on a clear pathway to net zero. As SSEN Transmission plays its part in enabling a net zero economy, it will be guided by its strategy which is

focused on innovative and flexible connections, delivered in greater collaboration with customers and other stakeholders.

SSEN Transmission continues to make progress in the delivery of its large capital investment programme, critical to maintaining network reliability, security of supply and to supporting the transition to net zero. Building on a track record for delivering major projects on time and within budget, these projects include major new substations at Alyth, New Deer, Peterhead and Rothienorman as well as extensions to existing substations at Fetteresso, Kintore and Tealing. These investments will support the increase in the capability of the east coast transmission system up to 400kV – supporting the forecast growth in renewables that is looking to connect in the area. In July 2020, Ofgem approved the 600MW High-Voltage Direct-Current transmission link connecting Shetland to the GB transmission system for the first time, unlocking Shetland's renewables potential as well as supporting its future security of supply requirements. Construction has started on this £630 million project and it is on track for energisation in 2024.



In August 2020, SSEN Transmission became the world's first network company to be accredited by the Science Based Target Initiative with a science-based carbon reduction target in line with a 1.5°C global warming pathway required to meet net zero, further demonstrating its credentials in tackling the climate emergency.

Following a step change in SSEN Transmission's approach to stakeholder engagement, underpinned by the creation of a dedicated Customer and Stakeholder Directorate reporting to the Managing Director of Transmission, in September 2020, SSEN Transmission received its highest ever reward through Ofgem's Stakeholder Engagement Incentive for 2019/20. This resulted in SSEN Transmission rising from 13th place in 2018/19 to 6th place across all GB network companies, the highest of all Transmission Owners, with the financial incentive reward to be confirmed by 31 March 2021, which will be reflected in 2021/22 earnings.

With the north of Scotland home to significant resources of renewable energy, SSEN Transmission is well placed to play a leading role in the transition to net zero and the significant growth opportunities this presents, through building the transmission infrastructure required to connect renewable electricity generation and transport that electricity to areas of demand.

Underpinning these opportunities are planned changes to the UK Government's Contracts for Difference regime, which are expected to re-introduce support for onshore wind and solar, as well as proposed changes to the CfD pot structure which should improve the competitiveness of remote island wind and floating offshore wind. The ScotWind offshore wind leasing round, launched in summer 2020, further supports growth opportunities necessary to deliver net zero.

In October 2020, SSEN Transmission, alongside Scottish Power Energy Networks and National Grid Electricity Transmission, submitted to Ofgem an Initial Needs Case to develop a subsea HVDC link from Peterhead to Drax in the north east of England. The link, which the System Operator has indicated should proceed for delivery in 2029, is required to facilitate the forecast growth in renewables in the north of Scotland.

SSEN Transmission has a strong pipeline of new renewable connections and can see a possible path to a near trebling of connected generation capacity from 8GW today to 22GW by 2030.

Motivation for issuing a Green Bond

As a major investor in the UK and Ireland's renewable energy infrastructure, SSE believes that the issue of a Green Bond demonstrates its long-term commitment to the principles of sustainability and the transition to a low carbon economy.

The issuance of a Green Bond will support SSE's strategy to support the transition to a low-carbon energy system as outlined above.

While environmental sustainability is core to SSE's purpose as an energy provider, it understands the critical importance of social and economic sustainability to its long-term future. In recent years SSE has implemented important policies to secure its social sustainability such as a firm commitment to the Living Wage in the UK and Ireland and a responsible tax policy resulting in the achievement of the independent Fair Tax Mark. The participation in Green Bond markets complements SSE's strategy for long term sustainability in its widest sense.

The Green Bond supports SDG 13 on action to combat climate change, as the bond finances renewable energy in the UK and Ireland and the connection of future renewable generation to the UK energy system. For further information about SSE's contribution to the SDGs refer to pages 6 and 7 of [SSE's Sustainability Report 2020](#).



GREEN BONDS PRINCIPLES

The aim of this Green Bond Framework is to facilitate transparency, disclosure, integrity and quality in SSE's Green Bonds for interested stakeholders.

The Framework is aligned with the ICMA Green Bond Principles, that after the 2018 update remain framed by four core components: Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting. This Framework replaces SSE's previous Green Bond Framework dated September 2019.

Proceeds from SSE Green Bonds issued in 2017, 2018 and 2019 were allocated fully to SSE's 1.5GW onshore wind farm portfolio as described in the 2017 Green Bond Framework and to the Caithness Moray high-voltage direct current (HVDC) project and other Renewable Energy Transmission projects as described in the 2019 Green Framework. Use of proceeds below have been updated accordingly to cover future Green Bond issuance. Allocation and Impact Reporting for SSE Green Bonds issued in 2017, 2018 and 2019 can be found in the [following](#).

1. Use of proceeds

The net proceeds from the issuance of Green Bonds will be used to finance or refinance Eligible Green Projects that are expected to be under construction or complete in the next 24 months or have completed in the previous 24 months and that fall into the following accepted categories according to the Green Bond Principles:

i. Renewable Energy Production: Wind Farms Offshore Equity Investments

SSE Renewables' offshore projects currently under construction, Seagreen 1 and Dogger Bank. Seagreen 1 (1,075MW, SSE Renewables share 49%), located in Scottish waters, is a joint venture with Total and reached a final investment decision in June 2020. When complete, it will be Scotland's largest wind farm and the world's deepest. Construction of the onshore substation and installation of the onshore cable is under way. Offshore construction is due to begin in Autumn 2021 with the installation of turbine foundations. The first two phases of the world's largest offshore wind farm at Dogger Bank, Dogger Bank A and B (each 1,200MW, SSE Renewables share 40%), reached financial close in November 2020 and construction is underway, along with Dogger Bank C all 3 phases are expected to be complete in March 2026.

Further growth opportunities are likely to come from SSE Renewables' consented offshore sites: Seagreen 1A (360MW, SSE Renewables share 49%), which is an extension to the Seagreen 1 site, and Arklow Bank Wind Park (520MW) in Ireland. These projects are expected to have an opportunity to secure government-backed contracts in the UK's CfD Allocation Round 4 and the Irish RESS-2 auction, respectively, both expected to take place by the end of 2021. If successful, both projects could be operational by 2025/26.

SSE Renewables is also focused on achieving consents for its planned projects at Berwick Bank and Marr Bank offshore wind farms (up to 4,150MW), formerly Seagreen 2 and 3, located off the Firth of Forth. Environmental Impact Assessment scoping reports have been submitted for both projects and planning applications should be submitted by the end of 2021. SSE Renewables is also progressing its North Falls offshore wind farm (up to 504MW, SSE Renewables share 50%), which is an extension to the Greater Gabbard wind farm off the east coast of England. North Falls signed an Agreement for Lease with the Crown Estate in September 2020 as part of the process launched in February 2017 by the Crown Estate for wind farm operators to apply for extensions to their existing projects.

ii. Onshore Investments

SSE Renewables extension to the Gordonbush wind farm in Scotland (38MW), which is expected to be completed in Spring 2021, and the Viking wind farm (443MW) in Shetland, which will achieve first power in Spring 2024.



iii. **Renewable Energy Transmission:**
Transmission Network Infrastructure –
Scottish Hydro Electric Transmission plc
(SSEN Transmission)

SEN Transmission’s north of Scotland operating area is home to some of the UK’s greatest resources of renewable electricity. During 2019/2020 it connected around 135MW of new renewable electricity generation, contributing to an overall increase in the total renewable electricity capacity connected to SSEN Transmission’s network from 3.3GW at the start of RIIO-T1 to over 6.3GW by June 2020.

Based on the ‘Certain View’ of generation growth forecast over the RIIO-T2 period, SSEN Transmission expects the installed renewable capacity connected to its network in the north of Scotland will increase to at least 10GW, the equivalent of powering 10 million homes, and therefore playing a pivotal role in the UK’s net zero targets as well as supporting future earnings and RAV growth. In addition, following the introduction of net zero emissions legislation, based on SSEN Transmission’s ‘Likely View’ this could increase to around 12GW, putting the north of Scotland on a clear pathway to net zero. As SSEN Transmission plays its part in enabling a net zero economy, it will be guided by its strategy which is focused on innovative and flexible connections, delivered in greater collaboration with customers and other stakeholders.

SSEN Transmission continues to make progress in the delivery of its large capital investment programme, critical to maintaining network reliability, security of supply and to supporting the transition to net zero. Building on a track record for delivering major projects on time and within budget, these projects include major new substations at Alyth, New Deer, Peterhead and Rothienorman as well as extensions to existing substations at Fetteresso, Kintore and Tealing. These investments will support the increase in the capability of the east coast transmission system up to 400kV – supporting the forecast growth in renewables that is looking to connect in the area. In July 2020, Ofgem approved the 600MW High-Voltage Direct-Current transmission link connecting Shetland to the GB transmission system for the first time, unlocking Shetland’s renewables potential as well as supporting its future security of supply requirements. Construction has started on this £630 million project and it is on track for energisation in 2024.



2. Process of Project Evaluation and Selection

The exercise of project evaluation and selection is carried out by SSE's Tax and Treasury Committee led by the Finance Director of SSE. The members of this committee represent the key departments within SSE (Corporate Finance, Group Treasury and Tax) that are responsible for the liquidity of the company. This Committee has ultimate responsibility for reviewing all of SSE existing projects which have been completed in the past 24 months or will be completed in the near future and determining those which could be eligible in the Green Bond Framework for refinancing. The main selection criteria for a project to be eligible is that it must contribute to a positive environmental impact, support SSE's commitment to the ongoing reduction of the carbon intensity of its electricity generation and support SDG 13 (take urgent action to combat climate change and its impacts).

This Committee will also review on an annual basis the ownership of all existing projects included in the Green Bond Framework, as well as any new project which may be eligible to be included within the portfolio of projects for future Green Bond refinancing.

SSE strives to bring about positive environmental impacts from its operational and capital activities and may update its selection criteria in accordance with any developments in SSE's sustainability and environmental policies.

In addition to the Tax and Treasury Committee review, for any investment of greater than £10m, SSE operates its Large Capital Project Governance Framework. This Framework ensures through a gate process that all large capital investment projects for SSE are governed, developed, approved and executed in a consistent and effective manner, with consideration of best practice in project delivery, safety and sustainability (economic, environmental and social).

3. Management of Proceeds

The proceeds of the next Green Bond issuance are to be used for the refinancing and financing of eligible projects. The proceeds from the bond issuance will be directly allocated to the refinancing of the projects to the level of capital expenditure spent at the time of settlement and will then be allocated on a monthly basis to projects to cover ongoing capital expenditure. For proceeds that cannot be allocated to refinancing of projects at settlement, SSE will temporarily hold the funds in either deposits within its relationship banking group or liquid money market fund. Funds held on deposit will be monitored by the Tax and Treasury Committee led by the Finance Director of SSE until fully allocated.

In the event of divestment of any included project, either completed or under construction, SSE will include other Eligible Projects in the same categories outlined in Section 1, which are aligned with the Green Bond Principles. Where possible, SSE will seek to maintain a ratio of 1.2:1 of over collateralised of eligible Green Bond assets to Green Bonds issuance.

Auditors or any other third party appointed by SSE will verify the internal tracking method and the allocation of funds from the Green Bond proceeds to the Eligible Green Projects.

4. Reporting

Allocation Reporting:

Allocation reporting will be available to investors within one year from the date of the Green Bond issuance. In the first report after issuance, allocation of proceeds will be shown up to the level of refinancing capital expenditure on projects already spent, any proceeds that remain on deposit and still to be allocated will be reported the following year. Where SSE refinances its equity share within a joint venture it will be reported on an equity stake basis. Should there be any variance in the initial allocation reporting, such as divestments, SSE will duly update the allocation report within one year.

Impact Reporting:

SSE will annually, and until the maturity of the Green Bond issue, provide investors with information on its [investor website](#) and within its Annual Sustainability Statement on [SSE's website](#) regarding the environmental impact of the category of projects. This reporting will include relevant environment metrics related to the Eligible Green Bond Projects, for example the expected annual carbon saved, expected electricity capacity and output, and electricity flows from transmission investments.



5. External Review

Verification:

SSE has appointed DNV GL to independently verify SSE's Green Bond Framework and underlying assets. DNV GL has reviewed the Framework content and underlying assets and has confirmed its alignment with the Green Bond Principles and claims made by the issuer, providing SSE and investors with a Verification Report. The Verification Report as well as the Green Bond Framework can be found on [SSE's website](#).

Annual Report:

Auditors or any other third-party appointed by SSE will verify the internal tracking method and the allocation of funds from the Green Bond proceeds to the Eligible Green Projects.

6. Amends to this Framework

SSE's Tax and Treasury Committee led by the Finance Director of SSE will review this Framework on a regular basis and such review may result in this Framework being updated and amended. The updated Framework, if any, will be published on SSE's website and will replace this Framework.

Therefore, the Framework may be subsequently revised or updated as the green finance market continues to evolve, in order to reflect best market practice. Likewise, SSE is closely monitoring the European Union (EU) classification of environmentally sustainable economic activities (the European Union Green Taxonomy), as well as the EU Green Bond Standard Principles when these enter into force.



