



SSE Green Bond Framework

Building on the past to
create a low carbon future

SSE's heritage is built upon the hydro-electric revolution in the north of Scotland over 70 years ago. Today electricity is an essential service, but one that must undergo a new transformation, driven by the imperative to cut carbon emissions, and create an electricity system that is flexible, dynamic and clean.

SSE seeks to take a leading role in the UK and Ireland, supporting the transition towards this low carbon future, through its plans to continue to invest in both renewable electricity and the infrastructure needed to transmit renewable power to the places it is needed.



Introduction

SSE Plc is a FTSE 100 UK-listed energy company focused on the energy markets in the UK and Ireland. Its core purpose is to provide the energy people need in a reliable and sustainable way. To deliver this, SSE is involved in the generation, transmission, distribution and supply of electricity; in the production, storage, distribution and supply of gas; and in other energy related services.

To execute its strategy, meet its business objectives and manage risk over the long term, SSE needs to ensure it operates sustainably and responsibly. As an energy provider and UK-listed company, SSE's economic, social and environmental impacts are significant and SSE believes it should demonstrate a responsible approach by actively managing those impacts in order to secure long-term commercial success.

Sustainability at SSE

SSE's responsibility framework features its defined core purpose, the SSE SET of values, of which Sustainability is a core component, and a set of central policies reflected in its [Guide to ethical business conduct for employees](#). In addition SSE has a 'Responsible House', set out most recently in its Annual Report 2017, which provides a framework from which stakeholders can understand how its activities and relationships add value. In addition to the responsibility framework, [SSE's Environment and Climate Change Policy](#) outlines its approach to environmental protection and climate change mitigation.

The transition to a low carbon energy system

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

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. SSE has a long-standing commitment to reduce by 50% the carbon intensity of the electricity it produces, by 2020 (using 2006 as its baseline). This target was first achieved in 2016/17, and SSE is continuing to invest in renewable sources of energy.

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. In 2016/17, SSE's networks businesses connected over 500MW of capacity for renewable energy to the electricity grid, and they are continuing to invest in accommodating more renewable sources of energy in the future.

Overall, the company remains committed to developing and constructing new energy assets that are sustainable and progressive and contribute to the achievement of climate change-related targets in the UK and Ireland and to being transparent in its carbon-related disclosures and objectives.

To bring about this strategic change the SSE Group has:

- Invested significantly in renewable energy: SSE has invested £3.2bn in renewables since 2010 and has the largest renewable energy capacity in the UK and Ireland at over 3,300MW.
- Moved from a portfolio weighted towards coal and gas, to gas and renewables: In 2016/17 coal contributed 3.4% of SSE's generation output compared to 22% the previous year.
- Enabled more renewable generation to connect to the electricity network: SSE has invested close to £1.9bn in the GB electricity network since 2013.

SSE's continues to support this strategy and aims to:

- Progress its capital and investment expenditure: this is expected to total around £6bn across the next four years, mainly in electricity networks and renewable energy.
- Increase its amount of renewable capacity: SSE has a target to increase renewable capacity to 4.3GW by 2020, including pumped storage.
- Deliver enhanced customer experience of retail energy markets: This will be achieved through the installation of smart meters and the provision of digital services.

SSE's Chief Executive has overall lead responsibility for sustainability, including at Board-level. The Executive Committee monitors the operational and financial performance of sustainability related activities across the organisation and reviews progress quarterly. It is supported by the Governance, Culture and Controls Committee which governs sustainability management.

SSE's performance in managing climate change mitigation led CDP to award SSE an A- rating in 2016 and include it in the global Climate Disclosure Leadership Index.

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.

SSE's strategy is to support the transition to a low carbon electricity system by reducing the carbon intensity of the electricity it generates, at the same time as building, strengthening and re-enforcing an electricity grid in the north of Scotland that transmits renewable sources of energy to the population centres where demand must be met. The issuance of a Green Bond will support that strategy.

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.

Furthermore, SSE has reviewed the impact of its activities against the UN Sustainable Development Goals (SDGs) and found that its activities make a positive contribution to the following SDGs:

- SDG 5 (achieve gender equality and empower all women and girls): attracting more women into its business and ensuring these roles have good earning and career progression potential;
- SDG 7 (affordable, reliable and sustainable energy for all): by providing affordable energy and an inclusive service, reaching those that need help most;
- SDG 8 (promote sustained inclusive and sustainable economic growth, full and productive employment and decent work for all): delivering considerable economic and social contributions as well as supporting and creating high quality long-term employment;
- SDG 9 (build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation): investing in the energy infrastructure that society needs, while helping it transition to a low carbon economy; and
- SDG 13 (take urgent action to combat climate change and its impacts): SSE does this by generating electricity from low carbon and renewable sources, reducing its carbon intensity and connecting renewable generation to the electricity grid.

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 8 and 9 of SSE's [Sustainability Report 2017](#).

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

The Framework is aligned with the ICMA Green Bond Principles, that remain after the 2017 update framed by four core components: Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting.

Green Bond Principles

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 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:

Renewable Energy Production: Wind Farms

I. Onshore wind farms

Onshore wind farms are the UK's largest source of renewable energy (source: Renewable UK), providing energy capacity while reducing CO2 emissions. The cost effective character of wind farms makes them one of the most efficient sources of renewable energy and one of the most economically viable to replace fossil fuels.

The proceeds of SSE's inaugural Green Bond issuance are to be directed to the refinancing of part of SSE's £1.1bn¹ portfolio of Eligible Projects of onshore wind farms in the UK and Ireland, including the below projects:

- Projects that have been completed in the last 24 months
 - Slieve Divena 2 (19MW), Strathy North (67MW), Galway (64MW), Tievenameenta (35MW), Dunmaglass (94MW)
- Projects under construction to be finalised in the next 24 months
 - Bhlaraidh (108MW), Leanamore (18MW), Clyde Extension (173MW), Stronelairg (225MW)

Further detail of SSE's 1.5GW onshore wind farm portfolio, as well as future development opportunities, can be found on SSE's [website](#).

II. Offshore Equity Investments

SSE currently invests in offshore wind farm projects through joint ventures arrangements. The UK generates more electricity from offshore wind than any other country, with an annual electricity demand of around 5% and expected growth to 10% by 2020 (source: Crown Estate). In total the UK has 30 offshore wind farms with a generating capacity of 5.1GW and a further 4.5GW under construction. SSE's capacity share to date is 344MW but, with the completion of [Beatrice Offshore Wind Farm](#) in 2019, this capacity share will grow to 579MW.

Renewable Energy Transmission

III. Onshore Transmission Network Infrastructure

The latest investments in onshore transmission networks in the north of Scotland are primarily required to provide energy transportation between Scottish renewable generation supply and the UK electricity customer demand. At present the generation capacity able to connect to the north of Scotland transmission network is over 4.5GW, of which approximately 4.1GW is renewable generation. In financial year 2016/17, SSE invested £505m of capital to build a stronger energy supply for communities and allow a further 500MW of renewable generation capacity to access the grid. The ongoing investment of £1.1bn in the [Caithness Moray high-voltage direct current \(HVDC\) connection](#) will enable the connection of up to 1.2GW of generation capacity in the far north of Scotland.

¹Forecast total cost once all projects are completed



2. Process for 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 finally, 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 the 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 Green Bond issuance are to be used for the refinancing of eligible projects. For the inaugural Green Bond issue, SSE will partly refinance the £1.1bn of eligible onshore wind farm assets as a category of projects. The proceeds from the bond issuance will be directly allocated to the refinancing of the projects at settlement and, in the event the whole proceeds can not be allocated to refinancing projects, SSE will temporarily hold the funds in either deposits within its relationship banking group or liquid money market funds. This event would then be monitored until resolved by the Tax and Treasury Committee led by the Finance Director of SSE.

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. In the event of divestment of any included project, either completed or under construction breaching this ratio, SSE will include other Eligible Projects from the categories outlined in Section 1, which are aligned with the Green Bond Principles.

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. There will be one report after issuance, as the proceeds will be used for the refinancing of projects, thus the whole amount raised will be employed at settlement. 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 renewable 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.

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