# SSE plc

**SSE'S NET ZERO ACCELERATION PROGRAMME**

STRATEGIC UPDATE

**17 NOVEMBER 2021**

- SSE announces **'Net Zero Acceleration Programme'** to accelerate clean growth, lead the energy transition and maximise value for all stakeholders
- Plans include enhanced, fully funded **£12.5bn strategic capital investment** plan to 2026 alongside **ambitious 2031 targets**, aligned with net zero and **1.5 degrees**
- Net Zero Acceleration Programme represents **optimal pathway** to consolidate SSE's position as **UK's clean energy champion,** enabling delivery of over 25% of UK's 2030 40GW offshore wind target and over 20% of UK electricity networks investment, whilst deploying flexibility solutions and exporting renewables capabilities overseas

## KEY ELEMENTS OF NET ZERO ACCELERATION PROGRAMME

**Fully-funded £12.5bn** five-year strategic capital **investment plan to 2026** focused on net zero infrastructure:

- £12.5bn net capex investment to 2026 represents +65% step-up in annual investment (£1bn additional capital investment per year) on previous plan with over 2.5 times more capital now allocated to renewables growth.
- Investment will deliver ~4GW net renewables capacity additions (doubling renewables capacity) and grow electricity networks underlying RAV to ~£9bn net of assumed 25% minority stake sales.
- The plan is supported by further renewables partnering; and minority stake sales in both SSEN Transmission and SSEN Distribution (modelling assumption of early FY24) to unlock value and optimise investment.
- Reshaped capital allocation to c40% Networks, c40% Renewables, c20% other flexible generation, distributed energy and customer businesses.
- Adjusted EPS CAGR of 5-7% forecast to March 2026[1], after assumed minority interest.
- Growth-enabling dividend, paying at least £3.50 per share across the five years, comprising:
    - completion of current RPI linked dividend plan to March 2023
    - followed by a rebased dividend to 60p in 23/24 with attractive annual growth of at least 5% to March 2026
    - scrip dividend option capped at 25%
- Net debt to EBITDA target of 4.5x, aligned with a strong investment grade credit rating.

[1]Relative to FY21 87.5p

**Plan delivers accelerated growth** at attractive returns into 2026:

- Renewables net installed capacity increasing by 4GW, doubling existing capacity.
- Increases and maintains a sustainable development pipeline in excess of 15GW.
- Networks businesses' RAV forecast to grow at c.10% gross CAGR.
- Compelling returns targeted, focusing on high quality assets with common Group capabilities:
    - **Renewables** offshore: at least 10% equity returns (excluding developer profits) with onshore: WACC plus 100-400 bps project returns.

    - **New technologies** WACC plus 300-500 bps given expected technology risk and construction risk specific to each project.
    - **Networks** 7-9% return on equity, assuming a level of outperformance and CPI inflation of 2% p.a.

Programme provides the **platform for ambitious new 2031 targets** including:

- Fivefold increase in renewables output to 50TWh p.a.
- Maintaining a sustained >15GW renewables pipeline, delivering >1GW net additions p.a. and increasing renewable and other low-carbon generation capacity to >16GW.
- 8-9% gross networks RAV CAGR for electricity networks, to reach £11-13bn net.
- Meeting revised 1.5 degree celsius science-based carbon targets by 2030.

**Sir John Manzoni, SSE plc Chair, said:**

*"Over the past months the Board of Directors has carefully considered a range of strategic alternatives for the next phase of SSE's growth and development. Having reviewed all options and taken independent advice, this resulting strategic update significantly accelerates growth in our core businesses, whilst providing efficient and competitive sources of financing and ensuring SSE continues as a reliable and resilient operator of critical infrastructure.*

*"The Board believes these plans represent the optimal pathway for SSE, positioning it as the UK's clean energy champion with the scale to enable the delivery of over 25% of the UK's 40GW offshore wind target and over 20% of upcoming UK electricity networks investment, deploy flexibility solutions to keep the lights on, whilst exporting its renewables capabilities overseas. SSE is creating long-term value for all of our stakeholders."*

**Alistair Phillips-Davies, Chief Executive, said:**

*"In recent years we have made great progress in focusing the SSE Group on the delivery of the electricity infrastructure needed in the transition to net zero. We are constructing more offshore wind than anyone else in the world right now and expanding overseas, delivering the electricity networks needed for net zero and pioneering carbon capture, hydrogen and battery technologies to deliver system flexibility.*

*"Our Net Zero Acceleration Programme represents the next phase of SSE's growth and involves a substantial ramping up of investment – equivalent to nearly £7m each day in net zero infrastructure – backed up by clear delivery and funding plans. It builds on our existing strong platform for growth and highly desirable pipeline to create significant value for shareholders and wider society while further enhancing the long-term potential of the business.*

*"Today's announcement means SSE will maximise its long-term potential and capture growth opportunities during a critical time for the energy sector, strengthening and growing its core businesses, creating jobs, delivering for wider society and offering attractive shareholder returns."*

**Management presentation webcast and teleconference**

Today at 8.30am SSE is holding a live virtual strategic and capital investment update together with presenting its Interim Results to 30 September 2021. Investors and analysts are invited to join the live broadcast by visiting www.sse.com and following the links on either the homepage or investor pages; or directly using https://edge.media-server.com/mmc/p/en9mbrvc. This will also be available as a teleconference, details below. Both facilities will be available to replay.

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## BACKGROUND TO STRATEGIC UPDATE

Global efforts to tackle the climate emergency present an enormous opportunity for SSE. COP26, where the UK Government asked SSE to participate as a Principal Partner, served to highlight the critical importance and global relevance of the Group's strategy of creating value for shareholders and society in a sustainable way by developing, building, operating and investing in the electricity infrastructure and businesses needed in the transition to net zero. SSE's strategy has been highly effective in generating a wealth of growth opportunities in its networks and renewables businesses as well as in the highly complementary businesses which make up the SSE Group.

Correspondingly, as highlighted in its Full-year Results in May 2021 and the recent pre-close statement on 29 September 2021, SSE has been undertaking a comprehensive assessment of its opportunities to drive sustainable long-term value for all of its shareholders. This has included the evaluation of the scale of its capital investment and growth opportunities, as well as the optimal sources of funding to underpin an acceleration in growth. This assessment has included an in-depth examination of a number of strategic options, involving detailed external and independent advice, as well as engagement with shareholders and other stakeholders. Throughout this evaluation, the SSE plc Board has been carefully considering the longer-term impacts on shareholders and wider society.

SSE's five-year strategic capital investment plan to 2026 will deliver significantly enhanced investment in a balanced mix of low-carbon infrastructure split approximately 40-40-20 across networks, renewables and other net-zero-aligned business that fit strategically within the Group, while retaining a strong investment-grade credit rating. It will be fully funded through operating cashflows, debt funding and further partnering, including assumed minority 25% stake sales in both SSEN Transmission and SSEN Distribution. In addition, following completion of its existing dividend commitment to March 2023, SSE is announcing a rebase of its dividend to 60p in 23/24 with a target of annual growth of at least 5% per annum to March 2026.

SSE believes that the programme announced today represents the optimal pathway for SSE to continue to maximise its significant growth potential and deliver for shareholders and wider society. Through these plans SSE expects to enable delivery of over a quarter of the UK's 40GW offshore wind target by 2030, enact over 20% of upcoming UK electricity networks investment, deploy technologies to provide system flexibility and accelerate the deployment of its renewables capabilities overseas. In doing so, these attractive investments will be underpinned with a clear funding plan to drive long-term value for shareholders.

## CONSIDERATION OF ALTERNATIVE STRATEGIC OPTIONS

As noted in an RNS published on 20 September, there has been recent media speculation regarding a break-up of the SSE Group. The Board carefully considered a wide range of available strategic options, including a separation of SSE Renewables. This was a rigorous process involving constructive engagement with shareholders, and consideration of independent advice. The Board ultimately assessed that separation would not be the best route for growth, execution and value creation, and was not therefore in the long-term interests of its stakeholders, primarily because:

- Delivering on the Group's exciting growth opportunities across its core electricity infrastructure businesses is the fundamental long-term driver of value. Growth is best achieved through the balance sheet strength and funding options derived from a mix of market-based and economically-regulated businesses, with the latter providing both capital strength and growth.
- The loss of scale, reduced capital structure and weaker credit position of a standalone renewables business would ultimately impact on the ability to fund larger scale projects such as Dogger Bank and Berwick Bank.
- Separation would risk losing valuable growth options arising from SSE's integrated business model and position across the clean energy value chain in areas such as carbon capture and storage, hydrogen and distributed energy solutions, amongst other emerging technologies.
- A break-up of the Group would result in substantial dis-synergies and a loss of the shared services and world class capabilities that SSE's electricity-focused business mix provides. A considered, detailed assessment of quantifiable dis-synergies of approximately £95m/year of recurring value lost through a break-up, approximately £200m of one-off separation costs, and a wide range of intangible dis-synergies such as loss of shared skills, natural hedges and liquidity benefits.
- There would be a period of significant disruption, cost and uncertainty to the business, its partners and counterparties leading to project delays. This would limit SSE's ability to secure pipeline opportunities at a critical time for accelerated net zero investment.

The Board concluded that SSE is optimally placed as an integrated electricity infrastructure company and separation would diminish the highly attractive growth potential across SSE's businesses and negatively impact the fundamental long-term value for shareholders and stakeholders. This includes the Group's ability to deliver on its 1.5°C-aligned science-based targets announced today which are integral to the Net Zero Acceleration Programme.

## STRATEGIC AND CAPITAL INVESTMENT UPDATE

### Clear long-term strategy with focused business mix

SSE is a purpose-led company, seeking to provide the energy needed today while building a better world of energy for tomorrow. It is a long-term business with a clear strategy aligned with the transition to net zero.

Following the sale of Energy Services and a subsequent successful and targeted disposals programme, which is expected to raise in excess of £2.8bn headline proceeds, SSE's focus is now clearly on clean electricity infrastructure. Its core businesses are renewables and regulated electricity networks – businesses which have strong, net zero-linked growth potential based on government policy alignment, and common capabilities in the development, construction, operation and financing of world-class, highly technical electricity assets.

These core businesses, together with strategically-aligned thermal, customer and trading businesses – provide an ESG-linked growth investment opportunity; an attractive mix of regulated and market-based income streams; and valuable linkages with each other which support efficient financing. SSE's business mix is very deliberate, effective, fully focused, and perfectly set up to prosper on the journey to net zero.

With its UK-listing and investment in key parts of the electricity value chain, SSE has effectively become the UK's national clean energy champion, delivering the projects that society needs and trusted to build and operate critical infrastructure in the national interest.

### Capital investment plans to 2026

In May, SSE highlighted it had identified significant further attractive growth opportunities for additional investment across the Group. These include opportunities above and beyond its already approved capital expenditure plans under RIIO-T2; in projects from its highly attractive renewables pipeline; in medium- to long-term growth options in flexible technologies critical to net zero in the form of pumped storage hydro, carbon capture and storage, hydrogen and batteries; and in selective partnerships focusing on international expansion in renewables.

With these opportunities in mind, SSE is today setting out a new five-year capex plan that aligns capital allocation with the Group's greenhouse gas emission targets and its changing energy mix.

| Share of Capex | Previous plan | Updated plan |
|---|---|---|
| **Electricity networks** | ~65% | 40% |
| **Renewables** | ~25% | 40% |
| **Other flexible generation / energy solutions** | ~10% | 20% |

In doing so, SSE is seeking to maximise total shareholder returns from both earnings and asset value growth from its wealth of net zero-orientated opportunities, while remunerating shareholders with a rebased dividend with attractive growth. The plan represents a floor target, not a ceiling, and SSE will be well positioned to take other opportunities as they emerge.

SSE's accelerated £12.5bn capex plan, an increase of two thirds on its current £7.5bn plan, equates to an average of £2.5bn per year to 2026 and is broadly split as follows:

- **Regulated electricity networks: c40%** (net of assumed stake sales)
  With electricity demand expected to more than double by 2050, electricity networks are at the heart of the transition to net zero. SSEN Transmission and SSEN Distribution continue to form a key part of the low-carbon electricity core of SSE. With a significantly expanding capex programme, SSE plans to extend its partnering approach to networks to maximise its ability to drive RAV growth while providing the flexibility to pursue other opportunities across the Group (see below). The updated plan will deliver over £5bn (net) in networks capex. Transmission capex is expected to total over £3bn net including

c.£1bn net investment in transmission projects such as the Skye reinforcement, Eastern HVDC and North Argyll projects which are expected to progress through the Needs Case assessment process. Distribution capex plans include significant net zero-aligned investment through the RIIO-ED2 business plan to be submitted in December 2021. Electricity networks RAV is expected to increase from £7.4bn in FY21 to close to £12bn (gross) by FY26 – a c.10% CAGR – or almost £9bn net after accounting for minority 25% stake sales assumed for modelling purposes in early FY24.

- **Renewable energy generation**: **c40%**
  SSE's significant capabilities in a growing international market will lead to an expansion of its already attractive secured pipeline of 10GW in order to provide strong growth in terms of both long-term earnings and asset values. Around 50% of this renewables capex is on assets currently under construction, around 30% is forecast spend on projects currently under development and 15% on future pipeline development with the remaining 5% on operational maintenance and lifespan extensions.

- **Other flexible generation, distributed energy** and **customer businesses: c20%**
  The extreme volatility seen in energy markets in recent months has made clear that technologies like carbon capture and storage, hydrogen and batteries – where SSE has highly attractive projects – will be critical to society in the transition to net zero, enabling enhanced renewables deployment by balancing the system. These technologies can provide attractive earnings growth and returns commensurate with the relative immaturity of the technologies, balancing SSE's overall returns profile, as well as providing a natural hedge against renewables variability. The deployment of these technologies by SSE Thermal and SSE's Distributed Energy business will enable the Group to capture value in increasingly vital low-carbon flexibility markets. SSE's customer businesses, meanwhile, remain an important route to market for low-carbon energy.

By 2026, this capital investment plan is expected to give SSE:

- A doubling of installed **renewables capacity** to 8GW (net), supported by a sustainable secured pipeline in excess of 15GW providing the platform for 1GW (net) installed additions per year thereafter;
- **Electricity networks** RAV to reach almost £9bn (net), after assumed 25% minority stake sales in SSEN Transmission and SSEN Distribution, with further opportunities providing the platform to maintain a gross CAGR of c.8-9% to 2031; and
- **Adjusted EPS CAGR** of between 5-7% underpinned by c.60% index-linked revenue streams; and
- A **rebased dividend with attractive annual growth**, delivering total dividends of 350p per share through to 2026.

This capital investment will be allocated based on clear internal investment criteria intended to maximise total shareholder returns while ensuring strategic alignment with SSE's net zero electricity focus. The investment criteria include:

- **Strategic fit.** Aligned with SSE's commitment to its 1.5 degree science-based carbon targets, business mix and capabilities.
- **Optimum mix.** Balanced risk and returns through a mix of economically regulated and unregulated, market-based assets.
- **Targeted returns.** Focusing investments in high quality assets where common capabilities across the Group can deliver favourable risk-adjusted project returns, namely:

- **Renewables** targeting at least 10% equity returns (excluding developer profits) for project-financed offshore wind and WACC plus 100-400 bps project returns for unlevered onshore wind;
- **New technologies** targeting WACC plus 300-500 bps reflecting expected technology risk and construction risk specific to each project; and
- **Networks** targeting 7-9% return on equity, assuming a level of outperformance and CPI inflation of 2% p.a. and actual gearing ratio of 65%.

**A dividend plan to support accelerated growth**

SSE has confirmed its previous commitments to shareholders to target dividend increases in line with RPI in the remaining two financial years of the previous five-year plan to 31 March 2023. Looking further ahead, the Board has considered what the right dividend policy should be thereafter. In doing so, the Board has assessed and balanced a number of factors, including: financial and sector market trends; credit metrics and cashflow profiles; total shareholder returns; growth opportunities; and different funding options, including minority network stake sales.

The Board believes that SSE's accelerated capex plan to 2026 and the opportunities it creates in the years that follow will require a dividend plan which is aligned to this growth profile. Correspondingly, following fulfilment of its existing commitments to 22/23, it will rebase its dividend to 60 pence in 23/24, before targeting at least 5% dividend increases in 24/25 and 25/26. This will amount to a total dividend per share of at least £3.50 over the five-year period to March 2026.

SSE will also retain a scrip dividend option for shareholders but will restrict earnings dilution by capping take-up at 25% from FY22 onwards.

The Board believes that this rebased dividend with attractive growth balances income to shareholders with appropriate funding and a credit rating for an accelerated growth plan that will ultimately create greater value and total return for shareholders over the long term.

**Funding the five-year capex plan**

The breadth and quality of the opportunity outlined above is unique to SSE and its very deliberate, net zero-orientated business mix.

SSE has repeatedly demonstrated through effective capital allocation, raising debt at highly attractive terms, capital recycling and partnering that it can take advantage of the accretive opportunities it creates. It has a proven ability to realise value from disposals of non-core assets, securing over £2.8bn in headline consideration from the disposals programme launched in June 2020, well ahead of original guidance.

It is this disciplined approach that will guide delivery of a plan that creates a platform for future growth and returns while providing optionality over any further favourable opportunities that arise. The plan is also consistent with an investment grade credit rating, an efficient balance sheet and a robust funding structure.

- **Continued partnering to realise value and grow Renewables**

Well-chosen partnering is already a key element of SSE's financial strategy and will be critical to future plans. Having equity partners at a 'project' level, combined with efficient project finance, has allowed SSE to spread project risk and financial exposure, avoid significant increases in non-earning net debt and also crucially to secure developer premiums on projects at an early stage. By securing that value sooner, and reinvesting it in new development projects, SSE Renewables can grow faster than would otherwise be possible. Given SSE's proven track record in creating value and realising developer premiums through equity sell-downs at final investment decision (FID) or commercial operation date (COD), the 2026 plan includes the recent sell down of a 10% stake in Dogger Bank C and assumes a future sell down of a stake in Berwick Bank.

- **Asset disposals, including a minority stakes in networks**

SSE has consistently stated that it sees potential to extend the SSE Renewables partnering approach through sales of minority interest stakes in its electricity networks businesses. While exact timing and scale of any stake sale is yet to be decided, SSE's £12.5bn net capex plan includes as a modelling assumption the sale of a 25% stake to minority financial partners in both its Transmission and Distribution businesses in early FY24. While these are high-quality, core businesses and SSE will retain control, the scale of potential growth and the associated investment required mean that bringing in minority partners will create greater long-term value by enabling SSE to harness this significant growth whilst maintaining an attractive balance of capital allocation across the Group.

In addition to this assumed minority stake sale, the plan also assumes the completion of the disposal of Scotia Gas Networks (SGN) by the end of FY22 as well as the potential disposal of other residual non-core assets such as Neos Networks (formerly SSE Telecoms).

- **Earnings and net debt**

The capital allocation outlined in the strategic plan is expected to drive a 5-7% Group adjusted EPS CAGR in the period to March 2026 (after assumed minority interest) in the period to March 2026, which is underpinned by c.60% of index-linked revenue streams.

SSE expects to retain a strong balance sheet. The Group's business mix, its future capital investment and funding plans are designed to ensure it retains an investment grade rating and is aligned to a target net debt to EBITDA ratio of 4.5 times.

SSE has an average debt maturity of 7.2 years with 100% of its debt at fixed interest rates. As the UK's leading corporate issuer of green bonds, the breadth and quality of SSE's assets and balance sheet mean it is able to secure ESG-aligned funding at attractive rates.

**AMBITIOUS TARGETS BEYOND TO 2031**

The scale of the capital investment plans laid out today will not only accelerate growth for the period to 2026; it will also pave the way for SSE's businesses to grow substantially through the second half of the decade and is necessary to deliver 1.5 degree aligned carbon targets. Looking further ahead, SSE is therefore setting out a number of key targets for the 10 years to 2031:

- Maintaining **a sustained renewables pipeline in excess of 15GW**, reflecting SSE's previously stated ambition to reach additions of at least 1GW per year net assets during the second half of the decade, through domestic and international opportunities.
- A trebling of SSE's owned **renewables** capacity to over **13GW** (net) from c.4GW today.
- A **fivefold increase** in SSE's **renewables output** to c.**50TWh** in 2031.
- An increase to **£11-13bn** (net) in SSE's **electricity networks** RAV, after assumed minority stake disposals, from £7.4bn (gross) at FY21, equivalent to an 8-9% gross CAGR.

- Following the dividend certainty over the five-year plan, the aim is to set SSE's businesses up to support a similar level of annual dividend growth post 2026 as 10-year ambitions are delivered.

**1.5° C aligned science-based carbon targets**

The acceleration towards net zero is integrated within the significant increase in investment and ambition outlined in today's Net Zero Acceleration Programme. SSE's investment plans support the renewal of SSE's existing greenhouse gas ('GHG') emission targets to align with the Science Based Target Initiative ('SBTi') power sector 1.5°C-aligned science-based target criteria. SSE's renewed science-based targets are to:

- **Reduce scope 1 GHG emissions by 78.2% per gCO2e/kWh between FY18 and FY30**.
- **Reduce absolute scope 1 and 2 GHG emissions by 72.5% between FY18 and FY30.**

These revised targets for scope 1 and 2 absolute emissions cut in half the previously planned emissions for 2030.

In committing to achieve net zero emissions by 2050 at the latest across all scopes of emissions, SSE's new 1.5°C-aligned science-based targets for scopes 1 and 2 are supplemented by SSE's existing interim scope 3 targets, also verified by the SBTi:

- **Engage with 50% of suppliers by spend to set an SBT by FY24.**
- **Reduce absolute GHG emissions from use of products sold by 50% by FY34 from a FY18 base year**.

These targets are central to the Group's purpose, vision and strategy; are fundamental to the capital investment and allocation plans outlined today; and are aligned with government and stakeholder demands to achieve net zero emissions and prevent global warming exceeding 1.5°C above pre-industrial levels.

**SUMMARY – AN AMBITIOUS PLAN FOR THE FUTURE**

Over the past two years, SSE has transformed through a number of strategic disposals to retain high quality assets firmly centred on renewables and regulated electricity networks with net-zero aligned growth potential. It is the leading electricity infrastructure company in its home market which is the world's largest offshore wind market and the world's fifth largest economy. SSE's integrated business model is a strong basis for expanding in related complementary businesses such as hydrogen and carbon capture, as well as internationally with well-chosen partners through its renewables business.

The strategic review carried out by the Board has been rigorous and robust, considering all strategic and structural options for the business. The resulting Net Zero Acceleration Programme announced today leaves SSE in a strong financial position to unlock sustained long-term shareholder value from the opportunities it is creating from its clear net zero-focused strategy.

Today's Strategic Update not only reflects the immediacy of the decarbonisation opportunities SSE faces, but also takes into consideration the views of all stakeholders. SSE is providing shareholders with a diversity of business opportunities and significant ESG-aligned optionality for future growth.

Ultimately, SSE believes its Net Zero Acceleration Programme represents the optimal pathway to:

- Drive sustainable long-term value for all stakeholders;
- Deliver on the scale of SSE's capex investment and growth opportunities; and
- Optimise the sources of funding to underpin those commitments.

SSE's Net Zero Acceleration Programme has at its core a capex plan that is fully fundable and deliverable. It enables 1.5 degree aligned science-based targets as well as providing a platform for ambitious growth into the 2030s and beyond, creating lasting value for shareholders and society during what promises to be a pivotal period in the fight against climate change.

ENDS