

SUSTAINABILITY **LINKED BOND FRAMEWORK**

2021



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INTRODUCTION TO SSE

About SSE

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 supply of electricity, the production, storage, distribution and supply of gas and in the provision of energy-related services.

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

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 a blueprint for addressing global challenges, including climate change, and provide the framework from which SSE's strategic goals for 2030 are aligned.

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, 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 carbon-emitting 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 treble renewable output to 30TWh a year.
- Industry, Innovation and Infrastructure (SDG 9): Build electricity network flexibility and infrastructure that helps accommodate 10 million electric vehicles in GB 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.

RATIONALE FOR A SLB FRAMEWORK

As part of SSE's strategy for supporting the transition to net zero, SSE is an active participant of the Green Bond Market.

In September 2019, SSE issued a 16-year £350m Green Bond – its third Green Bond in three years, making SSE the largest issuer of Green Bonds in the UK corporate sector. The proceeds of the three Green Bonds will go towards financing SSE's portfolio of renewables and electricity transmission assets.

The growth in the sustainable finance market has been especially strong since the introduction of the first non-financial corporate green bond and the ICMA Green Bond Principles. The use-of-proceeds format has dominated the market so far, and there may be benefit to a thriving sustainable finance market of more strategic, enterprise-level sustainability financing. Therefore, from a use of proceeds financing focus, the bond market and its members agreed in June 2020 on a new approach and instrument that will be based on a forward-looking performance. Sustainability Linked Bond (SLB) format has the potential to fill some of these gaps and become a complementary element in sustainable finance.

Following SSE's Green Bond Framework (implemented in 2019), SSE has developed a Sustainable-Linked Bond Framework (the "SSE SLB Framework" or the "Framework") under which it can issue Sustainability-Linked Bonds. SLBs complement SSE's green bond funding programme and fit in well within its sustainable finance strategy. Taking this framework into account, SSE has gone a step further. Sustainability-linked bonds should allow SSE to link its sustainability performance with its business strategy and contribute to achieve not only its future goals but also its vision to become a leading energy provider in a net-zero world.

SSE's objective is that this new sustainable finance instrument which constitutes a more holistic approach will ensure that investors contribute to SSE's achievement of its strategic Business Goals.

This Framework may be updated and amended from time to time. Any updated and amended Framework will be published on the SSE's website and will replace this Framework.

This framework provides a high-level approach to SSE's Sustainability-Linked Bonds and investors should refer to relevant documentation for any fixed income transaction.

[SSE annual report 2020](#) and its [sustainability report 2020](#) detail the sustainability targets that SSE has set for 2030 including those mentioned in this Framework.



ALIGNMENT WITH SLB PRINCIPLES

The Sustainability-Linked Bond Principles (“SLBP”), as administered by the International Capital Market Association (“ICMA”), are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking sustainability-related outcomes, and promote integrity in the development of the Sustainability-Linked Bond market by clarifying the approach for issuance of a SLB.

The SSE SLB Framework is in alignment with the [ICMA Sustainability-Linked Bond Principles \(SLBP\)](#) published in June 2020.




The Principles above have five core components:

- Selection of Key Performance Indicators (KPIs)
- Calibration of Sustainability Performance Targets (SPTs)
- Bond characteristics
- Reporting
- Verification

Sustainability-Linked Bonds are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability objectives. In that sense, issuers are thereby committing explicitly (including in bond documentation) to future improvements in sustainability outcome(s) within a predefined timeline that are relevant, core and material to their overall business.

Selection of the Key Performance Indicators (KPIs)

SSE has selected the following three KPIs, which are core, relevant, and material to its business and measure progress against SSE’s sustainability commitments.

KPI	SDG	
Carbon intensity of electricity generated	 13 CLIMATE ACTION	Climate Action
Renewable energy output	 7 AFFORDABLE AND CLEAN ENERGY	Affordable and Clean Energy
Absolute GHG emissions about Scope 1 and ¹ Scope 2 ²	 13 CLIMATE ACTION	Climate Action

1. Carbon Intensity of electricity generated:

As a significant generator of electricity, SSE has a responsibility to reduce its carbon intensity on a pathway that is consistent with the Paris Agreement and in line with climate science. SSE's carbon intensity is one key measure of SSE's performance towards full decarbonisation by 2050 at the latest. Its 2030 Goal is to reduce the carbon intensity of electricity generated by 60% by 2030 compared to 2018, to around 120gCO₂/kWh. This 2030 Goal is consistent with, and builds upon, SSE's previous carbon intensity target between 2009 and 2020, to halve the carbon intensity of its generated electricity which was achieved in 2018 (from around 600gCO₂/kWh to 300 gCO₂/kWh).

KPI	UNIT	2019/2020	2018/2019	2017/2018
Carbon intensity of electricity generation output	gCO ₂ e per kWh	288 ³	284 ⁴	305

2. Renewable Energy output:

The generation of electricity from renewable sources, particularly from onshore and offshore wind, is core to SSE's business strategy. Its 2030 Goal is to treble renewable electricity output between 2018 and 2030 to 30TWh a year. 2019/20 represented SSE's highest-ever year of electricity generation from renewable sources with 11.4TWh of output compared to 10.4TWh in 2018/19 (including biomass, pumped storage and constrained-off wind in GB), and key investment decisions were taken in 2020 to develop significant new wind generation capacity both onshore and offshore.

KPI	UNIT	2019/2020	2018/2019	2017/2018
Renewable energy output	GWh	11,442	10,464	9,824

3. Absolute GHG emissions amount: :

While targeting greater renewable electricity generation and ensuring the carbon intensity of electricity generated is falling is important to SSE's net-zero transition plan, it is equally important to be focussed on the tonnes of carbon being emitted. SSE's carbon emissions reduction trajectory is consistent with the Paris Agreement and a "well below two degrees" warming scenario. It has therefore further set an absolute emissions reduction target covering both its scope 1 and scope 2 emissions to cut by 40% its absolute emissions between 2018 and 2030.

KPI	UNIT	2019/2020	2018/2019	2017/2018
Absolute GHG emissions Scope 1 ⁵ & Scope 2 ⁶	Million Tones GWh CO ₂ e	9.91	9.52	11.06

¹ Scope 1 emissions (emissions from operations owned or controlled by the organisation)

² Scope 2 emissions (emissions from the generation of purchased electricity, heating and cooling consumed by the organisation)

³ This data has been subject to assurance. For the limited assurance opinion see [sse.com/sustainability](https://www.sse.com/sustainability).

⁴ This data was subject to assurance in 2019. For the limited assurance opinion see [sse.com/sustainability](https://www.sse.com/sustainability)

⁵ Scope 1 comprises electricity generation, operational vehicles and fixed generation, sulphur hexafluoride emissions and gas consumption in buildings.

⁶ Scope 2 comprises electricity distribution losses and electricity consumption in non-operational buildings and substations – transmission and distribution.

CALIBRATION OF SPTS

SPT 1: Reduce the carbon intensity of electricity generated by 60% by 2030, compared to 2018 levels, to around 120gCO₂/kWh.

SPT 2: Develop and build by 2030 more renewable energy to contribute renewable output of 30TWh a year.

SPT 3: Reduce absolute scope 1 and 2 GHG emissions 40% by 2030 from a 2018 base year.

To enable robust scrutiny and accountability of its net-zero transition plan, SSE believes the transparent and verifiable setting of targets followed by comprehensive disclosure of performance metrics is key to securing trust and credibility with its stakeholders.

Carbon targets must be robust enough to meet the ambitions set out in the Paris Agreement and so prevent the worst impacts of climate change.

During 2019/20, SSE worked with the Science Based Target Initiative (SBTi) to set a series of new carbon targets that reflect the climate science and global and national momentum on climate change. It has set a series of carbon targets all of which have been approved by the SBTi in April 2020:

- Reduce the carbon intensity of electricity generated by 60% by 2030, compared to 2018 levels;
- Reduce absolute scope 1 and 2 GHG emissions by 40% by 2030 from a 2018 base year;
- Reduce absolute GHG emissions from use of products sold by 50% by 2034 from a 2018 base year; and
- Engage with 50% of suppliers by spend to set an SBT by 2024.

SSE will report annual progress against these targets within its Sustainability Report and, in line with the requirements of the Science Based Target Initiative, will review the targets themselves before 2025 according to the latest scientific evidence.

For the purpose of setting meaningful, enterprise-level Sustainability Performance Targets from which a Sustainability-linked bond can be aligned, a combination of three SPTs are drawn from SSE's 2030 business goals and a supporting science-based absolute carbon emissions target.

SPT 1: Carbon intensity of electricity generated - SSE's targets a reduction in the carbon intensity of electricity generated by 60% by 2030, compared to 2018 levels.

SSE's long-term objective to decarbonise its electricity generation output has been based on a strategy that transitions from an electricity generation portfolio that was, in 2009, one-third coal generation, one-third gas and one-third renewables. With SSE closing its last coal plant in March 2020, the strategy is to grow renewable energy output with gas generation providing a flexible, supporting role to renewables through the 2020s. It is simultaneously pursuing opportunities in low-carbon thermal generation, including carbon capture and storage and hydrogen, for the period from 2030 and beyond.

As part of SSE's new stretching carbon targets, approved by the SSE plc Board in March 2020 and subsequently accredited by the Science Based Targets Initiative, SSE's 2030 Goal for climate action will now target a 60% reduction in the carbon intensity of generated electricity by 2030, compared to 2018 levels, from 2020/21 onwards, to around 120gCO₂/kWh.

SSE continued to advocate for climate action throughout 2019/20, including for a strong carbon price, an increase to the UK Government's ambitions for new offshore wind, support for low-carbon clusters, and routes to market for carbon capture and storage and hydrogen solutions.

Details for the assurance and disclosure approach used by SSE plc to report on the carbon intensity of electricity generated during 2019/20 (1 April 2019 to 31 March 2020) can be found in [SSE's GHG and Water Criteria](#).

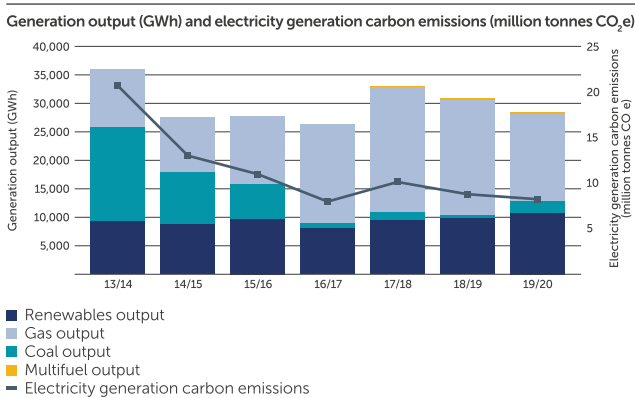
Methodology of calculating the SPT: the intensity ratio is based on:

1. SSE's carbon dioxide equivalent (CO₂e) from its electricity generation emissions data; and
2. The total output from SSE's electricity generation (both thermal (coal, oil, gas, biomass, multifuel) and renewables (onshore and offshore wind, hydro and pumped storage).

SPT 2: Develop and build by 2030 more renewable energy to contribute output of 30TWh a year

SSE’s strategy seeks to support the transition to a decarbonised energy system through disciplined investment in developing and operating renewable electricity generation. 2019/20 represented SSE’s highest-ever year of electricity generation from renewable sources with 11.4TWh of output compared to 10.4TWh in 2018/19 (including biomass, pumped storage and constrained off wind in GB). Important progress was made to achieve 30TWh of renewable energy output by

2030 with success in the 2019 Contracts for Difference auctions and the investment decision to progress SSE’s first subsidy free onshore wind farm, Gordonbush Extension. SSE currently has an onshore and offshore wind pipeline of over 7GW. This includes offshore wind farms Dogger Bank (3,600MW, SSE Share = 40%) and Seagreen (1,075MW, SSE Share = 49%) and the Viking onshore wind farm (443MW).



Methodology for calculating the SPT:

The total output from SSE’s renewable energy electricity generation takes into account onshore and offshore wind (including constrained-off wind in GB), biomass, hydro and pumped storage.

Details for the disclosure approach used by SSE plc for renewable energy output for 2019/20 (1 April 2019 to 31 March 2020) can be found in [SSE’s GHG and Water Criteria](#).

SPT 3: Reduce absolute scope 1 and 2 GHG emissions 40% by 2030 from a 2018 base year

SSE’s most material carbon emissions are direct emissions, defined as scope 1 and scope 2. To ensure it is firmly aligned to the carbon reduction pathway require to meet the objectives of the Paris Agreement, it is therefore key that it materially reduces its direct carbon emission, not just on a relative measure, but on an absolute basis too. SSE aims to achieve a 40% reduction in carbon emitted between 2018 and 2030 through the way in which its thermal power stations operate. With some existing plant reaching the end of their expected economic life, changing operating regimes as a result of renewable penetration on the electricity system and the replacement of less-efficient plant with the most efficient gas generation plant in Europe, at Keady in England, SSE is targeting an absolute emissions reduction of 40% between 2018 and 2030. This target is in line with the Paris-aligned, well-below two degree pathway.



Target observation date for each SPT will be specified in the relevant documentation of the specific transaction, as applicable (e.g. Final Terms of the Sustainability Linked Bond).

Methodology for calculating the SPT:

Details for the assurance and disclosure approach used by SSE plc to report on GHG emissions during 2019/20 (1 April 2019 to 31 March 2020) as a result of operational activities undertaken by the SSE Group can be found in [SSE’s GHG and Water Criteria](#).

Factors that support and/or might put at risk the achievement of these targets are disclosed in the relevant documentation of the sustainability-linked transactions, in line with applicable regulation.

BOND CHARACTERISTICS

The net proceeds from SSE's Sustainability-Linked Bonds will be used for general corporate purposes.

As specified in the relevant documentation of the specific transaction, the failure by SSE to satisfy SPT 1, SPT 2 or SPT3, on the Reference Date will trigger a step-up margin or margin adjustment, as applicable, bringing to an increase in the interest rate applicable to interest periods following such reference date.

The step-up margin or margin adjustment, as applicable, will be specified in the relevant documentation of the specific transaction (Final Terms of the Sustainability Linked Bond).

For the avoidance of doubt, no more than one step-up margin or margin adjustment, as applicable, can be applied over the life of a given Sustainability-Linked transaction.

REPORTING

SSE will report annual progress against these KPIs within its Sustainability Report which is verified through independent assurance, and available on SSE's website.

Reporting may include:

1. Up-to-date information on the performance of the selected KPI, including the baseline where relevant
2. A verification assurance report relative to the KPI outlining the performance against the SPT
3. Any relevant information enabling investors to monitor the progress of the KPI

Information may also include when feasible and possible:

- Qualitative or quantitative explanation of the contribution of the main factors behind the evolution of the performance/KPI on an annual basis;
- Illustration of the positive sustainability impacts of the performance improvement; and/or
- Any re-assessments of KPIs and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope, if relevant.

VERIFICATION

SSE's Sustainability Linked Bond Framework has been reviewed by DNV.GL who provided a second-party opinion on the alignment of the Framework and the associated documentation with the Sustainability Linked Bond Principles, including an assessment of the relevance, robustness and reliability of selected KPIs, the rationale and level of ambition of the proposed SPT, the relevance and reliability of selected benchmarks and baselines, and the credibility of the strategy outlined to achieve them, based on scenario analyses, where relevant.

All KPIs will be reported by SSE on an annual basis as part of its annual report/sustainability report, which is verified by external auditors and available on [SSE's website](#).

A verification assurance certificate confirming whether the performance of the KPI meets the relevant SPT will be published on SSE's website following a relevant target observation date.

|| APPENDIX

KPI definitions and assurance

SSE's GHG and water criteria document describes the definitions of the environment KPIs that SSE has assured annually. The criteria document describes the scope, methods of calculation, recording and reporting processes for each KPI that SSE seeks assurance on annually. [It can be found here.](#)

