

Chair's statement

Right action. Right now.

A year of unprecedented challenge in the global energy markets has cemented the role that SSE and other energy providers must play in providing long-term solutions to the challenges of national energy security, affordability and climate change.



The actions SSE is taking now will be part of the foundation of a transformed energy system aligned to the sector's 1.5°C global warming pathway – one that is cleaner, more affordable and more secure. In support of those goals we are accelerating renewables, transforming electricity networks, providing vital flexible generation back-up, and working hard to ensure no-one is left behind along the way.

Responding to uncertainty

The war in Ukraine exposed Western Europe's dependency on imported gas. The resulting market volatility and energy price spikes have rightly made policy makers and energy providers the subject of intense scrutiny and public discourse.

Our response has been unambiguous, focusing our efforts on where we can make the biggest difference. By investing record amounts – in excess of profits – in critical national infrastructure we are helping to address the causes rather than the symptoms of the energy crisis.

As this Strategic Report shows, we have successfully navigated the challenges that came with turbulent markets and unfavourable weather, and engaged constructively with policy makers to ensure that we can continue to fulfil our purpose, and generate value for our shareholders and society more widely.

The people driving our delivery

None of our objectives or outcomes are possible without the dedication and hard work of our people. The executive team and our highly capable and committed employees and contractors have delivered strong operational and financial performance in a challenging year, and on behalf of the Board I thank them all for their efforts.

I'd also like to express my personal gratitude to our outgoing Finance Director, Gregor Alexander, who leaves us in December after more than 20 years' excellent financial stewardship of the Company. He should be very proud – not only of what he has achieved during his time at SSE – but of the strong position in which he leaves us.

We are losing one of the FTSE's finest FDs but after a rigorous selection process we have a highly capable successor in Barry O'Regan. Barry has been integral to SSE's growth story for many years now, particularly in terms of the reshaping of the Group, and we all look forward to working with him through the transition.

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Engagement with SSE colleagues was a feature of the 2022/23 Board agenda and I was particularly pleased that we were able to use the time after the main business of the AGM to meet a number of employees face-to-face and more than 3,500 in a virtual townhall setting to discuss the Board's commitment to ensuring SSE offers a truly safe and inclusive workplace.

Getting everyone who works for SSE home safe at the end of each working day has always been our top priority, but it has been a difficult year. The devastating death in June of Liam Macdonald, a young contractor working on Shetland, has caused us to refocus our efforts. A new contractor safety team has been established to ensure our partners are supported and performance is closely monitored across all our large capital projects (See [pages 63 and 162](#)).

Right strategy at the right time

With SSE's opportunities for growth defined by the imperative to decarbonise power sectors at home and abroad, our Net Zero Transition Plan spells out how we will remove greenhouse gas emissions from our own operations, supported by a process for accountability with an annual shareholder 'say on climate' resolution.

We welcomed the overwhelming support given to our first AGM vote on SSE's Net Zero Transition Report in July 2022.

Since then, record levels of investment and the sale of a minority stake in our transmission business have provided the platform for us to push ahead with large capital projects, grow our development pipeline both at home and abroad, and implement ambitious business plans in our regulated networks businesses.

However, we have always been clear that our Net Zero Acceleration Programme (NZAP) was just the start of our ambitions.

The opportunities and options for SSE to deploy its capabilities and resources have grown substantially since the programme launch in November 2021.

We have since refreshed the programme with the launch of a more stretching 'NZAP Plus' which includes plans for £18bn of investment out to 2027.

These revised plans, in the context of SSE's Net Zero Transition Plan, reflect the continuing strength of our business model and balance sheet, the urgency of climate action and the wealth of opportunities presented to us by the transition to net zero and the encouraging economic and policy tailwinds we see for the sector.

Going further, and faster

We are proud of the progress we are making with a strategy that, over the medium term, will help to address the dilemmas of affordability, environment and security of energy provision.

We are working with governments to create policy frameworks which will accelerate investment into much needed infrastructure, and bring forward long-term solutions for energy users, the environment, and society generally.

As a long-standing Fair Tax-accredited company, we are committed to paying the right amount of tax, in the right place, at the right time. And we recognise that taxing extraordinary profits is reasonable where those profits are actually realised. But the bigger prize will be the fruits of large-scale investment in clean energy, so the overall investment climate remains important.

The UK has enjoyed a leading position in the flows of green capital over the past decade as a result of world-leading policy making and a stable investment climate. Others are now seeking to overtake, with the US Inflation Reduction Act and the EU's Net Zero Industrial Plan.

The UK Review of Electricity Markets Arrangement (REMA) and other policy interventions offer an opportunity to put the UK back at the leading edge and ensure investment can be accelerated throughout the value chain. SSE stands ready to assist in that development.

Leaving no-one behind

A truly just transition to net zero will leave no-one behind and that means bringing our stakeholders with us. SSE was an early adopter of the principles of a just transition and we recognise that continued consensus in favour of net zero will, in part, depend on the fairness, perceived and experienced, of the way in which the costs and benefits of climate action are distributed.

It will require actions as well as words and we will continue to take tangible steps, for example, by recruiting people from high-carbon industries as part of the expected intake of the 1,000-plus new jobs we expect to create each year.

Businesses like SSE do not operate in isolation. We create value for society and provide the critical infrastructure needed for a prosperous economy. And by doing this in a sustainable way, we secure the right to earn a profit.

It forms a social contract that underpins a culture of 'doing the right thing' and inspires a leadership position on transparency and disclosure that makes us accountable to all of our stakeholders for our decision-making and actions.

A key objective of this Strategic Report and the associated Section 172 Statement (See [page 26](#)) is to build on disclosures we have provided in recent years and reflect on the work being done to promote SSE's long-term success. Both reports are approved by the Board in accordance with the Companies Act 2006 and we welcome comments on the matters covered within the following pages.

Sir John Manzoni
Chair, SSE plc
23 May 2023

Chief Executive's review

Raising the bar on net zero.

The first full year of SSE's Net Zero Acceleration Programme will be remembered as a period of strategic gains and financial and operational progress in a shifting and uncertain energy landscape.



Over the past year we have continued to create value for our shareholders and society by investing more than we make in profits in the crucial renewables, networks and flexible energy assets needed to unlock a cleaner, more secure and more affordable energy system. We delivered record capital investment, exceeding £2.8bn including acquisitions. I am proud of what has been achieved in a shifting and uncertain energy landscape, with the strength of our balanced business mix and the quality of our people and assets shining through.

There is no doubt that the year also brought its challenges. But progress made in the face of exceptional macro-economic conditions, government intervention in energy markets and the continued impact of the war in Ukraine gives us immense confidence in our strategic direction and optimism about meeting our ambitious 2030 Goals. (See [pages 22 to 23](#)).

We have always said our Net Zero Acceleration Programme (NZAP) represents the floor, not the ceiling, of our ambitions. Backed by excellent growth options and strong financial performance, we are well placed to explore further investments to support an accelerated transition to net zero with the revised 'NZAP Plus' we announced in May 2023.

Commitment and resilience

In volatile times SSE continues to be resilient thanks to our very deliberate mix of market-based and economically regulated businesses, world class assets, natural hedges, balance sheet strength and, above everything else, the quality of our people.

The nature of our business means everyone at SSE has been keenly aware of, but not immune to, the inflationary pressure of high energy prices in the past year. With this in mind we introduced a number of measures, including bringing forward a proportion of the 2023 pay settlement, to ease the burden on employees over winter. We also know difficult times bring emotional pressures too, and I'm pleased that we have taken what we learned from Covid-19 and continued to improve the mental health and wellbeing support we offer colleagues.

On behalf of the executive team, I would like to thank all SSE's direct employees and contractors – not just for their achievements in 2022/23 – but for their unremitting passion, commitment and dedication to our purpose of building a better world of energy.

No matter their role, getting everyone who works for SSE home safe at the end of each day remains our number one priority and that focus is all the keener following the

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tragic death of Liam Macdonald on Shetland in June 2022. As our operational activities increase so too does our focus on delivering industry leading safety programmes with our partners. (See [pages 63 and 162](#)).

Clean, secure, affordable energy

In 2019, we took the decision to align to the UN's Sustainable Development Goals (SDGs) with four core associated 2030 Goals. The NZAP Plus sets the pathway for SSE to meet those broad goals in 2030. Recognising that decarbonisation represents a radical economic transformation affecting all sectors of society, we continue to advance the case for a just energy transition.

As events of the last year have shown, accelerating the energy transition is not only a moral imperative in the context of the climate emergency, but is also central to securing a reliable and affordable energy supply. For the electricity system, there is no trade-off between our climate ambitions and consumer costs or maintaining security of supply. And, by investing in energy independence, SSE is simultaneously tackling the crises of energy affordability and security, as well as climate change.

As a business, we remain committed to further reducing the system's reliance on imported fossil fuels by reinvesting additional profits in the accelerated deployment of crucial renewable, flexibility and network infrastructure. By doing so, we are creating lasting value for SSE's stakeholders, and society as a whole.

Delivering record investment

The NZAP Plus is the platform to achieve these aims, giving us a pathway to invest £38bn in GB and Ireland by the end of the decade. SSE is on course to deliver 20% of both the electricity networks and offshore wind needed to meet the UK's net zero targets for 2030. And opportunities associated with net zero continue to accelerate across the value chain, not least in SSE's networks businesses.

Ofgem's Accelerated Strategic Transmission Investment (ASTI) framework announcement clears the way for SSEN Transmission to build the assets required to support 50GW of offshore wind by 2030 and SSEN Distribution is set to implement a £3.6bn RIIO-ED2 business plan agreed with Ofgem.

The final RIIO-ED2 determination sees baseline allowances for SSEN Distribution increasing by £300m from draft determinations, representing a 22% increase in allowed expenditure compared to an equivalent period in RIIO-ED1.

While the original NZAP assumed a 25% minority stake sale in SSEN Distribution, we consistently review our options and direction and the NZAP Plus plan now reflects the decision that retaining 100% of the business is the right strategy at this time.

A year of milestones

The first full year of the NZAP was packed full of milestones on our flagship projects whilst the size and diversity of our development pipeline continues to grow.

SSE Renewables achieved first power at the 1,075MW Seagreen offshore wind project and made significant progress on Dogger Bank, the world's largest offshore wind farm, including the opening of the O&M base in Tyneside. The UK's most productive onshore wind farm by output, Viking, remains on track for operation in 2024. The pipeline grew and further diversified too, with the acquisition of SGRE's onshore development platform in Southern Europe.

It was also a particularly strong year for our thermal business, which officially welcomed Keadby 2 into the fleet with commercial operations at Europe's most efficient CCGT commencing in March 2023. SSE Thermal's portfolio was further bolstered by the acquisition of 1.3GW Triton Power with Equinor, which holds significant CCS and hydrogen potential and has already created value for the Group.

In networks, SSEN Transmission oversaw the laying of the Shetland HVDC link, which is on course to connect the islands to the GB energy system for the first time in 2024, while our distribution business delivered against a vast range of projects in both the north and south network regions during the final year of RIIO-ED1.

SSEN Distribution continued to embed learnings from our Storm Arwen review and action plan, rolling out new processes and procedures in the Shetland ice storm in December 2022 and Storm Otto in February 2023. An improvement in storm

responses, and consistent 'above and beyond' levels of service, received plaudits from the government, customers and other stakeholders.

Options for strategic growth

Enabled by record levels of investment in 2022/23 and the sale of a minority stake in our transmission business, we have confidence in our ability to go even further, faster. With renewables opportunities such as Coire Glas, Berwick Bank and Ossian (ScotWind), Regulated Asset Value growth in our networks businesses, alongside developments in CCS, hydrogen, solar and battery technologies, we are creating substantial growth options in the near and medium term.

And as we explore opportunities to grow at home, we are also building our capabilities abroad, by exporting our renewables expertise to Southern Europe and Japan. Completion of the Southern European development acquisition this year helped drive SSE's secured pipeline up from 10GW to nearly 14GW with significant future prospects even before upcoming auction processes.

An optimistic future

To close, our strategy looks even better one year on than it did at the end of 2021/22. It is our platform for delivery and growth, underpinned by a socially responsible purpose and a value-creating strategy, investing record amounts in clean, green energy infrastructure.

Having navigated the choppy waters of market and policy uncertainty this year, SSE has emerged with an even clearer vision of the role we must continue to play in developing and building the energy system of the future.

For there is no doubt that, in our people, businesses and assets, we hold an important part of the long-term solution to the energy crisis in our hands. And, as we enter 2023/24, we do so emboldened in our pursuit of an energy system that is cleaner, more secure and more affordable.

Alistair Phillips-Davies
Chief Executive, SSE plc
23 May 2023