

# AGREEMENT TO ACQUIRE AIRTRICITY HOLDINGS LIMITED

4 January 2008

Scottish and Southern Energy plc (“SSE”) has today entered into an agreement to acquire Airtricity Holdings Limited (“Airtricity”) from its current shareholders.

Airtricity is a well established Dublin-based renewable energy company developing and operating wind farms in the UK, Ireland, continental Europe and China and supplying electricity to mainly commercial customers in Ireland. The agreement is subject to clearance by the Irish Competition Authority and by the Irish and Northern Ireland energy regulators and the acquisition is expected to be completed in the first quarter of 2008. Airtricity disposed of its North American business unit in October 2007 and the proceeds from this disposal remain within the business.

## Enterprise Value and Consideration

The implied equity value of the business being acquired is €1,080m. In addition, SSE will assume liability for Airtricity's net debt, of €375m (based on the effective acquisition date of 31 August 2007), giving an enterprise value of €1,455m for the business being acquired.

In addition to the equity value of €1,080m, €746.5m will be paid in consideration for the net proceeds received by Airtricity for the disposal of its North American business, resulting in a total cash consideration of €1,826.5m. The consideration will be funded from facilities provided by Barclays Bank plc and The Royal Bank of Scotland plc, part of which will be repaid shortly after completion, using cash in Airtricity.

## Principal Assets

The principal assets of Airtricity which SSE will acquire comprise (net of joint venture interests):

- A 308MW (megawatt) portfolio of operating onshore wind farms in Scotland, Northern Ireland and the Republic of Ireland; a 187MW portfolio of onshore wind farms in Scotland, Northern Ireland and the Republic of Ireland which have full consent and are under construction, and on which €77m had so far been invested by 31 August 2007; a further 104MW of onshore wind energy capacity in Scotland, Northern Ireland and the Republic of Ireland which has full consent but is not yet under construction; a 50% stake in a 504MW offshore wind farm development, with full consent, at Greater Gabbard off East Anglia. Subject to a final investment decision, construction work on the first phase is expected to start later this year and turbines have been reserved;
- A 288MW offshore wind farm in Germany which has full consent; the 483MW onshore wind farm proposed for Clyde, between Biggar and Moffat in southern Scotland, which is at an advanced stage in the consent process;
- A 1,434MW portfolio of other onshore wind energy projects in the UK and Ireland that are in various stages of development but not yet with full consent; an option to participate in a 350MW offshore wind farm in Ireland; a 1,222MW portfolio of early stage European wind energy development projects in Portugal (587MW) and the Netherlands (635MW; offshore); a 6,675MW portfolio of wind energy development projects in China; and an electricity supply business providing power to around 35,000 mainly commercial customers in Ireland, with related trading and risk management functions operating in the all-island electricity market.

In summary, the acquisition will:

- Increase SSE's total operating portfolio of renewable energy, including hydro, pumped storage and biomass, to just over 1,900MW;

- Increase its portfolio of operating wind energy capacity from 170MW to almost 480MW, making it the largest wind farm operator in the UK and Ireland; increase its portfolio of onshore wind farms with full consent and/or under construction to just over 400MW; give it 540MW of offshore wind farm developments with consent; and give it a new wind energy development portfolio of almost 10,000MW.

On this basis, SSE expects to have over 3,500MW of operating renewable energy capacity, including hydro, pumped storage and biomass, by 2013. To complement this, SSE will continue with the development of other electricity generation options designed to achieve cleaner and more efficient power production, such as those set out in its statement on 1 October 2007.

In addition, SSE will benefit from the strong expertise and enterprise of the more than 300 people who currently work for Airtricity in Dublin, Omagh and elsewhere, including key members of the management team, and who will join the SSE group upon completion of the acquisition. It will also acquire the Airtricity brand, which is already well-established in Ireland. In line with this, Airtricity will continue to operate as an identifiable and distinctive business within the SSE group from Dublin.

## **Context**

SSE has entered in to the agreement to acquire Airtricity following seven major public policy developments which took place during 2007, all of which point towards a material step-change in the amount of renewable energy that will be required in the future:

- The adoption by the European Union (EU) of a legally-binding target of 20% for the proportion of all energy to be derived from renewable sources, in pursuit of its goal of a sustainable, competitive and secure supply of energy.
- The confirmation by the Prime Minister that the UK government is 'completely committed' to meeting its share of the EU target and that 'as the urgency of tackling climate change and achieving energy security increases, the case for more renewables has become compelling'.
- The statement by the Irish government that, by 2020, one third of the electricity consumed in its economy will come from renewable sources.
- The decision by the Scottish government to adopt a new target to generate 50% of Scotland's electricity from renewable sources by 2020. The announcement by the UK government of proposals for a potential major expansion of offshore wind energy generation. The signing of the Treaty of Lisbon, which classifies energy as a 'shared competence', in which the ability to legislate is shared between member states and the EU. The completion of the UN Climate Change Conference which culminated in the adoption of the Bali roadmap for a post-2012 international agreement on climate change.

SSE believes that these developments will require the EU, including the UK government, to put in place a framework to ensure that around 35% of electricity is generated from renewable sources by 2020, with the maximum possible contribution from all renewable energy technologies. This compares with 4.6% in the UK, according to the government's latest digest of energy statistics, and with the UK's current projection for 2020 of around 15%.

## **Opportunities**

The acquisition of Airtricity will provide SSE with eight major opportunities over the next decade and beyond:

- It will reinforce SSE's position as the UK's leading generator of electricity from renewable sources, through the acquisition of operating, consented and proposed onshore and offshore wind farm developments.

- It will further balance SSE's electricity generation portfolio - which will immediately comprise over 4,500MW of gas- and oil-fired capacity, 4,000MW of coal-fired capacity (with biomass 'co-firing' capability) and over 1,900MW of hydro, wind and biomass capacity – and reduce its exposure to volatile commodity prices for fossil fuels.
- It will add to SSE's existing portfolio of renewable energy developments and so provide SSE with a major new range of investment opportunities from which to secure growth over the next decade.
- It will give SSE scope to develop a substantive offshore wind farm capability, building on its existing involvement in the Beatrice Wind Farm Demonstrator Project.
- It will enable SSE to advance its position significantly in the single electricity market in Ireland - in which it began actively trading in November 2007 - with the acquisition of over 400MW of onshore wind farm capacity operating or with consent in Ireland and an established commercial electricity supply business. It will extend the scope of SSE's renewable energy interests to continental Europe, thereby giving it development and operational activity in new geographical locations and so adding to its experience of European energy issues. It will provide opportunities for broader engagement with suppliers of wind turbines and provide a stronger base from which to secure synergies in procurement of renewable energy equipment. It will increase SSE's interests in China, which is likely to have an increasing impact on developments in wind energy and carbon trading, and give it further insight into the economic, technology and procurement issues that prevail there.

Furthermore, Airtricity is widely-recognised as a leading wind energy company and SSE's long-term development will clearly benefit from working with the team of people who have achieved this.

After the completion of the acquisition, and in the light of its enhanced renewable energy capability, SSE will review its current target of reducing the amount of carbon dioxide per kilowatt hour of electricity, produced at power stations in which it has an ownership or contractual interest, by 20% over the ten years to 2016.

### **Financial Impact**

As at 31 March 2007, Airtricity's gross assets (excluding its North American operations) were €880.8m. In the year to 31 March 2007, its non-North American operations delivered earnings before tax of €0.2m. This reflects the fact that a significant part of the value of Airtricity lies in wind farm developments that are in, or are pre, construction or are relatively new.

The purchase of Airtricity meets the criteria which SSE sets for acquisitions: SSE has rigorously assessed the cashflows of the projects in the Airtricity portfolio and consistent with its long-established financial principles the acquisition is expected to create shareholder value. To monitor financial performance over the medium term, SSE focuses on earnings per share and the acquisition is expected to enhance earnings from 2011, and thereafter. In the meantime, SSE will make significant investments in the wind energy developments acquired from Airtricity, as well developing its other electricity generation options.

SSE's dividend target of at least 4% annual real growth in 2008, 2009 and 2010 is unchanged. The acquisition, and the investment opportunities it yields, are expected to help maintain this track record of dividend growth well into the second decade of this century.

### **Risk Management**

In its Annual Report 2007, SSE set out four principal categories for the risk factors that may affect it, two of which were the impact of public policy or regulatory developments in the areas of energy and the environment and the impact of the weather on its interests in the generation of electricity from renewable sources (and in energy supply and in energy distribution also).

The acquisition of Airtricity has been considered in the light of these factors. SSE is satisfied that the public policy developments that occurred in support of renewable energy during 2007 and which are likely to occur in the future, and the balanced nature of its enlarged renewable energy portfolio, and of its generation portfolio overall, mean these risks are low. It is also satisfied that a much greater risk lies in an inability to respond to environmental and energy security trends apparent in the UK, Ireland and elsewhere.

Sir Robert Smith, Chairman of SSE, said: "The acquisition of Airtricity, a leading international player in the renewables sector, will support the achievement of SSE's first responsibility to shareholders - the delivery of sustained real growth in the dividend - and should help to maintain our dividend track record in the next decade. It is the right deal at the right time for SSE, Airtricity and for renewable energy generally. I am now looking forward to the conclusion of the acquisition process and then making real progress on the many opportunities it will bring over the next decade and beyond."

**Ian Marchant, Chief Executive of SSE, said:** "This agreement reinforces SSE's position as the UK's leading generator of electricity from renewable sources. It has been made possible by our carefully-maintained balance sheet strength, which gives us the means to respond speedily to opportunities to acquire assets, and by the immensely thorough and detailed evaluation of Airtricity which the SSE team has been able to complete in the past few weeks. The combination of SSE's and Airtricity's interests in renewable energy will provide an excellent platform for future growth, which will be made much more achievable by combining SSE's financial strength with Airtricity's outstanding ability in project development. I am looking forward to working with the Airtricity team.

"Seven major public policy developments took place during 2007 alone, all of which point towards a material step-change in the amount of renewable energy that will be required in the future. The range of investment opportunities now available to SSE in renewables will become increasingly important as the world becomes more carbon constrained and the EU becomes more concerned about energy security. Demand for renewable energy is only going to go up.

"In one step this acquisition moves SSE forward in onshore wind, offshore wind, Ireland, Europe and China and gives added momentum to the increasing scale and broadening scope of SSE's activities which has been achieved over the past few years.

"At the same time, the full potential of the acquisition will only be fulfilled if there is complete adherence to SSE's fundamental principles – in particular the effective management of core businesses and rigorous analysis of investments to ensure they are well-founded. These will continue to be hallmarks of the enlarged SSE which will result from this acquisition.'

### **Investor Presentation**

SSE will stage a presentation for investors and analysts on its sustainable energy activities and strategy during March.

### **Additional Note**

Airtricity is a private company whose current shareholders include NTR, Ecofin, private individuals and members of the management team.