# SSE plc 2019/20 PRELIMINARY RESULTS PRESENTATION SCRIPT

## INTRODUCTION

### 1. TITLE SLIDE - PROVIDING ENERGY TODAY: BUILDING VALUE FOR TOMORROW

**PRESENTER: ALISTAIR PHILLIPS-DAVIES, CHIEF EXECUTIVE**

### 2. PROVIDING ENERGY TODAY. BUILDING VALUE FOR TOMORROW

Thank you, operator, and good morning everyone. I'm Alistair Phillips-Davies, Chief Executive of SSE; and with me are Finance Director Gregor Alexander and Energy Director Martin Pibworth. We're keeping a safe distance from each other here in Perth, and we're grateful to you for joining us wherever you are in these exceptional times.

Later, we'll take questions, but before that we have a three-part presentation.

- In part one, we'll review 19/20 as a year of progress for SSE;
- In part two, we'll set out SSE's comprehensive plan to respond to coronavirus and position the business well for the long term; and
- In part three, we'll describe SSE's range of opportunities to contribute to a green economic recovery and create value through the transition to net zero emissions.

### 3. SUSTAINING DIVIDENDS AND PROMOTING LONG-TERM SUCCESS

SSE has a clear vision of being a leading energy company in a net zero world. That vision is more relevant than ever as we emerge from the coronavirus pandemic. And in working towards it, we're guided by two clear and related objectives:

- sustaining dividend payments on which pensioners and savers depend for income; and
- promoting the long-term success of SSE for the benefit of all stakeholders.

These objectives are related because we believe that sustaining dividends through short-term adverse economic and business conditions will pave the way to long-term success.

And the opportunities for long-term success are clear, especially in our core electricity networks and renewables businesses. They're central to the transition to net zero, and it's in these businesses - complemented by incremental value added through the thermal energy and customer businesses – that we're able to:

- achieve excellence;
- contribute to a green economic recovery;
- deliver growth; and
- create value through the transition to net zero.

## 4. FULFILLING OUR CORE PURPOSE – RESPONDING TO CORONAVIRUS

Before looking at results, I want to thank colleagues across SSE who've been working hard to support the safe and reliable supply of electricity depended on by the people and organisations leading the coronavirus response.

With a strict focus on safety, the commitment of our key workers has:

- Maintained the reliability of our electricity networks; and
- Ensured power generation has been available to support the electricity system.

As a responsible employer, we've worked closely with trades unions and agreed flexible working, and retention of full pay, over use of the government's Job Retention Scheme - so we have not 'furloughed' any employees.

And we're committed to the C-19 Business Pledge and its focus on customers, communities and suppliers, as well as employees.

So, on behalf of the Board I'd like to thank all of our colleagues in SSE for their commitment and hard work during these extraordinary and challenging times.

## PART ONE: RESULTS TO 31 MARCH 2020

### 5. TITLE SLIDE – PART ONE: RESULTS TO 31 MARCH 2020

Now for part one of our presentation – a review of 19/20.

### 6. RESULTS TO 31 MARCH 2020 – A YEAR OF PROGRESS

Financially, our results represented a solid recovery from the previous year, with increases in adjusted measures on operating profit, profit before tax and earnings per share.

And overall, it was a year of progress.

Strategically, the sale of Energy Services enabled SSE to become a company focused on the successful development, efficient operation and responsible ownership of electricity infrastructure required for the transition to net zero.

Operationally the establishment of SSE Renewables, and of focused management structures for Transmission and Distribution, and our other business units, means we get the most out of specialist knowledge and insight - and strike the right balance between empowerment and accountability.

We saw this in our successes in the CfD auctions for offshore wind and in the quality of our RIIO T2 business plan. These businesses can contribute significantly to a green economic recovery.

And after six years of continuous improvement, 19/20 was our best year to date in terms of overall safety performance, wellbeing and environmental care.

This year of progress has helped set us up for long-term success, about which we'll say more later.

Now I'll hand over to Gregor, to cover the financial results, starting with coronavirus impacts.

## PRESENTER: GREGOR ALEXANDER

### 7. RESULTS TO 31 MARCH 2020 - EARNINGS PER SHARE

Thanks, Alistair, and good morning everyone.

Coronavirus had two main impacts on our results for 19/20:

- An estimated £18.2m reduction in adjusted operating profit, mainly as a result of reduced demand and revenue; and
- An exceptional charge of £33.7m, arising mainly through additional provision for bad debts in the customer businesses.

In March, we said we expected adjusted EPS on our standard definition to be within the 83-88p range first indicated in November's interims - before any coronavirus impacts. Despite the £18.2m impact of coronavirus, adjusted EPS still came in within November's forecast range, at 83.6 pence.

### 8. RESULTS TO 31 MARCH 2020 – OVERVIEW

The biggest positive factors driving recovery in the results were:

- the restoration of GB Capacity Market payments;
- the lower EPM-related loss; and
- strong performance in SSE Renewables.

### 9. RESULTS TO 31 MARCH 2020 – EXCEPTIONAL ITEMS

There was a net exceptional charge of £738.7m before tax which covered two main areas:

- £529.0m on discontinued operations; and
- £209.7m on continuing operations, including the £33.7m relating to coronavirus impacts that I mentioned earlier.

Derivatives with an 'out-the-money' mark-to-market valuation of £231m were novated to SSE Energy Services as part of its disposal to OVO. This benefit to SSE has been netted off against the loss on disposal as part of exceptional items, reducing the loss on sale reported in November.

## 10. RESULTS TO 31 MARCH 2020 – REGULATED NETWORKS BUSINESSES

In line with our March forecast, adjusted operating profit across our three regulated networks businesses was down to £776.7m:

- In **Transmission**, adjusted profit reduced to £218.1m, mainly through phasing of allowed revenue, along with increased depreciation relating to ongoing capex.
- In **Distribution**, adjusted profit decreased to £356.3m, reflecting a net increase in costs including increased depreciation; and higher costs associated with supplying Shetland.
- In **SGN**, our share of adjusted profit increased to £202.3m, due to totex outperformance and additional commercial income.

The quality of these networks businesses is shown by their Regulatory Asset Value, which was around £9.1bn at the year end.

## 11. RESULTS TO 31 MARCH 2020 – SSE RENEWABLES

In line with our March forecast, SSE Renewables delivered a 24% increase in adjusted operating profit, to £567.3m. Results benefited from a full year of output from Beatrice offshore wind farm.

Profits also benefited from strong levels of production from hydro, through: operational reliability; excellent management of water; and effective commercial deployment.

Including 0.7TWh of constrained-off wind, SSE had a record-breaking year for renewables output at 11.4TWh.

## 12. RESULTS TO 31 MARCH 2020 – CORE BUSINESSES

We've re-shaped SSE to focus on renewables and regulated electricity networks. With quality assets, they give SSE its fundamental resilience and each have key roles in the transition to net zero. Together with our 33% stake in SGN's regulated gas networks, they contributed:

- 90% of our adjusted operating profit at £1.3bn; and
- 85% of our adjusted EBITDA at nearly £1.9bn.

## 13. RESULTS TO 31 MARCH 2020 – ENERGY BUSINESSES

Looking at other businesses, SSE Thermal returned to profit, following reinstatement of GB Capacity Market payments and increased earnings from Multifuel, with Ferrybridge 2 coming on line in December.

The EPM result largely draws a line under the issues that arose in 2018 and in future EPM should earn a small adjusted operating profit from providing services to other parts of the SSE group.

## 14. RESULTS TO 31 MARCH 2020 – CUSTOMER BUSINESSES

Our customer businesses fulfil important strategic functions for SSE, but had a mixed year, with good results for Airtricity but a disappointing result for Business Energy. This reflected: the challenging market conditions we highlighted in November; higher non-commodity costs; and increased bad debts not related to coronavirus.

Results for Enterprise reflected the lower Telecoms profits, after the sale of 50% of that business in March 19.

## 15. RESULTS TO 31 MARCH 2020 – PENSION SCHEMES

Looking at pensions, the surplus across SSE's two schemes increased by £54.6m to £341.7m. A reduction in the value of the assets was more than outweighed by a reduction in the liabilities, mainly due to a fall in the inflation rate.

The strong funding position of the Hydro Electric scheme enabled trustees to convert the longevity swap covering around £800m of liabilities to a 'buy-in', significantly reducing SSE's exposure to fluctuations in the valuation of scheme obligations.

## 16. RESULTS TO 31 MARCH 2020 – INVESTMENT AND CAPITAL EXPENDITURE

In line with our March forecast, capital and investment expenditure was around £1.4bn, with over £1bn of that in our core electricity networks and renewables businesses.

We invested £700m in electricity networks. In Transmission, this included new substations such as Fort Augustus. In Distribution it included reinforcement work like the subsea cable to Jura.

We also invested £343m in renewables, including £165m on Seagreen. The thermal energy total of £177m was focused on Keadby 2 and on multi-fuel projects at Ferrybridge and Slough.

SSE has a good track record in creating value through timely disposals of assets, shown again with the sale of the 19MW Slieve Divena onshore wind farm for £51m or £2,700/kW.

## 17. RESULTS TO 31 MARCH 2020 – MANAGING NET DEBT

Adjusted net debt and hybrid capital at 31 March was in line with forecast, at £10.5bn.

As expected, adjusted net finance costs for the year were £465m, reflecting:

- higher net debt during the year;
- higher JV interest costs as Beatrice became fully operational;
- lower capitalised interest; and
- the impact of IFRS16.

## 18. RESULTS TO 31 MARCH 2020 – DIVIDEND

We understand the importance of our dividend, which provides vital income for pensions and savings – income that's now more important than ever.

With 19/20 representing a year of progress, and mindful of the quality and nature of our core businesses, we're recommending: payment of the final dividend of 56 pence on 18 September, making the full-year dividend in line with our target of 80p.

I'll now hand you back to Alistair to introduce part 2 of today's presentation.

## PRESENTER: ALISTAIR PHILLIPS-DAVIES, CHIEF EXECUTIVE

## PART TWO: 2020/21 AND BEYOND

### 19.TITLE SLIDE – PART TWO: 2020/21 AND BEYOND

Thank you, Gregor.

Solid financial results, the sale of Energy Services, and key developments in our core businesses added up to a year of progress for SSE. It's underpinned our resilience as we deal with the challenges posed by coronavirus and realise opportunities to contribute to a green economic recovery and create value through the transition to net zero.

In this second part of our presentation, we'll set out how we plan to respond to coronavirus in this financial year and set SSE up for long term success.

### 20.2020/21 AND BEYOND– OVERVIEW

Fundamentally, SSE is a resilient business, with quality assets in renewables and networks and a key role to play in the transition to net zero. The quality and nature of our businesses and assets, and their potential for sustainable value creation, transcends the financial impact of coronavirus in this financial year.

Even so, the impact of coronavirus on the wider economy is currently expected to have short term adverse effects on our business that are significant in the context of one year, but largely temporary in duration.

We have a comprehensive plan to mitigate these effects, with two clear and related objectives:

- First, to sustain our ability to pay dividends which provide vital income for people's pensions and savings– especially in the current financial climate; and
- Second, to promote the long-term success of the company, contributing to a green economic recovery and creating value through the transition to net zero.

Gregor will now take you through our plan to achieve these objectives.

## PRESENTER: GREGOR ALEXANDER, FINANCE DIRECTOR

### 21. 2020/21 AND BEYOND – POTENTIAL IMPACT OF CORONAVIRUS

Thanks, Alistair.

While we don't currently expect the economic effects of coronavirus to have a material net financial impact on Transmission, Renewables and Thermal, we do expect an impact on our other businesses in this financial year from the following adverse effects:

- reduced demand for electricity affecting Distribution Use of System revenue, commonly known as DUoS;
- reduced demand from customers for electricity and related services;
- excess electricity hedges with negative mark-to-market valuations; and
- higher level of customers' bad debt.

The negative impact of these adverse effects on our results for this financial year is expected to be significant - and based on our current assessment could be in the range of £150m to £250m, before mitigations.

With DUoS, which we expect will make up at least 80% of the Distribution impact, established regulatory arrangements mean we should be able to recover uncollected allowed revenues in future years.

The actual impact on results this year is, however, uncertain, and could be outside this range; so we don't think it would be appropriate to provide specific guidance relating to EPS until much later in the financial year.

### 22.2020/21 AND BEYOND – A COMPREHENSIVE PLAN

Our comprehensive plan features three main steps to mitigate the impacts of coronavirus:

- Maintaining good liquidity and effective financial management;
- Managing cash outflow; and
- Securing value, and cash proceeds, from timely disposal of assets.

These are designed to support our clear and related objectives: sustaining the company's ability to pay dividends; and promoting its long-term success.

I'll now look at the first element of our plan – liquidity and financial management. And we're in a good position.

## 23.2020/21 AND BEYOND – LIQUIDITY AND FINANCIAL MANAGEMENT

This financial year got off to a good start with the successful launch of a dual tranche Euro bond, with Sterling equivalent proceeds of around £975m and; our average debt maturity is now 6.5 years. This reflects where value in financing is best secured.

Following the redemption of our €600m Eurobond today, we'll have cash and committed facilities of over £2bn.

We have a clear plan to secure disposal proceeds of over £2bn by the autumn of 2021, that I'll say more about later. On that basis the only refinancing requirement over the next two years relates to hybrids, and we plan to issue new hybrid bonds over the summer.

We have the options, agility and discipline to ensure SSE remains a well-financed company.

## 24.2020/21 AND BEYOND – MANAGING CASH OUTFLOW

The second part of our plan is managing cash outflow. Mainly through prioritising and deferring capital expenditure, plus reducing and deferring operational expenditure, we expect cash outflow to be at least £250m less than we had planned back in early March. Around 90% of this relates to capex, with the rest relating to opex.

This won't jeopardise our strategic investment projects, which are designed to earn sustainable returns to support earnings. But it does mean less strategic or less advanced projects will be deprioritised and deferred. For example, we'll defer execution of options to extend renewables activities beyond the UK and Ireland.

I'll say more about our capex plans shortly.

In addition to this reduction in cash outflow, there will be no new share buy-back programmes in this financial year. Furthermore, we'll not buy back shares even if uptake of the Scrip Dividend for the 19/20 dividend exceeds 20%.

## 25.2020/21 AND BEYOND – SECURING VALUE OF OVER £2BN

Part three of our plan is securing value and proceeds from disposals through sales and partnering. We've been doing this since 2014, but we plan to give renewed impetus, targeting proceeds of over £2bn by the autumn of 2021. This will: sustain dividends; sharpen our focus on core businesses; support our overall financial management; and underpin future investment.

While asset sales result in some reduction in future earnings, we believe that's significantly outweighed by the financial and strategic benefits of:

- sustaining dividend payments in the short term; and
- promoting the long-term success of the company through enabling future investment to support dividends in the long term.

The timing of any disposals will always be subject to market conditions, and other stakeholder considerations. But we'll be taking to market good quality assets in which we expect significant interest. We're very confident of securing over £2bn by next autumn.

## 26.2020/21 AND BEYOND – SECURING VALUE FROM SALES

We plan to start with disposal of a further series of non-core assets, where SSE is not the main operator or which are less aligned with the transition to net zero.

Our non-operating investment in Walney offshore wind farm, and some or all of our interests in UK multifuel facilities meet these criteria, and are early priorities for disposal. Indeed, we sold 50% of the Slough multifuel development in April.

We also plan to complete sales of our interests in gas production assets and electrical and rail contracting, where processes are already under way.

## 27.2020/21 AND BEYOND – SECURING VALUE FROM PARTNERING

We also have potential partnering options in our core businesses.

In Renewables, we'll continue our established approach of taking opportunities to realise value - and also working with partners to secure investment in projects where it: enables the right risk/reward balance to be struck; and maximises our ability to develop and deliver large capital projects that support future earnings and dividends. We obviously have potential to further partner on Dogger Bank, for example.

SSE will also consider extending the partnering approach through sales of minority stakes in its core Transmission and Distribution businesses, but only if it is deemed to be in the interests of customers, the electricity system as a whole, and shareholders to do so.

So we have an extensive range of options for securing value through partnering and sales – and they extend to SGN, where we sold 16.7% of our equity stake in 2016, and we retain the option of selling our remaining 33.3% stake.

## 28.2020/21 AND BEYOND – CAPITAL AND INVESTMENT SPEND

Securing value from a range of options for partnering and sales, managing cash outflow and good financial management and liquidity will support our new five-year capital investment plans out to March 2025. These are focused on core strategic projects that will:

- make the greatest early contribution to achieving net zero;
- contribute to wider economic recovery;
- help achieve our 2030 goals on renewable energy and wider electrification of the economy; and
- earn sustainable returns to support earnings in the years ahead.

In this first year of our new five-year plan, capex - net of project finance devex refunds - is likely to be around £1bn. Over the whole of the period to March 2025, we expect total net investment by SSE of around £7.5bn.

This includes equity investment – net of project finance devex refunds - of around £1.5bn in Seagreen and Dogger Bank. Of the £7.5bn, almost 90% will be in our core Renewables, Transmission and Distribution businesses.

## 29.2020/21 AND BEYOND – A SUSTAINABLE FINANCIAL FRAMEWORK

A key objective of our approach to managing cash outflow and securing proceeds from disposals is targeting a net debt/EBITDA ratio at the lower end of 4.5 to 5 times range between 2021/22 and 2024/25.

This compares with 5.7 in 19/20; and the decision to set the target from 2021 reflects the uncertainties around coronavirus impacts in this financial year that I mentioned earlier.

This approach is designed to help ensure that SSE maintains credit rating ratios that are comfortably above those required for an investment grade credit rating.

This provides a sustainable financial framework in which our investment decisions will be:

- calibrated with the progress of, and prospects for, the planned disposals of non-core assets and businesses; and
- in line with these targets on adjusted net debt and hybrid capital and credit rating ratios.

## 30.2020/21 AND BEYOND - DIVIDEND

Final dividend decisions will be in line with our commitment to promote the success of the company for the long term; and we believe that long-term success will be founded on sustaining dividends through short-term adverse economic and business conditions.

As Alistair said, SSE's potential for sustainable value creation, transcends the impact of coronavirus in this financial year.

Based on this, and through effective financial management, managing cash outflow, and securing proceeds of at least £2bn from timely disposals, our target dividend for this financial year remains 80 pence plus RPI inflation.

In line with that, the Board expects to declare this November an interim dividend of 24.4 pence, to be paid in March 2021.

Looking further ahead, there are clearly uncertainties about the wider economic situation and, therefore the impact on SSE's businesses, and the Board will continue to take account of that in making decisions on dividends. But based on our current forecast of the financial impact of coronavirus, and the plan we've set out today, we're confident we can deliver all of our existing dividend plan.

I'll now hand you back to Alistair.

**PRESENTER: ALISTAIR PHILLIPS-DAVIES, CHIEF EXECUTIVE**

### 31.2020/21 AND BEYOND - SUMMARY

Thanks, Gregor. As we've heard, we have a clear plan to achieve the related objectives of sustaining SSE's ability to pay dividends and promoting the long-term success of the company.

On the first objective, we're confident in our ability to:

- deliver the dividend target of 80p plus RPI for this financial year; and
- deliver the entire five-year dividend plan first set out in May 2018

On the second objective, our plans to invest around £7.5bn in the five years to 2025 represent an outstanding opportunity to grow significantly our core businesses in regulated electricity networks and renewable energy, contributing to a green economic recovery and underpinning earnings and dividend for years to come.

## PART THREE: CREATING VALUE THROUGH NET ZERO

### 32. TITLE SLIDE – PART THREE: CREATING VALUE THROUGH NET ZERO

This leads to the final part of our presentation – how we plan to create value through the transition to net zero emissions, for the benefit of all stakeholders.

### 33.CREATING VALUE THROUGH NET ZERO – STRATEGY AND CAPABILITY (1)

The climate emergency hasn't gone away, and there's an urgent need to secure a green economic recovery. We've published a 'greenprint' with proposals for a cleaner, more resilient economy that's been well-received.

It shows SSE has the ideas and the appetite to contribute to a green economic recovery and create value through the transition to net zero. And this is underpinned by:

- our strategic focus on regulated electricity networks and renewables; and
- our ambitious goals for 2030 relating to decarbonisation and electrification.

Amongst other things, these goals illustrate our commitment to having the right credentials for ESG investors.

## 34. CREATING VALUE THROUGH NET ZERO – STRATEGY AND CAPABILITY (2)

Moreover, the alignment of our strategy and capability with creating value through the transition to net zero is shown by:

- Our ambitious goals for 2030 relating to decarbonisation and electrification;
- our growth options, using strict capital discipline to select the best investment opportunities; and
- our core capabilities in successful development, efficient operation and responsible ownership of electricity assets

It's our strategy, goals, growth options and core capabilities, allied to capital discipline, that gives us confidence in our ability to provide returns to shareholders through dividends.

I'll now focus on the opportunities in the transition to net zero, starting with offshore wind.

## 35.CREATING VALUE THROUGH NET ZERO – SSE RENEWABLES – OFFSHORE WIND – SEAGREEN

Further decarbonisation of electricity, heat and transport – on the scale envisaged by the UK Committee on Climate Change – relies on a significant scaling up of renewables. We're well positioned for this.

Successful delivery of Beatrice showed our capability in offshore wind development and operation. And our success in September's CfD auctions showed our commercial ability to compete for contracts.

Seagreen will overtake Beatrice as Scotland's largest operating offshore wind farm, with export capacity of 1,075MW and typical annual output of around 5TWh. Following the sale of the stake to Total, our gross equity commitment will be around £850m.

£320m, which reflects 97% of our investment in the Seagreen phase 1 project to date, has been repaid through a combination of financial close and initial equity sale proceeds.

The 15-year CfD contract secured in September covers around 40% of the capacity. An additional 30% of the project will be contracted with SSE and we're well positioned to optimise the route to market for this power. The project is targeting first export of electricity by December 2021 and full completion by December 2022.

Seagreen is an exciting project, which confirms our skills in offshore wind development and reinforces our position as the leading offshore wind company in the world's leading offshore wind market.

## 36.CREATING VALUE THROUGH NET ZERO – SSE RENEWABLES – OFFSHORE WIND – DOGGER BANK

Seagreen will be Scotland's biggest offshore wind farm, but Dogger Bank will be the biggest in the <u>world</u>. Through our 50:50 joint venture with Equinor, the three Dogger Bank projects are expected to have load factors in the mid-50s% range and <u>each</u> is expected to generate around 5.5 TWh annually.

The JV continues to progress towards final investment decisions - in Q4 2020 for the first two projects; and in late Q3 2021 for the third. All three projects

have secured 15-year CfDs. SSE Renewables will lead on development and construction, with first power expected in 2023.

The completion of Seagreen and Dogger Bank, offset by the planned sale of Walney, will take SSE's offshore wind capacity to just over 2.8GW, before any other divestments by 2026.

## 37. CREATING VALUE THROUGH NET ZERO – SSE RENEWABLES – ONSHORE WIND - VIKING

Sometimes in the energy sector, you have to play the long game. We first announced proposals for an onshore wind farm on Shetland in 2005. Our painstaking approach to the project has paid off, with the decision to invest around £580m in the 443MW wind farm, subject to the final outcome of Ofgem's consultation.

Viking will have an estimated load factor of around 48%. Once built, it will be the largest onshore wind farm in the UK in terms of annual electricity output. First output is expected in 2024.

## 38.CREATING VALUE THROUGH NET ZERO – SSE RENEWABLES - GROWTH

One of our key goals for 2030 is major expansion in renewable energy and Viking, Dogger Bank and Seagreen are at the core of our investment in renewables.

Today, our net capacity for renewable energy in operation is just under 4GW. Starting with first power at Seagreen expected around the end of 2021, these three projects alone will take that to around 6.7GW by 2026.

This is a substantive contribution to a green economic recovery and will yield significant earnings for years to come.

The total is before any sell downs. But it also excludes other opportunities in our renewable energy development pipeline, and I'll hand over to Martin to talk about them.

## PRESENTER: MARTIN PIBWORTH, ENERGY DIRECTOR

### 39.CREATING VALUE THROUGH NET ZERO – SSE RENEWABLES – FUTURE DEVELOPMENT

Thanks Alistair, and good morning everyone. Across off- and onshore wind we have a major pipeline of development opportunities.

The UK Government's March announcement that it would allow onshore wind to compete in future CfD auctions, starting in 2021, was good news.

Excluding Viking, our onshore development pipeline consists of around 1GW of potential newbuild projects. This includes around 200MW of capacity with consent for development, some of which we're seeking to optimise through planning amendments to accommodate more advanced turbine technology.

In January we decided to build the 38MW Gordonbush Extension on a merchant basis, adding 11 turbines to the existing 35-turbine/70MW wind farm. The project is expected to be operational next year.

Looking offshore, we have early stage options including Arklow Bank 2 and Gabbard and Seagreen Extensions. This is an enviable pipeline of offshore wind developments that currently totals over 4.3GW. We'll also take part in the upcoming Crown Estate and Crown Estate Scotland leasing rounds.

We therefore have a very strong position in on- and offshore wind; and it's complemented beautifully by our hydro assets.

### 40. CREATING VALUE THROUGH NET ZERO – HYDRO (1)

In 19/20, our hydro generation, including pumped storage, earned EBITDA of almost £223m from providing electricity and additional balancing services to the electricity system.

SSE's hydro fleet is unique because it includes 750MW of flexible hydro and 300MW of pumped storage, which makes it the UK's largest electricity storage capacity - delivering large-scale power that's both zero-carbon <u>and</u> flexible.

The flexibility offered by peaking plant like Sloy, Tummel and Glendoe; and the instantaneous response provided by our pumped storage units at Foyers; are

of increasing value as the electricity system adjusts to more generation from intermittent sources.

This flexibility also offers the SSE portfolio some protection from short term wind intermittency – effectively providing a valuable internal market hedge.

## 41. CREATING VALUE THROUGH NET ZERO – HYDRO (2)

That's why we're continuing to invest in the hydro fleet to increase the storage and catchment qualities of the assets, while meeting our environmental obligations. Investments include:

- the £16m overhaul at the 18.7MW Grudie Bridge station, an example of how we're extending stations' operational life and ability to secure earnings through improved reliability and efficiency; and
- the current life extension of generators at Foyers to ensure it continues to offer a long-term contribution to grid service requirements with commensurate potential to earn revenue.

After Foyers, we'll return to ongoing programme of refurbishing large scale hydro stations to ensure their continuing operations for the next forty years. We'll also continue to explore the business case for a new pumped storage station, at Coire Glas. This is the only consented bulk seasonal storage solution available in the UK, against a market need that is evident and increasing.

## 42. CREATING VALUE THROUGH NET ZERO – LOW CARBON THERMAL

The reality of the net zero transition is that variable renewable output requires reliable, efficient backup generation. Our hydro assets are essential to this - but system and portfolio balancing require additional flexibility services from thermal assets.

That's why the £350m Keadby 2 project is so important. The first-of-a-kind Siemens 9000HL turbine arrived on site last month – a remarkable achievement in the current circumstances.

This turbine will make Keadby 2 the cleanest and most efficient CCGT in Europe, with an industry-leading 63% gross efficiency. It will provide more start-ups, on shorter notice periods, at a superior emissions performance

standard, than any competing thermal power station in the UK. It's truly industry leading and is still on target for delivery by 2022.

The project is now underpinned by a 15-year capacity contract from October 2023 that's estimated to be worth £17.29/kW at that date; and the station is expected to run and earn inframarginal rent on almost every available day. This makes us even more confident that the project will be a strategic and commercial success.

Looking ahead, further innovation will be required if the UK is to achieve net zero, and that's why we're involved in plans to transform the Humber region into the world's first 'zero-carbon cluster' by 2040.

## 43.CREATING VALUE THROUGH NET ZERO – NEW EMISSIONS TARGETS

At SSE, we mean it when we say our vision is to be a leading energy company in a net zero world. We delivered our target 50% reduction in the carbon intensity of our electricity generation between 2006 and 2018; and in 2018 set a new target to achieve another 50% reduction by 2030, based on 2018 levels.

We have now set new carbon targets that have been approved by the Science-Based Target initiative. These include a more stretching 2030 goal for climate action. We're now targeting a deeper reduction of 60% in intensity of electricity generated, compared with 2018 levels. This would take carbon intensity down to 120g per kWh.

This, and our other new science-based targets, confirms our strategic commitment to creating value through the transition to net zero.

I'll now hand back to Alistair to talk about how we plan to do this in networks.

**PRESENTER: ALISTAIR PHILLIPS-DAVIES, CHIEF EXECUTIVE**

## 44.CREATING VALUE THROUGH NET ZERO – SSEN DISTRIBUTION

Thank you, Martin.

With the huge investment needed to electrify heat and transport and deliver net zero, the role of distribution companies over the next 10 years is vital.

In Distribution, we're heavily focused on delivering significant change and modernisation of operations, infrastructure and work practices, alongside a major investment programme. We want to put in a strong finish to the ED1 price control - and be ready to hit the ground running on ED2.

To prepare for that, we're working with stakeholders to develop a business plan to deliver change at the pace required by net zero. This means ED2 needs to enable a strategic, anticipatory approach to the investment needed to accommodate new services, such as Electric Vehicles, while maintaining security of supply.

We also want to see a price control that provides strong incentives to encourage more innovation and reflect the changing DSO role. Fundamentally, ED2 represents a real opportunity to accelerate progress towards net zero and, in doing so, contribute to the green economic recovery that's so important for the country as a whole.

## 45.CREATING VALUE THROUGH NET ZERO – SSEN TRANSMISSION (1)

In Transmission we have a strong record in enabling decarbonisation. In the current T1 price control period, which ends in March 2021, the renewables capacity connected to our Transmission network has increased to 6.3GW. This has helped increase the RAV for this business to £3.5bn.

Looking ahead, we expect the installed renewable capacity connected to our Transmission network to increase to at least 10GW in the T2 price control period to 2026, the equivalent of powering 10 million homes.

The case for investment is set out in our stakeholder-led business plan, 'A Network for Net Zero'. Based on analysis of the certain needs of users, the plan proposes a minimum total expenditure of close to £2.4bn over the period to 2026. But if the country is to move at the pace required by net zero, we believe totex actually needs to be around £3.5bn.

But even on our certain case, the Transmission RAV should reach over £5bn by the end of T2 in 2026.

## 46. CREATING VALUE THROUGH NET ZERO – SSEN TRANSMISSION (2)

That £2.4bn does not include any islands links, and clearly the 600MW HVDC Shetland link will be required by Viking Wind Farm. Transmission is now awaiting the outcome of Ofgem's consultation on the Final Needs Case and Delivery Model, which ends tomorrow. Should approval be forthcoming, work on the transmission link, which we expect would be around £600m, would begin in late summer.

And on top of this there are longer-term strategic opportunities such as the proposed Peterhead to Drax HVDC link, confirming our Transmission business' position at the heart of work to upgrade the country's electricity system for net zero.

## 47. CREATING VALUE THROUGH NET ZERO – REGULATED NETWORKS – GROWTH

Taken together, our regulated electricity networks are strong, stable businesses with a central part to play as decarbonisation of power, heat and transport gathers pace.

Along with our stake in SGN, their total RAV at 31 March was £9.1bn. We see a clear path to this reaching around £10bn by 2023.

Beyond that, there is more uncertainty. But based on our business plan's 'certain view' of Transmission totex, and the clear requirements for investment in distribution networks to meet the net zero challenge, we estimate the £9.1bn RAV we have now could grow to around £12bn by the end of RIIO T2 in 2026.

# CONCLUSION

## 48. CREATING VALUE THROUGH NET ZERO - SUMMARY

This morning, we've confirmed our vision of being a leading energy company in a net zero world – a vision we consider to be more relevant than ever as we emerge from the coronavirus pandemic. We've set out how, in continuing to work towards it, we're guided by two clear and related objectives:

- sustaining the dividend payments on which pensioners and savers depend for income; and
- promoting the long-term success of the company for the benefit of all stakeholders.

We've described the opportunities for realising value and investing for long-term success. Our core businesses, are central to the transition to net zero, and are complemented by our thermal energy and customer businesses which add incremental value

It's in these businesses that we're able to achieve excellence; contribute to a green economic recovery; deliver growth; and create value through the transition to net zero.

I'll now open the call to questions…

## CLOSING REMARKS

Thank you for your questions and for joining Gregor, Martin and me on this call. You will be able to contact Sally, Wendy and Rory in our Investor Relations team if you have any follow up points after the call.

And thank you [operator]. I will now hand back to you to close this call.

## ENDS