

SSE ANNUAL GENERAL MEETING

SHAREHOLDER QUESTIONS FULL TRANSCRIPT

12 August 2020

This is a verbatim transcript of a video published on sse.com in which SSE's Director of Corporate Affairs and Strategy, Sam Peacock, puts shareholder questions to the Chair of the SSE plc Board, Richard Gillingwater CBE; SSE non-Executive Director, Dame Sue Bruce; and SSE Chief Executive Alistair Phillips-Davies.

Introduction by Sam Peacock

Hello everyone and welcome to SSE's shareholder Q&A, being published on the day of our AGM.

Here, we've sought to strike the right balance between the Board's commitment to shareholder engagement and our determination to keep everyone safe through social distancing.

So, rather than ask your questions in person, we've asked you to submit them in advance and we've received questions on a wide range of topics and unfortunately, we can't cover them all in this video.

But over the last few days we've identified the key themes you asked about and I've been putting these questions to members of our Board and executive team.

Alongside this we have also published some longer, written responses at the investors section of sse.com. Everyone who asked a question will receive a response.

Question 1

Energy Services transaction

2019/20 saw a major reshaping of SSE around its strategic focus on low-carbon assets and infrastructure, with the sale of the household

retail business in GB to OVO. This was a high-profile transaction and we've had a question from ShareAction around whether, with hindsight, it was the right deal to do.

In particular they asked whether SSE could have done more to ensure the job security of former employees who are now affected by restructuring at OVO. So I put that one to our CEO, **Alistair Phillips-Davies***.

Question 1

Answer

The OVO transaction was an important strategic deal for SSE. It had become very clear that to focus on retail businesses you need to really have an expertise in that area. That's something that OVO definitely had and ... a combination of SSE Retail and OVO could be really strong going forward.

It also meant the remaining SSE infrastructure and assets business was able to really focus on what it did well and we've seen clear benefits of that coming ever since we did that transaction with the focus that we've been able to bring and particularly as both organisations have struggled to deal with but managed to deal, I think, very effectively with the massive impact of COVID.

When we did the transaction, clearly we chose a partner that we thought was strong; in OVO they have one of the best reputations in the market and also one of the best futures. The coronavirus has come along and impacted that and also there've been issues within the energy retail market itself. We've seen a lot of the major companies regrettably have to announce significant redundancy programmes and indeed OVO have had to do something similar. However,

we definitely know that OVO was the best place for our energy services business to go, we also know when they transferred across, all the employees had their terms and conditions protected and also we got OVO to recognise unions as well so they had proper representation. And so, we're absolutely convinced it was the right transaction, it's just unfortunate the coronavirus and changes within the energy retail market have both impacted a particular time and created difficulty within that market.

[*SSE has also provided a more detailed, written response to this question from ShareAction which can be found on sse.com.](#)

Question 2 Board composition

We've seen some significant changes to the composition of the Board this year with the arrival of Dame Angela Strank as a non-Executive Director and the recent announcement that Sir John Manzoni will succeed Richard Gillingwater as Chair from 1 April 2021.

Now this is a subject a number of stakeholders have been interested in, so I asked **Richard** whether the Board has the right mix of skills and perspectives, and whether it's sufficiently diverse.

Question 2 Answer

Achieving the right mix in our Board composition is something we are very mindful of as a Board and we're acutely aware that the skills and experience we have on the Board need to align with our strategic focus on assets and infrastructure.

For example, the recent appointment of Angela Strank strengthened the Board's science, engineering and large infrastructure expertise.

And the appointment of Sir John Manzoni to succeed me as Chair will add a real breadth of experience across both the public and private sectors, given his background first as an energy industry executive and then latterly leading the Civil Service.

Inclusion and diversity are also extremely important to us. We've made some progress there but have further to go.

In terms of Board gender diversity, 36% is of our Board is female, which meets the Hampton Alexander recommendation.

SSE has also made progress in widening the diversity

of our leadership team, with excellent appointments in Networks and the Customer division. Over one-quarter of the full members of the Group Executive are now women.

But, of course, true diversity will mean that SSE reflects the society it serves at every level of the organisation and we currently have one BAME Director on the Board, which is consistent with the Parker Review requirement for 2021, but is still there's much to do to improve our BAME representation in the broader business.

So, while we can report some progress, there's more to do to ensure we're truly reflective of the communities we serve right across the Company.

Question 3 Executive remuneration

An issue that's always under the spotlight, but particularly in an economic crisis, is executive pay. This year, SSE's Executive Directors saw material percentage increases in their pay, mainly due to no bonuses being paid in the previous year.

We received several questions about this, including from Aviva Investors who queried the decision to award a 2.7% pay increase to Executive Directors this year. So I asked **Dame Sue Bruce**, non-Executive Director and Chair of the Remuneration Committee, how the Committee came to its decision.

Question 3 Answer

Executive pay is always scrutinised and quite rightly so. The Remuneration Committee is concerned that fairness is a central pillar of our remuneration policy, both in terms of executive performance and relativity to the rest of the SSE workforce. Our senior executives are well paid but the Remuneration Committee is concerned to ensure they are not overpaid.

We have a new remuneration policy which was agreed at last year's AGM with 99% of shareholders supporting the policy, and that had been developed through regular engagement with shareholders and employees, and trade union representatives. Executive pay is considered alongside the regular workforce's pay and must be set in stringent conditions in terms of performance measures which have to be met.

We don't hesitate to use our discretion and in fact last year we demonstrated downward discretion. Looking ahead, 2020/21 is going to be a difficult year and we

again will use our discretion to determine how much coronavirus impacts on that year, and how much again we need to use our discretion in terms of pay thereafter.

Question 4 Corporate culture

In the wake of coronavirus we've seen corporate culture called into question at a number of high-profile companies, with the spotlight on those not doing business ethically.

In view of that, I asked **Richard** what the Board is doing to ensure the culture within SSE is healthy and promotes the highest standards of ethical conduct and behaviour.

Question 4 Answer

The Board takes a keen interest in the Company's culture and has a key role to play in setting the right tone for the Company and then monitoring this.

We've seen lately how vital this is and what consequences there can be when companies get it wrong.

During 2019/20, the Board set out an updated view of what it considers to be a healthy and ethical culture.

Namely that is a culture which:

- Has a purpose, values and strategy that are respected by our stakeholders.
- Its operating environment is inclusive, diverse and engaging.
- Employees are encouraged to make a positive difference for stakeholders.
- Values guide decisions and actions.
- Attitudes and behaviours are consistent with high standards of ethical conduct and 'doing the right thing'.

The implementation and monitoring of this culture is overseen by the Group Executive Committee and SSE's Business Units, with outputs being reported to the Board.

A new cultural dashboard has been agreed by the Board and will be developed during 20/21 and there will be a refreshed Guide to Ethical Business Conduct has been agreed and will be promoted widely across the organisation this summer.

Question 5 Employee engagement

For the Board to effectively set and monitor corporate culture, clearly it needs to be sufficiently engaged with and connected to employees at all levels of the organisation.

For that reason, **Dame Sue Bruce** is our non-Executive Director for Employee Engagement, and I asked her how she ensures that employee voices are heard in the Boardroom.

Question 5 Answer

The employee engagement role is one that I was appointed to about 18 months ago and it's something I really enjoy engaging with employees, colleagues throughout the organisation as well as the trade unions throughout the year.

It's really crucial that the Board gets feedback from the whole workforce and my role is to meet with people as far as I possibly can, and to have frank and open discussions with them. I then give that feedback to the Board, and through that lens the Board can make decisions and understand the temperature of the workforce and the sentiment of people's reactions to the policies that we're setting.

We give written feedback to the Board, in fact all directors who make any site visits give written feedback to the Board, but as the Director responsible for employee engagement I make sure that my feedback is thorough, it's honest, it's open and it's transparent and I can share that back with colleagues of whom I've met.

During the lockdown period we've actually taken the opportunity to have a huge number of employee opportunities right across the business, right across our geographies using Teams and other medium. And I've had the opportunity to meet people who have been working from home – we've got many thousands of people working from home keeping the business going. And we've also got many people out there in the field making sure that power continues to reach places that it needs to reach and we've had some colleagues in very critical scenarios supporting hospitals and so on during the course of the crisis.

I've been deeply impressed by the commitment of everybody to doing their job, to supporting the aims of the company and of course to supporting our customers. Above that I've also been very impressed by the care that's been shown by employees for one

another, to make sure they are doing alright during the lockdown, that their mental health is stable and they've got somebody to talk to if they're working from home, they live alone and so on and so forth. So overall, I would say the employee engagement remit is something that I thoroughly enjoy, but it has a real value to the company in terms of giving that live and very personal feedback back to the Board to help with decision making.

Question 6

Science based targets

We received two questions from Matt Crossman, representing a coalition of investors under the umbrella of Climate Action 100+, which I put to **Richard**.*

While recognising the steps SSE has taken in setting itself a science-based target in June, Matt asks if the company will engage with the Science Based Target initiative on its new methodology for a 1.5-degree warming scenario.

And his second question relates to the role of gas in the electricity system in the future. He asks what R&D SSE is undertaking to ensure that Carbon Capture and Storage (CCS) is available at the scale required to protect gas assets in the Company, and still achieve the Paris goals?

Question 6

Answer

I'd like to thank Climate Action 100, once again, for their constructive engagement with the Company. In terms of the two questions, the answer to the first is yes. SSE is firmly committed to a 1.5-degree global warming pathway, which – as we know – requires net-zero carbon emissions by 2050.

We set a series of carbon targets, following extensive engagement with the Science Based Target initiative that started nearly a year ago. Those targets are aligned to the Paris Agreement and are in line with a 'Well Below 2-degree pathway'. We know that climate science continues to develop – and there is a natural break point in our target – which means that we will be reviewing them in 2024.

The second question relates to research and development and Carbon Capture and Storage. The Company is engaged in a series of partnerships – particularly around the industrial decarbonisation clusters starting to take shape as key projects around the country – that seek to research, develop and pilot,

at scale, methods for effectively capturing and storing carbon.

As part of our 'greenprint' for building a cleaner, more resilient economy, we've also urged the Government to increase its ambition for CCS and hydrogen by committing to five projects by 2030.

We will continue to engage with the Government on this topic, and the green recovery more generally, in advance of the autumn Budget.

*[*There is more to say on this topic, so SSE has also provided a more detailed, written response to this question from Climate Action 100, which can be found on \[sse.com\]\(#\).](#)*

Question 7

The role of CCS

It's clear from Richard's response that SSE believes CCS has a key role to play on the road to net zero, but some have questioned whether it really is the right solution.

In particular the Local Authority Pensions Fund Forum (LAPFF) has pointed to recent news that the Petra Nova CCS facility in Texas has been mothballed due to oil prices being too low, and they asked whether it is right to invest in this technology ahead of accelerating investment in renewables.

Well our CEO has been very vocal on this topic, calling publicly for more ambition on CCS. I asked **Alistair** whether recent developments had changed his mind.*

Question 7

Answer

As a company, we've had a history within CCS dating back, right the way back to 2005. We've tried twice previously to do it and got projects off the ground at Peterhead. I think going forward, for the country and for the world, Carbon Capture and Storage is really important, I think it will be important initially in electricity generation and then once used there, we will also be able to utilise those carbon capture facilities for industrial processes as well and for those particularly hard to reach sectors of the economy, therefore, proving it initially on electricity generation then moving forward to industrial processes, I think it's really important.

In the UK, we're very fortunate that we have a huge resource in terms of the North Sea, in terms of our ability to store, to capture and store carbon and that's something which will give us a distinct competitive

advantage against other places in Europe. So, I think it's got exciting prospects, there's obviously a number of clusters we're looking at in conjunction with Government around the coast and I think it gives us an opportunity, one to decarbonise quicker and secondly also to build a very, very substantial new industry for the UK, just as we've done in offshore wind.

[**SSE has also provided a more detailed, written response to this question from LAPFF which can be found on sse.com.*](#)

Question 8

Hydrogen

There's been much debate in recent months about the role of hydrogen in decarbonising power, heat and transport – with countries right across the EU announcing huge funding for it. And on that topic we had a question from shareholder David Lovering, who asked the Board how the development of a hydrogen economy might influence the long-term shape and strategic direction of SSE.

I put that one to **Alistair**.

Question 8

Answer

I think the hydrogen economy's important, we've already talked about Carbon Capture and Storage.

I think that's an important sub-sector of hydrogen because obviously you can use Carbon Capture and Storage to help produce hydrogen there are various ways of doing it. I think the hydrogen economy is important because hydrogen is a great store of energy which can be used for things particularly I would say in transport, heavy goods vehicles, possibly in vans, certainly in things like trains where there's not electrification in boats. It can also be used for heating and I think for some aspects of our ability to store hydrogen and to use surplus electricity to generate hydrogen, will help smooth out peaks and troughs between supply and demand in the electricity system going forward.

So, although it's fairly early stages for hydrogen, I think it's a very important part of the decarbonisation story going forward because of its flexibility and its uses in the more hard-to-get-to sectors for electricity.

Question 9

Just transition

Of course, there's also a social dimension to the transition to net zero and we had a question on that

from Royal London Asset Management alongside the Friends Provident Foundation.

Now they're concerned that employees, communities, suppliers and customers may be impacted negatively and they have asked if the Company would adopt a formal strategy that would support a just transition.

So I put that question to **Richard** on their behalf.*

Question 9

Answer

This is a very interesting question and not one we have received before.

The Company is well aware that the change of the scale that is required to achieve net zero – for both the Company and the country as a whole – will impact on different people in different ways.

The principle should be to share the benefits of climate action as widely as possible. So – from a Company perspective – that means when we create new, low-carbon economic activity in the form of jobs and contracts, then we should make sure that the diverse range of people in local areas can really benefit.

But there are potential costs of climate action too – and actions can be taken to support employees through any transition that may take place.

So there is much that SSE can do to support fairness for customers, employees, suppliers and communities – and we welcome the spirit of the question from Royal London and Friends Provident Foundation.

And – yes – we will plan and publish a short-term plan of those principles and actions before the Half-year Financial results in November.

[**SSE has also provided a more detailed, written response to this question from Royal London Asset Management and Friends Provident which can be found on sse.com.*](#)

Question 10

Electrification infrastructure

And a final question that we're covering on the video, staying with the topic of the transition to net zero, shareholder Margaret Holst asked for SSE's views on the challenge of delivering the infrastructure needed to provide charging facilities for electric vehicles and meet the huge increases in demand that will come from electrification of heat and transport.

So I asked **Alistair** for his view.

Question 10

Answer

That's a really, really great question and it's actually one that we try to answer or we believe we answered quite well initially with the publication of our greenprint a few months ago. Which is a document we circulated to government and all other interested users which sets out how we're going to substantially increase the amount of electricity used in this country and that will lead to a huge reduction in the amount of carbon that we produce in this country. There are various elements to that. Transport's obviously a key part of it, we see more and more electric vehicles on the road but you've got people who've got range anxiety, indeed down in London, there's very little infrastructure around London for domestic uses, so therefore, we definitely feel that rolling out a world-class EV charging infrastructure, is going to be really, really critical so we don't end up with some of the issues associated with broadband that we saw in years gone by,

I think on top of that, you've got heat as well, how we use electricity to provide heat in homes, to power heat pumps, maybe to produce more hydrogen and use hydrogen domestically, all sorts of areas that I think we can look at.

Fifteen points in our greenprint which I think are all very strong and where we've had excellent engagement with government on those, equally with local government as well which I think is going to be a critical enabler. We're working to produce local area electricity plans going forward so that we can make sure that we're capturing the differences between big urban centres and very, very rural centres and we cover all of those within our networks businesses.

So electrification, decarbonisation absolutely at the heart of our business and I think going forward, will also really be at the heart of hopefully the great green recovery for this country as we emerge from COVID 19.

Closing comment from Sam Peacock

So, thank you everyone. That marks the end of SSE's Q&A on its AGM. As I said earlier, you can find longer written form answers at the investors section on sse.com.

Thank you very much.