



Group Risk Report

2021/22

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About SSE

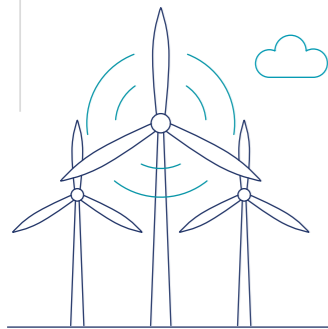
SSE has a resilient and highly complementary business model built on a mix of market-based and economically-regulated businesses, supported by effective Group Services.

Together, as a Group, these businesses are perfectly positioned to capture the substantial growth opportunities generated by driving and accelerating the net zero agenda through electricity infrastructure.

A strategically coherent business mix focused on net zero

Decarbonising generation

- SSE Renewables (wind and hydro)



- SSE Thermal
- Gas Storage
- Energy Portfolio Management



Enabling electrification

- SSEN Transmission



- SSEN Distribution



Providing energy solutions

- SSE Business Energy
- SSE Airtricity
- Distributed Energy



Market based

Strategic capabilities and opportunities

Generation mix provides resilience to the Group plus flexibility and balance to the electricity system

Sector-leading expertise in development and build of renewables infrastructure

Developer premium provides funding optionality through timely sell-downs

Thermal transitioning into low-carbon flexible generation for the future and supporting security of supply with Gas Storage

Economically regulated

Strategic capabilities and opportunities

Solid, index-linked returns with revenues and RAV linked to CPIH/RPI

Market-leading growth in transmission through connecting renewables and network reinforcements

Proven expertise in large-scale capital project management

Ability to deploy innovation and technology at scale in support of net zero ambitions

Market based

Strategic capabilities and opportunities

Market-based revenue streams

The Group's shopfront for green energy solutions

Route to market for green PPAs

Provides natural hedge for generation output

Net zero aligned distributed energy solutions and battery and solar technologies

Further details of SSE's Business Units can be found on pages 14 to 17 of the Strategic Report of the Annual Report and Accounts.

Managing SSE's Principal Risks

The execution of SSE's strategy and delivery of its purpose are dependent on the effective identification, understanding and mitigation of the Group's Principal Risks.

SSE's established Risk Management Framework and the wider system of internal control described on pages 4 and 5 continued to inform strategic decision making in 2021/22.

As highlighted in the Chair's Statement on pages 6 and 7 and in the sector review on pages 28 to 31 of the Strategic Report of the Annual Report and Accounts throughout 2021/22 SSE met and managed a number of challenging external factors with extreme storms, the climate emergency, unprecedented and sustained volatility in energy markets and the ongoing pandemic featuring heavily in strategic risk discussions.

Despite these significant challenges, SSE has made substantial progress this year on major projects within its capital delivery programme, including the landmark Shetland HVDC Link, with options for substantial growth over and above capital expenditure plans approved under the RII0-T2 price control, seeking to balance affordability for energy consumers with the need to attract the investment required for the transition to net zero.

SSE has also continued to deliver significant strategic progress through its disposal programme, with proceeds in the region of £2.8bn secured to date against the target set in June 2020.

These factors along with ongoing war in Ukraine that has exacerbated the already intensified market volatility, security of supply concerns and affordability pressures formed the basis of the full review of SSE's Principal Risks that took place during the financial year.

Board considerations

Effective identification, understanding and mitigation of Principal Risks underpins the Board's approach to setting strategic objectives for SSE and informing strategic decision making. The Board aims to consider all material influencing factors and key external trends in the energy market, including those relating to climate change, technological developments and capital flow and aims to do so in a way that reflects the expectations of SSE's key stakeholder groups.

These material influencing factors also have an impact on the nature and extent of risks the Board is willing to take to meet these objectives, and related mitigation strategies adopted by the Group. Material changes in the nature and potential impacts of SSE's Group Principal Risks are regularly assessed with appropriate mitigations implemented where necessary.

Overseeing risk

The Group Executive Committee and its sub-committees have responsibility for overseeing SSE's Principal Risks. During the third quarter of SSE's financial year, an assessment of each Principal Risk is completed by the assigned oversight committee. This assessment requires committee members to provide commentary on contextual changes to the risks, consider whether over the course of the year the risks have become more or less material based on impact and likelihood and to confirm procedures and policies are in place for controlling risks. Consideration is also given to emerging risks and whether any of those identified have the potential to become a Principal Risk to the business in the medium to long-term.

These responses are then consolidated into reports, one for each Principal Risk, which are presented back



to the committees along with the results of provisional viability testing and analysis of relevant, current management information and key information relating to Business Unit Principal Risks and controls. These reports form the basis for the committees to discuss and confirm the risk trend (more, less or equally material), overall effectiveness of the risk control and monitoring environment, and whether any additional control improvement actions are required. This is an inclusive and iterative process that results in considered and objective outputs and a robust assessment of Principal Risks.

The outputs from these committee assessments are then presented to the Group Executive Committee for full review, with any emerging risks or additional material changes resulting from this being proposed to the Board.

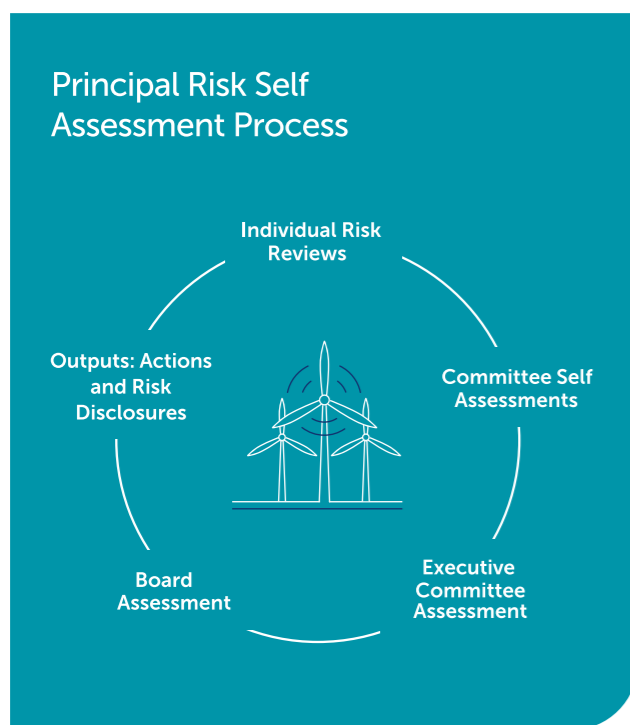
2021/22 Review Outcome

Following the 2021/22 annual review process, the number of Principal Risks to the Group remains at 11 with one revision of note.

An essential tenet of SSE's Risk Management process is the consideration of potential emerging risks and whether any of those identified have the potential to become a Group Principal Risk in the medium to long-term. As such, following the 2021/22 review process and due to the development of a Joint Venture Governance framework throughout the year, the

emerging risk "Joint Venture and Partner Management" was not retained as an emerging risk. Joint Venture and Partner Governance has however been included as a key mitigation against the Group Principal Risks of Large Capital Project Management, People and Culture, Politics, Regulations and Compliance and Speed of Change.

Important revisions have also been made to the descriptions of each of the Principal Risks to take account of key developments and corresponding mitigations that were introduced during the year. Full details of the Group Principal Risks are available on pages 9 to 19.



System of Internal Control

The various elements that make up SSE's Risk Management Framework are aligned to different levels of its Governance Framework as shown in the diagram. Outputs of the Strategic Framework – principally being the Group's objectives and the SSESET of values – form the basis for all activity within the Risk Management Framework.

- Governance Framework. Designed to ensure focus on the key components of high quality and effective decision making – clarity, accountability, transparency and efficiency. For further details please see page 124 of the Directors' Report of the Annual Report and Accounts.
- Strategic Framework. This includes Group's strategic objectives, financial objective and sustainability goals and forms the basis for all activity within the Risk Management Framework. For further details please see pages 2 to 5 of the Strategic Report of the Annual Report and Accounts.
- Risk Management Framework. This framework supports each Business Unit in managing its risks and helps to ensure that the Board can meet its obligations. The framework is underpinned by the fundamental principle that everyone at SSE is responsible for the management of risk.
- Assurance Framework. An integrated programme of audit and assurance activity that is independent of the day to day operations of the Business Units and corporate functions. It is made up of Internal Audit, Group Compliance, Large Capital Projects Services and Group Safety, Health and Environment.
- Standards and Quality Framework. Sets out the expected standards and guidelines to be followed in the delivery of the Group's core purpose.



Risk Management Framework

Within SSE, we apply the fundamental principle that everyone who works for us is responsible for the management of risk.

Group Risk Management and Internal Control Policy:

The policy consists of clear principles and sets out roles and responsibilities which guide the risk management culture within SSE. These include:

- That everyone at SSE is responsible for the management of risk. All employees must understand and manage all risks that threaten the achievement of objectives or compromise the SSE SET of values which, in turn, help define our corporate culture.
- All decisions must be made with full consideration of the risks involved. This principle is reflected in SSE's Risk Appetite Statement and underpins our disciplined approach to decision-making.
- The Board of Directors is accountable to SSE's customers, investors, employees and other key stakeholders, and has ultimate responsibility for the effectiveness of SSE's management of risk.

Review of the Effectiveness of the System of Internal Control:

The Board is required to carry out a review of the System of Internal Control each year in accordance with the UK Corporate Governance Code ("the Code"). The Board has delegated responsibility for reviewing the System of Internal control to the Audit Committee. This covers all material controls including financial and compliance controls, in addition to the financial reporting process.

To assist the Committee's review of the System of Internal Control, the different elements are evaluated by relevant key stakeholders. These evaluations are assessed by the Finance Director and a letter is provided to the Audit Committee summarising the work conducted in the year to improve the control environment and making a recommendation on the overall effectiveness of the System of Internal Control.

In addition, when undertaking the review of the effectiveness of the System of Internal Control, the Committee considers the assurance evaluations undertaken annually by the Managing Directors of each of SSE's seven Business Units.

Principal Risk Self Assessment

SSE's Group Executive Committee and relevant sub-committees are assigned oversight of each of SSE's Principal Risks, and a full review of these is carried out each year which includes the effectiveness and appropriateness of all relevant controls, detailed analysis relating to monitoring information and comprehensive scenario impact analysis. The deemed change in materiality of each risk is also included within these assessments.

The outputs from these committee assessments are then presented to the Group Executive Committee for full review, with any emerging risks or additional material changes resulting from this being proposed to the Board for approval.

Risk Appetite Statement

As required by the Code, SSE's Risk Appetite Statement, as defined by the Board, sets out clearly the nature and extent of risk that the Group is willing to take in order to achieve its strategic objectives, and key decision-making is aligned with this Statement.

Viability Assessment

Provision 31 of the Code requires Directors to make an annual statement of the longer term viability of the Group. To help support this Statement, over the course of the year a suite of severe but plausible scenarios has been developed for each of SSE's Principal Risks. These scenarios are based on relevant real life events that have been observed either in the markets within which the Group operates or related markets globally. Examples include critical asset failure resulting in sustained impacts to network assets (for Energy Infrastructure Failure); changes to key government energy policies (for Politics, Regulation and Compliance); and the physical impacts of climate change on distribution assets through more frequent and increasingly severe storm events (for Climate Change)

Scenarios are stress tested against forecast available financial headroom and in addition to considering these in isolation, the Directors also consider the cumulative impact of different combinations of scenarios, including those that individually have the highest impact.

Key Risk Indicators

As part of the ongoing assessment of the Group's Principal Risks, Key Risk Indicators (KRIs) are reported to SSE's various oversight committees on a regular basis. These provide high level insight into key risk factors which are likely to influence SSE's exposure to these risks.

Business Unit Risk Approach

The Group Risk Management and Internal Control Policy allows flexibility for the Managing Directors of SSE's Business Units to tailor operational risk management to the specific requirements of their business areas.

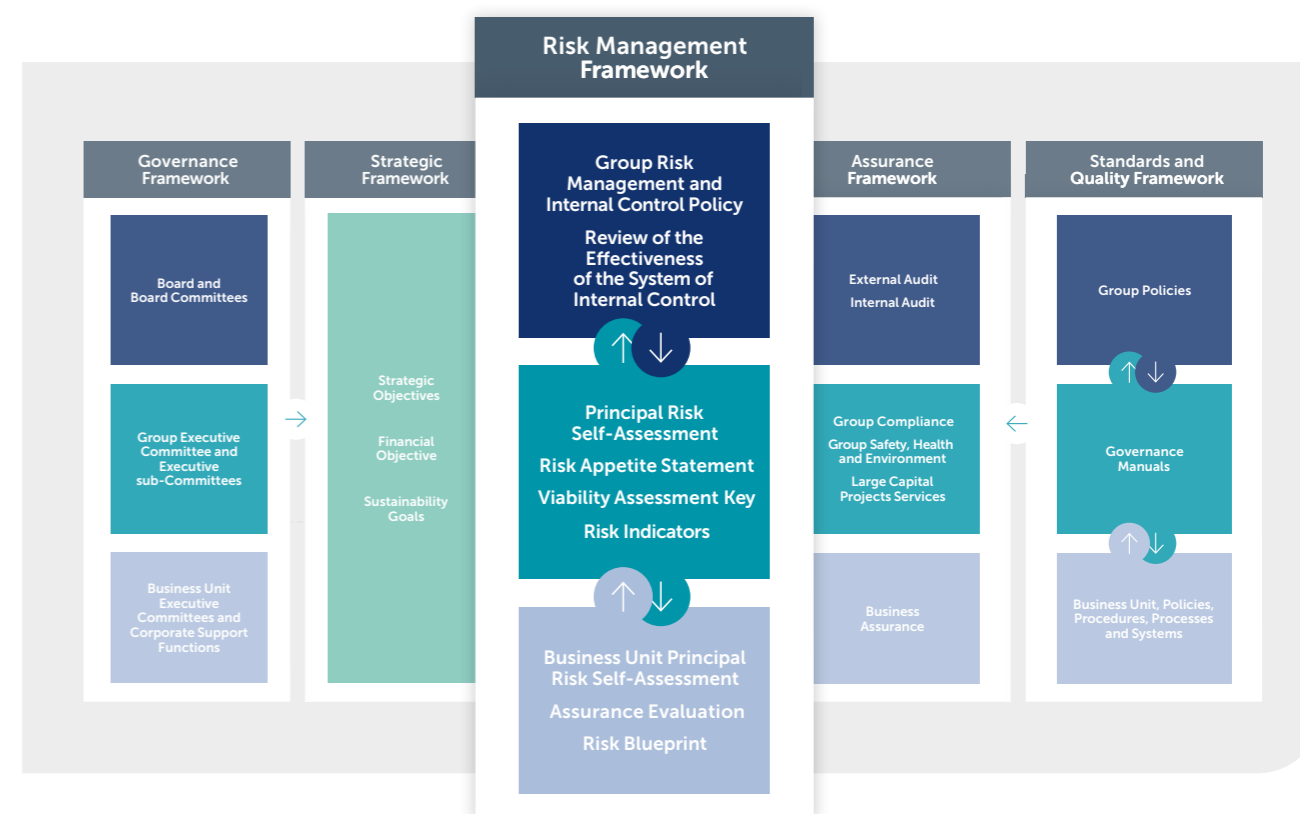
Assurance Evaluations

The Assurance evaluations are undertaken annually by the Managing Directors of each of SSE's seven Business Units. These assurance evaluations consider each framework of the system of internal control

form a Business Unit perspective and include any planned improvements to enhance controls. These improvements are tracked, with updates reported to the executive-level Group Risk Committee on a regular basis.

Risk Blueprint

SSE Risk Blueprint is a best practice guide to risk management that is available to anyone who requires it within the Group. The Blueprint is reviewed on an annual basis in line with the review of the Group Risk Management and Internal Control Policy.



Review of Group Principal Risks

The Board and Group Executive Committee look for as complete a perspective as possible when assessing the Principal Risks that face the Group.

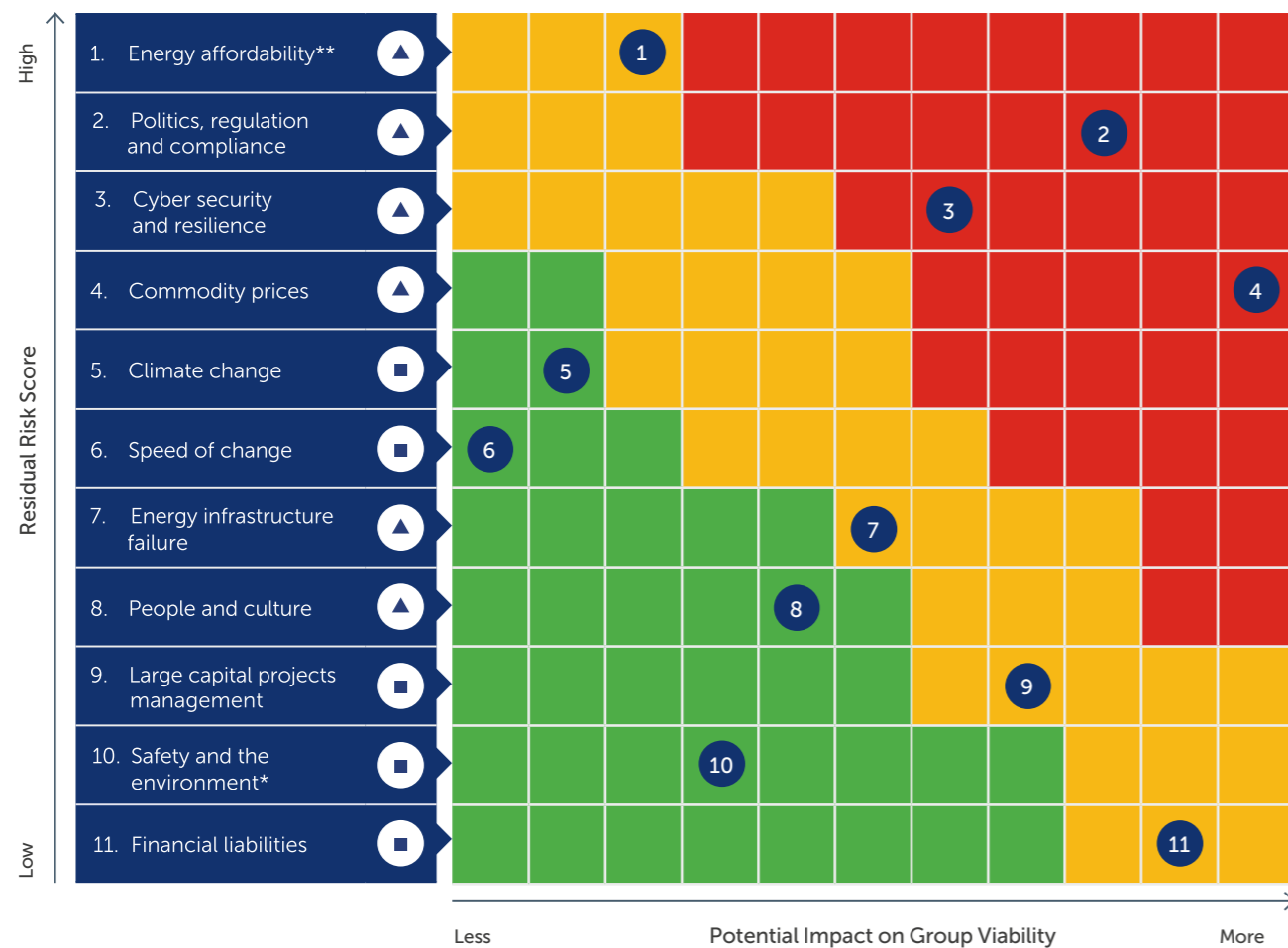
This graphic illustrates SSE's 11 Group Principal Risks positioned on a relative basis against the output of the Principal Risk Self-Assessment process based on the residual risk score (impact vs likelihood) of each risk and the potential impact on Group Viability based on critical risk scenarios developed with business experts.

In addition, Principal Risks that were considered by their oversight committees to have changed in materiality during the year can be identified using the key below.

Key

- ▲ Risk has increased in materiality
- Risk has not changed significantly
- ▼ Risk has reduced in materiality

SSE's 11 Group Principal Risks



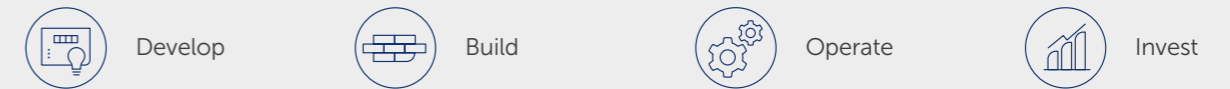
* Safety remains SSE's most important value, and management of this risk remains SSE's highest priority.

** It should be noted that Energy Affordability is particularly closely linked to – and therefore impacted by – Politics, Regulation and Compliance and Commodity Prices.

Each of the Group Principal Risks are mapped to the SSE strategy as well as the four core business goals for 2030.

Key

Linkage to Strategy



2030 Goals



Climate Change

What is the risk?

The risk that SSE's strategy, investments or operations are deemed to have an unacceptable future impact on the natural environment and on national and international targets to tackle climate change.

Oversight

Group Executive Committee

Material influencing factors

- The impact of physical risks associated with climate change, such as severe adverse weather that causes damage or interrupts energy supply of generation.
- The speed of technological developments.
- Transitional risks relating to developments in political and regulatory requirements related to the products and services that SSE provides.
- Ensuring the continuation of Large Capital Projects which are fundamental to Group net zero targets.
- Global and domestic policies including those published by the UK's Committee on Climate Change relating to the 6th carbon budget for the period 2032 and 2037.
- Political and regulatory engagement.
- Plans to transition to a decarbonised energy system.

Key developments

- In its role as a Principal Partner to the UK Government at COP26, SSE highlighted the critical importance and global relevance of the Group's strategy of creating value for shareholders and society in a sustainable way required in the transition to net zero. More information on COP26 is available on page 46 of the Annual Report and Accounts.
- Within 2021/22, the Board considered and approved accelerated science-based greenhouse gases (GHG) emission targets, revised business goals to 2030 aligned to the UN Sustainable Development Goals (SDGs), the Net Zero Acceleration Programme, and the Net Zero Transition Plan.
- In March 2022, SSE published its Net Zero Transition Plan. The Plan clearly sets out for stakeholders the key actions SSE will take to drive progress towards its net zero ambitions and its interim science-based targets aligned to a 1.5°C pathway. SSE will disclose annual progress against this plan through Net Zero Transition Report.

Key mitigations

- Policy Link: SSE Climate Change Policy and SSE Sustainability Policy.
- SSE provides transparent disclosures of its governance around climate-related risks and opportunities to allow its stakeholders to properly assess its performance in managing climate related issues.
- The Group Executive Committee is responsible for implementing the Group strategy set by the Board and driving climate-related performance programmes across the organisation. The Chief Sustainability Officer is responsible for advising the Board, Group Executive Committee and businesses on climate-related matters and provides support in the implementation of relevant initiatives across the Group.
- The TCFD Steering Group, which consists of representatives from Finance, Group Risk and Sustainability conducts an annual review of the outputs of the climate-related risk and opportunity assessment process and assesses the potential financial impact of key risks and opportunities in a fair, balanced and understandable way. This is then reviewed and approved by the Group Risk Committee.
- SSE's approach to Executive Remuneration reflects the role of sustainability and climate-related considerations within SSE's purpose and strategy, with sustainability-linked metrics and targets an element of performance related pay. To date, performance has been assessed against the framework of SSE's 2030 Goals, which the Remuneration Committee is seeking to strengthen through its current Policy review.

Linkage to Strategy:



Aligned to 2030 Goals:



Commodity Prices

What is the risk?

The risk associated with the Group's exposure to fluctuations in both the physical volumes and price of key commodities, including electricity, gas, CO₂ permits, oil and related foreign exchange values.

Oversight

Group Risk Committee

Material influencing factors

- Global geopolitical events.
- Weather-associated seasonal fluctuations in demand, supply and generation capabilities which may not be in line with historical trends, and which may or may not be associated with climate change both in Great Britain and globally. Further detail is available on page 31 of the Strategic Report of the Annual Report and Accounts.
- Generation technology advancements.
- Global and domestic political change.
- European generation outputs and availability.
- International and national agreements on climate change.
- International flows of fuel.
- Fluctuations in foreign exchange values.
- Fluctuations in the global supply and demand of fuel.
- Global economic growth.

Key developments

- Managing the impacts of significant global geopolitical events.
- Managing the impacts of significant fluctuations in commodity prices, foreign exchange values and strong economic demand combined with more extreme weather conditions, has increased electricity demand and strained commodity supply chain resulting in wholesale energy prices reaching an all-time high.

Key mitigations

- Policy Link: An asset-by-asset approach to hedging strategy that ensures trading positions cannot have a material impact on SSE Group earnings. The latest update on SSE's hedging approach can be found in the Financial Review section of the Annual Report and Accounts.
- The Group Energy Markets Exposure Risk Committee has operational oversight of commodity positions; reporting to the Board Energy Markets Risk Committee that has responsibility for monitoring the ongoing effectiveness of Group hedging arrangements. For further details please see pages 162 and 163 of the Directors' Report of the Annual Report and Accounts.
- SSE uses VaR and PaR measures to monitor and control exposures. Trading limits are reviewed regularly by the Energy Markets Risk Committee, with consideration given to changes in the material influencing factors noted above, before being approved by the Board.
- SSE's Energy Economics team provides commodity price forecasts which are used to inform decisions on trading strategy and asset investment.
- SSE utilises hedging instruments to minimise exposure to fluctuations in foreign exchange markets, details of which are available in the Financial Statements section of the Annual Report and Accounts.

Linkage to Strategy:



Aligned to 2030 Goals:



Cyber Security and Resilience

What is the risk?

The risk that key infrastructure, networks or core systems are compromised or are otherwise rendered unavailable.

Oversight

Group Risk Committee

Material influencing factors

- Software or hardware issues, including telecom network, connectivity and power supply interruption.
- Geopolitical events.
- Ineffective operational performance, for example, breach of information security rules or poor management of resilience expertise.
- Employee and contractor understanding and awareness of information security requirements.
- Malicious cyber-attack.

Key developments

- Ensuring resilience of systems and processes associated with divestments as well as international mergers and acquisitions.
- Ensuring the continued security and resilience of Critical National Infrastructure given the heightened threat of malicious cyber-attack, particularly the increased volume and sophistication of ransomware attacks and the heightened threat of cyber-attacks following the Russian invasion of Ukraine.

Key mitigations

- Policy Link: SSE Cyber Security Policy and SSE Data and Information Management Policy.
- Key technology and infrastructure risks are incorporated into the design of systems and are regularly appraised with risk mitigation plans recommended.
- SSE conducts regular internal and third-party testing of the security of its information and operational technology networks and systems.
- Continued strengthening and embedding of the cyber risks and controls framework to continue to identify threats and reduce exposures through, for example, improved use of data analytics and further migration from unsupported systems.
- Significant longer term Security Programme investment and planning which seeks to strengthen the resilience of the systems on which SSE relies.
- IT Service Assurance works with individual Business Units to form and agree appropriate service level agreements for business-critical IT services.
- Business continuity plans are reviewed in response to changes in the threat to the Group and regularly tested.

Linkage to Strategy:



Aligned to 2030 Goals:



Energy Affordability

What is the risk?

The risk that energy customers' ability to meet the costs of providing energy, or their ability to access energy services is limited, giving rise to negative political or regulatory intervention that has an impact on SSE's core regulated Networks and Renewables businesses.

Oversight

Group Executive Committee

Material influencing factors

- Technology changes and innovations to develop sustainable infrastructure and energy solutions.
- Supply chain cost management.
- Public policies, including those aimed at reducing carbon emissions and energy consumption.
- Accessibility to energy and related services for all.
- Increased focus on energy security in response to current geopolitical events.
- Required investment in the upgrading of the UK's energy infrastructure to achieve net zero.
- Political interventions.
- Macro-economic impacts on household and business incomes, including the removal of the energy price cap.
- Fluctuations in the cost of fuels.
- Supplier and customer failures and related bad debt.

Key developments

- SSE remains committed to the supply of affordable and accessible energy in its customer businesses and responsive to the needs of those who count on the safe and reliable running of resilient electricity networks.
- In 2020, SSE Airtricity established a Generation Green Home Upgrade, the first utility company to launch a retrofit solution. In 2021 SSE supported almost 800 customers (including fuel poor customers) to retrofit their homes and improve energy efficiency by bringing the homes up by an average BER of B2.
- Investment in indigenous, low-carbon power sources and greater flexibility will help reduce the amount of imported gas the UK and Ireland needs.

Key mitigations

- Policy Link: SSE Sustainability Policy.
- SSE Airtricity continues to focus on helping customers reduce their carbon output and to save on energy costs. Through partnerships with local authorities, the Sustainable Energy Authority of Ireland (SEAI) and others, SSE Airtricity Energy Services has been delivering large-scale energy efficiency retrofit projects for homes across Ireland.
- Robust stakeholder engagement across Government, regulators and relevant counterparties.
- SSE continues to advocate for progressive policies that will help bring forward necessary investment in low-carbon infrastructure at lowest cost to reduce customers' exposure to gas price volatility and deliver net zero affordability.

Linkage to Strategy:



Aligned to 2030 Goals:



Energy Infrastructure Failure

What is the risk?

The risk of national energy infrastructure failure, whether in respect of assets owned by SSE or those owned by others which SSE relies on, that prevents the Group from meeting its obligations.

Oversight

Group Executive Committee

Material influencing factors

- Severe adverse weather that causes damage or interrupts energy supply or generation.
- Longer term changes in climate patterns cause sustained higher temperatures that may result in lower rainfall and reduced wind impacting renewable generation output.
- Government policy regarding the operation of the energy network which relates to security of supply.
- Failures in any aspect of the Great Britain national critical infrastructure.
- SSE invests in low-carbon infrastructure in support of the transition to net zero.
- Continuing access to the European energy markets and continued inclusion of Northern Ireland in the all-island Single Electricity Market.
- Appropriate asset management and necessary upgrading works of both generation and network assets.
- Malicious attack on the Great Britain energy infrastructure.
- Energy network balancing mechanisms.
- Continued availability of competent personnel.
- Continued availability of key systems.

Key developments

- In November 2021, SSE launched a Net Zero Acceleration Programme to accelerate clean growth and lead the transition to net zero.
- The Net Zero Acceleration Programme is the optimal pathway to value creation. It positions SSE as a national clean energy champion with the scale to contribute around 20% of the UK's revised 50GW offshore wind target and over 20% of upcoming UK electricity networks investment, deploy flexible solutions to keep the lights on, whilst exporting its renewables capabilities overseas.
- With electricity demand expected to more than double by 2050, regulated electricity networks are at the heart of the transition to net zero. SSEN Transmission and SSEN Distribution continue to form a key part of the low-carbon electricity core of SSE. The Net Zero Acceleration Programme could increase total networks Regulated Asset Value (RAV) to between £8bn and £10bn by 2031.

Key mitigations

- Policy Link: Business Unit Asset Management Policies.
- SSE assesses the climate impact on its operations over the short, medium and long term from the perspective of market, policy or regulatory transition risks and opportunities and the physical risks of a changed climate.
- SSE's dedicated Engineering Centre of Excellence reviews and develops plans to ensure the ongoing integrity of its generation assets is maintained.
- Targeted investment plans to ensure the ongoing health and integrity of network assets.
- Crisis management and business continuity plans are in place across the Group. These are tested regularly and are designed for the management of, and recovery from, significant energy infrastructure failure events. Where there are material changes in infrastructure (or the management of it) additional plans are developed.
- SSE continues to be an active participant in national security forums such as the Centre for the Protection of National Infrastructure (CPNI).
- Flexible and reliable power will continue to be required to back up wind and solar generation, ensuring security of supply across the UK. In line with its commitment to a net-zero future, SSE is actively progressing plans to deliver new low-carbon capacity to play this critical role, with CCS and pumped storage hydro projects in development.

Linkage to Strategy:



Aligned to 2030 Goals:





Financial Liabilities

What is the risk?

The risk that funding is not available to meet SSE's financial liabilities, including those relating to its defined benefit pension schemes, as these fall due under both normal and stressed conditions without incurring unacceptable costs or risking damage to its reputation.

Oversight

Group Risk Committee

Material influencing factors

- Ongoing commitment to an investment grade credit rating.
- Global macro-economic changes and subsequent volatility in foreign exchange markets.
- Fluctuations in interest rates and inflation which influence borrowing costs.
- Defined benefit pension scheme performance including the impact of fluctuations in gilt yields on the value of scheme liabilities.
- Counterparty credit limit exposures.

Key developments

- Proceeds in the region of £2.8bn secured against the disposal programme target set in June 2020.
- In May 2021, HMRC awarded SSE a formal Low Risk Rating which remains in place for three years. The Low-Risk Rating was awarded following HMRC review of the risk and control information relating to tax management across the Group.

Key mitigations

- Policy Link: SSE Financial Management Policy.
- Committed borrowings and facilities are always available equal to at least 105% of forecast borrowings over a rolling 6-month period.
- SSE seeks to maintain a diverse and innovative portfolio of debt to avoid over-reliance on any one market. This allows it to build relationships with, and create competition between, debt providers.
- Each of SSE's defined benefit pension schemes has a Board of Trustees which acts independently of the Group.
- The approval of all material counterparty credit limits is a matter reserved for the Board.
- To support the growth of green finance, SSE also has pursued a strategy of issuing green bonds to fund its net zero investment plans. SSE has issued four green bonds, with the total outstanding at £2bn which reaffirms SSE's position as the largest issuer of green bonds in the UK corporate sector.

Linkage to Strategy:



Aligned to 2030 Goals:



Large Capital Projects Management

What is the risk?

The risk that SSE develops and builds major assets that do not realise intended benefits or meet the quality standards required to support economic lives of typically 25 to 60 years within forecast timescales and budgets.

Oversight

Group Large Capital Projects Committee

Material influencing factors

- Appropriate contractual arrangements which meet the requirements of any jurisdiction in which SSE operates.
- New or unproven technology.
- Appropriate and effective budget management.
- All aspects of supply chain management, including those relating to human rights, modern slavery and labour standards as well as supply chain impacts associated with new entities, new assets and a new network structure created by joint ventures and Brexit.
- Availability of competent contractors in any jurisdiction in which SSE operates.

Key developments

- Over 2021/22 SSE undertook a major project to ensure its Large Capital Projects are designed and constructed to enable the journey to net zero. From the 1 of April 2022, a Sustainability Assessment and Action Plan (SAAP) is required for all new or early development projects, ensuring sustainability is incorporated into all phases of major project development, construction and operation. For further details please see the Sustainability Report.
- SSE's Net Zero Acceleration Programme, establishes a five year £12.5b investment plan to deliver the low-carbon energy infrastructure.
- Continued Progress with SSE's flagship projects including Seagreen, Viking, Shetland HVDC link and Dogger Bank.
- Between 2021 and 2026, SSE's Net Zero Acceleration Programme establishes a plan to invest around £4.3bn in onshore and offshore wind projects. In addition, SSE has an important development option for large scale, long duration pumped hydro storage at Corie Glas in the Scottish Highlands.

Key mitigations

- Policy Link: SSE's Large Capital Projects Governance Framework manual ensures that all major capital investment projects for the Group are governed, developed, approved and executed in a consistent and effective manner, with full consideration of best practice project delivery. The manual, which was reviewed in detail during the year, with support from a specialist third party, provides common standards across the Group and incorporates continuous improvement practices.
- The Large Capital Project Services function employs dedicated quality and assurance teams who perform in-depth quality reviews.
- In major projects, SSE generally manages insurance placement by organising owner-controlled insurance. This strategy allows it to have greater control and flexibility over the provisions in place. SSE also sees the insurance market as an important source of information on the reliability of technology and uses this to inform the design process of major projects.
- Appropriate Governance arrangements, including those relating to Joint Venture and Partner Management.

Linkage to Strategy:



Aligned to 2030 Goals:



People and Culture

What is the risk?

The risk that SSE is unable to attract, develop and retain an appropriately skilled, diverse and responsible workforce and leadership team, and maintain a healthy business culture which encourages and supports ethical behaviours and decision-making.

Oversight

Group Executive Committee

Material influencing factors

- Rewarding employee contributions through fair pay and benefits.
- Acquisition of competent skills and resources to support growth plans in international markets.
- SSE embraces cultural diversity in the workplace and recognition of the value and benefit of having an inclusive and diverse workforce.
- A responsible employer ethos. For full details please see the Sustainability Report.
- Clearly defined roles, responsibilities and accountabilities for all employees.
- Availability of career development opportunities and appropriate succession planning that recognises potential future skills shortages.
- Clear personal objectives and communication of the SSE set of values.
- A focus on ethical business conduct and creating a culture in which employees feel confident to speak up when they suspect wrongdoing.
- The health and wellbeing of all employees (see the Sustainability Report for further detail).
- Clear and well-structured employee communications.

Key developments

- SSE has been a Living Wage accredited employer in the UK since 2013 and paid the Living Wage in Ireland since 2016. In March 2021 SSE gained the Living Hours employer accreditation. SSE also continues to be a member of the Living Wage Foundation's Living Hours Steering Group. Further details on page 60 of the Strategic Report of the Annual Report and Accounts.
- During 2021/2022 SSE undertook wide ranging stakeholder engagement on its just transition approach from key stakeholders and through SSE's 2021 all-employee survey. The findings of this survey and the wider engagement with other key stakeholders were used to inform a new report, published in September 2021 which focused on moving from principles to action. This follows on from SSE's Just Transition Strategy, published in November 2020.
- SSE's Just Transition Strategy was the world's first business strategy for a Just Transition to net zero. The new report published in September 2021, outlines SSE's 20 commitments, ten recommendations for industry and ten recommendations for government to support workers transition from high to low-carbon careers. More information on SSE's Just Transition Strategy is available on sse.com.

Key mitigations

- Policy Link: SSE Employment Policy and SSE Whistleblowing Policy.
- SSE has a detailed Inclusion and Diversity plan, progress against which is reviewed and monitored by SSE's Group Executive Committee on a regular basis. Further details are available on pages 64 to 65 and on page 138 of the Directors' report of the Annual Report and Accounts.
- SSE Governance arrangements, including those relating to JV and Partner Management.
- There are a wide range of tools and services available to all employees to support mental health and wellbeing, including those provided as part of the Employee Assistance Programme. Further details on careers.sse.com/employeebenefits.
- "Doing the Right Thing, a guide to ethical business conduct", explicitly outlines the steps employees should take to ensure their day-to-day actions and decisions are consistent both with SSE's values and ethical business principles. SSE employees can report incidents of wrongdoing through both internal and external mechanisms. SSE uses an independent "Speak Up" phone line and email service, hosted externally by SafeCall, through which incidents can be reported.
- SSE's business leaders are required to undertake regular succession planning reviews. At a Group level, SSE continues to develop its approach to the management of talent.

Linkage to Strategy:



Aligned to 2030 Goals:



Politics, Regulation and Compliance

What is the risk?

The risk from changes in obligations arising from operating in markets which are subject to a high degree of regulatory, legislative and political intervention and uncertainty.

Oversight

Group Risk Committee

Material influencing factors

- SSE's most significant contribution is to align with the Paris Agreement goal and aim to achieve net zero greenhouse gas emissions by at least 2050.
- Material changes to regulatory frameworks in any jurisdiction in which SSE operates.
- Government intervention into the structure of the energy sector in any jurisdiction in which SSE operates.
- Constitutional uncertainty in any jurisdiction in which SSE operates.
- Changes in financial, employment, safety and consumer legislation and regulation and the impact of these changes on business-as-usual activities in any jurisdiction in which SSE operates.

Key developments

- In April 2022, the UK Government published the British Energy Security Strategy which builds upon the Prime Minister's Ten Point Plan for a Green Industrial Revolution. SSE is working to deliver the renewables capacity, the network infrastructure, lower carbon thermal generation and energy storage needed to meet the ambition of the paper.
- SSE's Net Zero Transition Plan, published in March 2022, outlines SSE's strategy to develop, build, operate and invest in low-carbon electricity infrastructure for many decades to come whilst maintaining high standards of safety and reliability for energy consumers. More information on SSE's Net Zero Transition Plan is available on sse.com.

Key mitigations

- Policy Link: SSE Political and Regulatory Engagement Policy.
- The Group has dedicated Corporate Affairs, Regulation, Legal and Compliance departments that provide advice, guidance and assurance to each business area regarding the interpretation of political, regulatory and legislative change. These teams take the lead in engagement with regulators, politicians, officials, and other such stakeholders.
- SSE has a clear Political Engagement Policy that sets out principles for any employees who make representations to institutions of governments or to legislatures on the Company's behalf.
- SSE Governance arrangements, including those relating to JV and Partner Management.
- The Group puts in place dedicated project teams to manage all aspects of significant regulatory and legislative change.
- There is regular engagement with the Board and Group Executive Committee on political and regulatory developments which may impact SSE's operations or strategy. Further details are available on page 132 of the Directors' Report of the Annual Report and Accounts.

Linkage to Strategy:



Aligned to 2030 Goals:



Safety and the Environment

What is the risk?

The risk of harm to people, property or the environment from SSE's operations.

Oversight

Group Safety, Health and Environment Committee

Material influencing factors

- Clear and appropriately communicated safety processes.
- Regular and documented training.
- Adverse weather.
- The size, scale, complexity and number of projects under way.
- Challenging geographic locations.
- Appropriate task and asset risk assessment.
- Safety culture – "if it's not safe, we don't do it".
- Clear, effective and regular communications of all relevant safety updates.
- Competent employees and contractors.

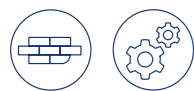
Key developments

- In 2021/22, the Safety, Sustainability, Health and Environment Advisory Committee (SSHEAC) reviewed the Safety, Health and Environment Strategy for the next five years. As part of the SSHEAC review the following focus areas were set out (a) strengthening of controls and assurance; (b) enablers to help people do the right thing; and (c) drive progress with SSE's eight Enduring Goals for safety.
- The remit of the Safety, Sustainability, Health and Environment Advisory Committee (SSHEAC) was expanded in the year to oversee SSE's climate adaptation and resilience plans.

Key mitigations

- Policy Link: SSE Safety and Health Policy and SSE Environment Policy.
- Safety is the Group's No. 1 value with Board oversight being provided by the Safety, Sustainability, Health and Environment Advisory Committee (SSHEAC).
- Crisis management and business continuity plans are in place across the Group. These are tested regularly and are designed for the management of, and recovery from, significant safety and environmental events.
- Each business carries out regular SHE assurance reviews of the risks faced, the controls in place and the monitoring that is undertaken.
- SSE's dedicated Engineering Centre of excellence reviews and develops plans to ensure that the integrity of its generation assets is maintained.

Linkage to Strategy:



Aligned to 2030 Goals:



Speed of Change

What is the risk?

The risk that SSE is unable to keep pace with the speed of change affecting the sector and markets in which it operates and so fails to meet the evolving expectations of its stakeholders or achieve its strategic objectives.

Oversight

Group Executive Committee

Material influencing factors

- Geopolitical events.
- Fast developing customer needs and expectations in relation to efficient, innovative and flexible products and services.
- Technological developments and innovation.
- Net-zero strategic goals.
- Increased competition from market entrants including international oil companies.
- Longer term capital investment plans and budgets.
- The size, scale and number of change programmes underway, including those relating to regulatory or legislative requirements in any jurisdiction in which SSE operates.
- Governance and decision-making frameworks, including those relating to JV and Partner Management.

Key developments

- SSE is spending £7m a day on assets and infrastructure to decarbonise the energy system through the Net Zero Acceleration Programme and actively progressing plans to secure flexible and reliable power generation with CCS and pumped storage hydro projects in development.
- The 2021/22 year marked several significant project milestones for SSE Renewables, including progress made at Seagreen, the world's deepest, fixed bottom wind farm, and offshore construction commencing at Dogger Bank, currently the world's biggest offshore wind farm.
- Plans to export SSE's significant capabilities to overseas markets gained momentum with the acquisition of an 80% interest in an offshore wind development platform in Japan. The new joint ownership company, SSE Pacifico, will pursue the development of offshore wind projects in Japan.

Key mitigations

- Policy Link: SSE Operating Model Policy.
- The Board sets the risk appetite of the Group and approves and regularly reviews the Group's commercial strategy, business development initiatives and long-term options ensuring alignment of risk appetite and strategic objectives.
- SSE's revised Group operating model has been designed to ensure dynamic and efficient decision-making, empowered and accountable delivery of Business Unit strategies and to fulfil SSE's purpose to provide energy needed today while building a better world of energy for tomorrow. Details of SSE's decision making framework are available on page 134 of the Directors Report of the Annual Report and Accounts.
- The Group Executive Committee is responsible for ensuring that Business Unit strategies are consistent and compatible with the overarching Group strategy and its vision to be a leading energy provider in a net zero world.

Linkage to Strategy:



Aligned to 2030 Goals:



Risk Appetite Statement

No business is risk free and indeed the achievement of SSE's strategic objectives necessarily involves taking risk. SSE will however only accept risk where it is consistent with its core purpose, strategy and values; is well understood; can be effectively managed; is in line with stakeholder expectations and offers commensurate reward.

The sectors in which SSE operates continue to be subject to a high degree of political, regulatory and legislative risk as well as risks arising from other developments and change including technology, the impact of competition, stakeholders' evolving expectations and climate change.

Furthermore, each of SSE's Business Units have differing levels of exposure to additional risks. For example, the Transmission and Distribution businesses are largely economically regulated and are characterised by relatively stable, inflation linked cash flows while the SSE Renewables business benefits from cash flows linked to government-mandated renewables subsidies. Those Business Units that generate and trade energy are also exposed to significant medium to long-term energy market and commodity risks in operational and investment decision making.

The key elements of SSE's Strategic Framework – including the focus on regulated energy networks and renewable sources of energy, particularly clean electricity, complemented by flexible thermal generation and business energy sales – and its financial objective in relation to dividend growth are fully reflective of its risk appetite.

Fundamentally:

- SSE's strategy is to create value for shareholders and society in a sustainable way by developing, building, operating and investing in the electricity infrastructure and businesses needed in the transition to net zero.
- SSE has a clear understanding of the risks and opportunities in the Great Britain and Ireland energy markets and these markets therefore continue to provide the Group's geographic focus, with any expansion into new international markets being subject to especially rigorous scrutiny and ensuring that the appropriate governance arrangements which are consistent with the Group's values and strategic goals are in place.
- Safety is SSE's first value and it has no appetite for risks brought on by unsafe actions, nor does it have any appetite for risks brought on by insecure actions including those relating to cyber security. In areas where SSE is exposed to risks for which it has little or no appetite, even though it has implemented high standards of control and mitigation, the nature of these risks mean that they cannot be eliminated completely.

In determining its appetite for specific risks, the Board is guided by three key principles:

1. Risks should be consistent with SSE's core purpose, financial objectives, strategy and values;
2. Risks should only be accepted where relevant approvals have been attained through the Governance Framework to confirm appropriate reward is achievable on the basis of objective evidence and in a manner that is consistent with SSE's purpose, strategy and values; and
3. Risks should be actively controlled and monitored through the appropriate allocation of management and other resources, underpinned by the maintenance of a healthy business culture.

The Board has overall responsibility for determining the nature and extent of the risk it is willing to take to achieve strategic objectives and for ensuring that risks are managed effectively across the Group.

Viability Statement

SSE provides the energy needed today while building a better world of energy for tomorrow. It develops, builds, operates and invests in low-carbon infrastructure in support of the transition to net zero, including onshore and offshore wind, hydro power, electricity transmission and distribution networks, localised flexible energy systems alongside providing energy products and services for businesses and other customers. The delivery of SSE's purpose and execution of its strategy depends on the skills and talent of a diverse workforce, the quality of its assets and the effective identification, understanding and mitigation of risk.

As required within provision 31 of the UK Corporate Governance Code, the Board has formally assessed the prospects of the Company over the next four financial years to the period ending March 2026. The Directors have determined that as this time horizon aligns with the Group's Net Zero Acceleration Programme, which includes a fully funded capital investment programme to 2026, a greater degree of confidence over the forecasting assumptions modelled can be established.

In making this statement the Directors have considered the resilience of the Group taking into account its current position, the Principal Risks facing the Group and the control measures in place to mitigate each of them. In particular the Directors recognise the significance of the strong balance sheet and total undrawn committed lending facilities of £1.5bn – with £1.3bn committed to March 2026 and £0.2bn committed to October 2026. The Group is an owner and operator of critical national infrastructure and has a proven ability to maintain access to capital markets during stressed economic conditions. The Group has demonstrated this through securing £1.2bn of funding since April 2021 including the issuance of a 1bn Euro Hybrid bond in April 2022. Further detail relating to planned funding is available in A6.3 Accompanying Information to the Financial Statements in the Annual Report and Accounts.

The Group has a number of highly attractive and relatively liquid assets – including a regulated asset base which benefits from a strong regulated revenue stream as well as the operational wind portfolio – which provide flexibility of options. This has been demonstrated through the success of the programme of disposals set out by the Group in June 2020 with £2.8bn secured to date.

To help support this Statement, over the course of the year a suite of severe but plausible scenarios has been developed for each of SSE's Principal Risks. These scenarios are based on relevant real life events that have been observed either in the markets within which the Group operates or related markets globally. Examples include critical asset failure resulting in sustained impacts to network assets (for Energy Infrastructure Failure); changes to key government energy policies (for Politics, Regulation and Compliance); and the physical impacts of climate change on distribution assets through more frequent and increasingly severe storm events (for Climate Change).

Scenarios are stress tested against forecast available financial headroom and in addition to considering these in isolation, the Directors also consider the cumulative impact of different combinations of scenarios, including those that individually have the highest impact.

Upon the basis of the analysis undertaken, and on the assumption that the fundamental regulatory and statutory framework of the markets in which the Group operates does not substantively change, and the Group continues to be able to refund its debt at maturity, the Directors have a reasonable expectation that the Group will be able to continue to meet its liabilities as they fall due in the period to March 2026.

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