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# SSE plc Group Risk Report

# 2017

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## Supporting the achievement of SSE's strategic objectives

This supplementary Group Risk Report provides a comprehensive overview of SSE's Risk Framework and its System of Internal Control. Detailed descriptions of each of SSE's ten Group Principal Risks and associated mitigations are included, as is an overview of the Board's annual review of the Group's Principal Risks.

The Executive Committee and its sub-committees have responsibility for overseeing SSE's Principal Risks. During the third quarter of SSE's financial year, a self assessment is completed for each of SSE's Principal Risks by an assigned oversight committee. This assessment requires Committee members to provide commentary on contextual changes in the risk and whether they consider it to have become more or less material during the course of the year. These individual responses are consolidated into a report, one for each Principal Risk. The end reports are then presented back to the Committees,

along with the results of provisional viability testing and analysis of relevant and current Management Information.

Following presentation of the assessment information, the Committees discuss and reach a consensus regarding risk trend (more, less or equally material), overall effectiveness of the risk control and monitoring environment, and whether any additional actions are required to improve the control environment. The outputs from the Committee assessments are then presented to the Executive Committee for full review, with any material changes to

the Group Principal Risks resulting from this being proposed to the Board for approval.

Following the 2016/17 review process, the number of Principal Risks to the Group was increased from nine to ten with the pre-existing "Cyber and Networks Failure" risk being split into two separate risks – **Cyber Security and Resilience and Energy Infrastructure Failure**. In addition, the "Human and Relationship Capital" risk has been expanded and renamed, becoming **People and Culture**.

## About SSE

SSE is the UK's broadest-based energy company. It is involved in the generation, transmission, distribution and supply of electricity; in the production, storage, distribution and supply of gas; and in other energy-related services.

### Wholesale

Energy production, generation and storage

SSE provides energy and related services for customers in wholesale energy markets in Great Britain and Ireland. It delivers this through Energy Portfolio Management (EPM) and Electricity Generation, Gas Production and Gas Storage. Amongst other things, it is the leading generator of electricity from renewable sources across the UK and Ireland.

### Networks

Transmission and distribution of energy

SSE has an ownership interest in energy networks businesses: electricity transmission in the north of Scotland; electricity distribution in the north of Scotland and southern central England; and in gas distribution in Scotland and southern England. These 'regionally defined' businesses are subject to economic regulation by Ofgem.

### Retail

Supply of energy and related services to consumers

SSE supplies electricity, gas and related services such as telecoms, in markets in Great Britain and Ireland. It is focused on attracting and retaining customers through excellent service and a brand people trust. It also incorporates SSE Enterprise, which brings together key SSE services for industrial, commercial and public sector customers.

# System of Internal Control

The various elements which make up SSE's Risk Management Framework are aligned to different levels of its Corporate Governance Framework as shown in the diagram. Outputs from 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.

Within SSE risk is defined as being anything which can threaten the achievement of objectives or compromise the SSESET of values. Together with the Standards and Quality Framework, outputs from the Risk Framework provide the foundation for the work of the teams within the Assurance Framework in providing objective assessments of SSE's control environment.

During the year the Standards and Quality Framework underwent a review, with the number of Group policies being substantially reduced. This is reflected in the diagram which now also encompasses Governance Manuals, including the Large Capital Projects Governance Manual; Safety, Health and the Environment Standards; and the IT Governance Manual. Divisional procedures, processes and systems are now aligned with the Group Policies and Governance Manuals.

In addition the Assurance Framework section of the diagram has been amended to include our Safety, Health and Environment and Large Capital Projects assurance teams.

During the course of the year, enhancements have been made within the following areas of the System of Internal Control :-

## Corporate Governance Framework

Changes brought about following review of the Corporate Governance Framework have been designed to ensure focus on the key components of high quality and effective decision making - clarity, accountability, transparency and efficiency. See page 58 of the Directors Report for further detail.

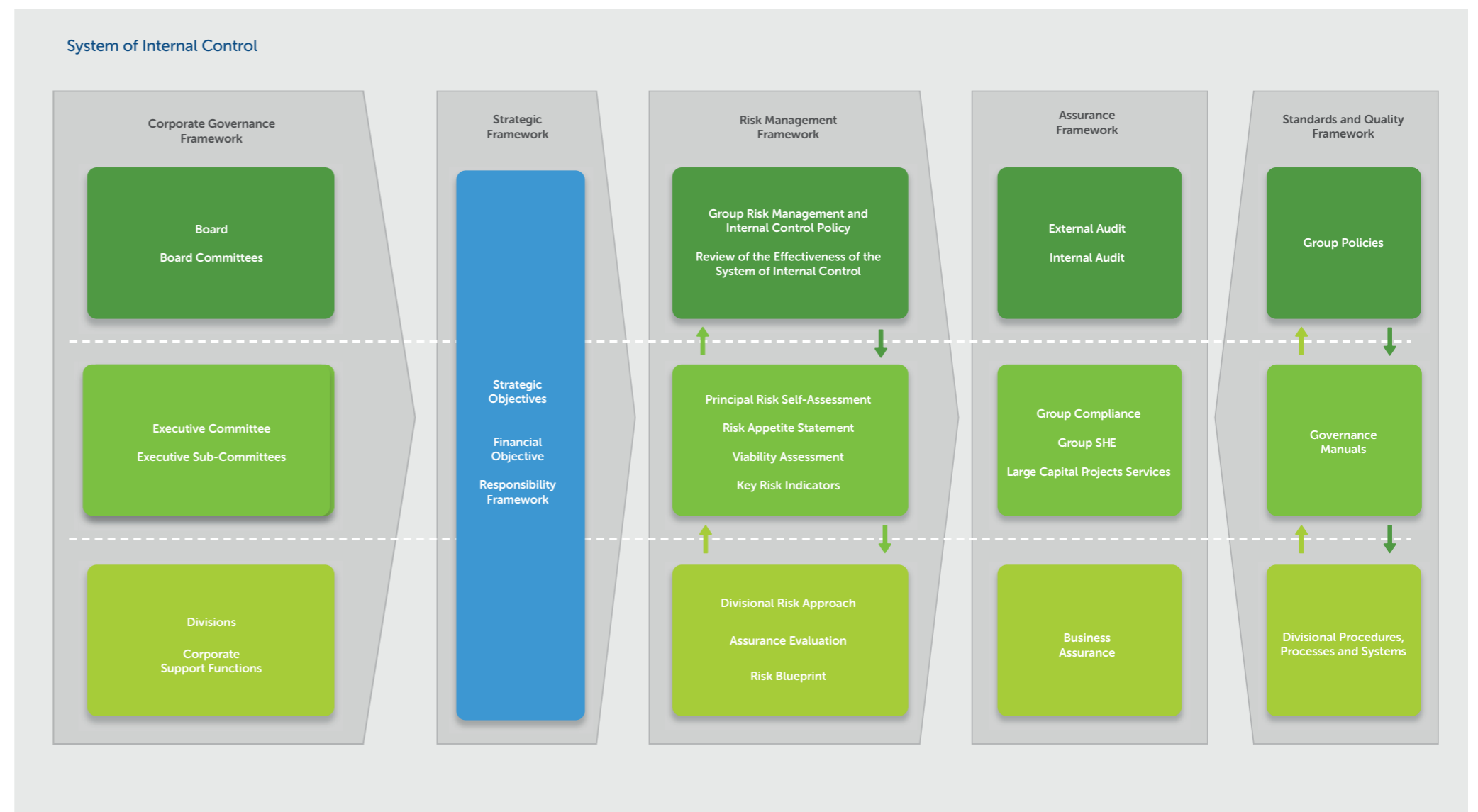
## Strategic Framework

### Responsibility Framework:

In order to reinforce the importance of fostering an appropriate business culture, in 2016/17 SSE published a new Code: "Doing the Right Thing, a guide to ethical business conduct". This is a development from previous guides as it more explicitly outlines what is expected of employees in respect of their day-to-day actions and in ensuring that their decisions are consistent with SSE's values and rules. SSE engaged proactively with the Institute of Business Ethics to ensure that this new Code reflects best practice. The implementation of the Code is ongoing, with issue driven awareness supported by the delivery of appropriate training packages.

## Standards and Quality Framework

A review of Group level policies has been completed, resulting in a significant reduction in the number of central policies. Doing so has promoted better understanding and focus on the core policy areas that matter most to the organisation while also providing a foundation for review and alignment of supporting procedures, processes and work instructions.



# Risk Management Framework

Within SSE, we apply a 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 risks that threaten the achievement of objectives or compromise the SSESET of values which 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"). Relevant information is collated by the Director of Group Risk, Audit and Insurance and presented to the Audit Committee for review and comment.

## Principal Risk Self Assessment

SSE's 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 Executive Committee reviews the

consolidated output of the self-assessment process and additionally considers emerging risks, interconnections between the Principal Risks and potential impacts on Group Viability (pages 6 and 7 provide further details of this). Any proposed changes to SSE's Principal Risks are presented to the Board for approval.

## Risk Appetite Statement

As required by the UK Corporate Governance Code, SSE's Risk Appetite Statement, as defined by the Board, sets out clearly the nature and extent of risk 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 C2.2 of the Code requires the 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 persistently low commodity prices (for "Commodity Prices"); changes to key government energy policies (for "Politics, Regulation & Compliance"); and a major incident that results in the loss of a significant volume of customer data (for "Cyber Security and Resilience").

A formal assessment is carried out to stress test the scenarios that most have the potential to adversely affect SSE's ability to deliver its core purpose of "providing the energy people need in a reliable and sustainable way" against forecast available financial headroom. 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 and those that are most heavily interconnected with SSE's other Principal Risks.

## Key Risk Indicators

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

## Divisional Risk Approach

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

## Assurance Evaluation

The Managing Directors of SSE's four operating divisions carry out annual Assurance Evaluation covering key management areas, including Risk Management. This process provides an opportunity for each MD to identify areas where controls could be improved or where assurance arrangements require to be strengthened.

## Risk Blueprint

SSE's Risk Blueprint is a best practice guide to risk management which 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

SSE operates in fast moving markets that are subject to a high degree of political, regulatory and legislative intervention. It is therefore essential that SSE's Risk Management Framework is dynamic and flexible, allowing decision makers to focus on material risk information that may have an impact, whether positive or negative, on core objectives.

The Board and Executive Committee look for as complete a perspective as possible when assessing the Principal Risks that face the Group. This graphic illustrates SSE's ten Group Principal Risks positioned on a relative basis against two important metrics – **interconnectivity** (a highly interconnected risk has more ways to manifest than a less interconnected risk), and potential **impact on Group viability** based on critical risk scenarios developed in conjunction with business experts.

In addition, the Principal Risks that were considered by their oversight Committees to have increased in materiality during the year are shown in red, with those whose materiality has not significantly changed are shown in blue. No Principal Risk was deemed to have decreased in materiality.



# Commodity Prices

## Oversight:

Wholesale Risk Committee

- Limited level of interconnection with SSE's other Principal Risks

## 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.

## Material influencing factors:

- Weather associated seasonal fluctuations in demand, supply and generation capabilities – which may or may not be in line with historical trends (please see pg. 39 of the Strategic Report for further details) both in GB and across Europe.
- Fluctuations in foreign exchange markets.
- Fluctuations in demand.
- Generation technology advancements.
- Geopolitical events and domestic political change.
- Global economic growth.
- European generation outputs.
- International and national agreements on climate change.

## Key developments in 2016/17:

- Managing increased market volatility related to current geopolitical events including the impact of the UK's decision to leave the EU.

## Key mitigations:

- SSE uses VaR measures to monitor and control exposures. Trading limits are set by the Board and managed through the Wholesale and Retail Risk Committees.
- Commodity positions are assessed on a daily basis by an independent Risk Management team.
- SSE's Energy Economics team provide commodity price forecasts which are used to inform decisions on trading strategy and asset investment.

# Cyber Security and Resilience

## Oversight:

Information Security and Privacy Committee

- Highly interconnected with SSE's other Principal Risks

## What is the risk?

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

## Material influencing factors:

- Software or hardware issues, including telecoms network and connectivity and power supplies.
- Malicious cyber attack.
- 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.

## Key developments in 2016/17:

- The global profile, prevalence and sophistication of malicious cyber-attack is increasing.
- Pending introduction of the General Data Protection Regulation (GDPR) in May 2018.
- Continuously evolving technological environment.

## Key mitigations:

- 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 IT networks and systems.
- Significant longer term Security Programme investment and planning which seeks to strengthen the resilience of the systems on which SSE rely.
- IT Service Assurance works with individual business units to form and agree appropriate service level agreements for business critical IT services.

# Development and Change

**Oversight:**  
Executive Committee

- Moderately interconnected with SSE's other Principal Risks.

## What is the risk?

The risk of failing to recognise and react appropriately to competition, technological advancements and changes in customer expectations within the energy industry.

## Material influencing factors:

- Fast developing customer needs in relation to innovative products and services.
- Climate change and a necessity to generate the energy required in modern society in a responsible and sustainable way. (More detail on SSE's progress in reducing its carbon emissions is available in the 2016/17 Sustainability Report).
- The size, scale and number of change programmes underway, including those relating to regulatory or legislative requirements (eg SMART).
- Longer term capital investment plans and budgets.
- Geopolitical events.
- Governance and decision making frameworks within the Group.

## Key developments in 2016/17:

- An increasingly flexible energy infrastructure network.
- Identifying innovations and cost reductions in renewable technologies as research and development continues apace.
- The roll out of SMART metering as required within SSE's licence conditions.

## Key mitigations:

- 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.
- The Executive Committee is responsible for ensuring that divisional strategies are consistent and compatible with the overarching Group strategy.

# Energy Affordability

**Oversight:**  
Retail Risk Committee

- Moderately interconnected with SSE's other Principal Risks.

## What is the risk?

The risk that the combination of the cost of providing reliable and sustainable energy and the level of customers' incomes means that energy becomes unaffordable to a significant number of SSE's customers. This risk is directly connected to political interventions and commodity price exposure.

## Material influencing factors:

- Fluctuations in the cost of fuels.
- Generation technology changes.
- Macro economic impacts on household and business incomes.
- Supply chain cost management.
- Public policies, including those aimed at reducing carbon emissions and energy consumption.
- Required investment in the upgrading of the UK energy infrastructure.

## Key developments in 2016/17:

- The Competition and Markets Authority issued its final remedies, including the introduction of a price cap for customers on pre payment meters.
- UK voters' decision to leave the European Union gave rise to various assessments of longer-term economic impact, including on households and businesses.

## Key mitigations:

- SSE's Customer Charter sets out the steps it takes to support customers who are having difficulty paying their bills, encouraging early engagement to work together on arrangements that allow payments to be appropriately managed.
- In August 2016, SSE became the first energy supplier in Great Britain to commit to achieving the British Standard for Inclusive Service Provision, which represents the 'gold standard' in recognising and catering for vulnerability.
- SSE has a series of programmes, partnerships, funds and schemes in place to support vulnerable customers, including identifying and referring customers for benefits entitlement checks.

# Energy Infrastructure Failure

**Oversight:**  
Executive Committee

- Moderately interconnected with SSE's other Principal Risks.

## 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.

## Material influencing factors:

- Severe adverse weather that causes damage or interrupts energy supply or generation.
- Appropriate asset management and necessary upgrading works of both generation and network assets.
- Energy network balancing mechanisms.
- Government policy relating to operation of the energy network.
- Failures in any aspect of the GB national critical infrastructure.
- Malicious attack on the GB energy infrastructure.

## Key developments in 2016/17:

- Ongoing efficient investment and the associated risks of upgrading networks assets.
- Monitoring developments across the GB energy infrastructure.

## Key mitigations:

- SSE is an active participant in national security forums such as the Centre for the Protection of National Infrastructure (CPNI).
- SSE's dedicated Engineering Centre of Excellence reviews and develops plans to ensure the ongoing integrity of its generation assets is maintained.
- 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.

# Financial Liabilities

**Oversight:**  
Tax and Treasury Committee

- Limited level of interconnection with SSE's other Principal Risks

## What is the risk?

The risk that funding is not available to meet SSE's financial liabilities, including those 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.

## Material influencing factors:

- Global macro economic changes and subsequent volatility within foreign exchange markets.
- Fluctuations in interest rates and inflation which influence borrowing costs.
- Defined benefit pension scheme investment and performance.
- The impact of fluctuations in gilt yields on the value of defined benefits pension scheme liabilities.

## Key developments in 2016/17:

- Ongoing uncertainty and volatility in the financial markets due to the potential macro economic impacts of the decision to leave the European Union.

## Key mitigations:

- The Group approach is to ensure that committed borrowings and facilities are available at all times equal to at least 105% of forecast borrowings over a rolling 6 month period.
- SSE seeks to maintain a diverse 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.



## Major Projects Quality

### Oversight:

Group Large Capital Projects Governance Committee

- Moderately interconnected with SSE's other Principal Risks.

### What is the risk?

The risk that major assets that SSE builds do not meet the quality standards required to support economic lives of typically 15 to 30 years.

### Material influencing factors:

- Availability of competent contractors.
- Appropriate contractual arrangements.
- New or unproven technology.
- Appropriate and effective budget management.
- Supply chain management.

### Key developments in 2016/17:

- Managing the challenges associated with large capital projects such as the Caithness-Moray high voltage transmission link and the Beatrice Offshore Windfarm.

### Key mitigations:

- The Large Capital Project 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 provides common standards across the Group.
- The Large Capital Projects Services function employs dedicated quality and assurance teams who perform independent quality reviews.
- In major projects, SSE generally manages the 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.

## People and Culture

### Oversight:

Group Governance, Culture and Controls Committee

- Highly interconnected with SSE's other Principal Risks

### 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.

### Material influencing factors:

- Rewarding employee contributions through fair pay and benefits.
- Recognition of the value and benefit of having an inclusive and diverse workforce.
- Clearly defined roles, responsibilities and accountabilities for all employees.
- Availability of career development opportunities.
- Clear personal objectives and communication of the SSESET of values.
- A responsible employment ethos (see our Sustainability Report for more detail).
- A focus on ethical business conduct.

### Key developments in 2016/17:

- Financial Reporting Council publication of Corporate culture and the role of Boards.
- Adoption and publication of a refined set of SSE Group policies.
- Reinforcement of an ethical business culture through publication of a new code: "Doing the Risk Thing, a guide to ethical business conduct". This code explicitly outlines the steps employees should take to ensure their day-to-day actions and decisions are consistent both with SSE's values and rules.

### Key mitigations:

- SSE has a detailed diversity policy and plan which is sponsored by the Executive Committee. The diversity policy ensures that candidates from as wide a talent pool as possible are considered for all relevant vacancies (for more details regarding the progress of these please see our Sustainability Report.)
- The Audit Committee reviews all key accounting judgements made as part of the preparation of the Annual Report and Accounts.
- 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 and strategies to strengthen this.

# Politics, Regulation and Compliance

## Oversight:

Group Governance, Culture and Controls Committee

- Highly interconnected with SSE's other Principal Risks

## 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 or uncertainty.

## Material influencing factors:

- Constitutional uncertainty – for example the potential associated impacts of a second independence referendum in Scotland or the impacts associated with leaving the EU.
- Changes in financial, employment, safety and consumer legislation and regulation and the impact of these changes to business as usual activities.
- Government intervention into the structure of the energy sector.
- Changes to Corporate Governance requirements.
- International and national agreements such as the 2015 Paris Agreement on Climate Change.

## Key developments in 2016/17:

- Completion of the Competition and Markets Authority's investigation into energy markets in Great Britain.
- UK government's continuing focus on energy supply markets on issues including further potential interventions.
- UK government policy evolution in key areas such as carbon price support and the capacity market.

## Key mitigations:

- The Group has dedicated Corporate Affairs, Regulation, Legal and Compliance departments that provide advice, guidance and assurance to each Division regarding the interpretation of political, regulatory and legislative change. These teams take the lead in engagement with regulators, politicians, officials, and other such stakeholders.
- The Group has a dedicated project team to manage all aspects of the regulatory and legislative change impacts of the UK's decision to leave the EU.
- There is regular engagement with the Board and Executive Committee on political and regulatory developments which may impact SSE's operations or strategy.
- SSE has a long term strategy to reduce the carbon intensity of its electricity generation portfolio.

# Safety and the Environment

## Oversight:

Group Safety, Health and Environment Committee

- Moderately interconnected with SSE's other Principal Risks.

## What is the risk?

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

## Material influencing factors:

- Clear and appropriately communicated safety processes.
- Safety culture – "if it isn't safe, don't do it".
- Clear, effective and regular communication of all relevant safety updates.
- Competent employees and contractors.
- Regular and documented training.
- Adverse weather.
- Challenging geographic locations.
- Appropriate task and asset risk assessment.

## Key developments in 2016/17:

- Tackling new safety challenges brought about by decommissioning projects.
- Continued focus on improving contractor safety.

## Key mitigations:

- Safety is the Group's No 1 value and is overseen by the Group Safety, Health and Environment Committee and supported by the Board's Safety Health and Environment Advisory Committee.
- 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.
- SSE's dedicated Engineering Centre of excellence reviews and develops plans to ensure the integrity of its assets is maintained.
- The Group promotes a strong safety culture through the SSESET of values (please see our Sustainability Report for full details).

## Viability Statement

As required within provision C.2.2 of the UK Corporate Governance Code, the Board has assessed the prospects of the Company over the next 3 financial years to the period ending 31 March 2020. The Directors have determined that as this time horizon aligns with the Group's current capital programme and is within the strategy planning period, 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 SSE's strong balance sheet, and committed lending facilities of £1.5bn which could be drawn down in most circumstances.

The Group also 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 was demonstrated in the successful sale during the 16/17 financial year of a 16.7% share of Scotia Gas Networks Ltd.

To help support this Statement, over the course of the year a suite of severe but plausible scenarios has been developed against 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 persistently low commodity prices (for "**Commodity Prices**"); changes to key government energy policies (for "**Politics, Regulation & Compliance**"); and, a major incident that results in the loss of a significant volume of customer data (for "**Cyber Security and Resilience**").

A formal assessment is carried out to stress test the scenarios that most have the potential to adversely affect SSE's ability to deliver its core purpose of "providing the energy people need in a reliable and sustainable way" against forecast available financial headroom. 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 and those that are most heavily interconnected with SSE's other Principal Risks.

Upon the basis of the analysis undertaken, 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 31 March 2020.

## 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 appropriate, well understood, can be effectively managed and offers commensurate reward.

The markets in which SSE operates are inherently subject to a high degree of political, regulatory and legislative risk. Furthermore each of SSE's business divisions has differing levels of exposure to additional risks. For example, the Networks business is largely regulated and is characterised by stable, inflation linked cashflows whereas the Wholesale and Retail businesses are heavily exposed to energy market and commodity risk. Affordability and industry transformation also particularly affect the Retail business while Enterprise is exposed to the risks that come with growth in a highly competitive market place.

The key elements of SSE's strategic framework – including the diversity of energy businesses within the SSE Group described above, as well as its financial objective – are fully reflective of its risk appetite:

- SSE seeks to avoid over-exposure to any single part of the energy sector and therefore maintains a balanced range of economically regulated and market-based energy businesses;
- production, storage, transmission, distribution, supply and related services provide a balanced portfolio of business activities whilst keeping the depth of focus on a single sector – energy; and
- Great Britain and Ireland gives SSE a geographic markets focus and a clear understanding of the risks and opportunities in those markets.

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 strategy, financial objective and core values – safety is SSE's number one value and it has no appetite for risks brought on by unsafe actions;
2. Risks should only be accepted where appropriate reward is achievable on the basis of objective evidence; and
3. Risks should be actively controlled and monitored through the appropriate allocation of management and other resources.

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



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