



Group Risk Report

June 2016

At SSE, our core purpose is to provide the energy people need in a reliable and sustainable way.

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Introduction

This Group Risk Report provides a comprehensive overview of the Risk Framework and the System of Internal Control within SSE as well as detailed descriptions and mitigation information relating to each of the Group's 9 Principal Risks.

Throughout the year SSE has continued to develop its Risk Framework, with a comprehensive Principal Risk Self Assessment process being implemented with the Executive Committee and its sub-committees to replace the risk workshops carried out previously. This process included a full review of the Principal Risks themselves, their context and a mapping and assessment of all relevant risk controls. Scenario impact analysis was considered as part of the review process, as was an assessment of emerging risks.

As a result the number of Principal Risks to the Group has reduced from 10 to 9 with Financial Liabilities representing an amalgamation of the previous Funding Shortfall and Pensions Liabilities risks.

The Principal Risk Self Assessment process will be refined further during 2016/17 and along with other elements, such as the divisional Assurance Evaluation, will become embedded as business as usual activity for SSE's Divisions.

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.



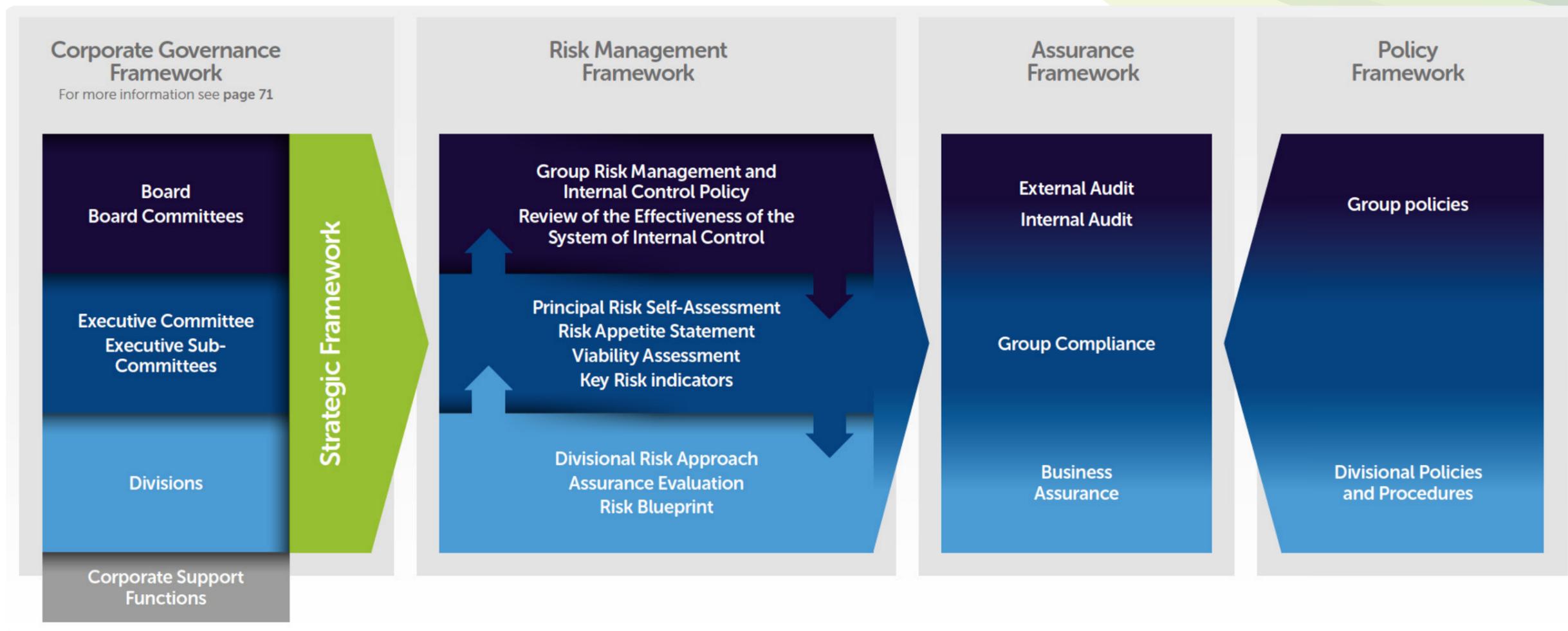
The System of Internal Control

The elements that comprise the Risk Management Framework are aligned to different levels of the Corporate Governance Framework as outlined in the diagram.

Outputs from the Strategic Framework, particularly the Group's objectives and the SSESET of values, form the basis of all activity within the Risk Management Framework.

This provides a focus for the management of risk, defined as anything which can threaten the achievement of objectives or compromise SSE's values.

Together with the Group Policy Framework, outputs from the Risk Framework set the foundation for the work of the teams within the Assurance Framework in providing objective assessments of the control environment.



Risk Management Framework



Group risk management and internal control policy

The policy consists of a clear set of 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 risks. All employees must understand and manage risks that may threaten the achievement of objectives or compromise the SSE's values.
- All decisions must be made with full consideration of the risks involved. This principle is reflected in the Risk Appetite Statement and forms the disciplined approach taken when decisions are being made within the Group.
- 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 annually under the provisions of the Financial Reporting Council UK Corporate Governance Code ("the Code"). Relevant information is collated by the Director of Risk, Audit and Insurance and presented to the Board for review and comment.

Principal risk self assessment

This process includes a review of detailed control maps for each Principal Risk, reviews of the context of each risk and allocates Executive Committee or Executive Sub-Committee ownership and oversight of each Principal Risk. A session with the Executive Committee to identify and discuss emerging risks concludes the process. The output is reviewed and approved by the Board.

Risk appetite statement

The Code requires the Board to determine the nature and extent of risks the Group is willing to take in order to achieve its strategic objectives. The Risk Appetite Statement sets this out clearly and all decisions made should be done so with full consideration of the principles set out within it.

Viability assessment

Provision C 2.2 of the Code requires the Directors to make an annual statement of the longer term viability of the Group. To support this, a Viability Assessment is carried out annually on behalf of the Board by the Group Risk and Corporate Finance Teams.

Key risk indicators

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

Divisional risk approach

The Group Risk Management and Internal Control Policy provides flexibility for each MD to implement a divisional specific risk approach which is tailored to the operational and reporting requirements of their business.

Assurance evaluation

Each Managing Director annually carries out an Assurance Evaluation against key Group Policies, including the Group Risk Management and Internal Control Policy. This process provides an opportunity for each MD to highlight areas where controls could be improved or where assurance arrangements require to be strengthened.

Risk blueprint

This is a best practice guide designed to provide assistance to anyone who requires it within the Group. This guide is reviewed on an annual basis in line with the review of the Group Risk Management and Internal Control Policy.

Group Principal Risks

Commodity prices

Risk owner
Risk and Trading Committee

What is the risk?

SSE is exposed to fluctuations in the physical volume and price of certain commodities including electricity, gas, CO2 emissions permits and oil. The price of these commodities make up a substantial part of the energy cost to the customer and are driven by global supply and demand, itself influenced by a number of complexities including geopolitical events, global economic growth, the weather and technology.

This commodity exposure arises from two main sources and can affect both energy affordability and revenues from production of electricity and gas. Firstly, there is a requirement to match volumes of purchased gas and electricity with customer demand. This exposure is influenced by a number of factors including customer numbers, changes in energy use and the weather. Secondly, exposures arise due to long term investment in generation and E & P assets, driven by the cost of fuel and other commodities required for generation and revenues realised from these assets. The overall shape of SSE's wholesale businesses means it generally benefits from higher commodity prices, although such prices bring other risks (see "Energy Affordability").

The 18 months to 31st March 2016 saw a significant weakening of the oil and gas price in a period in which SSE was committed to a household energy price freeze in Great Britain, putting pressure on the competitive position of its Retail business and returns on E & P and generation asset investments.

A significant proportion of SSE's profitability, including return on investment on electricity generation assets as well as the ability to price competitively in the retail market, is dependent on the successful management of these exposures. Sub-optimal management of the energy portfolio could lead to significant financial loss, a reduction in customer numbers and increased political scrutiny.

Key mitigations

- SSE uses Value at Risk (VaR) measures to monitor and control exposures to commodity price and volume. Trading limits are set by the Board and managed through the Risk and Trading Committee (RTC).
- Commodity positions are assessed on a daily basis by an independent Risk Management team.
- The RTC takes an active role in approving trading and hedging strategies and maintains a framework of individual trader limits, counter-party credit limits and cumulative trading limits.
- SSE has an Energy Economics department which provides commodity price forecasts which are used to inform decisions on trading strategy and asset investment.

Cyber and networks failure

Risk owner
Executive Committee

What is the risk?

SSE is reliant on a number of key IT systems to support ongoing operations and cash flow which are hosted both internally and externally through third party providers. In particular the customer management system, the main energy trading support systems and real-time network management systems are critical. A loss of any of these systems could be caused by malicious cyber-attack (the profile, prevalence and sophistication of which appear to be increasing), software or hardware issues including telecoms network and connectivity and power supply issues to data centres, or poor operational performance.

Unplanned interruption of service or unauthorised access to these systems for any reason could affect the service levels provided to customers, impact the operation of key assets such as the electricity network, or compromise sensitive customer data. Disruptions could also affect availability of management information, divert resource from the business as contingency plans are implemented, and potentially affect a material proportion of the SSE Group's cash flow. As well as causing disruption, any loss of key systems has the potential to severely impact SSE's reputation.

In addition to IT systems, SSE's electricity networks are part of the UK's critical national infrastructure assets, central to the functioning of a modern economy. Ensuring the secure, safe, efficient, reliable and compliant operation of this infrastructure is vital in order to maintain the confidence of regulators, politicians, customers, investors and ultimately to protect SSE's licences to operate.

Key mitigations

- The Information Security and Privacy Committee (ISPC) meets quarterly and works to ensure that suitable technical, process and people security controls are implemented throughout the Group to protect information, intellectual property and the systems these reside on.
- SSE conducts regular internal and third party testing of the security of its IT network and systems.
- SSE is an active member of a number of security forums including the Energy Emergencies Executive Committee Cyber Security Sub Group (E3CC) and the Centre for the Protection of National Infrastructure (CPNI).
- IT Service Assurance works with individual Business Units to form and agree appropriate service level agreements for business critical IT services.
- The Group has crisis management and business continuity plans in place across every division and corporate function, including IT, which are regularly tested. These plans are designed for the management of, and recovery from, any interruption events.
- Key technology and infrastructure risks are incorporated into the design of systems and are regularly appraised by IT and Networks with risk mitigation plans recommended.

Group Principal Risks (cont)

Development and change

Risk owner

Executive Committee

What is the risk?

SSE's strategic focus is the efficient operation of, and investment in, a balanced range of energy businesses in support of annual dividend growth. SSE strives to be a leading provider of energy and related services within an industry where innovation, de-carbonisation and competition are leading to continual technological advancements and changes in customer expectations and options. To continue to achieve this, a number of strategic change programmes are under way. It is vital that SSE successfully delivers these to meet the current and future needs of customers in the most efficient way possible.

In Retail markets, a failure to keep up with fast-developing customer needs and new technologies could adversely affect service levels to customers and reduce SSE's market share. The roll-out of smart metering and the changing needs of the customer require optimum deployment of people, processes and supporting systems.

The Distribution regulatory framework introduced under the RII0 EDI price control requires significant change to approach, processes and standards in the Networks business. A business change programme is now under way to ensure that the strategy, structure and resources are in place to deliver against these demands over the next eight years, and subsequently.

Conditions in the GB generation market remain challenging, particularly in respect of thermal generation. For SSE to be successful, it will be critical to understand and adopt the most efficient, value for money processes and technologies. An inability to do so could pose a threat to SSE's capital investment plans and threaten its position in the market as a leading electricity generator.

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 strategic options. The Board ensures alignment of Risk Appetite and strategy.
- The Executive Committee is responsible for ensuring that divisional strategies are consistent and compatible with the corporate strategy.
- Each year an annual conference is held to communicate Group strategy to company leaders.
- Five year transformation road maps have been developed by each division to ensure that SSE is investing in the capabilities and solutions that deliver the greatest benefit in supporting SSE's core purpose.
- The Transformation Governance Framework provides a consistent process and tool-set to manage change within the organisation from first principles to benefit realisation across the Group.

Energy affordability

Risk owner

Risk and Trading Committee

What is the risk?

SSE is involved in a broad range of energy businesses in the UK and Ireland including production, storage, transmission, distribution, supply of electricity, gas and related services. The decisions SSE takes in operating these contribute to the overall cost of energy to the consumer which in turn is driven by a number of external factors including commodity costs, infrastructure costs and energy sector overheads. Costs can be impacted by public policies aimed at supporting measures for the reduction of carbon emissions and increased efficiency can lead to reduced consumption of energy.

In the lowest income decile group just under 11 per cent of total expenditure is on domestic fuels, compared to just over three per cent in the highest decile group. (Source: Annual Fuel Poverty Statistics Report, 2015, DECC). SSE is equally committed to keeping the cost of energy as affordable as possible, both now and over the long term, as it is to delivering the standard of service required by a modern economy. This means, amongst other things, actively managing the supply chain so that the cost of new investment ultimately represents value for money for bill-payers.

More generally, energy affordability is affected by the impact of the macro-economic environment on household incomes, and negative public opinion with regard to business profitability is likely to increase if energy price rises take place during a period of economic slowdown and downward pressure on household incomes.

Key mitigations

- SSE actively encourages public policy makers to ensure that non-commodity costs associated with energy provision and which make up a significant part of the average bill are allocated fairly.
- 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 an arrangement that allows payments to be sensibly managed.
- The SSE Board approves retail tariff structures recommended by the RTC and approves all long term generation investment decisions to ensure that the Group maintains a diverse portfolio of assets, limiting exposure to any one commodity.

Group Principal Risks (cont)

Financial liabilities

Risk owner

Risk and Trading Committee

What is the risk?

SSE's policy is to ensure that it has at all times funds available to meet its liabilities when these fall due under both normal and stressed conditions, without incurring unacceptable costs or risking damage to its reputation.

SSE maintains a prudent and flexible approach to the financing of its operations and investments, typically funding refinancing and future borrowing by issuing senior bonds and hybrid capital. In addition, it utilises bank borrowings, index-linked loans and private placements. If these sources of funding were unavailable to meet either increases in overall borrowing requirements or to refinance maturing debt it could impact on SSE's ability to meet its commitments. This in turn could force a curtailment of its capital investment programme, adversely impact credit ratings and ultimately affect SSE's ability to trade. Around £1.7bn of medium-to-long term borrowing will mature in the two years to March 2018.

SSE also operates defined benefit pension schemes. At present, in aggregate, there is an actuarial deficit between the current value of the projected liabilities of these schemes and the value of the assets that they hold. The deficit can be affected by a number of factors including asset volatility, changes in gilt yields, fluctuations in interest rates and inflation, and changes in the life expectancy of scheme members.

An increase in the deficit may require SSE to increase the amount of cash contributions payable to these schemes, resulting in a reduction in the amount available to satisfy its other obligations or service future growth.

Key mitigations

- SSE maintains a group of relationship banks who support the Company's financing activities through their ongoing participation in committed lending facilities which currently total £1.5bn.
- 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 six month period.
- SSE seeks to maintain a diversified 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 defined benefit scheme has a Board of Trustees which acts independently of the Group.
- The defined benefit pension schemes each have investment advisors in place who have helped develop road-maps with the aim of the schemes becoming fully funded (i.e. no longer reliant on SSE), within 15 years.

Human and relationship capital

Risk owner

Executive Committee

What is the risk?

SSE's people are its most valuable asset, playing a major part in its continued success through operational efficiency and the delivery of investments that are central to its strategy. The actions of SSE's people influence the relationship it has with its customers as well as the wider reputation of the business, both of which are critical to SSE's differentiation in a competitive market.

SSE promotes an inclusive environment in the workplace, recognising the importance in doing so in the achievement of the Group's strategic objectives. In particular SSE values the differences that a diverse workforce brings to the organisation through the wide ranging knowledge and experience of individuals from all sections of society. Ensuring that recruitment opportunities reach as many potential candidates as possible has become increasingly important due to competition for skilled individuals, both within the energy sector and from other industries. If SSE cannot retain, attract and develop diverse talent and leadership, it will have an adverse impact on both development plans for the business and the continuity of existing operations. Poorly executed knowledge transfer between colleagues, particularly in parts of the business with an ageing demographic, could lead to reduced performance and may threaten SSE's future plans.

Everyone at SSE is expected to comply with legislation, regulation and internal policy, including the SSESET of values, and it is paramount that its people act with integrity at all times. Additionally, in many cases SSE's activities involve being welcomed into customers' homes and afforded a level of trust, something it takes very seriously. The current pace of change in the industry, combined with the inherent complexity of SSE's activities, at the same time makes it increasingly important that its staff strive for continuous improvement and readily question the status quo.

There are certain roles in which misjudged or malicious behaviour could lead to major financial impact or a loss in investor confidence, particularly in energy portfolio management and in passing significant accounting judgements.

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.
- 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, identifying the current depth across the organisation and looking at strategies to enhance this.
- The Audit Committee reviews all key accounting judgements made as part of the preparation of the Annual Report and Accounts.
- SSE has a Whistle-blowing policy which allows anyone, either internal or external; to report any suspicions they may have of wrongdoing. In order to strengthen this control during the year, staff have been given access to an external reporting line through Safecall.
- SSE has strong governance systems in place which minimise potential for malicious activity, including independent monitoring of compliance and trading activity, segregation of duties, and robust hiring and performance management processes.

Group Principal Risks (cont)

Major projects quality

Risk owner

Large Capital Projects Committee

What is the risk?

SSE continues to deliver its capital investment programme with a number of ongoing construction and IT projects nearing completion and its single biggest construction project, the Caithness-Moray high voltage transmission link, now under way.

In line with SSE strategy, it is critical that these projects are delivered efficiently on time and on budget, supported by its Large Capital Projects Governance Framework. SSE needs to ensure that projects are built to a high quality standard as they generally have an economic life of between 15 and 30 years and in many cases longer. They also need to be developed and constructed in a responsible way that respects the concerns of a wide range of stakeholders.

SSE will typically manage the development process and organise the delivery of the project by third party contractors, taking a pro-active oversight role during the construction phase. Whilst this model ensures that the correct skills are leveraged, SSE has experienced supplier failures in the past most notably in terms of quality control. Poor quality can stem from faulty components or poor installation and can be more prevalent where there is increasing commercial pressure to complete a project quickly. Whilst contractual warranties will cover the faulty components, there is often a significant unrecoverable cost associated with these events in addition to potential impacts on the service SSE can provide to customers. Added to this, any quality defects may not show up until sometime after the construction of an asset resulting in an expensive and disruptive process of recovery.

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 drives forward common standards across the Group.
- The Large Capital Projects Services function employs dedicated quality and assurance teams who perform independent quality reviews.
- Robust procurement policies are in place and are well established throughout the Group.
- In major projects, SSE generally manages the insurance placement by organising owner controlled insurance. This 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.

Politics, regulation and compliance

Risk owner

Executive Committee

What is the risk?

The markets in which SSE operates are subject to a high degree of regulatory and legislative intervention at both domestic and EU level, which generally leads to additional compliance requirements. This legal and compliance framework can change explicitly with the introduction of new or revised legislation, or implicitly due to evolving interpretation and legal precedent.

Changes, either explicit or implicit, can lead to additional compliance obligations, reporting requirements, the creation of new products or market structures and can have a significant effect on the profitability of SSE's asset base. Any such changes may require amendments to SSE's policies, procedures and operating practices and any failure to maintain compliance could result in regulatory action, damage SSE's reputation and impact upon its operations. The potential impacts to the Group of the referendum in June 2016 on the UK's continued participation in the EU, for example, have been considered against this risk.

The complexity and pace of change within the energy sector is high; the Competition and Markets Authority investigation into the GB energy market published its provisional decision on remedies in March 2016 with a final report expected before the end of June 2016. Once finalised, the CMA's remedies will need to be designed in detail ahead of implementation by companies. The CMA has also recommended a number of changes to Government and Ofgem which it is hoped will reduce any ongoing ambiguity with regard to the market structure and the regulatory and policy framework which has made sustainable long-term strategy planning more challenging and has impacted investor confidence.

In addition to energy specific measures, SSE must also understand and comply with health and safety, employment, consumer and financial legislation and regulations, amongst others. More generally SSE must seek to maintain and build a reputation as a company that provides good service and makes good investments that create value in a responsible way.

Key mitigations

- The Group has dedicated Corporate Affairs, Regulation, Legal and Compliance departments that provide advice and guidance to each Division regarding the interpretation of political, regulatory and legislative change. These departments take the lead in engagement with regulators, politicians, officials and other such stakeholders.
- There is regular engagement with the Board and Executive Committee on political and regulatory developments which may impact on SSE's operations or strategy.
- The Governance and Disclosure Committee has oversight of regulatory obligations and concerns. It meets quarterly and is responsible for overseeing the systems of governance within SSE to ensure that the objectives of the Company are achieved lawfully, ethically and with appropriate corporate oversight.
- The Group has a dedicated CMA project team to manage all aspects of the energy market investigation. This team works closely with representatives from across the business, ensuring the quick and efficient integration of the investigation's outcome into SSE's operations and strategy.

Group Principal Risks (cont)

Safety and the environment

Risk owner

Safety, Health and Environment Committee

What is the risk?

Safety is SSE's first core value. By the nature of its operations the Group faces a number of significant safety risks. There are particular risks relating to process safety, principally the possibility of a major incident at SSE's hydro, gas storage or exploration and production ("E & P") assets resulting in a severe impact on employees, contractors, members of the public, the environment and property.

SSE has increased its ownership interests in offshore oil and gas exploration and production assets, the operation of which is undertaken by partners who are proven and approved industry operators. SSE's ownership interest means it has a responsibility to ensure a high safety standard is maintained.

SSE's operations are in many cases undertaken in hazardous environments. It constructs, maintains and operates complex assets including hydro dams, power stations and major gas storage facilities. These assets require the storage of a significant volume of water, fuel, oil and chemicals, and any uncontrolled release of these could result in injury to staff, contractors or members of the public and damage to the environment and property.

The foundation of SSE's approach to being a sustainable business is to do no harm - in other words, make sure no harm is done to people or places as a result of its business activities. This means it seeks to do things safely and securely or not at all, protecting the environment and operating in a sustainable way.

Key mitigations

- Safety is the Group's number one value and is overseen by the Safety, Health and Environment Committee and supported by the Board's Safety Health and Environment Advisory Committee.
- For offshore E & P assets where SSE is not the operator, there are a number of assurance measures in place to ensure that the proven and approved operator partners maintain and adopt high standards for their safe management and operation. This includes regular engagement across all aspects of the operation, with an emphasis on safety and technical assurance facilitated by audits and verification using both internal and third party resources.
- SSE's dedicated Engineering Centre of Excellence reviews and develops plans to ensure the integrity of its assets is maintained and is independent of the operations teams.
- 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.

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 March 2019. 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, its Risk Appetite, 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.

Stress tests incorporating severe but plausible scenarios relating to the Principal Risks have been assessed against the forecast cash flow of the business. The scenarios selected were those that most have the potential to affect SSE's ability to deliver its core purpose of providing the energy people need in a reliable and sustainable way.

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 March 2019.

Risk Appetite Statement

No business is risk-free, and indeed the achievement of SSE's goals necessarily involves taking risk. SSE will however only accept risk where it is appropriate, well understood, can be effectively managed and offers commensurate reward.

Each of SSE's business divisions has a distinctly different risk profile. For example, the Networks business is heavily regulated and is characterised by stable, inflation linked cashflows whereas the Wholesale business is heavily exposed to energy market and commodity risk. Affordability, transformation and political risk particularly affect the Retail business, while Enterprise is exposed to the risks that come with rapid growth in a highly competitive market place.

The key elements of SSE's strategy – including the diversity of energy businesses within the SSE Group described above, as well as its financial framework – 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 that it has little or no appetite for, although 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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