Overview of the year

Financial highlights

In the face of exceptional macro-economic conditions, SSE saw strong financial performance in 2021/22 thanks to its resilient business model, solid operational delivery and good progress on its strategy.

More on page 82

Operating profit

£1,536.8m

Adjusted

£3,755.4m

Reported

Profit before tax

£1,164.0m

Adjusted

£3,482.2m

Reported

Earnings per share

95.4p

Adjusted

241.6p

Reported

Adjusted investment and capex

£2,073.7m

(after refunds, including acquisitions)

Dividend

85.7p

Non-financial highlights

Safety (TRIR) per 100,000 hours worked

0.17

Economic contribution UK/ROI

£5.8bn/ €438m

The Net Zero Acceleration Programme p4

SSE is leading the way on decarbonisation of the energy system through its fully-funded £12.5bn investment plans to 2026 and ambitious business targets aligned to a 1.5°C global warming pathway.

Our strategy in action p22

Through record levels of investment, timely delivery of project milestones, expanding the development pipeline overseas, building networks fit for net zero and pioneering transitional lower-carbon technologies in thermal generation, SSE is making strides in delivery of its strategy.

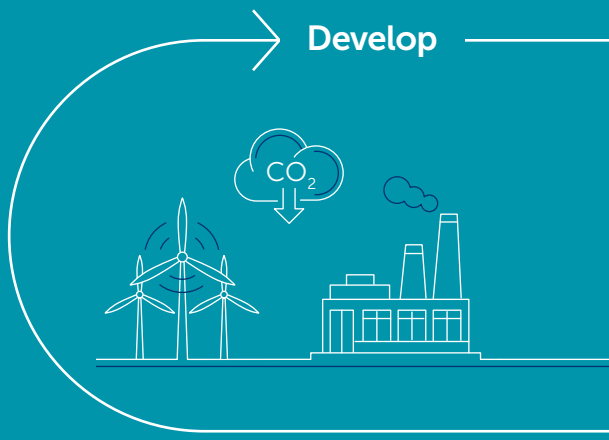
Our strategy

OUR PURPOSE

To provide energy needed today while building a better world of energy for tomorrow.

OUR STRATEGY

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.



OUR GOALS

With an eye to net zero, in 2022 SSE revised its interim goals aligned to the UN's SDGs for 2030.

More on pages 18 and 19

SUSTAINABLE DEVELOPMENT GOALS

Cut carbon intensity by 80%

13 CLIMATE ACTION

OUR VALUES

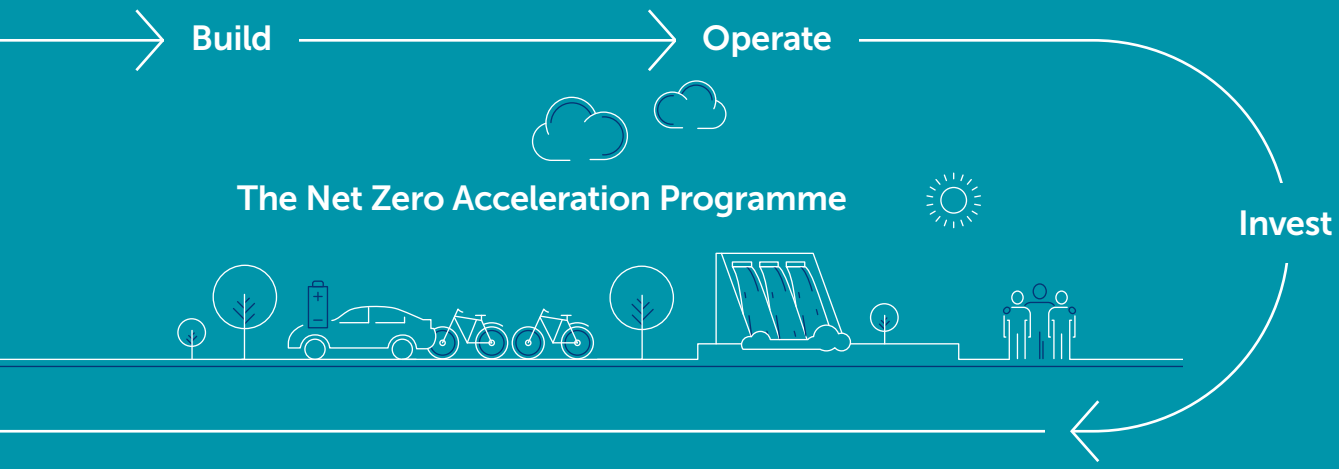
All of this is underpinned by a set of core values designed to guide decisions and actions in SSE.

Safety
If it's not safe, we don't do it.

Service
We are a company that customers can rely on.

OUR VISION

To be a leading energy company in a net zero world.



Increase renewable energy output fivefold

Enable low-carbon generation and demand

Champion a fair and just energy transition

Efficiency
We focus on what matters.

Sustainability
We do things responsibly to add long-term value.

Excellence
We continually improve the way we do things.

Teamwork
We work together, respect each other and make a difference.

Our strategy continued

SSE's Net Zero Acceleration Programme

A combination of confidence derived from strong delivery in 2021/22, rising inflation, higher commodity price expectations and the value-creation potential of flexible generation assets has led to an upgrading of SSE's adjusted EPS CAGR forecast to 2026.

A fully-funded plan to 2026

In November 2021, SSE announced its Net Zero Acceleration Programme to add impetus to decarbonisation of the energy system and consolidate its standing as a national clean energy champion in both the UK and Ireland.

Central to the Net Zero Acceleration Programme are a fully-funded £12.5bn capital expenditure plan to 2026 focused on low-carbon electricity assets and infrastructure, and ambitious 2031 targets aligned to a 1.5°C global warming pathway.

Events in the months since November 2021 have underscored SSE's belief that its net zero focused strategy, delivered by a balanced mix of market-based and economically-regulated businesses, offers the optimal route to sustainable growth for the Group and value creation for all stakeholders.

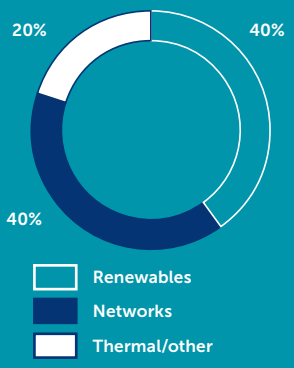
Planned investment

£12.5bn

7-10%

Adjusted EPS CAGR growth projected by March 2026 from 2020/21 baseline of 87.5p

Capital allocation



+5%

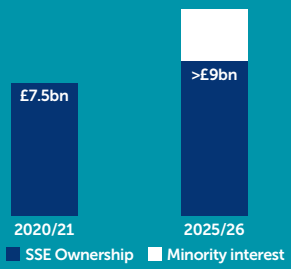
Rebased dividend at 60p from 2023/24 to grow at least 5% p.a. to March 2026

A growth-focused dividend policy

SSE's Net Zero Acceleration Programme called for a dividend plan aligned to an ambitious new growth profile. Accordingly, after meeting its existing commitment to target RPI increases to 2022/23, it will rebase the dividend to 60p in 2023/24 before targeting at least 5% increases in 2024/25 and 2025/26.

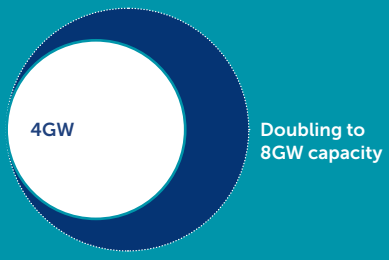
>10%

Networks RAV growth of +10% gross CAGR



+100%

renewables capacity growth, delivering 4GW addition to 8GW net



Ambitions to 2031 and beyond

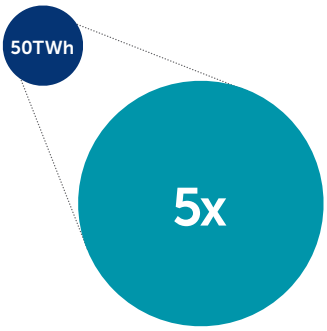
In support of SSE's acceleration to net zero, ambitious business growth targets have been set for renewables and networks (see right) and medium- and long-term climate goals have been revised (see below) to align to the power sector's global warming criteria of...

1.5°C

More on pages 18 to 19

5x

increase in renewables output to 50Twh p.a. plus maintaining a 15GW pipeline with 1GW net additions annually



>£14bn

Total networks RAV by 2031

Total networks RAV

A net zero roadmap to 2050

Short-term investment cycle

- Fully-funded £12.5bn capex to 2026 at the heart of SSE's Net Zero Acceleration Programme.
- Growth-focused plan will account for around 20% of the UK's revised 50GW offshore wind target and 20% of UK electricity networks investment.

5-YEAR

Medium-term targets

New, interim science-based climate goals to 2030:

- Cut carbon intensity by 80%;
- Increase renewable energy output fivefold;
- Enable low-carbon generation and demand;
- Champion a fair and just energy transition.

10-YEAR

Long-term transition plan

Commitment to achieving net zero greenhouse gas (GHG) emissions across all SSE operations by 2050 at the latest, covering scope 1, 2 and 3 GHG emissions.

30-YEAR

Chair's introduction

Fulfilling SSE's potential

2021/22 was marked by extreme weather events, the ongoing impacts of the pandemic, and most recently the invasion of Ukraine. These combined to create extraordinary energy market volatility, security of supply concerns, affordability challenges, operational complexities and financial distress in the value chain. Through it all SSE delivered on its purpose and demonstrated resilience and growth potential – continuing to establish the Group as a clean energy champion in the UK and Ireland.

Within this report, we aim for high standards of disclosure to help our stakeholders understand how we create value and fulfil our social contract. As part of that, we set out how my fellow Directors and I have exercised our duties under Section 172 of the Companies Act to promote the long-term success of the Company with consideration to the views of all stakeholders.

For SSE, that means being a purpose-led company that seeks profitable solutions to the problems faced by people and our planet – and we were tested on both fronts during 2021/22.

Resilience through turbulence

It was a year which highlighted the distinct but interrelated challenges facing the energy sector. First, the climate crisis was strongly in focus as the UK hosted COP26 where SSE was a proud Principal Partner. Soon afterwards, concerns over affordability and the cost of living intensified with Ofgem announcing a significant increase to the level of the energy price cap in Great Britain, and prices also increasing in Ireland, reflecting soaring wholesale gas prices. And, latterly, energy security has been in sharp focus as the world responds to Russia's deeply concerning aggression in Ukraine.

Operationally there have also been challenges, with an ever-changing outlook on the coronavirus pandemic, market volatility and extreme weather events. Throughout all this the Company has shown resilience, responsiveness, and continued strong performance that is described in the following pages.

On behalf of the Board, I would like to thank all of SSE's c.11,000 employees, whether working in the field, in offices or, indeed, at home, for their efforts over this challenging year in ensuring SSE fulfilled its purpose of providing energy needed today while building a better world of energy for tomorrow.

£7m

The approximate amount being invested daily by SSE as part of the Net Zero Acceleration Programme

Strategic evolution

The transition to net zero will require accelerating investments in the kind of low-carbon assets and infrastructure which already form the core of our business. The operating context is moving quickly as the requirements of net zero come into focus, and competitors and governments move fast to position themselves for success. A desire to strengthen energy security in many countries of the world in light of recent events accelerates this further and creates even greater potential for investment and growth in electrification and renewable energy. Against such a challenging and fast-moving backdrop, having a clear

"In the context of the climate emergency, it is vital that we align our activities with a pathway consistent with limiting global warming to 1.5°C, and to recognised global frameworks. For that reason, we are proud to have enhanced our 2030 goals this year, which are aligned with the UN's Sustainable Development Goals."

purpose is vital in guiding decision-making and this was central for the Board as we carried out the strategic review that culminated in SSE's Net Zero Acceleration Programme, published in November.

Over a period of several months, we undertook a comprehensive process to identify the strategic response to this changing environment that would enable SSE to fulfil its potential and optimise value for shareholders and society. Recent events in Ukraine have served to strengthen and reinforce the conclusions.

We have continued to reshape the Group, divesting our investments in gas production and gas distribution, while focusing and accelerating investments into renewables, including international opportunities. We see substantial investments required to build networks for net zero, flexible generation and storage technologies including pumped hydro storage, solar and batteries. And we see increased opportunities for lower-carbon thermal generation as part of the energy mix. SSE has options in every part of the net zero electricity infrastructure value chain.

These are all growth businesses and the potential in new geographies is significant as we have seen through our recent expansion into the Japanese offshore and Southern European onshore wind markets. There is more to come as we continue to evolve, but our Net Zero Acceleration Programme means we have a clear, fully-funded plan that will create real value over the next five years and set us up for further growth later in the decade.

The landscape will continue to change at pace and we therefore view the Net Zero Acceleration Programme as the beginning, not the end, of our strategic evolution.

Holding ourselves accountable

In the context of the climate emergency, it is vital that we align our activities with a pathway consistent with limiting global warming to 1.5°C, and to recognised global frameworks. For that reason, we are proud to have enhanced our 2030 Goals this year, which are aligned with the UN's Sustainable Development Goals.

But it is also paramount that our shareholders' views are heard on our progress towards net zero. We published our Net Zero Transition Plan in March and now we have to progress it. We recognise that there is a long way to go and we don't yet have all the answers; but the plan gives our best current view and, critically, is open about the challenges to enable constructive debate. We look forward to receiving shareholder feedback ahead of the AGM in July.

A big part of holding ourselves accountable is taking a leadership position on disclosure. We adopted TCFD reporting ahead of time on a voluntary basis back in 2018 and will continue to be proactive in our reporting. This Strategic Report builds on the work done in recent years to maximise the transparency of our stakeholder interactions and delivery of our social contract.

A critical stakeholder group is SSE's employees, and the Board continued to engage regularly with them through the year. I've been struck by the strength of SSE's culture, and it is clearly an important factor in the Company's resilience to the challenges that have been posed in the recent past. We remain determined to become an even more diverse and inclusive company and more details on our efforts in that respect are set out later in this report.

Looking ahead

It is clear that global ambition for a clean energy transition that can deliver net zero while bolstering energy security and maintaining affordable prices will only intensify. SSE sits at the heart of that set of challenges, and our portfolio is fully aligned with the opportunities which will emerge. We will remain agile and focused on value creation within that context, and we will meet our purpose of providing energy needed today while building a better world of energy for tomorrow.

To close, I can confirm that this Strategic Report and the associated Section 172 Statement on page 110 have been approved by the Board in line with the Companies Act 2006.

Sir John Manzoni
Chair, SSE plc
24 May 2022

SSE's culture, and the people who underpin it such these apprentices at Peterhead power station, are the key to the Group's ongoing success.

Chief Executive's review

Leading the way to net zero

Having led the refocusing of SSE's strategy and from his leadership position in its execution, SSE's Chief Executive, Alistair Phillips-Davies, looks back on an exceptional year of delivery and ahead to a decade of growth to come.

The pages of this report tell a story of operational delivery and financial performance that reflects the strides we are making in execution of our strategy and the value we are creating for shareholders and society. We are putting the investment plans within our Net Zero Acceleration Programme to work, pursuing growth options and spending nearly £7m a day on the clean electricity infrastructure that is so important to tackling climate change.

Progress made in 2021/22 gives us confidence in our strategic direction and optimism about meeting the ambitious new 2030 Goals set out on pages 18 and 19. But the year had challenges too: it presented us with uncertainty and day-to-day restrictions brought by the coronavirus outbreak, a post-pandemic energy crisis exacerbated by war in Europe and exceptional weather events that tested the resilience of our electricity distribution networks.

The right people

Through it all SSE's direct employees and contractors have stuck to the task of providing energy needed today while building a better world of energy for tomorrow. With the rest of the executive team, I'm immensely proud of the way our colleagues have responded and very grateful for what they have achieved.

Keeping those people out of harm's way remains our number one priority and we go into 2022/23 with a renewed focus on safety and wellbeing after a year of increased operational activity unfortunately saw 14 more injuries than in 2020/21.

Our skilled and increasingly diverse c.11,000-strong workforce is central to our success and as we grow we need even more people. We will be creating 1,000 new jobs a year on average over the course of our five-year capex plan. These are critical, high-quality jobs in regional areas, in many cases transitioning skilled people from high-carbon to low-carbon roles.

We have the right management too, with business leaders who are the best in their fields, including new, highly-experienced managing directors bringing renewed delivery impetus to SSE Renewables and SSE Thermal.

The right business mix

Once again a resilient mix of market-based and economically-regulated businesses shielded the Group against the worst of the shocks reverberating through the economy.

SSE's business model is based around the assets and capabilities required for the global transition to an electrified, net zero system. This is the result of the highly successful disposals programme and targeted investments which have created a group with the capabilities and projects to create value right across the clean electricity value chain. SSE is an ESG-aligned growth investment opportunity; with an attractive blend of regulated and market-based income streams across a very deliberately chosen, integrated mix of businesses

Through these businesses, we continued to work on long-term solutions to problems faced by the sector that have been brought into stark relief by geopolitical events. As policymakers are seeking to break the link between global energy markets and the cost of living, our investment in indigenous, lower-carbon power sources and greater flexibility is decarbonising the energy system, reducing dependence on imported gas and supporting a just transition to net zero.

In a year of strategic delivery high points, it was perhaps fitting that it closed with the completion of our SGN stake sale, marking

the end of a disposals programme that helped us refocus the Group to better deliver on our purpose.

It was against this backdrop that we were able to engage actively from our leadership position as a national clean energy champion at the COP26 summit in Glasgow. We came away from the event with the firm conviction that our strategy is the right one for meeting the challenges of holding global warming to a 1.5°C pathway and creating opportunities for sustainable growth.

Realising Renewables' ambition

Some of those opportunities are in markets abroad and, as described on page 25, SSE Renewables' ambitions are taking shape in Japan, the US, and most recently in Southern Europe where we are securing a foothold with the acquisition of Siemens Gamesa Renewable Energy's development platform which includes 3.9GW of onshore wind and 1GW of solar and batteries.

Closer to home, our joint ScotWind seabed auction bid with partners Marubeni and CIP succeeded in winning our preferred site and took SSE's secured pipeline to 11GW. And in projects under construction, progress is being made on Dogger Bank, Seagreen and Viking wind farms.

This progress supports our plans for a doubling of net renewables installed capacity to 8GW up to 2026. And this is the platform for targets including a fivefold increase in renewables output to 50TWh, and maintaining a sustained renewables pipeline in excess of 15GW by 2031.

Networks fit for net zero

Connecting ScotWind will sharpen an already steep growth trajectory for SSEN Transmission. Based on the System Operator's forecasts, which are likely to be revised upwards, connected generation in SSEN Transmission's licence area could increase from 8GW today to 25GW by 2030, and we forecast gross RAV to reach around £12bn over a similar timeframe. Unlocking the renewables upon which government net zero targets in the UK depend is at the heart of a RIIO-T2 business plan that SSEN Transmission is already delivering on.

In our electricity distribution business, strategic planning around network resilience was drawn on heavily in the year in the response to six exceptional weather events in 12 weeks. The scale of the storm damage inspired heroic efforts from SSEN Distribution's employees. In response to the storms around 2,500 people across operational and welfare teams worked tirelessly to safely reconnect 435,000 affected households and businesses and provide support to affected communities.

Our economically-regulated electricity networks have evolved into powerful vehicles for growth. The RIIO-T2 and RIIO-ED2 business plans have huge capex requirements and our plans for bringing in financial partners will enable us to maximise growth not only in the distribution and transmission businesses, but across the wider Group.

Flexibility for the future

The transition to a decarbonised energy system, with renewables at its core, connected to consumers via technologically advanced networks, will also require flexible plant, lower-carbon thermal generation and energy storage.

SSE's development pipeline includes critical flexibility offered by Coire Glas, the UK's largest pumped hydro storage project. Keadby 2 CCGT will displace less efficient plant and has potential for hydrogen blending. Further growth will come for SSE Thermal with planned CCS plants at Keadby and Peterhead which, together, could capture up to 3m tonnes of CO_2 a year – 10% of the UK Government's 2030 target – and play an important balancing role. Plans are also progressing for a Keadby hydrogen plant and a potential large-scale hydrogen storage facility at Aldbrough.

SSE's Net Zero Acceleration Programme is the framework behind the strategic progress described above and it forms the foundations of a decade of unprecedented growth. Assuming a continued supportive policy environment, our net investment into vital UK and Ireland infrastructure could exceed £25bn over the next 10 years, creating jobs and addressing the energy crisis. Our immediate task is to fully optimise the opportunities that arise from net zero, using our world-class capabilities, assets and businesses to fulfil the responsibility we have for creating shareholder and societal value over the long term.

Alistair Phillips-Davies
Chief Executive
24 May 2022

"Our net investment into vital UK and Ireland infrastructure could exceed £25bn over the next 10 years, creating jobs and addressing the energy crisis."

Alistair meets the project team at Keadby 2, Europe's most efficient CCGT, which will displace older, more carbon intensive power plant off the UK energy system.

15GW

SSE's target for a sustained renewables development pipeline by 2031

About our business

Contributing across the energy value chain

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.

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

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 lower-carbon flexible generation for the future and supporting security of supply with gas storage

Economically regulated

Strategic capabilities and opportunities

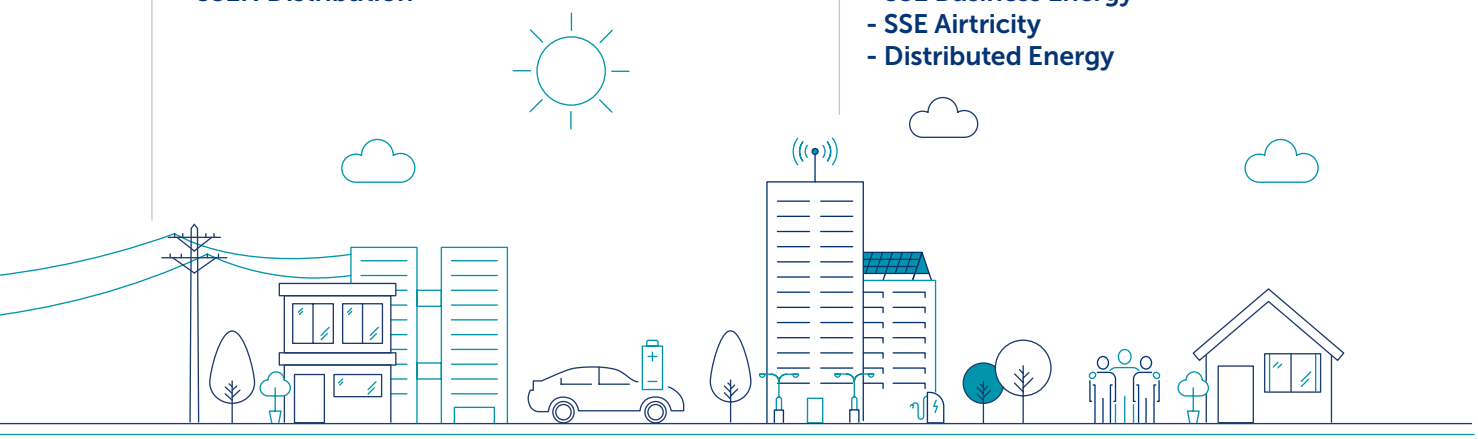
- Solid, index-linked returns with revenues and RAV linked to CPIH/RPI
- Market-leading growth in transmission through connecting renewables and network reinforcements
- Proven expertise in large-scale capital project management
- Ability to deploy innovation and technology at scale in support of net zero ambitions

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.

Providing energy solutions

- SSEN Distribution

- SSE Business Energy
- SSE Airtricity
- Distributed Energy



Market based

Strategic capabilities and opportunities

Extensive experience in regulatory and wider societal engagement	Market-based revenue streams
Increased consumer demand and electrification requiring distribution investment response	The Group's shopfront for green energy solutions
Provides financial strength and stability to the Group	Route to market for green PPAs
Offers funding opportunities through equity partnering	Provides natural hedge for generation output
	Net zero aligned distributed energy solutions and battery and solar technologies

Our business model

Creating long-term value for stakeholders and wider society

Who and what we rely on

Our six key stakeholder groups

Employees
SSE's strategy and success are dependent on the shared talent, diversity, innovation and values of the people it employs.

Number of direct employees
c.11k

Shareholders and debt providers
SSE must be well-financed, with the ability to remunerate shareholders for their investment, secure debt at competitive rates and grow the business.

Market cap
£18.6bn
at 31 March 2022

Energy customers
Consumers create demand for the energy and services SSE provides and set the tone for our purpose.

Networks and supply customers
£4.98m

Government and regulators
SSE relies on policy frameworks and public services that support investment in critical national infrastructure, are fair on customers and maintain the momentum behind net zero.

Investment in infrastructure (capex)
£2.1bn

NGOs, communities, society
SSE needs the support of the communities it works in and the backing of civil society in pursuit of a just transition to net zero.

Investment in communities
£11.2m

Suppliers, contractors, partners
SSE relies on a healthy supply chain and works with partners whose capabilities offer synergies for innovative project development and efficient ownership structures.

Suppliers on strategic relationship management programme
34

More on page 32

Natural resources

From wind and water used to produce energy, to materials used to build energy infrastructure, natural resources are essential to SSE's value creation.

Science-based carbon targets aligned to
1.5°C
See pages 56 to 57.

How we do it

Develop

- SSE identifies the need for new electricity infrastructure in domestic and overseas markets, then works with like-minded partners to deploy proven and innovative technologies to grow its development pipeline for the benefit of all stakeholders. It uses its competitive advantage and experience in navigating regulatory and planning processes to secure quality development sites and required permissions.

Build

- SSE draws on a rich heritage in the construction of large capital projects. It has a reputation for delivering quality, world-class assets on time and on budget and is currently building more offshore wind than anyone else in the world. With its partners, SSE is using technology on construction projects that support the transition to net zero and reduce costs to consumers over the long-term.

Operate

- SSE operates assets in a responsive and responsible way that meets the needs of energy users. It invests in asset resilience and holds a robust commitment to the safety and wellbeing of the people and environments impacted by its activities. SSE also strives for efficiency to maximise shareholder return through operational excellence and the implementation of innovation, learning and technology.

Invest

- SSE invests in low-carbon infrastructure through its £12.5bn five-year investment and capital expenditure plan. This plan, which is central to SSE's Net Zero Acceleration Programme, is fully funded and underpinned in part by financial partnering to unlock value and debt secured at efficient rates to optimise growth. SSE exercises capital discipline to invest only where returns are expected to be greater than the cost of capital.

Why we do it

- SSE holds a leadership position in efforts to decarbonise the energy system. As a critical service provider it has a responsibility to develop sustainable infrastructure and energy solutions. SSE also has a proven track record in optimising the developer premium that comes with a world class reputation for delivery, taking opportunities to realise value at key stages of projects for the benefit of shareholders. By crystallising value in this way, SSE does not always wholly own projects on completion but it does retain a solid asset base to support future earnings.

- SSE takes seriously its responsibility as a national clean energy champion and understands its role in providing the renewables capacity, the electricity networks and the flexible, balancing thermal generation that will be required if the energy system is to be successfully decarbonised. SSE also seeks to fulfil its social contract with the communities it works in. It supports local supply chains and is taking a leadership position to address the impact of change in the industry, publishing the world's first business strategy for a just transition to net zero.

- The ongoing operation of SSE's assets is critical to supporting security of supply in the UK and Ireland. And while SSE's focus has largely shifted to the provision of large infrastructure, it has not lost sight of the cost pressures felt by energy users. It 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. With this in mind, SSE promotes a culture of continuous improvement and active stakeholder engagement to provide quality customer service.

- SSE invests to fulfil its core purpose of providing energy needed today while building a better world of energy for tomorrow. Investing for growth supports the Board's endeavours to promote the long-term success of the Company and enables SSE to remunerate shareholders. SSE also recognises the wider societal benefit that comes from careful investment. It enables SSE to fulfil its responsibility as a provider of critical national infrastructure, it creates quality jobs and makes a significant contribution to GDP growth through the payment of the right amount of tax in the right place at the right time.

The value we create

Employees
Number of roles advertised

3,195

Internal and external roles. SSE expects to create 1,000 new jobs a year up to 2026.

Shareholders and debt providers
Dividend

85.7p

SSE has a clear dividend policy and growth opportunities to support long-term shareholder value.

Energy customers
SSE Airtricity Net Promoter Score

36%

Widely-used market research metric applied to domestic customers across the island of Ireland.

Government and regulators
Taxes paid UK/Ireland

£335m/€46m

NGOs, communities, society
Community projects supported

1,078

Covering renewables and networks projects.

Suppliers, contractors, partners
Economic contribution UK/Ireland

£5.8bn/€438m

PwC analysis of SSE's contribution to GDP.

Natural resources
Scope 1 and 2 emissions cuts

18%

SSE is targeting a 72.5% reduction in scope 1 and 2 GHG emissions between 2017 and 2030.

Our business explained

Optimal business mix for growth and value creation

RENEWABLES

SSE Renewables

Develops, builds, operates and invests in assets that generate electricity from renewable sources.

Who it does it for
For electricity customers across the GB and Ireland markets, who are increasingly seeking lower-carbon sources of energy.

How it supports net zero
Develops and generates zero-carbon electricity at large scale from onshore and offshore wind farms and provides clean flexible power from hydro schemes.

How it is remunerated
Through the wholesale energy market, ancillary services market, Capacity Market, Balancing Mechanism revenue from hydro output, power purchase agreements, and government support schemes for renewable energy.

2.5x
more capital allocated to growing SSE Renewables compared to the previous capex plans

50TWh
is the targeted fivefold increase in renewables output to 2031

More on page 100

NETWORKS

SSEN Transmission

Owns, operates and maintains the electricity transmission network in the North of Scotland.

Who it does it for

Electricity generators, large electricity demand customers and ultimately all electricity customers across GB.

How it supports net zero

Connecting sources of renewable electricity generation to the national grid and transporting that clean electricity to areas of demand.

How it is remunerated

Through economically regulated returns that are recovered from electricity generators and customers and potentially enhanced through efficient delivery.

More on page 96

SSEN Distribution

Owns, operates and maintains the electricity distribution networks in the North of Scotland and central southern England.

Who it does it for

For the homes, businesses, generators and service providers that are connected to, or are seeking a connection to, its distribution networks and electricity customers in its operating areas.

How it supports net zero

Through the timely connection of local renewables and the co-ordinated delivery of network investment and flexible solutions to alleviate network constraints and allow for further electrification.

How it is remunerated

Through economically regulated returns, recovered from customers and connecting parties. Additional earnings through efficient delivery of investment and targeted, performance-related incentives.

More on page 98

Our business explained continued

FLEXIBLE GENERATION/ENERGY SOLUTIONS

SSE Thermal

What it does
Generates electricity from thermal sources in a reliable way, supporting balancing of the electricity systems in GB and Ireland. SSE Thermal's assets play a key transitional role in the SSE Group and across the wider energy system. While providing much-needed system flexibility to ensure security and stability of supply in the short term, the business is also actively pursuing options to decarbonise its generation fleet progressively over the long term. In addition, SSE Thermal's **Gas Storage** business holds around 40% of the UK's conventional underground storage capacity, which provides time-critical response to unpredictable weather conditions and energy market fluctuations.

Who it does it for
For electricity suppliers, traders and other generators through the energy market; for the national grid; and ultimately all electricity customers across GB. SSE Thermal's assets provide valued flexibility to the energy system.

How it supports net zero
Produces progressively lower-carbon electricity and electricity system support to enable net zero transition. Facilitates increasing levels of renewable electricity by offering flexibility to balance renewables' natural variability. SSE's Thermal's **Gas Storage** assets have potential to be repurposed to hold lower carbon gases in future, including hydrogen. And the strategic value of gas storage has been brought into stark relief by recent geo-political events and the increasing focus on home-grown alternatives to dependence on imported fossil fuels.

How it is remunerated
Through the wholesale energy market, Capacity Market and ancillary services market. Also through responding to forward market volatility and receiving balancing market revenue from the timely flexibility provided by generation and storage.

More on page 103

Distributed Energy

What it does
Following the sale of its Contracting arm, SSE Enterprise is now referred to as **Distributed Energy**, reflecting the focus of the business on investing in, building and connecting localised flexible energy infrastructure. The former SSE Enterprise entity also develops solar and battery projects, operates heat networks, and offers integration, aggregation and trading capability.

Who it does it for
The public sector and commercial and industrial markets in the UK and Ireland. It provides digital services for buildings, cities and businesses.

How it supports net zero
Through offering services that bring low-carbon, on-site generation, storage and delivery flexibility close to the point of use. Diverse capabilities (battery, solar, EV infrastructure, district heating and networks infrastructure deployment) offer a local 'whole system' approach.

How it is remunerated
Through the open B2B market, Capacity Market revenue, CPPAs and public and private sector tenders.

More on page 108

CUSTOMER

GROUP SERVICES

SSE Business Energy and SSE Airtricity

What it does
SSE Business Energy and SSE Airtricity provide energy and related services to households, businesses and public sector organisations across Great Britain and the island of Ireland.

Who it does it for
For domestic and business customers in the Republic of Ireland and Northern Ireland, and business customers in Great Britain.

How it supports net zero
Increases the accessibility of green energy solutions through the provision of customer-driven propositions and acts as a partner to customers and stakeholders as they seek ways to respond to the climate crisis.

How it is remunerated
Competing for customers and direct billing to them and third party intermediaries (GB), and through state-supported schemes (ROI).

More on pages 106 and 107

Energy Portfolio Management

What it does
Combines trading skills and deep market insights to drive value by providing energy trading, risk management and settlement services, and wider analytical support and insights, including Business Unit advice on long-term market decisions.

Who it does it for
For SSE's Business Units and the SSE Group.

How it supports net zero
Provides efficient route-to-market for low-carbon electricity, supports system balancing and provides energy solutions for business energy customers.

How it is remunerated
Receives fees for providing energy trading services to other parts of the Group.

More on page 109

Corporate

What it does
Provides cost-effective shared HR, legal, finance, IT, procurement, investor relations, corporate affairs and other services. Ensures compliance with SSE's regulatory requirements as a listed company. Develops a strategic framework that maintains the Group's focus on net zero through targeted acquisitions and non-core disposals. Provides finance and capital allocation to fund growth. Offers the regulatory and policy insight required to navigate each stage of the energy value chain.

Who it does it for
For the SSE Group's Business Units and their stakeholders.

How it supports net zero
Through the advancement and promotion of SSE's sustainability and ESG credentials, and delivery of a net zero-focused strategy.

How it is remunerated
The Group services function is funded by Business Units through a recharge model and corporate unallocated costs as set out in SSE's Financial Statements.

OUR OPERATING MODEL

A well-established operating model supports SSE's primary focus on the transition to net zero. The Business Units described on these pages are equipped with the resources needed to meet operational and strategic objectives, and the autonomy required for effective decision making. They are supported by Group Services functions that provide shared services and targeted business partnering. The segmental breakdown that SSE reports against is intended to drive efficiency and provide shareholder visibility of assets and earnings.

Our business goals for 2030

Measuring our progress

SSE's four core business goals for 2030 provide important interim milestones on the journey to net zero and place sustainability firmly at the heart of its business strategy. In February 2022, SSE refreshed the 2030 Goals to reflect its increased ambitions. 2020/21 is the last year progress will be measured against the original goals shown opposite.

Accelerating business ambition

The 2030 Goals address climate change and are aligned to the UN's Sustainable Development Goals. Since SSE set its first 2030 Goals in early 2019, the pace and scale of climate action has increased considerably. The imperative to accelerate pathways to net zero has provided SSE with significant opportunities for investment and growth. SSE has also set new 1.5°C-aligned carbon targets and published its £12.5bn Net Zero Acceleration Programme out to 2026. This increasing ambition means that SSE's 2030 Goals set in 2019 were no longer as ambitious and stretching as they once were.

In February 2022, SSE announced updated 2030 Goals reflecting an accelerated decarbonisation pathway and ensuring its targets remain stretching to the end of the decade (see page 5).

Progress against the 2030 Goals

To demonstrate its commitment to the 2030 Goals, performance against them is linked to executive remuneration. As the 2030 Goals were refreshed in February 2022, 2021/22 performance was measured against the previous goals. A summary of this progress is outlined opposite, with more detail available in the Remuneration Committee's Report from page 168. Performance against the new 2030 Goals will be measured from 2022/23 onwards.

SUSTAINABLE DEVELOPMENT GOALS

More on page 45

Looking back at 2021/22

Cut carbon intensity by 60%

Carbon intensity of electricity generated increased slightly in 2021/22. However, good progress was made in both renewables growth and paving a way forward for lower-carbon thermal generation. Plans progressed in the development of two new power stations equipped with carbon capture technology with both projects moving forward to differing degrees in the UK Government's process to encourage and support the most competitive carbon capture plants in the pursuit of net zero ambitions.

Treble renewable energy output

Excellent progress was made on key offshore projects, including reaching financial close on Dogger Bank C and construction progressing at Seagreen and Dogger Bank A and B. SSE Renewables, along with partners, also won rights to develop what will become one of the world's largest floating offshore wind farms in the January ScotWind leasing round. With the acquisition of renewables development platforms in Japan and Southern Europe, SSE is also building pipeline options in carefully chosen international markets.

Help accommodate 10m electric vehicles

SSEN Distribution progressed a number of key innovation projects with partners to support flexible markets and future infrastructure provision for the mass adoption of electric vehicles (EVs), including becoming one of the founding partners of a new international global smart grid partnership.

Champion Fair Tax and a real Living Wage

SSE maintained its Fair Tax Mark accreditation for the eighth consecutive year and published its Talking Tax 2021 report. It achieved ongoing accreditation of the real Living Wage, completed its first year of Living Hours accreditation, and is beginning work to roll the new accreditation out in its supply chain.

New goals for 2022/23 onwards

Our progress

Reduction in GHG emissions from electricity generation

19%

GHG emissions from electricity generation

5.7MtCO$_2$e

Cut carbon intensity by 80%

Our progress

Renewable generation output 2021/22*

9.5TWh

Renewable energy capacity in construction at 31 March 2022**

2.4GW

Increase renewable energy output fivefold

Our progress

SSEN Distribution has

12

strategic partnerships and initiatives exploring smart grid solutions to support low-carbon technologies

Electric vehicles registered in SSEN Distribution licence areas

c.56,000

Enable low-carbon generation and demand

Our progress

8

Consecutive years of Fair Tax Mark accreditation

1st year

of being Living Hours accredited

9

Consecutive years of being Living Wage accredited

Champion a fair and just energy transition

* Includes pumped storage, biomass and constrained off wind in GB.
** Based on equity share.

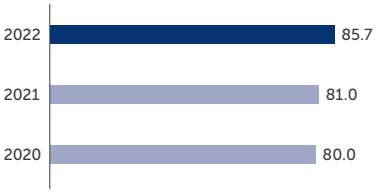
Key performance indicators

Resilience and growth

SSE uses a number of financial and non-financial measures to track progress against its strategy to create value by developing, building, operating and investing in electricity infrastructure and businesses needed for net zero.

Financial KPIs

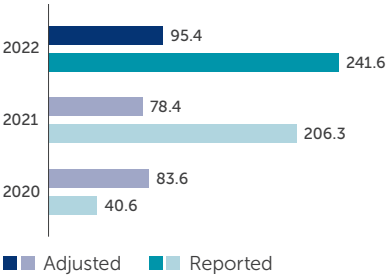
DIVIDEND PER SHARE (PENCE)



Strategic relevance: SSE remunerates shareholders' investment through the payment of dividends.

Performance: The recommended full-year dividend for 2021/22 is in line with SSE's five-year dividend plan to 2023.

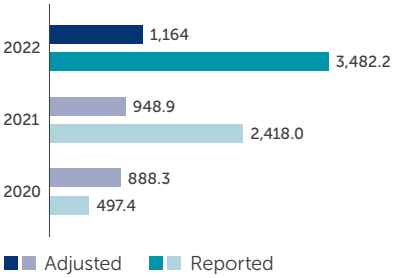
ADJUSTED AND REPORTED EARNINGS PER SHARE (PENCE) APM



Strategic relevance: Adjusted EPS gives a meaningful measure of financial performance over the medium term.

Performance: Results in 2021/22 are attributable to strong performance across a number of SSE's Business Units in volatile market conditions.

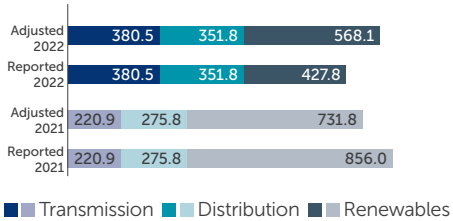
ADJUSTED AND REPORTED PROFIT BEFORE TAX (£M) APM



Strategic relevance: SSE's objective is to earn a sustainable level of profit over the medium term.

Performance: Profits made in 2021/22 reflect the resilience of SSE's balanced mix of businesses while the significant rise in reported figures relates to net reversal gains on unsettled forward contracts and reversal of historic impairment charges in Thermal and Gas Storage.

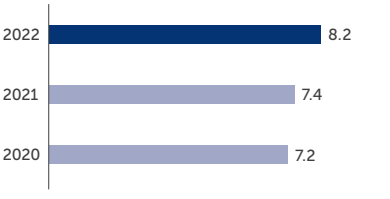
ADJUSTED AND REPORTED OPERATING PROFIT BY BUSINESS (£M) APM



Strategic relevance: SSE's purpose is built on the strategic logic of a renewables and regulated networks core that shares common skills and capabilities in pursuit of net zero.

Performance: Combined, SSE's renewables and electricity networks businesses accounted for nearly 85% of Group adjusted Operating Profit.

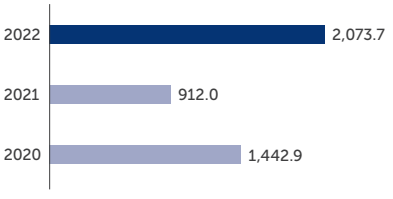
COMBINED NETWORKS REGULATED ASSET VALUE (£M)



Strategic relevance: SSE's ownership of three economically-regulated electricity networks gives the Group steady, index-linked revenue.

Performance: Inflation hitting 30-year highs in the course of 2021/22, combined with acceleration of network build-out and reinforcement, contributed to higher RAV values in the year. 2020 and 2021 data restated to exclude SGN.

ADJUSTED INVESTMENT, CAPITAL AND ACQUISITIONS (£M)



Strategic relevance: SSE applies strict financial discipline that supports investment in assets that are expected to provide returns that are greater than the cost of capital.

Performance: The good progress made in execution of the Net Zero Acceleration Programme resulted a record investment year for the Group.

More information

SSE's social contribution: **page 58**

Financial Review: **pages 82 to 94**

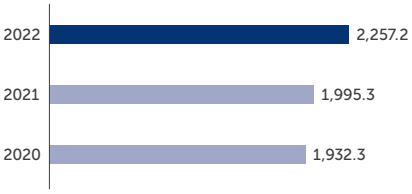
Transmission Operating Review: **pages 96 to 97**

Distribution Operating Review: **pages 98 to 99**

Renewables Operating Review: **pages 100 to 102**

Non-financial KPIs

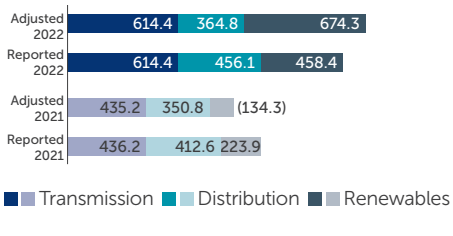
ADJUSTED EBITDA (£M) APM



Strategic relevance: Extracting interest, tax, depreciation and amortisation from earnings provides a useful measure of SSE's operational performance.

Performance: EBITDA in 2021/22 reflects the strong operational performance achieved by SSE's balanced mix of businesses.

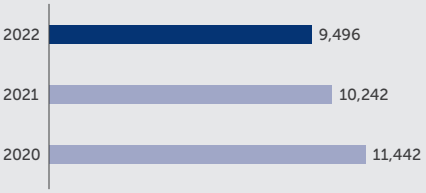
ADJUSTED AND REPORTED CAPEX BY CORE BUSINESS, BEFORE REFUNDS (£M)



Strategic relevance: The primary focus of SSE's capex plans is investment in the low-carbon electricity assets and infrastructure needed to achieve net zero.

Performance: SSE's renewables and networks businesses accounted for around 87% of capex. Over the course of current five-year plan capital expenditure will be split 40:40:20 between renewables; networks; and thermal/other respectively.

RENEWABLE OUTPUT (GWH)*

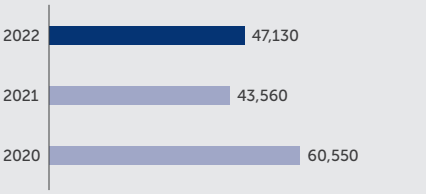


Strategic relevance: Renewables assets are core to SSE's business strategy, which is centred around the net zero transition. SSE has a goal of increasing renewable output fivefold by 2030.

Performance: SSE's renewable output decreased due to unfavourable weather conditions but this was offset by strong performance in hydro and pumped storage in volatile markets.

* Includes pumped storage, biomass and constrained off wind in GB.

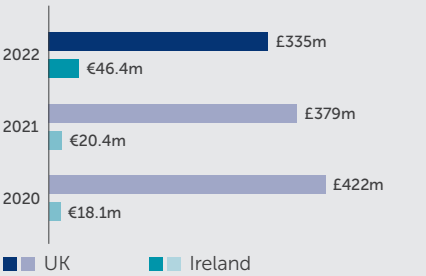
JOBS SUPPORTED IN UK AND IRELAND



Strategic relevance: SSE relies on the people that work for it in order to operate, with its activities supporting jobs in both urban and rural areas.

Performance: Through its operations in the UK and Ireland, in 2021/22 SSE supported 45,290 and 1,840 jobs respectively.

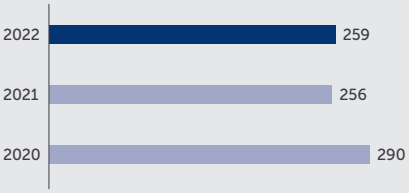
TAXES PAID IN THE UK/IRELAND



Strategic relevance: Taxes support the public services everyone relies on. When companies do well, they should share their success with society through the payment of taxes.

Performance: A small reduction in total taxes paid reflects the planned disposals of non-core business areas during 2021/22, changes in energy use by customers and outages at some generation sites.

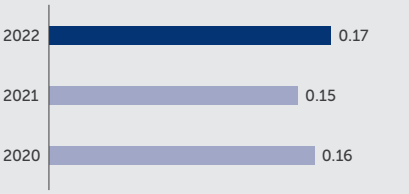
SCOPE 1 GHG INTENSITY (GCO_2E PER KWH)



Strategic relevance: As a significant generator of electricity, SSE must reduce the impact of its operations and has set science-based targets aligned to a 1.5°C pathway.

Performance: SSE's scope 1 GHG intensity increased by 1.2% between 2020/21 and 2021/22. SSE remains on track to achieve its target to reduce intensity by 72.5% between 2017/18 and 2030.

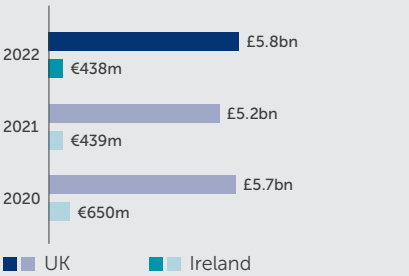
TOTAL RECORDABLE INJURY RATE PER 100,000 HOURS WORKED (EMPLOYEES AND CONTRACTORS COMBINED)



Strategic relevance: Safety is SSE's No. 1 value, and everybody in the Company operates to the safety licence of "if it's not safe, we don't do it".

Performance: A surge in construction associated with SSE's record capex in the year and increased activity following the recovery from coronavirus unfortunately led to rise in TRIR.

ECONOMIC CONTRIBUTION IN UK/IRELAND



Strategic relevance: SSE depends on a healthy and thriving economy to enable its business success, which is why it calculates the value it adds to UK and Irish GDP each year.

Performance: SSE's GDP contribution in Ireland remained consistent with 2020/22, while its contribution in the UK increased in the year, in line with a surge in Net Zero Acceleration Programme-related investment.

Execution and acceleration

SSE is developing, building, operating and investing in a well-balanced mix of assets and businesses. The coming pages highlight how that strategic focus is making a meaningful difference in the transition to net zero through delivery of clean electricity infrastructure.

Investing in a net zero future

The completion of the sale of SSE's remaining 33.3% stake in SGN marked the final step in a strategic disposals programme announced in June 2020 to streamline the Group and sharpen its focus on net zero. The sale in March realised nearly £1.3bn in cash proceeds. SGN had been a good investment for the Group, delivering a return on investment of over 18% from an initial outlay in 2005 of £505m for a 50% stake, however it had become a purely financial interest less aligned with the Group's focus on electricity. The disposals programme overall achieved headline consideration of over £2.8bn, significantly in excess of the original £2bn target.

Gas networks are no longer part of SSE's strategic plans, but regulated electricity distribution and transmission networks businesses continue to be key drivers of net zero and engines of growth for the Group. Plans were outlined in the Net Zero Acceleration Programme to sell minority stakes in SSEN Transmission and SSEN Distribution, extending a partnering approach that has worked well in SSE Renewables to networks to fund growth and unlock opportunities across the Group. These plans are now progressing with a sales process initiated with banking advisers in Spring 2022 on a 25% share in SSEN Transmission.

While these are high-quality, strategically important businesses and SSE will retain control, the scale of potential growth and the associated investment required mean that bringing in minority partners will create greater long-term value by enabling SSE to harness this significant growth whilst maintaining an attractive balance of capital allocation across the Group.

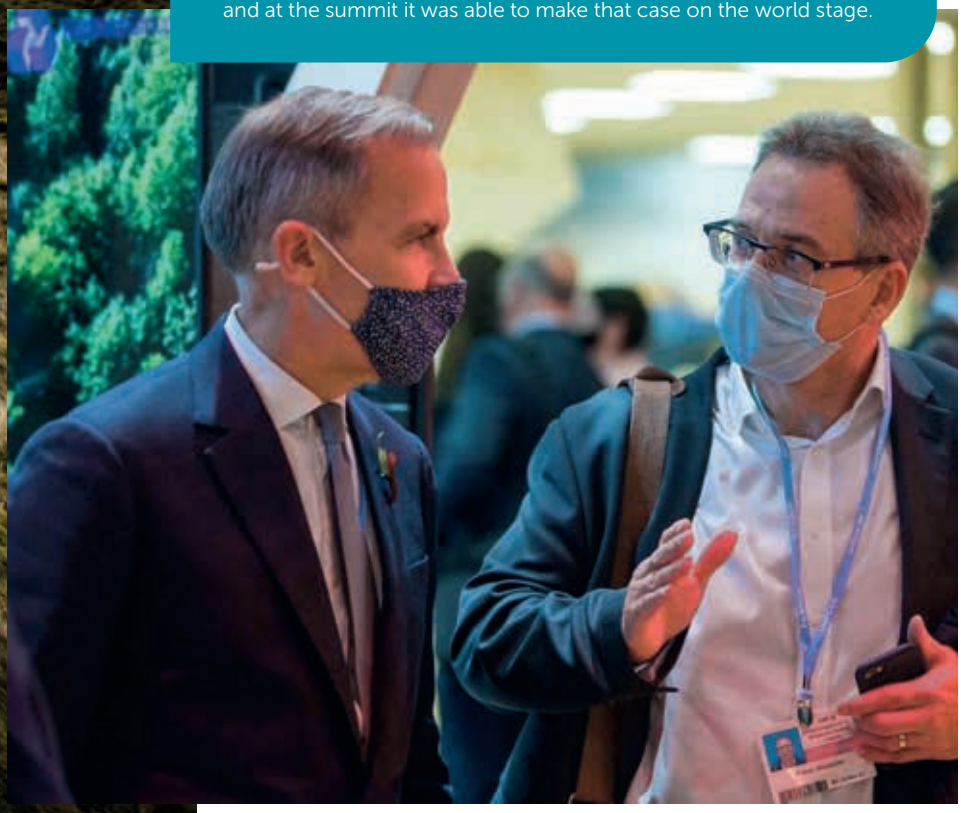
Engaging from a position of strength

SSE is focused on being part of the solution to the climate crisis, with the capabilities, businesses and assets to create value from efforts to tackle global warming. It is very deliberately aligned to prevailing government policy direction, with net zero at the heart of the business. COP26, where the UK Government asked SSE to participate as a Principal Partner, served to highlight the critical importance and global relevance of the Group's strategy.

The war in Ukraine has brought into sharp focus the need for greater energy security, prompting European countries urgently to reduce their reliance on fossil fuel imports. In this context, governments are recognising it is more important than ever that indigenous low-carbon investment is expedited to keep energy affordable and secure.

SSE welcomed the UK Government's net zero and energy security strategies, which give a clear signal to low-carbon investors and developers to keep investing at the scale needed to achieve net zero by 2050 and support more immediate energy security. And SSE also takes the support received at the 2021 AGM for an annual vote on its Net Zero Transition Report as a clear signal of ongoing shareholder support for its strategic decarbonisation efforts.

The Net Zero Acceleration Programme aligns SSE with 1.5°C science-based targets and positions it to enable around 20% of the UK's 50GW offshore wind target by 2030, and over 20% of upcoming UK electricity networks investment, whilst leading investments in flexibility and exporting our renewables capabilities overseas. The urgency of the climate emergency from COP26 and the resulting Glasgow Pact is clear. SSE believes that decarbonisation of the energy system could go further and faster and at the summit it was able to make that case on the world stage.



SSE's credentials as a world-class renewables developer (main image) gave SSE a voice at COP26 where Finance Director, Gregor Alexander, caught up with UN Special Envoy on Climate Action and Finance, Mark Carney (right).

Our strategy in action continued

Powering on with Group delivery

The 2021/22 year marked a number of significant project milestones across the SSE Group. SSE Renewables made good progress at Seagreen, the world's deepest, fixed-bottom wind farm, and offshore construction commenced at Dogger Bank, currently the world's biggest offshore wind farm at 3.6GW. Construction has also progressed on the 443MW Viking onshore wind farm, one of the highest yielding in Europe, which remains on track for completion in autumn 2024.

SSER's capital investment programme to extend the life of large flexible hydro assets has also progressed, with repowering works commencing at Tummel Bridge in April to extend the life of the iconic power station beyond 2060.

Commissioning of SSE Thermal's 893MW Keadby 2, which will become one of the world's most efficient CCGT power stations, started in October 2021 and full commercial operation is targeted for October 2022, Works are also progressing well at a 50MW energy-from-waste facility, Slough Multifuel, which remains on track to be commissioned by late 2024.

A landmark year of delivery for SSEN saw the completion of distribution network upgrades throughout the North of Scotland and central southern England. SSEN Transmission meanwhile made significant progress in 2021/22, building out critical network infrastructure to unlock renewable generation in the North of Scotland. This included the completion of Tealing substation in January, which will enable the connection of the Seagreen offshore wind farm. Phase one construction milestones were also reached on major projects including Rothienorman substation and the Inveraray-Crossaig reinforcement, while construction began on the 275kV Kinardochy substation in November 2021. Substantial progress was also made on the pioneering Shetland HVDC link project, which is on track to connect the islands to the main GB energy system for the first time by 2024.

Significant progress has also been made by the newly refocused Distributed Energy business on developing and operating battery and solar technologies at scale, including the acquisition of a 50MW battery site in Salisbury. Existing grid connections at former coal-fired sites also put SSE in a relatively unique position to deploy battery storage at scale and pace, with 150MW opportunities being considered at Ferrybridge and Fiddlers Ferry. The secured solar and battery pipeline is now 380MW, with more than a 1GW of other opportunities being evaluated.

Work such as this resilience survey in Killin is part of SSEN Transmission's efforts to ensure a network fit for net zero.

Growing our renewables pipeline

The Net Zero Acceleration Programme promises a trebling of SSE's renewables capacity by 2031 with early delivery already under way. SSE is currently building more offshore wind than anyone else in the world and its renewables business continues to expand its sector leading pipeline, now standing at 11GW with opportunities in development to grow this to a sustained target of 15GW. In January 2022, SSE and its partners Marubeni and CIP celebrated success in Crown Estate Scotland's ScotWind seabed leasing auction. This was SSE's preferred site and, once constructed, will become one of the largest floating wind projects in the world with a potential capacity of at least 2.6GW.

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. SSE has taken initial steps into the emerging US offshore market, establishing a permanent base in Boston better to pursue options.

In Europe, SSE entered tender bids for the 1.4GW Hollandse Kust (west) wind farm development zone in the Netherlands; a 50/50 joint venture with Acciona is progressing in Spain and Portugal; application has been made, also with Acciona, for offshore development rights in the Baltic Sea in Poland; and most recently it acquired Siemens Gamesa Renewable Energy's (SGRE) Southern Europe wind, solar and batteries development platform. The SGRE portfolio includes c.3.9GW of onshore wind development projects – around half located in Spain with the remainder across France, Italy and Greece – with scope for up to 1GW of additional co-located solar development opportunities. SSE Renewables also takes on a team of around 40 employees who bring considerable local knowledge and expertise to complement the substantial experience of the existing SSE team in delivering major projects.

Emerging international options present pipeline opportunities; however, capital discipline will continue to guide investment decisions.

SSE also has consent for the UK's largest pumped storage hydro project at Coire Glas and there has been material progress in the policy and regulatory environment for such vital long-duration storage schemes.

Our strategy in action continued

Building networks fit for net zero

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 be critical to SSE's strategy and balanced business mix. The Net Zero Acceleration Programme will enable SSE to deliver over 20% of all planned UK electricity networks investment, increasing Regulated Asset Value (RAV) to £9bn by 2026 (net of proposed 25% minority stake sales).

SSEN Transmission 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 RIIO-T2 price control, projects such as the Eastern HVDC, North Argyll and Skye reinforcement are expected to progress through the Needs Case assessment process.

In January 2022, National Grid Electricity System Operator (NGESO) published its annual Networks Options Assessment (NOA), which indicated the need for more than £5bn of investment in electricity transmission infrastructure in the North of Scotland to maintain a pathway for net zero. These investments and the clear need to accelerate reinforcements to unlock ScotWind start to provide a clear line of sight on and tangible progress towards 2031 RAV growth forecasts for SSEN.

SSEN Distribution could see a trebling of demand in its network areas by 2050, with seismic shifts in consumption already in progress as electric vehicles and heat pumps rapidly scale up this decade. The likely load expenditure required to keep pace with these changes informed the final business plan for the 2023-28 RIIO-ED2 price control period, submitted to Ofgem in December 2021.

The almost £4bn plan sets out how improvements will be delivered for customers and network investment accelerated to power communities to net zero. The plan also proposes £900m of additional potential investment under regulatory Uncertainty Mechanisms to help protect customers and provide the necessary flexibility as opportunities and policy evolves.

Pioneering CCS and hydrogen

While renewable generation and enabling electricity networks are at the heart of the Net Zero Acceleration Programme, it is clear that flexible low-carbon power will be vital to ensure security of supply when the wind doesn't blow and the sun doesn't shine.

That is why carbon capture projects, like those SSE is developing in partnership with Equinor at Keadby and Peterhead, are so important. With thermal generation continuing to be relied upon to meet electricity system demand, the UK Government clearly recognises the pivotal role CCS will play in helping to achieve net zero targets, and SSE Thermal has made substantial progress this year in developing these projects. In January 2022, both Keadby and Peterhead Carbon Capture and Storage projects were submitted into Phase 2 of the UK Government's Cluster Sequencing Process, with outcomes expected to be announced in mid-2022.

In total, the two lower-carbon power stations at Keadby and Peterhead would capture up to three million tonnes of CO_2 a year – 10% of the UK Government's 2030 target. They form part of SSE's ambitions for the coming decade and the submission represents significant progress on delivering SSE's strategy.

SSE Thermal and Equinor are also working in collaboration on two further projects in the Humber: Keadby Hydrogen would be the world's first 100% hydrogen-fuelled power station while Aldbrough, located in East Yorkshire, could be one of the world's largest hydrogen storage facilities.

Hydrogen storage is expected to play an important role in a low-carbon hydrogen economy, balancing supply and demand with hydrogen produced using carbon capture and electrolytic technologies.

While Keadby 2 (pictured) will be operational in 2022, plans for CCS plants at nearby Keadby 3 and Peterhead in Scotland could play vital transitional roles in the future.

Sector review

Navigating a turbulent world

Having ridden out the worst of the global coronavirus outbreak, the energy sector was hit in 2021/22 first by a post-pandemic spike in demand and then the market repercussions of the war in Ukraine. This sector review outlines the events that have focused industry, government and consumer minds on the issues of affordability, energy security and the climate crisis.

GLOBAL INSTABILITY

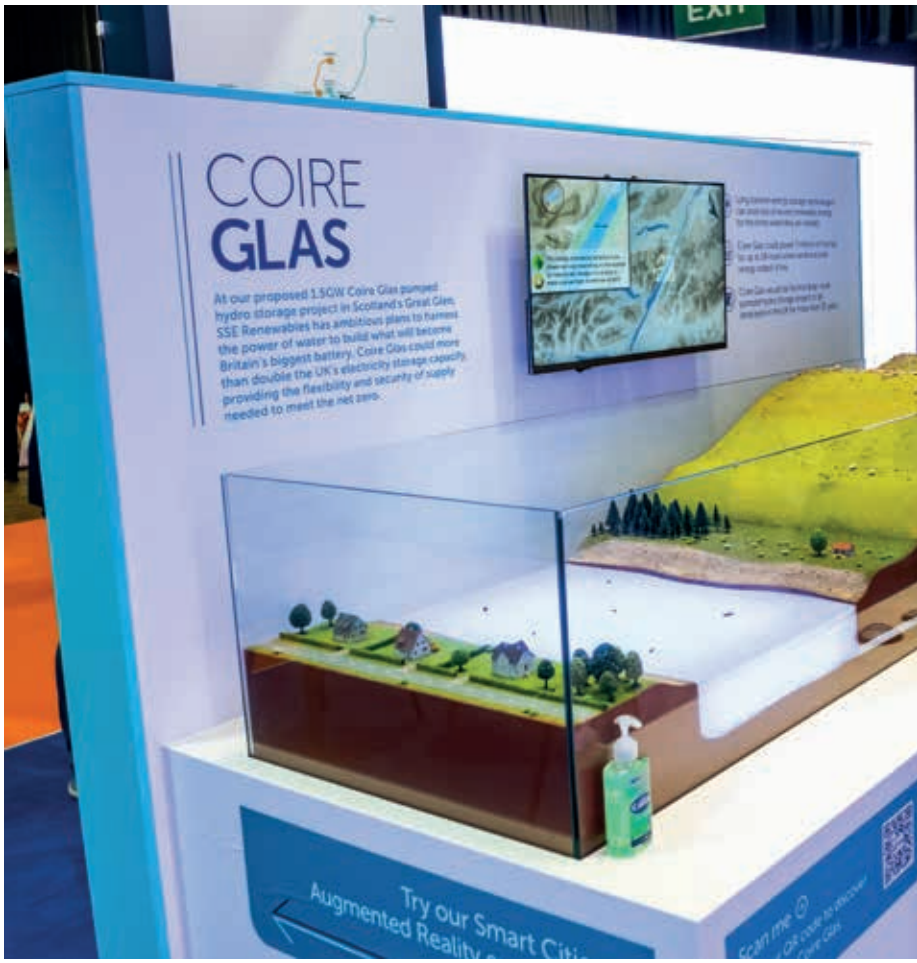
War in Europe deepens cost of living crisis

Despite COP26 and progress on net zero, the year was, again, dominated by uncertainty related to coronavirus and a post-pandemic energy crisis exacerbated by the Russian invasion of Ukraine. Soaring energy prices caused inflation to spike across the world, hastening a cost of living crisis amid global energy security concerns.

The commercial impact of a prolonged conflict in Ukraine is difficult to predict but SSE has so far been served well by a prudent hedging approach. SSE does not have any energy supply contracts with Russian counterparties, and ceased trading activities with these entities after the invasion of Ukraine. The true cost of war is the devastating humanitarian impact and in response to the conflict SSE contributed £1m to the Disasters Emergency Committee.

Governments rapidly introduced measures to support consumers, strengthen resilience and reduce fossil fuel import dependence. The UK Government's British Energy Security Strategy committed to a rapid scaling up of investment in indigenous renewable generation to support UK energy independence.

Coire Glas would offer 30GWh of pumped storage – doubling what is currently available in the UK.



THE CLIMATE EMERGENCY

Growing political resolve on net zero

COP26 demonstrated a growing consensus on the need to tackle climate change. The Glasgow Climate Pact set out the need to scale up clean power and energy efficiency, to phase down unabated coal power generation and to phase out inefficient fossil fuel subsidies. The message from COP26 was clear: the energy sector must lead the way on decarbonisation in the 2020s to hold global warming to a 1.5°C pathway.

The year also saw significant domestic progress on net zero. Major announcements were made in the UK on carbon capture and storage (CCS), onshore wind, offshore wind and on the decarbonisation of heat.

In February, the Department for Business, Energy and Industrial Strategy (BEIS) announced that Contracts for Difference (CfD) auctions would be held annually from 2023 to speed up the UK's adoption of renewable power. In October, the UK's mid-decade CCS ambitions received a boost with the announcement of two 'Track 1' industrial clusters, including the Humber cluster, as well as a further reserve cluster in Scotland.

Crown Estate Scotland's January ScotWind announcement saw seabed totalling 7,000km^2 allocated for up to 25GW of offshore wind in Scottish waters, while the Scottish Government this year proposed to double onshore wind capacity, with an additional 8-12GW targeted by 2030. And even more recently, the British Energy Security Strategy signalled a bringing forward of a support mechanism for long-duration storage projects like SSE's at Coire Glas.

7,000km^2

Allocated seabed for up to 25GW of offshore wind in Scottish waters

SSE's thermal fleet, which includes 735MW Medway power station, is providing critical flexibility in the transition to net zero.

INNOVATION AND TECHNOLOGY

Driving down the cost of decarbonisation

Technological innovation has created vast efficiencies and opportunities in the energy sector and continues to be the driving force behind the net zero transition.

Fast paced innovation is helping to support affordability in the shift to a low-carbon world at a crucial time for consumers.

Advances in technology and larger turbine capacities have made wind power the most cost-efficient source of generation, with Contract for Difference (CfD) prices for offshore wind falling from over £140/MWh to less than £50.

High wholesale prices meant that, if all the UK's CfD-awarded wind farms due to be built by 2027 had been operating under their CfDs over the winter months of 2021/22, they would have made over £7bn of payments back to the scheme administrator that would have helped reduce future energy bill costs for consumers.

Meanwhile, SSE marked major developments in technology, including commissioning of Europe's most efficient CCGT, Keadby 2 in the Humber. Green hydrogen also took a significant step forward, as SSE Renewables and Siemens Gamesa announced the co-location of an electrolyser and battery storage facility at Gordonbush wind farm in the Scottish Highlands.

Sector review continued

ENERGY REGULATION

The need for a climate focused framework

Amid the energy sector's strong, positive trends, the regulatory environment remains challenging. Industry engagement with regulators continues to focus on the need for an enabling regulatory framework to be established for the delivery of net zero. In the UK, there remains a need for Ofgem's statutory duties to be amended to facilitate net zero and timely decision-making, and the Government has signalled its intention to address this.

Specific regulatory issues emphasised in 2021-22 included the development of a support mechanism for long duration electricity storage and the need to reform transmission charges to enable further investment in Scotland and northern England. Consumer affordability issues were also prominent, with changes to strengthen supplier financial resilience and cost recovery arising from supplier failure framing dialogue between the regulator and industry. SSE has engaged with the regulator in relation to networks price controls and uncertainty mechanisms to unlock the level of investment required to deliver decarbonisation and renewables targets.

Looking ahead, 2022-23 will be an important year as policymakers and regulators respond to the near-term impacts of the energy affordability crisis, while putting in place frameworks to unlock new low carbon technologies. Wider market and regulatory reforms are already under way to enable delivery of net zero at lowest cost and reduce exposure to global fossil fuel markets. The UK Government's Offshore Transmission Network Review (OTNR) will conclude with a Holistic Network Design setting out grid connection dates for offshore wind projects and the transmission network upgrades required to deliver the UK's flagship 50GW offshore wind target.

More widely, other significant reforms either initiating or concluding include the introduction of a Future System Operator (FSO), distribution network flexibility, competition in transmission networks, market mechanisms and frameworks for long duration electricity storage, CCUS/ Hydrogen and heat networks, many of which will be included in the UK's upcoming Energy Bill in summer 2022. For the longer term, BEIS will also initiate a Review of Electricity Market Arrangements (REMA) in mid-2022, which seeks to reform the GB electricity market to achieve a cost-efficient, low carbon power system by 2035.

Turbine jackets ready for installation at Dogger Bank, the world's biggest offshore wind farm.

CAPITAL MARKETS

The greening of debt and equity

The inherent value in developing and operating low-carbon infrastructure is increasingly recognised by investors beyond those with an Environmental, Social and Governance (ESG) focus. This is demonstrated by the influx of capital to the low carbon sector, with growing investment interest from oil majors and greater direct investment from infrastructure funds and institutional investors. This is creating strong opportunities for SSE in financial partnering and it supports creating value from successful development and operation of assets.

At the same time, both debt and equity investors are beginning to recognise the risks and opportunities from climate change, supported by initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD). This means capital is increasingly flowing to projects and debt is attracted to green bonds that are well positioned to benefit from the low-carbon transition, and less exposed to the downsides associated with more emissions-intensive assets.

6

exceptional weather events in 12 weeks

EXTREME WEATHER

Adapting to exceptional events

The energy sector finds itself on the front line of altered and extreme weather conditions that are accompanying climate change. Changes in rainfall and wind patterns are felt right across the SSE Group. 2021/22 saw less wind and rain than the previous year, with April-September rainfall in its hydro catchment areas at the lowest level since records began in 1950.

For its energy-focused businesses, erratic weather can determine the output from renewables assets, the balancing requirements placed on flexible plant and energy demand from customers. The full impact of exceptional weather is felt by electricity networks and last year no fewer than six exceptional weather events in 12 weeks tested the resilience of SSEN Distribution's operations in both Scotland and England (see **page 66**).

SSE has established crisis management measures to mitigate the impact of severe weather on critical national infrastructure and it has meteorological expertise to forecast coming events. This forecasting not only allows SSE to mobilise operational teams in good time to support energy customers, it also informs trading positions taken by the Energy Portfolio Management business and purchasing decisions by the Procurement team.

Climate adaptation strategies are becoming an increasingly important feature of government and business decision-making. For SSE, boosting weather resilience and assessing climate adaptation requirements are essential to the ongoing resilience of all its operational businesses.

Engineers clear the damage inflicted on SSEN Distribution's northern patch by Storm Arwen.

Our stakeholders

Working for stakeholders

The following pages describe the engagement SSE undertakes with its stakeholders to enable it to fulfil its purpose, deliver its strategy and create lasting value.

The role of engagement

SSE recognises that a sustainable strategy is one that reflects stakeholder views and input. It promotes an open and transparent approach to engagement, which is supported by accountability at both Group and Business Unit level for demonstrating how stakeholders have been considered in long-term plans and day-to-day decision making.

Our key stakeholder groups

Information on our key stakeholder groups is highlighted by the yellow icon below throughout the Report.

SSE's key stakeholder groups

Employees

Why we engage:
Engagement helps SSE attract, retain and develop a diverse and talented workforce now and for the future.

Input to SSE:
Talent, skills, values and output.

Value created:
Inclusive, fulfilling and high-performing workplace, training and skills development.

Shareholders and debt providers

Why we engage:
We engage to ensure confidence and support from those that invest in and lend to SSE.

Input to SSE:
Provision of finance, strategic direction and stewardship.

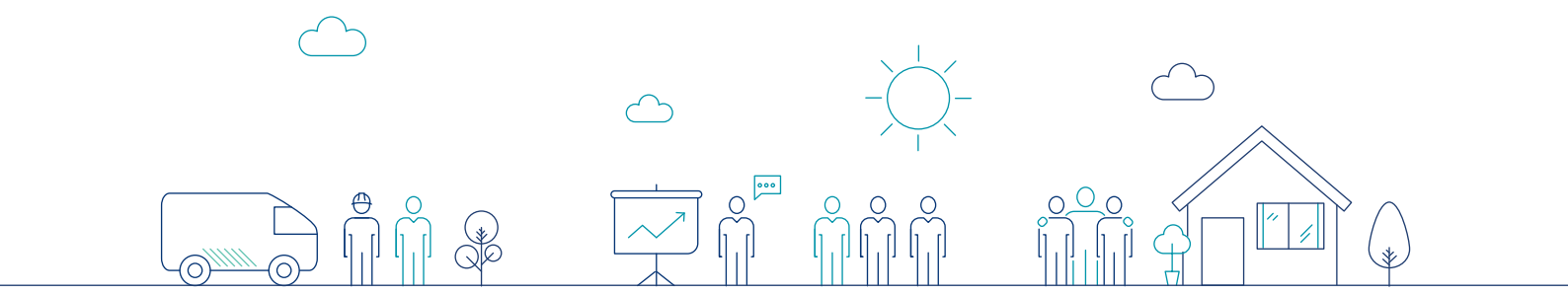
Value created:
Sustainable return on investment.

Energy customers

Why we engage:
Dialogue aims to support the transition to a decarbonised energy system in a fair and affordable way.

Input to SSE:
Customer priorities and expectations.

Value created:
Reliable and inclusive provision of services now and in the future.



This approach derives from the following definition: The purpose of stakeholder engagement in SSE is to ensure that the perspectives, insights and opinions of stakeholders are understood and taken account of when key operational, investment or business decisions are being taken, so that those decisions:

- are more robust and sustainable in themselves; and
- support SSE's strategic approach of creating value for shareholders and society.

SSE's key stakeholder groups

A long-understood social contract informs SSE's view that its stakeholders are **people, communities and organisations with an interest in its purpose, strategy, operations and actions and who may be affected by them.**

The relationship with key stakeholders is two-way, with SSE relying on a range of inputs, in return for which value is generated. An overview of the reciprocal nature of SSE's relationship with its stakeholders is illustrated by the business model framework on pages 12 to 13 and set out in detail on the following pages.

Engagement methods

SSE adopts a range of engagement methods to build constructive relationships and a dynamic, two-way dialogue that tracks priorities and understanding on specific stakeholder issues.

These methods exist in a strategic framework that sees a combination of business-led and Board-level engagement and is reflective of legislative and regulatory requirements. This approach is characterised, for example, by the dedicated stakeholder forums in SSE's networks businesses. Details of just some of the engagement methods deployed, and views captured during 2021/22 are covered on pages 34 to 39.

A single metric cannot define the success or otherwise of a stakeholder relationship. However, by considering the size of the stakeholder group, extent of engagement and value returned – financial or non-financial – certain measurements can aid understanding of where further opportunities or risks exist. Examples of these measurements are shown in the business model on pages 12 to 13 and overleaf.

SSE's approach results in stakeholder influence within, and validity of, business plans and supporting objectives.

The framework set by the Board in which decision making takes place is explained on page 134. It confirms that consideration of SSE's purpose, vision, strategy and values, and its interconnectivity with stakeholders should drive appropriate outcomes.

Situations will exist where not every stakeholder interest can be addressed in full, however stakeholder regard continues to the fullest extent possible.

Given that stakeholder considerations are embedded in SSE's definition of a healthy business culture, demonstrating the influence of stakeholders and the consideration given to them remains a focus across this Annual Report and the accompanying Sustainability Report.

Government and regulators

Why we engage:
Constructive engagement aims to ensure fair energy sector frameworks for energy customers and investors.

Input to SSE:
Public policy and regulatory frameworks.

Value created:
Considered and expert sector views; delivery of policy and regulatory aims.

NGOs, communities and civil society

Why we engage:
Working openly and progressively seeks to support the achievement of shared goals with societal benefit.

Input to SSE:
Distinctive social, environmental and energy-related perspectives.

Value created:
Robust social contract through which value is shared.

Suppliers, contractors and partners

Why we engage:
Fostering healthy reciprocal relationships helps SSE to ensure it achieves the greatest all-round value from its investments and activities.

Input to SSE:
Quality goods and services and investment.

Value created:
Sustainable relationships, value creation and partnership expertise.

Our stakeholders continued

Employees

Engagement helps SSE attract, retain and develop a talented workforce now and for the future.

How we engage

Group engagement

- Multi-channel Leader-led Engagement Programme and business-specific updates.
- Group-wide employee survey to assess engagement levels.
- Continuous assessment of sentiment and strategic understanding through post-event polling.
- Data from employee exit surveys.
- Formal engagement with trade unions.

Board engagement

- Active participation in SSE's Leader-led Engagement Programme and mentoring of talent.
- Site visits and virtual engagement sessions.
- Complementary and focused work of SSE's Non-Executive Director for Employee Engagement.
- Continuous feedback on employee sentiment and the support being provided.

More on pages 137 to 139

Key developments 2021/22

- Ways of working implemented that draw on lessons learnt through the pandemic and meet employee expectations for greater flexibility.
- Agreement struck on pay progression for unionised employees.
- Active engagement with employees on a just transition.

Material issues raised in 2021/22

- Employee wellbeing, support and resilience.
- SSE's employee offering: reward, benefits, inclusivity, flexibility.
- Engagement with inclusion and diversity strategy.
- Engagement with strategy and the Net Zero Acceleration Programme.
- Engagement with SSE's approach to a just transition to net zero.
- Senior leader visibility and engagement.
- The opportunity for all colleagues to have a say and make a difference within SSE.
- Being supported to make decisions centred around doing the right thing.
- How employees could engage with and support SSE's Principal Partner role at COP26.

Priorities for 2022/23

- Engagement on purpose, vision, strategy and culture.
- Improving inclusion and diversity.
- Engagement on just transition.
- Articulation of what it means to work for SSE (employer brand), and the employee experience end-to-end.
- Enhanced, interactive digital channels including "always on" feedback functionality.
- Support through the transition to post pandemic ways of working.
- Recruiting the people needed to deliver on SSE's net zero ambitions.

MEASURING ENGAGEMENT AND VALUE CREATED

Employee engagement score

76% (2019/20) · 82% (2020/21) · 82% (2021/22)

SSE's new Climate Academy

4,315
employees attended

SSE's just transition approach informed by

>150
ex-high-carbon employees who gave their insights

Engagement in action case studies, see pages 61 and 139

Shareholders and debt providers

To ensure confidence and support from those that invest in and lend to SSE.

How we engage

Group engagement

- Responding to queries from shareholders and debt providers and holding meetings with all types of investors on an ongoing basis.
- Communicating shareholder and debt provider views to SSE's senior management teams.
- Engagement with environmental, social and governance (ESG) ratings agencies that many investors and debt providers rely on to gauge sustainability credentials.

Board engagement

- A programme of Director-investor meetings covering key financial announcements, long-term priorities and specific issues at investors' request.
- Participation in virtual and physical investor conferences.
- Monthly Board updates on investor and financial market sentiment.
- Detailed reporting of shareholder feedback during and after Half- and Full-year Results roadshows.
- Bi-annual updates from SSE's brokers.
- Executive Director engagement with credit ratings agencies used by debt providers.
- Engagement with shareholders at SSE's Annual General Meeting.

More on page 135

Material issues raised in 2021/22

- Financial and ESG performance.
- The merits of SSE's balanced mix of businesses versus the option to separate the renewables business.
- The optimal way to fund the Group's capex opportunity and the option to raise equity versus the proposed networks stake sale.
- Balancing growth and income in the context of shareholder remuneration.
- Returns and competitive pressure, particularly in renewables.
- Optimal capital allocation across the Group's businesses.
- Linking refreshed strategic ambition within SSE's Remuneration Policy review.

Priorities for 2022/23

- Reinforce shareholder and debt providers understanding of SSE, including its business mix, leadership approach, index linked assets and earnings and ESG credentials.
- Improve external understanding surrounding the role and value of flexible generation plant and the electricity networks businesses.
- Annual governance meetings between the Chair and shareholders.

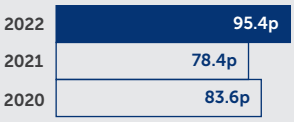
Key developments 2021/22

- Initiation of a Shareholder Engagement sub-Committee to ensure equitable understanding of shareholders' priorities surrounding long-term direction, and reflection of shareholder views in SSE's strategic ambitions.
- Plans for a rebased dividend as part of SSE's Net Zero Acceleration Programme.
- Shareholder support for an annual vote on SSE's Net Zero Transition Report from 2022.
- Shareholder consultation on SSE's approach to Executive Remuneration.

MEASURING ENGAGEMENT AND VALUE CREATED

Dividend per share

Earnings per share



One-to-one investor sessions 2021/22

153

Engagement in action case studies, see pages 48, 128 and 136

Our stakeholders continued

Energy customers

Dialogue aims to support the transition to a decarbonised energy system in a fair and affordable way.

How we engage

Group engagement

- SSE directly serves energy customers in the domestic (all-island Irish) and business-to-business (UK and Ireland) energy supply markets and provides grid connection to non-direct networks customers in its Distribution and Transmission operating licence areas.
- Engagement methods include dedicated panels to ensure the perspectives of vulnerable customers are considered and forums to engage with large business customers.
- SSE also monitors a wide range of indicators of performance and customer sentiment.
- SSE works with third parties actively to identify and make provision for customer vulnerability, including through encouraging eligible customers to be added to the Priority Services Register.

Board engagement

- Board updates from each SSE business on the stakeholder factors which are driving business direction and propositions.
- Board monitoring of customer performance to ensure delivery of an appropriate level of service and investment.

Material issues raised in 2021/22

- Affordable and accessible energy in the context of ongoing market volatility and increasing international instability.
- Responsiveness to need and vulnerability with particular focus on impact of exceptional weather events.
- Quality customer service.
- Using energy efficiently.
- Costs and benefits of the ED2 business plan.

Priorities for 2022/23

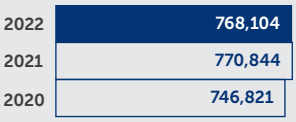
- Sharp focus on cost of living means there is a need to increase support for SSE's vulnerable customers.
- Enhanced focus on emergency customer support following increased frequency of extreme weather events.
- Improved customer satisfaction and service.
- Updated customer strategy being reviewed and implemented in SSEN Transmission for connection customers i.e. generators.

Key developments 2021/22

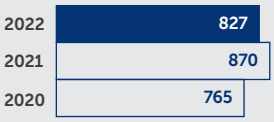
- The impact of the rising cost of living on SSE's energy customers.
- Supporting customers through the impact of exceptional weather events on networks resilience.

MEASURING ENGAGEMENT AND VALUE CREATED

Customers on SSEN Distribution's Priority Services Register (PSR)



Stakeholder engagement events held by SSEN Distribution



SSE Airtricity Net Promoter Score (domestic customers)

2021

Engagement in action case study, see page 66

Government and regulators

Constructive engagement aims to ensure fair energy sector frameworks for energy customers and investors.

How we engage

Group engagement

- Through SSE's Political Engagement Policy under which it makes representations to the institutions of government in a politically neutral way consistent with the company's core purpose.
- Ongoing constructive dialogue with Ofgem on networks regulatory price controls, market design and carbon pricing, CCS and hydrogen.
- Panel discussions and thought leadership reports to engage stakeholders with key issues.

Board engagement

- Board oversight of the implementation of SSE's Political Engagement Policy and corresponding advocacy priorities.
- Monitoring of engagement activity and responses to regulators to ensure that strategic, financial, investment and operating frameworks remain aligned to the external landscape.

Key developments 2021/22

- Through SSE's Principal Partnership of COP26 it was able to build key strategic relationships and support a number of climate-linked policy announcements.

Material issues raised in 2021/22

- Cost-effective delivery of low carbon infrastructure.
- Fair treatment of energy customers.
- Security of supply and critical infrastructure provision.
- The RIIO-T2 and RIIO-ED2 business plans.
- Flexible networks and the transition to Distribution Network Operator.
- Engagement on market design, carbon pricing and support mechanisms.

Priorities for 2022/23

- Required investment in electricity network infrastructure to deliver a net zero energy system.
- Flexible networks and the transition to DSO.
- Engagement focused on energy market reform including role of Electricity System Operator, role of Ofgem, competition and policy conducive to investment.
- Support mechanisms/framework to enable cost-effective delivery of low carbon/zero carbon generation and maintain security of supply (Coire Glas, CCS/hydrogen, heat networks etc).
- Establishing high-quality teams able to engage with government and regulatory stakeholders in new jurisdictions, in line with SSE's international expansion plans.

MEASURING ENGAGEMENT AND VALUE CREATED

Direct COP-related engagements	Public endorsements of SSE's net zero strategy	New strategic partnerships formed
150	20	14

Engagement in action case studies, see pages 23, 29 and 46

Our stakeholders continued

NGOs, communities and civil society

Working openly and progressively seeks to support the achievement of shared goals with societal benefit.

How we engage

Group engagement

- Partnering with key NGOs to deliver social and environmental benefits for the communities in which SSE operates.
- Community consultation events throughout the year to gather feedback on projects and business plans.
- Collaboration with academic partnerships to inform strategic decision-making and knowledge sharing on policy, energy systems and innovation.

Board engagement

- Review of SSE goals set within the UN Sustainable Development Goals framework and oversight of associated strategic delivery plans.
- Due consideration of the local community benefits of large capital project investment.

Material issues raised in 2021/22

- Environmental protection and decarbonisation.
- A fair and just transition to net zero.
- Cost of living crisis.
- Employment standards, including Living Wage and inclusion and diversity.
- How SSE shares value with local communities and wider society.
- Responsible behaviour of large businesses.

Priorities for 2022/23

- Continued advocacy and support for addressing energy affordability and fuel poverty.
- A fair and just transition to net zero.
- Decarbonisation of the energy system.
- Work between SSEN Transmission and other network operators on a standardised approach to social return on investment.

Key developments 2021/22

- Setting of interim business goals within the UN Sustainable Development Goals framework.
- Customer vulnerability and fuel poverty.

MEASURING ENGAGEMENT AND VALUE CREATED

Stakeholders consulted as part of ED2 business plan process

>25,000

Communities directly engaged with through SSE Renewables' community investment funds

127

Strategic academic partnerships

5

Engagement in action case study, see page 67

Suppliers, contractors and partners

Fostering healthy reciprocal relationships helps SSE to achieve the greatest all-round value from its investments and activities.

How we engage

Group engagement

- Regular meetings as part of SSE's Supplier Relationship Management (SRM) programme are held to discuss material issues for both companies.

Board engagement

- Executive Director meetings with strategic partners and suppliers.
- Board updates on joint venture project strategy and progress in domestic and international markets.

Material issues raised in 2021/22

- Management and mitigation of health and safety risks on sites.
- Economic opportunities in local supply chains.
- Mitigation and management of social and environmental impacts.
- Project design and innovation.
- Effective governance and operations.
- Fair expectation in the delivery of projects and prompt payment.
- Energy sector resource gaps.
- Third party labour practices in emerging technologies.

Key developments 2021/22

- Creation of the Powering Net Zero Pact to progress a just energy transition for the power sector by focusing on key areas of ambition.
- A notable output from the SRM programme was an increased focus on local content to encourage UK investment. This engagement continues in all areas of SSE's supply chain, from international turbine and cable manufacturers to more localised civil contractors.

Priorities for 2022/23

- The key focus areas of the Powering Net Zero Pact, namely: net zero, natural world, circular economy, fair work and valuing communities.
- Industry understanding of Scope 3 emissions.
- Development of sustainable policies and enhanced collaboration to implement more sustainable practices.
- Enhancing health and safety standards.
- Supply chain resilience and managing the impact of inflation across SSE's development pipeline.
- Interaction through the SRM programme presents opportunities to engage with the supply chain on value-adding areas such as innovation, engineering and sustainability, and allows SSE to work closely with suppliers to ensure visibility on latest technologies and efficiency improvements.

MEASURING ENGAGEMENT AND VALUE CREATED

Suppliers on SSE's strategic relationship management programme

Strategic suppliers that, with SSE, are founding partners of the Powering Net Zero Pact

10

Leadership status achieved for supply chain engagement with CDP for its 2021 submission.

Engagement in action case study, see page 59

A sustainable approach

Powering sustainable change

"Sustainable outcomes do not happen by accident. They are the result of careful decision making that ensures social, environmental and economic impacts are balanced and enhance value. 2021/22 was an important year to that end, not least in developing detailed action plans that support the achievement of net zero. Predicting and pre-empting negative social impacts from the energy transition to net zero was a focus of SSE's attention too."

Rachel McEwen
Chief Sustainability Officer

SSE's Sustainability Report 2022

SSE's Sustainability Report 2022 is the sister document to the Annual Report 2022. It provides enhanced disclosure of SSE's policies, practices and performance against its key economic, social and environmental impacts and goals.

Sustainability highlights

SSE's approach to sustainability
See more on page 41

Protecting the environment
Climate-related financial disclosures.
See more on page 42 to 55

Conserving the natural environment.
See more on pages 56 to 57

SSE's social contribution
Generating value across society.
See more on pages 58 to 59

Guaranteeing fair work and good jobs.
See more on pages 60 to 65

Providing access to affordable and clean energy.
See more on pages 66 to 67

SSE's approach to Sustainability

Driven by SSE's strategy "...creating value for shareholders and society..."

Aligned to shared value global framework United Nations Sustainable Development Goals (SDGs)

Materiality established

Four highly material SDGs linked to SSE'S 2030 Goals

SSE's 2030 Goals

Cut carbon intensity by 80%

Reduce scope 1 carbon intensity by **80%** by 2030, compared to 2017/18 levels, to 61gCO_2e/kWh.

Increase renewable energy output fivefold

Build a renewable energy portfolio that generates at least **50TWh** of renewable electricity a year by 2030.

Enable low-carbon generation and demand

Enable at least **20GW of renewable generation** and facilitate around **2 million EVs** and **1 million heat pumps** on SSEN's electricity networks by 2030.

Champion a fair and just energy transition

Be a **global leader** for the just transition to net zero, with a guarantee of fair work and commitment to paying fair tax and sharing economic value.

SSE's Environment Strategy

Three further material SDGs linked to SSE's Environmental Strategy

Environmental management and governance

Resource use

Natural environment

A sustainable business strategy

The UN's 17 Sustainable Development Goals (SDGs) are the global blueprint for a sustainable future. SSE believes they provide a useful framework through which to align its strategic business objectives with societal objectives.

Since 2019, SSE has aligned its business strategy to the SDGs most material to its business. The schematic above depicts the flow of sustainability from SSE's objective set in its strategy statement to "create value for shareholders and society" with UN SDGs providing the framework to guide the creation of shared value. Within this framework SSE has identified four SDGs which are highly material to the business, and to which it has linked its four core 2030 Goals, and a further three material SDGs, which are focused on the environment and guide the pillars of SSE's environment strategy.

SSE refreshed its 2030 Goals in February 2022 to reflect SSE's increasing net zero ambitions. More information on SSE's sustainability framework can be found in the Sustainability Report 2022.

Developments in sustainability reporting standards

At COP26, in November 2021, the creation of the new International Sustainability Standards Board (ISSB) by the International Financial Reporting Standards (IFRS) Foundation was announced. Most of the international standard setters have indicated their support for the ISSB and SSE hopes this will be an important step towards providing the clarity that companies are seeking around globally aligned sustainability reporting standards.

The UK Government has endorsed the ISSB approach, indicating its intentions to use the standards as the framework for the new UK Sustainability Disclosure Requirements (UKSDR). The UKSDR will build on measures already under way to implement TCFD-aligned disclosure rules, expanding the scope to cover wider sustainability topics beyond climate change, and will include requirements for listed companies to publish net zero transition plans. Ahead of these requirements, SSE published its own Net Zero Transition Plan in March 2022, one of the aims of which is to stimulate enhanced engagement with shareholders and other stakeholders.

Aligning with external frameworks

SSE is a signatory to the United Nations Global Compact (UNGC), incorporating the Ten Principles of the UNGC into its approach to business, and aligns disclosures and KPIs in its Sustainability Report to international non-financial reporting standards, including the Global Reporting Initiative (GRI) and the SASB Standards. SSE also actively engages with key investor ESG ratings agencies and investor-led initiatives. Detail of SSE's performance in these ratings can be found at sse.com/sustainability.

Protecting the environment

The twin challenges of climate change and the decline in nature are the greatest threats facing the future of humankind. Addressing the challenge of climate change is the most material action SSE can take to reduce its impact on the environment, however it also has wider environmental impacts that must be carefully managed.

Climate-related financial disclosures

The Task Force on Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board to improve reporting of climate-related risks and opportunities. SSE has structured its climate disclosures according to the TCFD recommendations since 2018 believing that good quality information about its climate-related risks and opportunities supports shareholders to make long-term investment decisions.

Mandated climate-related financial disclosure in the UK

SSE is required to report against the TCFD recommendations and recommended disclosures in its Annual Report covering the financial year ended 31 March 2022 according to the Financial Conduct Authority (FCA) listing rule LR 9.8.6 R(8). The rule requires relevant companies to report on a 'comply or explain' basis against the TCFD recommendations. SSE is compliant with the TCFD recommendations and recommended disclosures, with the exception of recommended disclosure Strategy 2.c where it explains on page 48 the work it will carry out over the course of 2022/23 with a view to disclosing in 2023. SSE further believes there is an opportunity for increasing maturity of all TCFD disclosures and will actively seek feedback from shareholders and stakeholders on best practice.

Compliance is indicated against the recommended disclosures in the relevant sections using the following key:

Compliant	
Partially compliant	
Not compliant	

TCFD

Task Force on Climate-related Financial Disclosures (TCFD) recommendations

1. Governance

Disclose the organisation's governance around climate-related risks and opportunities.

More on page 43

2. Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

More on page 45

3. Risk management

Disclose how the organisation identifies, assesses, and manages climate-related risks.

More on page 49

4. Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

More on page 54

Governing climate-related risks and opportunities

Board oversight of climate issues

The Board establishes SSE's purpose, vision and strategy with due consideration given to all material influencing factors including those related to climate change.

The Board assessment of climate-related matters is informed through presentations across dedicated strategy sessions and within Board meetings, which cover the substance of the physical and transitional opportunities and risks associated with climate change (see page 133). This approach is consistent with SSE's net zero-aligned strategic objectives and the presence of climate-related issues across vast areas of Board work.

The Board's assessment of risk is reflected both in the strategic decisions it takes, and in the identification of the Group Principal Risks and emerging risks which have the ability to affect achievement of agreed strategic objectives and, in turn, long-term success.

Within financial year 2021/22, the Board considered and approved accelerated science-based emission targets; revised business goals to 2030 aligned to the UN Sustainable Development Goals; the Net Zero Acceleration Programme; and the Net Zero Transition Plan.

Board Committee support is provided on climate-related issues in the following ways:

- The Nomination Committee ensures the Board possesses the correct depth and balance of capabilities to support SSE's long-term position, including the expertise to assess the impact of climate change (see pages 145 to 151).
- The Audit Committee supports the Board on matters relating to financial reporting, internal control and risk management. The Committee reviews the integrity of SSE's climate-related financial reporting and the process used to develop SSE's TCFD-aligned disclosures (see pages 152 to 161).
- 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 (see pages 164 to 167).
- The Remuneration Committee supports implementation of Board approved policy on climate related opportunities and risks, through inclusion of sustainability-linked metrics and targets within performance related pay for SSE's Executive Directors (see pages 168 to 199).

TCFD

Meeting TCFD recommended disclosures:

1. Governance

a) Describe the board's oversight of climate-related risks and opportunities.	■
b) Describe management's role in assessing and managing climate-related risks and opportunities.	■

The Board-agreed division of responsibilities across key areas of SSE's Governance Framework, are set out in: the Board's Schedule of Reserved Matters; the Terms of Reference of the Board Committees and the Group Executive Committee; and the role profiles for key Board roles. See sse.com and pages 124 and 142 .

Structured governance pathways

Board of Directors
Sets SSE's purpose, vision and strategy with oversight of SSE's most material sustainability impacts, risks and opportunities, including climate change.

Nomination Committee
Responsible for Board appointments and the balance of capabilities to assess SSE's long-term situation.

Audit Committee
Oversees the assurance model and integrity of SSE's climate-related financial disclosures in SSE's Annual Report.

SSHEAC
Oversees SSE's climate adaptation and resilience plans.

Remuneration Committee
Responsible for remuneration policy including climate factors within performance related pay.

Board Level

Group Executive Committee
Responsible for the implementation of strategy, including sustainability policies and practice relating to climate change.

Group Risk Committee
Responsible for reviewing and recommending the processes, controls and content of climate-related financial disclosures.

Executive Level

TCFD Steering Group
Responsible for advising and steering the development of comprehensive and fair, balanced and understandable climate-related financial disclosures.

TCFD Working Group
Responsible for the production of SSE's climate-related opportunity and risk disclosures, including financial impacts and ensuring appropriate stakeholder input.

Business Level

A sustainable approach continued
Protecting the environment continued

Role of senior management

Strategy is implemented by the Group Executive Committee through the operational management of SSE's Business Units and monitoring of performance in line with agreed plans. This includes ensuring that business decisions are being taken in line with the parameters set by the Board, such as SSE's 2030 Goals and science-based targets, and for monitoring new and emerging issues that require escalation.

As Chair of the Group Executive Committee the Chief Executive retains responsibility for the management of climate-related initiatives under agreed strategy and in turn, driving progress. In support of this, the Chief Executive agrees the annual objectives for the Chief Sustainability Officer who is a direct report. The Chief Sustainability Officer advises the Board, Group Executive Committee, Group Risk Committee and Business Units on climate-related matters and progress under the stated Net Zero Transition Plan.

The Group Risk Committee (GRC) monitors all Group risks on a periodic basis and ensures that the Business Units are managing the risks for which they are responsible. The GRC has overall responsibility for ensuring the right mechanisms are in place for managing all risks, including climate-related risk and opportunities. Reporting to the GRC is a TCFD Steering Group, comprising of representatives from Group Finance, Group Risk and Sustainability, focused on advising, steering and governing the development of fair, balanced and understandable climate-related financial disclosures.

SSE has a set of Group Policies applicable across its entire organisation, of which Climate Change and Sustainability are two. Policies are reviewed and endorsed by Group Executive Committee and approved by the Board annually. Compliance with Group policies is also considered as part of the annual review of the effectiveness of the system of internal control (see page 161).

Aligning incentives to climate outcomes

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.

More on page 169

SSE's key developments in 2021/22:

- Board approves SSE's Net Zero Transition Plan, which can be found at **sse.com/sustainability**.
- Audit Committee now approves SSE's assurance arrangements for its TCFD disclosures, **see pages 153 and 155**.
- Board consideration of net zero in strategic development and principal decisions, **see pages 126 to 133**.

Timeline of climate governance in 2021/22

Some of the key decisions taken in the year; for further decisions made during the year, see pages 126 to 131 – Directors' Report:

Board-level

MAY 2021
Board approval of management-sponsored climate resolution proposed at the 2021 Annual General Meeting.

OCT 2021
SSHEAC review of climate adaptation plans.

NOV 2021
Board approval of the Net Zero Acceleration Programme.

Board approval of accelerated science-based targets.

JAN 2022
Board approval of SSE's updated 2030 business goals.

FEB 2022
Audit Committee approval of SSE's approach to climate-related financial disclosures and associated assurance arrangements.

MAR 2022
Board approval of SSE's Net Zero Transition Plan.

Executive-level

NOV 2021
Recommended Board approval of accelerated science-based targets which aligned to the SBTi 1.5°C power sector guidance.

JAN 2022
Recommended Board approval of SSE's updated 2030 business goals linked to the UN SDGs placing climate change at the centre of SSE's strategy, targets and actions.

FEB 2022
Group Risk Committee approval of SSE's governance and controls for climate-related financial disclosures.

MAR 2022
Recommended Board approval of SSE's Net Zero Transition Plan.

A strategy to support net zero

Providing profitable solutions to climate change

Through the delivery of its purpose SSE is directly addressing the energy transition to net zero and reflecting society's priorities on climate change. It achieves this through its strategy of developing, building, operating and investing in the electricity infrastructure and businesses needed in the transition to net zero.

With SSE's direct emissions (scope 1) cut by 78% since their peak in 2006/07, SSE has a well established decarbonisation strategy and has been transitioning its electricity generation portfolio to one dominated by renewable and low-carbon thermal sources of generation.

SSE's goal is to achieve net zero GHG emissions across its scope 1 and scope 2 emissions by 2040 (subject to security of supply requirements) and for remaining scope 3 emissions by 2050. These long-term net zero ambitions are supported by interim science-based targets aligned to a 1.5°C pathway. Progress against these targets is outlined on pages 54 to 55.

A plan for a net zero transition

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 its Net Zero Transition Report, which will be subject to shareholder vote each year. Progress in 2021/22 is disclosed across SSE's Annual and Sustainability Reports. A standalone summary Net Zero Transition Report has also been published to aid stakeholder engagement, which can be found at sse.com/sustainability.

Advocating for climate action

SSE actively and positively advocates for more ambitious climate change policy to achieve net zero, with a significant focus for advocacy activities in 2021/22 being linked to its Principal Partnership on COP26. SSE conducts its advocacy in line with the goals of the Paris Agreement and its own net zero strategy. It reviews trade association membership annually to ensure that the organisations of which it is a member also advocate in line with the ambitions of the Paris Agreement. In December 2021, it published the results of this annual review for the first time. Detail of advocacy activities undertaken across 2021/22 can be found throughout the Strategic Report of this Annual Report (pages 1 to 94) and in SSE's Sustainability Report 2022.

Investing in the net zero transition

In November 2021, SSE announced its Net Zero Acceleration Programme, which includes a £12.5bn, fully-funded capital investment plan between 2021 and 2026 alongside ambitious 2031 targets, aligned with net zero. The Programme is the practical application of SSE's strategy and seeks to cement SSE's position as a national clean energy champion, enabling the contribution of around 20% of the UK's revised 50GW offshore wind target and over 20% of the required investment in UK electricity networks, whilst deploying flexibility solutions to secure electricity supplies and exporting SSE's renewables capabilities overseas.

TCFD

Meeting TCFD recommended disclosures:

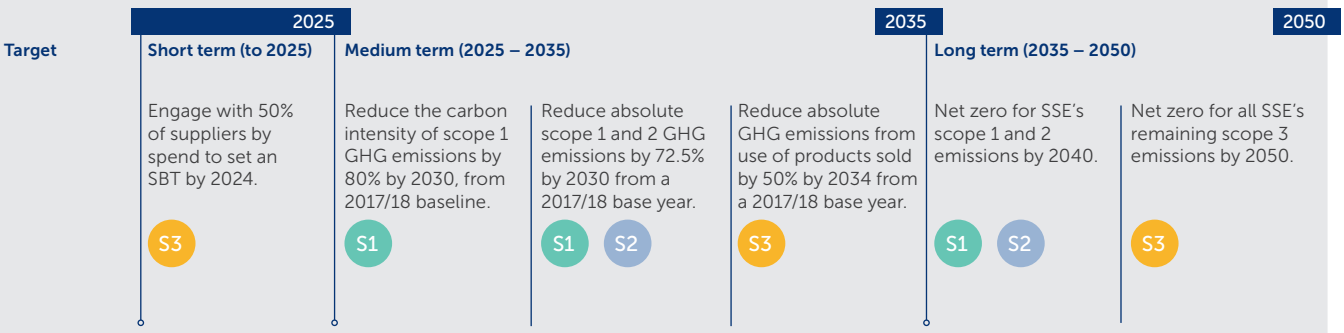
2. Strategy

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	■
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	■
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	■

All five of SSE's most material climate-related opportunities as outlined on pages 51 to 52 are factored into this strategic capital investment plan. In 2021/22, SSE invested £2.1bn of this planned £12.5bn capital investment. SSE's future capital investment plans, including those for any thermal assets, will be based on clear internal investment criteria, which ensures alignment to SSE's commitment to its core 2030 business goals including the targeted reductions in GHG emissions.

Net Zero Transition Plan pathway

S1 Scope 1 S2 Scope 2 S3 Scope 3



Note: for definitions of scopes 1, 2 and 3 SSE follows the GHG Protocol.
For further information on SSE's GHG and Water reporting criteria see sse.com/sustainability.

A sustainable approach continued
Protecting the environment continued

ENGAGEMENT IN ACTION
GOVERNMENT AND REGULATORS

FURTHER AND FASTER AT COP26

The cornerstone of SSE's engagement with government and regulators in 2021/22 was the Company's Principal Partnership with the UK Government on COP26. SSE was able to showcase its standing as a national clean energy champion in what was a significant stepping up of engagement activity in the lead-up to, during and after the Glasgow event. Through more than 150 direct COP-related engagements, SSE established 50 new business relationships, received more than 20 public endorsements from stakeholders, and formed 14 new partnerships.

Crucially, SSE was able to support a number of COP-linked policy announcements through its advocacy for decarbonisation of the energy sector to go further and faster. In the months following COP26, positive engagement, including meetings with the Secretary of State for Department of Business, Energy and Industrial Strategy and the Prime Minister, continued to maintain political resolve on the Glasgow Pact and highlight SSE's role in delivering national net zero targets.

SSE's Gregor Alexander and Alistair Phillips-Davies with Chancellor Rishi Sunak at COP26.

Financing climate strategies

SSE understands that investors are increasingly looking for robust mechanisms through which they can ensure their investments are sustainable and take account of climate-related risks. 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.

Aligning to taxonomy definitions

A developing UK Taxonomy

SSE supports the development of sustainable finance beyond green and sustainable debt markets. The establishment of a European Taxonomy is an important step forward in defining environmentally sustainable economic activity within equity markets and, as a UK-listed energy company, SSE is looking forward to the establishment of a UK Taxonomy based on the broad principles established by the EU. In support of a consistent, although UK-appropriate, taxonomy, SSE engaged constructively with several stakeholders in 2021/22, including HM Treasury and the Department of Business, Energy and Industrial Strategy to suggest ways in which the UK Taxonomy could be developed to be simpler, transparent and auditable. SSE has made the case that:

- Any inclusion of gas generating activities within the UK Taxonomy should demand carbon abatement;
- The operational expenditure metric be replaced with alternative metrics which are clearly defined and auditable, such as operating profit and loss metric which is captured within the UK adopted IFRS financial reporting standards;
- To ensure all relevant economic activity is captured, activities measured should encompass projects within joint control, such as equity investments into large scale offshore wind farm projects.

Assessing SSE's activities

To provide stakeholders with an initial indication of SSE's economic activities according to taxonomy criteria, SSE has undertaken preliminary work to assess its activities using the eligible activities of the EU Taxonomy as a basis. The table on page 47 provides an illustration of SSE's taxonomy aligned activities. Taxonomy eligible activities in 2021/22 are from SSE's onshore and offshore wind generation, hydro (run of river and pumped storage) as well as its networks transmission and distribution activities.
In 2021/22, the proportion of SSE's taxonomy-eligible activities across the different measures were: adjusted operating profit, 84%; adjusted investment and capital expenditure, 86%; and, revenue, 30%.

The reason that SSE's taxonomy-eligible activity appears low in relation to its revenue, is primarily due to Energy Portfolio Management trading activity and the sale of power to end customers, both of which are high volumes, with pass through costs and lower margins than in larger businesses such as renewables generation and networks businesses. SSE believes that revenue is a poor measure in assessing its economic activity and that the most appropriate measures of its taxonomy-eligible economic activity are in relation to its capital investment and its operating profit.

The taxonomy non-eligible activities are associated with SSE's thermal generation and gas storage businesses. Other activities that do not currently align may qualify for taxonomy alignment in the future.

Providing the UK Taxonomy does not deviate significantly from the EU model, SSE expects its assessment of its taxonomy eligible activities disclosed on page 47 to be consistent with a future UK framework.

Financial impact of SSE's taxonomy activities

SSE's reported segments (a)	Taxonomy eligible activity(a)	Revenue (b)		Adjusted operating profit (c)		Adjusted investment and capital expenditure (d)	
		£m	%	£m	%	£m	%
SSEN Transmission	Transmission of electricity	589.7	7	380.5	25	614.4	32
SSEN Distribution	Distribution of electricity	954.6	11	351.8	23	364.8	19
SSE Renewables	Electricity generation	357.4	4	568.1	37	674.3	35
EPM	As route to market for SSE Renewables	713.6	8	(5.6)	0	0.8	0
Total taxonomy eligible activities		**2,615.3**	**30**	**1,294.8**	**84**	**1,654.3**	**86**
SSE Thermal	Thermal generation	844.2	10	306.3	20	129.3	7
Gas Storage	Supply of energy	8.7	0	30.7	2	2.1	0
EPM	As route to market for SSE Thermal	713.6	8	(5.6)	0	0.8	0
Taxonomy non-eligible activities		**1,566.5**	**18**	**331.4**	**22**	**132.2**	**7**
Business Energy		2,289.0	27	(21.5)	(1)	35.2	2
SSE Airtricity		1,177.3	14	60.4	4	4.6	0
Distributed Energy		176.9	2	(10.9)	(1)	26.6	1
EPM	As route to market for Business Energy	713.6	8	(5.6)	0	0.8	0
Corporate unallocated		69.7	1	(111.8)	(7)	78.7	4
Total taxonomy partially/not-aligned activities		**4,426.5**	**51**	**(89.4)**	**(6)**	**145.9**	**8**
Total continuing operations		**8,608.2**	**100**	**1,536.8**	**100**	**1,932.4**	**100**

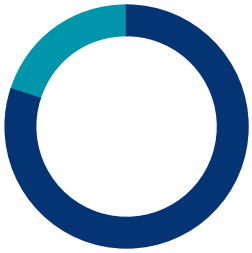
Notes:
(a) Alignment is based on segmental reporting in SSE's financial year end statements.
(b) Revenue: derived from the disaggregation of revenue from contracts by customers, in line with the requirements of IFRS 15 "Revenue from Contracts with Customers" (see note 5.1.1).
(c) Adjusted operating profit/loss: calculated as adjusted operating profit/loss related to the businesses aligned with the taxonomy categories (see note 5.1.2).
(d) Adjusted investment and capital expenditure: calculated as adjusted capital expenditure related to assets or processes associated with taxonomy-eligible economic activities that is accounted for based on IAS 16, IAS 38 and IFRS 16 and thereby included within adjusted capital expenditure (see note 5.1.3).

Taxonomy eligible activities at a glance

Revenue

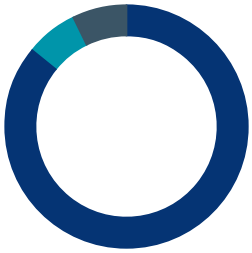
Eligible Not eligible Not aligned

Adjusted operating profit



Eligible Not eligible Not aligned

Adjusted investment and capital expenditure



Eligible Not eligible Not aligned

Assumptions

SSE's accounting policies for these calculations are based on the EU Taxonomy Regulation and delegated acts and available guidelines from the UK Government.

- **Linkage principle**
  In calculating each taxonomy-eligible proportion, a 'linkage principle' has been applied, stipulating that any revenue, operating profit/loss or capital expenditure that can be justifiably linked to an identified taxonomy economic activity can be classified as taxonomy-eligible. Using this principle, revenue and operating profits from SSE's balancing activities, hedging, and trading can be linked to the EU taxonomy eligible activities when the activity is undertaken to directly support the eligible activities.
- **Proxies**
  Where the financial numbers are not appropriately split into Taxonomy compliant activities, namely for Energy Portfolio Management energy trading and power sales activities, a proxy has been used to estimate the ratio of purchased power volumes from renewable versus non-renewable assets applied to revenue and operating profit/loss.
- **Materiality**
  The analysis has been prepared by applying a top-down review of SSE's activities and the alignment with existing segmental reporting within taxonomy eligible activities. There are some activities that fall below specified thresholds which are not taxonomy eligible. As SSE's reporting processes and controls are refined by the implementation of the UK Taxonomy, it is expected that some activities will be reclassified if they move above certain materiality thresholds.
- **UK taxonomy eligibility**
  SSE's transmission and distribution activities do not currently qualify as EU taxonomy eligible due to the use of Polychlorinated Biphenyls (PCBs). SSE has committed to removing PCBs within its business 31 December 2025 in line with recent UK legislation. It is therefore expected that the UK taxonomy will include these activities as taxonomy eligible.

A sustainable approach continued
Protecting the environment continued

Material climate impacts

SSE assesses the climate impact on its operations over the short (up to three years), medium (four to 10 years) and long term (up to 30 years) from the perspective of market, policy or regulatory transition risks and opportunities and the physical risks of a changed climate.

Material climate-related opportunities and risks (pages 50 to 53) have the potential to significantly impact SSE's business, strategy and financial planning.

The material opportunities (pages 50 to 51) relate to the role that renewables, transmission and distribution electricity networks, and thermal play in supporting the transition to net zero. The material risks (pages 52 to 53) are associated with the physical impacts of extreme or changing weather conditions on renewable and network operations; alongside transition risks related to renewable wholesale prices and resilience of thermal power generators to changing policy.

SSE has aligned its disclosures related to opportunities to its Net Zero Acceleration Programme out to 2026, where opportunities are more certain. Beyond this date a description of further opportunities has been provided, though these have not been quantified due to the inherent uncertainty in longer-term forecasting. Risks identified have been quantified based on SSE's exposure to the risk as at 31 March 2022.

Further information on each climate-related opportunity and risk is also presented in SSE's Sustainability Report 2022 and CDP Climate Change Programme submission.

Explaining recommended disclosure Strategy 2.c

SSE believes it is partially compliant with TCFD recommended disclosure Strategy 2.c as it describes the resilience of the organisation to the key identified climate-related risks on pages 52 and 53. However, these risks followed a process of bottom up analysis and therefore does not meet the specific requirement to take into consideration different climate related-scenarios. SSE is still in the process of developing appropriate macro enterprise-level climate scenarios, building on climate scenario analysis performed in the past, with a view to complying from 2023. SSE's previous reports, *Post Paris*, published in July 2017, and *Transition to Net Zero*, published in November 2019, assessed the resilience of SSE's electricity businesses and gas businesses to different warming scenarios respectively. These reports can be found at sse.com/sustainability sse.com/sustainability.

SSE's key developments in 2021/22:

- SSE announced its £12.5bn Net Zero Acceleration Programme aligned to its net zero ambitions, **see pages 4 to 5**.
- SSE set accelerated science-based targets aligned to a 1.5°C pathway, **see pages 54 and 55**.
- SSE reviewed its climate-related risks and opportunities in its Annual Report, **see pages 50 to 53**.

ENGAGEMENT IN ACTION
SHAREHOLDERS AND DEBT PROVIDERS

ENHANCING CLIMATE ENGAGEMENT WITH SHAREHOLDERS

Having worked closely with investor group Climate Action 100+ over 2020/21, SSE proposed an enabling resolution to its July 2021 Annual General Meeting (AGM) asking shareholders to accept and approve the Company's proposal to adopt a plan to become net zero across its scope 1, 2 and 3 GHG emissions by 2050 or sooner. The resolution received 99.96% of the votes cast in favour and established a framework for SSE to propose a resolution at each AGM for shareholders to receive, consider and express non-binding advisory approval of SSE's Net Zero Transition Report. To aid the vote, SSE published a Net Zero Transition Plan in March 2022, from which its Net Zero Transition Reports will be based. The Plan sets out defined targets and actions to allow for clear and simple disclosures which will facilitate high quality engagement. Ahead of the 2022 AGM, SSE will undertake a programme of shareholder engagement on the Net Zero Transition Report, which will be published in June 2022.

Climate-related opportunity and risk management

Identifying and assessing climate-related opportunities and risks

SSE's Group Risk Management Framework is complemented by a specialist, and longer-term, TCFD climate-related risk assessment process that provides the framework for the identification and assessment of climate-related opportunities and risks.

To identify and assess climate-related opportunities and risks SSE used the outputs from senior business leader assessments of climate opportunity and risk alongside risk assessment workshops held by business units to test relevance, materiality and potential financial impact of climate issues. Following the completion of these activities a long list of climate-related opportunities and risks was identified.

To test the relevance of the long list of climate-related opportunities and risk, the risk approach used climate-related trends in the external environment, stakeholder perspectives (including regulatory requirements); internal risk assessment outputs and climate-related influencing factors in the Group Risk Management framework.

To test materiality a significance test was conducted that assessed potential financial impact and the likelihood of occurrence for each opportunity and risk. This assessment led to the definition of the final list of material climate-related risks and opportunities for SSE (pages 50 to 53).

Managing climate-related opportunities and risks

SSE has a series of actions that enable it to realise the climate-related opportunities and has a set of controls and financial mitigations in place to reduce the climate-related risks. This risk management section (pages 49 to 53) combined with SSE's Sustainability Report 2022 and CDP Climate Change response provides further information on these actions and controls.

Integrated climate-related risk assessment

SSE's Group Risk Management Framework (page 161) ensures the management of risks that can threaten the achievement of SSE's strategic objectives, including those that are related to climate change. Climate Change is one of SSE's Group Principal Risks, with scenarios related to both physical and transition risks posed by climate change included as part of SSE's viability assessment (page 70). Climate-related influencing factors and key developments continue to be considered against all relevant Group Principal Risks (pages 71 to 81).

TCFD

Meeting TCFD recommended disclosures:

3. Risk Management

a) Describe the organisation's processes for identifying and assessing climate-related risks.	■
b) Describe the organisation's processes for managing climate-related risks.	■
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	■

SSE's key developments in 2021/22:

- Group Risk Committee approves the process and controls of SSE's climate-related risk and opportunities, **see page 44**.
- SSE's climate-related physical risks were assessed as part of the Group Risk Management process, **see pages 68 to 81**.
- SSE achieved an 'A' for its CDP Climate Change disclosure, which provides detail on its TCFD disclosures. **See sse.com/sustainability** for the submission.

Material climate-related opportunities and risks

The following tables, on pages 50 to 53, present SSE's quantification of the potential financial impact of its material climate-related opportunities and risks. More detail to these disclosures is presented in SSE's CDP Climate Change Programme submission 2022.

For the opportunities and risks identified, where relevant, SSE has outlined the time frame for investment in climate-related activities as well as the time frame for the impact of that investment, when the benefits will be realised. The time frames are:

- Short term (up to three years)
- Medium term (four to 10 years)
- Long term (up to 30 years)

These time frames have been determined based on a number of factors, including: SSE's Net Zero Acceleration Programme; market, policy and regulatory frameworks; and forecasted physical impacts of climate change.

A sustainable approach continued
Protecting the environment continued

Climate-related opportunities

VALUABLE FLEXIBLE HYDRO

Investment: Medium term
Impact: Medium/long term

Context of the opportunity

Increasing volumes of intermittent wind energy will require support from flexible generators that provide system services, such as short-term reserve, frequency and long-duration energy storage services. The opportunity exists, from existing hydro expertise, to develop long-duration, low-carbon flexibility solutions that provide significant enduring value to the GB electricity system.

How SSE can realise this opportunity

For SSE's existing hydro portfolio, ongoing investment in maintenance, upgrades and repowering will optimise the provision of low carbon flexibility.

SSE also has an important development option for large-scale, long-duration pumped hydro storage at Coire Glas in Scotland, with planning consent for a 1.5GW capacity project and c.30GWh of storage capacity potential. This would more than double existing pumped hydro storage capacity in GB. SSE is working with Government and the regulator to establish a market mechanism that would unlock investment into long-duration storage projects such as Coire Glas given the critical role they can play in securing low-carbon energy supplies in the UK.

Potential financial impact

SSE's current hydro generation capacity of 1.5GW had an adjusted operating profit of £293.1m and adjusted EBITDA of £324.7m in the year ended 31 March 2022. In 2021/22 SSE invested c.£50m on existing hydro asset maintenance and repowering.

Early-stage development expenditure is already being incurred on Coire Glas, with the total capital cost for development expected to be in excess of £1bn. The timing of that investment, and returns generated, will depend on the emergence of suitable market mechanisms to stimulate this investment in long-duration storage.

ACCELERATED TRANSMISSION GROWTH

Investment: Medium term
Impact: Medium/long term

Context of the opportunity

Significant growth in renewable wind in the north of Scotland requires significant expansion of the north of Scotland electricity transmission network, to transport the renewable electricity from the sources of generation to the sources of demand. In April 2022, the UK Government set out in the British Energy Security Strategy that it would ensure Ofgem expedites its approvals process to build networks in anticipation of major new sources of generation and demand. This is demonstrated by the Scottish Government's proposed target of 8-12GW of additional onshore wind by 2030, announced in November 2021, and the Crown Estate Scotland award of seabed leases in January 2022 of c.25GW of new offshore wind capacity.

How SSE can realise this opportunity

SSEN Transmission's current RIIO-T2 business plan to 2026 envisages expanding and reinforcing the existing network for major new sources of generation. Regulatory approvals are in-flight for further projects such as reinforcements to Skye, Argyll and the Eastern HVDC offshore link which will connect the North of Scotland directly to demand centres in England.

Beyond the current business plan, SSEN Transmission is working closely with stakeholders to determine the network expansion required to meet Government ambitions and new development projects. This will determine the scale of investment required in the next regulatory price control (2026 and 2031).

Potential financial impact

The latest RIIO-T2 Price Control Financial Model, submitted to Ofgem in November 2021, envisages spending at least £4bn to expand and reinforce the existing network, with regulator-approved projects that are in-flight. With this investment, the Regulated Asset Value (RAV) of SSEN Transmission is expected to reach in excess of £6.5bn by the end of the price control (2026).

Between 2026 and 2031 it is expected that RAV will reach between £8-10bn and there is the potential, if the additional expenditure is agreed, for RAV to reach £12bn in this time period. SSEN Transmission earns a return on its RAV, therefore growth of the RAV should result in earnings growth in future periods, subject to future regulatory earnings agreements.

ACCELERATED WIND INVESTMENT

Investment: Medium term
Impact: Medium/long term

Context of the opportunity

International agreements to decarbonise electricity systems, alongside increased energy security and the need to reduce reliance on imported fossil fuels enhance the case for accelerated wind deployment. The UK Government has ambitions for up to 50GW of installed offshore wind capacity by 2030 (including up to 5GW of floating offshore wind) and the Irish Government has targeted 4GW of incremental onshore wind and 5GW of offshore wind capacity by 2030. In the long term, the Climate Change Committee's balanced net zero pathway suggests 95GW of UK offshore wind by 2050.

How SSE can realise this opportunity

SSE aims to build a renewable energy portfolio that generates at least 50TWh of electricity a year by 2030. SSE's accelerated capital investment plan (the Net Zero Acceleration Programme) published in November 2021 aims to double installed renewable capacity to 8GW (net) by 2026 and targets at least 13GW (net) of installed renewable capacity by 2026. In the longer term, SSE is exploring opportunities in the UK, Ireland and internationally.

Potential financial impact

SSE's existing wind generation portfolio (2.5GW capacity) had an adjusted operating profit of £275.1m and adjusted EBITDA of £470.4m in 2021/2022. Between 2021 and 2026, SSE's Net Zero Acceleration Programme plans to invest over £4bn in c.4GW (net) of new wind capacity, supporting a target of c.9GW (net) of new wind capacity by 2031. This planned investment is expected to significantly contribute to an 11-12% EBITDA compound annual growth rate in renewables across the five-year period.

DRIVING DISTRIBUTION TRANSFORMATION

Investment: Medium term
Impact: Medium/long term

Context of the opportunity

The UK Government's Net Zero Strategy accelerates the shift to zero emission vehicles, banning new petrol or diesel cars from 2030. National Grid's Future Energy Scenarios (2021) anticipates 12 million electric vehicles and 4 million residential heat pumps in GB in 2030. Depending on the scenario, there is potential for a five to ten-fold increase in annual load spend between now and 2038.

How SSE can realise this opportunity

SSEN Distribution's draft RIIO-ED2 business plan for the period 2023 – 2028 establishes an investment and innovation programme that will enable customers to connect their electric vehicles reliably to local electricity grids. To predict the scale of connections Distribution Future Energy scenarios suggest that between 2020 to 2030, the number of EVs in SSEN's Distribution areas may increase from 30,000 to 0.85-2.3 million and for heat pumps from under 50,000 to 0.27-1.05 million.

Potential financial impact

Over the RIIO-ED2 period to 2028, SSEN Distribution expects to invest c.£4bn in distribution networks resilience and reinforcement. This is expected to increase RAV to c.£5.5bn by 2026 with a further £7-8bn by 2031, subject to regulatory determination and required future load spend. SSEN Distribution earns a return on its RAV, therefore growth of the RAV should result in earnings growth in future periods, subject to future regulatory earnings agreements.

VALUABLE FLEXIBLE THERMAL

Investment: Medium term
Impact: Medium/long term

Context of the opportunity

As the electricity system decarbonises, increasing volumes of intermittent wind energy requires support from flexible generators that provide system services, such as short term reserve, frequency, security of supply and price stability. There is the opportunity to repurpose SSE's existing gas-powered electricity generators, as well as invest in new low-carbon thermal generation assets. The UK Government's 10 point plan for a Green Industrial Revolution involves a £1bn fund to facilitate CCS deployment in two industrial clusters by the mid-2020s and a further two by 2030 and a Net Zero Hydrogen Fund with £240m up to 2024/25.

How SSE can realise this opportunity

SSE is developing plans to support the UK's transition to net zero and accelerate the decarbonisation of some of the UK's most carbon intensive regions. SSE is progressing projects in the UK cluster sequencing pro-gramme with carbon capture power plants at Keadby in the Humber and Peterhead in the North of Scotland. SSE is also developing plans for a hydrogen power plant at Keadby and repurposing its Aldbrough Gas Storage site for the safe storage of hydrogen.

Potential financial impact

SSE's Net Zero Acceleration Programme seeks to invest £0.6bn in low-carbon flexible thermal generation, mainly carbon-capture technology but with some development investment in hydrogen projects ahead of potential investment decisions in the second half of the decade. Returns from CCS and hydrogen will depend on the level and nature of government support mechanisms, and plant availability, future consumer demand, generation supply mix within the system and energy commodity price volatility.

A sustainable approach continued
Protecting the environment continued

Climate-related risks

VARIABLE WIND GENERATION RISK

Impact: Short/medium/long term

Factors that impact business

Longer term changes in climate patterns cause sustained higher temperatures that may result in lower rainfall and reduced wind levels. These changes may impact SSE's renewable output and associated earnings. Weather variability is a perennial feature of risk for SSE as the largest generator of renewable electricity in UK and Ireland.

Potential impact to SSE

SSE's long-term monitoring of weather changes and current forecasts, established that a plausible scenario of significantly below-average rainfall and low wind combined may result in reduced renewable generation output and associated earnings. In the first half of 2021/22 this risk played out, as SSE experienced one of the driest and calmest summer periods (April to September) on record. By the end of September 2021, Renewable volumes were 30% below plan. Some of this volume was recovered during the winter period, with Renewable volumes ending the year c.13% down on plan.

For the future, it is expected that given SSE's planned trebling of renewables capacity by 2031 that this risk will continue to impact SSE.

Potential financial impact

The impact of this dry and calm period in this financial year was a reduction to adjusted operating profit from plan of c.£140m through the summer period. While the business recovered some of the volume through the second half of the financial year, the financial result for the year was c.£130m below plan.

Further significant and sustained weather patterns similar to this could impact the recoverable value of the assets. A sensitivity to the wind goodwill impairment model was performed with a 15% adverse volume variance, which indicated significant headroom on the carrying value of the assets (see note 15).

There is still potential for events such as those that took place in 2021/22 to occur in the future, and therefore this remains a potential financial impact to SSE Renewables in the short, medium and long term.

STORM DAMAGE NETWORK RISK

Impact: Short/medium/long term

Factors that impact business

Increased severity of extreme weather events, such as storms, floods and heat waves bring prolonged extreme temperatures, wind or rainfall. This may damage or stress network assets resulting in additional costs to repair and maintain the network and the loss of incentive revenue for distribution operators.

Potential impact to SSE

The impact of weather is a perennial feature of operating an electricity distribution network in the north of Scotland and south of England. In an exceptional 2021/22 winter season, seven storms were named by the Met Office including three, Storm Arwen, Storms Malik/Corrie and Storms Eunice/Franklin that became Red Alert events, the most in any year since SSE's records began. Each of these events impacted over 100,000 customers, with a significant number for a multi-day period. Future climate models predict that climate change will continue to bring extreme events such as storms, floods and heatwaves which will impact network assets.

Potential financial impact

Although the impact on the Interruptions Incentive Scheme (IIS) revenue is mitigated during the most severe weather events, there are significant additional costs incurred through the provision of compensation, customer welfare and upweighted operational requirements. In 2021/22, the total cash expenditure incurred on storm responses was £45m, including £18.7m in enhanced guaranteed standards compensation payments, up from the mandated £13.3m, reflecting the extreme nature of the impact on customers.

It is recognised that 2021/22 brought 'once in a generation' levels of impact and disruption, but with climate impacts accelerating the potential remains for similar events to occur across the network in the short, medium and long term, resulting in potential financial impact. As SSE invests in its networks infrastructure, the impacts of climate change are being built into its capital and operational investment plans, including a Climate Resilience Strategy published as part of the RIIO-ED2 Distribution business plan.

ACCELERATED GAS CLOSURE RISK

Impact: Medium term

Factors that impact business

More aggressive climate change policy may bring forward the closure of unabated gas generation from 2030. The UK Government's Net Zero Strategy outlines plans to decarbonise the power sector by 2035 with a target of 95% of GB electricity to be low carbon by 2030. It is plausible that to meet climate change commitments the UK Government (and potentially the Irish Government too) may strengthen climate change policies to require unabated gas generation to cease in the 2030s.

Potential impact to SSE

SSE's existing 5.3GW fleet of installed gas- and oil-fired generation will be nearing the end of its expected life by the end of the 2020s. However, 2.3GW of Combined Cycle Gas Turbine (CCGT) capacity will still be in operation in 2030.

It is a plausible scenario that this capacity will not be able to generate beyond 2030 without low-carbon abatement technology. For assets currently assumed to have a life beyond 2030, it is possible that SSE could invest further in low-carbon abatement technology to prolong their life beyond this date.

However, for the purposes of quantifying this risk, it is assumed that the financial impact of this policy change is the early closure of the remaining gas assets in 2030.

Potential financial impact

Due to market conditions during FY21/22, the short term value of these assets has increased, resulting in the reversal of historic impairments to unabated gas plant of £331.6m. Following this impairment reversal, the value of unabated gas plant as of 31 March 2022 was £1.1bn. This includes Keadby 2, Great Island and legacy GB CCGTs. Of SSE's legacy CCGTs, the current financial assumption is that these will either close by 2030, or SSE will not have a carrying value in the joint venture investment beyond 2030.

The potential impact of this policy change to SSE's impairment model at 31 March 2022 would be an impairment of £41.5m to Great Island and no impairment to Keadby 2 if it were assumed these plant would close in 2030 (see note 15). In addition to an impairment charge, SSE's decommissioning provisions would reduce by £8.4m at 31 March 2022 if the forecast closure date was brought forward (see note 20).

WIND-CAPTURE MARKET RISK

Impact: Medium term

Factors that impact business

In net zero consistent scenarios, the price wind energy can capture is forecast to reduce as more marginal cost wind generation is connected.

All credible pathways to net zero in the UK and beyond assume the dramatic scaling up of wind (especially offshore) generated electricity. This significant growth in wind power output without a corresponding increase in demand represents a potential climate-related transition risk. As wind generation capacity increases, the market (and SSE) expects the average electricity price which wind power receives ('wind capture price') to be less than the average price for electricity ('baseload price'). As wind becomes the dominant source of electricity output it will define the market price, so the volatility of electricity prices correlates to wind output, both high and low. While this is expected in the medium term, and is factored into investment decisions, there is a risk that this lower average price for wind output is more extreme than what the market (or SSE) expects. In the long term, and with careful market design reform, the effect of the wind capture price will stabilise as more low carbon technologies adapt their patterns of demand according to the price signal sent by the market. In its British Energy Security Strategy, the UK Government committed to a Review of Electricity Market Arrangements which will seek, among other things, to ensure future low-carbon generation is fairly remunerated.

Potential impact to SSE

The effect of a wind capture price only materially impacts wind generation that is fully exposed to market prices (or 'merchant' wind output), as it is not supported by government-backed fixed price mechanisms such as the Contracts for Difference. Assuming a build out rate of wind generation assets in SSE's renewable project pipeline page 85, it is assumed there will be 10TWh of merchant wind output in 2029/30.

The scale of any impact of a change to the expected wind capture price would therefore be a function of the assumed wind capture price and the amount of merchant wind electricity generated.

Potential financial impact

The book value of the Group's wind assets at 31 March 2022 is £4.0bn. A sensitivity to the wind goodwill impairment model was performed with a sustained 10% reduction to wind capture price. This sensitivity scenario indicated significant headroom on the carrying value of the assets (see note 15).

Targeting improved climate performance

Carbon performance table

This table, taken in conjunction with the energy use information in the Energy use table on page 57, represents SSE's disclosures in line with the UK Government Streamlined Energy and Carbon Reporting requirements. It details SSE's direct and indirect GHG emissions (scopes 1, 2 and 3) performance (measured in million tonnes of carbon dioxide equivalent – $MtCO_2e$), provided as total emissions as well as split out by UK and Irish activity. It also provides a carbon intensity measure based on direct GHG emissions released for each unit of electricity SSE produced. For more information on SSE's GHG emissions data and how it is produced, see SSE's GHG and Water reporting criteria available at sse.com/sustainability.

	Unit	2021/22	2020/21
Total GHG emissions	$MtCO_2e$	**9.93**(A)	11.03 (B)
Scope 1 GHG emissions – total (UK/Ire)	$MtCO_2e$	**5.75**(A) **(4.22/1.53)**	7.10 (B) 6.00/1.10
Scope 2 GHG emissions – total (UK/Ire)	$MtCO_2e$	**0.49**(A) **(0.49/<0.01)**	0.54 (B) (0.54/<0.01)
Scope 3 GHG emissions – total (UK/Ire)	$MtCO_2e$	**3.69**(A) **(2.86/0.83)**	3.39 (B) (2.66/0.73)
Scope 1 GHG emissions intensity	gCO_2e/kWh	**259**(A)	256
Total renewable generation output[1] – total (UK/Ire)	GWh	**8,799 (7,602/ 1,197)**	9,649 (8,295/1,354)
Total non-renewable generation output[2] – total (UK/Ire)	GWh	**13,356 (10,394/2,962)**	18,045 (15,612/2,433)
Total generation output – total (UK/Ire)	GWh	**22,155 (17,996/4,159)**	27,694 (24,014/3,680)

1 Totals include pumped storage and biomass output, and exclude GB constrained off wind.
2 Includes 100% output from Seabank power station up to 31 September 2021 when SSE's power purchase agreement to purchase ended, and then excludes output from SSE's 50% ownership share from October 2021 onwards.
(A) This data was subject to external independent assurance in 2022. The Limited Assurance Report can be found at sse.com/sustainability.
(B) This data was subject to external independent assurance in 2021. The Limited Assurance Report can be found at sse.com/sustainability.

Increasing climate ambition

In 2021/22 SSE announced more stretching climate targets, ensuring its ambitions continue to align to the developing climate science. SSE is now targeting net zero GHG emissions across its scope 1 and scope 2 emissions by 2040 (subject to security of supply requirements) and for remaining scope 3 emissions by 2050.

On its pathway towards its longer-term net zero ambitions, SSE has a series of carbon targets which are approved by the Science Based Targets Initiative (SBTi). Originally set in April 2020, these targets were aligned to a 'well below 2°C' pathway which was the most stretching pathway for the power sector available from SBTi at the time. Since then, the SBTi has published a new pathway for the power sector, allowing electric utilities to set science-based targets in line with a 1.5°C pathway. In November 2021, SSE announced updated targets aligned to this new 1.5°C pathway and approved by the SBTi. Progress against these more stretching SBTi-approved targets is detailed within this section and makes up part of SSE's progress against its Net Zero Transition Plan.

In October 2021, SSEN Distribution became the first UK Distribution Network Operator to set science-based targets in line with a 1.5°C pathway, verified by the SBTi. These targets play an important role in supporting the SSE Group's net zero ambitions, alongside the 1.5°C-aligned, SBTi-approved carbon targets set by SSEN Transmission in August 2020.

GHG emissions performance

In 2021/22, SSE's total GHG emissions consisted of 58% scope 1 emissions, 5% scope 2 emissions and 37% scope 3 emissions.

TCFD

Meeting TCFD recommended disclosures:

4. Metrics and Targets

a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

SSE's total GHG emissions decreased by 10% between 2020/21 and 2021/22. The most material contributing factor was the reduction in energy demand as a result of market conditions and the weather which led to this reduction in GHG emissions. Although SSE's GHG emissions fell over 2021/22, the impact of weather and demand can create exceptional years of change. SSE's overall strategy is to cut GHG emissions in line with its 1.5°C-aligned carbon targets and its 2030 Goals.

Between 2020/21 and 2021/22, GHG emissions arising from electricity generation fell by 19%. These emissions continue to make up 99% of SSE's scope 1 emissions. This was predominantly a result of two factors:

1. The ending of SSE's power purchase agreement contract with Seabank gas-fired power station on 30 September 2021. As a result 50% of emissions from this power station are now reported in SSE's scope 3 GHG emissions category, based on SSE's ownership share; and

2. Output from SSE's thermal generation plant* was 26% lower compared to the previous year, due to planned and unplanned outages and market conditions.

* Includes 100% output from Seabank power station up to 31 September 2021 when SSE's power purchase agreement to purchase ended, and then excludes output from SSE's 50% ownership share from October 2021 onwards.

SSE's total scope 1 and 2 GHG emissions combined were 6.24MtCO_2e in 2021/22, an 18% reduction from the previous year and 44% reduction from the 2017/18 base year of SSE's SBTi-approved carbon target to reduce absolute scope 1 and 2 GHG emissions by 72.5% between 2017/18 and 2030. Overall, SSE's scope 1 and 2 GHG emissions have reduced significantly compared to the base year, reflecting lower output from thermal power stations and the closure of SSE's last coal-fired power plant in March 2020.

Total scope 3 emissions increased by 9% between 2020/21 and 2021/22. This is due to the inclusion of 0.3MtCO_2e emissions from Seabank gas-fired power station from October 2021 onwards. Previously, the power purchase agreement between Seabank and SSE required emissions associated with Seabank to be accounted as scope 1 emissions. From the end of the power purchase agreement in September 2021, the emissions from Seabank are defined as scope 3 emissions according to SSE's continuing 50% ownership share.

GHG emissions from gas sold to customers, which contribute 62% of SSE's scope 3 emissions in 2021/22, decreased by 3%. This was a result of lower market demand. This means GHG emissions from gas sold have reduced by 10% from 2017/18. SSE's SBTi-approved target is to reduce GHG emissions from gas sold by 50% between 2017/18 and 2034.

Change in SSE's scope 1 and 2 GHG emissions since 2017/18

-44%

Scope 1 GHG emissions intensity

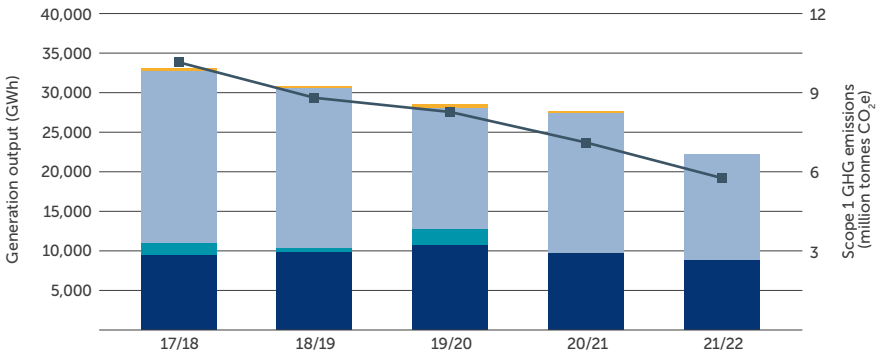
SSE's scope 1 GHG emissions intensity increased by 1% to 259gCO_2e/kWh from 256gCO_2e/kWh the previous year. There are a series of factors that contribute to the calculation of carbon intensity.

Output from SSE's renewable generation portfolio (inc. pumped storage and biomass) fell to 8.8TWh in 2021/22, from 9.6TWh the previous year. This was driven by exceptionally still and dry weather conditions, with the summer of 2021 being one of the least windy across most of the UK and Ireland and one of the driest in SSE's Hydro catchment areas in the last 70 years.

Output from SSE's thermal generation also fell, and by a greater extent than for renewables output. This meant that the proportion of total generation output contributed to by renewable generation increased to 40% from 35% in 2020/21. The fall in thermal output did not result in a corresponding fall in the GHG emissions intensity, because there was increased generation output from the most intensive generating plant in SSE's portfolio, including from carbon intensive peaking plant in Ireland.

SSE remains on track to achieve its SBTi-approved target to reduce scope 1 GHG emissions intensity by 80% between 2017/18 and 2030, having reduced it by 16% in 2021/22 from the 2017/18 base year levels of 307 gCO_2e/kWh.

GENERATION OUTPUT AND SCOPE 1 GHG EMISSIONS



* In 2021/22, oil-fired generation output contributed around 6% of gas and oil output.

Change in SSE's scope 1 GHG emissions intensity since 2017/18

-16%

Working with supply chain partners to drive climate action

One of SSE's SBTi-approved targets is to engage with 50% of suppliers (according to financial expenditure) to set their own science-based targets by 2024. Following on from the workshops held in 2020/21, which facilitated dialogue around science-based targets, during 2021/22, SSE continued to engage with key suppliers through direct engagement and hosted a live webinar, in partnership with the Supply Chain Sustainability School, on the topic of carbon. At 31 March 2022, 48% of SSE's suppliers (by value) had set or committed to set their own science-based targets through the SBTi. Over 2021/22, SSE and CDP Supply Chain collaborated to deliver its first supplier webinar focusing on carbon reporting, which reached over 50 key suppliers and contributed to the highest supplier response rate SSE has had since beginning supply chain reporting.

SSE's key developments in 2021/22:

- SSE total scope 1 GHG emissions reduced by 10%, **see page 54**.
- SSE's Net Zero Transition Plan sets it GHG targets and actions, see **sse.com/sustainability**.
- SSE's Net Zero Transition Report summarises SSE's disclosed progress against its Net Zero Transition Plan, see **sse.com/sustainability**.

Conserving the natural environment

A strategy for environmental protection

While SSE's GHG emissions are its most material environmental impact, it also has wider impacts on the natural world that must be carefully managed. SSE considers these environmental impacts through its Environment Strategy, which sits within SSE's sustainability hierarchy outlined on page 39. The strategy is founded on robust environmental management and governance, with three core environmental SDGs providing the framework for sustainable environmental development: SDG14 Life Below Water; SDG15 Life Above Land; and, SDG12 Responsible Consumption and Production.

Detail on SSE's environmental impacts and how it is managing them is outlined in this section, as well as in SSE's Sustainability Report 2022.

Protecting the natural environment

SSE operates in some of the UK and Ireland's most remote areas which are home to a wide variety of valuable ecosystems and habitats. It works to manage its impacts of its activities to ensure it protects and, where possible enhance these environments.

All of SSE's Business Units have signed up to no net loss in biodiversity by 2023 and net gain in biodiversity by 2025 on onshore Large Capital Projects. As part of its approach to biodiversity net gain, SSEN Transmission is implementing its optioneering toolkit which allows consideration of biodiversity at the earliest stages of development and which has won a number of external awards.

With the increasing focus on how to effectively value nature, which has included the publication of the Taskforce for Nature-related Finance Disclosures (TNFD) Beta framework in March 2022, SSE is closely monitoring developments in this area and is now a member of the TNFD Forum, a multi-disciplinary consultative group of over 350 members, to help inform its next steps. You can read more about SSE's initiative to protect and enhance the natural environment in its Biodiversity Report and Sustainability Report 2022.

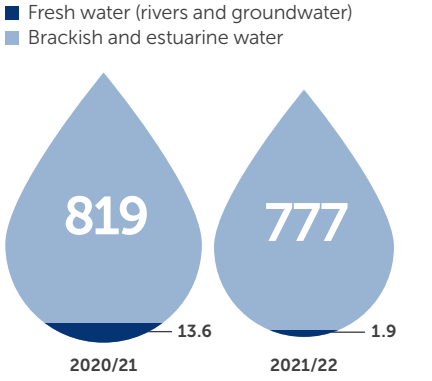
Managing water use

Water plays a significant role in SSE's operations, being used in the energy production process including as a coolant in power stations and a source for power generation in hydroelectric generators. SSE also uses water as an amenity in its buildings.

SSE has robust policies and processes in place, and works closely with environmental regulators, to ensure that it uses water in a sustainable way in its operations. SSE has an ongoing investment programme within its hydro operations to improve efficiency, enhance water capture and minimise spill from its plant. None of SSE's thermal and hydro generation assets impact on water stressed areas, as defined by the relevant environmental regulators in the jurisdictions in which they operate.

In 2020/21, total water abstracted by SSE fell to 23,896 million m³ from 26,032 million m³ the previous year. This was largely due to a reduction in water passing through SSE's hydro generation plant as a result of lower levels of rainfall compared to the previous year. The vast majority (97%) of water abstracted in 2021/22 was used in SSE's hydro generation operations. This water is technically recorded as abstracted, but it passes through turbines to generate electricity and is returned to the environment almost immediately, and therefore has minimal environmental impact. To help stakeholders to understand a more proportionate environmental impact, water abstracted volumes are also provided in the table excluding hydro generation data. SSE's total water abstracted excluding hydro operations also fell over this period. This was predominantly due to a reduction in thermal generation output which resulted in a corresponding fall in water abstracted.

Total water abstracted by SSE (excluding hydro generation) (million m³)



Total water consumed also fell significantly over this period, by over 78%. This was due to reduced output from thermal generation overall, as well as a proportional reduction in the output from thermal power plant with cooling systems that have evaporative losses of water.

	Unit	2021/22	2020/21
Water use			
Total water abstracted	Million m³	**23,896**(A)	26,032*
Total water abstracted (exc. hydro generation)	Million m³	**779**	832
Freshwater abstracted (rivers and groundwater) (exc. hydro generation)	Million m³	**1.9**	13.6
Total water returned	Million m³	**23,895**(A)	26,028*
Total water consumed	Million m³	**0.8**(A)	3.9*

(A) This data was subject to external independent assurance in 2022. For the limited assurance opinion see sse.com/sustainability.

* This data was subject to external independent assurance in 2021. In 2021/22, additional data points and minor amendments to methodologies has resulted in some 2020/21 figures being restated. For the Limited Assurance Report see the limited assurance opinion see sse.com/sustainability.

SSE's energy consumption

Between 2020/21 and 2021/22, the energy SSE purchased for use in its assets (offices, depots, thermal power stations, gas storage facilities, and data centres) fell by around 16%, from 234GWh to 196GWh.

Energy consumed in SSE's thermal power stations and gas storage facilities fell by 17% compared to 2020/21. This was largely due to a fall in electricity consumed at the now closed Fiddler's Ferry coal-fired power station, as decommissioning activity reduced, and a reduction in energy consumption at SSE's Aldborough gas storage facility.

Energy consumed in SSE's offices, depots and data centres also fell slightly. Despite an increase in numbers of employees working from home due to the pandemic, energy consumption in SSE's facility managed offices has not reduced significantly due to the need to maintain buildings to meet heating and ventilation industry and government guidelines for the safe operation of buildings.

During 2021/22, SSE invested in a range of energy efficiency measures including a programme of LED lighting upgrades to depot sites. Over this period, SSE purchased 100% of its electricity for use in its facility managed offices from renewable sources, backed by renewable guarantees. In 2020/21, 39% of the electricity that SSE purchased for its assets was from renewable sources, up from 29% the previous year.

Data assurance and environmental metrics

SSE takes an integrated approach towards assurance utilising internal audit and external assurance providers to ensure accurate, complete disclosures. Where data has been externally and independently assured, this has been noted in the relevant tables. In all other areas, data is identified and disclosed according to SSE's internal processes, guided by environmental regulations where appropriate.

SSE's 'Better Off' behaviour change campaign, alongside its investment of £12.8m since 2011/12 in energy efficiency and building renewable generation programmes, has helped to reduce carbon emissions from energy used in its facility managed offices by 42% since 2017/18. SSE is a member of the Climate Group's EP100 initiative to encourage businesses to double energy productivity associated with office and depot buildings by 2030 from a 2011 baseline. From 1 April 2022 onwards SSE will revise its annual reduction target to 7.19% against a 2020/21 baseline, to align with its ambition of achieving a net zero non-operational buildings (offices, depots and data centres) estate by 2035.

	Unit	2021/22	2020/21
Energy use*			
Purchased heat from non-renewable sources – UK/Ire	GWh	**3.3/0.08**(A)	3.6/0.14
Purchased electricity from renewable sources – UK/Ire	GWh	**73.3/0.98**	87.3/0.9
Purchased electricity from non-renewable sources – UK/Ire	GWh	**118.6/0**	142.4/0

(A) This data was subject to external independent assurance in 2022. For the limited assurance opinion see sse.com/sustainability.

* This information, taken in conjunction with the Carbon performance summary table on page 54, represents SSE's disclosures in line with the UK Government Streamlined Energy and Carbon Reporting requirements.

Managing air emissions

In 2020/21, SSE's thermal generation sites emitted 4,573 tonnes of nitrogen oxides (NOx), compared 4,106 tonnes the previous year, an increase of around 11%. Emissions of sulphur dioxide (SO_2) more than doubled to 3,021 tonnes, from 1,378 tonnes the previous year. In addition, particulate emissions (PM10) rose to 277 tonnes, from 182 tonnes in 2020/21, and mercury emissions to air decreased significantly from 19.5kg in 2021/21, to 1.9kg in 2021/22.

The rising trend across three of these key air emission sources, reflects the increased demand for oil-fuelled peaking plant in Ireland that arose as a result of the need to balance the grid.

In 2021/22, SSE's sulphur hexafluoride (SF_6) emissions increased slightly to 305kg from 295kg the previous year. SF_6 is widely used by the electricity industry around the world due to its insulating properties and therefore its ability to keep people safe from electrical 'arcing', however it is a potent greenhouse gas (GHG). SSE has a number of initiatives to reduce GHG emissions from SF_6 in its networks, including working with suppliers to install SF_6-free alternatives across its electricity transmission network. You can read more about what SSE is doing to reduce the impact of SF_6 in its business activities in its Sustainability Report 2022 and its Net Zero Transition Plan.

	Unit	2021/22	2020/21
Air emissions			
Sulphur dioxide (SO2) – thermal generation	Tonnes	**3,021**	1,378
Nitrogen oxide (NOx) – thermal generation	Tonnes	**4,573**	4,106
Sulphur hexafluoride (SF6) – thermal generation and electricity transmission and distribution activities	kg	**305**	295
Particulates emissions (PM10) from thermal generation assets	Tonnes	**277**	182
Mercury emissions from thermal generation assets	kg	**1.9**	19.5

SSE's social contribution

Following its publication of the world's first company Just Transition Strategy, SSE has been ranked top in the World Benchmarking Alliance's just transition assessment. Continued leadership on a transition to net zero which happens in a way that is fair and just for workers, communities and consumers is a key strategic objective for SSE.

Generating value across society

Contribution to GDP and jobs

With a £12.5bn Net Zero Acceleration Programme, the way this money is invested can deliver significant economic benefits to communities and businesses in the places SSE operates within. To understand its wider socio-economic contribution, SSE has commissioned PwC to measure the value it adds to GDP and the jobs it supports across the Scottish, UK and Irish economies for the last 11 years. In total over 2021/22, SSE added £5.8bn to UK GDP, of which over £2bn was in Scotland, and €438m to Irish GDP. While the contribution to Irish GDP was consistent with last year (2020/21: €439m), this represents an increase of 36% increase in the Scottish GDP contribution (2020/21: £1.5bn) and a 12% increase in the UK GDP contribution (2020/21: £5.2bn), driven by SSE's major investments in projects like Dogger Bank, Seagreen and Viking wind farms. SSE supported a total of 47,130 jobs across the UK and Ireland in 2021/22.

SSE also publishes socio-economic analysis for individual projects. Over 2021/22, SSE published reports on the socio-economic impact of Keadby 3 and Peterhead 2 CCGT plants. All socio-economic reports for the SSE Group and at a project-level can be found on sse.com/sustainability/reporting.

Paying a fair share of tax

SSE has long recognised that paying a fair share of tax is part of its social licence to operate and right to make a profit. SSE has been accredited with the Fair Tax Mark since 2014. This means the Fair Tax Foundation has independently assessed it as having a responsible and transparent approach to paying tax, and that SSE explicitly rules out the use of tax havens or an aggressive approach to tax avoidance.

Over 2021/22, SSE's total tax contribution was £944m, split between £375m in taxes paid (including £70m paid in corporation tax) and £569m in taxes collected. This is a decrease of 5.5%, 5.6% and 5.4% respectively compared to 2020/21. This small reduction was the result of three key drivers: (1) 2020/21 tax figures include the tax contribution from SSE Contracting over the full financial year, whereas the disposal of this business in 2021/22 means that the tax contribution from SSE Contracting was only included up to 30 June 2021; (2) environmental taxes paid were lower this year due to outages at some generation sites; and (3) environmental taxes collected were lower due to lower energy usage by business customers.

2021/22 UK and Irish GDP contribution, jobs supported and taxes paid

UK contribution to GDP
£5.8bn
2020/21: £5.2bn

UK jobs supported
45,290
2020/21: 41,400

UK taxes paid
£335m
2020/21: £379m

Ireland contribution to GDP
€438m
2020/21: €439m

Ireland jobs supported
1,840
2020/21: 2,160

Ireland taxes paid
€46.4m
2020/21: €20.4m

Further information on SSE's tax contribution can be found in the Sustainability Report 2022. Each year SSE also publishes a Talking Tax report which provides detailed information on the taxes it pays in every jurisdiction it operates within, with disclosure of its tax strategy and approach. SSE's Talking Tax reports can be found on sse.com/sustainability.

Targeting sustainable supply chains

An overhaul of SSE's sustainable procurement strategy began in 2020, recognising the opportunity for an increased focus on social and environmental value through its supply chain. SSE's new Sustainable Procurement Code and accompanying Supplier Guidance document were published in April 2021, with both documents available on SSE's website. All suppliers working with SSE must sign-up to the new Code which aligns to the Group's overall sustainability approach and UN's SDGs most material to the Company. The Code sets out in detail the sustainability requirements and expectations for SSE's suppliers.

Over 2021/22, SSE has also embedded risk-based sustainability questions within its new sourcing system for all tender events to support the consideration of sustainability more fully throughout the supply chain, with a weighting of up to 20% for sustainability criteria. Registration and pre-qualification questionnaires have also been reviewed to include enhanced sustainability questions. Recognising the need for improved sustainability data capture from its suppliers, SSEN Transmission also launched its new supply chain reporting tool in 2021/22.

Finally, collaboration with its supply chain partners is central to delivery of SSE's sustainable procurement strategy. Sustainability is now an agenda item at all Strategic Relationship Management (SRM) meetings. With 34 SRM suppliers, each is required to provide a detailed annual business update inclusive of sustainability. SSE has also been working with a number of these suppliers to develop and launch the new global Powering Net Zero Pact (see case study below.)

Embedding sustainability through Large Capital Projects

SSE undertook an initiative over 2021/22 to ensure its Large Capital Projects (LCPs) are designed and constructed to enable the journey to net zero, deliver socio-economic benefits and facilitate a just transition. The newly updated LCP Governance Manual now includes guidance and requirements to embed sustainability through SSE's LCPs, ensuring sustainability risks are mitigated and sustainability opportunities maximised across 10 sustainability criteria. From 1 April 2022, a Sustainability Assessment and Action Plan (SAAP) is required for all new or early development projects, ensuring that sustainability is incorporated into all phases of major project development, construction and operation. Guidance, training and additional resources for project teams were also developed to support the roll-out of this new approach. While sustainability has always been a key consideration in SSE's LCP activity, this work has helped to formalise it as part of the overall governance approach.

Delivering local opportunities and community investment

An integral part of a just transition is delivering opportunities and sharing value locally. SSE primarily does this in two ways: providing local jobs and supply chain investment; and granting direct funds for community projects. With the level of ambition and action needed to reach net zero, there are many opportunities to deliver sustainable, competitive domestic supply chains which maximise local economic benefits. Information on SSE's focus on supporting local supply chains can be found in the Sustainability Report 2022.

Over 2021/22, £9.7m of community investment grants were administered by SSE Renewables (2020/21: £10.2m). This financed 1,048 community projects across the UK and Ireland, including more than 130 rural jobs, 96 scholarships and 108 community projects which enhance local net zero ambitions. Detailed disclosure on this funding can be found on sserenewables.com/communities. In addition to this direct community investment through renewables projects, almost £500,000 was administered to communities through SSEN's Resilient Communities Fund, and a further £1m was donated by SSE directly to the Disasters Emergency Committee in support of humanitarian aid in Ukraine.

ENGAGEMENT IN ACTION
SUPPLIERS, CONTRACTORS AND PARTNERS

INTRODUCING THE POWERING NET ZERO PACT

The Powering Net Zero Pact ('the Pact') is a new initiative created by SSE with a group of other leading companies working across the power sector, which was developed as a legacy of COP26. The Pact aims to bring together companies across all tiers of the power sector globally to achieve a fair and just energy transition to net zero.

Over a six-month period, the 11 founding partners of the Pact – which alongside SSE includes: Balfour Beatty; DEME Group; GE Renewables; Hitachi Energy; NKT; RJ McLeod; Siemens Energy; Siemens Gamesa; Subsea 7; and Vestas – met on a regular basis to agree areas of focus, shared commitments and topics for future collaboration. Together the founding partners operate in over 100 countries, employ more than 240,000 people globally, had a combined turnover in 2021 of around £56bn, and work with approximately 120,000 suppliers.

The Pact focuses on five areas of ambition: (1) achieving net zero carbon emissions; (2) protecting and enhancing the natural environment; (3)transitioning to a circular economy; (4) guaranteeing fair work and sustainable jobs; and (5) adding value to local communities. Each area of ambition has a shared commitment and area for collaboration. For example, to achieve net zero, Pact signatories commit to working towards 1.5°C science-based carbon targets by 2025 and will participate in a working group focused on the quantification of scope 3 carbon emissions.

The Powering Net Zero Pact launched in Glasgow in May 2022, six months on from COP26. Any company involved in the power sector which shares the ambition of the Pact can become a signatory. More information can be found on sse.com/sustainability/poweringnetzeropact.

Guaranteeing fair work and good jobs

Growing green jobs

The scale of growth needed to deliver SSE's net zero ambitions will result in significant employment opportunities. SSE plans to create 1,000 jobs every year to 2026. Opportunities will be created for new employees across a range of positions in many different areas across the UK, Ireland and beyond.

The sharpening of SSE's strategic focus around electricity infrastructure and net zero saw it continue with planned disposals of non-core business areas over 2021/22. These changes, which impacted around 2,300 employees, were undertaken with full consultation with impacted employees and employee representatives.

Due to the disposal of certain business areas, SSE's headcount reduced from 12,489 at the end of 2020/21 to 10,754 at the end of 2021/22. However, to meet the demand of its other growing Business Units, the total number of people joining SSE rose from 1,529 in 2020/21 to 2,290 in 2021/22. This means that SSE filled a total of 3,195 positions across internal and external recruitment over 2021/22, an increase of 43% from 2020/21. The size of SSE's contingent workforce reduced between 2020/21 and 2021/22, from 1,950 to 1,767 people. This is attributed in part to the reshaping of the business and in part to the impact of the IR35 tax regulations.

SSE's employee retention levels in 2020/21 were historically high. As stated in the Annual Report 2021, this was largely attributed to the coronavirus crisis and consequential reduced activity within the wider labour market. Coinciding with the easing of coronavirus restrictions, SSE's 2021/22 retention levels have decreased compared from 2020/21, from 92.1% to 90.5%, however this remains higher than the 2019/20 retention rate of 88.0%. SSE's 2021/22 voluntary turnover rate was 7.8% (2020/21: 3.6%, 2019/20: 6.5%). Attraction and retention of employees remains a key focus for SSE.

Committed to leading labour standards

Creating job opportunities is an important element of the just transition to net zero, however ensuring these are high-quality jobs is equally important. SSE implements robust labour standards in line with its responsible employer ethos, going beyond minimum standards to ensure that those that work for it, either directly or on its behalf through its supply chain, are treated fairly and with dignity and respect.

Protecting health and safety

Safety remains SSE's first priority with the objective that 'everyone gets home safe'. In the 2021 all-employee Great Place to Work survey which had a 77% response rate, 92% of employees said that they work in a safe and healthy work environment and 90% said that SSE makes it easy for people to do the right thing on Safety, Health and Environment.

Over 2021/22, SSE achieved 254 Safe Days (days where there were no minor, serious or major SSE or contractor safety or environmental incidents or any incident with high potential for harm to people or the environment) and reported a Total Recordable Injury Rate (TRIR) for employees and contractors combined of 0.17 per 100,000 hours worked. The number of Safe Days decreased and the TRIR increased in 2021/22 compared to 2020/21. SSE believes this is a result of employees continuing to manage the implications of the coronavirus pandemic and changes in working patterns, including a significant increase in contractor hours. Support for employees during the coronavirus pandemic continued over 2021/22.

Further information on SSE's health and safety performance over 2021/22 is provided in the Safety, Sustainability, Health and Environment Advisory Committee report on pages 164 to 167 and in the Sustainability Report 2022.

Paying the real Living Wage

SSE has been a Living Wage accredited employer in the UK since 2013 and has paid the Living Wage in Ireland since 2016. SSE began chairing Living Wage Scotland's Leadership Group in April 2021 and the company is now beginning to explore how it extends its commitment to paying workers a real Living Wage beyond just the UK and Ireland.

Guaranteeing secure working hours

Living Hours guarantees workers with fair and secure working hours alongside a real Living Wage, specifically requiring:

- Decent notice periods for shifts of at least four weeks, with guaranteed payment if shifts are cancelled within this notice period;
- The right to a contract that reflects accurate hours worked; and
- A guaranteed minimum of 16 hours a week (unless the employee requests otherwise).

Since its accreditation as a Living Hours employer in March 2021, SSE has been working to roll-out this enhanced standard across its supply chain. It also continues to be a member of the Living Wage Foundation's Living Hours Steering Group where it provides advice and a business perspective on how to grow the accreditation initiative.

Recognising the issue of work security more broadly, the vast majority of SSE employees are on permanent contracts. In 2021/22, 94.4% of employees were on permanent contracts, 0.6% were on non-guaranteed or short hour contracts, and 5% were on temporary contracts.

Developing employees from within

SSE's investment in learning, training and development increased to £7.5m in 2021/22 from £6.8m in 2020/21. Average training hours per full-time employee also returned to near pre-pandemic levels (2021/22: 20.7, 2020/21: 9, 2019/20: 23.4), with 84.2% of SSE's employees receiving some form of training over the year.

In addition, while the number of people on one of SSE's pipeline programmes (apprenticeships, technical skills trainee programmes, graduate programmes, conversion programmes and other pipeline programmes) remained relatively static (2021/22: 465 individuals, 2020/21: 470 individuals), the decrease in SSE's headcount meant that this actually represented a notable increase in the proportion of SSE's workforce on a pipeline programme, rising from 3.8% to 4.3%. Investment in pipeline programmes also increased to £9.8m in 2021/22 from £9.0m in 2020/21. This brings SSE's total investment in pipeline programmes over the last three years to just under £30m.

More information on SSE's approach to learning and development and its training programmes can be found in its Sustainability Report 2022.

Boosting inclusion and diversity

SSE understands that greater inclusion and diversity is central to its success going forward, which is why it has reviewed and refocused efforts over 2021/22 to accelerate progress. Detail can be found on the inclusion and diversity section of this report (see pages 64 and 65 and within SSE's Inclusion and Diversity Report 2022, available on sse.com/sustainability/reporting.

Valuing employee voice

Everyone that works for SSE has the fundamental right to freedom of association and to join a trade union. SSE has four recognised trade union partners (Prospect, Unite, Unison and the GMB) which it works with through the Joint Negotiating and Consultative Committee and through regular on-going dialogue. In 2021/22, 54.2% of SSE's total direct workforce were covered by collective bargaining agreements.

Broader incorporation of employee voice is recognised by SSE as an important part of decision-making and strategy. See the stakeholder engagement section on employees on page 34 and the case study below for more information.

Providing employee benefits

SSE offers a wide range of employee benefits, detailed on careers.sse.com/employee-benefits. This includes flexible working arrangements, 21 weeks of fully-paid maternity leave, all-employee share plans, a holiday purchase scheme, cycle-to-work schemes, salary sacrifice low emissions car scheme, and technology loans. 96% of SSE's employees participated in one of its pension schemes over 2021/22.

Transparency of workforce disclosure

SSE provides open disclosure on its direct and supply chain workforce. In 2021/22, the company participated in the investor-led Workforce Disclosure Initiative (WDI) survey for the sixth consecutive year, remaining in the 10% of submissions for open disclosure.

ENGAGEMENT IN ACTION
EMPLOYEES

SUPPORTING WORKERS TRANSITION FROM HIGH TO LOW-CARBON CAREERS

Over 2021/22, SSE undertook wide-ranging stakeholder engagement on its just transition approach. This included meeting and consulting with policy makers, trade union partners, suppliers, oil and gas companies, investors, academics, and industry and skills bodies. Most importantly though, SSE sought insights from its own employees.

Using SSE's 2021 Great Place to Work survey, the company established that more than 1 in 5 of all employees had previously worked in high-carbon roles, rising to as high as a third of all employees in certain parts of the business such as SSE Renewables. To understand the drivers of change, and what SSE could do better to further attract and retain people from high-carbon industries, the Company undertook qualitative research with employees that had previously worked in high-carbon roles. Over 150 of these employees answered a detailed just transition survey, providing SSE with rich information about their experiences and offering feedback for the company.

These findings, and the wider engagement with other stakeholders, were used to inform SSE's second report on the just transition which was published in September 2021. This report, *'From Principles to Action'*, looks specifically at how best to support workers make the move from high to low-carbon careers. It outlines 20 commitments for SSE as well as 10 recommendations for industry and 10 recommendations for Government. It also includes 137 individual pieces of advice from SSE employees that have made the transition, verbatim and uncensored.

At an industry and government level, these recommendations include developing 'all energy' frameworks for skills, fair work terms where there is public sector support for climate action, and making sure net zero sector plans embed the concept of a just transition. For SSE, commitments include things like not asking for industry-specific experience unless it is genuinely required, piloting an engineering conversion programme, and paying for workers to develop the skills they need.

SSE has continued to work with its employees on its just transition approach. Beginning in March 2022, a programme of just transition employee focus groups commenced to gather deeper insights on the opportunities and challenges from a worker perspective. This included an employee focus group session in March 2022 held jointly with one of SSE's recognised trade union partners, Prospect. SSE has also created a new page on its careers website specifically designed for those interested in joining the company from high-carbon sectors.

SSE's Just Transition Strategy, its 'From Principles to Action' report and wider information on its just transition approach is available on sse.com/sustainability/just-transition.

A sustainable approach continued
SSE's social contribution continued

Promoting and maintaining a healthy business culture

SSE is a business growing and changing for a net zero world. Underpinning this is a strong commitment to a healthy business culture that supports people to do the right thing.

SSE's guide to good business ethics is updated regularly, and underwent a full review over 2021/22. The guide applies both to direct employees and those that work on SSE's behalf. It is promoted to all employees through SSE's internal communication channels and mandatory elearning modules, and is highlighted to suppliers on page 1 of SSE's Sustainable Procurement Code. Topics covered include bribery and corruption, fair competition, business separation, engagement with politicians and regulators, modern slavery, safeguarding the environment, managing data and cyber security. SSE's 'Doing the Right Thing' guide is publicly available on sse.com/sustainability/policies-and-assurances.

In addition to this overall guide, guidance and supporting documents to help employees do the right thing include SSE's Financial Crime Guide, Anti-Financial Crime Framework, Group Inherent Fraud Risk Register, Corporate Hospitality Procedure, and iComply portal.

SSE's 'Doing the right thing' guide to good business ethics is available on sse.com/sustainability.

Specific responsibility for financial crime horizon scanning, regulatory news and preparing internal financial crime updates sits with SSE's Group Anti Financial Crime Officer, with each of SSE's business units having their own Anti Financial Crime Officer that provide further support and guidance. SSE's Anti-Corruption and Financial Crime Committee reports directly into the Group Risk Committee and is responsible for driving adherence and monitoring implementation of SSE's Group Corruption and Financial Crime Prevention Policy which is also publicly available.

To ensure a constant minimum standard across SSE's workforce on good business ethics, SSE has a suite of mandatory ethics and compliance training modules. This includes modules on Fraud Awareness, Bribery and Anti-Corruption, and Anti-Money Laundering and Financial Sanctions which all employees must complete bi-annually, with additional modules on competition law and REMIT for selected employees.

A review of cultural metrics is undertaken by SSE's senior leadership and a review of SSE's cultural dashboard is undertaken by the Board twice annually (see page 141).

Reporting and investigating wrongdoing

While SSE aims to reinforce a healthy culture at all levels of the organisation, it knows that sometimes things go wrong. The company therefore has an independent whistleblowing channel, SafeCall, as well as internal channels which employees can use to speak up against wrongdoing. SSE's Group Whistleblowing Policy is available on sse.com/sustainability/policies-and-assurances, with the effectiveness of SSE's whistleblowing arrangements reviewed twice yearly by the GEC and the Board.

Over calendar year 2021, there were 52 reports of wrongdoing made through SSE's speak up channels, a 21% decrease from 66 reports over calendar year 2020 which is understood to be driven primarily by the impacts of Covid-19. Of these 52 reports: 17% related to Dishonest Behaviour (Fraud/Theft/Bribery/Integrity/Money Laundering/Corruption); 27% related to HR (Bullying/Harassment/Victimisation); 4% related to Inclusion and Diversity (Racism/Discrimination/Unfair Treatment); 50% related to Health and Safety (General Safety/Covid-19/Environmental/Product Contamination); 2% related to Drugs/Alcohol; and 0% related to Regulatory Compliance.

All of these reports of wrongdoing were passed on for formal investigation. one resulted in dismissal; four resulted in warnings issued; five resulted in no action taken; one was subsequently investigated as a grievance; 10 were investigated and partly substantiated but with no action taken; 19 were investigated but with the case was not proven; four resulted in an initial investigation establishing that there was insufficient evidence to proceed further; and eight cases could not be investigated due to insufficient information to establish the nature, cause, location or otherwise of the allegation being provided.

Encouraging a 'speak up' culture is fundamental to an ethical business culture. People that work for SSE or on its behalf are encouraged to speak up without fear of retribution. SSE's Speak Up Aftercare Programme has been designed to promote good communication with people who speak up and reassurance that there will be no detriment for anyone speaking up in good faith. The Programme takes the form of a survey that is issued at the point of initial complaint, at 90 days and then at 180 days. Each survey is slightly different, having been designed to ensure that there is opportunity to highlight detriment in any form, provide an outlet for discussion and resolutions, and also seek feedback for SSE on the user experience, ease of reporting, what went well and to constantly improve the service we are offering.

Targeting modern slavery risk

Protecting human rights and mitigating against the risk of modern slavery is the foundation of any good business and a fair and just transition to net zero. Over 2021/22, SSE continued to increase focus on this issue through delivery of its targeted Modern Slavery Action Plan. This Action Plan was created in 2020/21 following a gap analysis of its human rights approach

by experts Stronger Together, with detail of this process provided in SSE's Modern Slavery Statement 2021.

Key developments over 2021/22 are highlighted below, with further information reported within SSE's Modern Slavery Statement 2022 which will be published on the sse.com homepage in August 2022.

- Major initiative undertaken to embed sustainability, including human rights, through SSE's Large Capital Projects governance process (see page 59);
- Deep-dive risk assessments of the supply chains of two major infrastructure projects undertaken by Stronger Together;
- Stronger Together carried out two on-site human rights assessments during the construction of two major SSE projects in the UK;
- Enhanced engagement and further commitment to collaborate on modern slavery in global supply chains with strategic suppliers (see Powering Net Zero Pact case study on page 59);
- Roll-out of employee awareness raising and development of bespoke learning pathways for priority employees;
- Creation of a Human Rights Working Group, which reports on progress to SSE's Human Rights Steering Group;
- Active collaboration with peers through the Utilities Against Slavery group, facilitated by the Slave Free Alliance, and SSE's partnership with the Supply Chain Sustainability School.

SSE ranked 2nd out of 47 companies in the utilities sector in the Global Child Forum and the Boston Consulting Group's The State of Children's Rights and Business 2021 Benchmark. The benchmark assesses a total of 832 companies' approaches to human rights issues affecting children, using publicly available information.

SSE sees proactive stakeholder engagement – like this school visit to Viking wind farm – as key to a healthy business culture.

A sustainable approach continued
SSE's social contribution continued

SSE's enhanced Inclusion and Diversity Strategy

The innovative solutions required to deliver net zero need a workforce with diverse perspectives, different experiences, and new skills. Over 2021/22, SSE has refreshed its strategic approach to inclusion and diversity, recognising that this is an essential driver to deliver net zero in a way that is fair and affordable.

SSE's Inclusion and Diversity Report 2022

Reflecting its increased strategic focus to drive greater inclusion and diversity across the business, SSE has published a new comprehensive standalone Inclusion and Diversity Report 2022, providing detailed information on SSE's updated Inclusion and Diversity Strategy, progress made, and a range of key performance indicators for 2021/22. Transparency on its inclusion and diversity approach allows SSE to share successes and learnings, as well as gain feedback from key stakeholders. Read the report on **sse.com/sustainability/reporting**.

2022 gender pay gap

SSE's headline gender pay gap figures as at 5 April 2022 are provided below, with further data, analysis and disclosure of actions taken to reduce the gap provided in SSE's Inclusion and Diversity Report 2022. SSE has voluntarily disclosed its Ireland Gender Pay Gap since 2021, calculated in line with the UK Gender Pay Gap methodology, based on a snapshot date of 5 April. The figures below follow this approach for 2022. In May 2022, the Irish Government launched new mandatory requirements for calculating the Gender Pay Gap in Ireland, which will require companies to use a June 2022 snapshot date and report this data publicly by December 2022. The June 2022 snapshot is beyond the last practicable day for inclusion in the Annual Report 2022 (being 24 May 2022), but SSE confirms the data will be reported in line with stated December deadline.

UK (93% of SSE's total 2021/22 workforce)

Mean gender pay gap:
13.2%
2021: 16.5%

Median gender pay gap:
18.0%
2021: 18.3%

Ireland (7% of SSE's total 2021/22 workforce)

Mean gender pay gap:
18.4%
2021: 18.9%

Median gender pay gap:
25.6%
2021: 27.1%

In 2021/22, SSE refreshed its Inclusion and Diversity Strategy by developing four strategic areas of focus: (1) Ambition; (2) Education and Development; (3) Inclusive Processes; and (4) Employee Voice. The new strategy relies on a collective effort and focus from all leaders. Actions to help shape and influence positive change in delivering greater inclusion and diversity are informed through collaboration with external partners to identify opportunities for further improvement, as well as listening to employees' lived experiences.

The refresh ensures SSE delivers greater inclusion and diversity across all levels of the Company and embeds systemic and behavioural change, supporting the delivery of SSE's 'IN, ON, UP' approach which it has been implementing since 2017. This approach, developed with inclusion experts EAInclusion, focuses on attracting diverse talent IN, enabling them to stay ON, and supporting them to progress UP, by providing opportunities that are fair and transparent for all.

A high-level overview of progress against the new strategy is outlined on these pages, with more detail available in SSE's Inclusion and Diversity Report 2022.

1. Ambition: setting measurable goals

SSE has simplified its gender reporting and set new stretching gender ambitions in 2021/22, approved by the Group Executive Committee (GEC) and Board-level Nomination Committee. This includes increasing the proportion of women within the GEC and Direct reports to 40% by 2025, in line with the FTSE Women Leaders Review. In addition, SSE will increase female representation in its wider Leadership Group, which covers around 900 employees, to 40% by 2030, as well as increase overall female representation across the company to 33% by 2030. Performance against these ambitions is shown in the table on the following page, with information on key changes detailed below.

As at 31 March 2022, female representation across the Group Executive Committee and Direct Reports population (excluding administrative employees) was 22.4%. This represented a reduction from the 2020/21 level of 25% and was attributed to six men joining this population, whilst the number of women remained the same.

Between 31 March and the last practicable day for inclusion in the Annual Report 2022, 24 May 2022, a number of planned changes within the above group came into effect. These were the effective appointment of Catherine Raw as MD, Thermal as previously announced in February 2022; structural changes across the SSE Renewables

SSE's Gender Ambitions

Gender split of:	Year	Ambition	24 May 2022[3] % Female (Male/Female headcount)	**31 March 2022 % Female (Male/Female headcount)**	31 March 2021 % Female (Male/Female headcount)
Group Executive Committee (GEC)[1]	–	–	20% (8/2)	**25% (6/2)**	25% (6/2)
GEC[1] and direct reports (excl. administrative roles)	2025	40% female	34.2% (52/27)	**22.4% (45/13)**	25% (39/13)
Leadership Group[2]	2030	40% female	–	**23.7% (681/212)**	20.2% (649/164)
All employees	2030	33% female	–	**28.8% (7,658/3,096)**	26.4% (9,190/3,299)

1 In the context of gender reporting, the GEC includes all members of the GEC and the Company Secretary. This is the definition of senior managers in SSE for the purposes of s414C(8)(c)(ii).
2 Employees in SSE's senior level pay grades.
3 24 May 2022 is the last practicable day for inclusion in the Annual Report 2022.

Leadership Team following Stephen Wheeler's appointment as MD, SSE Renewables in January 2022; and the Director of HR and Director of Corporate Affairs and Strategy, becoming full members of the Group Executive from their previous positions of Regular Attendee. As a result, female representation in the GEC has decreased from 25% to 20%, but has risen across the Group Executive Committee and Direct Reports from 22.4% to 34.2%.

SSE considers external benchmarking when setting ambitions, which includes the FTSE Women Leaders Review, the successor to the Hampton Alexander, as well as the Workforce Disclosure Initiative, the Bloomberg Gender Equality Index, and the UN Women's Empowerment Principles gap analysis tool.

Supplementing its externally disclosed gender ambitions, SSE tracks progress against a wider range of diversity metrics, including the proportion of women, ethnic minority, disabled and LGBTQ+ employees. Senior leaders have a quarterly focus on progress against broader internal inclusion and diversity ambitions. These metrics are reviewed by the GEC twice yearly and by the Board annually, with the company exploring options for setting diversity ambitions beyond gender.

2. Education and development: focusing on behaviours

Senior leadership commitment to inclusion and diversity is paramount for delivering change, and SSE's leaders have a responsibility to build a culture of belonging for all. To support its senior leaders to do this, SSE invests in behavioural change initiatives and resources.

In 2021/22, SSE provided a series of educational interventions to ensure that inclusion and diversity is prioritised, build collective leadership confidence to create the right environment, and lead inclusively.

This included the 'Igniting Inclusion Development Programme', developed in partnership with Ashridge Business School, which provided insights, education, and discussion on: the Neuroscience of Inclusion and Diversity; Growth Mindsets; and Psychological Safety. 186 senior leaders participated in this programme, with 94% of those who responded to the feedback survey on the three sessions reporting a better understanding of the topics, and 95% felt more confident in applying their learning.

SSE has dedicated internal webpages which act as a central point of resource for all employees. This includes best practice materials, webinar recordings, learning materials, employee blogs and vlogs to talk about experiences, and manager guides to support employees and managers with how to create an inclusive workplace.

SSE developed a Strategic Secondary School network across 25 priority locations, offering a bespoke programme based on Tomorrow's Engineers STEM Code to inspire and showcase the range of opportunities within the energy sector. The secondary schools are chosen by indicators such as high levels of Black, Asian and Minority ethnicities, areas of deprivation, gender imbalance in STEM subjects, and attainment gaps or rurality.

SSE is currently working with its social mobility education partner, Teach First, to build a Just Transition themed programme for all primary schools throughout the UK and Republic of Ireland. The content for both primary and secondary is curriculum aligned, inclusive and demonstrates diversity.

There are 38 secondary school Strategic Partnerships with a STEM Volunteer community of 365 across the Businesses, geographic spread and various disciplines. In 2021/22 SSE delivered over 159 educational interventions across the UK, with an average score of 9/10 for both "Helpful to pupils' learning" and "Helpful to pupils' career aspirations" from the host teachers.

3. Inclusive processes: embedding best practice

Developing robust policies and processes, to embed inclusion and diversity, ensures SSE creates a workplace that supports all employees and future employees. SSE believes improved diversity characteristics are a result of embedding best practice into existing process and routinely reporting on key drivers of inclusion.

A "Hiring for Difference" scorecard, which is reviewed by the Group Executive Committee and Board quarterly, shows progress against targets on the percentage of diverse recruitment panels, number of roles openly advertised, and the promotion of flexible working for senior hires. Over 2021/22, these metrics have improved significantly to over 90% for each, with the number of diverse panels more than doubling since April 2021.

In addition, using diverse job candidate short-lists has improved from 33% in Q1 2021/22 to 80% in Q4 2021/22. SSE increased its hiring rate of women into its Leadership Group (around 900 employees), from 15% over 2020/21 to 32% over 2021/22, and as a result the female representation in SSE's Leadership Group has increased from 20.0% to 23.7%. In addition, SSE prioritised transferable skills in job descriptions, over technical skills, to increase the diversity of job applicants. This was done through facilitated workshops which challenged the details, tasks, and key requirements of job roles.

4. Employee voice: actively listening

Listening to SSE's employee voice helps to build trust with its employees, drives innovation, and focuses business priorities. It also helps employees feel valued, resulting in better job satisfaction and increased opportunities for development. Over 2021/22 SSE has listened to employees' lived experiences on subjects such as graduate recruitment and used this to drive inclusion and diversity forward by influencing the breadth and types of universities that it engages with as well as how information about SSE is positioned.

SSE's 'Belonging Communities' aim to unite employees by encouraging open and constructive discussion. Focus groups were carried out over 2021/22 with several Belonging Communities, exploring how external best practices compare to lived experiences to create bespoke plans of action to help SSE be even more inclusive.

Providing access to affordable and clean energy

Avoiding the next energy crisis

With post-pandemic market tightness and the Russian invasion of Ukraine, energy prices have been at generational highs feeding into a cost-of-living crisis that looks to continue until at least spring 2023. SSE has engaged widely with governments, devolved administrations, regulators, and other stakeholders, both bilaterally and through its trade associations, to inform options for near term alleviation of the impact of rising energy bills on households and businesses in the UK and Ireland, particularly the most vulnerable.

To help reduce the economy's exposure to gas imports in the medium term, SSE has worked closely with governments, including on the UK's British Energy Security Strategy, to ensure its £12.5bn Net Zero Acceleration Programme (NZAP) can have the greatest impact in reducing energy costs. To help protect the UK and Ireland from the next energy crisis, SSE has commissioned independent analysis to inform developing plans which aim to reduce costs, gas and carbon as soon as possible.

Responding to the affordability challenge

SSE recognises the huge challenges faced by its customers during the current affordability crisis. Over winter 2021/22, SSE Airtricity provided up to €500,000 of funding for customers requiring additional support. The company has also established a €1m fund to directly support customers who may be struggling to pay their bills. The business also made a donation of €1m to a trusted all-island charity partner to support hard-to-reach cohorts struggling with the cost of living. In May 2022 a price promise was announced by SSE Airtricity to hold energy tariffs for existing domestic financially vulnerable customers in Ireland for the remainder of the year.

SSE Airtricity has also expanded the range of external stakeholders it works with to include agencies working directly with customers in financial difficulty. The development of these partnerships has helped support direct referrals and provided better support for customers who are struggling. SSE is also supporting customers with energy efficiency measures, including some free of charge energy upgrades to those experiencing fuel poverty, see the next page.

Providing an inclusive service

SSEN Distribution attained the British Standard for inclusive service provision (BS 18477) for the sixth year in a row in 2021/22. This was achieved through rigorous assessments to ensure SSEN's policies, procedures and services are accessible and fair to all customers.

SSEN Distribution's Priority Services Register (PSR) also provides help to those who need it most on the rare occasions there is a power cut. Throughout 2021/22, SSEN has been encouraging customers to sign up to the PSR, raising awareness of free additional services via podcasts, events, posters, and partnerships. The PSR had 768,104 people registered on it in at the end of 2021/22 (2020/21: 770,844). This covers 71.3% of eligible households in SSEN's distribution network areas, an increase from 68.5% in 2020/21.

ENGAGEMENT IN ACTION
ENERGY CUSTOMERS

RESPONDING TO EXCEPTIONAL WEATHER EVENTS

In response to a 2021/22 winter of consecutive exceptional weather events, SSEN Distribution teams worked tirelessly to maintain supply with a particular focus on supporting isolated and vulnerable customers. Between November 2021 and February 2022, SSE's network areas in both north and south were tested by six exceptional weather events, including back-to-back named storms with three storms occurring in just one week.

In the aftermath of storms Arwen, Malik, Corrie and Eunice, around 430,000 customers were affected and SSEN's Priority Services Register, which had been extended in response to the coronavirus pandemic, was used extensively by dedicated outreach teams to proactively engage via phone and text message with vulnerable customers. Engagement with impacted customers was further enhanced on the ground by good attendance at around 90 Local Resilience Partnership meetings. In addition to the reconnection efforts by operational teams, localised support was provided through door-to-door welfare checks and the provision of more than 140,000 hot meals and drinks.

In recognition of the hardship caused for customers by these extreme weather events, SSEN has boosted its Resilient Communities Fund to a total of £2m across licence areas.

Helping homes and businesses go green

SSE Energy Customer Solutions is committed to supporting customers and broader communities to work towards a cleaner, greener future.

In March 2022, building upon the success of existing partnerships with An Post and several Local Authorities across the country, SSE Airtricity became the first nationally accredited one-stop-shop for home energy upgrades with the Sustainable Energy Authority of Ireland (SEAI). As part of this initiative, in April 2022 SSE Airtricity committed to delivering home energy upgrades to up to 600 homes experiencing fuel poverty free of charge. SSE Airtricity has also been awarded the contract to install the first communal heat pump system in Ireland, where 44 of the 88 units are assisted living centres.

During 2021/22, SSE's business customers on green products grew from 6% to almost 30%. Over the year, the business ensured that customers joining or rolling onto new fixed contracts were provided with 100% renewable electricity, matched with independently verified and assured output from SSE's UK wind farms and hydro plants. In May 2021, a simplified Corporate Power Purchase Agreement (CPPA) approach was announced to enable a wider range of customers to purchase energy directly from SSE's renewable assets, giving customers fully traceable access to 100% renewable energy. Finally, in September 2021, SSE also launched the Green EV tariff, which supports businesses running on, or switching to, electric vehicles and enables them to charge fleets with 100% renewable electricity. In response to feedback from SMEs which showed 84% considered product sustainability as an important procurement choice but 50% were unsure of actions required, SSE launched its new Energy Solutions website. The site provides a knowledge centre for customers to access the range of products available from SSE, and assist them with reducing the carbon footprint of their businesses and supply chains.

Unlocking local solutions through global partnerships

As part of its COP26 legacy and inspired by Project LEO, the most ambitious and holistic smart grid trial in the UK, SSEN developed a new global smart grid partnership. Discussions with global and community partners resulted in the launch of the International Community for Local Smart Grids (ICLSG). The ICLSG consists of electricity distribution companies from the UK, Australia, Italy and Japan, with SSEN, Ausgrid and Enel as founding partners. These companies have joined forces to revolutionise and support communities to engage with electricity grids of the future. Launched at COP26, the University of Oxford-led initiative in cooperation with the Enel Foundation, will bring together electricity networks and community energy groups, scientists, and practioners from across the world to remove barriers to delivering net zero at a local level and share key learnings from innovation projects, facilitate discussions around challenges and support a collaborative transition to a decarbonised future. In addition to tackling climate change this partnership benefits consumers by building resilient communities.

Increasing accessibility of electric vehicles with Equal EV

A core element of the just transition to net zero is ensuring it is cost-effective, secure and inclusive for all. This means ensuring opportunities are open to all customers and infrastructure is developed in a fair and accessible manner. Over 2021/22, SSEN Distribution continued its partnership with leading charity Disabled Motoring UK to support more blue badge holders to get on the road with EVs, and worked with Energy Systems Catapult (ESC) on the second phase of the Equal EV project. Equal EV aims to overcome the four key barriers preventing disabled motorists from making the switch and benefitting from low carbon transport. This includes: (1) accessibility of charging points; (2) costs of modifications; (3) range anxiety; and (4) lack of support with charging compatibilities. In March 2022, SSEN and ESC produced their first Equal EV report which maps out customer journeys for people with disabilities and identifies how available and emerging technologies can mitigate the barriers and challenges identified in the project's first phase.

ENGAGEMENT IN ACTION
NGOS, COMMUNITIES, CIVIL SOCIETY

BUILDING A SENSE OF COMMUNITY AROUND RIIO-ED2

Communities are at the core of SSEN Distribution's RIIO-ED2 business plan for the next price control. An extensive stakeholder engagement programme in 2021/22 gave more than 25,000 people the opportunity to have a say on the plan, shaping 64 outputs. The process featured qualitative and quantitative research, and 'Citizens Juries' were held on key ED2 topics such as sustainability and innovation while the Managing Director hosted a roundtable with fuel poverty charities, the regulator and consumer groups in November 2021.

COP26 provided a forum to engage on SSEN Distribution's role in a smart and fair transition to net zero through delivery of its ED2 plan. ED2 also featured in the business's established engagement framework which includes a Stakeholder Advisory Panel (meets quarterly); an ED2 Customer Engagement Group (met six times in the year); Inclusive Service Panels (met three times) and Connections Expert Customer Panels.

Risk-informed decision making

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 page 161 of the Directors' Report 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 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 RIIO-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

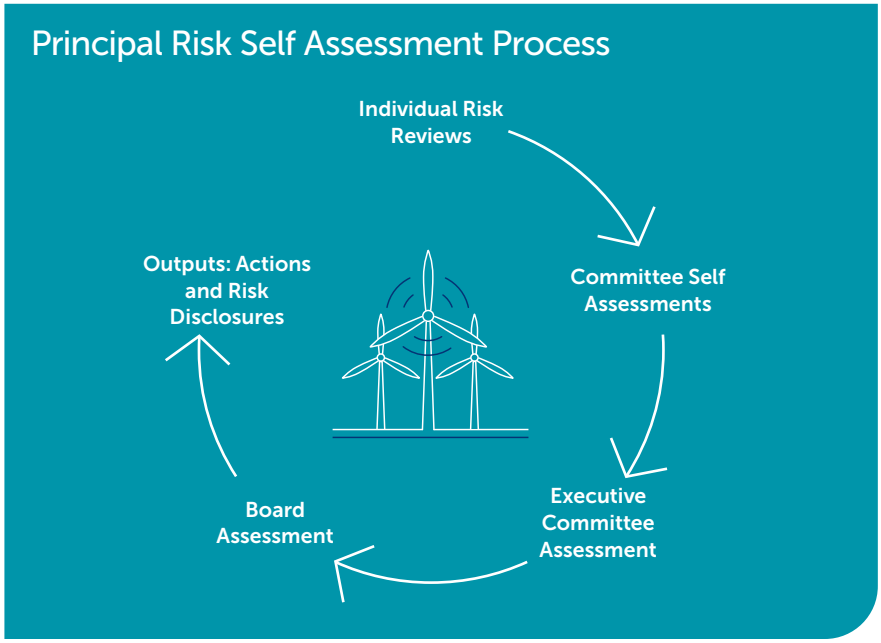
Effective identification, understanding and mitigation of Principal Risks underpins the Board's approach to setting strategic objectives for SSE and informing strategic decision making. The Board aims to consider all material influencing factors and key external trends in the energy market, including 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



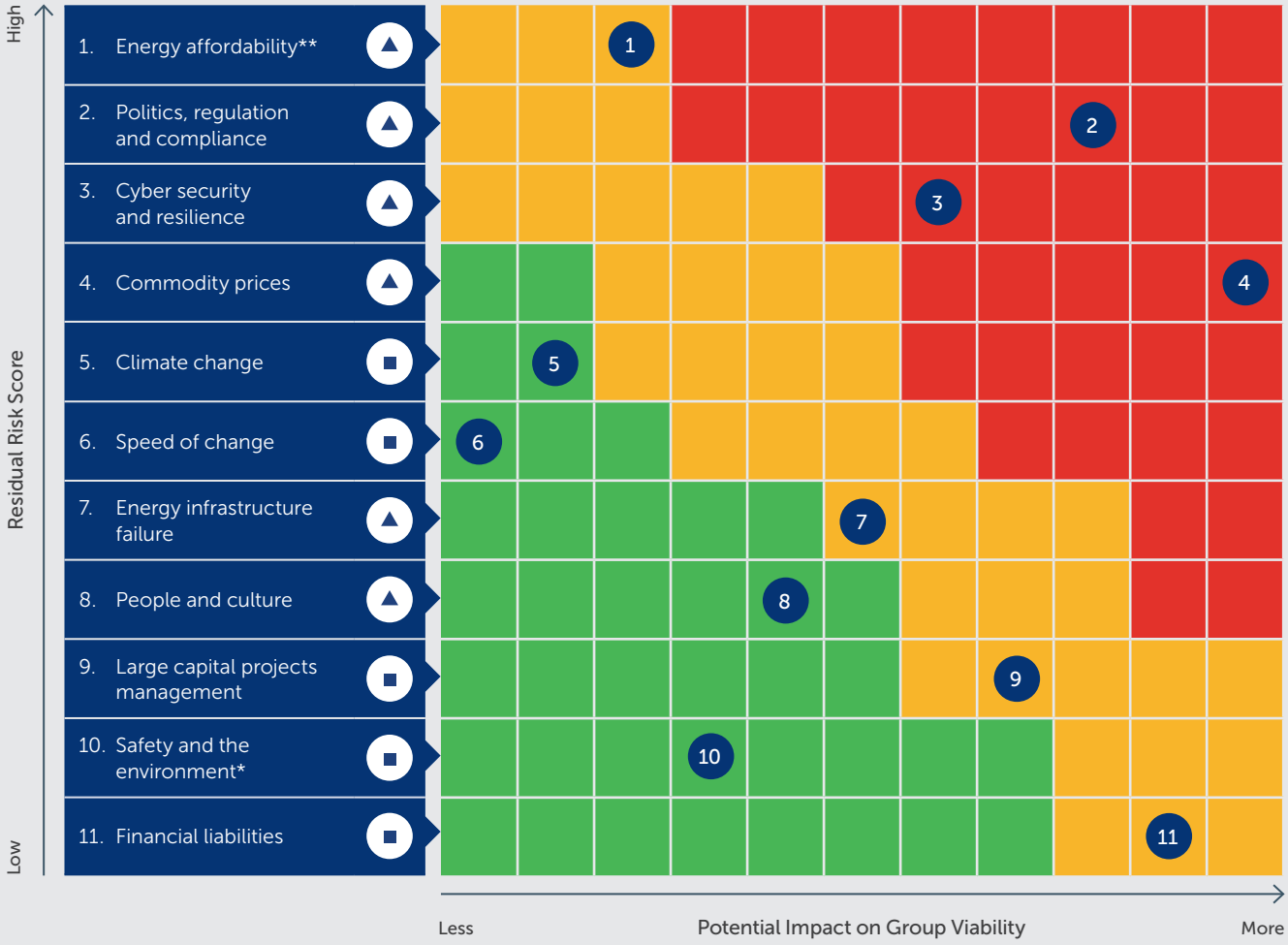
Key

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

Group Principal Risks

The graphic below 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.

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.

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 71 to 81.

Risk-informed decision making continued
Managing SSE's Principal Risks continued

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.

Group Principal Risks

Linkage to Strategy

Develop | Build | Operate | Invest

2030 Goals

Cut carbon intensity by 80% | Increase renewable energy output fivefold | Enable low-carbon generation and demand | Champion a fair and just energy transition

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 Sustainability Report.
- 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:

Principal Risks and uncertainties continued
Group Principal Risks continued

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, CO_2 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.
- 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 responsibilty for monitoring the ongoing effectiveness of Group hedging arrangements. For further details please see pages 162 and 163.
- 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 Account.

Linkage to Strategy:

Aligned to 2030 Goals:

Linkage to Strategy

Develop | Build | Operate | Invest

2030 Goals

Cut carbon intensity by 80% | Increase renewable energy output fivefold | Enable low-carbon generation and demand | Champion a fair and just energy transition

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:

Principal Risks and uncertainties continued
Group Principal Risks continued

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 Risk 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:

Linkage to Strategy

Develop | Build | Operate | Invest

2030 Goals

Cut carbon intensity by 80%

Increase renewable energy output fivefold

Enable low-carbon generation and demand

Champion a fair and just energy transition

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:

Principal Risks and uncertainties continued
Group Principal Risks continued

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:

Linkage to Strategy

Develop | Build | Operate | Invest

2030 Goals

Cut carbon intensity by 80%

Increase renewable energy output fivefold

Enable low-carbon generation and demand

Champion a fair and just energy transition

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 £12.5bn 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:

Principal Risks and uncertainties continued
Group Principal Risks continued

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.
- 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 and 65 and on page 138 of the Directors' report.
- 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/employee-benefits.
- "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:

Linkage to Strategy

Develop | Build | Operate | Invest

2030 Goals

Cut carbon intensity by 80% | Increase renewable energy output fivefold | Enable low-carbon generation and demand | Champion a fair and just energy transition

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.

Linkage to Strategy:

Aligned to 2030 Goals:

Principal Risks and uncertainties continued
Group Principal Risks continued

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:

Linkage to Strategy

Develop | Build | Operate | Invest

2030 Goals

Cut carbon intensity by 80%

Increase renewable energy output fivefold

Enable low-carbon generation and demand

Champion a fair and just energy transition

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.
- 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:

Financial review

Delivering for shareholders

Financial performance in 2021/22 underscores the value-creation potential of SSE's Net Zero Acceleration Programme.

The strong operational performance outlined in this Annual Report and Accounts has enabled us to meet our financial objectives in what was a challenging year. And SSE's conviction that a deliberately-integrated and well-balanced group of market-based and economically-regulated businesses offers the optimal route to value creation for shareholders has again been borne out in 2021/22.

We are proposing payment of a full-year dividend of 85.7p, in line with plan, and we remain committed to our existing five-year dividend plan to 2023, which targets dividend increases in line with RPI each year as set out on page 4.

We completed our £2bn-plus disposals programme announced in June 2020 with the sale of our remaining financial stake in SGN for nearly £1.3bn in cash proceeds. Overall we achieved headline consideration of over £2.8bn from our disposals programme, significantly in excess of the original £2bn target and this is reflected in the disparity in adjusted and reported metrics for the year.

Over the course of the year we invested a record level of £2.1bn in the assets and infrastructure needed to maintain a 1.5°C pathway on global warming. Thanks to strong operational performance, adjusted operating profit increased by 15% to around £1.5bn. And adjusted EPS was up 22% to 95.4p reflecting our strong performance in the year.

We have now updated our adjusted EPS CAGR target for 2026 from between 5-7% to between 7-10% due to confidence derived from strong delivery in 2021/22; higher inflationary forecasts; anticipation of continued volatile and high energy commodity prices; and evidence of increased value creation potential from flexibility provided by SSE's thermal and hydro generation, and gas storage assets.

We have financed ourselves robustly in uncertain times with good liquidity. We have a stable debt profile and our financing strength has enabled us to be nimble in the acquisition and partnering decisions we have made.

Our balance sheet remains strong, supported as it is by word-class assets and investment-grade credit metrics. The credit rating agencies reviewed our Net Zero Acceleration Programme and we were pleased with their positive response. SSE's S&P credit rating remains at BBB+ 'stable outlook' and our Moody's rating remains at Baa1, having been updated to 'stable outlook' after the announcement of our plans in November 2021.

Our financial strength is critical in enabling us to take forward projects of the size and scale society needs, such as Berwick Bank which will be larger even than the world's largest wind farm that we are currently building at Dogger Bank.

Overall, this year has underscored the advantages of a balanced, integrated business – giving investors strong returns in clearly volatile times and leaving us well positioned to take forward emerging opportunities across the clean energy value chain.

Gregor Alexander
Finance Director
24 May 2022

Group Financial Review

Year to 31 March 2022

This Group Financial Review sets out the financial performance of the SSE Group for the year ended 31 March 2022. See also the separate sections on Group Financial Outlook, 2022/23 and beyond and Supplemental Financial Information.

The definitions SSE uses for adjusted measures are consistently applied and are explained in the Alternative Performance Measures section of this document, before the Financial Statements.

Key financial metrics

(continuing operations)

	Adjusted		Reported	
	March 2022 £m	March 2021 £m	**March 2022 £m**	March 2021 £m
Operating profit from continuing operations	**1,536.8**	**1,333.5**	**3,755.4**	**2,654.9**
Net Finance costs	(372.8)	(384.6)	273.2	(236.9)
Profit before Tax	**1,164.0**	**948.9**	**3,482.2**	**2,418.0**
Current Tax charge	(107.1)	(85.9)	(882.8)	(224.3)
Effective current tax rate (%)	9.2	9.1	25.4	9.3
Profit after Tax on continuing operations	**1,056.9**	**863.0**	**2,599.4**	**2,193.7**
Less: hybrid equity coupon payments	(50.7)	(46.6)	(50.7)	(46.6)
Profit after Tax from continuing operations attributable to ordinary shareholders	**1,006.2**	**816.4**	**2,548.7**	**2,147.1**
EPS from continuing operations (pence)	**95.4**	**78.4**	**241.6**	**206.3**
Number of shares for basic/reported and adjusted EPS (million)	1,055.0	1,040.9	1,055.0	1,040.9
Shares in issue at 31 March (million)**	1,067.6	1,043.0	1,067.7	1,043.0

* Comparative information has been re-presented to reflect the classification of Scotia Gas Networks as a discontinued operation and the changes to segmental disclosures made in the year (see note 1.2 of the Financial Statements).

** Excludes treasury shares.

Dividend per Share

	March 2022	March 2021
Interim Dividend (pence)	**25.5**	24.4
Final Dividend (pence)	**60.2**	56.6
Full Year Dividend (pence)	**85.7**	81.0

Financial review continued

Operating profit performance 2021/22
Business-by-business segmental

	Adjusted		Reported	
	March 2022 £m	March 2021 £m	**March 2022 £m**	March 2021 £m
Operating profit/(loss)				
SSEN Transmission	380.5	220.9	380.5	220.9
SSEN Distribution	351.8	275.8	351.8	275.8
Electricity networks total	**732.3**	**496.7**	**732.3**	**496.7**
SSE Renewables	**568.1**	**731.8**	**427.8**	**856.0**
SSE Thermal	306.3	160.5	630.1	775.3
Gas Storage	30.7	(5.7)	125.4	2.8
Thermal Total	**337.0**	**154.8**	**755.5**	**778.1**
Business Energy (GB)	(21.5)	(24.0)	(21.5)	(3.9)
SSE Airtricity (NI and Ire)	60.4	44.0	60.4	50.0
Energy Customer Solutions Total	**38.9**	**20.0**	**38.9**	**46.1**
Energy Portfolio Management	**(16.8)**	**18.4**	**2,083.6**	**608.5**
Distributed Energy	**(10.9)**	**(27.0)**	**(29.2)**	**(76.1)**
Neos	**(16.1)**	**(2.8)**	**(140.0)**	**(14.1)**
Corporate unallocated	**(95.7)**	**(58.4)**	**(113.5)**	**(40.3)**
Total operating profit from continuing operations	**1,536.8**	**1,333.5**	**3,755.4**	**2,654.9**
Net finance costs	(372.8)	(384.6)	(273.2)	(236.9)
Profit before tax from continuing operations	**1,164.0**	**948.9**	**3,482.2**	**2,418.0**
Discontinued operations:				
Gas Production Assets	101.4	33.0	(19.4)	33.0
Scotia Gas Networks	21.0	173.0	495.4	88.6
Total operating profit/(loss) from discontinued operations	**122.4**	**206.0**	**476.0**	**121.6**

* Comparative information has been re-presented to reflect the classification of Scotia Gas Networks as a discontinued operation and the changes to segmental disclosures made in the year (see note 1.2 of the Financial Statements).

In order to present the financial results and performance of the Group in a consistent and meaningful way, SSE applies a number of adjusted accounting measures throughout this financial report. These adjusted measures are used for internal management reporting purposes and are believed to present the underlying performance of the Group in the most useful manner for ordinary shareholders and other stakeholders.

The definitions SSE uses for adjusted measures are explained in the Alternative Performance Measures section before the Financial Statements. A reconciliation of adjusted operating profit by segment to reported operating profit by segment can be found in note 5.1(ii) to the Financial Statements.

Segmental EBITDA results are included in note 5.1(v) to the Financial Statements.

Impact from market volatility

The Group reduces direct exposure to short term commodity price volatility through its business mix, the disciplined application of its clearly defined approach to hedging and low VAR trading limits. Nevertheless, the higher and more volatile gas and power market prices, combined with increasing inflation rates have had some impact upon SSE's businesses which can be summarised as follows:

SSEN Transmission and **SSEN Distribution** operate under a regulatory price control framework which is set by Ofgem. Returns under this framework have no direct relationship to gas and power market prices, however both allowed revenues and Regulated Asset Values are index linked (Transmission to CPI(H). Distribution to RPI (for ED1 price control) and CPI(H) (for ED2 price control)).

Within **SSE Renewables**, in periods where wind volume output was significantly lower than expected, excess forward sale contracts had to be 'bought back' in the market at higher prices, further reducing the trading result.

For **SSE Thermal** (as well as the Hydro plant within SSE Renewables), value has come from the ability of the plant to respond to market conditions and provide vital balancing services to provide security of supply and flexibility in higher, more volatile market conditions. The current market conditions are therefore generally positive for these businesses, although this is dependent upon plant availability at times of system stress.

Both **EPM** and **Gas Storage**, through their respective exposure to unsettled commodity contracts and physical gas inventory, have experienced significant positive unrealised mark-to-market remeasurement gains in the year. However, EPM is not expected to realise significant gains upon settlement of the contracts, as they are largely offset by significant adversely marked-to-market 'own use' operating derivatives which are excluded from disclosure as remeasurements under IFRS 9. In addition, for EPM, market volatility and retail energy supplier failure has resulted in a significant increase in the collateral requirements necessary to allow the businesses to continue to trade with counterparties and on exchanges as required. To date these increased collateral requirements have generally been managed by issuing new Letters of Credit, Guarantees and Performance Bonds, however exchange cash collateral requirements have been subject to volatility in recent months. The Group closely monitors this and maintains more than sufficient liquidity to manage these increased collateral requirements.

SSE Business Energy and **SSE Airtricity** (aside from Northern Ireland, where SSE Airtricity is subject to a regulatory pricing mechanism) are not subject to a regulated price cap and therefore variable tariffs are adjusted dynamically and fixed tariff rates are reset for new customers as wholesale costs increase or decrease. Although the businesses are insulated against gas price rises insofar as they are fully hedged, there are external circumstances that would result in hedge adjustments such as weather, supplier failures and broader economic conditions. A dynamic forecasting approach has been in place to quickly respond to volume changes. In relation to Airtricity, vertical integration of generation and customer businesses in the Irish market limits commodity exposures with some benefit received through REFIT receipts on legacy wind assets.

Finally, **SSE Group** is well funded with a strong investment grade credit rating, a high proportion of the £8.6bn adjusted net debt (c.96%) is fixed rate and the long average maturity of SSE's debt is 6.8 years. The Group has been successful in challenging debt markets, issuing a €1bn Hybrid and £350m Private Placement post year-end. SSE's balance sheet strength allows the Group to meet additional collateral increases on higher and volatile commodity contracts, while the high proportion of fixed rate debt provides robust financing in an inflationary environment.

Operating profit

Adjusted and reported operating profit/ losses in SSE's business segments for the year to 31 March 2022 are set out below; comparisons are with the same period to 31 March 2021 unless otherwise stated.

SSEN Transmission: Adjusted and reported operating profit increased by 72% to £380.5m. This was mainly due to higher allowed revenues in FY22 (the first year of the RIIO-T2 price control) resulting from an increased proportion of higher totex allowances received through the 'fast money' mechanism, and an over-recovery of £9m, as timing impacts passed from the Electricity System Operator to Transmission Operators. This higher revenue was partially offset by increases in operating costs and depreciation charges, as the business continues to expand its operational capability and asset base.

SSEN Distribution: Adjusted and reported operating profit increased by 28% to £351.8m compared to £275.8m which was lower than expected due to a c.£40m impact of coronavirus in FY21 which will be recovered in FY23. In FY22, higher allowed revenue and an over-recovery of £17m were partially offset by a £51m increase in operating costs, c£40m of which related to expenditure incurred managing the impact of several severe weather events during the year.

SSE Renewables: Adjusted operating profit decreased by 22% to £568.1m, compared to £731.8m, mainly as developer profits of £64m from a 10% stake disposal in Dogger Bank C on 10 February 2022 were lower than the £226m of developer profits in the prior year. Excluding developer profits, operating profit was broadly flat as exceptionally still and dry weather in the summer months led to a decrease in output of 7% or 0.7TWh compared to the prior year, offset by strong financial performance from hydro and pumped storage in volatile markets. The financial impact of lower output – equivalent to 13% or 1.4TWh below planned levels – included the cost of buying back hedged volumes at high market prices.

In addition to the factors outlined above, reported operating profit of £427.8m compared to £856.0m which included one-off exceptional gains of £214.5m. In addition, reported operating profit was also impacted by a £21.5m increase in joint venture share of interest and tax charges and the impact of the UK Corporation tax rate change on deferred tax balances in joint ventures.

SSE Thermal: adjusted operating profit increased 91% to £306.3m, compared to £160.5m. This increase was mainly due to higher achieved spark spread, including buying back forward power sales on high wind days, and strong performance in the balancing market. This was partially offset by non-recurring developer profits on the disposal of a 50% stake in Slough Multifuel in the prior period, lower profit contribution following divestment of Ferrybridge Multifuel and increased depreciation following the part-reversal of historic impairment charges at the half year.

Reported operating profit decreased to £630.1m from £775.3m in the prior year which had included one-off gains of £669.7m on the sale of Multifuel Energy and £21.3m on Slough Multifuel offset by a £58.1m exceptional impairment charge for Great Island CCGT. In addition to the factors affecting operational performance highlighted above, the reported result reflects the associated impairment reversal of £331.6m to the carrying value of SSE's CCGT assets following higher forward price curves, alongside other minor tax and interest movements.

Financial review continued

Gas Storage: Adjusted operating profit of £30.7m, compared with a prior year loss of £(5.7)m. SSE continues to operate the plant on a merchant basis, with the ability to capture positive gas price spreads during periods of heightened market volatility. The operating result for the period reflects continued volatile market conditions, which allows Gas Storage to optimise the value from storage of physical gas against changes in the spread between summer and winter prices.

Reported operating profit of £125.4m included an impairment reversal of £97.3m as a result of improved operating prospects given projected gas price volatility, together with a £(2.6)m revaluation loss on gas held in storage, compared to a revaluation gain of £8.5m in the prior year.

SSE Business Energy: Adjusted operating loss of £(21.5)m has slightly improved compared with an adjusted operating loss of £(24.0)m last year. Both years have been impacted by significant volatility; the prior year result included approximately £24m of losses on early settlement of excess commodity hedges linked to Covid, while the current year has borne non-recoverable BSUoS costs of around £20m and £14m of additional mutualisation costs due to a significantly higher number of supplier failures. These were partially offset by an improvement in bad debt recovery of £14m as the economy emerged from the impact of coronavirus. The underlying business remains stable with a solid customer book.

Reported operating loss was also £(21.5)m, compared to £(3.9)m loss in the prior year which included a £20.1m release of excess bad debt provisioning originally expected to arise from coronavirus impact.

SSE Airtricity: Adjusted operating profit increased to £60.4m compared to £44.0m in the previous year, with the increased profit due to £51m of higher generation receipts on wind assets which are contracted through Airtricity. This was partially offset by a £25m adjustment in relation to historic use of system costs.

The business has grown customer numbers year on year but seen a drop in customer margins as energy prices increased; commodity costs increased significantly in the year and were managed through our approach to hedging and where necessary through tariff increases.

Reported operating profit was also £60.4m, compared to £50.0m profit in the prior year which included a £6.0m release of excess bad debt provisioning originally expected to arise from coronavirus impact.

Energy Portfolio Management: Adjusted operating loss of £(16.8)m, compared to an adjusted operating profit of £18.4m which included a net £20.4m income from legacy Gas Production hedges. The operating loss is primarily due to a legacy power contract with Ovo which fully unwound during the year in a higher commodity price environment. EPM continues to expect to earn a small adjusted operating profit through service provision to those SSE businesses requiring access to energy markets.

Reported operating profit of £2,083.6m reflects a material net remeasurement gain in the year on unsettled fair value forward commodity contracts, under IFRS 9. In line with reporting in previous years, this result excludes an adverse remeasurement of 'own use' contracts of approximately £2.0bn which largely offsets the IFRS 9 gain.

SSE Distributed Energy: An adjusted operating loss of £(10.9)m was reported, compared with an adjusted operating loss of £(27.0)m which included an impact from coronavirus. This reporting segment includes the result from the Contracting and Rail business, which remains reported within this segment up to the point of disposal on 30 June 2021. The segment no longer includes Out of Area Networks, which is now reported within the Distribution segment, and Neos Networks JV, which has been separately presented below.

Reported operating loss of £(29.2)m reflects the above factors together with an exceptional loss on disposal of £18.3m upon completion of the sale of Contracting and Rail.

Neos Networks JV: SSE's remaining 50% share in the Telecoms business Neos Networks recorded an adjusted operating loss of £(16.1)m compared with £(2.8)m in FY21. The reported loss of £(140.0)m includes both an impairment of £(106.9)m and an adjustment to original transaction consideration.

Corporate unallocated: Adjusted operating loss of £(95.7)m compared with £(58.4)m, reflecting a natural reduction in external revenues as enduring service agreements with recently divested businesses roll-off, together with higher central costs including increased Group IT costs as the Group accelerates its investment in digitalisation.

Reported operating loss of £(113.5)m reflects the above factors together with a £(13.1)m revaluation adjustment to the legacy Gas Production decommissioning provision, part of Corporate unallocated following the business disposal in the year, and other minor tax and interest movements.

Adjusted earnings per share

To monitor its financial performance over the medium term, SSE reports on its adjusted earnings per share measure. This measure is calculated by excluding the charge for deferred tax, interest costs on net pension liabilities, exceptional items, valuation movements on the retained Gas Production decommissioning liabilities, depreciation on fair value adjustments and the impact of certain remeasurements.

SSE's adjusted EPS measure provides an important and meaningful measure of underlying financial performance. In adjusting for the items mentioned, adjusted EPS reflects SSE's internal performance management, avoids the volatility associated with mark-to-market IFRS 9 remeasurements and means that items deemed to be exceptional due to their nature and scale do not distort the presentation of SSE's underlying results. For more detail on these and other adjusted items please refer to the Adjusted Performance Measures section of this statement.

In the year to 31 March 2022, SSE's adjusted earnings per share on continuing operations was 95.4p. This compares to 78.4p for the year to 31 March 2021 (restated for SGN disposal – 87.5p previously reported) and reflects the movements in adjusted operating profit outlined in the section above.

Group financial outlook – 2022/23 and beyond

Key points for 2022/23

The group has enjoyed a strong start to delivery of the targets it set out in its Net Zero Acceleration Programme with thermal and hydro plant performing particularly well in the second half of 2021/22.

SSE's focus continues to be on long-term, sustainable financial performance. Through high levels of investment expected in Transmission, a step up in profits expected in Thermal generation and an expected return to normal weather for Renewables, SSE is confident about delivery of strong earnings growth for this financial year, specifically:

- For SSEN Transmission: SSE expects to report strong growth in adjusted EBIT with a 20% increase in allowed revenues under the RIIO-T2 price control, as the network continues to expand its operational capability and asset base;
- For SSE Renewables: assuming normal weather and plant availability, SSE expects to report generation output of 11.4TWh, including 0.9TWh from Seagreen; and
- For SSE Thermal and Gas Storage: assuming normal plant availability and excluding the benefit of Keadby 2, SSE expects to report adjusted EBIT for 2022/23 of at least £337m, the same level as 2021/22.

Taking the above into account SSE currently expects to report full year adjusted earnings per share of at least 120p.

The Group remains committed to its five-year dividend plan to March 2026 and is recommending a 2022/23 full-year dividend of 85.7 pence in line with that plan.

Capital expenditure and investment is expected to total in excess of £2.5bn in 2022/23 (including acquisitions but net of project finance development expenditure refunds) assuming the recent Southern European acquisition successfully completes as planned. This is consistent with maintaining SSE's target net debt to EBITDA ratio of 4.5 times or below.

Update to net zero acceleration programme

In November 2021 SSE set out that it expected to deliver adjusted EPS CAGR on the 87.5 pence reported for the year ended March 2021 (before restatement) of between 5-7% in the period to 31 March 2026. This was underpinned by index-linked revenue streams driving 60% of EBITDA and was after a modelling assumption of a 25% minority interest disposal of Transmission and Distribution during FY24.

SSE now expects to deliver an adjusted EPS CAGR of between 7-10%* over the same period as a result of: confidence derived from strong delivery in 2021/22; higher RPI forecasts; higher and more volatile energy commodity prices; and evidence of increased value creation potential from flexibility provided by SSE's Thermal and Hydro generation, and gas storage assets.

* Using the same baseline adjusted EPS of 87.5p (before restatement for SGN disposal) and continuing to model a 25% minority interest disposal of Transmission and Distribution during FY24.

Supplemental financial information

Adjusted investment and capex summary

	March 2022 Share %	**March 2022 £m**	March 2021 £m
SSEN Transmission	30	614.4	435.2
SSEN Distribution	18	364.8	350.8
Regulated networks total	**48**	**979.2**	**786.0**
SSE Renewables	**39**	**811.0**	**294.3**
SSE Thermal	6	129.3	106.5
Gas Storage	–	2.1	1.9
Thermal Total	**6**	**131.4**	**108.4**
Energy Customer Solutions	2	39.8	31.2
Energy Portfolio Management	–	2.4	2.1
Gas Production*	–	–	26.8
Distributed Energy	1	26.6	17.6
Corporate unallocated	4	78.7	74.2
Adjusted investment and capital expenditure, before refunds	**100**	**2,069.1**	**1,340.6**
Project finance development expenditure refunds		(136.7)	(428.6)
Adjusted investment and capital expenditure		**1,932.4**	**912.0**
Acquisitions		141.3	–
Adjusted investment, capital and acquisitions expenditure		**2,073.7**	**912.0**

* Discontinued operation, the Gas Production business was disposed on 14 October 2021.

Disposal of minority stake in networks

SSE continues to regard partnering as vital for the future and an important means of unlocking future opportunities in its businesses.

In line with the modelling assumption in its Net Zero Acceleration Programme, announced in November 2021, the Group has recently initiated a sales process with banking advisers for a 25% share of the SSEN Transmission business which is expected to formally commence in Summer 2022. Given the SSEN Distribution business is currently progressing its ED2 price control negotiations, a decision on the timing of a similar stake sale will be made later in the financial year.

While these are high-quality, core businesses and SSE will retain control, the scale of potential growth and the associated investment required mean that bringing in non-controlling partners will create greater long-term value by enabling SSE to harness this significant growth whilst maintaining an attractive balance of capital allocation across the Group.

Progress in SSE's capital expenditure programme

During the year to March 2022, SSE's adjusted investment, capital and acquisition expenditure, which now includes equity expenditure on acquisitions per above, totalled £2,073.7m, an increase of 127% compared with the prior year and representing the highest ever investment recorded by the Group. Almost £2bn of this was invested within SSE's Renewables, Thermal and Networks businesses, all which are fundamental to delivery of the UK's net zero ambitions. In summary:

- Excellent progress was made in SSEN Transmission's investment programme, with a total of £614.4m invested in building out and reinforcing the network in the North of Scotland. Work was completed on Tealing Substation Extension, required to facilitate the connection of Seagreen to the grid. In addition, construction is well under way on the link between Shetland and mainland Scotland, which will see a submarine cable laid in order to transmit power beneath the seabed between converter stations at Weisdale Voe on Shetland and Noss Head in Caithness.

Financial review continued

- SSEN Distribution continued its capital investment programme across both the north and south networks, with a total spend of £364.8m, mainly on strategic investment and construction in both the north and south regions, as well as progressing the replacement of the submarine cable between Skye and Harris. All of which is designed to deliver improvements for customers.
- Significant further capex was deployed on SSE Renewables' flagship projects, including nearly £500m investment on Seagreen, Scotland's largest offshore wind farm, and around £100m on Viking onshore wind farm, which will be one of Europe's most productive onshore wind farms, once complete. In addition, progress was made at the 30MW Lenalea onshore wind farm in County Donegal and the 38MW Gordonbush Extension onshore wind farm in Sutherland was commissioned during the year.
- Investment in SSE Thermal was focused on the final stages of the 893MW Keadby 2 CCGT, with commissioning started in October 2021 and full commercial operation expected 1 October 2022.

In April 2022, an incident occurred on a sub-contractor S7000 installation vessel which is contracted to the Seagreen offshore wind farm construction project. The project team are working closely with contractors to manage and mitigate project impacts and the project is currently expected to achieve first power in July 2022 and full commercial operation in April 2023.

SSE'S hedging position at 18 May 2022

SSE has an established approach to hedging through which it generally seeks to reduce its broad exposure to commodity price variation at least 12 months in advance of delivery. As market conditions change, SSE may decide to alter its hedging approach in response to any changes in its exposure profile. SSE will continue to provide a summary of its current hedging approach, including details of any changes in the period, within its Interim and Full-year Results statements.

A summary of the hedging position for each of SSE's market-based businesses is set out above.

Volumes are based on average expected output, and the contracted hedge price is either at 31 March or 18 May as noted in the table above.

SSE Renewables – GB wind and hydro

Forward power prices and volatility have been increasing, driven by supply-demand tensions, the acceleration in carbon pricing, nuclear outages and closures and the reconfiguration of the merit order in both GB and Ireland. These trends have been amplified by scarcity concerns across Europe. In response to this, SSE Renewables has increased its hedge position against its target volume for financial years 2023/24 and 2024/25.

In order to show this hedge acceleration, the table below has been updated to show the position at 18 May 2022 for those periods.

		As at 31 March 2022		As at 18 May 2022		
		2021/22	2022/23	2023/24	2024/25	2025/26
Wind	Expected volume – TWh	4.2	5.3	6.8	8.4	8.7
	Volume hedged – %	85%	91%	78%	37%	1%
	Hedge price – £MWh	£48	£54	£69	£105	£108
Hydro	Expected volume – TWh	3.6	3.5	3.7	3.8	3.8
	Volume hedged – %	83%	85%	70%	38%	1%
	Hedge price – £/MWh	£50	£63	£74	£110	£108

The expected volumes include anticipated volumes from SSE's wind farms in construction, Seagreen (pre CFD) and Viking. No volumes have been included for Dogger Bank wind farm. Seagreen accounts for approximately 0.9TWh in 22/23 and 2.5TWh in each of 23/24, 24/25 and 25/26 with Viking accounting for 1.6TWh in 24/25 and 1.9TWh in 25/26. These volumes represent SSE's most up to date view of the output from Seagreen taking account of recent issues encountered by the S7000 installation vessel. In the event that further construction delays result in a shortfall against wind hedged volumes, it is expected that the exposure will continue to be managed within the wider SSE generation portfolio.

The table excludes additional volumes and income for BM activity, ROCs, ancillary services, pre-commissioning, capacity mechanism and shape variations. It also excludes volumes and income relating to Irish wind output, pumped storage and CfDs.

Energy output hedges for both wind and hydro are progressively established over the 36 months prior to delivery (although the extent of hedging activity for future periods depends on the level of available market depth and liquidity). Target hedge levels continue to be achieved through the forward sale of either electricity, or gas and carbon equivalents (assuming a constant 1MWh : 69.444 th and 1MWh : 0.3815 te/MWh conversion ratio between commodities), with the balance determined by the optimal hedge price across those markets. This approach aims to reduce the exposure of renewables assets to volatile spot power market outcomes whilst still providing an underlying commodity price hedge.

For wind energy output, SSE's established approach to hedging seeks to account for the effect of the 'wind capture price' by targeting a hedge of less than 100% of its anticipated wind energy output for the coming 12 months. The targeted hedge percentage is reviewed and adjusted as necessary to reflect any changes in future market and wind capture insights. The last such revision occurred in May 2021, with at least 90% of the anticipated energy output from wind for the coming twelve months being hedged from that date.

The approach to hedging hydro energy output remains unchanged at approximately 85% of its forecast energy output for the coming 12 months.

UK Business Energy: The business supplies electricity and gas to business and public sector customers. Sales to contract customers are 100% hedged: at point of sale for fixed contract customers; upon instruction for flexi contract customers; and on a rolling hedge basis for tariff customers.

Given the pricing and macro-economic context Business Energy is dynamically monitoring nearer term consumption actuals for any early signs of demand variability, and adjusting future volumes hedged accordingly.

GB Thermal: In the six months prior to delivery, SSE aims to hedge all of the expected output of its CCGT assets, having progressively established this hedge over the preceding eighteen months. Hedging activity depends on the availability of sufficient market depth and liquidity, which can be limited, particularly for periods further into the future.

SSE continues to monitor market developments, in particular the recent energy and carbon price volatility, and will adjust its hedging approach to take account of any resultant change in exposures.

Gas Storage: The annual auction to offer gas storage capacity contracts from Atwick, held in April 2022, resulted in no third-party contracts being secured. As such the assets are being commercially operated to optimise value arising from changes in the spread between summer and winter prices, market volatility and plant availability.

Energy Portfolio Management (EPM): EPM provides the route to market and manages the execution for all of SSE's commodity trading outlined above (spark spread, power, gas, oil and carbon). This includes monitoring market conditions and liquidity and reporting net Group exposures. The business operates under strict position limits and VAR controls. There is some scope for small position-taking to permit EPM to manage around shape and liquidity whilst taking small optimisation opportunities. This is contained within a VAR limit of £2m (£1m for the curve period and £1m for the prompt).

Ireland: Vertical integration of the generation and customer businesses in Ireland limits the Group's commodity exposure in that market.

In addition to the above exceptional items from continuing operations, a net exceptional gain within discontinued operations of £455.7m before tax was recognised. This net exceptional profit consisted of:

- a £576.5m gain recognised on completion of the disposal of the Group's 33.3% investment in SGN on 22 March 2022; offset by
- a £120.8m loss relating to the disposal of the Gas Production assets and liabilities on 14 October 2021.

For a full description of exceptional items, see note 7 of the Financial Statements.

Operating derivatives

SSE enters into forward purchase contracts (for power, gas and other commodities) to meet the future demands of its energy supply businesses and to optimise the value of its generation assets. Some of these contracts are determined to be derivative financial instruments under IFRS 9 and as such are required to be recorded at their fair value as at the date of the financial statements.

Summarising movements on exceptional items And certain remeasurements

Exceptional items

In the year to 31 March 2022, SSE recognised a net exceptional gain within continuing operations of £305.0m before tax. The following table provides a summary of the key components making up the net gain position:

Exceptional Credits/(Charges) within continuing operations	Total £m
Disposals of non-core assets:	
Contracting & Rail business – loss on disposal	(18.9)
Impairments and other exceptional items	
Thermal Electricity Generation historic impairment reversal	331.6
Gas Storage historic impairment reversal	97.3
Neos Networks investment impairment and adjustment to consideration	(113.1)
Other historic true-up credits	8.1
	323.9
Total exceptional items	**305.0**

Notes:
The definition of exceptional items can be found in note 3.2 of the Financial Statements.
Non-core assets are defined as being assets in which SSE is not the principal operator or are less aligned with the transition to net-zero emissions.

Certain remeasurements

In the year to 31 March 2022, SSE recognised a net remeasurement gain within continuing operations of £2,118.8m before tax. The following table provides a summary of the key components making up the net gain position:

Certain remeasurements within continuing operations	Total £m
Operating derivatives	2,100.4
Commodity stocks held at fair value	(2.6)
Financing derivatives	21.0
Total	**2,118.8**

SSE shows the change in the fair value of these forward contracts separately as this mark-to-market movement does not reflect the realised operating performance of the businesses. The underlying value of these contracts is recognised as the relevant commodity is delivered, which for the large majority of the position at 31 March 2022 is expected to be within the next 12-18 months.

The change in the operating derivative mark-to-market valuation was a £2,100.4m increase from a small "in-the-money" position at 31 March 2021 into a significantly "in-the-money" position at 31 March 2022. This movement consisted of:

- Settlement during the year of £(1,426.8)m of previously "in-the-money" contracts in line with the contracted delivery periods; and
- Mark-to-market gains of £3,527.2m on unsettled contracts entered into during the course of 2020/21 and 2021/22 in line with the Group's stated approach to hedging. These mark-to-market gains reflect the significant volatility in commodity markets during the period.

As in prior years, the reported result does not include remeasurement of 'own use' adverse hedging agreements which would have settled at a mark-to-market loss in the year of c.£1.95bn and which would be valued at c.£(2.1)bn at 31 March 2022; these contracts are excluded from recognition under IFRS 9 and largely offset the IFRS 9 remeasurement noted above.

Commodity stocks held at fair value

Gas inventory purchased by the Gas Storage business for secondary trading opportunities is held at fair value with reference to the forward month market price. The £(2.6)m negative movement in the year mainly resulted from a decrease in the underlying volumes of gas held at year end, as gas was sold in the second half of the financial year realising the significant increase in the fair value of that gas during the year.

Financial review continued

Financing derivatives

In addition to the positive movements above, a positive movement of £21.0m was recognised on financing derivatives in the year to 31 March 2022, including SSE's share of joint venture financing derivative remeasurements, and related to mark-to-market movements on cross-currency swaps and floating rate swaps that are classed as hedges under IAS 39. These hedges ensure that any movement in the value of net debt is predominately offset by a movement in the derivative position. The adjustment was primarily driven by weaker Sterling against the Dollar partially offset by stronger Sterling against the Euro.

These remeasurements are presented separately as they do not represent underlying business performance in the period. The result on financing derivatives will be recognised in adjusted profit before tax when the derivatives are settled.

Reported profit before tax and earnings per share

Taking all of the above into account, reported results for the year to 31 March 2022 are significantly higher than the previous year. In addition to the £2,118.8m cumulative net gain on forward commodity, gas inventory and financing derivative fair value remeasurements noted above, reported results also reflect the reversal of historic SSE Thermal and Gas Storage impairment charges of £428.9m as well as other pre-tax exceptional items totalling £(123.9)m as detailed within note 7 of the Financial Statements.

Reported results in the prior year reflected pre-tax exceptional and certain re-measurement gains of £1,503.7m recognised which were driven by a combination of progression with the Group's £2bn plus non-core asset disposal programme and IFRS 9 remeasurements on operating derivatives.

Financial management and balance sheet

Debt metrics

	March 2022 £m	September 2021 £m	March 2021 £m
Net Debt/EBITDA*	**4.0**	**N/A**	**4.7**
Adjusted net debt and hybrid capital (£m)	**(8,598.2)**	**(9,611.4)**	**(8,898.9)**
Average debt maturity (years)	6.8	7.2	7.4
Adjusted interest cover (times)	4.0	1.6	3.5
Average interest rate for the period (excluding JV/assoc. interest and all hybrid coupon payments)	3.29%	3.35%	3.12%
Average cost of debt at period end (including all hybrid coupon payments)	3.81%	3.89%	3.75%

* Note: Net debt represents the group adjusted net debt and hybrid capital. EBITDA represents the full year group adjusted EBITDA, less £125.4m (at March 2022) for the proportion of adjusted EBITDA from equity-accounted Joint Ventures relating to project financed debt.

Net finance costs reconciliation

	March 2022 £m	March 2021 £m
Adjusted net finance costs	**372.8**	**384.6**
Add/(less):		
Lease interest charges	(30.4)	(35.3)
Notional interest arising on discounted provisions	(5.7)	(3.8)
Hybrid equity coupon payment	50.7	46.6
Adjusted finance costs for interest cover calculation	387.4	392.1

SSE Principal Sources of debt funding

	March 2022 £m	September 2021 £m	March 2021 £m
Bonds	**55%**	58%	58%
Hybrid debt and equity securities	**21%**	22%	24%
European investment bank loans	**7%**	7%	8%
US private placement	**9%**	9%	8%
Short-term funding	**5%**	1%	0%
Index-linked debt	**3%**	3%	2%
% Of which has been secured at a fixed rate	**96%**	100%	98%

Rating Agency	Rating	Criteria	Date of Issue
Moody's	Baa1 'negative outlook'	'Low teens' Retained Cash Flow/Net Debt	November 2021
Standard and Poor's	BBB+ 'outlook stable'	About 18% Funds From Operations/Net Debt	November 2021

Maintaining a strong balance sheet

While there may be short-term fluctuations, a key objective of SSE's approach to managing cash outflow and securing value and proceeds from disposals is its target of a net debt/EBITDA ratio of 4.5x or lower across the five years to 31 March 2026.

As well as promoting the long-term success of the Company, this approach is also designed to ensure that SSE maintains credit rating ratios (Retained Cash Flow (RCF)/Net Debt and Funds From Operations (FFO)/Net Debt) that are comparable with private sector utilities across Europe and comfortably above those required for an investment grade credit rating.

SSE's S&P credit rating remains at BBB+ 'stable outlook' and its Moody's rating also remains at Baa1, but updated to 'stable outlook' following the strategic review update in November 2021.

Adjusted net debt and hybrid capital

SSE's adjusted net debt and hybrid capital was £8.6bn at 31 March 2022, down from £8.9bn at 31 March 2021. This movement reflects the completion of the non-core asset disposal programme announced in 2020, which included completion of the sale of the 33.3% investment in SGN in March 2022, partially offset by the ongoing investment programme, including the acquisition of an 80% stake in a Japanese development platform from Pacifico Energy in September 2021, as well as various working capital movements.

Following the significant debt issued in the 20/21 financial year, where the SSE Group accessed the debt and hybrid capital markets three times issuing c.£2.5bn of debt over six tranches, no new medium-long-term debt was issued in the 2021/22 financial year. The SSE Group did however re-enter the short-term Commercial Paper market during the year and at 31 March 2022 had £507m of Commercial Paper outstanding.

Debt summary as at 31 March 2022

As stated above no new medium- long-term debt was issued and received in 2021/22 however the following two debt issues were committed to or completed either side of the financial year end:

- In March 2022, the SSE Group through its SSEN Transmission entity priced and committed to a £350m dual tranche private placement, being a £175m 10-year tranche at 3.13% and £175m 15-year tranche at 3.24% giving an all-in average rate of 3.19%. The pricing was committed to in March 2022 and the proceeds will be received on 30 June 2022.
- In April 2022, SSE plc issued a €1bn NC6 equity accounted hybrid bond at 4% to refinance the dual tranche debt accounted hybrid bonds issued in March 2017. SSE has taken advantage of the 3-month par call option on these 2017 hybrid bonds, meaning they will now be repaid on 16 June 2022 in advance of the first call date. The €1bn equity accounted hybrid bond has been kept in Euros and the proceeds will be used to cover the portion of the maturing hybrid that was swapped to Euros (€575m) and to finance a portion of the Southern European onshore wind development platform acquisition cost which is expected to complete by September 2022.

In addition to the hybrid bonds called in June 2022 a further £613m of medium-long-term debt matures in 2021/22 being £163m (USPP) which matured in April 2022, £300m (Eurobond) maturing in September 2022 and £150m (EIB) maturing in October 2022. A further £507m of short-term debt in the form of Commercial Paper is also due to mature in the first half of 2021/22, however the current intention is to roll this maturing short-term debt forward where possible.

Hybrid bonds summary as at 31 March 2022

Hybrid bonds are a valuable part of SSE's capital structure, helping to diversify SSE's investor base and most importantly to support credit rating ratios, with their 50% equity treatment by the rating agencies being positive for SSE's credit metrics.

A summary of SSE's hybrid bonds as at 31 March 2022 can be found below:

Issued	Hybrid Bond Value*	All in rate	First Call Date	Accounting Treatment
March 2017	£300m	3.73%	September 2022	Debt accounted
March 2017	$900m (£749m)	2.72%	September 2022	Debt accounted
July 2020	£600m	3.74%	Apr 2026	Equity accounted
July 2020	€500m (£454m)	3.68%	July 2027	Equity accounted

* Sterling equivalents shown reflect the fixed exchange rate where proceeds have been swapped to Sterling and where proceeds remain in Euros the Sterling equivalent is revalued each period.

In accordance with the first call date, the €600m (£440m) March 2015 Hybrid Bond was called and redeemed in April 2021 and therefore not included in the table above. The March 2017 hybrids have a 3-month par call option that SSE has invoked meaning these two hybrids will now be called and settled on 16 June 2022.

Further details on each hybrid bond can be found in Notes 21 and 22 to the Financial Statements and a table noting the amounts, timing and accounting treatment of coupon payments is shown below:

Hybrid coupon payments

	2022/23		2021/22	
	HYe	FYe	HYa	FYa
Total equity (cash) accounted	£39m	£39m	£51m	£51m
Total debt (accrual) accounted	£21m	£21m	£15m	£31m
Total hybrid coupon	**£60m**	**£60m**	**£66m**	**£82m**

Financial review continued

SSE's March 2015 and July 2020 hybrid bonds are perpetual instruments and are therefore accounted for as part of equity within the Financial Statements but, as in previous years, have been included within SSE's 'Adjusted net debt and hybrid capital' to aid comparability. The March 2017 hybrid bonds which have been called and will be settled in 2022/23 had a fixed redemption date and have therefore been debt accounted and included within Loans and Other Borrowings; as such they were already part of SSE's adjusted net debt and hybrid capital.

The coupon payments relating to the equity accounted hybrid bonds are presented as distributions to other equity holders and are reflected within adjusted earnings per share when paid. The coupon payments on the debt accounted hybrid bonds are treated as finance costs under IFRS 9.

Managing net finance costs

SSE's adjusted net finance costs – including interest on debt accounted hybrid bonds but not equity accounted hybrid bonds – were £372.8m in the year to 31 March 2022, compared to £384.6m in the previous year after restatement for SGN related finance costs. The relatively stable level of finance costs from year to year, despite periods of high inflation, reflects the high proportion of fixed rate debt held by the Group.

Reported net finance costs were £273.2m compared to £236.9m, after restatement for SGN related finance costs, reflecting a £34.6m year-on-year change in the mark-to-market revaluation of financing derivatives held at fair value.

Summarising cash and cash equivalents

At 31 March 2022, SSE's adjusted net debt included cash and cash equivalents of £1.0bn, down from £1.6bn at March 2021 which reflects the continued strong cash generation from operating activities, offset by a significant increase in capital investment, a reduction in year-on-year disposal proceeds as the June 2020 non-core asset disposal programme came to an end and a net repayment of borrowings. This continued strong cash position will allow SSE to meet its near-term debt repayment and capital investment needs as set out above.

As the fair value of forward commodity contracts has moved from an 'in the money' position in the prior year to an 'out the money' position in the current year, the related collateral required has similarly unwound. At 31 March 2022, £74.7m of cash was provided as collateral to third parties compared to £37.1m held as collateral from third parties on these 'in the money' contracts in the prior year.

Revolving credit facility/ short term funding

SSE has £1.5bn of committed bank facilities in place to ensure the Group has sufficient liquidity to allow day-to -day operations and investment programmes to continue in the event of disruption to Capital Markets preventing SSE from issuing new debt for a period of time. These facilities are set out in the table below.

Date	Issuer	Debt type	Term	Value
Mar 19	SSE plc	Syndicated Revolving Credit Facility with 10 Relationship Banks	2026	£1.3bn
Oct 19	SSE plc	Revolving Credit Facility with Bank of China	2026	£200m

The facilities can also be utilised to cover short-term funding requirements; however, they remain undrawn for most of the time and at 31 March 2022 they were both undrawn.

Both facilities are classified as sustainable facilities with interest rate and fees paid dependant on SSE's performance in environmental, social and governance matters, as assessed independently by Vigeo Eiris.

In addition to these committed bank facilities, the Group has access to £100m of uncommitted bank lines and a £15m overdraft facility.

Maintaining a prudent treasury policy

SSE's treasury policy is designed to be prudent and flexible. In line with that, cash from operations is first used to finance regulatory and maintenance capital expenditure and then dividend payments, with investment and capital expenditure for growth generally financed by a combination of cash from operations, bank borrowings and bond issuance. In 2021/22 growth was also financed by disposal proceeds.

As a matter of policy, a minimum of 50% of SSE's debt is subject to fixed rates of interest. Within this policy framework, SSE borrows as required on different interest bases, with financial instruments being used to achieve the desired out-turn interest rate profile. At 31 March 2022, 96% of SSE's borrowings were at fixed rates.

Borrowings are mainly in Sterling and Euros to reflect the underlying currency denomination of assets and cash flows within SSE. All other foreign currency borrowings are swapped back into either Sterling or Euros.

Transactional foreign exchange risk arises in respect of procurement contracts, fuel and carbon purchasing, commodity hedging and energy portfolio management operations, and long-term service agreements for plant.

SSE's policy is to hedge any material transactional foreign exchange risks through the use of forward currency purchases and/or financial instruments. Translational foreign exchange risk arises in respect of overseas investments; hedging in respect of such exposures is determined as appropriate to the circumstances on a case-by-case basis.

Ensuring a strong debt structure through medium- and long-term borrowings

The ability to raise funds at competitive rates is fundamental to investment. SSE's fundraising over the past five years, including senior bonds, hybrid capital and term loans, now totals £7.7bn and SSE's objective is to maintain a reasonable range of debt maturities. Its average debt maturity, excluding hybrid securities, at 31 March 2022 was 6.8 years, down from 7.4 years at 31 March 2021. This movement reflects the £2.1bn of debt maturing in the next 12 months and is forecast to return to 7.5 years during 2022/23. SSE's average cost of debt is now 3.81%, compared to 3.75% at 31 March 2021.

Going concern

The Directors regularly review the Group's funding structure and have assessed that the Financial Statements should be prepared on a going concern basis.

In making their assessment the Directors have considered sensitivities on the forecast future cashflows of the Group for the period to 31 December 2023 resulting from the current volatile market conditions; the Group's credit rating; the success of the Group's disposal programme through

2020/21 and 2021/22; and the successful issuance of £1.2bn of hybrid equity and private placement debt issued since the March 2022 financial year end. The Directors have also considered the Group's obligations under its debt covenants, with projections to 31 December 2023 supporting the expectation that there will be no breaches.

The Directors have also assessed that the Group remains able to access Capital Markets, as demonstrated by the £3.7bn of debt issued over the last 24 months. There is also an expectation of continued availability of the Commercial Paper market along with future available liquidity in the private placement market in addition to the Group's existing liquidity with £1.5bn of undrawn committed borrowing facilities.

SSE's principal joint ventures and associates

SSE's financial results include contributions from equity interests in joint ventures ("JVs") and associates, all of which are equity accounted. The details of the most significant of these are included in the table below. This table also highlights SSE's share of off-balance sheet debt associated with its equity interests in JVs which totals less than £2.5bn as at 31 March 2022.

SSE principal JVs and associates[1]	Asset type	SSE holding	SSE share of external debt as at 31 March 2022	SSE Shareholder loans as at 31 March 2022
Seabank Power Ltd	1,234MW CCGT	50%	No external debt	No loans outstanding
Marchwood Power Ltd	920MW CCGT	50%	No external debt	£39m
Clyde Windfarm (Scotland) Ltd	522MW onshore wind farm	50.1%	No external debt	£127m
Dogger Bank A Wind Farm	Up to 1,200MW offshore wind farm.	40%	£532m	Project financed
Dogger Bank B Wind Farm	Up to 1,200MW offshore wind farm.	40%	£364m	Project financed
Dogger Bank C Wind Farm	Up to 1,200MW offshore wind farm.	40%	£185m	Project Financed
Seagreen Windfarm Ltd	1,075MW offshore wind farm	49%	£570m	£477m[2]
Seagreen 1a Ltd	Offshore wind farm extension	50%	No external debt	£9m
Lenalea Wind Energy Ltd	30MW of onshore windfarm	50%	No external debt	£3m
Beatrice Offshore Windfarm Ltd	588MW offshore wind farm	40%	£736m	Project financed
Cloosh Valley Wind Farm	105MW onshore windfarm (part of Galway Wind Park)	25%	£25m	Project financed
Neos Networks Ltd	Private telecoms network	50%	No external debt	£91m
Slough Multifuel Ltd	50MW energy-from-waste facility	50%	No external debt	£63m
Stronelairg Windfarm Ltd	228MW onshore wind farm	50.1%	No external debt	£88m
Dunmaglass Windfarm Ltd	94MW onshore windfarm	50.1%	No external debt	£47m

Notes:
1 Greater Gabbard, a 504MW offshore windfarm (SSE share 50%) is proportionally consolidated and is reported as a Joint Operation with no loans outstanding.
2 For accounting purposes, £205m of the £477m of SSE Shareholder loans advanced to Seagreen Windfarm Limited as at 31 March 2022 have been classified as equity.

Taxation

SSE is one of the UK's biggest taxpayers, and in the PwC survey published in November 2021 was ranked 16th out of the 100 Group of Companies in 2021 in terms of taxes borne (those which represent a cost to the company, and which are reflected in its financial results).

SSE considers being a responsible taxpayer a core element of its social contract with the societies in which it operates. SSE seeks to pay the right amount of tax on its profits, in the right place, at the right time, and was the first FTSE 100 company to be awarded the Fair Tax Mark. While SSE has an obligation to its shareholders, customers and other stakeholders to efficiently manage its total tax liability, it does not seek to use the tax system in a way it does not consider it was meant to operate, or use tax havens to reduce its tax liabilities.

Under its social contract SSE has an obligation to the society in which it operates, and from which it benefits – for example, tax receipts are vital for the public services SSE relies upon. Therefore, SSE's tax policy is to operate within both the letter and spirit of the law at all times.

In December 2021, SSE published 'Talking Tax 2021: Tax as a driver for change' report. It did this because it believes building trust with stakeholders on issues relating to tax is important to the long-term sustainability of the business.

In the year to 31 March 2022, SSE paid £335.3m of taxes on profits, property taxes, environmental taxes, and employment taxes in the UK, compared with £379.0m in the previous year. The reduction in total taxes paid in 2021/22 compared with the previous year was primarily due to:

- The sale of SSE's Contracting business in June 2021. Only three months of profit taxes, property taxes and employment taxes are included in relation to that business in 2021/22 compared with a full year in 2020/21;
- Lower Climate Change Levy being paid as a result of outages at SSE's gas-fired power stations.

In 2021/22 SSE also paid €46.4m of taxes in Ireland, compared to €20.4m the previous year, due to increased profits in SSE's Irish businesses. Ireland is the only country outside the UK in which it currently has significant trading operations. SSE's operations elsewhere are still at an early stage and are not yet paying material amounts of tax.

As with other key financial indicators, SSE's focus is on adjusted profit before tax and, in line with that, SSE believes that the adjusted current tax charge on that profit is the tax measure that best reflects underlying performance. SSE's adjusted current tax rate, based on adjusted profit before tax, was 9.2%, compared with 9.1% in 2020/21 on the same basis. Total deferred tax for the period increased to £797.4m from £145.4m and was principally driven by the tax effect on the significant mark-to-market valuation movement on derivative contracts, in addition to a £244.7m adjustment relating to the tax rate change to 25% which was substantively enacted on 24 May 2021.

Financial review continued

Pensions

Contributing to employees' pension schemes – IAS 19

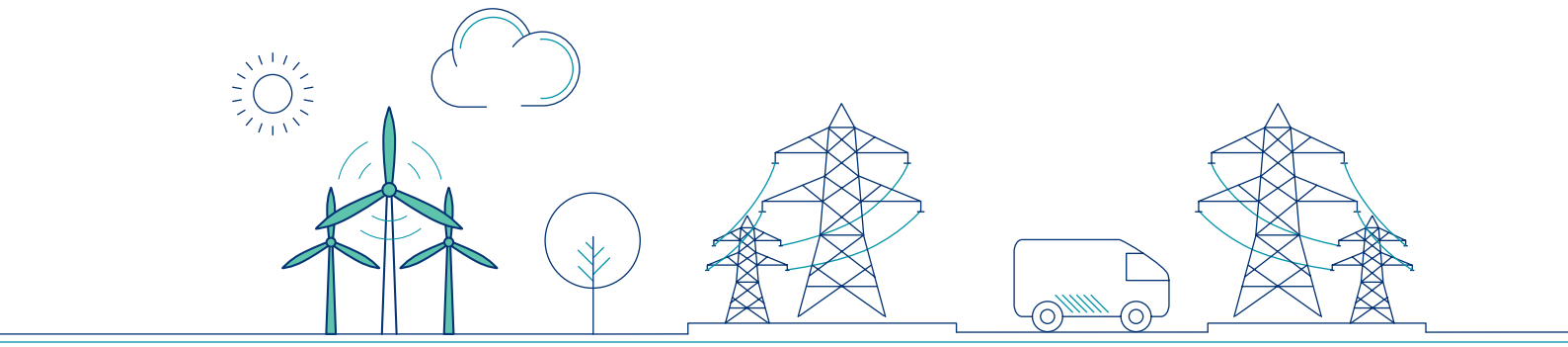
	March 2022	September 2021	March 2021
Pension scheme asset recognised in the balance sheet before deferred tax £m	**584.9**	501.7	543.1
Pension scheme liability recognised in the balance sheet before deferred tax £m	**–**	(63.7)	(186.1)
Net pension scheme asset recognised in the balance sheet before deferred tax £m	**584.9**	**438.0**	**357.0**
Employer cash contributions Scottish Hydro Electric scheme £m	**1.0**	0.5	1.1
Employer cash contributions Southern Electric scheme £m	**58.0**	30.7	55.2
Deficit repair contribution included above £m	**40.9**	20.4	37.9

In the year to 31 March 2022, the net surplus across SSE's two pension schemes increased by £227.9m, from £357.0m to £584.9m, primarily due to actuarial gains of £197.3m and contributions made to the schemes offset by current service costs.

The valuation of the Southern Electric Pension Scheme ('SEPS') increased by £253.5m in 2021/22 primarily due to actuarial gains of £221.9m, in particular the impact of higher discount rates, and deficit repair contributions exceeding service costs.

The Scottish Hydro Electric Pension Scheme ('SHEPS') has insured against volatility in its deferred and pensioner members through the purchase of 'buy-in' contracts meaning that the Group only retains exposure to volatility in active employees. During the year the SHEPS surplus decreased by £25.6m.

Additional information on employee pension schemes can be found in note 23 to the Financial Statements.



Business Unit operating review

SSE's strategy is delivered through a focused mix of market-based and economically-regulated energy businesses. SSE's businesses are key to enabling a net zero economy, have significant growth potential and, importantly, fit together. With common skills and capabilities in the development, building and operation of world-class, highly technical electricity assets, there are strong synergies between them. SSE's business mix is very deliberate, highly effective, fully focused and well set to prosper on the journey to net zero and beyond.

The review of the Business Units that follows provides visibility of performance and future priorities.

Operating review continued

SSEN Transmission

"The future for our business has never been brighter: National Grid's Network Options Assessment has set out the critical need for further network development and the British Energy Security Strategy calls for faster, more strategic network build-out to connect the renewables needed for net zero."

Rob McDonald
Managing Director,
SSEN Transmission

SSEN Transmission key performance indicators

	March 2022	March 2021
SSEN Transmission		
Transmission adjusted and reported operating profit – £m	**380.5**	220.9
Regulated Asset Value (RAV) – £m	**4,155**	3,631
Renewable Capacity connected to SSEN Transmission Network – MW	**7,790**	6,750
Transmission adjusted investment and capital expenditure – £m	**614.5**	435.2

SSEN Transmission overview

SSEN Transmission owns, operates and develops the high voltage electricity transmission system in the North of Scotland and its islands. Over the duration of the five-year RIIO-T2 price control, which began in April 2021, total expenditure by SSEN Transmission is expected to reach at least £2.8bn (the Certain View) which would take Transmission RAV to in excess of £5bn by the end of RIIO-T2.

In addition to the Certain View expenditure, under Ofgem's Uncertainty Mechanisms changes to the allowed revenue are permitted during the price control period to reflect additional investment requirements, when their need or expected timeframe are not known at the outset. These Uncertainty Mechanisms are used to fund further upgrades to the network during the price control period, when there is more certainty around the scope of work required. This investment plays a pivotal role in providing critical national infrastructure and to maintain network reliability for the communities SSEN Transmission serves as it delivers a network for net zero.

Operational delivery

SSEN Transmission has made a strong start in delivering against its regulatory settlement during the first year of the new five-year RIIO-T2 price control period. Building on its strong track record of consistently delivering over 99.99% network reliability – and in line with its RIIO-T2 goal to aim for 100% transmission network reliability for homes and businesses – in 2021/22, SSEN Transmission achieved the full reward of £0.7m through the Energy Not Supplied Incentive. This is the second consecutive year SSEN Transmission has achieved the full Energy Not Supplied Incentive available and the 2021/22 reward will be reflected in revenue in 2023/24.

In addition to exceptional operational performance in the year, SSEN Transmission continues to deliver against its strategic objective to enable the transition to a low-carbon economy as it builds a network for net zero in the North of Scotland. The RIIO-T2 period is expected to deliver significant growth in the capacity of renewables connected to SSEN Transmission's network, from under 7GW at the start of RIIO-T2 to around 14GW by March 2026. This includes growth of around 1GW in 2021/22, which brings the total installed capacity connected to the North of Scotland transmission network to around 9GW, of which just under 8GW is from renewable sources. SSEN Transmission is well on its way to delivering its RIIO-T2 goal to transport the renewable electricity that powers 10m homes, which will be met once the installed capacity of renewables reaches 10GW.

This forecast growth in renewables will be enabled by a series of strategic investments in new and upgraded infrastructure. Excellent progress continues to be made on the Shetland HVDC transmission link, which has now been in construction for over 18 months and will see Shetland connected to the GB transmission system for the first time, enabling the connection of renewables and supporting Shetland's future security of supply. The substation and convertor station sites at Kergord (Shetland) and switching station at Noss Head (Caithness) are taking shape, with all main building structures now complete. Cable installation preparatory works have also progressed well, with all land cable ducting now in place and the first phase of subsea boulder clearing successfully completed. Subsea cable installation works will follow from 2022/23, alongside the fit out of substation and convertor station buildings, with the project on track for completion and energisation in 2024.

The second phase of the Inveraray to Crossaig overhead line replacement project in Argyll, from Port Ann to Crossaig, is also progressing well, with the replacement line remaining on track for completion by summer 2023.

Excellent progress continues on works to increase incrementally the capacity of the north east and east coast transmission network to 275kV then to 400kV, with new substations at New Deer and Rothienorman now energised at 275kV, to be subsequently upgraded to 400kV in 2023. The 400kV overhead line (OHL) upgrade works between Peterhead, Rothienorman and Blackhillock are also well under way and are due for completion in 2023, with the overall upgrade of the east coast network to 400kV remaining on track for completion in 2026.

At both Alyth and Kinardochy, construction of new substations, including specialist voltage control devices, have commenced with good progress also being made at Peterhead substation and an upgrade to Tealing substation.

To support SSEN Transmission's 1.5°C science-based targets for emissions reductions, including its RIIO-T2 goal to deliver a one third reduction in greenhouse gas emissions, the business remains at the forefront of industry efforts to remove harmful SF6 gases from its infrastructure, working with its supply chain to develop and deliver innovative alternatives. This includes the world's largest installation of GE's g3 gas-insulated substation at New Deer substation and the world's first g3 400kV substation at Kintore.

For financial performance commentary please refer to the Group Financial Review.

Growth opportunities in RIIO-T2

During 2021/22, SSEN Transmission has made excellent progress progressing plans for a number of investments over and above its £2.8bn Certain View. These additional investments, which are being taken forward through Ofgem's Uncertainty Mechanisms, will be key to delivering a pathway for net zero.

In March 2022, Ofgem provisionally approved the Final Needs Case (FNC) for the first of two planned HVDC links connecting Peterhead to demand centres in England. Work on the initial 2GW Peterhead to Drax link, with a combined investment of around £2.1bn, will be progressed jointly by SSEN Transmission and National Grid Electricity Transmission (NGET). Development and early construction activity and expenditure will continue during RIIO-T2, with delivery and energisation in 2029 (RIIO-T3).

Also in March 2022, SSEN Transmission submitted its Initial Needs Case (INC) to Ofgem for the Argyll and Kintyre 275kV Strategy. At an estimated total investment of around £400m, this is required to upgrade the main Argyll transmission network from 132kV, supporting the forecast growth in renewables in the region.

In April 2022, Ofgem published its response to SSEN Transmission's INC for the replacement and upgrade of the Fort Augustus to Skye transmission line, recognising the clear need for the project, paving the way to progress to the FNC stage of the regulatory approvals process. At an estimated total investment of around £400m, the replacement line is required to maintain security of supply and to enable the connection of renewable electricity generation along its route.

Further expenditure to connect new renewable generation, rail electrification and system security is also expected throughout the RIIO-T2 period and beyond when the need for this investment becomes certain. These investments could see the total installed generation capacity increase to around 14GW by the end of RIIO-T2, with up to 13GW of this expected from renewable sources. Subject to regulatory approval, combined, these investments, alongside the Certain View, could bring the total expenditure across the RIIO-T2 period to over £4bn, with SSEN Transmission RAV increasing to between £6.5bn to £7bn by the end of RIIO-T2.

Growth opportunities beyond RIIO-T2

In January 2022, Crown Estate Scotland published the outcome of the ScotWind leasing round, awarding leases with a potential capacity of around 25GW, vastly exceeding the anticipated 10GW of potential capacity expected to be leased. In April 2022, the UK Government published its British Energy Security Strategy (BESS), which included an increased offshore wind ambition from 40GW to 50GW by 2030 and a clear direction for Ofgem to support anticipatory investment in strategic network projects ahead of demand, which will be formalised in a Strategic Policy Statement from BEIS to Ofgem later this year. Enabling ScotWind's ambition and the UK Government's 50GW target will require significant transmission upgrades in both onshore and offshore transmission infrastructure.

In January 2022, National Grid Electricity Transmission (NGESO) published its 2022 Networks Options Assessment (NOA). This provided strong 'proceed' signals recommending several major reinforcements in the North of Scotland to meet forecast future energy scenarios, although these will still require Ofgem approval. The NOA recommended the following investments in SSEN Transmission's network region:

- Two subsea high-voltage direct current (HVDC) links from Peterhead to England;
- A second HVDC link from Spittal in Caithness, connecting to Peterhead; and
- Strategic onshore reinforcements north of Inverness and between Inverness and Peterhead.

In addition to the opportunities outlined above, SSEN Transmission continues to work with stakeholders in Orkney and the Western Isles to develop and take forward proposals to enable mainland transmission connections. Changes to the structure of the forthcoming Contracts for Difference (CfD) auction, with offshore wind now in a separate pot to remote island wind, may increase the competitiveness of remote island wind which, in turn, could support the investment case for the proposed transmission links. The outcome of the next CfD auction is expected in the summer of 2022.

Operating review continued

SSEN Distribution

"We are progressing a stakeholder-led plan for RIIO-ED2 that balances investment in net zero with the need to keep costs down for customers. We look forward to the Ofgem's final determinations and hope very much that they match the decarbonisation ambitions set out in the British Energy Security Strategy."

Chris Burchell
Managing Director,
SSEN Distribution

SSEN Distribution key performance indicators

	March 2022	March 2021
SSEN Distribution		
Distribution adjusted and reported operating profit – £m	**351.8**	275.8
Regulated Asset Value (RAV) – £m	**4,054**	3,792
Distribution adjusted investment and capital expenditure – £m	**364.8**	350.8
Electricity Distributed – TWh	**37.6**	36.1
Customer minutes lost (SHEPD) average per customer	**57**	57
Customer minutes lost (SEPD) average per customer	**42**	44
Customer interruptions (SHEPD) per 100 customers	**56**	64
Customer interruptions (SEPD) per 100 customers	**42**	48

SSEN Distribution overview

SSEN Distribution, operating under licence as Scottish Hydro Electric Power Distribution plc (SHEPD) and Southern Electric Power Distribution plc (SEPD), is responsible for safely and reliably maintaining the electricity distribution networks supplying over 3.8m homes and businesses across central southern England and the North of Scotland. SSEN Distribution's networks cover the greatest land mass of any of the UK's Distribution Network Operators over 75,000km^2 of extremely diverse terrain.

In December 2021, SSEN Distribution published its RIIO-ED2 Final Business Plan for 2023 to 2028. Titled 'Powering Communities to Net Zero' it sets out the £3.99bn of flexibility and network investment required to accelerate net zero in a way that is efficient and affordable.

Operational delivery

SSEN Distribution continues to undertake a major capital investment programme across both its networks, delivering significant improvements for customers and increasing its Regulated Asset Value. In the 12 months to 31 March 2022, the business invested £364.8m, bringing the total invested since the beginning of the RIIO-ED1 price control to around £2.3bn. This is part of a forecast £2.7bn investment throughout the RIIO-ED1 period, supporting future earnings through RAV growth. This includes progressing £41m of strategic investment approved through the Green Recovery programme in 2021.

2021/22 investment has included a multi-million pound upgrade to an essential section of Hampshire's infrastructure in Fareham, completed in January 2022; and a substantial programme of works to boost power supplies to homes and businesses on the Isle of Wight comprising the complete refurbishment of two 132kV transformers along with the replacement of two 33kV circuit breakers. In the North of Scotland, work commenced on a £9.5m project to boost the resilience and reliability of the network around Aultbea and Ullapool, and a £7m investment programme to enhance security of supply across Tayside.

Incentive performance remains a revenue driver and SSEN prioritises improving reliability of network performance and supporting a positive customer experience. Under the RIIO regulatory regime, and the Interruptions Incentive Scheme (IIS), SSEN Distribution is incentivised on its performance against the loss of electricity supply through the recording of Customer Interruptions (CI) and Customer Minutes Lost (CML) which includes both planned and unplanned supply interruptions. These incentives will typically be collected two years after they are earned.

The winter of 2021/22 saw six exceptional weather incidents which had a major impact on SSEN Distribution's network, causing in excess of 2,600 points of damage. In total, 10 Met Office Weather Warnings were in place last winter for both licence areas.

Whilst SSEN Overall Customer Satisfaction (CSAT) is broadly in line with last year at 87%, the incentive reward has been impacted due to the unprecedented storm season. The volume of calls presented during the winter period (October to February) was equivalent to a normal year's worth of calls, resulting in reduced customer satisfaction metrics. As a result, the overall incentive reward under the Broad Measure of Customer Satisfaction reduced in 2021/22 to £2.7m from £4.9m the previous year. It is expected that a best ever score from the Stakeholder Engagement and Customer Vulnerability (SECV) incentive will be achieved, which would result in an increased incentive revenue from £1.6m to £1.9m.

For financial performance commentary please refer to the Group Financial Review.

Growth opportunities in RIIO-ED2

As a provider of critical national infrastructure, SSEN Distribution is playing a vital role in accelerating the transition to net zero. The business is on track to deliver its key ED1 outputs and, in October 2021, became the first DNO to set a 1.5°C-aligned target accredited by the Science Based Target initiative.

In April 2022, the UK Government's British Energy Security Strategy recognised the importance of strategic network investment which is essential to meeting the expected demand growth in RIIO-ED2 and future price control periods. DNOs will unlock billions of pounds in investment in wider economic benefits for a net zero future.

SSEN Distribution now awaits Ofgem's draft determination on its ambitious, stakeholder-led business plan for the RIIO-ED2 period. This will be an acid test of the regulator's alignment with the British Energy Security Strategy and fundamentally its approach to delivering the necessary strategic investment for networks to be an enabler, rather than a blocker, of net zero. SSEN Distribution continues to engage proactively with Ofgem and government on achieving a fair ED2 outcome that protects current and future consumers, and delivers the outcomes customers want at a pace consistent with a rapid growth environment.

The proposals within SSEN Distribution's Final Business Plan for ED2 are a key part of SSE's Net Zero Acceleration Programme. The plan was co-created with stakeholders and this engagement will continue to ensure that their ambitions are reflected in the process. The Final Business Plan proposes a total base expenditure of £3.99bn representing a 32% increase over an equivalent timeframe in RIIO-ED1, and reflecting additional requirements for customers over the five years to 2028. The proposed baseline spend provides a low-regret foundation enabling all scenarios and optionality, without which DNOs risk becoming a blocker to customer demands for EV and heat pump connections through ED2 and beyond and increasing costs for future generations.

Late 2021 saw much-awaited publications and strategies related to heat decarbonisation. The UK Government confirmed its ambition to upscale the installation of heat pumps to at least 600,000 a year by 2028 and to make its Boiler Upgrade Scheme available for early adopters, while the Scottish Government has set a 2030 target for at least 1m homes to have switched to zero emissions heat. It is anticipated that there will be over 800,000 heat pumps across SSEN Distribution's networks by the end of RIIO-ED2. The Final Business Plan sets out the required investment to ready the network for net zero, consistent with this projection.

The Scottish Government's January 2022 publication, A Network Fit For The Future: Draft Vision for Scotland's Public Electric Vehicle Charging Network, confirmed its desire to enable new models of public electric vehicle chargepoint financing and delivery, focused on public and private partnerships, to support and coordinate investment. In March 2022, the UK Government's EV Infrastructure Strategy set out ambitions for EV chargepoints to be seamlessly integrated into a smart energy system with at least 300,000 public chargepoints installed by 2030. By this date, the 2021 DFES projects that SSEN Distribution's licence areas could support up to 10.8GW of electric vehicle charging capacity. SSEN Distribution has set out investment plans to help provide the increased capacity needed to enable these projections and to ready its network to facilitate 1.3m electric vehicles by 2028.

Operating review continued

SSE Renewables

"We are getting on with delivering the flagship wind projects that underpin the Net Zero Acceleration Programme and broadening our pipeline horizons with ventures in exciting new markets. All of this is made possible thanks to a fully-funded capex plan backed by a large, balanced group of businesses."

Stephen Wheeler
Managing Director,
SSE Renewables

SSE Renewables key performance indicators

	March 2022	March 2021
SSE Renewables		
Renewables adjusted operating profit – £m	**568.1**	731.8
Renewables reported operating profit – £m	**427.8**	856.0
Renewables adjusted investment and capital expenditure before refunds – £m	**811.0**	294.3
Generation capacity – MW		
Onshore wind capacity (GB) – MW	**1,285**	1,247
Onshore wind capacity (NI) – MW	**122**	122
Onshore wind capacity (ROI) – MW	**567**	567
Total onshore wind capacity – MW	**1,974**	1,936
Offshore wind capacity (GB) – MW	**487**	487
Conventional hydro capacity (GB) – MW	**1,159**	1,159
Pumped storage capacity (GB) – MW	**300**	300
Total renewable generation capacity (inc. pumped storage) – MW	**3,920**	3,882
Contracted capacity	**2,792**	2,792
Generation output – GWh		
Onshore wind output (GB) – GWh	**2,502**	2,377
Onshore wind output (NI) – GWh	**264**	282
Onshore wind output (ROI) – GWh	**1,196**	1,354
Total onshore wind output – GWh	**3,962**	4,013
Offshore wind output (GB) – GWh	**1,430**	1,845
Conventional hydro output (GB) – GWh	**3,107**	3,476
Pumped storage output (GB) – GWh	**227**	244
Total renewable generation (inc. pumped storage) – GWh	**8,726**	9,578
Total renewable generation (also inc. constrained off) – GWh	**9,423**	10,171

Note 1: Capacity and output based on 100% of wholly owned sites and share of joint ventures
Note 2: Contracted capacity includes sites with a CfD, eligible for ROCs, or contracted under REFIT
Note 3: Onshore wind output excludes 469GWh of constrained off generation in 2021/22 and 592GWh in 2020/21; Offshore wind output excludes 228GWh constrained off generation in 2021/22 and 1GWh in 2020/21
Note 4: Onshore wind capacity in GB reflects the commissioning of Gordonbush Extension in August 2021
Note 5: Biomass capacity of 15MW and output of 73GWh in 2021/22 and 71GWh 2020/21 is excluded, with the associated operating profit or loss reported within Distributed Energy

SSE Renewables overview

SSE Renewables comprises the Group's existing operational assets and those under development in onshore wind, offshore wind, flexible hydro electricity, run-of-river hydro electricity and pumped storage. Its operational offshore wind installed capacity is 487MW with its onshore wind and hydro electric installed capacity at 1,936MW and 1,459MW respectively.

Operational delivery

SSE Renewables' hydro assets continue to play an important role in providing cost-effective, low-carbon flexibility to the system, which is providing additional diversified revenue streams. Hydro assets performed very strongly across the year, with availability at an all-time high between December and March and providing much needed flexible peak capacity to the market. In addition, Foyers pumped hydro station was fully available through periods of very high demand.

Despite natural wind resources being below normal yearly averages, a steady second half of the year – coupled with high plant performance to maximise production – led to a year-end position of onshore wind volumes at 88% of planned volume.

Offshore, Beatrice saw excellent availability in the second half and Greater Gabbard saw improved turbine availability over the 12 months. Offshore wind speeds returned to average after low wind speeds in the first half of the year, resulting in improved volumes.

As part of SSE Renewables' continued investment into its asset management capabilities, it has just been awarded certification in the ISO55001 standard for asset management for its operational organisation.

For financial performance commentary please refer to the Group Financial Review.

Construction programme

All three phases of the world's largest offshore wind farm at Dogger Bank (each 1,200MW, SSE share 40%) remain on track. Onshore works are continuing, and offshore construction is now under way with installation of the HVDC export cables for Dogger Bank A. Dogger Bank C reached financial close in December 2021, and in February 2022, SSE Renewables and Equinor each sold a 10% share in this third phase to Eni.

On Seagreen 1 (1,075MW, SSE share 49%) there are currently 21 jackets and turbines installed on what will be the world's deepest, fixed-bottom offshore wind farm once operational. The offshore substation platform is successfully installed and

commencing commissioning works. All onshore cabling works and export cable installation is progressing as planned. SSE currently expects first power in July with commercial operations by mid-April 2023. In April 2022, an incident occurred on a sub-contractor S7000 installation vessel which is contracted to the Seagreen project. The project team is working closely with contractors to manage and mitigate project impacts. Seagreen 1 is eligible to participate in the UK CfD Allocation Round 4 (AR4). Bids are due to be submitted by 15 June 2022 with the results of the auction expected by 8 July 2022.

Construction is progressing well on Viking (443MW) with almost all of the access tracks completed and 83 of 103 bases excavated. Work on the DC substation is continuing with the first two transformers due to be delivered by June 2022. Turbines will be installed in early 2023 and completion is planned for July 2024. Viking is expected to be amongst the highest-yielding onshore wind farms in Europe, producing almost 2TWh annually. It is also eligible to enter AR4.

At Lenalea wind farm (30MW, SSE share 50%) in Ireland, construction is progressing and is to be commissioned in late 2022/ early 2023.

In July 2021, Beatrice Offshore Wind Farm Limited, a joint venture owned 40% by SSE Renewables, agreed divestment of its Offshore Transmission Owner assets at an asset value of £437.9m and full asset transfer took place on 5 August 2021.

Gordonbush Extension (38MW), SSE's first merchant onshore wind project, was fully commissioned and handed over to operations following its official opening in August 2021.

In Hydro, investment in works to modify three key stations, Sloy, Glendoe and Errochty, has started and will increase the capability of these stations in providing essential services to the grid. And in April 2022, a £50m investment to upgrade Tummel Bridge power station commenced which will increase the station's potential power output from 34MW to 40MW, with a return to service expected in Autumn 2023.

Growth opportunities – domestic

SSE Renewables' core markets of the UK and Ireland still offer considerable opportunities for growth over the near, medium and long term.

Near term, onshore wind growth can be delivered through SSE Renewables' consented sites at Strathy South (208MW) and Tangy repower (57MW) in Scotland. Yellow River (104MW) in Ireland was provisionally successful in the May 2022 RESS-2 auction in Ireland and will now progress towards a final investment decision. Consent applications have been submitted to the Scottish Government for Bhlaraidh Extension (in excess of 100MW), and Achany Extension (in excess of 80MW).

Offshore, near-term growth is expected to come from the consented Seagreen 1A (500MW, SSE Renewables share 49%), which is an extension to the Seagreen 1 offshore wind site. Seagreen 1A is eligible to participate in AR4. Should a Financial Investment Decision (FID) be reached, it could be operational by 2025/26.

In the medium term, out to the end of the decade, there is a wealth of opportunities. In addition to the UK's increased offshore target of 50GW by 2030, from 40GW noted above, the British Energy Security Strategy set out a raft of measures which will see permitting of offshore wind projects accelerated. SSE Renewables' unrivalled offshore wind pipeline will play a key role in meeting this new target.

SSE Renewables is working towards a consent application submission in Q3 2022 for the up to 4.1GW Berwick Bank wind farm with the aim of securing consent in 2024 and being operational around the end of the decade.

North Falls wind farm (up to 504MW, SSE Renewables share 50%), which is an extension to the Greater Gabbard wind farm off the east coast of England, continues to progress with local consultation under way for a potential grid connection in North Essex. North Falls could also be operational by 2030.

SSE Renewables has added its first floating offshore wind project to its domestic pipeline with the success in Crown Estate Scotland's ScotWind offshore wind seabed leasing process as part of a consortium with Marubeni Corporation and CIP (Copenhagen Infrastructure Partners). The up to 2.6GW site (SSE Renewables share 40%) in the E1 Zone in the Firth of Forth will be one of the largest floating wind projects in the world and aims to start generating by 2030. This will play an important part in meeting the UK Government's increased floating wind target of 5GW by 2035.

SSE Renewables also aims to contribute additional capacity needed to meet Ireland's offshore wind target of 5GW by 2030. Following the introduction by the Irish Government of the Maritime Area Planning (MAP) Act in December 2021, SSE Renewables will now progress Arklow Bank Wind Park 2 via this new consenting regime. The revised project will proceed with an increased capacity of 800MW. Subject to securing the necessary consents and if successful in the first Offshore Renewable Energy Support Scheme (ORESS) auction, expected at the end of 2022, Arklow Bank Wind Park 2 could be operational by 2028.

A foreshore licence has been secured for site investigations for the 1,000MW Braymore Wind Park project off the north-east coast and an application has been submitted for the 1,200MW Celtic Sea Array off the south-east coast. Celtic Sea Array and Braymore Wind Park will both apply for a Marine Area Consent (akin to a seabed lease) in the Irish Government's next phase, expected in 2023.

Onshore, there continues to be positive progress on SSE Renewables' consented Coire Glas pumped hydro storage project (up to 1,500MW). Coire Glas would double the current amount of electricity storage capacity in Great Britain and create energy storage capacity of 30GWh, equivalent to powering around 3m homes for up to 24 hours. The British Energy Security Strategy identified the importance of long duration storage, and a policy decision in response to the BEIS call for evidence on possible policy interventions, such as cap and floor mechanism to support long duration storage, is expected imminently. Subject to the outcome of these policy decisions, Coire Glas could progress to an FID decision by 2023/24 with the objective of being completed before the end of the decade.

Operating review continued

SSE has ambitions to develop, build and operate >1 GW of 'green' hydrogen in industrial clusters and co-located with wind by 2031. As part of this, SSE Renewables has kickstarted its first electrolysis projects. Currently in the early stages of development, the Gordonbush H2 project will use a portion of the renewable energy from the 100MW-plus Gordonbush onshore wind farm to produce up to 2,000 tonnes of green hydrogen each year, contributing to the new UK 5GW electrolytic hydrogen target. SSE Renewables is also part of Galway Hydrogen Hub (GH2), a consortium proposing to develop an initial flagship demonstrator project at Galway Harbour, for the indigenous production and supply of green hydrogen fuel for public and private vehicles.

Growth opportunities – international

SSE Renewables made important progress in its international expansion plans in April 2022 when it entered into an agreement with Siemens Gamesa Renewable Energy for the acquisition of an onshore wind development platform totalling c.3.9GW across Spain, France, Italy and Greece for a consideration of €580m. The portfolio includes scope for up to 1GW of additional co-located solar development opportunities. The move marks SSE Renewables' entry into Southern Europe and creates a wider opportunity to pursue a balanced range of technologies, eg wind, solar, hydrogen, and storage. As part of the transaction, SSE Renewables will take on a team of around 40 employees with vast local experience in the sector. The transaction is likely to complete by the end of September 2022, subject to receipt of relevant foreign direct investment and regulatory approvals.

In September 2021, SSE Renewables progressed into Japan with the creation of a new joint ownership company, SSE Pacifico (80% stake), which includes the acquisition of an interest in an offshore development platform for US$208m. The new company will develop the acquired 10GW gross portfolio, comprising a number of early development stage offshore wind projects in Japan. It includes a mix of fixed bottom and floating sites with the most advanced projects expected to be constructed by the end of this decade. SSE Renewables has submitted an application to the Polish government for an Offshore Location License (OLL) for the allocation of development rights for an offshore wind farm in the Baltic Sea, which would be developed in partnership with Acciona Energia. The process is expected to run until Q3 2022.

SSE Renewables also continues to work with Acciona Energia on offshore wind opportunities in Spain. The Spanish Government published its draft offshore wind roadmap in August which set out an ambition to target up to 3GW by 2030.

In the Netherlands, SSE Renewables has submitted bids in the 1.4GW Hollandse Kust (west) offshore wind tender for two separate sites of 750MW each. Ecological innovation and energy systems integration are key assessment criteria.

SSE Renewables has formed a 50/50 strategic partnership with Brookfield for the bid, who have strong offtaker relationships in the Netherlands. SSE Renewables has also recently opened an office in Rotterdam.

SSE Renewables is also assessing other growth options across selected markets in Northern Europe and the United States. Towards the end of the financial year, it opened an office in Boston and is assessing participation in upcoming offshore leasing rounds, for example, in California, which is expected to take place in Autumn 2022.

SSE Renewables project pipeline

Project	Location	Technology	Capacity (MW)	SSE Share (MW)
Due FID or in Construction				
Dogger Bank A	GB	Offshore wind	1,200	480
Dogger Bank B	GB	Offshore wind	1,200	480
Dogger Bank C	GB	Offshore wind	1,200	480
Seagreen 1	GB	Offshore wind	1,075	527
Viking	GB	Onshore wind	443	443
Lenalea	ROI	Onshore wind	30	15
Consented				
Seagreen 1A[1]	GB	Offshore wind	500	245
Yellow River	ROI	Onshore wind	104	104
Tangy	GB	Onshore wind	57	57
Strathy South	GB	Onshore wind	208	208
Coire Glas	GB	Pumped storage	Up to 1,500	Up to 1,500
Requiring consent				
Berwick Bank[2]	GB	Offshore wind	Up to 4,100	Up to 4,100
ScotWind E1 Lease	GB	Offshore wind	2,600	1,040
Arklow Bank 2[3]	ROI	Offshore wind	800	800
North Falls	GB	Offshore wind	504	252
Cloiche	GB	Onshore wind	155	155
Other	–	Onshore wind	c.200	c.200
Future prospects[4]				
Braymore Point	ROI	Offshore wind	1,000	1,000
Celtic Sea Array	ROI	Offshore wind	1,200	1,200
Japanese development projects	Japan	Offshore wind	10,000	8,000
Other GB	GB	Onshore wind	c.250	c.250
Other NI	NI	Onshore wind	c.50	c.50
Other ROI	ROI	Onshore wind	c.250	c.250
Other GB	GB	Hydro	75	75

Note 1: Seeking variation to existing consent.
Note 2: Berwick Bank and Marr Bank offshore wind farms were combined into one wind farm in September 2021, known as Berwick Bank Wind Farm.
Note 3: Entering new Irish Marine Area Planning process with revised capacity proposed.
Note 4: Reflects named development areas where some form of development activity is underway and therefore excludes any future or in-flight auction processes.
Note 5: SSE agreed to acquire 4.9GW Siemens Gamesa Renewable Energy onshore wind and solar platform in April 2022 with projects excluded above ahead of the acquisition completing. Completion is expected by end September 2022.

SSE Thermal

SSE Thermal key performance indicators

	March 2022	March 2021
SSE Thermal		
Thermal adjusted operating profit – £m	**306.3**	160.5
Thermal reported operating profit – £m	**630.1**	775.3
Thermal adjusted investment and capital expenditure – £m	**129.3**	106.5
Generation capacity – MW		
Gas- and oil-fired generation capacity (GB) – MW	**3,975**	3,992
Gas- and oil-fired generation capacity (ROI) – MW	**1,292**	1,292
Total thermal generation capacity – MW	**5,267**	5,284
Generation output – GWh		
Gas- and oil-fired output (GB) – GWh	**11,303**	15,324
Gas- and oil-fired output (ROI) – GWh	**2,962**	2,433
Total thermal generation – GWh	**14,265**	18,008

Note 1: Capacity is wholly owned and share of joint ventures.
Note 2: Output is based on SSE 100% share of wholly owned sites and 100% share of Marchwood PPAs due to the contractual arrangement. In September 2021 SSE's offtake agreement for 100% of output from its Seabank CCGT JV expired, with output following that date only recognised to the extent of its 50% equity share.
Note 3: SSE announced the sale of its stake in Ferrybridge and Skelton Grange multifuel assets on 13 October 2020, the output of these is not included above.
Note 4: Decreased gas- and oil-fired capacity relates to closure of 17MW small diesel plant.

SSE Thermal overview

SSE Thermal owns and operates conventional thermal generation in the UK and Ireland. These assets play a key transitional role in the SSE Group and wider energy system, supporting the Balancing Mechanism on the journey to net zero. While providing much-needed system flexibility to ensure stability and security of supply in the short term, SSE Thermal is actively developing options to progressively decarbonise its fleet.

Operational delivery

SSE Thermal's combined cycle gas turbine (CCGT) fleet has played an important role in the UK, providing flexibility at scale to support a tight and volatile energy market, demonstrating the value it delivers within the SSE Group portfolio, providing balance when wind resource is scarce, and the importance of flexible assets in securing a resilient transition to net zero.

In the GB market, significant periods of scarcity in the year have led to increased forward spark spreads allowing value to be secured by the fleet ahead of delivery. This has been complemented by the fleet's ability to respond to on-the-day market requirements to balance the system, through the Balancing Mechanism. In the Irish market, the system has been tighter than normal, with lower generation capacity available. As a result, SSE Thermal's assets in Ireland have played an important role in keeping the lights on.

With the value of the SSE Thermal portfolio coming from its ability to respond to market conditions, plant availability has been managed responsibly to respond to system balancing needs; an approach that is likely to become more important as the volume of renewable capacity on the system increases. In providing these vital balancing services, strong operational performance is therefore less dependent upon the volume of its output and more on the availability of the plant at times of system stress. Reduced plant availability in the year was predominantly concentrated in the first six months and was driven by a number of factors including unplanned outages to respond to faults and maintenance requirements, slight overrun of planned outages and the phasing of outages towards the first half of the year to respond to system needs.

SSE's UK-based CCGT fleet has secured valuable Capacity Market agreements for winter 2022/23 and for future years out to September 2026, demonstrating the role thermal plant plays in ensuring security of supply. Agreements have also been secured for all of SSE Thermal's fleet in Ireland.

For financial performance commentary please refer to the Group Financial Review.

"The past year has shown the value that SSE Thermal creates for shareholders while providing society with the generation flexibility needed in the transition to net zero. I come into the role of MD already proud of a team that is delivering for the Group, and excited about our future prospects."

Catherine Raw
Managing Director,
SSE Thermal

Operating review continued

The following agreements have been awarded through competitive auctions:

SSE Thermal capacity contract awards

Station	Asset type	Station capacity	SSE share	Capacity obligation
Medway (GB)	CCGT	735MW	100%	To September 2023
Keadby (GB)	CCGT	755MW	100%	To September 2026
Keadby 2 (GB)	CCGT	893MW	100%	16-years commencing October 2022
Peterhead (GB)	CCGT	1,180MW	100%	To September 2026
Seabank (GB)	CCGT	1,234MW	50%	To September 2026
Marchwood (GB)	CCGT	920MW	100%	To September 2026
Slough Multifuel	Energy from Waste	50MW	50%	15-years commencing October 2024
Great Island (Ire)	CCGT	464MW	100%	To September 2026
Rhode (Ire)	Gas/oil peaker	104MW	100%	To September 2026
Tawnaghmore (Ire)	Gas/oil peaker	104MW	100%	To September 2026
Tarbert (Ire)	Oil	620MW	100%	To September 2023

Capacity contracts are based on de-rating factors issued by the delivery body for each contract year, therefore will not directly match SSE's published station capacity. Capacities stated reflect Transmission Entry Capacity.
Marchwood (SSE equity share 50%) tolling arrangement means SSE receives 100% of economic benefit from capacity contract.
Keadby 1 has capacity obligation in 2022/23 and 2025/26 but none in 2023/24 or 2024/25 contract years.
Keadby 2 16 year obligation comprised of a T-1 and a 15 year contract.

Growth opportunities

Delivering lower-carbon flexibility is a key pillar of SSE's Net Zero Acceleration Programme. Developing more efficient alternatives to the existing CCGT fleet will be vital to deliver SSE's goal to cut carbon intensity by 80% by 2030 and achieve its science-based carbon reduction targets, aligned with a 1.5°C global warming scenario. SSE Thermal is developing projects using carbon capture and storage (CCS) and hydrogen; technologies which will be critical to society in the transition to net zero, enabling enhanced renewables deployment by balancing the system.

In 2021/22 SSE Thermal progressed its carbon capture power stations, which it is co-developing with Equinor, through the planning process. In June 2021, SSE Thermal submitted a planning application for Keadby Carbon Capture Power Station to the UK's Planning Inspectorate. In March 2022 SSE Thermal submitted a planning application for Peterhead Carbon Capture Power Station to Scotland's Energy Consents Unit.

In October 2021 the UK Government announced that the East Coast Cluster – comprising the Humber and Teesside regions – and the HyNet Cluster in north-west England would be Track 1 clusters, or the first clusters supported to deploy shared CCS infrastructure by the middle of this decade. The Scottish cluster was identified as a 'reserve' Track 1 cluster and remains in line to progress to deployment as a Track 2 cluster by the end of the decade. The UK Government's commitment to supporting four clusters by 2030, including two by the middle of this decade, was galvanised in its CCUS Investor Roadmap which emphasised that the technology is a necessity not an option to deliver net zero emissions by 2050. Published in April 2022, it also confirmed its intention to engage with industry on the 'Track 2' process this calendar year.

In November 2021, the UK Government launched the second phase of the Cluster Sequencing Competition to identify which projects would be supported to connect to Track 1 clusters; this process was also open to projects seeking a connection into the 'reserve' Scottish Cluster. SSE Thermal submitted applications for Keadby Carbon Capture Power Station, seeking to connect into the East Coast Cluster, and Peterhead Carbon Capture Power Station, seeking to connect into the Scottish Cluster. Successful projects will secure a Dispatchable Power Agreement; a revenue support scheme designed by the UK Government. A decision on which projects will progress into negotiations is expected from July 2022.

Low-carbon hydrogen will be an important facet of a net zero economy. The UK Government's inaugural hydrogen strategy, published in August 2021, highlighted the role it will play in providing flexible energy for power, heat and transport and the need for large hydrogen storage facilities. SSE Thermal is continuing to develop low-carbon hydrogen projects, alongside Equinor, including Keadby Hydrogen Power Station and Aldbrough Hydrogen Storage and sees significant further growth opportunities in this space, in line with the UK's target to deliver 10GW of low-carbon hydrogen production by 2030. SSE Thermal is also involved in Project Cavendish, an initiative to promote the Isle of Grain as a location for a low-carbon hydrogen economy. This could provide the opportunity to bring low-carbon hydrogen to SSE's Medway site.

Commissioning of Keadby 2, SSE Thermal's 893MW CCGT, started in October 2021 and full commercial operation is targeted for 1 October 2022. Keadby 2 brings Siemens' cutting-edge turbine technology to the UK; this first-of-a-kind turbine will be Europe's most efficient CCGT and will displace older, more carbon intensive plant on the system. It is capable of being upgraded to decarbonise the system further, through hydrogen blending or carbon capture and storage.

Keadby 2 also provides a testing ground for SSE Thermal's new digital strategy to deliver intelligent asset management, building on the digital capabilities already used to manage the SSE Thermal fleet. Using data and technology, the digital strategy aims to enhance asset management and maintenance capabilities.

Gas Storage

Gas Storage key performance indicators

	March 2022	March 2021
Gas Storage		
Gas Storage adjusted operating (loss)/profit – £m	**30.7**	(5.7)
Gas Storage reported operating profit/(loss) – £m	**125.4**	2.8
Gas storage adjusted investment and capital expenditure – £m	**2.1**	1.9

Gas Storage overview

SSE Thermal holds around 40% of the UK's conventional underground gas storage capacity. These assets can play an important role in the transition to net zero, supporting stability and security of gas supply in the short term as well as potential conversion to hydrogen storage for a net zero future.

Operational delivery

In 2021/22 SSE's Gas Storage business has navigated highly volatile gas markets and optimised assets to help ensure security of gas supply for the UK and provide important liquidity to the market. The assets also offer a significant risk management value to the portfolio by offering spot, short-notice flexibility. This helps defend the portfolio from exposures emanating from wind speed or consumer demand variability. Given the increasing focus around gas supply response across Europe, and the need for additional reserve to protect markets against significant geopolitical exposures, SSE anticipates this trend will continue. On that basis Gas Storage assets are likely to make a substantial contribution to the Group in the next financial year.

For financial performance commentary please refer to the Group Financial Review.

Growth opportunities

SSE Thermal remains committed to working with UK Government departments and Ofgem to ensure the critical role of UK storage in relation to security of supply and stability of gas price is properly valued. It is also looking to play a future role as a source of low-carbon hydrogen storage which will be needed to balance supply and demand in a hydrogen economy.

Plans to develop a potentially world-leading hydrogen storage project at Aldbrough, announced in July 2021 with Equinor, are progressing. Since this announcement, the UK Government has committed to develop business models for hydrogen storage as part of the British Energy Security Strategy and SSE is particularly close to this policy discussion.

Operating review continued

SSE Business Energy

SSE Business Energy key performance indicators

	March 2022	March 2021
SSE Business Energy		
Business Energy adjusted operating (loss)/profit – £m	**(21.5)**	(24.0)
Business Energy reported operating profit/(loss) – £m	**(21.5)**	(3.9)
Electricity Sold – GWh	**12,645**	13,070
Gas Sold – mtherms	**218**	245
Aged Debt (60 days past due) – £m	**79.3**	73.8
Bad debt expense – £m	**18.5**	37.8
Exceptional bad debt (credit)/expense – £m	**–**	(20.1)
Energy customers' accounts – m	**0.47**	0.48

SSE Business Energy overview

Business Energy GB retains a solid book and customer base and amongst non-domestic suppliers is ranked for power 4th by meters (market share 11.6%) and 4th by volume (market share 7%); and for gas is ranked 7th by meters (market share 6.5%) and 9th by volume (market share 2.3%). The business markets its products under the SSE Energy Solutions brand alongside SSE Distributed Energy, selling power to over 469,000 non-domestic customers across GB.

Operational delivery

During 2021, Business Energy increased its green customer propositions including the launch of a new and simplified Corporate Power Purchase Agreement product, to make them increasingly accessible to a wider range of businesses. This was followed in July by a commitment to businesses on fixed power contracts that they will receive their electricity from renewable sources. Green credentials associated with this electricity supply are independently verified by EcoAct, an Atos company, and customers are provided with Renewable Energy Guarantees of Origin (REGOs) certification. Business Energy's 'Green Gas plus' tariff, a renewable gas tariff which is also independently certified by EcoAct, performed well through the year since its launch.

Smart meters are a key factor in supporting customers on their net zero journey and 2021/22 saw strong performance for the rollout of smart meter installations. Business Energy continues to work towards its first year of challenging smart regulatory installation targets in calendar year 2022.

For detailed financial performance commentary please refer to the Group Financial Review.

Growth opportunities

The platform SSE Business Energy growth is via the SSE Energy Solutions business-to-business brand, launched in July 2021 in partnership with SSE Distributed Energy. The platform provides a single shopfront for a range of SSE customer product offerings to support all business segments on their net zero journey; from renewable power and flexible Corporate Power Purchase Agreement offerings, to customer workplace EV charging solutions and larger scale distributed energy systems. As SSE's electricity generation businesses continue to expand and deliver new technologies, so will SSE Energy Solutions as an important route to market for the Group.

"We recognise that market volatility has created challenges for many people. Our customer businesses have worked with energy users across GB and Ireland to provide support through a variety of payment options and additional support mechanisms."

Nikki Flanders
Managing Director,
Energy Customer Solutions

SSE Airtricity

SSE Airtricity key performance indicators

	March 2022	March 2021
SSE Airtricity		
Airtricity adjusted operating profit – £m	**60.4**	44.0
Airtricity reported operating profit – £m	**60.4**	50.0
Aged Debt (60 days past due) – £m	**7.3**	7.9
Bad debt expense – £m	**4.6**	6.9
Exceptional bad debt (credit)/expense – £m	**–**	(6.0)
Airtricity Electricity Sold – GWh	**5,219**	7,595
Airtricity Gas Sold – mtherms	**177**	219
All Ireland energy market customers (Ire) – m	**0.70**	0.68

SSE Airtricity overview

SSE Airtricity provides a valuable route to market for SSE's low-carbon energy solutions and green products to customers across the island of Ireland. Airtricity retains a strong market position as Ireland's largest supplier of 100% green energy, supplying approximately 701,000 customers and holding 21.2% market share by load.

Operational delivery

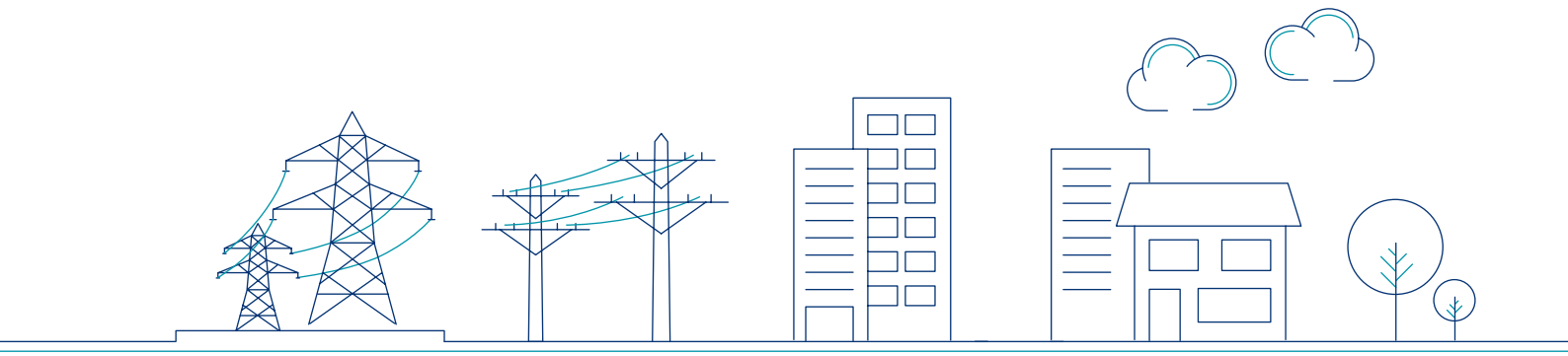
As a responsible business, SSE Airtricity has recognised that current market volatility has created challenges for many households and has taken various measures to support financially vulnerable customers. An all-island customer support fund (€1m) has been established, €1m was donated to a trusted all-island charity partner, and a home energy efficiency upgrade programme has been rolled our for up to 600 homes in fuel poverty. In addition Airtricity's financially vulnerable domestic customers in the Republic of Ireland will be insulated from any further price rises for the remainder of the 2022 calendar year.

For financial performance commentary please refer to the Group Financial Review.

Growth opportunities

A positive public policy environment aimed at improving the thermal efficiency of 0.5m buildings provides the backdrop for the Generation Green Home Upgrade product. This is enabling the rapid rollout of a first of its kind one-stop-shop business model, in partnership with An Post, in the Republic of Ireland market. The growth of this business segment remains a key priority for 2022.

Further areas of strategic focus include building on the success of partnerships with brands such as Volkswagen and ePower delivering electric vehicle charging infrastructure and green end-to-end solutions for customers; and continued innovation and delivery of extended customer offerings to help support decarbonisation.



Operating review continued

SSE Distributed Energy

SSE Distributed Energy key performance indicators

	March 2022	March 2021
SSE Distributed Energy		
SSE Distributed Energy adjusted operating (loss)/profit – £m	**(10.9)**	(27.0)
SSE Distributed Energy reported operating profit/(loss) – £m	**(29.2)**	(76.1)
SSE Heat Network Customer Accounts	**11,291**	10,482
Biomass, heat network and other capacity – MW	**33**	34
Biomass, heat network and other output – GWh	**104**	108

SSE Distributed Energy overview

SSE's reporting of its Enterprise segment has been updated following the sale of its Contracting and Rail businesses. The primary retained activity of the former SSE Enterprise businesses is now distributed energy. The business provides solar and battery storage asset development and operation and focuses on distributed generation, EV infrastructure, heat and cooling networks, and smart buildings and places.

The financial results from the Group's out of areas networks business and Neos Networks Limited (formerly SSE Telecoms) joint venture are now reported within SSEN Distribution and Corporate Unallocated respectively. Comparative information has been re-stated to reflect these changes.

Operational delivery

Over the past 12 months SSE has announced significant milestones in its nascent solar and battery storage business including a secured 380MW solar and battery pipeline, with over 1GW more of other sites currently under assessment. The secured pipeline includes a 50MW battery storage asset on a consented site in Wiltshire, where construction gets under way this summer, with full energisation expected in summer 2023. SSE has also acquired a 30MW solar farm at Littleton Pastures in Worcestershire and, once complete in late 2023, this 77-acre site will be capable of powering some 9,400 homes.

Growth opportunities

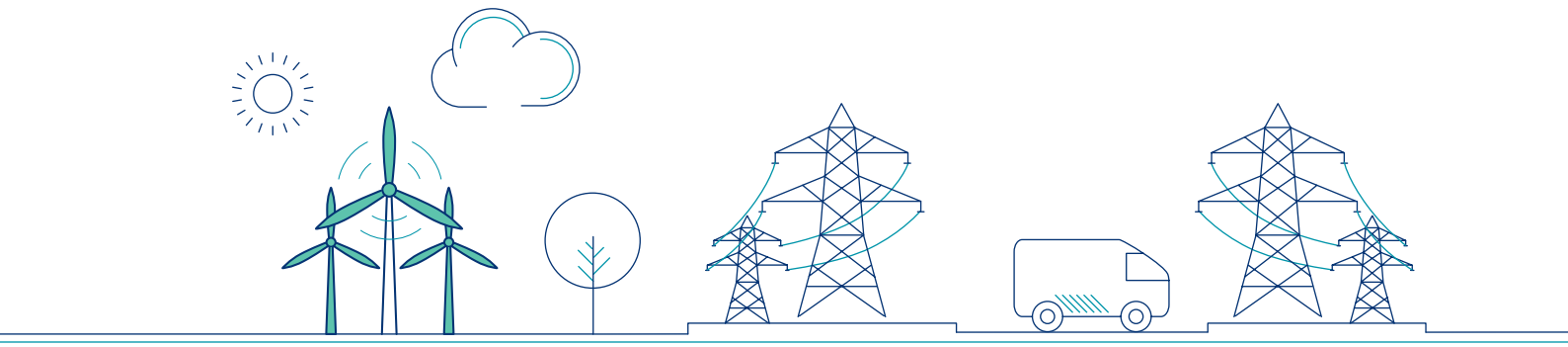
A key focus will be on battery storage and solar technology. Existing grid connections at legacy coal-fired sites, such as Ferrybridge and Fiddlers Ferry, also puts SSE in a strong position to deploy battery storage at scale and pace.

SSE's Distributed Energy team is helping people and places reach their net zero targets by adopting a 'whole system' approach to connect localised and flexible energy assets. These include energy optimisation, heat and cooling networks, electrical networks, smart buildings, and EV charging. Distributed Energy therefore seeks to help provide the platform for a data-driven and sustainable world.

Distributed Energy has ambitions to build a network of EV charging hubs across the UK – with the first of potentially 300 hubs being built in summer 2022 in Glasgow. Innovation also remains a key tool to unlocking net zero; its heat sector division for example, has an exciting partnership under way with National Grid to utilise heat from electricity transformers that would otherwise go to waste.

"This is an exciting time for the business. We've got ambitions to deliver solar and battery storage technology at GW scale, we have a 2GW distributed energy development pipeline, and we are developing strategic grid-connected local energy systems to industrial regeneration areas across the UK."

Neil Kirkby
Managing Director,
SSE Enterprise



Energy Portfolio Management (EPM)

EPM key performance indicators

	March 2022	March 2021
EPM		
EPM adjusted operating profit/(loss) – £m	**(16.8)**	18.4
EPM reported operating profit/(loss) – £m	**2,083.6**	608.5

EPM overview

Energy Portfolio Management (EPM) is the energy markets heart of the SSE Group, securing value and managing volatility through risk-managed trading of energy-related commodities for SSE's market-based Business Units.

SSE trades the principal commodities to which its asset portfolios are exposed, as well as the spreads between two or more commodity prices (e.g. spark spreads): power (baseload and other products); gas; and carbon (emissions allowances). Each commodity has different liquidity characteristics, which impacts the quantum of hedging possible. See also SSE's Hedging Position.

Operational delivery

In 2021/22 EPM navigated unprecedented energy market volatility, ensuring the SSE portfolio was hedged in accordance with the Group's approach to hedging and optimised through prompt periods. The value EPM secures for SSE's asset portfolio continues to be reported against individual Business Units. 2021/22 also saw successful delivery of the first year of operation under the UK Emissions Trading Scheme.

For detailed financial performance commentary please refer to the Group Financial Review.

Growth opportunities

Transformation of the EPM Business Unit continues with key external recruits into risk, prompt trading and analytics. Trading has started in France, Belgium and the Netherlands as the business looks to expand into Europe.

"EPM has had a critical role to play in helping SSE navigate market volatility in 2021/22. We have strengthened our offering as a market adviser and asset optimiser for the Group thanks to investment in new forecasting technologies and the capability of our risk, analytics and trading teams."

Gordon Bell
Interim Managing Director,
Energy Portfolio Management

Investment in SGN (Scotia Gas Networks – discontinued operation)

SGN key performance indicators

	March 2022	March 2021
SGN (Discontinued Operation)		
SSE's 33.3% share – Disposed on 22 March 2022		
SGN adjusted operating profit/(loss) – £m	**21.0**	173.0
SGN reported operating profit/(loss) – £m	**495.4**	88.6

SGN overview

As part of its strategic refocusing of the Group, SSE's entire 33.3% financial investment stake in gas distribution operator SGN (Scotia Gas Networks Limited) was sold to a consortium comprising existing SGN shareholder Ontario Teachers' Pension Plan Board and Brookfield Super-Core Infrastructure Partners on 22 March 2022.

Whilst the business had been a good long-term financial investment for SSE since 2005, SSE's focus is now on low-carbon electricity businesses and the role they have in transition to net zero. This disposal marked the completion of SSE's £2bn plus disposals programme announced in June 2020, with a headline consideration amounting to over £2.8bn exceeding that original target.

The adjusted operating profit for the business of £21.0m is retained by the Group for the period to 11 June 2021 when the investment was designated as 'held for sale' and equity accounting ceased. On disposal, the Group recorded an exceptional gain on disposal of £576.5m.

Section 172 and non-financial information statements

Section 172 Statement

SSE has an unwritten social contract with its stakeholders that both informs decision making by the Board and aligns closely with the spirit of Section 172 of the Companies Act 2006 (Section 172). Under this contract, SSE relies on society for public services and infrastructure, human capital, and the implicit right to earn a profit and remunerate shareholders. In return it safely and reliably provides energy, invests in critical national infrastructure needed for net zero, creates jobs and contributes to GDP through fair payment of tax.

This Statement summarises how, over the course of 2021/22, the Board has upheld this contract by promoting the long-term success of the Company for the benefit of SSE's six key stakeholder groups (see pages 32 to 39). This has been undertaken with regard to the matters set out in Section 172(1)(a) to (f), being:

(a) The likely consequences of any decision in the long term.
(b) The interests of the Company's employees.
(c) The need to foster the Company's business relationships with suppliers, customers and others.
(d) The impact of the Company's operations on the community and the environment.
(e) The desirability of the Company maintaining a reputation for high standards of business conduct.
(f) The need to act fairly between members of the Company.

SSE's approach to the above social contract is exemplified throughout this Annual Report, with specific disclosures of decisions and actions which are supportive of this Section 172 Statement detailed as follows.

Long-term direction

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. Four 2030 Goals support this strategy, and provide important interim milestones to net zero in 2050. This longer-term view set by the Board frames its strategy work and the agreement of objectives, which extends to: capex plans; budgets; dividend plans and future resourcing requirements. SSE's Risk Management Framework, including the Groups' Principal Risks, the identification of emerging risks and the Group's Risk Appetite statement, further underpins the Board's long-term approach.

More on the longer-term context

- Pages 2 to 3 **Our purpose and our strategy**. SSE's purpose, vision, strategy, values and 2030 goals as agreed by the Board.
- Pages 126 to 131 **Strategic review and Board focus in 2021/22**. The Board's strategy work including the process which approved the Net Zero Acceleration Programme.
- Pages 68 to 81 **Risk-informed decision making**. The approach to identifying, understanding and mitigating the Group's Principal Risks.

Purpose-led engagement

Constructive two-way dialogue with SSE's key stakeholders maintains understanding of the issues material to each group. Supporting conversations have been conducted within a well-established framework that encourages both Group and complementary Board-level engagement. This is reflective of SSE's operating model based on autonomous Business Units in which decision-making takes place every day. The Board creates the correct conditions for this approach by setting SSE's long-term direction and the overarching decision-making framework and culture. This is in line with the Board's own understanding of stakeholder needs.

More on engagement

- Page 134 **Considered decision-making**. The context set by the Board in which decision-making takes place.
- Pages 32 to 39 and 135 to 139 **Working for and with stakeholders**. Information on: the role of stakeholder engagement; SSE's key stakeholder groups including, employees, shareholders, suppliers, customers and communities; the engagement mechanisms which have been used at Board and below-Board level; the material issues raised; and examples of stakeholder value creation.

Stakeholder-focused decisions

Conversations with key stakeholder groups can result in actions which are specific to an individual group and also see integration into decisions with multi-stakeholder impact. This Strategic Report and the Directors' Report have been prepared with this in mind and illustrative examples of decision-making are provided throughout.

More on decision making

- Pages 34 to 39 **Engagement in action**. Actions taken in response to the views of individual stakeholder groups, of which the Board has received full oversight.
- Pages 126 to 131 (strategy), 150 (inclusion and diversity ambitions) and 169 (Remuneration Policy) **Board-level principal decisions**. Decisions taken during the year including details of stakeholder considerations.

Environmental impact

SSE recognises the serious threat that climate change poses to the natural world, and therefore to people and the economy. The climate emergency has continued to feature across the Board agenda and SSE commits to open and transparent disclosure to allow proper assessment of its environmental performance.

More on environmental performance

- Page 130 **Overseeing strategic delivery**. Board approval of SSE's Net Zero Transition Plan.
- Page 132 **Sustainability and climate impacts**. Board considerations and outcomes in 2021/22.
- Pages 164 to 167 **SSHEAC Report**. Provides Board assurance of safety, health, environmental and sustainability matters.
- Pages 42 to 57 **Protecting the environment**. Actions agreed to drive climate action, SSE's carbon performance and resource use.

Culture and conduct

SSE's definition of a healthy corporate culture, as approved by the Board, underpins the way in which SSE operates. The Board leads on, and monitors culture, by setting the tone and framework within which agreed values and accepted behaviours can be embraced by employees. This includes an inclusive working environment. Most recently, SSE's Just Transition Strategy evidences the approach to responsible business conduct, by setting out intended actions to address the social implications of delivering net zero.

More on culture and conduct

- Pages 140 to 141 **Focusing on culture**. How the Board promotes high standards of conduct and monitors culture.
- Pages 58 to 68 **SSE's social contribution**. Delivery of wider benefit through responsible business practices.

Non-Financial Information Statement

SSE has reported extensively on its non-financial impacts within its Annual Report for a number of years and welcomes continued increasing focus from regulators, shareholders and other stakeholders. This table outlines how SSE meets the Non-Financial Reporting requirements contained within the Companies Act 2006. Further disclosure can also be found in SSE's Sustainability Report 2022.

Reporting requirement and SSE's material areas of impact	Relevant Group Principal Risks, pages 71 to 81	Relevant Group Policies on sse.com	Policy embedding, due diligence, outcomes and key performance indicators
Environmental matters • Delivering net zero • Managing climate-related issues • Carbon performance, metrics and targets • Responsible resource use – water and energy use, air emissions	Climate Change Safety and the Environment	Group Climate Change Policy Group Environment Policy	Our business goals for 2030, pages 18 to 19 Our strategy in action, pages 22 to 28 Protecting the environment, pages 42 to 57 Safety, Sustainability, Health and Environment Advisory Committee Report, pages 164 to 167
Employees • Health and safety • Training and learning • Culture and ethics • Reward and benefits • Employee voice • Inclusion and diversity • Support during the coronavirus crisis	People and Culture Safety and the Environment	Group Employment Policy Group Safety and Health Policy	Our business goals for 2030, pages 18 to 19 SSE's social contribution, pages 58 to 57 Focusing on culture, pages 62 and 140 to 141 Supporting and listening to the employee voice, pages 61 and 137 to 139 Safety, Sustainability, Health and Environment Advisory Committee Report, pages 164 to 167
Social matters • A just transition to net zero • Contributing to the economy and supporting local supply chains • Sustainable procurement • Responsible approach to tax • Supporting vulnerable customers • Energy affordability • Sharing value with communities • Support during the coronavirus crisis	People and Culture Speed of Change Energy Affordability	Group Sustainability Policy Group Taxation Policy Group Procurement Policy	Our business goals for 2030, pages 18 to 19 SSE's social contribution, pages 58 to 57
Human rights, anti-corruption and anti-bribery • Reinforcing an ethical business culture • Speaking up against wrongdoing • Prevention of bribery and corruption • Approach to human rights and modern slavery	People and Culture Large Capital Projects Quality	Group Human Rights Policy Group Corruption and Financial Crime Prevention Policy Group Whistleblowing Policy	SSE's social contribution, pages 58 to 59 Focusing on culture, 62 and 140 to 141