

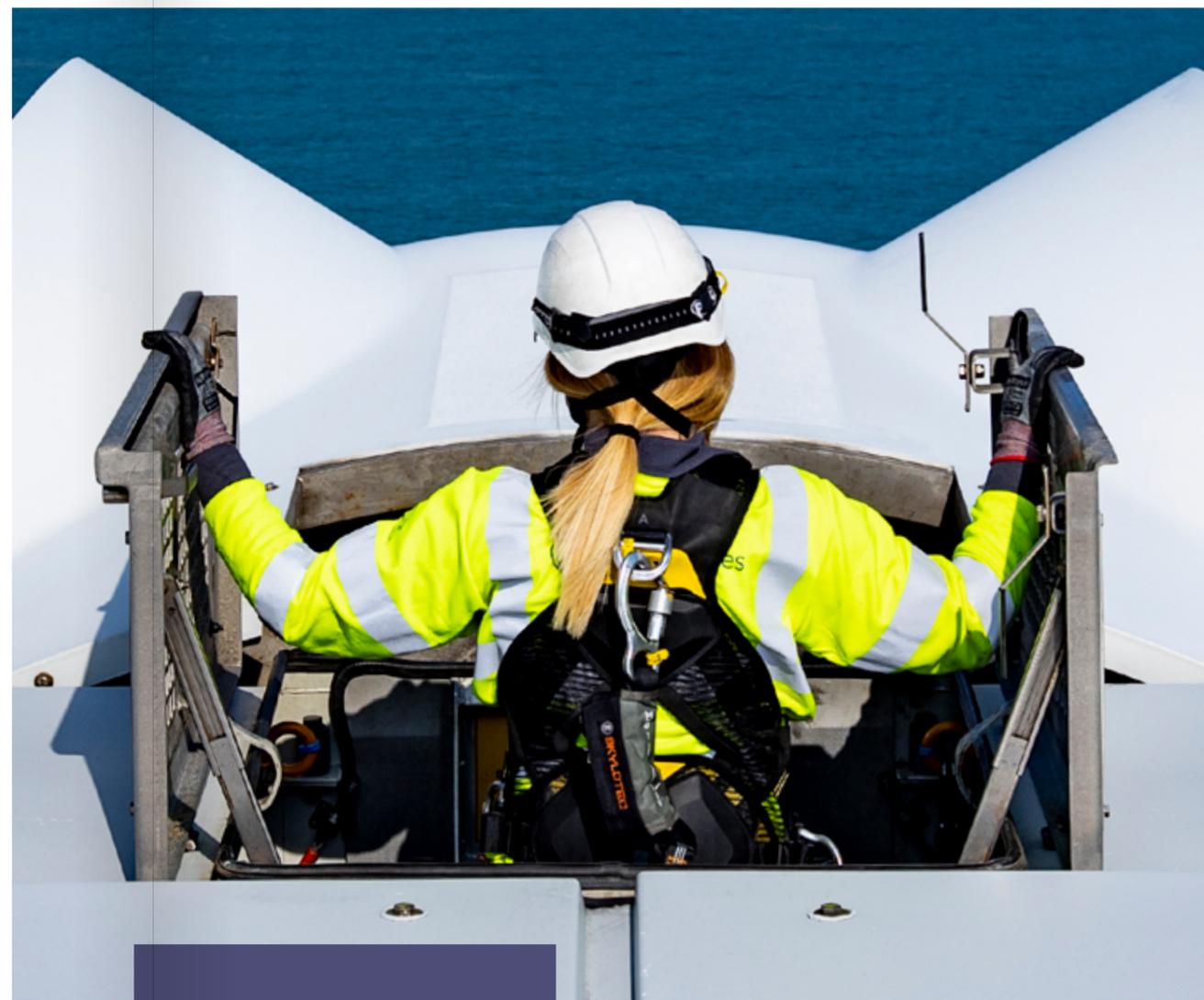
Managing SSE's Risks

SSE plc Group Risk Report 22/23



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SSE at a glance

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

Financial highlights

In the face of exceptional macro-economic conditions, SSE saw strong financial performance in 2022/23 thanks to its resilient business model, solid operational delivery and good progress on its strategy. Below-plan renewables output was offset in the year by thermal, flexible hydro and gas storage assets which were rewarded for providing timely system backup.

Group operating profit/loss

£2,529.2m

Adjusted

£(146.3)m

Reported

Profit/loss before tax

£2,183.6m

Adjusted

£(205.6)m

Reported

Earnings/Losses Per Share

166.0p

Adjusted

(14.7)p

Reported

Dividend

96.7p

Adjusted investment and capex

£2,803.3m

(after refunds, including acquisitions)

Non-financial highlights

The Total Recordable Injury Rate safety measure increased in the year due a rise in contractor hours worked on construction. SSE continues to make a significant contribution to the economies it operates in as it delivers on its ambitious investment programme.

Safety (TRIR) per 100,000 hours worked

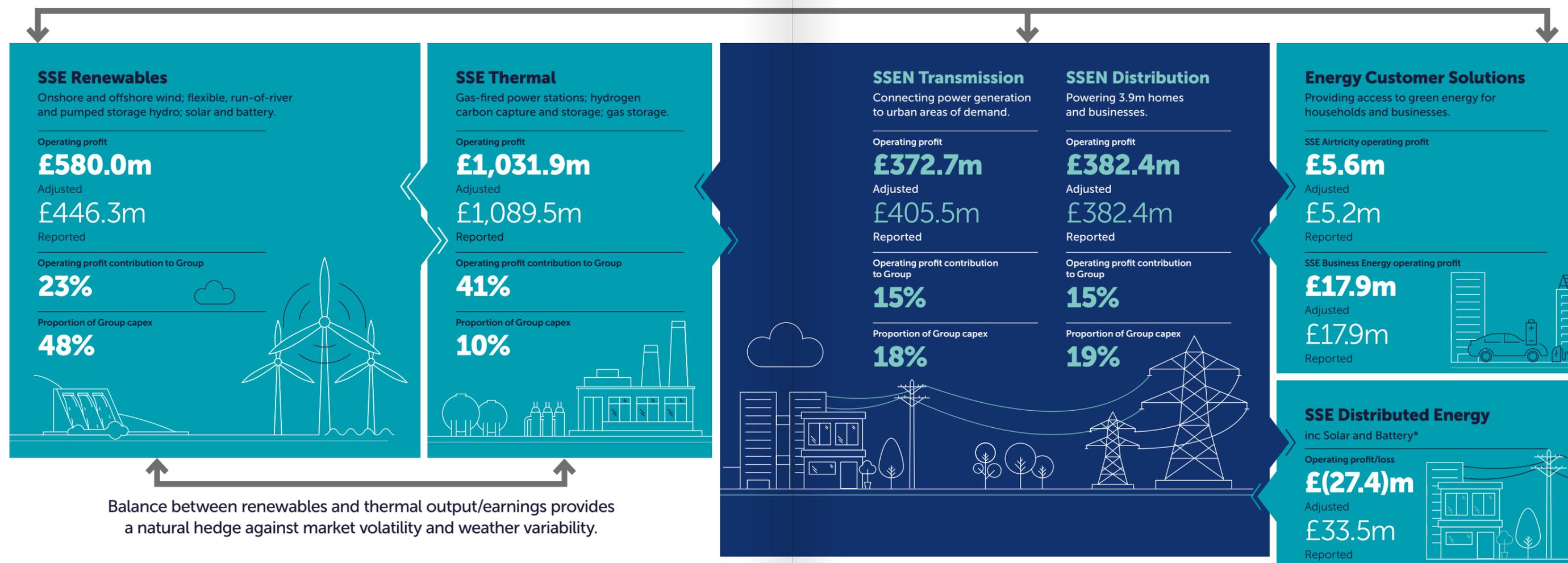
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Economic contribution UK/ROI

**£6.04bn/
€429m**

Market based **Economically regulated**

Balance between market-exposed and stable, economically-regulated earnings.



Energy Portfolio Management

Procuring the fuel required for, and trading the power output from, SSE's generation assets, as well as trading on behalf of its supply businesses.

Operating profit/loss

£80.4m

Adjusted

(£2,626.0)

Reported

* From April 2023 the Solar and Battery business is part of SSE Renewables.

Risk-informed decision making

Managing SSE's Risks

The execution of SSE's strategy and the creation of value from the opportunities arising from net zero are dependent on the effective identification, understanding and mitigation of the Group's Principal Risks.

Throughout 2022/23 SSE has met and managed unprecedented challenge in the markets in which it operates. As highlighted in the Chair's Statement on pages 4 and 5 of the Strategic Report of the Annual Report and Accounts, issues such as safety programmes, affordability, sectoral risks (such as extremely volatile commodity prices and inflationary pressures), extreme weather and climate change have featured heavily in strategic risk discussions.

While managing these external challenges, SSE has continued to make substantial progress on the execution and delivery of its Net Zero Acceleration Programme (NZAP), with in excess of £2.8bn of capital investment including acquisitions delivered during the course of the year. Supporting a just transition through continuing to create options for investment and growth by boosting energy security, supporting communities and creating green jobs, coupled with its balanced mix of businesses, uniquely positions SSE for the transition to net zero and resilience against volatility. These factors along with the ongoing geopolitical crisis in Ukraine having a significant impact on energy affordability and security of supply

concerns, formed the basis of the full review of SSE's Principal Risks that took place during the financial year.

SSE's risk management process is comprised of four main stages summarised in the diagram below. Continued maturity and refinement of our risk management framework ensures that it remains aligned with SSE's strategy and this year included the review and redrafting of the Group Risk Management Policy which is available to view on sse.com.

SSE's sector review on pages 12 to 15 of the Strategic Report of the Annual Report and Accounts provides more detail on the range of external factors that influenced the risk exposures to the Group over the course of the 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 (please see page 124 of the Directors Report of the Annual Report and Accounts for SSE's decision making context). 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 government policy 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, proximity and potential impacts of SSE's Group Principal Risks are regularly assessed by the oversight committees and the Business Unit executive committees with appropriate mitigations implemented where necessary.

Overseeing risk

The Group Executive Committee and its subcommittees (as detailed on page 122 of the Directors Report of the Annual Report and Accounts) 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 effective mitigations are in place for controlling risks. Consideration is also given to emerging risks and whether any of those identified have the potential to become a Principal Risk to the business in the medium to long-term.

These responses are then consolidated into reports, one for each Principal Risk, which are presented back to the committees along with the results of provisional viability testing and analysis of relevant, current management information and key information relating to Business Unit Principal Risks and controls. These reports form the basis for the committees to discuss and confirm the risk trend (more, less or equally material), overall effectiveness of the risk control and monitoring environment, and whether any additional control improvement actions are required. This is an inclusive and iterative process that results in considered and objective outputs and a robust assessment of the Principal Risks. The outputs from these committee assessments are then presented to the Group Executive Committee for full review.



System of Internal Control

The elements that make up the System of Internal Control are:

- Governance Framework.** Designed to ensure focus on the key components of high quality and effective decision making - clarity, accountability, transparency and efficiency. For further details please see page 122 of the Directors' Report of the Annual Report and Accounts.
- Strategic Framework.** This includes SSE's Purpose, Strategy, Goals and Values, as well as the focus of its business model and forms the basis for all activity within the Risk Management Framework.
- Risk Management Framework.** This framework supports each Business Unit in managing its risks and helps to ensure that the Board can meet its obligations. The framework is underpinned by the fundamental principle that everyone at SSE is responsible for the management of risk.
- Assurance Framework.** An integrated programme of audit and assurance activity that is independent of the day-to-day operations of the Business Units and corporate functions. It is made up of Internal Audit, Group Compliance, Large Capital Projects Services and Group Safety, Health and Environment
- Standards and Quality Framework.** Sets out the expected standards and guidelines to be followed in the delivery of the Group's core purpose.



Risk Management Framework

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

Group Risk Management Policy:

The policy sets out the minimum standards, roles and responsibilities and provides clear principles which guide the risk management culture within SSE. These include:

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

Review of the Effectiveness of the System of Internal Control:

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

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

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

Principal Risk Self Assessment

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

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

Risk Appetite Statement

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

Viability Assessment

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

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



Key Risk Indicators

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

Business Unit Risk Approach

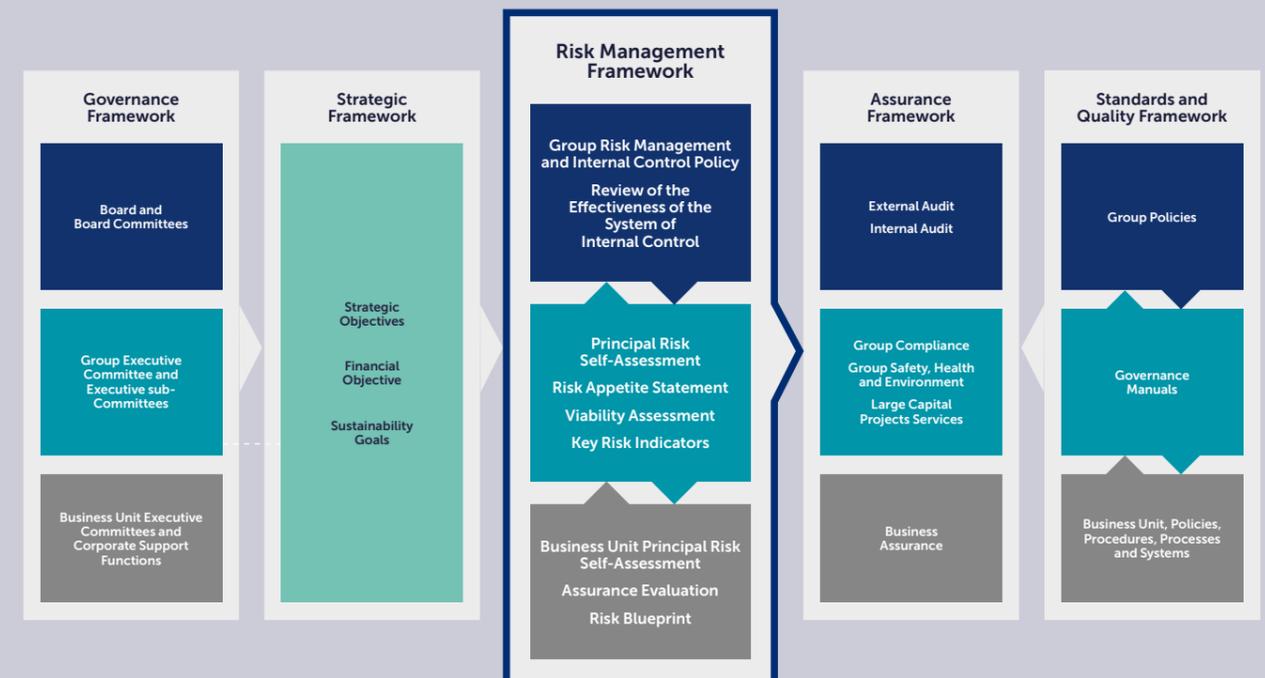
The Group Risk Management Policy allows flexibility for the Managing Directors of SSE's Business Units to tailor operational risk management to the specific requirements of their business areas while meeting the minimum standards required.

Assurance Evaluations

The Assurance evaluations are undertaken annually by the Managing Directors of each of SSE's seven Business Units. These assurance evaluations consider each framework of the system of internal control from a Business Unit perspective and include any planned improvements to enhance controls. These improvements are tracked, with updates reported to the executive-level Group Risk Committee on a regular basis.

Risk Blueprint

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



Group Principal Risks

As reflected throughout the Strategic Report of the Annual Report and Accounts, this year exposures to a number of external factors, particularly those driven by macro-economic and geopolitical events, have increased materially. This, in turn, has increased the residual exposures of a number of the Group Principal Risks set out on the following pages, primarily Energy Affordability, Cyber Security and Resilience, Portfolio Exposure and Political and Regulatory Change.

The graphic below illustrates SSE's 11 Group Principal Risks positioned to highlight the residual risk impact scores against residual likelihood scores following completion of the Principal Risk Self Assessment process.

Change to individual risk rating



* 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 – Political and Regulatory Change and Portfolio Exposure.

2022/23 Review Outcome

This year, due to the pace of change in the markets in which SSE operates, an additional assessment of the Principal Risks was undertaken by the relevant subject matter experts and the Group Executive Committee during the last quarter of the financial year. The output of this was then considered, with any emerging risks or additional material changes resulting from this being proposed to the Board.

Following the 2022/23 annual review process, the number of Principal Risks to the Group remains at 11 with two revisions of note. The previously named Group Principal Risk of 'Commodity Prices' has

been redefined and renamed 'Portfolio Exposure'. The second revision relates to the previously named Group Principal Risk of 'Politics, Regulation and Compliance' which has been redefined and renamed 'Political and Regulatory Change', both of these revisions have been made in order to better reflect and articulate the risk exposures to the Group.

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. While no new emerging Principal Risks have been identified this year

important revisions have been made to the descriptions of each of the Principal Risks to take account of key changes and corresponding mitigations that were introduced during the year.

Full details of the Group Principal Risks are available on pages 8 to 14. Key developments that have influenced the risk exposures to the Group have also been highlighted in detail throughout the Strategic Report of the Annual Report and Accounts.

Risk trend key

- ▲ Increased in materiality
- Not changed significantly
- ▼ Reduced in materiality

Link to strategy

- Develop
- Operate
- Build
- Invest

Climate Change Risk trend ■

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 Risk Committee

Link to strategy



Material influencing factors

- The impact of physical risks associated with climate change, such as severe adverse weather that causes damage or interrupts energy supply or 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.
- Geopolitical events relating to the security of supplies and macro-economic stress.

Key mitigations

- Policy link: SSE Climate Change Policy and SSE Sustainability Policy.
- SSE is investing on average £10m a day on decarbonising infrastructure over a five-year period to FY27 as part of its Net Zero Acceleration Programme Plus.
- 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. As part of the 2022 Directors' Remuneration Policy review, the Remuneration Committee further strengthened the link between sustainability and executive pay by introducing sustainability measures in the long-term incentive (PSP) for the first time. Performance is assessed against SSE's 2030 Goals and also against strategic performance in relation to the implementation of the NZAP strategy. These measures are worth a combined 30% of the overall award.

Group Principal Risks

Continued

Cyber Security and Resilience

Risk trend 

What is the risk?

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

Oversight

Group Risk Committee

Link to strategy



Material influencing factors

- Software or hardware issues, including telecoms networks, connectivity and power supply interruption.
- Heightened threat of cyber-attacks due to geopolitical events.
- Increased sophistication and likelihood of ransomware attacks.
- International expansion.
- 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 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.
- Over the course of the year an updated Cyber Security Culture Strategy was launched. This has been designed to continue to improve the cyber security maturity across the Group and build positively on the existing, strong cyber culture. The implementation of this strategy will be assessed and monitored to measure its impact on the levels of cyber security awareness and culture across the Group.

Energy Affordability

Risk trend 

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 regulated networks and energy businesses.

Oversight

Group Executive Committee

Link to strategy



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.
- Fluctuations in the cost of fuels.
- Supplier and customer failures and related bad debt.

Key mitigations

- Policy link: SSE Sustainability Policy.
- SSE Airtricity established the largest customer support fund in Ireland, with provision for up to €25m in affordability funding, and SSE Business Energy has implemented the Energy Bill Relief Scheme.
- Robust stakeholder engagement across government, regulators and relevant counterparties.
- SSE is focused on fixing the long-term causes, not the short-term symptoms of the current energy crisis, as such it 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.

Risk trend key

-  Increased in materiality
-  Not changed significantly
-  Reduced in materiality

Link to strategy

-  Develop
-  Operate
-  Build
-  Invest

Energy Infrastructure Failure

Risk trend 

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

Link to strategy



Material influencing factors

- 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.
- 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 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 Centres of Excellence review and develop 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.

Financial Liabilities

Risk trend 

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

Link to strategy



Material influencing factors

- Ongoing commitment to an investment grade credit rating.
- Global macroeconomic 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.
- Operational and trading collateral requirements.

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.
- Detailed and continuous financial modelling and forecasting on a Group and Business Unit basis.
- 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.
- The newly formed Collateral Committee meet weekly to monitor ongoing collateral requirements.
- SSE has a proven ability to maintain access to capital markets during stressed economic conditions. The Group has demonstrated this through securing £3.0bn of funding since April 2021 including the issuance of a 1bn Euro Hybrid bond in April 2022 and €650m bond in July 2022.

Group Principal Risks

Continued



Large Capital Projects Management

Risk trend

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

Link to strategy



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 and capacity of competent contractors in any jurisdiction in which SSE operates.

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 and updated in detail during 2022, 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, the outputs of which are presented to the Board where appropriate.
- Ongoing interaction with key suppliers through SSE's Supplier Relationship Management Programme.
- 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.



People and Culture

Risk trend

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

Link to strategy



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 engagement and communications.

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 60 to 62](#) and on [page 136](#) of the Directors' report of the Annual Report and Accounts.
- SSE Governance arrangements, including those relating to JV and Partner Management.
- There are a wide range of tools and services available to all employees to support mental health and wellbeing, including those provided as part of the Employee Assistance Programme. Further details on careers [sse.com/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. All 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.

Risk trend key



Link to strategy



Political and Regulatory Change

Risk trend

What is the risk?

The risk associated with operating in a fast-paced, highly regulated environment which is subject to constantly changing political, regulatory and legislative expectations and interventions.

Oversight

Group Executive Committee

Link to strategy



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/or regulation and the impact of these changes on business-as-usual activities in any jurisdiction in which SSE operates.

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. Full details of SSE's Stakeholder Engagement can be found on [page 26 to 33](#) of the Strategic Report of the Annual Report and Accounts.
- 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.



Portfolio Exposure

Risk trend

What is the risk?

The risk to the Group's portfolio value associated with fluctuations in both the price and physical volume of key energy market indices or drivers – primarily gas, carbon and electricity – as well as foreign exchange values, CO₂ permits and oil.

Oversight

Group Risk Committee

Link to strategy



Material influencing factors

- Global geopolitical events.
- Fluctuations in demand, supply and generation capabilities both in Great Britain and globally. Further detail is available on [page 12](#) of the Strategic Report of the Annual Report and Accounts.
- Generation technology advancements.
- Government intervention into the structure of the energy sector in any jurisdiction in which SSE operates.
- International and national agreements on climate change.
- International flows of fuel.

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 on [sse.com](#).
- The Group Energy Markets Exposure Risk Committee has operational oversight of commodity positions; reporting to the Board Energy Markets Risk Committee that has responsibility for monitoring the ongoing effectiveness of Group hedging arrangements. For further details please see [pages 160 to 161](#) of the Strategic Report of the Annual Report and Accounts.
- SSE uses VaR and PaR measures to monitor and control exposures. Trading limits are reviewed regularly by the Energy Markets Risk Committee, with consideration given to changes in the material influencing factors noted above, before being approved by the Board.
- SSE's Energy Economics team provides commodity price forecasts which are used to inform decisions on trading strategy and asset investment.
- SSE utilises hedging instruments to minimise exposure to fluctuations in foreign exchange markets, details of which are available in the Financial Statements section of the Annual Report and Accounts.
- SSE monitors the impact from recent reforms in Europe (e.g., the European Market Infrastructure Regulation (EMIR), Markets in Financial Instruments Directive (MiFID) and Regulation on Energy Market Integrity and Transparency (REMIT)) and those resulting from the Electricity Market Reform (EMR) process.

Group Principal Risks

Continued

Safety and the Environment Risk trend ▲

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

Link to strategy



Material influencing factors

- Safety culture and SSE's commitment to getting everyone home safe.
- Clear and appropriately communicated safety processes.
- Regular and documented training.
- The size, scale, complexity and number of projects under way.
- Adverse weather.
- Challenging geographic locations.
- Appropriate task and asset risk assessment.
- Clear, effective and regular communications of all relevant safety updates.
- Competent employees and contractors.

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).
- SSE has formed a new central Contractor Safety Team supported by dedicated Contractor SHE Managers and Assurance Auditors to improve contractor safety performance. For full details please see the Sustainability Report.
- 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 Centres of excellence review and develop plans to ensure that the integrity of its generation assets is maintained.

Risk trend key

- ▲ Increased in materiality
- Not changed significantly
- ▼ Reduced in materiality

Link to strategy

- Develop
- Operate
- Build
- Invest

Speed of Change Risk trend ▲

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

Link to strategy



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 under way, 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 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 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 context are available on [page 124](#) of the Directors Report of the Annual Report and Accounts.
- The Group Executive Committee is responsible for ensuring that Business Unit strategies are consistent and compatible with the overarching Group strategy and its vision to be a leading energy provider in a net zero world.



Risk Appetite Statement

The Group risk appetite remains aligned to the achievement of SSE's strategic objectives. 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 operate are part of a rapidly changing industry subject to a high degree of political, regulatory and legislative change as well as risk arising from other developments 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 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 SSE's Purpose, Strategy, Goals and Values, as well as the focus of its business model, are fully reflective of its risk appetite (see [pages 8 and 9](#) of the Strategic Report and Accounts for further details).

Fundamentally:

- SSE has a clear 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,
- SSE has a good understanding of the risks and opportunities in the Great Britain and Ireland energy markets and a strong associated knowledge of adjacent EU markets, augmented by its acquisitions. UK and Irish markets, alongside EU markets therefore provide the Group's geographic focus, with expansion into other new international markets being subject to rigorous scrutiny and ensuring 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 through creating 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. 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 2027. The Directors have determined that as this time horizon aligns with the Group's Net Zero Acceleration Programme Plus, which includes a fully funded capital investment programme to 2027, 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. The Directors recognise the significance of the strong balance sheet with total undrawn committed lending facilities as shown below:

	£bn	Matures	Comment
SSE plc	1.30	March 2026	
SSE plc	0.20	October 2026	
SSE plc	1.00	February 2024	Collateral facility with 1 year extension option (in favour of the banks)
SSEN Transmission*	0.75	November 2025	2, 1 year extension options (in favour of the Group)
SSEN Distribution	0.25	November 2025	2, 1 year extension options (in favour of the Group)
	3.50		

* The Transmission facility is available to that Business Unit only.

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 £3.0bn of funding since April 2021 including the issuance of a 1bn Euro Hybrid bond in April 2022 and €650m bond in July 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 and with the recent sale of a 25% stake in the Transmission business.

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 to generation assets (for Energy Infrastructure Failure); changes to key government energy policies (for Political and Regulatory Change); 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 2027.

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