GROUP RISK REPORT 2020/21

sse | For a better world of energy

CONTENTS

1 About SSE

2 Managing SSE's Principal Risks

4 SSE's System of Internal Control

6 Risk Management Framework

8 Review of Group Principal Risks

10 2020/21 Group Principal Risks

21 2020/21 Emerging Risk

22 Risk Appetite Statement

23 Viability Statement

CORONAVIRUS **STATEMENT**

The report covers the first full year of operations within the constraints of the coronavirus pandemic. Thanks to a highly resilient business model and the commitment and flexibility of its employees, SSE maintained the safe and reliable supply of electricity throughout the year and did not draw on furlough or rates relief in doing so. SSE Renewables, SSEN Transmission and SSE Thermal were not significantly adversely affected by the pandemic and the financial impact on the Group's other businesses was restricted to £170m for the year.

CORE

Energy businesses

SSE Renewables

What it does

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, power purchase agreements, and government support schemes for renewable energy.

Networks businesses

SSEN Transmission

What it does

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.

SSEN Distribution

What it does

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 area in the North of Scotland.

How it supports net zero

Through the timely connection of local renewables and the coordinated 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 can be made through efficient delivery of investment and targeted, performance-related incentives.

COMPLIMENTARY

Energy businesses

SSE Thermal

What it does

Generates electricity from thermal sources in a reliable way, supporting balancing of the electricity systems in GB and Ireland. In addition, SSE Thermal's Gas Storage business holds around 40% of the UK's underground capacity.

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.

How it supports net zero

Produces progressively lowercarbon electricity and electricity system support to enable net-zero transition. Facilitates increasing levels of renewable electricity by offering flexibility to balance renewables' natural variability.

How it is remunerated

Through the wholesale energy market, Capacity Market and ancillary services market.

Customers

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).

SSE Enterprise

What it does

Following the sale of its Contracting arm, SSE Enterprise is increasingly focused on distributed energy solutions. The business invests in, builds and connects localised flexible energy infrastructure. It offers integration, aggregation and trading capability via the Energy as a Service platform and provides digital services for buildings, cities and businesses.

Who it does it for

The public sector and commercial and industrial markets in the UK and Ireland.

How it supports net zero

Through offering grid edge services, bringing 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, CPPAs and public and private sector tenders.

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.

Group services

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 core and complementary businesses 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.

MANAGING SSE'S **PRINCIPAL RISKS**

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

SSE's established Risk Management Framework and the wider system of internal control described on pages 4 to 5 continued to inform strategic decision-making in 2020/21. This, combined with a resilient business model, helped the Group manage and minimise the human, operational and financial impacts of coronavirus and to meet its objective of supporting the reliable supply of electricity to those who needed it, particularly those tackling the pandemic.

In addition to coronavirus, SSE managed and assessed the potential risks associated with a number of other external factors throughout the year. Brexit gave rise to a high degree of economic, regulatory and political change. SSE was well prepared and the direct impacts were limited, but it continues to manage the resulting uncertainty over carbon pricing and the establishment of a standalone UK Emissions Trading System agreement.

SSE also appealed to the CMA on a narrow range of technical points against Ofgem's final RIIO-T2 price control determination, seeking to balance affordability for energy consumers with the need to attract the investment needed for the transition to net zero.

Against this backdrop SSE continued to deliver significant strategic progress through its disposals and capex programmes. The Group has been streamlined and £1.5bn of proceeds have been announced through the sale of noncore assets and construction is under way on a number of predominantly low-carbon infrastructure projects including the world's largest offshore wind farm at Dogger Bank.

The above factors, along with the likely longer-term impacts of the coronavirus pandemic in the UK, Ireland and abroad and all other influencing factors 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 in order 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 and whether they consider them to have become more or less material during the year. In 20/21 this commentary covered both changes specifically related to coronavirus and those changes that are not related to the pandemic impacts. Consideration is also given to potential emerging risks and whether or not any of those identified have the potential to become a Principal Risk to the business in the medium- to long-term.

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

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

2020/21 Review Outcome

Following the 2020/21 annual review process, the number of Principal Risks to the Group remains at 11 but there are two revisions of note.

The "Large Capital Projects Quality" risk has been redefined and renamed "Large Capital Projects Management". This broadens the risk definition in response to changes in the operating environment and reflects the increase in value of SSE's Large Capital Projects portfolio over the next 10 years.

The emerging risk "Joint Venture and Partner Management" previously identified during 2019/20 was retained by the Board. The importance of joint ventures and partner management continues to increase in SSE as its Business Units pursue their strategic and business objectives in association with other companies and organisations, in some cases in international markets. An additional review of this emerging risk will be undertaken by the Group Risk Committee in Q2 of the financial year 21/22.

Important revisions have also been made to the descriptions of each of the other 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 10 to 21.

SYSTEM OF INTERNAL CONTROL

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

The 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 102 of the Director's Report of the Annual Report and Accounts.

The Strategic Framework. This includes Group's strategic objectives, financial objective and sustainability goals and forms the basis for all activity within the Risk Management Framework. For further details please see pages 8 to 13 of the Strategic Report of the Annual Report and Accounts.

The 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.

The 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.

The Standards and Quality Framework. Sets out the expected standards and guidelines to be followed in the delivery of the Group's core purpose.

RISK MANAGEMENT **FRAMEWORK**

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

Group Risk Management and Internal Control Policy:

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

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

Review of the Effectiveness of the System of Internal Control:

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

To assist the Committee's review of the System of Internal Control, all elements are evaluated by 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, the Committee considers the Assurance Evaluations undertaken annually by the Managing Directors of each of SSE's Business Units.

Principal Risk Self Assessment

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

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

Risk Appetite Statement

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

Viability Assessment

Provision 41 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 the suite of severe but plausible scenarios has continued to be developed for each of SSE's Principal Risks. These scenarios are based on relevant real life events that have either been observed in the markets within which the Group operates or related markets globally. Examples include critical asset failure (for Energy Infrastructure Failure); changes to key government energy policies (for Politics, Regulation and Compliance); and the impact of the loss of key systems (for Cyber Security and Resilience).

Scenarios that have the greatest potential to adversely affect SSE's ability to deliver its vision, strategy and purpose are stress tested against forecast available financial headroom. In addition to considering these in isolation, the Directors also consider the cumulative impact of different combinations of scenarios, including those that individually have the highest impact .

Key Risk Indicators

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

Business Unit Risk Approach

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

Assurance Evaluations

The Managing Directors of each of SSE's Business Units carry out an annual Assurance Evaluation covering key management areas, including Risk Management. This provides an opportunity for each Managing Director to identify areas where controls could be improved or where assurance arrangements require to be strengthened. Planned improvements are then tracked with updates reported to the Chief Executive on a regular basis.

Risk Blueprint

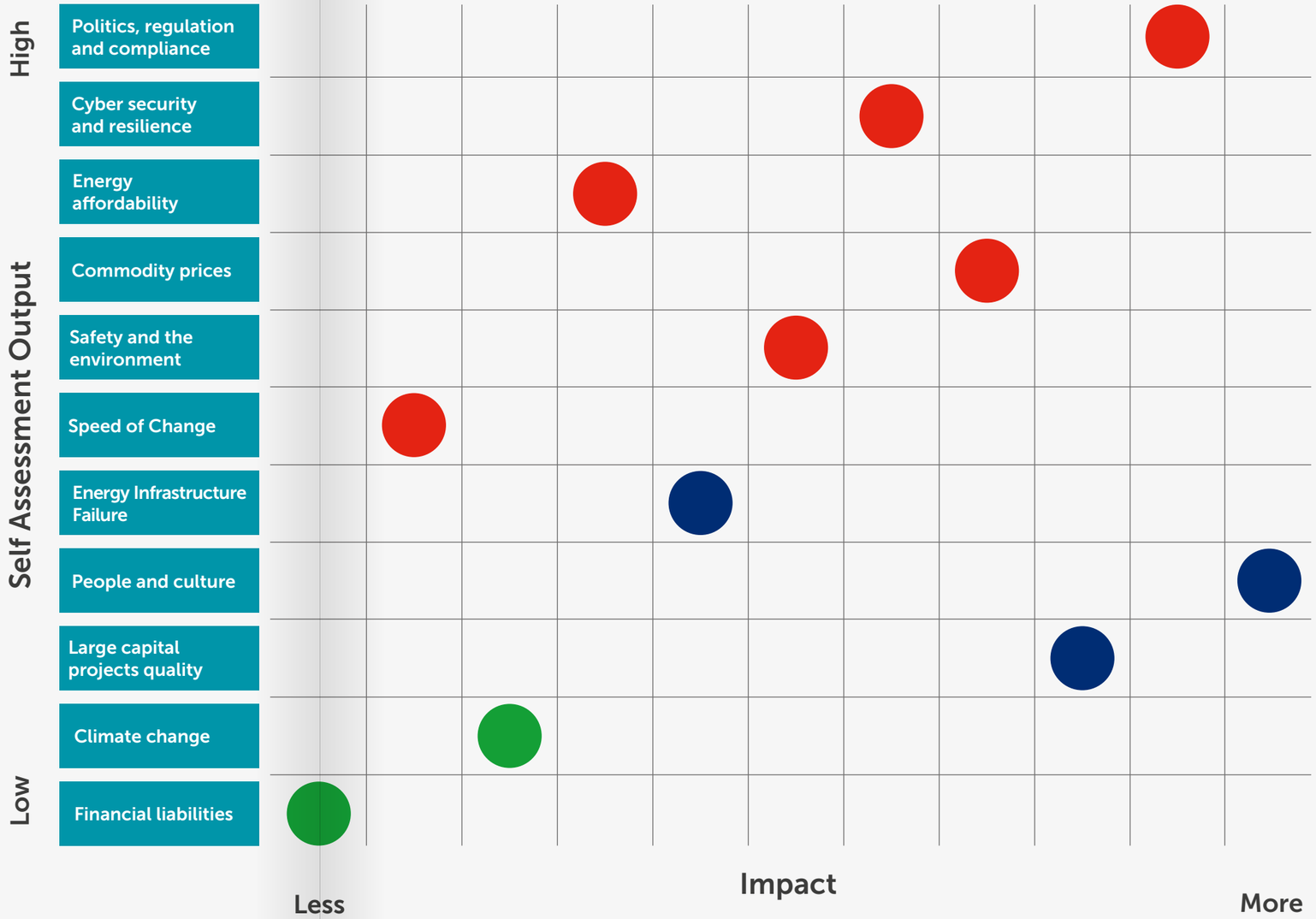
SSE Risk Blueprint is a best practice guide to risk management that is available to anyone who requires it within the Group. The Blueprint is reviewed on an annual basis in line with the review of the Group Risk Management and Internal Control Policy.

REVIEW OF GROUP **PRINCIPAL RISKS**

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

The Board and Group Executive Committee look for as complete a perspective as possible when assessing the Principal Risks that face the Group. This graphic illustrates SSE's 11 Group Principal Risks positioned on a relative basis against the output of the Principal Risk Self Assessment process (based on changes in the context and prevalence of each risk) and the potential impact on Group Viability based on critical risk scenarios developed with business experts.

In addition, Principal Risks that were considered by their oversight committees to have increased in materiality during the year are shown in red, those that have not changed significantly are shown in blue and those that have reduced in materiality are shown in green



CLIMATE CHANGE

Oversight

Group Executive Committee

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.

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 around the products and services that SSE provides

Key developments

- In its role as a principal partner to the UK Government at COP26, SSE will strive to continue to build its reputation as a responsible UK-listed company, delivering in the public interest and a key enabler of net zero ambitions. More information on COP26 can be found in the Sustainability Report.
- In November 2020, SSE became the first company to publish its Just Transition Strategy. This strategy outlines SSE's 20 principles for achieving a socially just transition to net zero and details these in action. More information on SSE's Just Transition strategy is available on sse.com.

Material influencing factors most impacted by Coronavirus

- Fast developing stakeholder needs and expectations in relation to efficient, innovative and flexible products and services.
- 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.

Key developments associated with Coronavirus

- In May 2020, SSE published "A Greenprint for building a cleaner, more resilient economy". The publication highlights SSE's policy proposals to build a greener more resilient economy while driving progress to net zero. Continued focus on SSE's vision to be a leading energy company in a net zero world and its strategic objectives ensure that it is best placed to play its part in long-term economic recovery.

Key mitigations

- Policy Link: SSE Climate Change Policy.
- SSE provides transparent disclosures to allow its stakeholders to properly assess its performance in managing climate related issues. The Group believes it met the TCFD reporting recommendations in full in 2020 ahead of the UK Government 2022 deadline.
- 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.
- In March 2019, SSE's Remuneration Committee took the decision that from 2019/20 onwards 20% of the total Annual Incentive Plan (AIP) for Executive Directors would be determined by the progress made in meeting SSE's four 2030 Business Goals which are focused on addressing the challenge of climate change.

COMMODITY PRICES

Oversight

Group Risk Committee

What is the risk?

The risk associated with the Group's exposure to fluctuations in both the physical volumes and price of key commodities, including electricity, gas, Co2 permits, oil and related foreign exchange values.

Material influencing factors

- Weather associated seasonal fluctuations in demand, supply and generation capabilities – which may not be in line with historical trends, and which may or may not be associated with climate change – both in GB and globally. Further detail is available on page 27 of the Strategic Report.
- Generation technology advancements.
- Global and domestic political change, including the impacts of Brexit and the implications of a second Scottish Independence Referendum.
- European generation outputs and availability.
- International and national agreements on climate change.
- International flows of fuel.

Key Developments

- Managing the impacts of geopolitical events including those relating to Brexit.

Material influencing factors most impacted by Coronavirus

- Fluctuations in foreign exchange values.
- Fluctuations in the global supply and demand of fuel.
- Global economic growth.
- Geopolitical events.

Key developments associated with Coronavirus

- Managing the impacts of a continued significant reduction in energy demand.
- Managing the impacts of significant fluctuations in commodity prices and foreign exchange values.

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 Energy Markets Risk Committee monitors the effectiveness of Group hedging arrangements.
- 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.

CYBER SECURITY AND RESILIENCE

Oversight

Information, Security and Privacy Committee

What is the risk?

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

Material influencing factors

- Software or hardware issues, including telecoms network and connectivity and power supplies.
- Ineffective operational performance, for example, breach of information security rules or poor management of resilience expertise.
- Employee and contractor understanding and awareness of information security requirements.

Key developments

- Continuation of work to ensure the successful technological separation of systems associated with divestments, including the sale of SSE Energy Services to Ovo, in a secure manner without interruption to services.

Material influencing factors most impacted by Coronavirus

- Geopolitical events.
- Malicious cyber attack

Key developments associated with Coronavirus

- 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.
- Continued maintenance of secure onsite systems and facilities in preparation for the gradual return to the office environment of those staff currently working from home

Key mitigations

- Policy Link: SSE Cyber Security Policy and SSE Data and Information 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.

ENERGY AFFORDABILITY

Oversight

Group Risk Committee

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.

Material influencing factors

- Technology changes and innovations.
- Supply chain cost management.
- Public policies, including those aimed at reducing carbon emissions and energy consumption.
- Accessibility to energy and related services for all.
- Required investment in the upgrading of the UK's energy infrastructure to achieve net zero.
- Political interventions.

Key developments

- Ensuring energy consumers are provided with affordable energy and accessible energy services throughout and following the transition to net zero are key objectives of SSE's Just Transition strategy published in November 2020.

Material influencing factors most impacted by Coronavirus

- Macro-economic impacts on household and business incomes.
- Fluctuations in the cost of fuels.
- Supplier and customer failures and related bad debt

Key developments associated with Coronavirus

- Following the outbreak of coronavirus in the UK in March 2020, and in line with the commitments of the C-19 Business Pledge, SSE adapted its approach to grant funding to make funds immediately available to communities who required them. By June 2020 over £1m had been provided to 250 communities to support the emergency response to the pandemic.

Key mitigations

- Policy Link: SSE Sustainability Policy.
- During the financial year, SSEN attained the British Standard for inclusive service provision (BS 18477) for the sixth year in a row. This recognition, from business standards company BSI, is achieved through rigorous assessments to ensure SSEN's policies, procedures and services are accessible and fair to all customers.
- 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.
- SSE continues to advocate its belief that modernisation of the energy market is best delivered by a cost-effective privatised system that is properly regulated.

ENERGY
INFRASTRUCTURE FAILURE

Oversight

Group Executive Committee

What is the risk?

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

Material influencing factors

- Severe adverse weather that causes damage or interrupts energy supply or generation.
- Government policy regarding the operation of the energy network which relates to security of supply.
- Transition to net zero.
- Failures in any aspect of the GB national critical infrastructure.
- Continuing access to the European energy markets and continued inclusion of Northern Ireland in the all-island Single Electricity Market.

Material influencing factors most impacted by Coronavirus

- Appropriate asset management and necessary upgrading works of both generation and network assets.
- Malicious attack on the GB energy infrastructure.
- Energy network balancing mechanisms.
- Continued availability of competent personnel.
- Continued availability of key systems.

Key developments

- Continued progress in developing and building electricity network flexibility and infrastructure to facilitate net zero.

Key developments associated with Coronavirus

- The successful implementation and continuation of comprehensive crisis management and business continuity plans designed to protect and ensure the ongoing security of energy supplies. The frontline healthcare response was prioritised, with connections accelerated for temporary hospitals and research centres, and a dedicated phone line set up for hospitals, health centres and cares homes to ensure optimisation of incident response.
- SSE's electricity networks business continues to use its well established Priority Services Register to provide additional support to vulnerable customers, working closely with local agencies to ensure those who are vulnerable, or shielding can be reached as quickly as possible in the event of an electricity network fault. A dedicated team was also established to proactively call customers who may have been at risk of social isolation during the periods of lockdown.

Key mitigations

- Policy Link: Business Unit Asset Management Policies.
- 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).

FINANCIAL
LIABILITIES

Oversight

Group Risk Committee

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.

Material influencing factors

- Ongoing commitment to an Investment Grade credit rating.

Material influencing factors most impacted by Coronavirus

- 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.

Key developments

- Proceeds in the region of £1.5bn have been announced towards the £2bn planned disposal programme target set in June 2020.

Key developments associated with Coronavirus

- In spite of the impact on the macro economy caused by the pandemic, in March 2021 SSE issued its fourth Green bond in 5 years with the issuance of a dual tranche £500m Eurobond. SSE is the UK's largest corporate issuer of green bonds and is the only UK corporate to launch multiple green bonds. During the year SSE also set out a new framework for issuing innovative sustainability-linked bonds in the future.

Key mitigations

- Policy Link: SSE Financial Management Policy.
- Committed borrowings and facilities are available at all times equal to at least 105% of forecast borrowings over a rolling 6 month period.
- SSE seeks to maintain a diverse 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.

LARGE CAPITAL **PROJECTS MANAGEMENT**

Oversight

Group Executive Committee

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 15 to 30 years within forecast timescales and budgets.

Material influencing factors

- Appropriate contractual arrangements.
- 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 those impacts associated with Brexit.

Material influencing factors most impacted by Coronavirus

- Availability of competent contractors.

Key developments

- Following an independent assessment against ISO 20400 by supply chain experts Action Sustainability in early 2020, SSE has developed and begun implementation of a three-part plan designed to mature its approach to sustainable procurement. For further details please see the Sustainability Report.

Key developments associated with Coronavirus

- Despite the challeges associated with the pandemic the Group reached Final Investment Decisions (FID) on a number of significant projects including the Seagreen 1 and Dogger Bank A and B offshore windfarms.

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.

PEOPLE AND **CULTURE**

Oversight

Group Risk Committee (2019/20) Group Executive Committee (2020/21)

What is the risk?

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

Material influencing factors

- Rewarding employee contributions through fair pay and benefits.
- Recognition of the value and benefit of having an inclusive and diverse workforce.
- 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

Material influencing factors most impacted by Coronavirus

- The health and wellbeing of all employees (see the Sustainability Report for further detail).
- Clear and well structured employee communications.

Key developments

- "Championing the real living wage" is one of SSE's 2030 goals and it has been accredited Living Wage employer in the UK since 2013 and since 2016 in Ireland. In March 2021 SSE gained accreditation as a Living Hours employer, this is a new accreditation, currently in a pilot phase, from the Living Wage Foundation in the UK which recognises that people cannot earn a real Living Wage unless fair wages are also accompanied by secure and sufficient work. Further details are available in the Sustainability Report.

Key developments associated with Coronavirus

- In May 2020 a pulse survey completed by around 8000 employees was conducted in order to understand employee's immediate concerns and priorities in the new working environment. Targeted actions were agreed and implemented, including: flexible working patterns and caring days; and reminders of the available support offered by the employee assistance programme. Further surveys have been conducted throughout the year the results of which will be used to inform how SSE plans future ways of working.

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 in the Sustainability Report.
- 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. Full details are available in the Sustainability Report.
- "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.
- The Audit Committee reviews all key accounting judgements made as part of the preparation of the Annual Report and Accounts.
- SSE's business leaders are required to undertake regular succession planning reviews. At a Group level, SSE continues to develop its approach to the management of talent.

POLITICS, REGULATION **AND COMPLIANCE**

Oversight

Group Risk Committee

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.

Material influencing factors

- Changes to regulatory frameworks.
- International and national agreements such as the 2015 Paris Agreement on Climate Change and The Climate Change Act 2008.

Material influencing factors most impacted by Coronavirus

- Government intervention into the structure of the energy sector.
- Constitutional uncertainty, including relating to any second independence referendum in Scotland.
- Changes in financial, employment, safety and consumer legislation and regulation and the impact of these changes on business as usual activities.

Key developments

- Publication of the Prime Minister's 'Ten point plan for a green industrial revolution' setting out increased policy ambition to drive a green recovery and the long-awaited Energy White Paper.

Key developments associated with Coronavirus

- SSE's Greenprint published in May 2020 outlines SSE's green recovery policy proposals, highlighting 5 priority areas it believes the UK to focus on in order to build a greener, more resilient economy while driving progress to net zero. These priorities are: net zero by 2040; strategic investment in networks; clean industrial revolution; leading the charge on EVs; and, green buildings for green jobs. Further details are available on page 18 of the Annual Report and Accounts.

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 Statement that sets out principles for any employees who make representations to institutions of governments or to legislatures on the Company's behalf.
- The Group puts in place dedicated project teams to manage all aspects of significant regulatory and legislative change including those relating to Brexit.
- 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 111 of the Annual Report and Accounts.

SAFETY AND THE **ENVIRONMENT**

Oversight

Group Safety, Health and Environment Committee

What is the risk?

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

Material influencing factors

- Clear and appropriately communicated safety processes.
- Regular and documented training.
- Adverse weather.
- The size, scale, complexity and number of projects underway.
- Challenging geographic locations.
- Appropriate task and asset risk assessment.

Material influencing factors most impacted by Coronavirus

- 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

- During the year 271 Safe Days were achieved, compared to 250 the previous year; in addition the Total Recordable Injury Rate (TRIR) fell to 0.15 per cent per 100,00 hours worked. Further details are availabe on page 143 of the Annual Report and Accounts.

Key developments associated with Coronavirus

- Following its deployment in early 2020, SSE's Business Continuity Framework has been used to manage the Group's response to the pandemic. All employees who can do so continue to work from home. Coronavirus testing was introduced at an early stage when needed for critical workers whose attendance on site was essential to ensure continued operations and, hygiene and social distancing measures were established and maintained in order to ensure safe working conditions.

Key mitigations

- Policy Link: SSE Safety and Health Policy and SSE Environment Policy.
- Safety is the Group's number one value with Board oversight being provided by the Safety Health and Environment Advisory Committee.
- Crisis management and business continuity plans are in place across the Group. These are tested regularly and are designed for the management of, and recovery from, significant safety and environmental events.
- 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.
- Full environmental impact assessments are carried out for all major projects, to ensure adverse environmental impacts are well understood and minimised.

SPEED OF **CHANGE**

Oversight

Group Executive Committee

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.

Material influencing factors

- 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.

Key developments

- In February 2021 – as part of SSE's strategy to seek to bring its expertise in renewables to international markets where it sees value – it was announced that SSE Renewables and Acciona S.A., a leading Spanish Renewable energy developer, owner and operator, had signed an exclusivity agreement regarding plans for the formation of a 50/50 joint venture to enter the emerging Spanish and Portuguese offshore wind markets.

Material influencing factors most impacted by Coronavirus

- The size, scale and number of change programmes underway, including those relating to regulatory or legislative requirements.
- Geopolitical events.
- Governance and decision-making frameworks within the Group.

Key developments associated with Coronavirus

- In order to ensure the safety of its employees and to implement social distancing measures required in response to the coronavirus outbreak, around two thirds of SSE's workforce continue to work from home on a full-time basis. SSE's ability to sustain this signficant change in working arrangments with minimal impact on productivity is a result of the major financial investment and the wider efforts over previous years to provide modern, flexible working for its employees.

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 see page 104 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.

EMERGING RISK

JOINT VENTURE **AND PARTNER MANAGEMENT**

Oversight

Group Executive Committee

Overview

An essential tenet of SSE's Risk Management process is the consideration of potential emerging risks and whether or not any of those identified has the potential to become a Group Principal Risk in the medium to long term. As such, following the 2020/21 review process the emerging risk "Joint Venture and Partner Management" was updated and retained. The Group Executive and Group Risk Committees will continue to be monitored over the course of the year.

What is the risk?

The reshaped SSE Group features an increasing number of significant Joint Ventures (operated and non-operated) both in the UK and Ireland and in other carefully selected geographic locations. SSE must ensure that joint venture structures, governance and operations are robust in order to protect the investments made.

Key mitigations

- Policy Link: SSE Joint Venture Management Policy.
- The Group Risk Committee will undertake an additional detailed review of this emerging risk in Q2 of FY 21/22. The output of this review will be reported to the Group Executive Committee for further consideration.

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; with consideration of 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 SSEN 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 is focused on creating value in a sustainable way from developing, building, operating and investing in the energy infrastructure and businesses needed in the transition to net zero. This provides a complementary portfolio of business activities whilst keeping the depth of focus on a single sector – energy,
- 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 other markets being subject to especially rigorous scrutiny.
- 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 and for ensuring that risks are managed effectively across the Group.

VIABILITY **STATEMENT**

SSE is a purpose-led company involved principally in the generation, transmission and distribution of electricity; and also in the supply of energy and related services to customers. Its 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. 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 41 of the UK Corporate Governance Code the Board has formally assessed the prospects of the Company over the next 3 financial years to the period ending March 2024. The Directors have determined that as this time horizon aligns with the Group's current capital programme and is within the strategy planning period, a greater degree of confidence over the forecasting assumptions modelled can be established.

In making this statement the Directors have considered the resilience of the Group taking into account its current position, the impacts of the coronavirus outbreak, 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 committed lending facilities of £1.5bn – with £200m committed to October 2025 and £1.3bn committed to March 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 £2.5bn of funding since April 2020 including the issuance of a dual tranche £500m Eurobond in March 2021, its fourth Green bond in 5 years.

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 already agreed disposals of noncore assets expected to yield over £1.5bn in net proceeds, of which over £1.4bn cash proceeds have been received 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 (for Energy Infrastructure Failure); changes to key government energy policies (for Politics, Regulation & Compliance); and the impact of the loss of key systems (for Cyber Security and Resilience).

Scenarios are stress tested against forecast available financial headroom which this year also considered sensitivities resulting from the coronavirus pandemic. Further details can be found in A6.3 (Accompanying Information to the Financial Statements in the Annual Report and Accounts). 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, 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 2024.

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