

GROUP RISK **REPORT**

2019/20



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OUR CORE 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, recovered from electricity generators and customers; and earnings from efficient delivery of large capital investments.

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, ultimately, all electricity customers across GB.

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

How it is remunerated
Through economically regulated returns, recovered from customers and connecting parties. Additional earnings can be made through efficient delivery of investment and targeted, performance-related incentives.

SSE Renewables

What it does
Development, construction and operation, and ownership, of assets that generate electricity from renewable sources.

Who it does it for
For electricity customers across the GB and Ireland markets, who increasingly require zero 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.

OUR COMPLEMENTARY BUSINESSES

SSE Thermal

What it does
Generates electricity from thermal sources in a reliable and flexible way, supporting the electricity systems in GB and Ireland.

Who it does it for
For electricity suppliers, traders and other generators through the energy market; for National Grid; and ultimately all electricity customers across GB.

How it supports net zero
Produces progressively lower-carbon electricity and electricity system support to enable net-zero transition.

How it is remunerated
Through the wholesale energy market, Capacity Market and ancillary services market. Energy from waste facilities earn income from waste treatment.

Gas Storage

What it does
Owns and operates large underground caverns in which gas is stored.

Who it does it for
For gas suppliers or traders and ultimately for all energy customers across GB.

How it supports net zero
Gas storage has an important role in ensuring gas security of supply in GB, which is essential as gas remains a key complement to renewables energy.

How it is remunerated
By payments from third parties to reserve capacity in the storage facilities or through trading of gas.

SSE Business Energy (GB)

What it does
Provides a route to market for the output from SSE's renewables and thermal businesses, and provides the sustainable energy services that customers increasingly seek.

Who it does it for
For a broad and diverse range of customers, from micro businesses to large corporations and public sector organisations in the GB market.

How it supports net zero
Through supplying low carbon energy and related sustainable solutions to business customers.

How it is remunerated
Competing for customers and direct billing to them and third party intermediaries.

SSE Airtricity

What it does
Provides energy and related services to households, businesses and public sector organisations across the island of Ireland.

Who it does it for
Serves both home and business energy customers (including public sector bodies) across the island of Ireland.

How it supports net zero
Supplies low carbon energy and supports the provision of sustainable energy solutions to home and business customers.

How it is remunerated
Competing for customers and direct billing to them; and through state-supported schemes.

SSE Enterprise

What it does
Provides innovative energy and utility services solutions.

Who it does it for
Businesses and large public sector organisations.

How it supports net zero
By helping to develop a user-led energy system that is low-carbon, local, secure and affordable.

How it is remunerated
By winning bids and contracts and earning revenue from them.

Energy Portfolio Management (EPM)

What it does
Delivers value adding energy trading services for business units in SSE and external customers.

Who it does it for
Other SSE Business Units and third-party energy operators.

How it supports net zero
Provides efficient route-to-market for low-carbon electricity.

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

MANAGING SSE'S PRINCIPAL RISKS

The successful delivery of SSE's strategic objectives depends on effective identification, understanding and mitigation of its Principal Risks. SSE has an established Risk Management Framework and wider system of internal control (as described on page 4 and 5) to inform decision-making in support of creating value in a sustainable way.

In January 2020, SSE completed the disposal of its Energy Services business, thereby confirming its strategic focus on developing, building, operating and owning assets that support the transition to a net zero economy and its ambition to be a leading energy company in a low carbon world. This reshaping of SSE took place against a background of a number of key external factors which will set the operating context for SSE for years to come.

Key External Factors

First, the UK's Brexit process gave rise to significant economic, regulatory and political developments and uncertainties, many of which are believed to be unprecedented and are expected to have long-lasting consequences.

Second, the concept of restoring state control and ownership of infrastructure such as energy networks continued to feature in political and public debates and is likely to continue to do so for some time to come.

Third, the power cuts experienced in Great Britain on 9 August - 20 emphasised the extent to which society is dependent on a fully functioning electricity system and the extent to which stakeholders therefore expect the highest standards of delivery from infrastructure providers.

Fourth, the UK became the first major economy to pass a law to require it to bring all greenhouse gas emissions to net zero by 2050. This occurred amidst significantly enhanced stakeholder concern and activism in relation to climate change that is expected to increase further in the future.

Towards the end of 2019/20, the coronavirus outbreak reached the UK and Ireland, with immediate, and potentially long-term, human, social, economic and business effects that may shape the operating context for SSE for years to come and that require to be considered in any assessment of risk.

The reshaping of the SSE group following the sale of the Energy Services business and

along with the key factors described above formed the basis of the full review of SSE's Principal Risks that took place during the course of 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, security of energy supply and technological developments and aims to do so in a way that reflects the expectations of SSE's key stakeholder groups. These material influencing factors also impact 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 continuously 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. 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 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.

2019/20 Review Outcome

Following the 2019/20 annual review process, the number of Principal Risks to the Group has increased from 10 to 11 with the introduction of "Climate Change". Ensuring its strategy and goals are consistent with national and international efforts to tackle



climate change has long been at the heart of SSE's approach to business, but in light of the UK's legislation on net-zero emissions in 2019, it was recognised that stakeholders would expect climate change to be explicitly recognised as a Principal Risk. In addition, the pre-existing "Development and Change" risk has been redefined and renamed "Speed of Change" to ensure clarity relating to its focus. An emerging risk "Joint Venture and Partner Management" has also been identified. The importance of joint ventures and partner management is continuing to increase in SSE as its business units pursue their strategic and business objectives in association with other companies and organisations.

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.

Coronavirus

The outbreak of coronavirus in the UK and Ireland in March 2020 resulted in the Board undertaking an additional assessment of each of the Principal Risks. As with SSE's established process for the assessment of Principal Risks, this was an inclusive and iterative exercise delivering considered and objective outputs.

Completed by the members of the assigned oversight committees, this further assessment required consideration of contextual changes to the Risks based on information collected from SSE's business units and corporate functions, highlighting any additional areas of concern and re-assessing the risk trends resulting from the impacts of coronavirus (more, less or equally material).

The output from this additional assessment was then considered by the Group Risk Committee before being presented to the Board for review and approval.

The overall conclusion of this additional assessment was that the human, social and economic impact of coronavirus has increased the prevalence of a number of the material influencing factors detailed against each of SSE's Group Principal Risks. In turn, these material influencing factors may increase the likelihood of occurrence of the Risks and in some cases may increase the materiality of their impacts should they occur. For example the dependence of critical national response activities on energy infrastructure has been highlighted during the pandemic, with SSE's over-riding priority being on ensuring the safe and reliable supply of electricity and essential energy services at local, regional and national level. At the same time, the social and economic impact of coronavirus has thrown

into sharper relief the question of energy affordability – a matter that affects all parts of the energy sector, not just companies involved in direct supply to end customers.

Full details of the Group Principal Risks are detailed on pages 10 through to 20 of this report.

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 96 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 6 to 9 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 greatest have the 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.



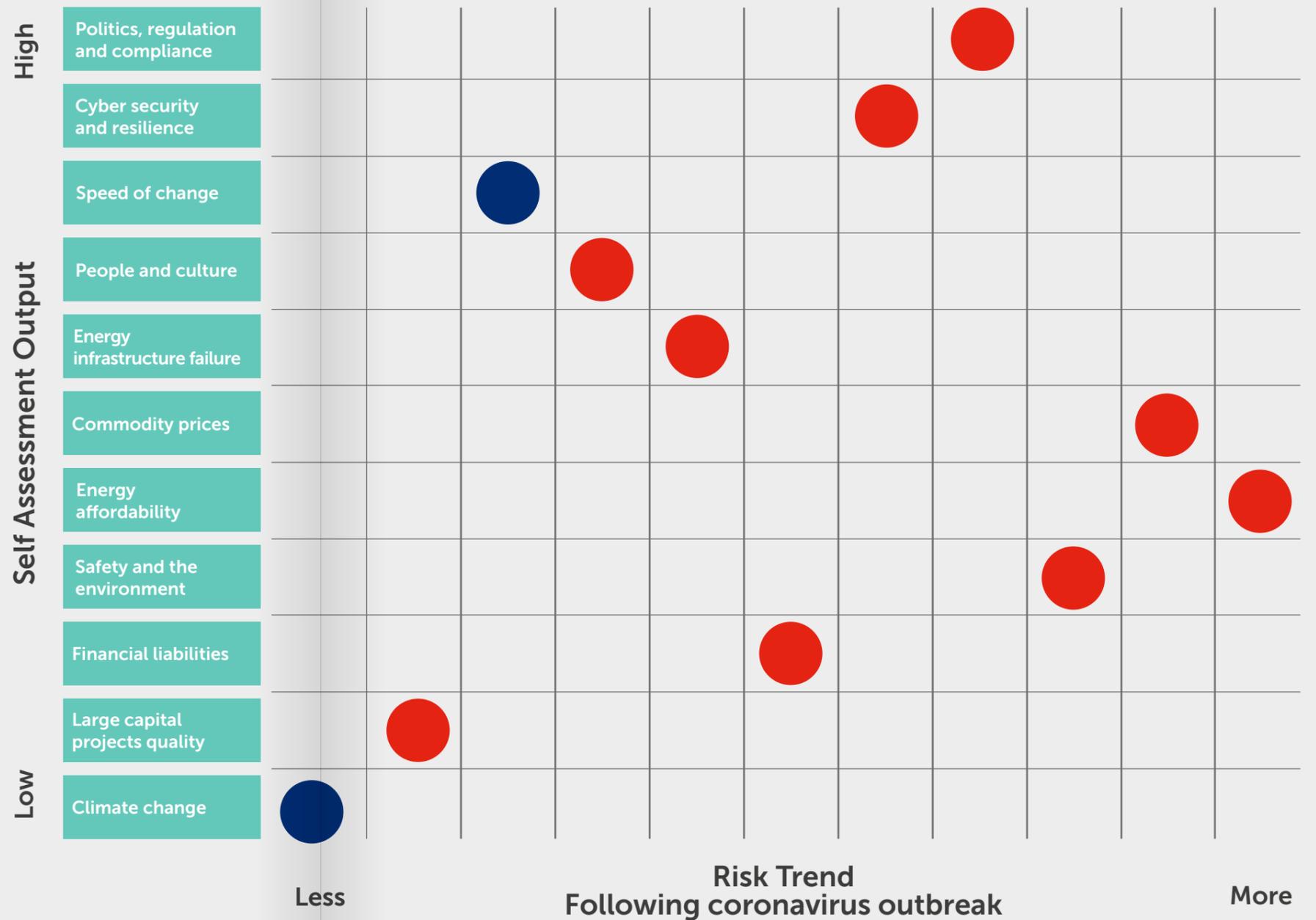
REVIEW OF GROUP PRINCIPAL RISKS

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 business as usual Principal Risk Self Assessment process (based on changes in the context and current prevalence of each risk since June 2019) and the risk trend based on the additional Group Principal Risk Assessment process carried out in May and taking into consideration the change in prevalence of each Group Principal Risk as a result of the coronavirus outbreak.

In addition, Principal Risks that were considered by their oversight Committees to have increased in materiality during the last 3 months are shown in **RED** and those that have not changed significantly are shown in **BLUE**. No Principal Risk was deemed to have reduced in materiality.

Material changes in the nature and impact of SSE's Principal Risks are continuously assessed with corrective actions implemented where necessary.



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 Key developments

- 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.

- Following the UK Parliament's legislation requiring the UK to bring all greenhouse gas emissions to NetZero by 2050, SSE refined its vision which is now to be a leading energy company in a NetZero world.

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 NetZero targets.
- Global and domestic policies.
- Political and regulatory engagement.

Key developments associated with Coronavirus

- Continued focus on SSE's business model and strategy to create value for shareholders and society through developing, operating and owning principally electricity assets and businesses in a sustainable way will ensure that SSE is best placed to play its part in long-term economic recovery. There has been widespread recognition that the transition to NetZero and the opportunities that arise from it will play an important role in the recovery phase from the coronavirus crisis.

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 including a commitment to meet the TCFD recommendations in full by March 2021.
- 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 Goals which are focussed 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 Key Developments

- Weather associated seasonal fluctuations in demand, supply and generation capabilities – which may not be in line with historical trends, which in turn, may or may not be associated with climate change – both in GB and globally. Further detail is available on page [37] of the Strategic Report of the Annual Report and Accounts.
- Generation technology advancements.
- Global and domestic political change.
- European generation outputs and availability.
- International and national agreements on climate change.
- International flows of fuel.

- 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 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. This was fully implemented in April 2020. Full details of SSE's hedging approach can be read on sse.com.
- 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 Key developments

- 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.
- Work to ensure the successful technological separation of systems associated with 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 including impacts relating to Brexit.
- Malicious cyber attack.

Key developments associated with Coronavirus

- Ensuring the continued security and resilience of Critical National Infrastructure given the heightened risk of malicious cyber attack.

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.
- Further 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 in place and regularly tested and reviewed.

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 Key developments

- 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.
- In the second half of 2019/20, SSEN published three strategies to help coordinate its work in a fast changing energy sector and deliver the best outcome for customers. Full details of these strategies can be found in the Sustainability Report.

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
- Political interventions, such as renationalisation of any part of the UK's energy infrastructure.

Key developments associated with Coronavirus

- In line with the commitments of the C-19 Business Pledge SSE has accelerated the availability of up to 10% of its annual community funds in direct response to the challenges posed by coronavirus.

Key mitigations

- Policy Link: SSE Sustainability Policy
- In February 2019, SSEN attained the British Standard for inclusive service provision (BS 18477) for the fourth 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 Key developments

- 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 a low carbon energy network.
- 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.

- Continued progress in developing and building electricity network flexibility and infrastructure to help accommodate 10 million electric vehicles in GB by 2030.

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 staff.
- Continued availability of key systems

Key developments associated with Coronavirus

- The successful implementation of comprehensive crisis management and business continuity plans designed to protect and ensure the ongoing security of energy supplies.
- SSE's electricity networks business is using its well established Priority Services Register to provide additional support to vulnerable customers, working closely with local agencies to ensure those who are vulnerable can be reached as quickly as possible in the event of an electricity network fault.

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.
- 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 Key developments

- Ongoing commitment to an Investment Grade credit rating.

- In September 2019, SSE issued a 16-year £350m Green Bond - its third Green Bond in three years - making SSE the largest issuer of Green Bonds in the UK Corporate sector. This was followed in March 2020 by the successful refinancing of its principal revolving credit facility to one linked to ESG metrics. In doing so SSE became one of the first UK corporates to convert to this form of sustainability linked financing.

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 investment and performance.
- The impact of fluctuations in gilt yields on the value of defined benefits pension scheme liabilities.

Key developments associated with Coronavirus

- In April 2020, the Group successfully issued a €1.1bn 5 and 10 year dual tranche Euro bond, ensuring continued affordable funding for the Group.

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 QUALITY

Oversight

Group Executive Committee

What is the risk?

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

Material influencing factors

- 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 the potential impacts of Brexit.

Key developments

- In September 2019 SSE Renewables was awarded Contracts for Difference (CfDs) for 2.2GW of new offshore wind farm projects. This was the largest volume of low carbon contracts secured in this allocation round by any developer and the largest ever secured by SSE. This award will materially assist in meeting the Group's business goal of trebling renewable output by 2030.

Material influencing factors most impacted by Coronavirus

- Availability of competent contractors.

Key developments associated with Coronavirus

- Maintaining momentum across Large Capital Projects currently in the development phase is essential to ensure successful delivery of the Group's net zero ambitions.

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 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 (see the Sustainability Report for further detail).
- 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.

Key developments

- SSE continues to promote fair tax and a living wage as the core of its ability to share economic value with society. As such, during 2019/20 SSE achieved ongoing accreditation of both the Fair Tax Mark and the Living Wage, supporting both campaigns to attract more companies to become accredited. Furthermore SSE continued its support of the new Living Hours initiative.

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 associated with Coronavirus

- SSE has carefully tracked the direct impact of the virus on its workforce as well as taking actions to help protect and support them. It has introduced measures and provided guidance on a wide range of issues that impact its employees during this period. This includes protective measures for those critical workers that can't work from home, redeploying those that cannot carry out their jobs at this time to other areas of the business, helping those with caring responsibilities and allowing time off work to support both local and national volunteering efforts.

Key mitigations

- Policy Link: SSE Employment Policy and SSE Whistleblowing Policy.
- SSE has a detailed inclusion and diversity policy and plan, progress against which is reviewed and monitored by SSE's Group Executive Committee on a monthly basis.
- 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 Key developments

- Changes to regulatory frameworks.
- International and national agreements such as the 2015 Paris Agreement on Climate Change and The Climate Change Act 2008.
- Following the UK Parliament's legislation requiring the UK to bring all greenhouse gas emissions to net zero by 2050, SSE refined its vision which is now to be a leading energy company in a NetZero world.

Material influencing factors most impacted by Coronavirus

- Government intervention into the structure of the energy sector including renationalisation of any aspect of the UK's energy infrastructure.
- Constitutional uncertainty relating to Brexit.
- Changes in financial, employment, safety and consumer legislation and regulation and the impact of these changes on business as usual activities.

Key developments associated with Coronavirus

- Managing the implementation of all Government guidance relating to social distancing while maintaining critical energy supplies across GB.

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 has a dedicated project team to manage all aspects of the regulatory and legislative change impacts of 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 [14] of the Strategic Report.

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 Key developments

- Clear and appropriately communicated safety processes.
- Regular and documented training.
- Adverse weather.
- Challenging geographic locations.
- Appropriate task and asset risk assessment.
- The key deliverables of SSE's 50by20 safety campaign were successfully met earlier than expected. Despite the positive progress and improvement in safety performance, work will continue to further embed the strong safety culture across the Group.

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 associated with Coronavirus

- In order to protect those supplying a critical service and to reflect government guidance, measures are in place to protect key personnel on SSE sites where work must continue to support the supply of electricity, while non-critical work has been suspended to enable as many employees as possible to remain in their homes.
- As part of SSE's response to coronavirus an additional preparedness test of all relevant crisis management and business continuity plans was carried out in February tailoring these to the specific circumstances of the pandemic. Plans were then implemented in stages beginning from the end of February and, as a result, SSE has managed to continue to fulfil its current priority of supporting the safe and reliable supply of electricity at local, regional and national level.

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 Key developments

- Fast developing customer needs in relation to efficient, innovative and flexible products and services.
- Technological developments and innovation.
- Climate change and the necessity to generate the energy required by a modern society in a responsible and sustainable way, which includes ensuring that value is shared with those impacted by SSE's operations.
- Longer term capital investment plans and budgets.

- On 1 April 2019, a revised Group operating model was implemented to support SSE's agreed low-carbon strategy, the focus of which was the creation of distinct business units and the restructuring of the sub-Committees which report to the Group Executive Committee. This redefined management structure supports the empowerment of business units by ensuring SSE's strengths are used to deliver sustainable outcomes for its key stakeholders through optimising its core and complementary business mix.(see page [80] of the Directors report).

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 within the Group.

Key developments associated with Coronavirus

- Following the implementation of social distancing measures in response to the coronavirus outbreak, around two thirds of SSE's workforce began working from home on a full-time basis. SSE's ability to quickly and successfully enable this significant change in working arrangements for the majority of its employees was 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 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.
- The Group Executive Committee is responsible for ensuring that divisional strategies are consistent and compatible with the overarching Group strategy and its vision to be a leading energy provider in a low carbon world.

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 2019/20 review process an emerging risk "Joint Venture and Partner Management" was identified and 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). SSE must ensure that joint venture structures, governance and operations are robust and consistent with its goals as a company so that SSE's investments continue to be protected and managed well.

Key mitigations

- Policy Link: SSE Joint Venture Management Policy

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; and offers commensurate reward.

The sectors in which SSE operates continue to be subject to a high degree of political, regulatory and legislative risk as well as risks arising from other developments and change including technology, the impact of competition, stakeholders' evolving expectations and climate change.

Furthermore, each of SSE's business units have differing levels of exposure to additional risks. For example, the Transmission and Distribution businesses are largely economically regulated and are characterised by relatively stable, inflation linked cash flows while the SSE Renewables business benefits from cash flows linked to government-mandated renewables subsidies. Those business units that generate and trade energy are also exposed to significant medium to long term energy market and commodity risks in operational and investment decision making.

The key elements of SSE's Strategic Framework – including the focus on regulated energy networks and renewable sources of energy, 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 from developing, operating and owning energy and related infrastructure and services in a sustainable way. 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 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 aims to be a leading energy provider in a low-carbon world. The pursuit of that vision is guided by a collective purpose, which is to provide the energy needed today and to build a better world of energy tomorrow. The primary duty of the SSE Board is to act in accordance with this purpose and to promote the long-term sustainable success of the company.

SSE is a company undergoing rapid evolution. A keener focus has been placed on SSE's core, low-carbon businesses and greater visibility has been given to the assets that create sustainable value. This shift in focus and the commitment to greater visibility of assets and earnings are leading to significant change in the way SSE's businesses are structured and managed.

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 2023. 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. 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, as demonstrated in April through the successful issuance of a €1.1bn 5 and 10 year dual tranche Euro bond.

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.

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 on future cashflow projections 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 2023.

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