

## SSE CONSOLIDATED SEGMENTAL STATEMENT FOR THE YEAR ENDED 31 MARCH 2022

Year ended 31 March 2022	Unit	Electricity Generation		Aggregate Generation business	Electricity supply	Gas supply	Aggregate Supply business
		Thermal	Renewable		Non-domestic	Non-domestic	
<b>Total revenue</b>	£m	1,050.3	1,071.4	2,121.7	2,086.2	237.3	2,323.5
Sales of electricity & gas	£m	541.8	864.5	1,406.3	2,086.2	237.3	2,323.5
Other revenue	£m	508.5	206.9	715.4	-	-	-
<b>Total operating costs</b>	£m	763.1	414.4	1,177.5	2,121.9	218.6	2,340.5
Direct fuel costs	£m	148.5	-	148.5	1,080.1	157.1	1,237.0
Transportation costs	£m	93.4	115.6	209.0	474.6	38.4	513.0
Environmental & social obligation costs	£m	165.4	-	165.4	464.7	1.4	466.1
Other direct costs	£m	261.5	47.5	309.0	9.0	1.8	10.8
Indirect costs	£m	94.3	251.3	345.6	93.6	20.0	113.6
<b>EBITDA</b>	£m	287.2	657.0	944.2	(35.7)	18.7	(17.0)
Depreciation and Amortisation	£m	71.7	183.5	255.2	3.8	0.7	4.5
<b>EBIT</b>	£m	215.5	473.5	689.0	(39.5)	18.0	(21.5)
<b>Volume</b>	TWh / mTherms	10.7	9.0	19.7	12.6	218.0	
<b>WACOF/E/G</b>	£/MWh / p/th	13.9	-		85.4	72.0	
<b>Customer numbers</b>	'000s				403.0	67.9	470.9

## BASIS OF PREPARATION AND DISCLOSURE NOTES

The Group's operating segments are those used internally by the board to run the business and make strategic decisions. The types of products and services from which each reportable segment derives its revenues are:

Business Area	Reported Segments	Description
<b>Continuing operations</b>		
<b>Transmission</b>	SSEN Transmission	The economically regulated high voltage transmission of electricity from generating plant to the distribution network in the North of Scotland. Revenue earned from constructing, maintaining and renovating our transmission network is determined in accordance with the regulatory licence, based on an Ofgem approved revenue model and is recognised as charged to National Grid. The revenue earned from other transmission services such as generator plant connections is recognised in line with delivery of that service over the expected contractual period and at the contracted rate.
<b>Distribution</b>	SSEN Distribution	The economically regulated lower voltage distribution of electricity to customer premises in the North of Scotland and the South of England. This now includes the result from the Group's out of area networks business. Revenue earned from delivery of electricity supply to customers is recognised based on the volume of electricity distributed to those customers and the set customer tariff. The revenue earned from other distribution services such as domestic customer connections is recognised in line with delivery of that service over the expected contractual period and at the contracted rate.

<b>Renewables</b>	SSE Renewables (covered by CSS)	The generation of electricity from renewable sources, such as onshore and offshore windfarms and run of river and pumped storage hydro assets in the UK and Ireland. Revenue from physical generation of electricity sold to SSE EPM is recognised as generated, based on the contracted or spot price at the time of delivery. Revenue from national support schemes (such as Renewable Obligation Certificates or the Capacity Market) may either be recognised in line with electricity being physically generated or over the contractual period, depending on the underlying performance obligation.
<b>Thermal</b>	SSE Thermal (covered by CSS)	The generation of electricity from thermal plant and the Group's interests in multifuel assets in the UK and Ireland. Revenue from physical generation of electricity sold to SSE EPM is recognised as generated, based on the contract or spot price at the time of delivery. Revenue from national support schemes (such as the Capacity Market) and ancillary generation services may either be recognised in line with electricity being physically generated or over the contractual period, depending on the underlying performance obligation.
	Gas Storage	The operation of gas storage facilities in the UK, utilising capacity to optimise trading opportunity associated with the assets. Contribution arising from trading activities is recognised as realised based on the executed trades or withdrawal of gas from caverns.
<b>Energy Customers Solutions</b>	Business Energy (covered by CSS)	The supply of electricity gas to business customers in Great Britain. Revenue earned from the supply of energy is recognised in line with the volume delivered to the customer, based on actual and estimated volumes, and reflecting the applicable customer tariff after deductions or discounts.
	Airtricity	The supply of electricity, gas and energy related services to residential and business customers in the Republic of Ireland and Northern Ireland. Revenue earned from the supply of energy is recognised in line with the volume delivered to the customer, based on actual and estimated volumes, and reflecting the applicable customer tariff after deductions or discounts. Revenue earned from energy related services may either be recognised over the expected contractual period or following performance of the service, depending on the underlying performance obligation.
<b>Distributed Energy</b>	Distributed Energy	The provision of services to enable customers to optimise and manage low carbon energy use; development and management of battery storage and solar assets; distributed generation, independent distribution, heat and cooling networks, smart buildings and EV charging activities. The results of the Group's Contracting and Rail business was included within this segment until it was disposed on 30 June 2021.
<b>EPM &amp; I</b>	Energy Portfolio Management and Investments (EPM&I)	The provision of a route to market for the Group's Renewable, Thermal and commodity procurement for the Group's energy supply businesses in line with the Group's stated hedging policies. Revenue from physical sales of electricity, gas and other commodities produced by SSE is recognised as supplied to either the national settlements body or the customer, based on either the spot price at the time of delivery or trade price where that trade is eligible for "own use" designation. The sale of commodity optimisation trades is presented net in cost of sales alongside purchase commodity optimisation trades.
<b>Discontinued operations</b>		
<b>EPM &amp; I</b>	Gas Production	The production and processing of gas and oil from North Sea fields. Revenue is recognised based on the production that has been delivered to the customer at the specified delivery point, at the applicable contractual market price.
<b>Gas Distribution</b>	SGN	SSE's share of Scotia Gas Networks, which operates two economically regulated gas distribution networks in Scotland and the South of England. The revenue earned from transportation of natural gas to customers is recognised based on the volume of gas distributed to those customers and the set customer tariff.

The Group's reportable operating segments for 'Renewables', 'Thermal Generation' and 'Business Energy' are substantially aligned to the business segments reported in the Consolidated Segmental Statement (CSS). However, it should be recognised that there are differences between the two disclosures, primarily driven by the Licence requirements - these are described in the notes below and shown in the table reconciling the CSS to the financial statements.

## HOW THE ACCOUNTS ARE PRESENTED

The financial information presented in the CSS is based on operating activities of the Group's electricity generation businesses ("Renewables" and "Thermal Generation" segments described above) and the non-domestic electricity and gas supply business ("Business Energy" segment described above) in Great Britain. The paragraphs that follow describe how SSE's Renewable and Thermal Generation and Business Energy (non-domestic supply) businesses interact with Energy Portfolio Management (EPM), which is the Group's energy markets business. The basis of preparation defines the revenues, costs and profits of each business and describe in more detail the transfer pricing arrangements in place for the financial year ended 31 March 2022. The CSS has been prepared on a going concern basis as set out in note A6.3 of SSE plc's Annual Report.

## SUMMARY

The Group's 'Renewables' business sells electricity and Renewable Obligation Certificates (ROCs) from onshore and offshore windfarms and qualifying hydro to the Group's EPM business.

'Thermal Generation' sells electricity in respect of gas generation to EPM. It also receives external income in respect of ancillary services, balancing market participation and other contractual arrangements with third parties including government. It purchases its requirement for gas, oil and carbon from EPM.

'Business Energy' sells electricity and gas to circa 0.5m business customer accounts in Great Britain and procures electricity, gas REGOS, RGGOs and ROCs from EPM.

EPM acts as a route to market for Renewables and Thermal Generation and as counterparty with the external market for the procurement of electricity and gas for SSE Energy Services and Business Energy. EPM does not form part of the CSS as it is not within the scope defined by Ofgem. The policies governing the forward hedging activity undertaken by EPM are overseen by Energy Markets Risk Committee, whose responsibilities and roles are described on page 162 of SSE Annual Report for the year ended 31 March 2022.

## RENEWABLE ELECTRICITY GENERATION

The Renewables profit and loss account above is based on the Group's electricity generation activity derived from natural sources of energy to produce electricity which includes wind, hydro and pump storage powered generation.

Renewables as presented in the CSS includes revenue and operating profit for wholly owned renewable generation assets and also a proportion of turnover and operating profit in respect of joint ventures, joint operations and associate generation companies<sup>1</sup>. The principal Joint Ventures, Joint Operations and Associates included are Beatrice Offshore Windfarm Limited, Clyde Windfarm (Scotland) Limited, Stronelaig Windfarm Limited, Dunmaglass Windfarm Limited and Greater Gabbard Offshore Winds Ltd. A full list can be found in note A3 of SSE's audited financial statements.

The Renewables profitability statement bears the risks and rewards for plant performance and renewable generation output, changes in the power price achieved for renewable generation and the impact of weather.

Individual line items in the Renewables profit and loss account above are comprised of:

**Revenue From Sales of Electricity** - revenue is recognised as generated and supplied to the national settlements body. Revenue is sold to the wholesale market through EPM at either the spot price at the time of delivery, or trade price where that trade is eligible for 'own use' designation. Revenue includes the sale of ROCs generated from qualifying plant to EPM. Generation volumes are the volume of power actually sold to the wholesale market.

**Other Revenue** - includes ancillary services, capacity income, balancing market participation and other miscellaneous income.

**Transportation Costs** - include Use of System charges and market participation costs.

**Other Direct Costs** - include power purchase agreement ('PPA') costs, site costs and management charges from EPM.

**Indirect Costs** - include salaries and other people costs, asset maintenance, rates, corporate costs and IT charges.

**Depreciation and Amortisation** - the depreciation shown in the CSS is the underlying charge based on the useful remaining life of the assets.

1 The PPA's that SSE has with its joint venture companies Clyde Windfarm (Scotland) Limited, Stronelaig Windfarm Limited and Dunmaglass Windfarm Limited provide SSE with contractual entitlement to 100% of the output of the windfarms. Accordingly, SSE has reported its rights to those volumes within its Renewables statistics and has also, as mandated by Ofgem, included 50% of the JV revenue in the CSS.

## **THERMAL ELECTRICITY GENERATION**

The Thermal profit and loss account above is based on the Group's conventional (thermal) electricity generation activity. Conventional generation is considered to be any generation where fuel is consumed to produce electricity and includes gas and oil fuelled generation.

Thermal Generation as presented in the CSS includes revenue and operating profit for wholly owned thermal generation assets and also a proportion of turnover and operating profit in respect of joint ventures<sup>2</sup>. The principal joint ventures included are Seabank Power Ltd and Marchwood Power Ltd. A full list can be found in note A3 of SSE's audited financial statements.

The Thermal Generation profitability statement bears the risks and rewards for plant performance, changes in market 'spark' (the marginal profit for generating electricity by gas), changes in government and EU policy particularly surrounding emissions.

Individual line items in the Thermal profit and loss account above are comprised of:

**Revenue From Sales of Electricity** - revenue is recognised as generated and supplied to the national settlements body. Revenue is sold to the wholesale market through EPM at either the spot price at the time of delivery, or trade price where that trade is eligible for 'own use' designation. Generation volumes are the volume of power sold to the wholesale market.

**Other Revenue** - includes ancillary services, capacity income, balancing market participation and other miscellaneous income.

**Direct Fuel Costs** – Thermal Generation procures fuel and carbon from EPM at wholesale market prices. The cost of fuel also includes the long term external purchase contracts and the impact of

financial hedges. The WACOF (weighted average cost of fuel) calculation includes the costs of carbon emissions (reported in the environmental and social obligations cost line in the CSS).

**Transportation Costs** - include Use of System charges and market participation costs.

**Environmental and Social Costs** - include carbon costs.

**Other Direct Costs** - include power purchase agreement ('PPA') costs, site costs and management charges from EPM.

**Indirect Costs** - include salaries and other people costs, asset maintenance, rates, corporate costs and IT charges.

**Depreciation and Amortisation** - the depreciation shown in the CSS is the underlying charge based on the useful remaining life of the assets and excludes exceptional asset impairments.

2 The tolling arrangements that SSE has with its joint venture companies Seabank Power Ltd (ended 30 September 2021) and Marchwood Power Ltd provide SSE with contractual entitlement to 100% of the output of the power stations. Accordingly, SSE has reported its rights to those volumes within its Thermal Generation statistics and has also, as mandated by Ofgem, included 50% of the JV revenue in the CSS.

## **BUSINESS ENERGY (NON DOMESTIC)**

**Revenue from Sales of Electricity and Gas** - revenues are the value of electricity and gas supplied to business customers in Great Britain during the year and includes an estimate of the value of units supplied between the date of the last bill and the year end. Non domestic volumes are expressed at customer meter point. RCRC has been allocated to direct fuel costs in the year ended 31 March 2022. In the year ended 31 March 2021 this was allocated to Revenue.

**Direct Fuel Costs** - Business Energy does not engage in the trading of electricity and gas and procures all of its electricity and gas from EPM. The method by which EPM procures energy is at an arm's length arrangement on behalf of Business Energy is governed by Business Energy's forward hedging policy. The forward trades between Business Energy and EPM are priced at wholesale market prices at the time of execution and any differences in volume and reconciliation at the time of delivery is marked to the spot price on the day. WACOG (weighted average cost of gas) also includes all Allocation reconciliations and Unidentified Gas. The WACOE and WACOG also consist of trades marked to wholesale prices when committed at the point of sale for fixed price customer contracts or when a customer instructs SSE to purchase energy in respect of flexi-priced contracts. This transfer pricing methodology reflects how Business Energy actually acquired its energy. There have been no material changes in the transfer pricing policy in respect of Business Energy since the CSS for the financial year ending 31 March 2022.

**Transportation Costs** - these include transportation, transmission and distribution use of system costs and BSUOS.

**Environmental and Social Obligation Costs** - relate to policies designed to modernise and decarbonise the energy system in Great Britain and include ROCs, Feed in Tariff, charges under the Capacity Mechanism and CfD schemes and charges in relation to 'assistance for areas with high electricity distribution costs' (AAHEDC). REGO, RGGOs and GOO costs related to these schemes are also included in this section of the CSS. Industry Mutualisation costs have also been allocated to this element of the statement.

**Other Direct Costs** - include: industry settlement costs, management and market access charges from EPM and other miscellaneous costs.

**Indirect Costs** - include: sales and marketing, customer service, bad debts and collections, metering costs, commercial costs, central costs - including information technology, property, corporate, telecoms costs and costs incurred to meet Smart Metering rollout obligations for the year. Where costs cannot be directly allocated to a fuel (electricity/gas), they have been allocated using costing models based on activity, customer revenue or customer numbers - whichever is the most appropriate.

Business Energy's profit and loss account bears the risk and rewards arising from the volatility in demand for energy, caused by the weather, consumption per customer and customer churn. It is also exposed to swings in wholesale costs and the uncertainty surrounding its share of government environmental and social schemes.

### **EPM**

EPM is responsible for optimising the Group's electricity, gas and other commodity requirements. The hedging activity undertaken by EPM is governed by the Group's Energy and Markets Risk Committee in accordance with the Statement on SSE's Approach to Hedging published in November 2018.

## BUSINESS FUNCTIONS

The business functions in SSE have already been described in this document. The column headed 'Not included in the CSS' principally relates to EPM.

Business function	Note	Generation	Supply	Not included in CSS
Operates and maintains generation assets		✓		
Responsible for scheduling decisions	1	P/L		F
Responsible for interactions with the Balancing Market	2	P/L		F
Responsible for determining hedging policy	3	✓	✓	
Responsible for implementing hedging policy / makes decisions to buy/sell energy	4	P/L	P/L	F
Interacts with wider market participants to buy/sell energy	5			✓
Holds unhedged positions (either short or long)	3	✓	✓	✓
Procures fuel for generation		P/L		F
Procures allowances for generation		P/L		F
Holds volume risk on positions sold (either internal or external)		✓	✓	
Matches own generation with own supply	6			✓
Forecasts total system demand	7	P/L	P/L	F
Forecasts wholesale price		P/L	P/L	F
Forecasts customer demand	8		P/L	F
Determines retail pricing and marketing strategies			✓	
Bears shape risk after initial hedge until market allows full hedge	9	P/L	P/L	F
Bears short term risk for variance between demand and forecast	10		✓	

### **Key:**

- ✓ function and P&L impacting that area;
- P/L profit/losses of function recorded in that area;
- F function performed in that area.

### **Glossary and notes**

1. "Scheduling decisions" means the decision to run individual power generation assets.
2. "Responsible for interactions with the Balancing Market" means interactions with the Balancing Mechanism in electricity.
3. Hedging policy was the responsibility of the Energy Markets Risk Committee which is a sub committee of the SSE Executive Committee.

4. SSE EPM implements the hedging policy determined by the Energy Markets Risk committee on behalf of Renewables, Thermal Generation, Business Energy and SSE Energy Services.
5. “Interacts with wider market participants to buy/sell energy” means the business unit responsible for interacting with wider market participants to buy/sell energy, not the entity responsible for the buy/sell decision itself, which falls under “Responsible for implementing hedging policy /makes decisions to buy/sell energy”.
6. “Matches own generation with own supply” means where there is some internal matching of generation and supply before either generation or supply interact with the wider market. The total electricity demand for Business Energy and SSE Energy Services (expressed at NBP) was 19.2TWh and the total UK Generation output was 13.7TWh (71%).
7. “Forecasts total system demand” means forecasting total system electricity demand or total system gas demand.
8. “Forecasts customer demand” means forecasting the total demand of own supply customers.
9. “Bears shape risk after initial hedge until market allows full hedge” means the business unit which bears financial risk associated with hedges made before the market allows fully shaped hedging.
10. “Bears short term risk for variance between demand and forecast” means the business unit which bears financial risk associated with too little or too much supply for own customer demand.

## RECONCILIATION OF CSS TO SSE FINANCIAL STATEMENTS 2021/22

The table below shows how the CSS reconciles with the adjusted earnings before tax in the SSE financial statements (note 5 of SSE’s financial statements):

Reconciliation of CSS to Financial Statements	Note	Revenue £m	EBIT £m
<b>Business Energy</b>			
CSS Supply – Business Energy		2,323.5	(21.5)
<b>Total Business Energy in SSE Financial Statements</b>		<b>2,323.5</b>	<b>(21.5)</b>
<b>Generation Business</b>			
<b>Renewables</b>			
CSS Renewables Electricity Generation		1,071.4	473.5
Non-GB Generation	1	98.8	30.3
JVs/Associates revenue in CSS	2	(394.0)	-
Non-recurring disposal gains	3	-	64.3
<b>Total Renewables in SSE Financial Statements</b>		<b>776.2</b>	<b>568.1</b>
<b>Thermal</b>			
CSS Thermal Electricity Generation		1,050.3	215.5
Non-GB Generation	4	258.2	90.8
JVs/Associates revenue in CSS	2	(179.3)	-
<b>Total Thermal in SSE Financial Statements</b>		<b>1,129.2</b>	<b>306.3</b>



There are some differences between SSE's financial statements and the CSS. There are items which are in the financial statements and not in the CSS; and also there are items which Ofgem has requested be included in the CSS which are not in the financial statements.

### **Notes**

1. Non GB Electricity Generation relates to SSE's Renewables business in the Republic of Ireland and Northern Ireland;

2. SSE applies equity accounting for the majority of its investments in JVs and Associates (which means it only includes its share of the profits/losses), in accordance with International Financial Reporting Standards (IFRS). The Ofgem mandated basis of preparation of the CSS requires that the proportionate share of revenue, costs and profits are shown in the CSS. The revenue shown in the CSS for JVs and Associates is not present in the financial statements and is therefore a reconciling item. The share of profits however are present in both CSS and financial statements, therefore no reconciliation is necessary;

3. During the year the Group disposed of a 10% stake in Doggerbank C, recognising total gain on disposal of £64.3m (see note 12 of SSE's Annual Report). The gain has been excluded from the regulated revenue and profit presented in the CSS, but is included in the underlying operating profit within the financial statements in accordance with the Group's accounting policy for such divestments.

4. Non-GB Electricity Generation relates to SSE's Thermal business in the Republic of Ireland

### **Adjustments to reported profit before tax.**

SSE focuses its internal and external reporting on 'adjusted profit before tax' which excludes exceptional items, re-measurements arising from IFRS 9, depreciation on fair value uplifts and removes taxation on profits of joint ventures and associates, because this reflects the underlying profits of SSE, reflects the basis on which it is managed and avoids the volatility that arises out of IFRS 9. Therefore, these items have been excluded from the CSS.