

# SSE PLC GROUP RISK REPORT 2017/18



# ABOUT SSE

SSE is the UK's broadest-based energy company. It is involved in the generation, transmission, distribution and supply of electricity; in the production, storage, distribution and supply of gas; and in other energy-related services.

## WHOLESALE

Creating value by sustainably sourcing and producing energy

SSE is a leading generator of electricity from renewable sources in the UK and Ireland. It provides sustainable energy and related services for wholesale customers through energy portfolio management and electricity generation, gas production and gas storage.

## NETWORKS

Delivering energy safely to homes and businesses

SSE owns and operates electricity distribution networks in the north of Scotland and central southern England, and the electricity transmission network in the north of Scotland. SSE also has an ownership interest in gas distribution in Scotland and southern England. These businesses are regionally defined and subject to regulatory controls set by Ofgem.

## RETAIL

Supplying energy and infrastructure services to businesses and the public sector and to households across Ireland

SSE supplies energy and provides infrastructure services to business and public sector customers through its Business Energy and Enterprise divisions. It also supplies energy and related services to household customers on the island of Ireland through SSE Airtricity. Business Energy and Enterprise work closely with customers to meet their specific requirements in innovative and sustainable ways. SSE Airtricity provides a range of related services to customers, including green energy.

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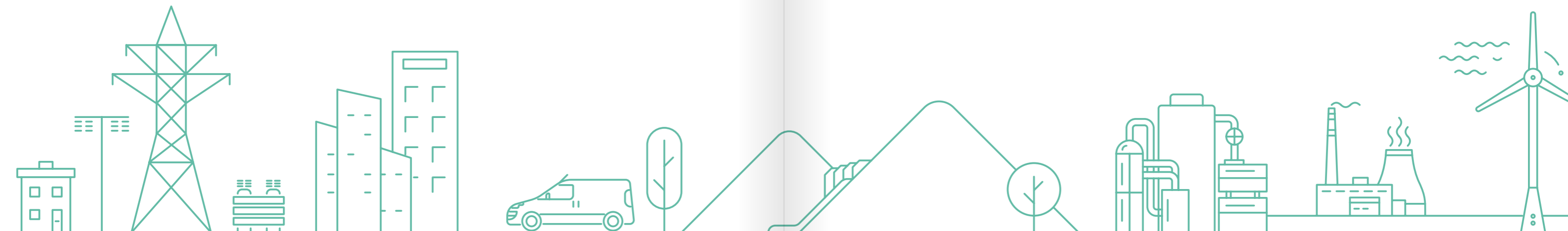
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# SUSTAINABLE, RISK INFORMED STRATEGIC DECISION MAKING

This supplementary Group Risk Report provides a comprehensive overview of SSE's Risk Framework and its System of Internal Control. Detailed descriptions of each of SSE's 10 Group Principal Risks and associated mitigations are included, as is an overview of the Board's annual review of the Group's Principal Risks.

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. 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 interconnecting risks. 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 actions are required to improve the control environment. The outputs from these 10 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.

Following the 2017/18 annual review process, SSE's 10 existing Group Principal Risks remain unchanged. Important revisions have however been made to the descriptions of each to take account of key developments and corresponding mitigations during the year. Full Principal Risk descriptions can be found on pages 8 through to 17.



# SYSTEM OF INTERNAL CONTROL

The various elements which make up SSE's Risk Management Framework are aligned to different levels of its Corporate 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.

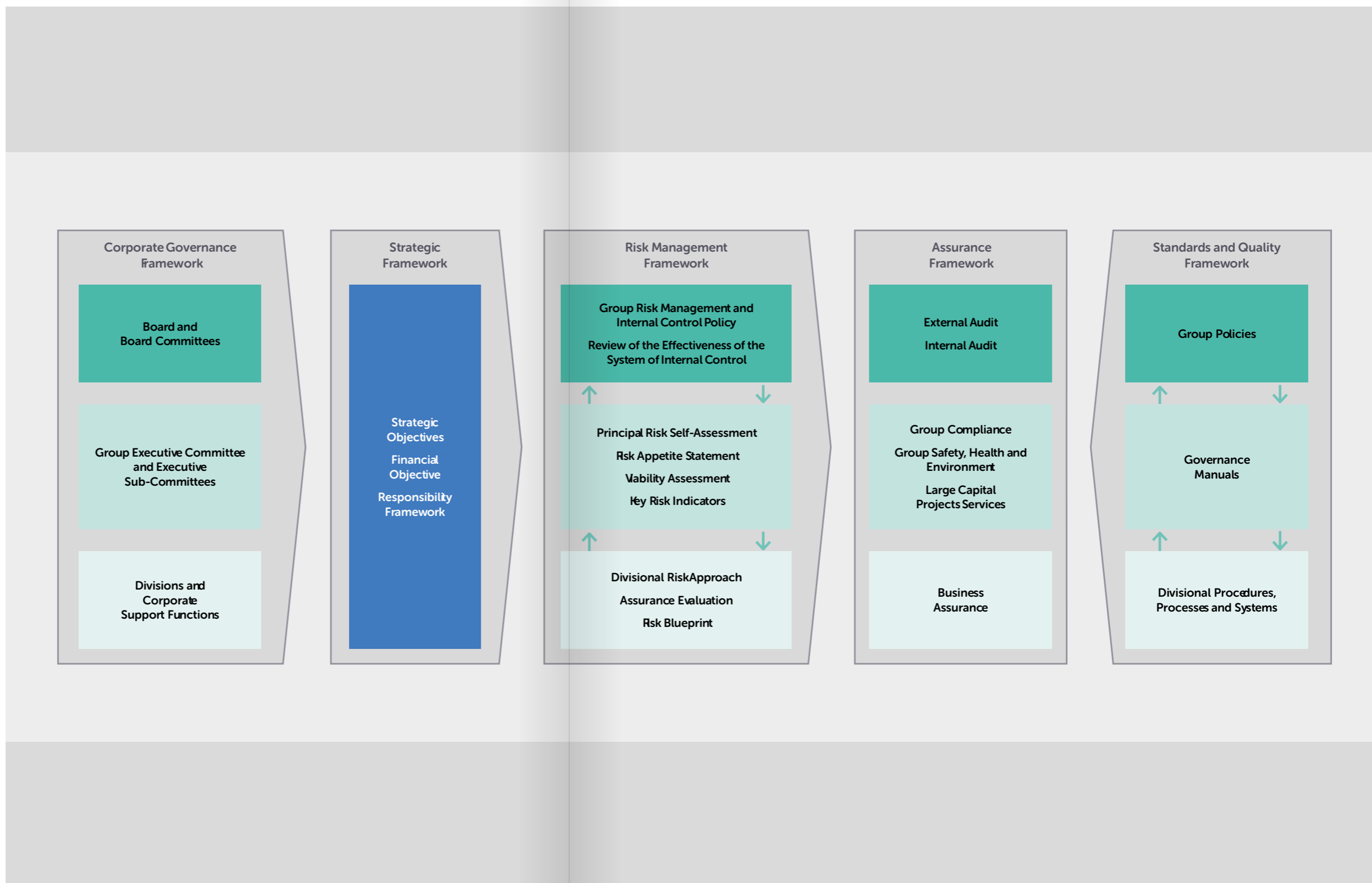
The Corporate Governance Framework is designed to ensure focus on the key components of high quality and effective decision making – clarity, accountability, transparency and efficiency. For further details please see page 94 of the Directors' Report of the Annual Report and Accounts.

The Strategic Framework comprises the Group's strategic objectives, financial objective and Responsibility Framework. During the course of the year the Group Vision and Core Purpose were reviewed by the Board. Full details of the Group's strategic objectives can be found on pages 12 to 27 of the Strategic Report of the Annual Report and Accounts.

The Risk Management Framework is underpinned by the fundamental principle that everyone at SSE is responsible for the management of risk. The Risk Management Framework supports each Division in managing its risks and helps to ensure that the Board is able to meet its obligations.

The Assurance Framework. Group Audit, Group Compliance, Group Safety Health and Environment and Large Capital Projects Services work together to provide an integrated programme of audit and assurance activity that is independent of the day-to-day operations of the Divisions and Corporate Functions.

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 SSESET 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"). Relevant information is collated by the Director of Group Risk, Audit and Insurance and presented to the Audit Committee for its review.

## 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 C2.2 of the Code requires Directors to make an annual statement of the longer term viability of the Group. To help support this Statement, over the course of the year a suite of severe but plausible scenarios has been developed for each of SSE's Principal Risks. These

scenarios are based on relevant real life events that have been observed either in the markets within which the Group operates or related markets globally. Examples include persistently low commodity prices (for **Commodity Prices**); changes to key government energy policies (for **Politics, Regulation & Compliance**); and the impact of the loss of key systems (for **Cyber Security and Resilience**). Analysis relating to reverse stress testing is also included in the Assessment.

Scenarios that most have the potential to adversely affect SSE's ability to deliver its core 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 and those that are most heavily interconnected with SSE's other Principal Risks. This year, neither regulatory and shareholder approval have yet been received in respect of the proposal to merge SSE's household energy supply and services business in Great Britain (SSE Retail) with the retail business of innogy to form a combined independent retail company, two assessments have been carried out for the Group - one on the assumption that the approval is received and the other assuming not.

## 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.

## DIVISIONAL RISK APPROACH

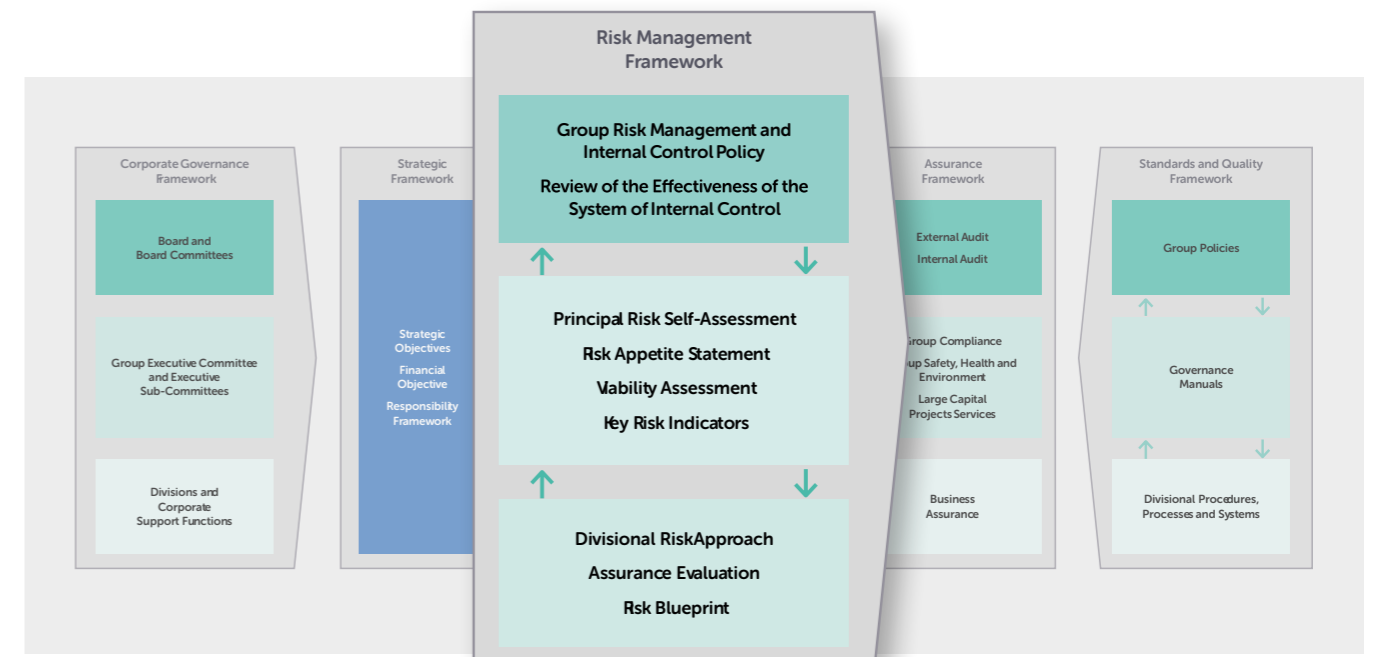
The Group Risk Management and Internal Control Policy allows flexibility for the Managing Directors of SSE's operating divisions to tailor operational risk management to the specific requirements of their business areas.

## ASSURANCE EVALUATIONS

The Managing Directors of SSE's operating divisions carry out an annual Assurance Evaluation covering key management areas, including Risk Management. This process provides an opportunity for each MD 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's Risk Blueprint is a best practice guide to risk management which 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 Internal Control Policy.





# COMMODITY PRICES ●

## OVERSIGHT

Wholesale 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 or may not be in line with historical trends both in GB and across Europe. Further detail is available on page 33 of the Strategic Report of the Annual Report and Accounts.
- Fluctuations in foreign exchange markets.
- Fluctuations in demand.
- Generation technology advancements.
- Geopolitical events and domestic political change.
- Global economic growth.
- European generation outputs.
- International and national agreements on climate change.
- International inflows of fuel.

## KEY DEVELOPMENTS

- Managing increased market volatility related to current geopolitical events including the impact of, and uncertainty relating to, Brexit.

## KEY MITIGATIONS

- SSE uses VaR measures to monitor and control exposures. Trading limits are set by the Board and managed through separate Retail and Wholesale Risk Committees.
- Commodity positions are assessed on a daily basis by a Risk Management team.
- SSE's Energy Economics team provide commodity price forecasts which are used to inform decisions on trading strategy and asset investment.
- SSE utilises a number of hedging instruments to minimise exposure to fluctuations in commodity prices and foreign exchange markets. Further details are available in the Financial Statements section of the Annual Report and Accounts.

# 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, connectivity and power supplies.
- Malicious cyber attack.
- 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

- The global profile, prevalence and sophistication of malicious cyber-attack continues to increase.
- Changes to reporting regulatory requirements generated by the introduction of the General Data Protection Regulation (GDPR) and the Networks and Information Systems (NIS) Directive.
- Continuously evolving technological environment.

## KEY MITIGATIONS

- 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 IT networks and systems.
- Further strengthening and embedding of the cyber risk 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.

# DEVELOPMENT AND CHANGE

## OVERSIGHT

Group Executive Committee

## WHAT IS THE RISK?

The risk of failing to recognise and react appropriately to competition, technological advancements and changes in customer expectations.

## MATERIAL INFLUENCING FACTORS

- Fast developing customer needs in relation to efficient, innovative and flexible products and services.
- Climate change and the necessity to generate the energy required in modern society in a responsible and sustainable way which includes ensuring value is shared with those impacted by SSE's operations.
- The size, scale and number of change programmes underway, including those relating to regulatory or legislative requirements.
- Longer term capital investment plans and budgets.
- Geopolitical events.
- Governance and decision making frameworks within the Group.

## KEY DEVELOPMENTS

- The planned SSE Energy Services transaction represents the most significant strategic change to the SSE Group since its creation in 1998.
- An increasingly flexible energy infrastructure network, including the transition in the Networks business from Distribution Network Operator to Distribution System Operator.
- Identifying innovations and cost reductions in renewable technologies as research and development continues apace.

## KEY MITIGATIONS

- 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.
- The Group Executive Committee is responsible for ensuring that divisional strategies are consistent and compatible with the overarching Group strategy.
- A dedicated project team, is managing the demerger transaction process as well as the risks directly associated with it and is reporting to the Board and Group Executive Committee on a regular basis.

# ENERGY AFFORDABILITY

## OVERSIGHT

Retail Risk Committee

## WHAT IS THE RISK?

The risk that the combination of the cost of providing reliable and sustainable energy and the level of customers' incomes means that energy becomes unaffordable to a significant number of SSE's customers. This risk is directly connected to political interventions and commodity price exposure.

## MATERIAL INFLUENCING FACTORS

- Fluctuations in the cost of fuels.
- Generation technology changes.
- Macro economic impacts on household and business incomes.
- Supply chain cost management.
- Public policies, including those aimed at reducing carbon emissions and energy consumption.
- Required investment in the upgrading of the UK energy infrastructure.

## KEY DEVELOPMENTS

- Continued uncertainty surrounding Brexit and its longer-term economic impact, including on households and businesses.
- The extension of the price cap previously introduced to pre-payment meter customers to those receiving warm home discount and the announcement of Government plans for the introduction of a time limited cap on all standard variable energy tariffs.

## KEY MITIGATIONS

- SSE's Customer Charter sets out the steps it takes to support customers who are having difficulty paying their bills, encouraging early engagement to work together on arrangements that allow payments to be appropriately managed.
- In March 2018 SSE attained the British Standard for Inclusive Service Provision, which represents the 'gold standard' in recognising and catering for vulnerability.
- SSE has a series of programmes, partnerships, funds and schemes in place to support vulnerable customers, including identifying and referring customers for benefits entitlement checks.
- 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.
- Appropriate asset management and necessary upgrading works of both generation and network assets.
- Energy network balancing mechanisms.
- Government policy regarding the operation of the energy network which relate to security of supply, including the implications of Labour Party proposals for a much greater role for the state in energy provision.
- Failures in any aspect of the GB national critical infrastructure.
- Malicious attack on the GB energy infrastructure.

## KEY DEVELOPMENTS

- Ongoing efficient investment and the associated risks of upgrading networks assets.
- Continued investment in a diversified range of generation assets.

## KEY MITIGATIONS

- 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

Tax and Treasury 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

- Global macro economic changes and subsequent volatility within 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.
- Ongoing commitment to maintain credit rating criteria.

## KEY DEVELOPMENTS

- Ongoing uncertainty and volatility in financial markets due to potential macro economic factors, such as the impact of Brexit.
- Material reduction in defined benefit pension scheme deficit levels.
- Issuing of a €600m Green Bond, an innovative approach to financing renewable energy infrastructure investment, achieving a coupon of 0.875%, SSE's lowest ever for a senior bond.

## KEY MITIGATIONS

- The Group approach is to ensure that 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.



# MAJOR PROJECTS QUALITY ●

## OVERSIGHT

Group Large Capital Projects Governance 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

- Availability of competent contractors.
- Appropriate contractual arrangements.
- New or unproven technology.
- Appropriate and effective budget management.
- All aspects of supply chain management, including those relating to human rights and labour standards.

## KEY DEVELOPMENTS

- The Group continues to manage the challenges associated with large capital projects such as the Caithness-Moray high voltage transmission link and the Beatrice Offshore Windfarm.
- In 2018, SSE became a signatory to the United Nations Global Compact - the world's leading sustainability initiative. Signatories must align their strategies and operations with ten guiding principles, six of which are around human rights and labour standards.

## KEY MITIGATIONS

- SSE's Large Capital Project Governance Framework 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 Projects 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.
- SSE's strategy supports the transition to a low carbon electricity system. As part of this, SSE is investing significantly in renewable energy, and is expecting to increase its renewable energy capacity to over 4GW by 2020.

# PEOPLE AND CULTURE ●

## OVERSIGHT

Group Governance, Culture and Controls Committee

## 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 page 81 of the Strategic Report of the Annual Report and Accounts 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 SSESET 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

- Recognising the value of inclusion, SSE has reviewed its inclusion strategy which will be supported by a refined and more targeted delivery plan.
- An Employee Communication Forum and a detailed communications plan have been put in place to ensure that all staff impacted by the planned SSE Energy Services transaction can raise questions, issues and concerns.

## KEY MITIGATIONS

- SSE has a detailed inclusion and diversity policy and plan which is sponsored by the Group Executive Committee. This policy ensures that candidates from as wide a talent pool as possible are considered for all relevant vacancies. For more details regarding the progress of these please see the Sustainability Report.
- Group policies including "Doing the Right Thing, a guide to ethical business conduct", explicitly outline 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 and strategies to strengthen this.

# POLITICS, REGULATION AND COMPLIANCE ●

## OVERSIGHT

Group Governance, Culture and Controls 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 or uncertainty.

## MATERIAL INFLUENCING FACTORS

- Constitutional uncertainty relating to Brexit.
- Changes in financial, employment, safety and consumer legislation and regulation and the impact of these to business as usual activities.
- Government intervention into the structure of the energy sector including the implications of Labour Party proposals for a much greater role for the state in energy provision.
- Changes to corporate governance requirements.
- International and national agreements such as the 2015 Paris Agreement on Climate Change.

## KEY DEVELOPMENTS

- UK Government's continuing focus on energy supply markets including further potential interventions.
- UK Government policy evolution in key areas such as carbon price support and the capacity market.
- SSE continues to focus advocacy efforts on maintaining a long-term collaborative and cooperative UK-EU relationship relating to energy issues.

## KEY MITIGATIONS

- The Group has dedicated Corporate Affairs, Regulation, Legal and Compliance departments that provide advice, guidance and assurance to each Division regarding the interpretation of political, regulatory and legislative change. These teams take the lead in engagement with regulators, politicians, officials, and other such stakeholders.
- 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.
- SSE has a long-term strategy to reduce the carbon intensity of the electricity it generates.

# 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.
- Safety culture – "if it isn't safe, we don't do it".
- Clear, effective and regular communication of all relevant safety updates.
- Competent employees and contractors.
- Regular and documented training.
- Adverse weather.
- Challenging geographic locations.
- Appropriate task and asset risk assessment.

## KEY DEVELOPMENTS

- Introduction of the 50/20 Safety family initiative which targets a 50% reduction in injury rate and 50% of our people active on health by 2020.
- In 2018, SSE set a new, longer term ambition to 2030 for the carbon intensity of the electricity it generates.

## KEY MITIGATIONS

- Safety is the Group's No 1 value and is overseen by the Group Safety, Health and Environment Committee, supported by the Board's 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.
- SSE's dedicated Engineering Centre of excellence reviews and develops plans to ensure that the integrity of its assets is maintained.
- Full environmental impact assessments are carried out for all major projects, to ensure adverse environmental impacts are well understood and minimised.

# VIABILITY STATEMENT

As required within provision C.2.2 of the UK Corporate Governance Code, the Board has assessed the prospects of the Company over the next 3 financial years to the period ending March 2021. The Directors have determined that as this time horizon is consistent 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 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 committed lending facilities of £1.5bn which could be drawn down in most circumstances.

The Group also 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 was demonstrated in the successful sale during the 2016/17 financial year of a 16.7% share of Scotia Gas Networks Ltd.

To help support this Statement, over the course of the year a suite of severe but plausible scenarios has been developed against 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 persistently low commodity prices (for **Commodity Prices**); changes to key government energy policies (for **Politics, Regulation & Compliance**); and the impact of the loss of key systems (for **Cyber Security and Resilience**). Analysis relating to reverse stress testing is also incorporated into the assessment.

Scenarios that most have the potential to adversely affect SSE's ability to deliver its core purpose to responsibly provide the energy and related services needed now and in the future 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 and those that are most heavily interconnected with SSE's other Principal Risks. This year, neither regulatory or shareholder approval have yet been received in respect of the proposal to merge SSE's household energy supply and services business in Great Britain (SSE Retail) with the retail business of innogy SE to form a combined independent retail company. As such two assessments have been carried out for the Group - one on the assumption that the approval is received and the other assuming not.

On 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 2021.

# 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 and can be effectively managed; and offers commensurate reward.

The sectors in which SSE operates are inherently subject to a high degree of political, regulatory and legislative risk. Furthermore, each of SSE's business divisions has differing levels of exposure to additional risks. For example, the Networks business is largely economically regulated and is characterised by relatively stable, inflation-linked cash flows while the Wholesale business benefits from cash flows linked to government mandated renewables. In fulfilling its core purpose, the Wholesale business is however also exposed to significant energy market and commodity risk in its operational and investment decision making.

The key elements of SSE's strategic framework – including the range and nature of the energy businesses and assets within the SSE Group and its financial objective in relation to dividend growth – are fully reflective of its risk appetite. Fundamentally: -

- SSE maintains a balanced range of economically regulated and market based energy businesses and assets ranging from energy production and delivery to the provision of energy and complementary services. These provide a diversified 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.

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. In particular, safety is SSE's first value and it has no appetite for risks brought on by unsafe actions;
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.

**FOR FURTHER INFORMATION  
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