



SSE PLC GROUP  
**RISK REPORT**

2018/19

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## ABOUT SSE

SSE brings together people with talent, skill and common values to create value for shareholders and society by developing, operating and owning energy-related infrastructure and businesses.

At the core of SSE are its economically regulated energy networks businesses: Electricity Distribution and Electricity Transmission. SSE also owns a one-third stake in the Gas Distribution company, SGN. These businesses transmit and distribute

energy to homes and workplaces in Scotland and the south of England. Also at the core of SSE is the development and operation, as well as ownership, of assets for producing energy from renewable sources, being brought together under SSE Renewables. This is complemented by Thermal Energy businesses: flexible thermal electricity generation and the separate gas storage business. SSE operates an Energy Portfolio Management division and is an investor in Gas Production assets in the North Sea and

west of Shetland. These wholesale businesses contribute significantly to electricity and gas systems for the UK and Ireland. In addition, SSE has a group of retail businesses. It supplies electricity and gas to business, commercial and public sector customers in Great Britain and supplies electricity and gas and related services to customers across the island of Ireland. Through its Enterprise business, SSE provides innovative energy solutions to businesses and the public sector.

## NETWORKS BUSINESSES

SSE delivers energy safely to homes and businesses in GB through its Scottish and Southern Energy Networks (SSEN) businesses. It 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.

## WHOLESALE BUSINESSES

SSE creates value by sourcing and producing energy. It is a leading generator of electricity from renewable sources in the UK and Ireland under the banner of SSE Renewables. Its interests in renewable energy are complemented by ownership and operation of flexible thermal power stations. It owns and operates gas storage facilities in the UK, operates an energy portfolio management division and invests in gas production in the North Sea and west of Shetland.

## RETAIL BUSINESSES

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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# 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 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 2018/19 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, such as the revised hedging approach, which were introduced throughout the year. Full Principal Risks descriptions can be found on pages 8 to 17.



# 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

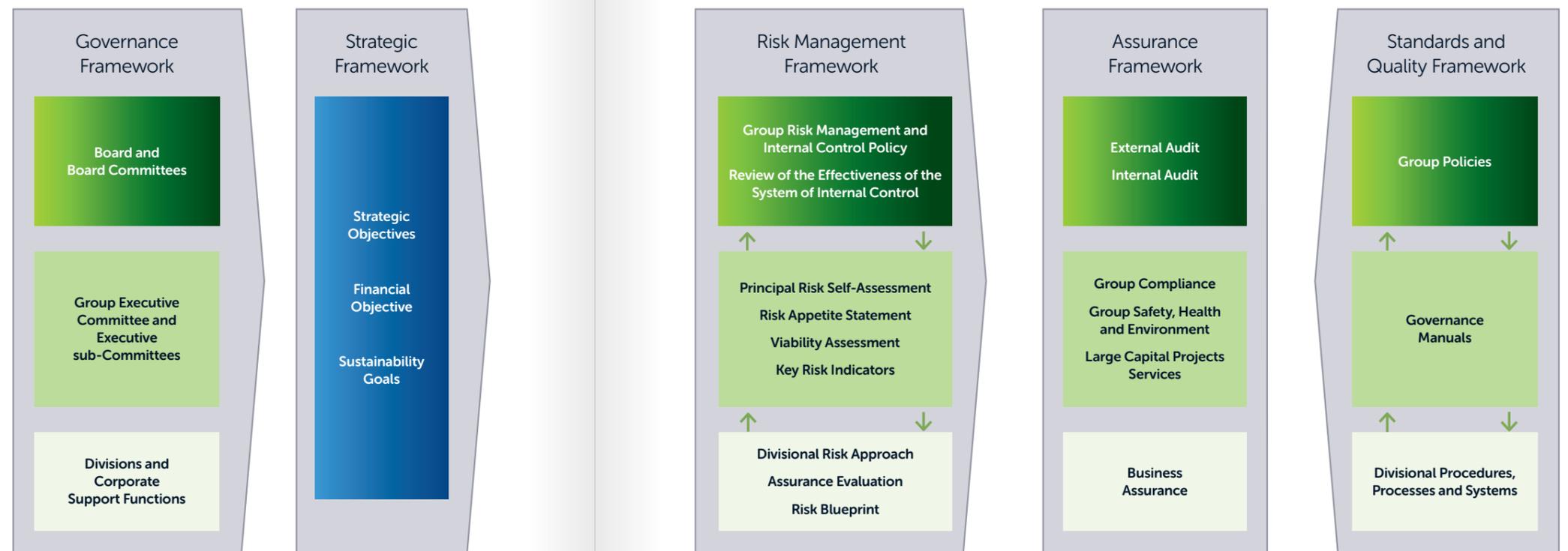
is designed to ensure focus on the key components of high quality and effective decision-making – clarity, accountability, transparency and efficiency. For further details please see page 78 of the Directors' Report of the Annual Report and Accounts.

**The Strategic Framework** comprises the Group's strategic objectives, financial objective and sustainability goals. Details of the Group's vision, core purpose and strategic objectives can be found on pages 2 and 3 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 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 operating divisions.

## 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 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 and those that are most heavily interconnected with SSE's other Principal Risks. This year, as options regarding the future of SSE Energy Services remain under consideration, two assessments have been carried out for the Group - one on the assumption that SSE Energy Services remains part of the Group and the other assuming it does 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.

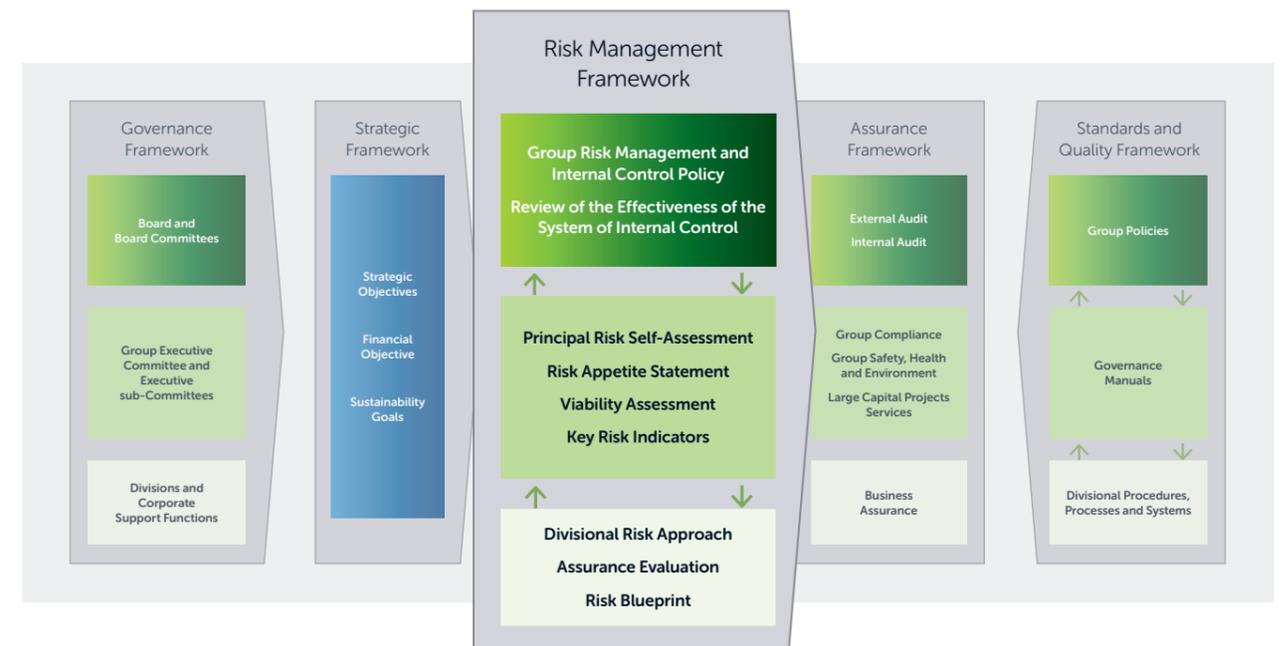
## Assurance Evaluations

The Managing Directors of each of SSE operating divisions 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.



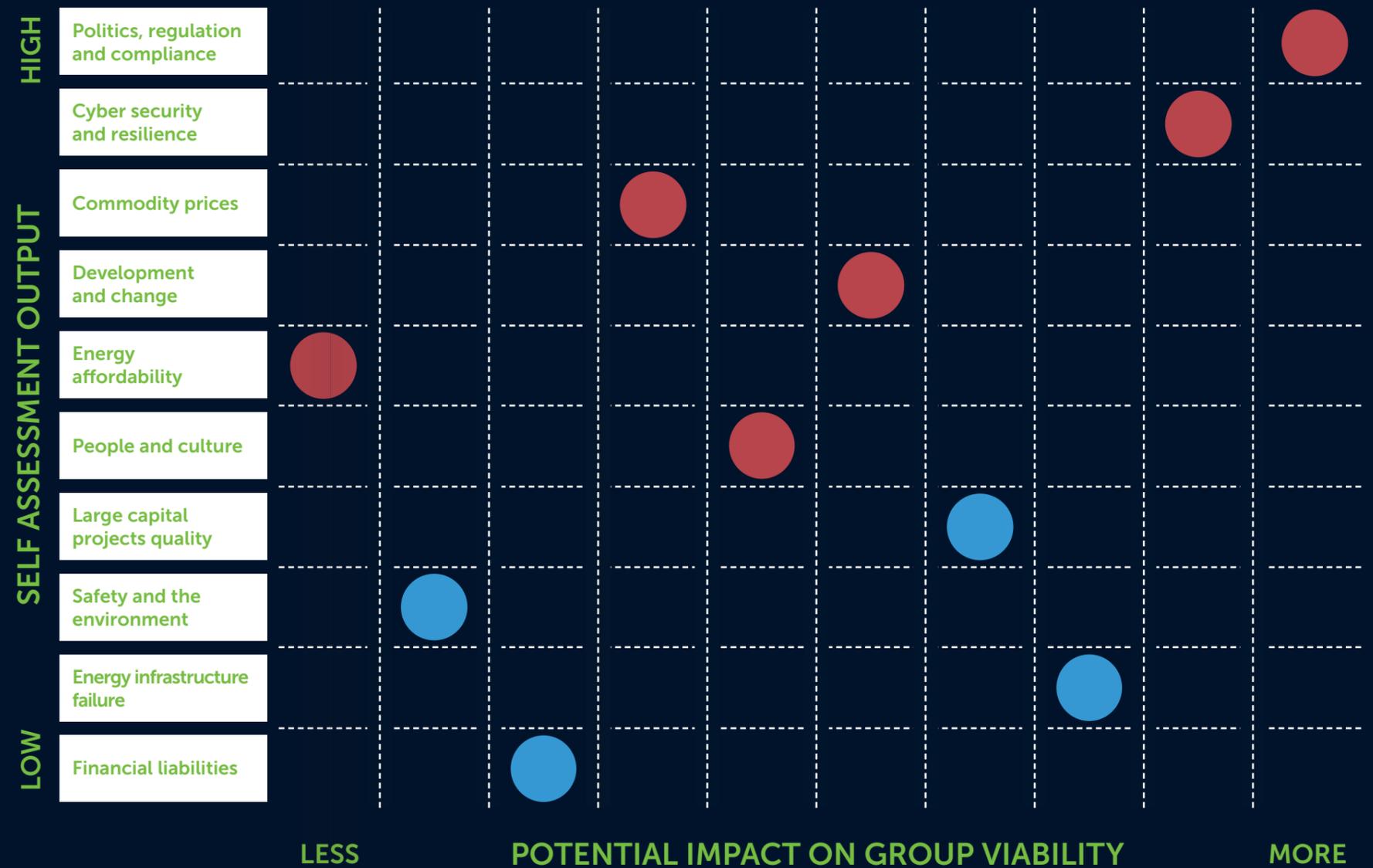
# REVIEW OF GROUP PRINCIPAL RISKS

SSE operates in fast moving markets which are 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 core 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 10 Group Principal Risks positioned on a relative basis against the output of the Principal Risk Self Assessment process (based on changes in the context and current prevalence of each risk) and potential impact on Group Viability based on critical risk scenarios developed in conjunction with business experts.

In addition, Principal Risks that were considered by their oversight Committees to have increased in materiality during the year are shown in red and those that have not changed significantly are shown in blue. No Principal Risk was deemed to have reduced in materiality during the year.

Material changes in the nature and impact of SSE's Principal Risks are continuously assessed with corrective actions implemented where necessary. In response to the events that arose throughout the year, SSE introduced and published a number of changes to the way in which it manages exposures relating to the Commodity Price Group Principal Risk.



# 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 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 65 of the Strategic Report of the Annual Report and Accounts.
- Fluctuations in foreign exchange markets.
- Fluctuations in the global supply and demand of fuel.
- Generation technology advancements.
- Geopolitical events.
- Global and domestic political change.
- Global economic growth.
- European generation outputs and availability.
- International and national agreements on climate change.
- International inflows of fuel.

## Key developments

- Managing the impact of higher than expected gas prices, lower than expected renewable energy outputs, extreme weather and the financial consequences of these.
- Managing continued increased market volatility related to geopolitical events including the impact of Brexit
- Development and implementation of a new energy hedging approach for the Group.

## Key mitigations

- Transition to an asset-by-asset approach to hedging ensuring that trading positions cannot have a material impact on SSE Group earnings. This will be fully implemented by April 2020. Full details of SSE's hedging approach can be read on sse.com.
- The Energy Markets Risk Committee has been established to oversee and ensure effective implementation of the revised hedging arrangements.
- SSE uses VaR 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 Energy Economics team provides commodity price forecasts which are used to inform decisions on trading strategy and asset investment.
- SSE utilises hedging instruments to minimise exposure to fluctuations in foreign exchange markets, details of which are available in the Financial Statements section of the Annual Report and Accounts.

# CYBER SECURITY AND RESILIENCE ●

## Oversight

Information Security and Privacy Committee

## What is the risk?

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

## Material influencing factors

- Software or hardware issues, including telecoms network and connectivity and power supplies.
- 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.
- Geopolitical events such as Brexit.

## Key developments

- The global profile, prevalence and sophistication of malicious cyber-attack continues to increase.
- Preparation to ensure continued compliance with GDPR regulations following changes that will materialise as a result of Brexit.
- 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 information and operational technology networks and systems.
- Further strengthening and embedding of the cyber risks and controls framework which seeks 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.

# DEVELOPMENT AND CHANGE ●

## Oversight

Group Executive Committee

## What is the risk?

The risk of failing to recognise or react appropriately to competition, technological advancements or stakeholder's evolving 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 by a modern society in a responsible and sustainable way, which includes ensuring that 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

- SSE has adopted four fundamental business goals for 2030 which are directly aligned to the United Nations' Sustainable Development Goals (further detail can be found in the Sustainability Report).
- SSE is continuing to build on the significant work done to date to separate SSE Energy Services as an independent, self-sufficient entity within the group, but believes that its best future lies outside the SSE group. In line with that, future options for SSE Energy Services are being actively assessed.

## 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.
- A review of the Group operating model has been undertaken in order to allow decision-making to be as effective and efficient as possible.
- 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.

# ENERGY AFFORDABILITY ●

## Oversight

Group Executive 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 for 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.
- Political interventions, such as renationalisation of any part of the UK's energy infrastructure.
- Required investment in the upgrading of the UK's energy infrastructure.

## Key developments

- Continued uncertainty surrounding Brexit and its longer-term economic impact, including on households and businesses.
- Managing the implementation of the price cap on standard variable energy tariffs which came into effect on 1 January 2019.
- Managing the impact of costs imposed on network operators and energy retailers as a result of an increased number of supplier failures.

## 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 February 2018, SSEN achieved the British Standard for inclusive service provision having met the requirements of the Standard for the previous two years. It was one of the first companies to be assessed since the inclusive service provision standard assessment has been formally recognised as a verification scheme.
- 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. Further detail can be found on page 13 of the Strategic Report.

# 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 relates to security of supply, including the implications of the 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.
- Continuing access to the European energy markets and continued inclusion of Northern Ireland in the all-island Single Electricity Market.

## Key developments

- An increased investment appetite for low-carbon electricity assets which presents opportunities to form new financial partnerships and create value from successful development and operation of assets.
- Completion of the £1.1bn Caithness-Moray transmission link project.

## 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 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.
- 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.
- Successful issuance of a second €650m Green Bond, an innovative approach to financing renewable energy infrastructure investment, in August 2018.
- Successful refinancing of the £1.3bn Revolving Credit Facility (RCF) for a new five year period to March 2024, with options to extend further to March 2026.

## 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.

# LARGE CAPITAL PROJECTS QUALITY ●

## Oversight

Group Large Capital Projects 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, as well as the potential impacts of Brexit.

## Key developments

- An increased focus on developing, operating and owning the renewable generation and networks which are crucial to the low-carbon transition, along with a range of businesses which complement these.
- Developing strategies for managing the complexities of auction bidding processes.

## Key mitigations

- 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.
- In line with SSE's vision and strategy, the Group is seeking to develop and build renewable energy assets by 2030 that contribute to output of 30TWh a year.

# 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 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

- One of the four 2030 Sustainable Development goals set by SSE includes to be the leading company in the UK and Ireland championing fair tax and a real living wage.
- During the year, Sue Bruce was appointed non-Executive Director for employee engagement. One of the key purposes of this role is to provide a direct channel of communication to the Board for all employees.

## Key mitigations

- SSE has a detailed inclusion and diversity policy and plan which is sponsored by the Group Committee. Progress and performance were reviewed by the Executive Committee on a quarterly basis and by the Nomination Committee twice per year in 2018/19. From 2019/20, SSE's Group Executive Committee will review progress on a monthly basis.
- 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 and uncertainty.

## Material influencing factors

- 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.
- Government intervention into the structure of the energy sector including renationalisation of any aspect of the UK's energy infrastructure.
- Changes to 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.
- 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. Further details can be found on page 13 of the Strategic Report of the Annual Report and Accounts.
- 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's not safe, we don't do it".
- Clear, effective and regular communications 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

- Continued progress of the 50by20 Safety family initiative which targets a 50% reduction in injury rates and 50% of our people active on health by 2020.
- One of the four Sustainability goals set by SSE is to reduce the carbon intensity of the electricity it generates by 50% by 2030, compared to 2018 levels, to around 150g/kWh.

## Key mitigations

- 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.
- 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.

# 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 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 and stakeholders' evolving expectations.

Furthermore, each of SSE's business divisions has differing levels of exposure to additional risks. For example, the Networks 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. The Wholesale businesses are also exposed to significant energy market and commodity risks in operational and investment decision-making, and significant changes to the way these risks are managed were announced in November 2018.

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 for 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 C.2.2 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 2022. 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 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 which could be drawn down in most circumstances. In the event of an extreme but low probability combination of events, the Group could also take more severe mitigating actions through changes to capital allocation.

The Group has a number of highly attractive and relatively liquid assets - including a regulated asset base which benefits from a strong regulated revenue stream as well as the operational wind portfolio - which provide flexibility of options. This was demonstrated in the successful sale of stakes in Dunmaglass and Stronelairg onshore windfarms during the year.

To help support this Statement, 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 and Compliance**); and the impact of the loss of key systems (for **Cyber Security and Resilience**).

Scenarios are stress tested against forecast available financial headroom. In addition to considering these in isolation, the Directors also consider the cumulative impact of combinations of the highest impact. This year, as options regarding the future of SSE Energy Services remain under consideration, two assessments have been carried out for the Group - one on the assumption that SSE Energy Services remains part of the Group and the other assuming it does not.

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 2022.

**FOR FURTHER INFORMATION  
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